

The Riksbank's Business Survey

JANUARY 2013

■ The Riksbank's business survey in January 2013

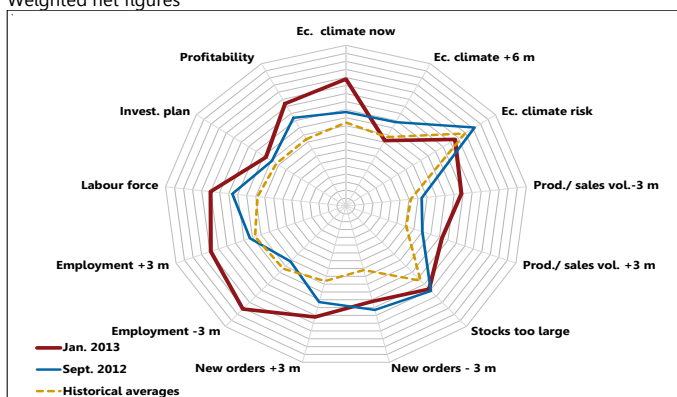
NO IMPENDING IMPROVEMENT IN ECONOMIC ACTIVITY

The Riksbank's business survey in January¹ shows that economic activity has deteriorated since the previous survey in September. The companies' assessments of production, new orders and profitability indicate the development of economic activity will continue to be weak. Demand is continuing to decline in the manufacturing sector and development abroad is uncertain, while the situation is more stable in the retail sector. There are hopes that the economic climate will improve as the summer approaches, but there are no concrete signs of an upturn as yet. The strong Swedish krona is continuing to hold down prices for the export companies, which is squeezing profitability. Rising purchasing costs are expected to gradually lead to somewhat higher sales prices in the retail sector during the year.

The companies say that development is still weak and weaker than in September, as can be seen in Figure 1. The questions about

Figure 1. The pattern of responses

Weighted net figures



Note. The responses to the questions are plotted along a "spoke" in the figure and a net total further from the centre entails a deterioration. The historical averages are calculated for the periods for which the respective questions have been put.

¹ This report presents the results of the interviews that were mainly conducted in the period 7 January to 18 January 2013. The 25 interviewed companies have a total of approximately 210 000 employees in Sweden. The companies interviewed in the survey are mainly large companies and international groups, but the focus is on the Swedish part of their operations. The net totals in the figures represent the balance between positive and negative responses. The responses are weighted based on the number of employees in Sweden at the interviewed companies. The questions were published in October 2012 and are available on the Riksbank's website: http://www.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_sve.pdf

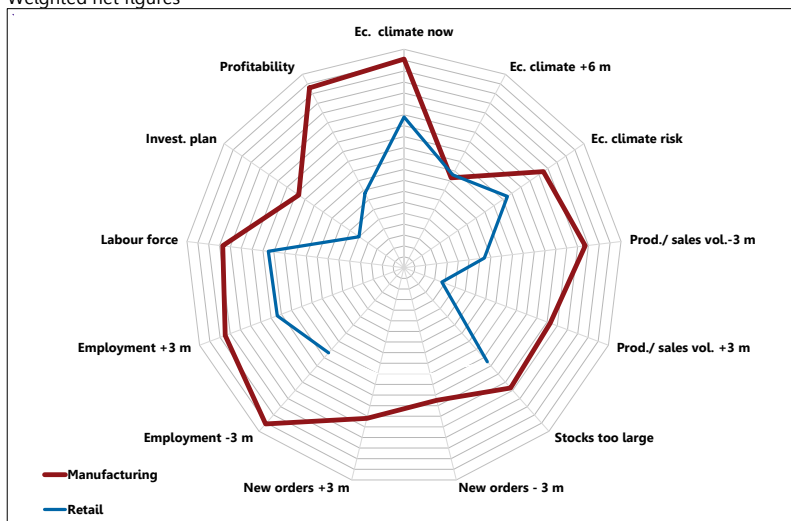
the current economic climate, profitability, employment, production/sales and new orders reflect pessimism.

MANUFACTURING WEAK BUT RETAILING MORE STABLE

The deterioration since September 2012 mainly concerns the manufacturing sector, while the responses from the retail sector remain relatively unchanged. There are major differences between the manufacturing and retail sectors, see Figure 2. There are few signs of demand picking up in the manufacturing sector, and hopes are subdued for the year ahead. One company representative expressed this by saying: "In my world, 2013 is already a lost cause". However, despite this pessimism the general mood is not as gloomy as it was during the crisis years 2008-2009.

