The Riksbank's Business Survey

JANUARY 2014

COMPANIES REMAIN HOPEFUL BUT GROWTH STILL SLUGGISH

■ The Riksbank's Business Survey in January 2014

The Riksbank's Business Survey in January 2014 indicates that the economic situation remains largely unchanged since the previous survey in September. However, macroeconomic risks have declined and the companies are thus more hopeful about the future than previously. The fact that there is less uncertainty improves the potential for an upturn in economic activity on a broader front which the companies believe may arrive in the summer.

The companies' investment plans remain subdued and they are waiting to make major investments until there is a clear increase in demand. Employment is expected to be lower than previously as the need for labour is limited and there is ample spare capacity.

Low cost pressures are an important reason why the companies plan to make only small price increases in the period ahead. The prices of input goods have been held back by the slow development of internationally-determined prices and by the relatively strong krona. In the somewhat longer term, the companies hope to be able to increase their prices and margins as demand is expected to increase.

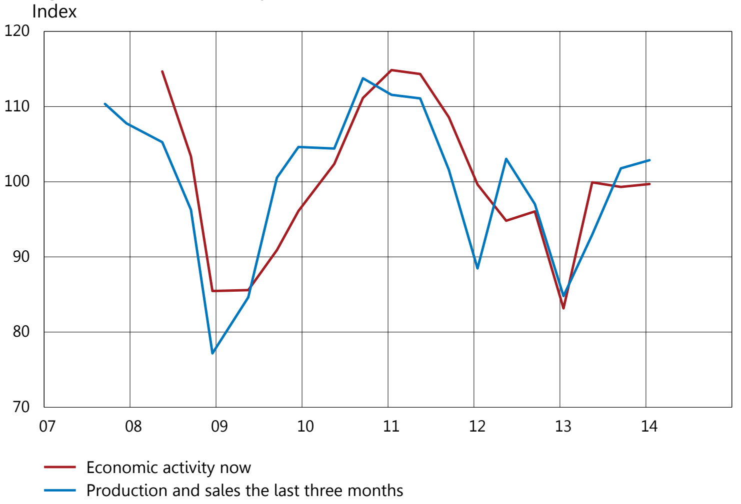
The Business Survey in January shows that production and sales have increased somewhat, but that the economic situation is now very similar to what it was in September, see Figure 1.

The increases are generally small, although widespread, in the manufacturing industry. However, development is still weak in the commodity-based sector and the assessment of these companies is now that the recovery will take longer than expected.

Construction companies have benefited from the positive development of, above all, the housing market, which has led to an increase in new orders and increased production over the last three months. The warm weather in the early part of the winter has also led to higher production volumes than normal for the time of year.

Development also remains good in the retail sector, with minor changes since September 2013. Both the retail and transport companies report that the consumers have increased their proportion of online purchases, which is squeezing prices and increasing the demands for productivity development in the retail sector.

Figure 1. Economic activity now, production and sales over the last three months

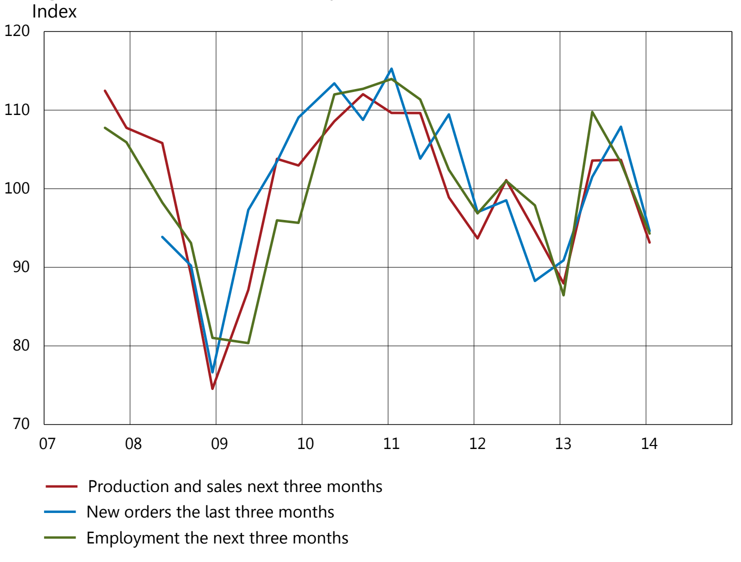


Note. Indexes show a standardised value (mean value = 100 and standard deviation = 10) for the balance between the percentage of responses that the economic situation is good or bad and that production/sales have increased or decreased.

