

# The Riksbank's Business Survey

MAY 2013

"ECONOMIC UPSWING IN AN ADVERSE SITUATION"



# ■ The Riksbank's business survey in May 2013

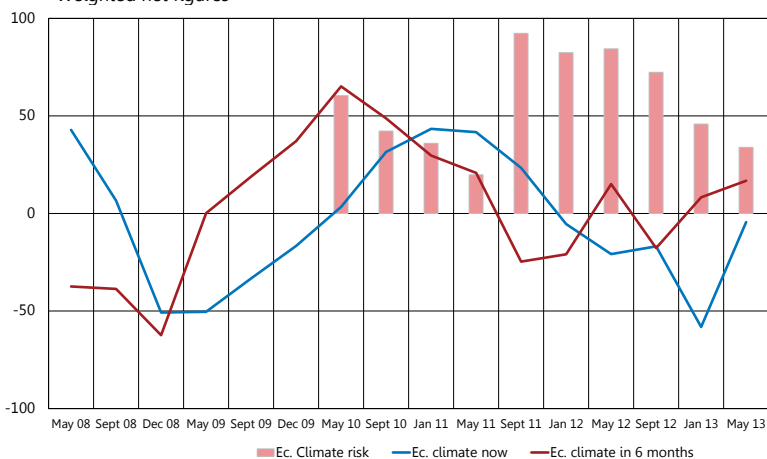
*The Riksbank's Business Survey in May 2013 shows a cautious optimism among the companies. Economic activity is still weak, but has improved during the spring. Many companies are hoping for continuing improvements in the near term and some are planning to increase their workforces. The profitability of the manufacturing industry is at the same time under pressure from the strong exchange rate and the weak developments in Europe. Demand in Sweden is divided, with better developments in the retail trade, while the upswing in the construction industry is taking longer. Low cost pressures are expected to lead to slowly rising prices in the coming period.*

Companies assess that economic activity is still weak, although the situation has improved and is expected to continue to improve, see Figure 1.

The assessment of recent developments is very wait-and-see: it is "very, very cautious optimism". The risk that economic activity will weaken is still greater than normal and coloured by the problems in Europe, at the same time as many feel concern that it "won't pick up".

**Figure 1. The economic situation and cyclical risks**

Weighted net figures



Note. The net totals show the percentage of responses that the economic situation will be good or poor, or better or worse, respectively. 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.

The fact that cyclical risks are assessed as lower than before may also be due to companies gradually adjusting their perception of what is considered to be "normal" risk.

#### "EUROPE WILL MUDDLE THROUGH"

It is clear that companies now consider the weak economic activity in Europe to be persistent and that it will be weak for a long time to come. Comments such as "Europe will muddle through" and "We are making our plans on the assumption of low activity" have been more common in this survey than in previous ones. This creates problems for Swedish export companies, as the European market is predominant for most of them. An increasing number of companies are therefore trying to expand to new markets.

Demand for Swedish export goods is strong in Latin America and primarily in Brazil, where the economy is supported by both monetary and fiscal policy stimulation. The upturn that companies experienced in the United States at the start of the year has accelerated and general economic activity there has strengthened during the first half of 2013. Several companies also highlight the increasing extraction of shale gas as a positive factor that could also "redraw the map" with regard to future production locations.

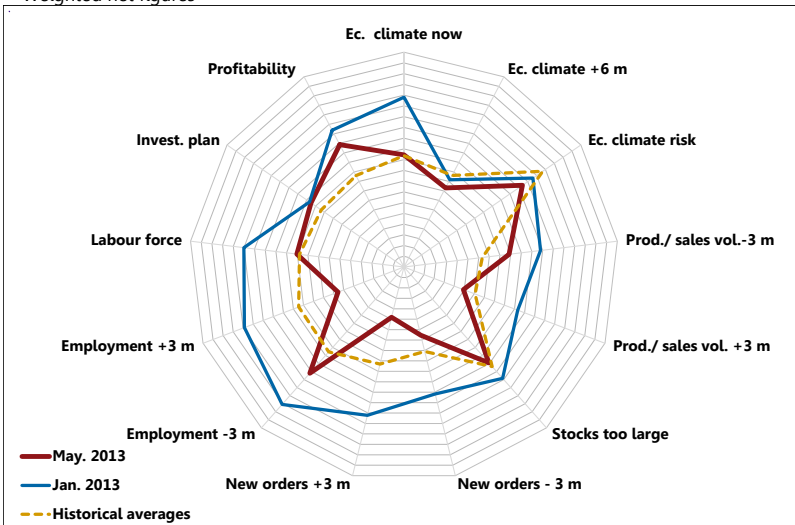
Developments in China are more difficult to assess. There are signs that demand is strong, at the same time as some companies claim that demand will weaken and developments are uncertain. "It is a bit of a 'black box' in China and this is always a risk."