Retail sales have been strengthened by favourable weather conditions and a Christmas shopping period that matched the levels in previous years. However, the retail companies also describe the consumers as being uneasy and hesitant. One risk mentioned by several companies is that this can easily lead to a fall in the sale of durable goods.

Figure 2. Pattern of responses for the manufacturing and retail sectors in January
Weighted net figures



Note. The questions about new orders are not put to the retail companies.

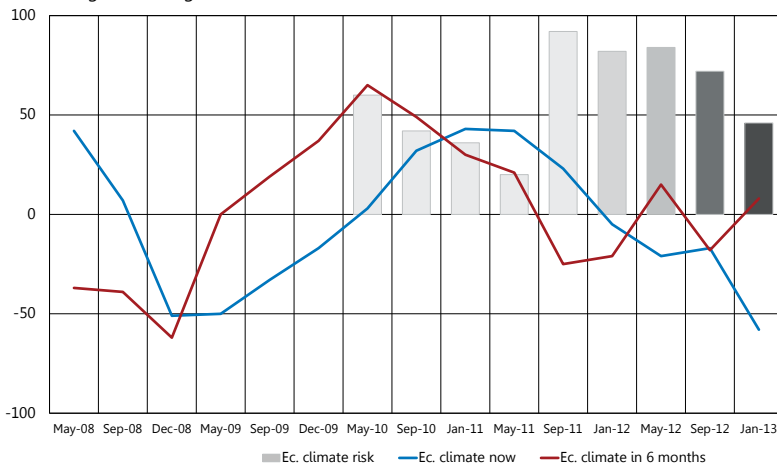
The picture of weak activity in the manufacturing sector and relatively good domestic consumption is reinforced by comments from the transport companies. Hauliers report that exports to the Continent are declining while the situation is better for imports. "It's difficult to get a balance between the flows to and from Sweden".

"IT WILL TAKE A LONG TIME BEFORE WE SEE A RECOVERY."

The main reasons for the weaker economic outlook are the continuing decline in international demand and a strong krona. Nevertheless, the companies are now more optimistic about the future course of economic development than they were in September, see Figure 3. The construction and retail companies in particular are more positive about the future, while the manufacturing companies are hopeful that, rather than confident that, the economic climate will be better in six months' time. As the representative of one company said: "At the moment it's a question of tightening our belts as best we can without this also destroying our future prospects".

The companies' assessment is that the cyclical risks have declined somewhat since the surveys conducted in May and September. However, some companies say that it is increasingly difficult to assess the economic cycle and that the fluctuations have become more severe. "Soon we won't know what's normal", was one of the comments. As in the September survey, it is the euro crisis and developments abroad that constitute the greatest risks.

Figure 3. The economic situation and cyclical risks
Weighted net figures



Note. The net totals represent the percentage of responses that the economic situation will be good or better, or poor or worse. For the question concerning risk relating to the economic situation the net totals represent the balance between the percentage of responses that the cyclical risks are higher or lower than normal.

"EUROPE IS THE ROOT OF THE PROBLEMS"

New orders and production have declined during the autumn and winter and according to the companies there is very little to indicate that the next three months will be better, see Figure 4. The situation is particularly strained for the export industry. The development of the European market is weak and there is a clear difference between southern and northern Europe. The southern parts of Europe are

suffering from lower demand and a high degree of uncertainty while Germany, above all, is doing relatively well. One company representative described the European market as being "the worst it's been for 20 years".

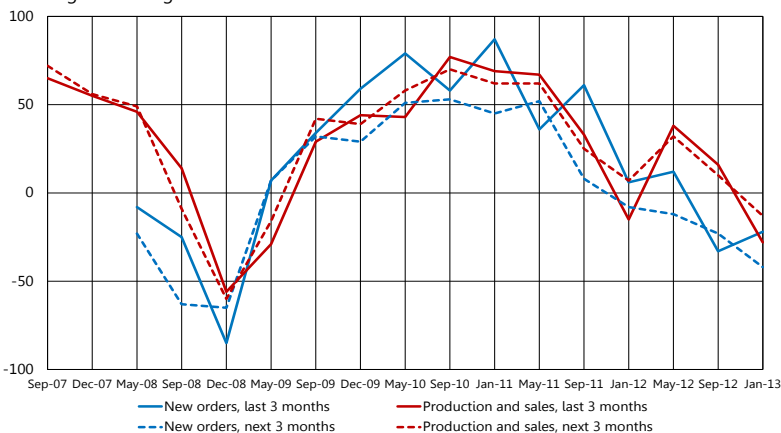
Several companies identify South America as an export market where demand is good. The companies also believe that the situation is improving in the United States. One company representative said that "A recovery in the United States could actually be very, very strong." Several companies also say that the prospects in China are somewhat better than in September.