"NO CRISIS BUT STILL SLUGGISH"

In 2013, new orders and production increased in parts of the manufacturing industry, primarily as a result of temporary factors relating to a transition to new exhaust-emission requirements in the EU. As the effects of these factors are now waning, production and employment will return to a lower level of demand, see Figure 2.

Figure 2. Production/sales, employment and new orders



Note. Indexes show a standardised value (mean value = 100 and standard deviation = 10) for the balance between the percentage of responses that production/sales are better or poorer and that new orders have increased or decreased.

Despite the relative decline, the picture presented by most companies is that "there has been a slight increase in underlying demand".

"EUROPE IS BETTER THAN WE HAVE SEEN PREVIOUSLY"

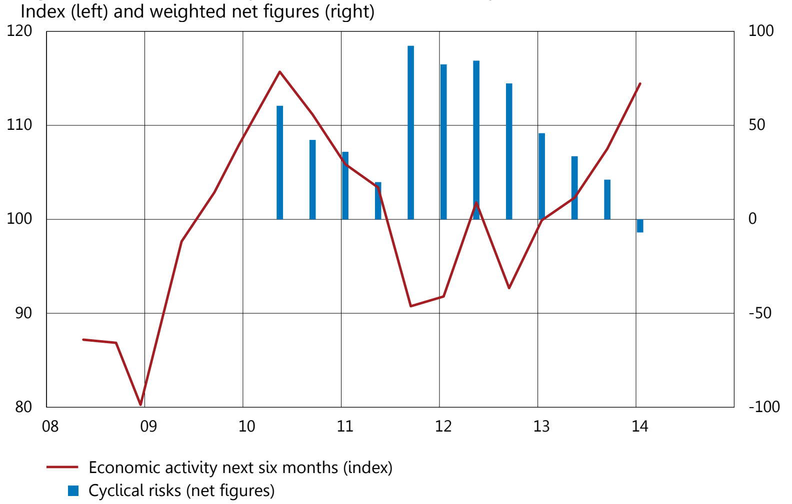
The companies believe that there is less risk of the recovery coming to a halt than previously. They believe that the level of risk is now at its lowest since we began to measure this in 2010, see Figure 3. This is largely because the companies now express less concern about developments in the euro area than previously. However, the situation in France is described as "the greatest risk to future growth" in the area. The conflict in Syria and the tapering of asset purchases in the United States are also affecting the companies risk assessments.

"NOT MUCH BETTER, BUT BETTER THAN PREVIOUSLY"

While the companies do not expect to see any substantial increases in production and sales over the next three months, many expect that the economic situation will be better in six months time, see Figure 3. However, demand from the euro area needs to increase for economic activity to really pick up speed, which would strengthen the export industry and therefore also increase confidence in development in Sweden.

Although there is a lot of optimism, most companies believe that the recovery will be slow and protracted during the spring.

Figure 3. Economic activity in the period ahead and cyclical risks
Index (left) and weighted net figures (right)



Note. Index shows a standardised value (mean value = 100 and standard deviation = 10) for the balance between the percentage of responses that economic activity we will be better or poorer in six months. Net figures show the balance between the percentage of responses that cyclical risk is higher or lower than normal.

Expectations of an improvement in economic activity on a broader front lie somewhat further ahead and the companies hope to see this happen "some time in the summer".

Hopes of improvements further ahead were also a feature of the surveys in May and September 2013. At that time, several companies made optimistic assessments of the second half of 2013 which later proved to be incorrect. Some of these companies are now somewhat chastened and say "there may be growth in 2014, but we're now more cautious than we were during the autumn."

