



# The Riksbank's Business Survey

After three years of good economic  
activity, uncertainty is now increasing

September 2016



## The Riksbank's Business Survey in September 2016<sup>1</sup>

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Economic activity in Sweden has been good over the past three years and this looks set to continue during the autumn. Domestic demand is strong, particularly within the construction industry, which is also experiencing tendencies towards overheating; capacity is insufficient and costs are rising. Employment is continuing to rise and the demand for labour is high, both in the construction sector and with regard to people with specialist competence. This means that companies increasingly often hire foreign labour to enable flexibility in staffing with regard to major changes in production.

Although production and sales look set to continue strengthening in the coming period, expectations of future economic activity are more subdued than on any previous occasion over the past three years. Increased geopolitical unease and greater political uncertainty contribute to companies envisaging risks that could threaten economic developments. However, companies' main concerns appear to be that the good economic activity will not continue.

In the retail trade, the low price pressure of recent years looks to be continuing. There is some upward pressure on prices in that labour costs are continuing to increase – and also through purchasing costs rising as a result of the weaker krona. However, it is still difficult to pass on the whole of the cost increases to customers. Stiff competition and rapid structural transformation within the retail trade, partly due to increased sales within e-commerce, are continuing to hold back prices.

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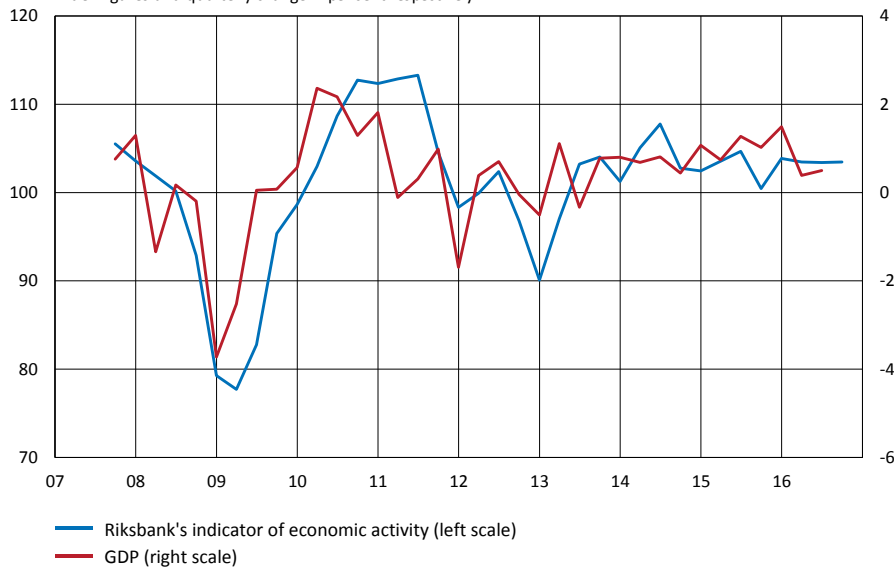
### “It is a sideways stabilisation”

The Business Survey's indicator of economic activity has been higher than the average since 2013, and in September indicates an unchanged good economic performance, see Figure 1. The export industry is meeting demand from relatively stable markets around the world. In Europe, it is mainly growth in Germany that remains good. In the United Kingdom there is greater uncertainty regarding major investments, but so far the Swedish export companies have not seen any clear signs of a slowdown. Developments in Asia are relatively unchanged, with the Chinese economy continuing to stabilise. Swedish industrial companies exposed to the energy and commodities industries have for some time been negatively affected by falling prices and surplus capacity on several markets. The situation is still difficult, but companies perceive that they “have almost reached a lowest point” as commodity and metal prices have stabilised.

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<sup>1</sup> Three times a year, the Riksbank interviews the largest companies in the construction, retail, manufacturing and service sectors. Representatives of 42 companies with a total of approximately 243,000 employees in Sweden were interviewed this time.

**Figure 1. The Business Survey's indicator of economic activity**  
Index figures and quarterly change in per cent respectively



Note. The Business Survey's indicator of economic activity is calculated as a weighted average of the responses to various questions in the survey. The responses 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 outcome for GDP is published and provides an early indication of developments in 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. Figures for quarterly GDP growth are seasonally adjusted.