The figures for new orders for the construction and manufacturing companies remain weak and there are fears that order books will shrink in the period ahead, see Figure 4.

The construction companies support developments somewhat, which is mainly due to older orders but also to a relatively stable demand for civil engineering and infrastructure projects. The demand for commercial properties has also been better than expected.

Housing construction continues to decline and will remain low during the first half of 2013. The housing market is weakest in southern Sweden where it is partly affected by the weak Danish housing market. The factors that are said to be affecting the demand for housing are the stricter demands imposed on borrowers by the banks, the mortgage cap and the potential amortisation requirements that are now under discussion. However, companies in the construction sector believe that there is a strong underlying demand

Figure 4. Production/sales and new orders
Weighted net figures



Note. The questions relate to the companies' assessment of production/sales and new orders over the last three months and in the three months ahead compared with the preceding three-month period. The net totals represent the balance between the percentage of responses that production/sales or new orders have increased/decreased or are expected to increase/decrease.

for new housing. One company representative described the development of housing construction by saying: "It will pick up during the second half of the year or towards the summer".

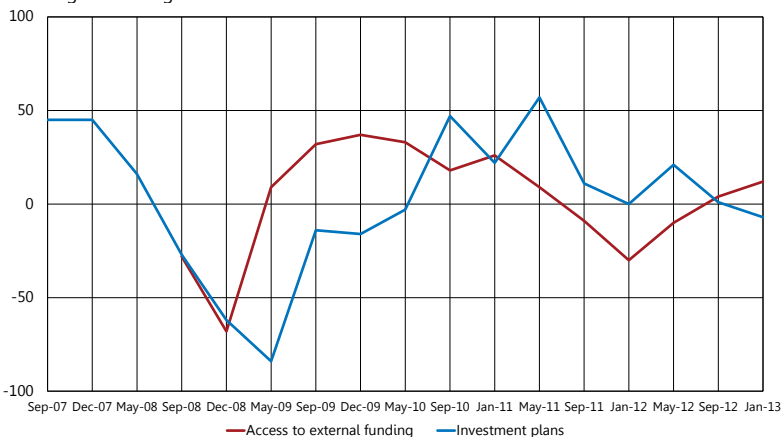
As demand has continued to fall during the autumn and winter, the companies have adjusted and reduced their production. However, it does not appear that production has fallen at the same rate as demand, and stocks therefore remain too high. It is primarily the manufacturing companies that are working to reduce their stocks.

The large companies' access to funding has improved somewhat since the previous survey in September. The conditions governing both bank loans and loans on the market have become more advantageous, so that an increasing number of companies are contemplating taking new loans. Several comments reveal, however, that small companies, both domestic and foreign, have problems getting funding. "The feeling is that the banks are reducing their balance sheets and becoming more selective".

Despite the fact that access to funding is relatively good, investment is expected to fall somewhat in the period ahead, see Figure 5. Several companies continue to make investments that provide a rapid return or that replace worn-out capital stock. It is, however, increasingly difficult to justify investments that relate to periods further ahead. Many companies' investment plans remain unchanged at the moment, but they may be quickly revised if demand does not pick up within a reasonable period of time.

Figure 5. Investment plans and access to external funding

Weighted net figures



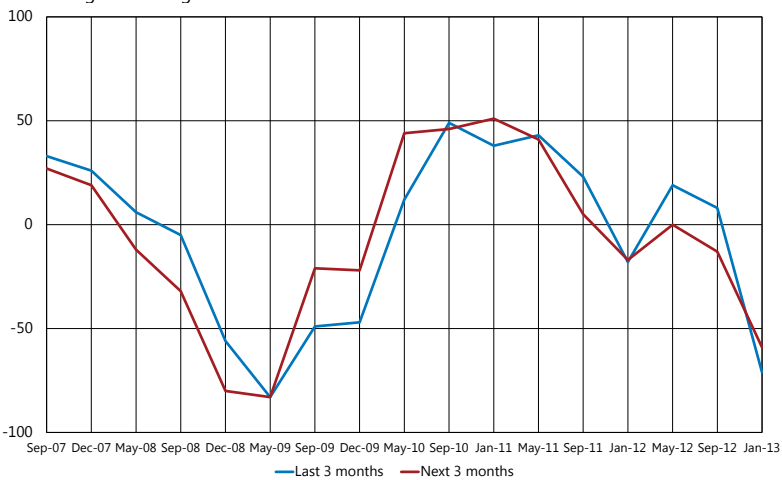
Note. The questions were: "What are the company's investment plans for the next six months compared to the preceding six months?" and "How has the company's access to external funding changed in the last quarter?" The net totals represent the balance between increased/decreased and improved/worsened.