MORE INVESTMENT PRESUPPOSES MORE DEMAND

The companies have begun to plan for somewhat more investment since the survey in September, see Figure 4.

Figure 4. The companies' investment plans

Note. Index shows a standardised value (mean value = 100 and standard deviation = 10) for the balance between the percentage of responses that investment plans will increase or decrease over the next six months.

The investments that are being planned primarily concern the establishment of new outlets in the retail sector and replacement and IT investments in other sectors.

Funding conditions for the companies are still good and the major Swedish companies report that they are able to get funding on both the bond market and at banks under relatively favourable terms.

However, although the companies believe that risks from abroad have declined and that funding conditions are good, few companies are now planning major investments.

The continuing low level of demand is delaying such investment decisions according to the companies. The representative of one company expressed this by saying that the weak demand in the euro area has "shortened the investment perspective".

COMPETITIVENESS DETERMINES INVESTMENT DECISIONS

In January, the companies were asked about their investment plans in Sweden in the longer term. Labour-intensive sectors often plan to invest more abroad than in Sweden. A representative of one of the export companies said that "if we could start again from the beginning investments would not be so high in Sweden". The assessment of these companies is that they can improve their competitiveness by moving closer to their end markets. They also mention an unfavourable exchange rate and the high relative wage costs as factors that count against investing in Sweden.

However, companies in commodities-based sectors do not appear to be considering increasing their rate of investment abroad more than in Sweden. The commodities that they refine and sell are largely located here. These companies say that a strong exchange rate and structurally lower demand indicate a lower rate of investment in the longer term.

Knowledge-intensive sectors with a high technological content see major advantages with being located in Sweden. The labour that the companies need is often to be found here and their investment plans therefore relate to Sweden to a great degree.

LABOUR FORCE STILL TOO LARGE

Many companies are making personnel cuts as a result of previously announced redundancy notices. The number of employees will therefore fall over the next three months, see Figure 5. Employment will fall in both manufacturing and retailing, but this will be more common in manufacturing. One company representative expressed this adjustment by saying "the suit will soon fit".

Figure 5. Size of labour force and recruitment plans

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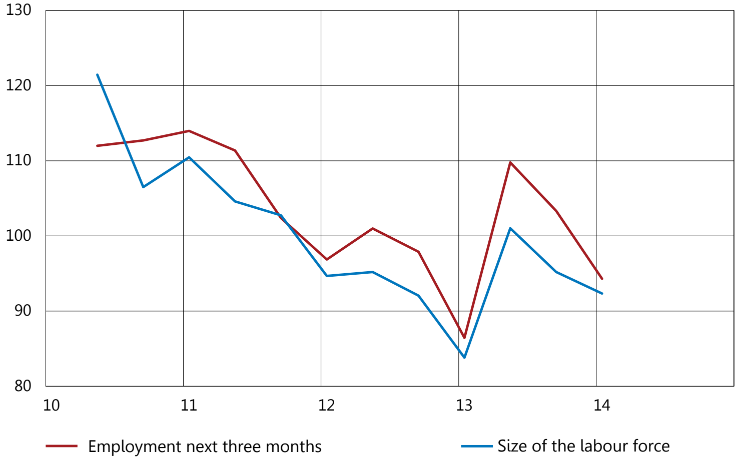

Note. Indexes show a standardised value (mean value = 100 and standard deviation = 10) for the balance between the percentage of responses that the labour force is too large or too small and whether the number of employees will increase or decrease over the next three months. If the labour force is too large the line is below 100 and if it is too small the line is above 100.

The companies' level of resource utilisation remains very low and in general the companies would have no problem producing more if there were to be a rapid increase in demand, see Figure 6.