#### SLOW ECONOMIC UPTURN

All in all, the pattern of responses in Figure 2 gives the impression that conditions for companies are much better in May than they were at the beginning of the year. The improvement is stronger with regard to questions relating to future developments than the current situation. "It feels as though we have bottomed out and are on the way up again."

There is hope that demand will pick up in the coming period, but few companies expect a rapid upturn. There is some resignation about the situation and one company expressed it as: "Things have been so bad for so long that it has to improve at some point."

**Figure 2. 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 questions have been put. The term -3m / +3m refers to the most recent three months and the coming three months respectively, +6m refers to the coming six months.

### WEAK CONSTRUCTION CLIMATE AND THRIFTY SWEDES

Construction activity in Sweden remains weak, but with some regional differences. It is higher in Stockholm and Göteborg than in other parts of the country. At the same time, construction companies still see a strong underlying demand for housing, which is held back by concern over developments in Europe that are "throwing a wet blanket over the housing market". In the previous survey, construction companies assessed that housing construction would pick up during the second half of 2013, but the hope is now that it will instead pick up at the beginning of 2014.

Retail trade companies are experiencing relatively good growth but with clear differences in different types of trade. The non-durable goods segment has increased its sales, while the durable goods segment appears to be having a tougher time. Customers are described as more concerned with their own savings and one company says: "Swedes are saving like never before".

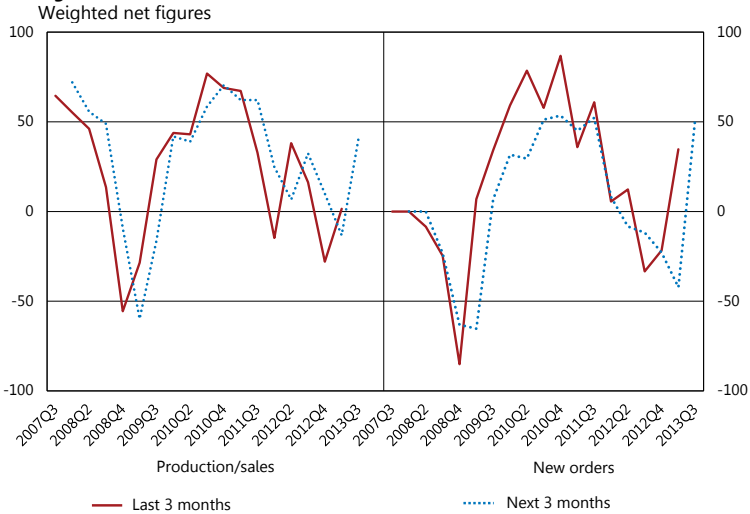
### TRIMMED-DOWN COMPANIES

Demand weakened during the previous six months and many manufacturing companies were then dissatisfied with overly large stocks. Companies have gradually adjusted their output and labour forces to the lower demand and now in May the adjustment appears to be largely complete. Most companies are now satisfied with their stocks

levels. Production levels have largely stood still in recent months, and orders have improved, see Figure 3.

Developments in some sectors of the manufacturing industry are particularly strong. For instance, those who are affected by a transition to new European regulations on emissions are experiencing stronger demand than the industry in general. At the same time, these companies point out that the increase is the result of temporary effects and that there is some concern over next year. "The big question is what will happen in 2014."

**Figure 3. Production/sales and new orders**



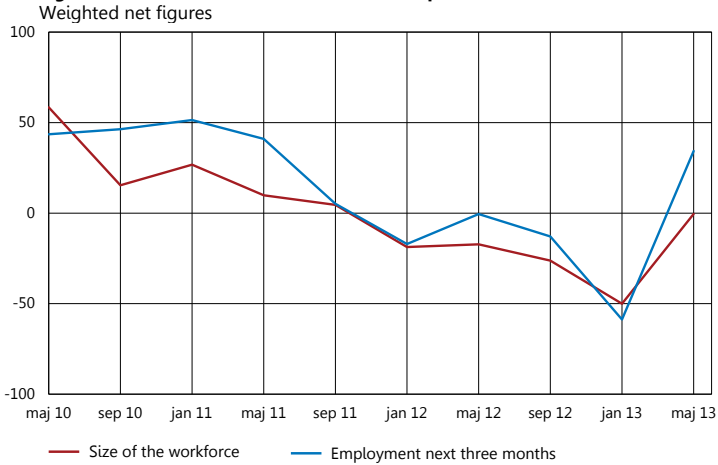
Note. The questions relate to the companies' assessment of production/sales and new orders over the least three months and in the three months ahead compared with the preceding three-month period. The net totals represent the balance between the percentage of responses that production/sales or new orders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