## “Better than many other markets”

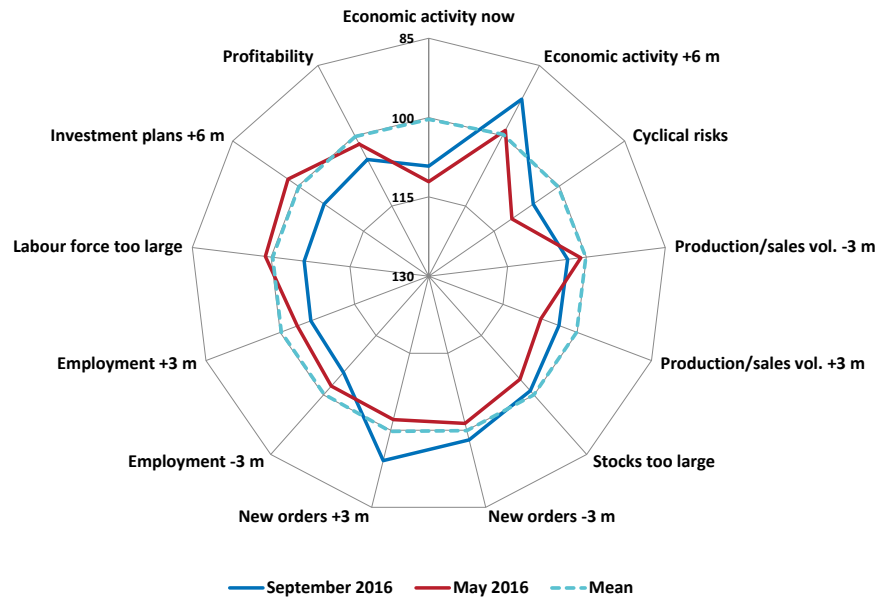
All in all, companies assess the economic situation to be good, although developments differ for different sectors, see Figure 2.

Demand is still strong with regard to retail and services companies active in the domestic market. Sales volumes are increasing in the restaurant industry, while clothing companies are not really attaining their sales targets. This is partly due to the cold spring and warm autumn. Subsequently, stocks have grown more than is desirable and retailers have therefore been forced to hold sales earlier and to extend them longer than usual.

Construction companies also talk about continuing strong performance, as demand for all types of construction is good. Several say that they have now reached the ceiling for their capacity utilisation and just as in May they say it is difficult to increase production. One business leader says: “although demand is increasing, it does n't matter because we have reached our capacity ceiling”. Construction companies have reported earlier that labour costs were increasing due to a shortage of staff, but now costs for sub-contractors and materials are also beginning to increase. Some say that this prevents them from increasing production further, as they do not want to take on costs that they are unable to remove later if demand declines.

**Figure 2. The companies' overall response patterns**

Weighted index



Note. The responses to the questions are plotted along "spokes" in the figure where an index figure closer to the centre is better. The historical average is calculated for the periods when the questions were put and for all sectors. The term -3 m / +3 m refers to the most recent three months and the coming three months respectively. +6 m refers to the coming six months.