Figure 6. Indicators of resource utilisation and the companies' profitability

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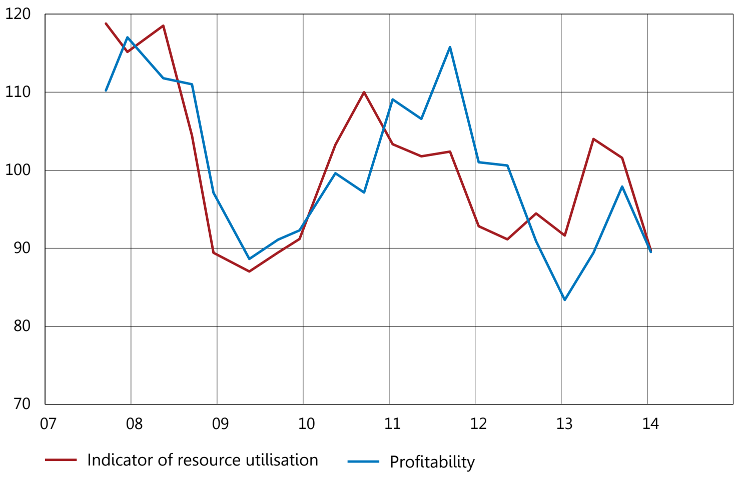


Note. Resource utilisation is based on the questions: "Can the company manage an unexpected increase in demand?" and "Is there a shortage of labour?" Indexes show a standardised value (mean value = 100 and standard deviation = 10) for the balance between the percentage of responses that there are considerable difficulties in meeting demand or no difficulties and yes, there is a shortage of labour or no, there is no shortage. In the case of the companies' profitability the index is based on the balance between the percentage of responses that it is good or bad.

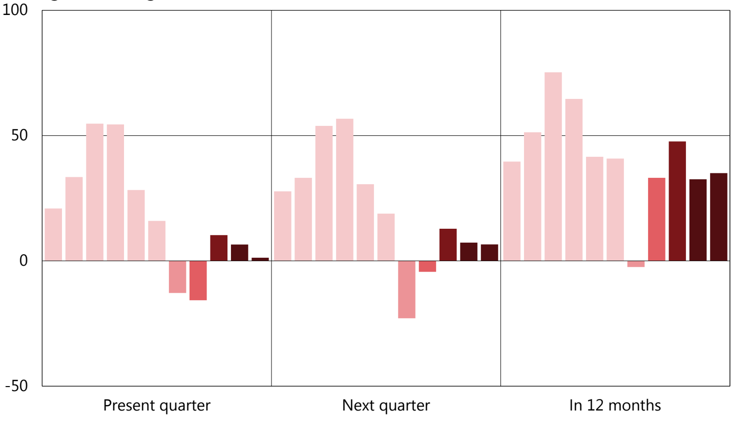
Similarly, there are very few companies who have problems recruiting personnel. In those cases where companies say they do have problems finding labour this usually relates to special skills or expertise.

Many companies are dissatisfied with their profitability at present, largely as a result of the low level of resource utilisation and price pressures. Many of these companies are conducting cost-cutting programmes which include personnel cutbacks. In general, the assessment is that profitability is better in retailing than in manufacturing.

WEAK COST PRESSURES AND LOW PRICES GOING FORWARD

The companies still find it difficult to raise their prices. The January survey reveals that only a small percentage of companies have recently increased their prices or plan to do so in the near future, see Figure 7.

Figure 7. Planned price changes
Weighted net figures



Note. The columns show the net figures for the 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.

Over the next 12 months there are, as in the surveys in 2013, a greater percentage of companies that plan to increase their prices, but the comments reflect a great deal of hope and a lot of uncertainty.