The situation for the forestry and steel industries remains strained. Increased international competition and reduced demand for newspaper has led to a structural transformation that according to the companies is hastened by the strong exchange rate. Many sawmills and paper machines have been closed down in the forestry industry and decisions have been made on further cutbacks.

#### STAFF CUTS ARE OVER

Many companies have been cutting back on staff over a long period of time. These cutbacks have continued over the past three months, but now most companies consider their workforce to be well-adjusted to demand, see Figure 4.

**Figure 4. Size of workforce and recruitment plans**



Note. The questions were: How does your workforce relate to demand/production? and How do you assess that the number of employees will develop in the coming three months? The net figures show the balance between too large and too small and increase and reduce respectively.

There are also more companies now saying they intend to increase their workforce during the coming three months. The responses indicate some increase in employment within manufacturing, construction and retail trade, although these are small increases for most companies. However, in the forestry and steel industries there are plans for continued staff cutbacks as a result of lower demand.

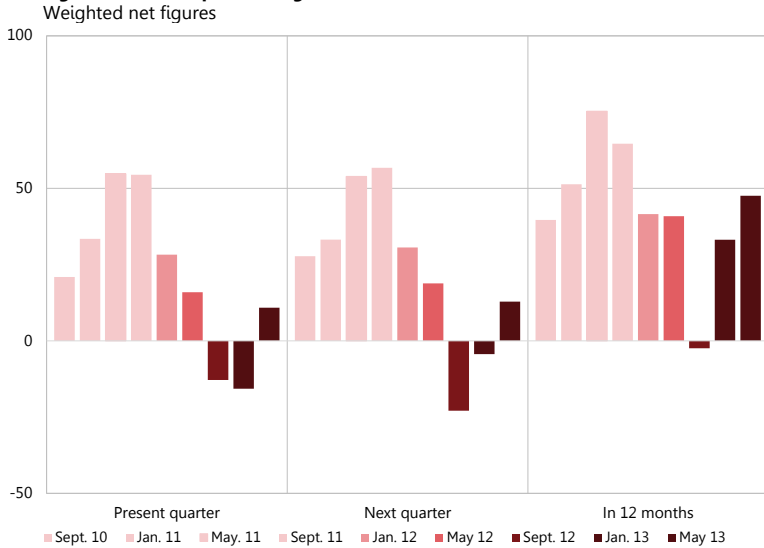
#### CONTINUED LOW PRICE PRESSURE

The low price pressure in the economy remains and few companies have recently raised their prices or plan to do so in the near term. There are now a few more companies saying that they intend to raise prices in the coming quarter than said so in January, but the percentage is still low, see Figure 5. Many companies commented on the situation with remarks such as: "Now is not the right time to raise prices."

Companies' assessments of developments in prices in the slightly longer term, that is, for the coming twelve months, are much more uncertain. More companies are now intending to raise their prices in the coming year, but as in the previous survey, these hopes are expressed with reservations. The size of the price increases companies are hoping to make varies, but is often just below two per cent.<sup>1</sup>

<sup>1</sup> The pricing plans of the construction and manufacturing industries for the coming twelve years refer to producer prices and not consumer prices.

**Figure 5. Planned price changes**



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 surveys.

This level applies to many companies in the retail trade, while manufacturing companies' pricing plans are often lower and construction companies' pricing plans are higher.

#### DEMAND GOVERNS PRICES

The factors that will have the greatest impact on companies' pricing plans over the next 12 months are presented in Figure 6. Many companies now state that increasing demand will enable them to increase both their prices and profit margins in the coming period. At the same time, several of them emphasise that the stiff competition sets rather tight limits.

