

The Riksbank's Business Survey

SEPTEMBER 2013

ECONOMY PICKING UP IN ANTICIPATION OF UPTURN

■ The Riksbank's business survey in September 2013

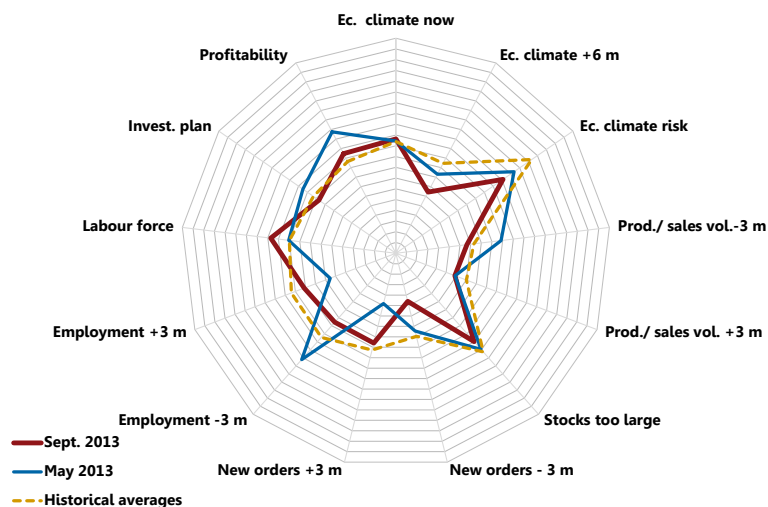
The Riksbank's business survey in September 2013 indicates an ongoing, slow increase in economic activity. The situation has improved since May with small increases in production, new orders and employment. However, the assessments of economic activity are unusually divided and some business sectors see no signs of an upturn in the immediate future. In the surveys in both January and May it was hoped that the economy would pick up further speed during the autumn. The companies now expect this to happen later, and do not believe that a tangible improvement will take place until after the turn of the year.

The cyclical risks have declined during the year and are now lower than previously. This is strengthening hopes of an upturn, particularly in the retail sector. Price pressures will remain low in the short term and few companies expect that they will be able to raise prices.

All in all, the survey shows that economic activity has improved somewhat in September compared to the situation in May. For example, the assessments for production, new orders and employment have improved, see Figure 1.

Figure 1. The companies' overall responses

Weighted net figures



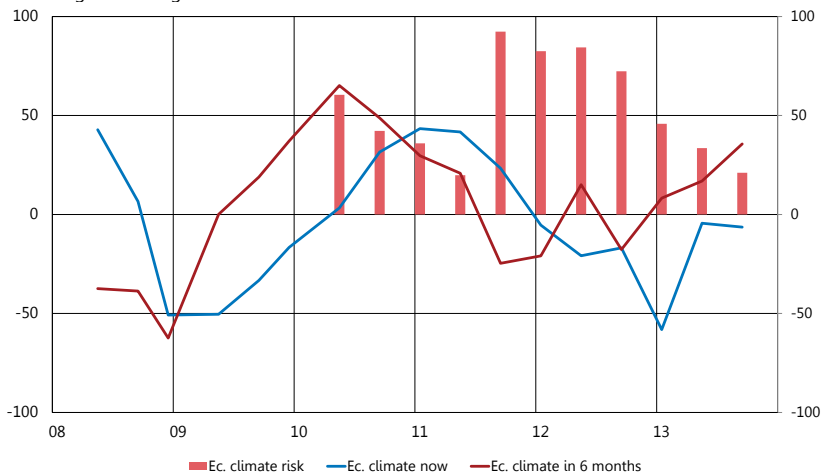
Note. The responses to the questions are plotted along a "spoke" in the figure and a net total further from the centre entails a deterioration. The historical averages are calculated for the periods for which the questions have been put. The term -3m / +3m refers to the most recent three months and the coming three months respectively, +6m refers to the coming six months.