WORKFORCE TOO LARGE AND FLEXIBILITY EXHAUSTED

A large proportion of the companies say that they have reduced their workforces in recent months and that these reductions will continue over the coming months, see Figure 6. Most of the manufacturing companies intend to further reduce the number of employees. Plans are not quite as negative among the construction companies, and in the retail sector only a few companies are planning to make staff cuts. However, very few companies are planning to increase their workforce.

Several of the companies report that their workforce is too large in relation to production and many of these companies also issued redundancy notices during the autumn. In several instances this relates to major staff cuts for which notification must be given at least six months before the personnel concerned are made redundant. Local negotiations are therefore underway at a large number of companies to decide how many workers will have to leave. Several of the companies that have not issued redundancy notices also believe that their workforce is too large. However, it is considered unlikely that additional redundancy notices will be issued in the months immediately ahead.

Figure 6. Employment
Weighted net figures



Note. The question relates to the companies' assessments regarding employment in the last and the next three months. The net totals represent the balance between the percentage of responses that employment has increased (is expected to increase) or decreased (is expected to decrease).

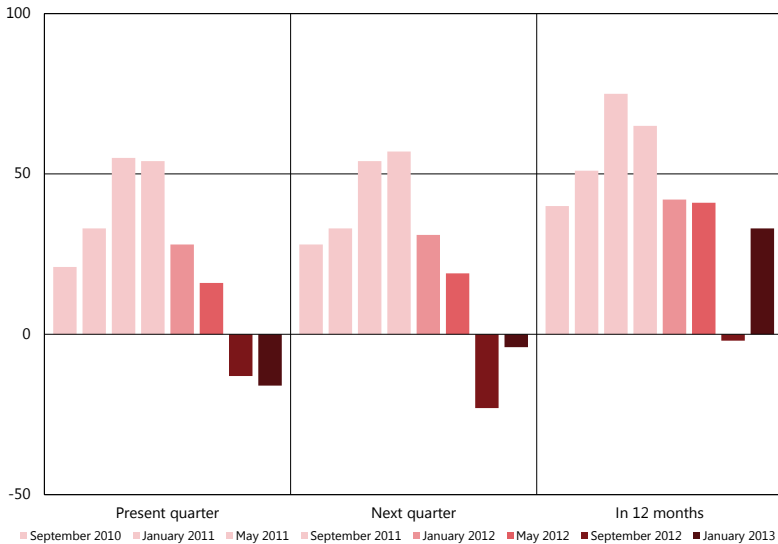
Several companies in the manufacturing sector report that the possibilities to rapidly adapt the workforce to variations in demand are now practically exhausted. In some cases there are no longer any leased personnel from employment agencies, the "hours banks" have been used to the full and there are fewer consultants than previously. If there were to be a further fall in demand, the only remaining option

for these companies would be to reduce the number of permanent employees. At the same time, the companies strive to have a flexible workforce so that they can quickly adapt their production when demand changes. Some companies are therefore planning to recruit from employment agencies in the future and to reduce the number of permanent employees.

PRICES STILL SQUEEZED IN THE MANUFACTURING SECTOR

In the short term, prices will remain low in large parts of the economy. Many companies say that there is severe pressure on prices and some of them talk in terms of a price war. Approximately the same number of companies expect prices to fall in the next three months as expect prices to increase, and it is usually only small price changes that are regarded as realistic, see Figure 7.

Figure 7. Planned price changes
Weighted net figures



Note. The columns show the net percentage of companies that intend to increase/lower their prices during the present quarter, next quarter or next 12 months. The darker columns relate to the last four rounds.

Many companies in the manufacturing sector expect to see price reductions, while the construction and retail sectors expect to see some price increases in the short term too. In the non-durable goods segment of the retail sector, several companies report that many of the suppliers have announced price increases and that negotiations on new prices will be tough.