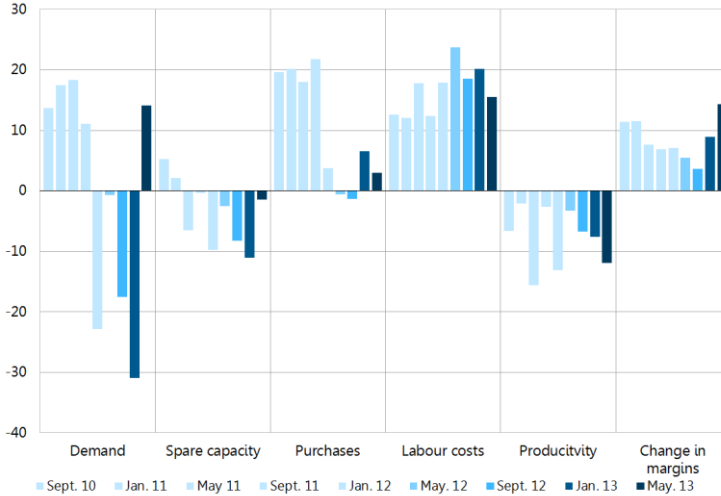
However, there are clear differences, primarily between the manufacturing industry and the retail trade. Within the manufacturing industry, companies are hoping that rising demand will provide scope for some price increases and some improvement in profit margins, at the same time as the problems with over-capacity decline, for instance, through factory closures. Very few manufacturing companies point to a rise in prices of input goods as a reason for price increases. There are also relatively few companies in the manufacturing industry that regard developments in wage costs as a reason for price increases.

In the retail sector, it is the increase in supplier prices and increasing labour costs that are expected to have an impact on sales prices.



At the same time, productivity improvements counteract price increases, through improved scheduling, logistics and so on.

**Figure 6. Factors that will affect pricing in the twelve months ahead**  
Weighted net percentages



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 surveys.

On this occasion, few manufacturing companies comment on the exchange rate in connection with their pricing plans. Strong international competition usually governs pricing and the exchange rate thus has limited significance, which means that the exchange rate primarily affects these companies' profit margins rather than their prices.

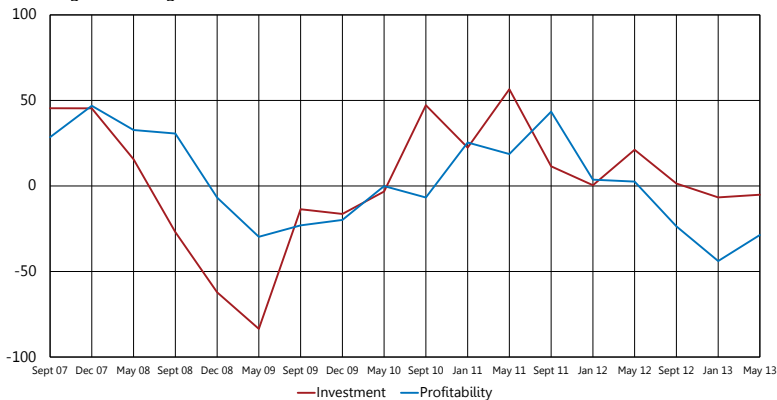
#### "INCONCEIVABLE TO INVEST IN AN UNCERTAIN SITUATION"

As in January, few companies are increasing their investments. In general, companies are cautious and only replacing worn equipment. This picture is confirmed by the low orders to the construction sector, which act as an indicator of investment activity in the economy. One necessary condition for investment to increase is that companies see a clear improvement in demand.

The investment plans of manufacturing sector companies and retail sector companies differ, as do those in various parts of the manufacturing industry. In the retail sector, new shops and warehouses are being built on a relatively normal scope, while activity is much lower in the manufacturing industry. One construction company commented on the low level of assignments from the manufacturing industry with the words "companies are afraid of investing".

Fewer companies than responded in January consider profitability to be poor, but there is still considerable dissatisfaction, see Figure 7. Here, too, there are clear differences between the manufacturing industry and the retail trade. Many companies in the manufacturing industry characterise their profitability as poor, whereas the most common response in the retail sector is to consider profitability to be good.

**Figure 7. Investment and profitability**  
Weighted net figures



Note. The companies' responses to the questions: How do the company's investment plans for the coming six months look (compared with the previous six months)? and How is current profitability? The net totals represent the balance between increased/decreased and poor/good.

## THE ECONOMIC INDICATOR SHOWS AN UPTURN

The business survey's indicator of economic activity<sup>2</sup> for May shows an improvement compared with the start of the year, and that the economy is in an upturn phase, see Figure 8.