However, the changes that have taken place since the May survey are small and several companies point out that the upturn has taken place from low levels. One company representative expressed this by saying: "We have a good market position on a non-existent market".

"WE NEED IMPETUS FROM THE MARKET"

The companies' own assessment of the current state of the economy is roughly the same as in May, see Figure 2. However, the assessment is more divided than in previous surveys, both between sectors and between companies: companies linked to the mining and steel industries are particularly under pressure due to weak global demand and overcapacity. Unless demand picks up for these companies, the assessment is that there is a significant risk of cutbacks in production and personnel.

Figure 2. 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. Cyclical risk shows the balance between the percentages of responses that cyclical risk is higher or lower than normal.

Other industrial sectors have benefited from temporary increases in demand in 2013 and have therefore increased their production and labour forces. The future development of economic activity is also important to these sectors because "the underlying development of economic activity doesn't look too good". Unless there is a clear improvement in demand, there is a risk that the companies will reduce their production and labour forces in the early part of next year.

However, other business sectors see signs of an upturn. Staffing agencies and transport companies confirm the recent improvements. Many companies have also reduced their stocks and in September

most companies believe their stock levels are in balance. If demand were to increase, production would therefore need to increase rather quickly.

"THE CUSTOMERS ARE READY TO INVEST AGAIN"

The economic outlook is generally described as positive and most of the companies believe that the situation will be better in six months' time. The assessment of several manufacturing companies is that there is a pent-up international demand for Swedish export goods due to the relatively low level of investment activity abroad in recent years. The retail companies also expect the situation to improve within the next six months and often point out that the improvement in household incomes provides the potential for increased consumption.

Cyclical risks have been in decline since mid-2012 and fell further in September, see Figure 2. This is primarily due to reduced unease about developments in Europe. There is also less uncertainty about developments in China and there is still confidence in the recovery in the United States.

CONSTRUCTION SLUGGISH

Construction has been sluggish over the last 12 months and activity is still low in September, but the construction companies hope that activity will pick up in the period ahead. The better outlook mainly applies to the construction of housing, which has increased somewhat compared to the situation in May. The assessment is that there is considerable potential for growth in the period ahead as the general level of housing construction is significantly below the long-term need.

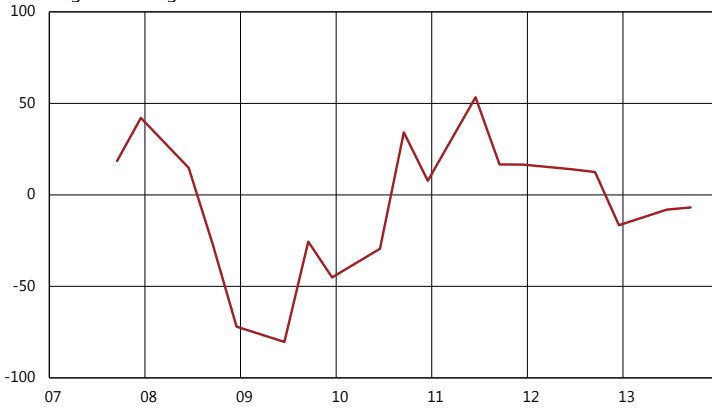
Building materials companies report sluggish volume growth given the somewhat subdued activity at the major construction companies. However, the demand from smaller companies and households is stable and increasing slightly.

Several major infrastructure projects are being planned and the construction companies are waiting for these to start. Commercial properties such as factories and warehouses are being built to a lesser extent and several projects have been postponed due to reduced investment on the part of manufacturing companies.

The manufacturing industry confirms the picture of a low level of investment activity, see Figure 3. The investments of many of these companies relate to the replacement of worn-out equipment. The factor restraining new investment in the manufacturing industry is, as

in the case of construction, the low level of demand, while access to external funding is rarely seen as a problem today.

Figure 3. Investment plans in the manufacturing industry
Weighted net figures



Note. The companies' responses to the question: What are the company's investment plans for the coming six months compared with the previous six months? The net figures represent the balance between the percentage of respondents expecting an increase or decrease.