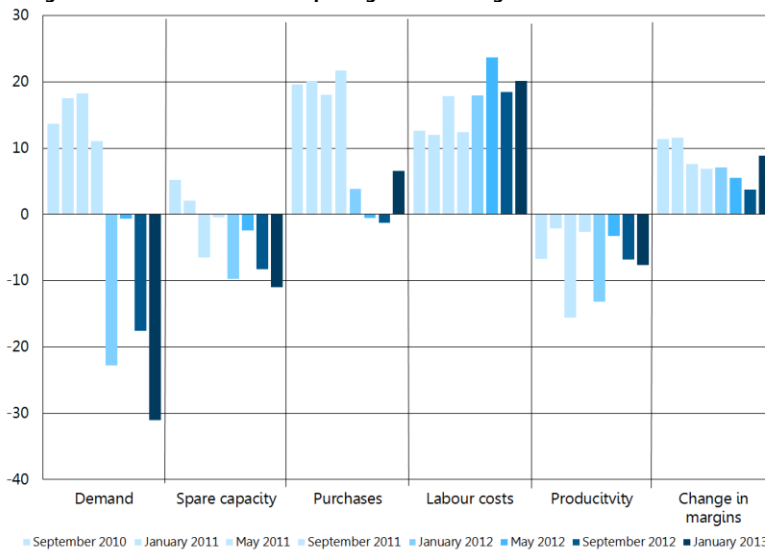
Expectations regarding price movements over the next twelve months indicate that there are now more companies than in September that hope to be able to increase their prices. This change since the previous survey applies primarily to the manufacturing

sector, but in many cases these hopes are conditioned by reservations concerning the development of demand. On the other hand, the non-durable goods segment expects the rate of price increases to slowly increase over the next 12 months.

WEAK DEMAND IS RESTRICTING THE DEVELOPMENT OF PRICES

The factors that will affect the companies' pricing plans over the next 12 months are presented in Figure 8. The weak level of demand is squeezing prices and there is a need to increase margins, according to the companies. This applies especially to the manufacturing companies. The companies often aim to compensate for rising wage costs by means of significant improvements in productivity, but at the moment this is made more difficult by the fact that production is declining.

Figure 8. Factors that will affect pricing in the coming twelve months



Note. The columns show the relative percentage (net) for the different factors affecting prices upwards or downwards 12 months ahead. The darker columns relate to the last four rounds.

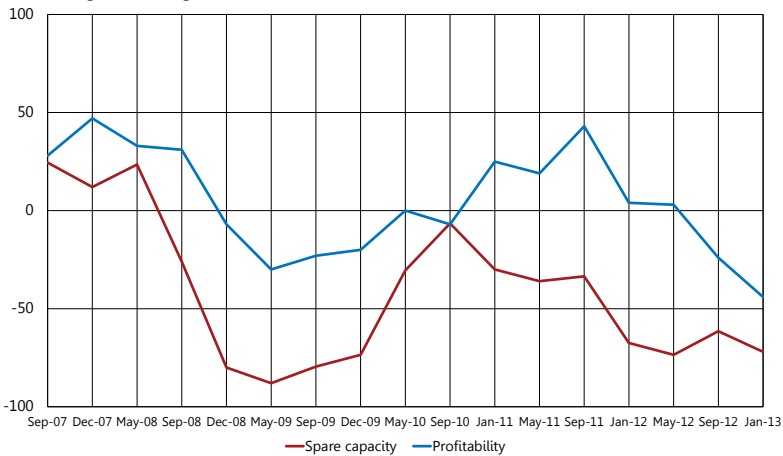
The Swedish export companies often have relatively little chance of affecting market prices due to severe international competition, and a stronger krona leads to shrinking margins for the companies. Although this also holds down cost increases for imported input goods, this does not provide sufficient compensation for many manufacturing companies. In the retail sector, it is the increase in supplier prices and increased labour costs that are expected to have an impact on sales prices.

"MARGINS AND VOLUMES ARE FALLING"

As in the previous survey, profitability problems and the difficulties involved in increasing prices are of serious concern to the companies. Dissatisfaction with profitability continued to increase in the period between September and January, see Figure 9. The change is essentially due to the fact that economic activity has declined in the manufacturing sector.

The low level of demand and stagnant or falling prices on some markets are shrinking the margins of the export companies, which is having repercussions on profitability. The profitability of the export industries is also being squeezed by the strong krona and many of the companies in these industries are thus implementing extensive rationalisation and cost-cutting programmes. The low level of demand is reflected by a low level of resource utilisation. In general, the companies also say that it is easy to recruit personnel.

Figure 9. Profitability assessment and indicator of spare capacity
Weighted net figures



Note. The companies are asked: How is the company's current profitability? The response alternatives are Good/Satisfactory/Poor. The indicator of spare capacity is based on two questions. The manufacturing companies are asked how they could handle an unexpected increase in demand. Other companies are asked if there is a shortage of labour.

Comments from the forestry and steel industries indicate that structural changes are increasingly necessary. The changes are due to a combination of different factors, with declining international demand for certain products and the domestic cost level among the central factors. In some cases, this has led to the discussion of closures and/or the movement of investment to production units abroad.



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