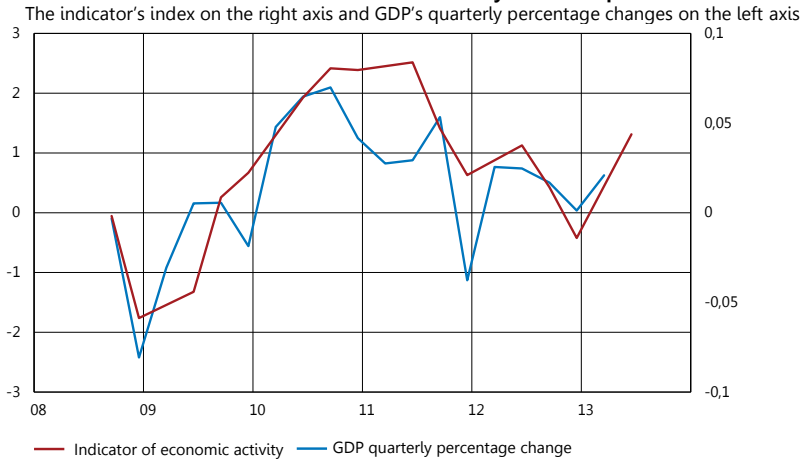
The indicator of economic activity is a weighted average of the eight questions included in the survey since it was first started in 2007. The indicator reflects economic activity, and the correlation between the indicator and the seasonally-adjusted development in GDP is high, which is expressed by a correlation coefficient of 0.77. The indicator is calculated up to two months before the quarterly outcome of GDP is published and thus provides an early indication of developments in economic activity.

The questions used to produce the indicator refer to production volume and employment, investment plans, profitability, and devel-

<sup>2</sup> For further information about the Business Survey's indicator of economic activity, see Hokkanen, Melin and Nilson (2012), "The Riksbank's Business Survey – a quick indicator of economic activity", Sveriges Riksbank Economic Review 2012:3. [http://www.riksbank.se/Documents/Rapporter/POV/2012/rap\\_pov\\_artikel\\_3\\_121017\\_sve.pdf](http://www.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_sve.pdf)

opments in productivity and pricing. When calculating the indicator of economic activity, the respective questions are weighted on the basis of their ability to predict changes in seasonally-adjusted GDP from one quarter to the next.

**Figure 8. The Riksbank's indicator of economic activity and developments in GDP**



Note. The business survey is carried out three times a year. The values for the first quarters are linearly interpolated into the indicator of economic activity. The correlation coefficient (R2) between the indicator of economic activity and GDP growth is 0.77.

Even if the information value of the indicator is high, one should bear in mind the fact that it is based solely on quantified net figures. The net figures capture changes in economic activity well, but do not always provide such good information about the strength of a downturn or upturn. It is therefore important to use the qualitative information provided by the companies, which is done in the report as a whole.

## ABOUT THE BUSINESS SURVEY

The Riksbank's Business Survey has been carried out since 2007. The survey is conducted by means of in-depth interviews by Riksbank staff during visits lasting around one hour. The interviews are usually held with representatives of the company management. The discussions give the companies an opportunity to develop their answers and the interviewer the chance to ask relevant follow-up questions. Questions on current topics of discussion in the field of monetary policy are regularly included.

The survey is mainly aimed at mirroring developments in prices and economic activity in the manufacturing and construction industries, the retail trade sector and parts of the services sector. Large parts of the Swedish business sector are dominated by a few large companies, which means that relatively few interviews can provide information on activity in central parts of the business sector. Around 40 companies are normally interviewed in May and September, and around 25 companies in January. Just over 300 companies have taken part in the survey since 2007.

The May 2013 report presents the results of interviews with 36 companies, which were mainly held during the period 6-24 May. The responses for each company are weighted on the basis of the number of employees in Sweden (a total of 224,000) and the main results are reported in the figures. The net totals in the figures are the balance between positive and negative responses and capture upswings/downswings in the pattern of responses well. However, they are not so good at answering questions regarding the size of the changes. The companies' comments on the questions are therefore very important for the analysis. All in all, the companies' responses provide early and reliable information on economic activity.

The questions in the survey are published and available on the Riksbank's website: Hokkanen, Melin and Nilson (2012), "The Riksbank's Business Survey – a quick indicator of economic activity", Sveriges Riksbank Economic Review 2012:3.

[http://www.riksbank.se/Documents/Rapporter/POV/2012/rap\\_pov\\_artikel\\_3\\_121017\\_sve.pdf](http://www.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_sve.pdf)



Sveriges Riksbank  
SE-102 37 Stockholm

Tel +46 8 787 00 00  
Fax +46 8 21 05 31  
[registratorn@riksbank.se](mailto:registratorn@riksbank.se)  
[www.riksbank.se](http://www.riksbank.se)