MINOR CHANGES IN EMPLOYMENT

The companies' manning requirements indicate only minor changes in employment in the period ahead, see Figure 4. Although there are plans in the retail sector to increase employment over the next three months, this relates in general to limited recruitment in connection with the opening of new shops.

Figure 4. Size of work force and recruitment plans
Weighted net figures



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 decrease respectively.

Another element of the divided picture is the fact that there are at the same time some, primarily industrial sectors in which overmanning continues to be a problem. These sectors are still adjusting to a lower level of international demand.

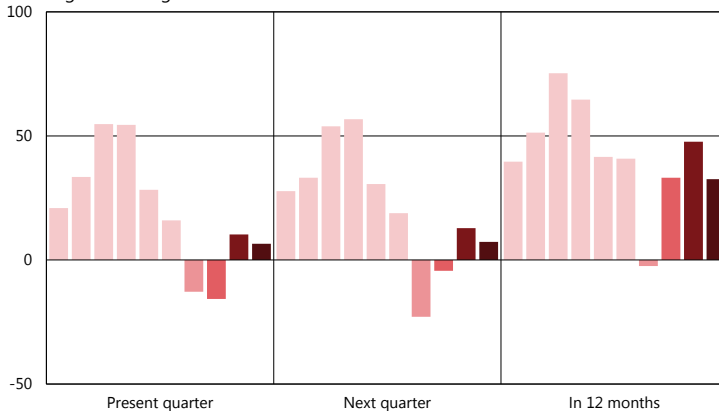
The companies' resource utilisation is still at a low level at the same time as profitability has improved. However, this improvement in profitability is often a consequence of cost-cutting programmes rather than of increased demand. In general, the assessment is that profitability is better in retailing than in manufacturing.

FEW EXPECT TO SEE PRICE INCREASES

The possibility to increase prices is limited, as has been the case since last year. There is also a smaller percentage of companies in September than in May that have recently increased their prices or plan to do so in the near future, see Figure 5.

Figure 5. 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 surveys.

The companies' assessments of the development of prices in the coming year indicate somewhat lower price pressure than previously. The size of the price increases the companies believe they will be able to make, or in many cases hope they will be able to make, is often below two per cent. This level applies to companies in the retail trade, while manufacturing companies' pricing plans are usually lower.

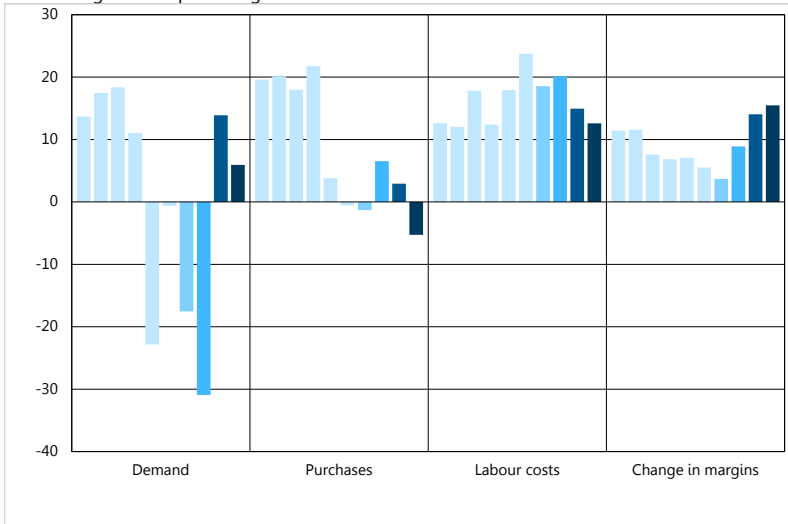
LOW COSTS WILL PROVIDE BETTER MARGINS

The factors that will have the greatest impact on companies' pricing plans over the next 12 months are rising wage costs and increases in their own margins, see Figure 6. Demand is not considered to be as important for price increases as it was in the responses in May. The

potential increase in the companies' own margins appears above all to relate to the assessment that costs for intermediate goods and wage costs are not increasing as much as previously.