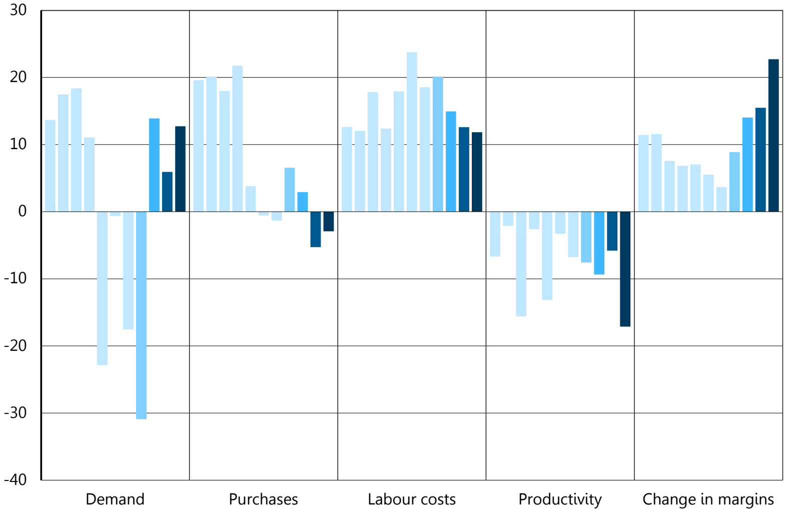
The companies' assessments of price increases over the next 12 months indicate that price pressures will continue to be low. Many retail companies are planning for price increases below two percent, while the manufacturing companies' plans are even more modest. Average price increases for the year ahead are often around one per cent.

RISING DEMAND IS EXPECTED TO PROVIDE BETTER MARGINS.

The factor that will primarily determine price changes over the next 12 months is the development of demand. At the same time, many companies say that the development of productivity and changes in margins are important to the development of prices, see Figure 8. A positive development of productivity is expected to reduce the companies' costs and to provide scope for improved margins. Most of the companies that hope to be able to improve their margins are not satisfied with their profitability either.

As previously, some of the companies refer to rising wage costs as a reason for increasing prices, but this applies to fewer companies than before. The prices of input goods, where increases have been held back by low international prices and the exchange rate, are also tending to keep the companies prices down.

Figure 8. Factors behind pricing in the twelve months ahead
Weighted net percentages



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

There are clear differences between the manufacturing industry and the retail trade. Expectations that increasing demand will provide scope for prices increases and that the costs of input goods will fall are, for example, stronger in manufacturing than in retailing. On the other hand, it is almost as common to hear references to rising productivity and the need for improved margins in both retailing and manufacturing this time.

INDICATOR OF ECONOMIC ACTIVITY IS SLIGHTLY POSITIVE

The Business Survey's overall indicator suggests that the economic situation is approximately the same as in September, see Figure 9. Nor do the companies' comments suggest that we will see strong development in the period immediately ahead.

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 9. The Riksbank's indicator of economic activity

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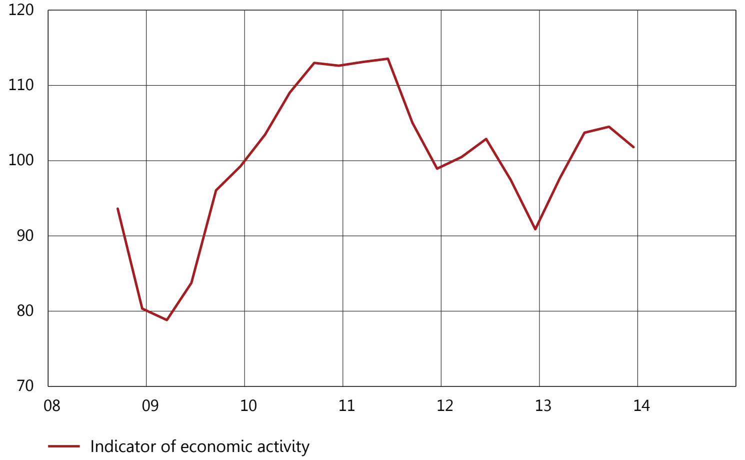

Note. The Business Survey is carried out three times a year. The values for the first quarters are linearly interpolated into the indicator of economic activity. The indicator has been standardised so that the mean value = 100 and the standard deviation = 10. This means that a value above (below) 100 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 Business Survey aims to reflect developments in prices and economic activity in the manufacturing and construction industries, the retail sector and (parts of) the service sector. As a few companies account for a very large part of the Swedish business sector, relatively few interviews among these companies can provide information about a large part of the sector. 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 visits 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 indexes in the diagrams capture upturns and downturns in the pattern of responses well. These responses are then combined with the respondents' reflections on the questions. The January 2014 report presents the results of interviews with 24 companies, which were mainly held during the period 2-17 January.

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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