As previously, there are clear differences between the manufacturing industry and the retail trade. Hopes of improved margins are strongest in the manufacturing industry and it is also here that the expectation of lower costs for intermediate goods is most clearly holding back price increases. In the retail sector, as previously, rising wage costs are expected to be the most important factor behind an increase in prices.

Figure 6. Factors behind pricing in the twelve months ahead
Weighted net percentages



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

INDICATOR OF ECONOMIC ACTIVITY SHOWS CONTINUING UPTURN

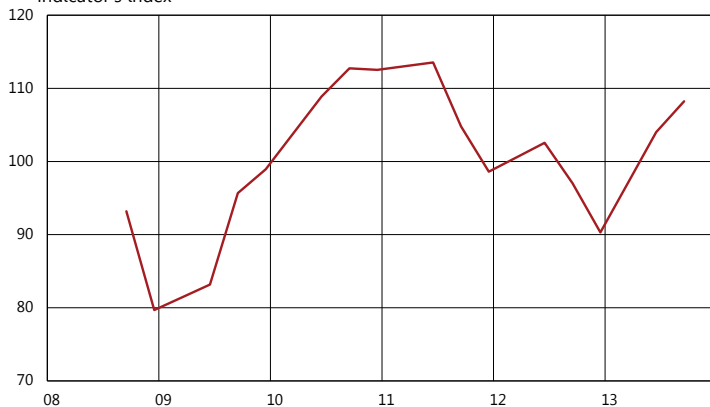
The business survey's indicator of economic activity suggests that the upturn will continue, see Figure 7. However, this should be set against the companies' restrained comments on the strength of the improvement in economic activity. Many companies express hope for the future, but there are few concrete signs of an upturn in primarily production, employment and new orders. An overall interpretation is therefore that the upturn will continue, but at a slow rate.

The indicator is calculated on the basis of an average of the responses to the questions on production volumes, employment, investment plans, profitability and the development of productivity and prices. The questions are then weighed together on the basis of their ability to predict seasonally-adjusted GDP changes from quarter

to quarter. The indicator is calculated up to two months before the quarterly outcome of GDP is published and provides an early indication of developments in economic activity.

Figure 7. The Riksbank's indicator of economic activity

Indicator's index



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 indicator has been normalised to the mean value 100 and the standard deviation 10. This means that a value above (below) 100 should be interpreted as a somewhat stronger (weaker) business cycle than the average. A value above (below) 110 or 90 respectively entails a greater deviation from the mean value.

ABOUT THE RIKSBANK'S BUSINESS SURVEY

The survey investigates developments in prices and economic activity in the manufacturing and construction industries, the retail sector and (parts of) the service sector. A small number of companies make up a very large part of the Swedish business sector, so that a relatively limited number of interviews at these companies can provide information on a large part of the sector as a whole. Many of the interviewed companies also provide information about other parts of the business sector through their contacts with, for example, small and medium-sized companies.

The survey is carried out by means of interviews conducted by Riksbank staff who visit the companies. The interviews normally take about an hour. They are usually conducted with members of the company's management. The discussions give the companies an opportunity to develop their answers and the interviewer the chance to ask more detailed follow-up questions. From time to time, specific questions are asked about current issues in monetary policy.

Around 40 companies are normally interviewed in May and September, and around 25 companies in January. Over 300 companies have taken part in the survey since it was started in 2007.

The diagrams in the report present the companies' responses weighted in terms of the respective companies' number of employees in Sweden. The net figures in the diagrams capture upturns and downturns in the pattern of responses well. These responses are then combined with the companies' reflections on the questions.

The September 2013 report presents the results of interviews with 41 companies, which were mainly held during the period 26 August to 12 September.

A more detailed description of the survey can be found 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



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