## “As soon as there is an uncertainty it creates a risk”

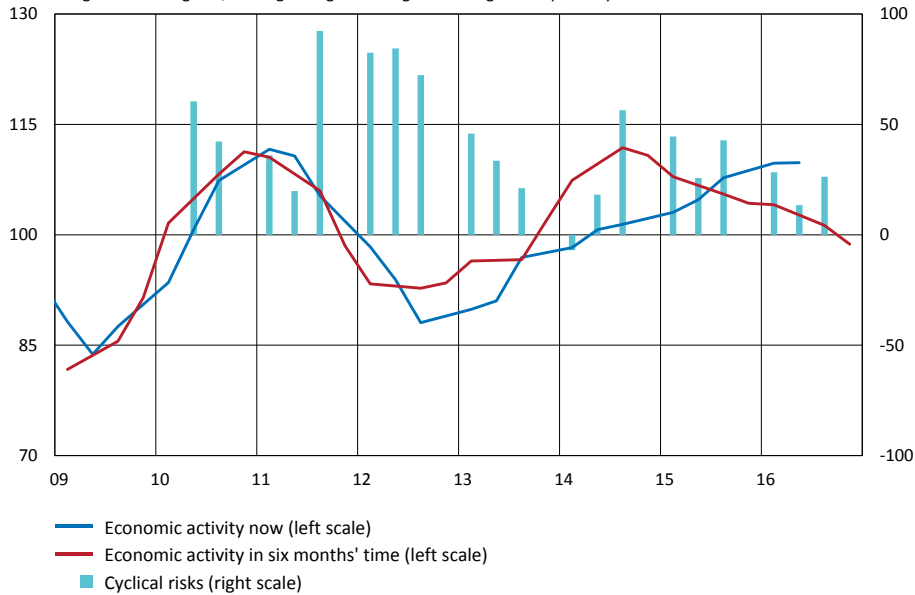
At the same time as economic activity is good, it is the first time in three years that more respondents believe in weaker economic activity going forward, see Figure 3. Export companies highlight several international events that lead to an increase in unease. For instance, they point to the results of the EU referendum in the United Kingdom, which have led to greater uncertainty, even if this is not yet visible in their operations. The coming US presidential elections and increased geopolitical unease in North Africa and the Middle East region are also mentioned. None of this has as yet led to export companies changing their plans for the future (for instance, with regard to investment), but several say that developments in the long run can cause problems for world trade, and thus ultimately subdue growth.

To some extent unease in the property sector has also increased, because as with the construction sector it is uncertain how long the good demand will continue. Following a long period with good growth, construction and property companies are now doubtful whether demand can increase further. Significant quotes include: “I find it difficult to see how economic activity can improve – at best it can remain where it is now.”

Retail and services companies envisage risks in general linked to economic activity. One risk is that customers' purchasing power will decline if economic activity deteriorates, but purchasing power is currently good and is not perceived to have deteriorated in September.

**Figure 3. Economic situation and economic risks**

Weighted index figures, moving average and weighted net figures respectively



Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the companies that say that the economic situation is good or bad and for those who say that the economic situation will improve or deteriorate in six months' time. The series for the economic situation in six months' time has been moved forward two quarters. The lines show the weighted index figures expressed as a moving average based on three observations. The columns show the weighted net figures for those companies that say that the risks are currently greater or smaller than normal.

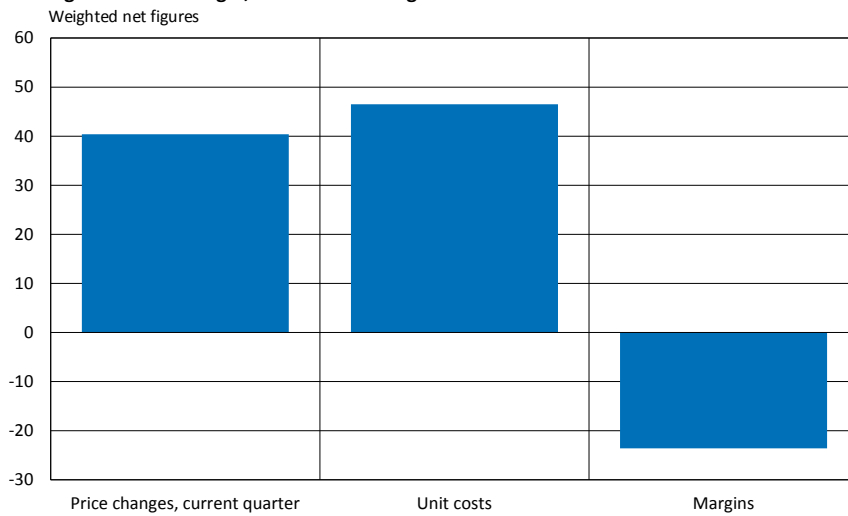
## No general labour shortage but increased recruitment from abroad

Employment is increasing in all sectors, see Figure 2. The manufacturing industry, retail trade and services companies state that there is no general shortage of labour, but they mention difficulty in finding certain specific competence within IT and finance, for instance. One business leader says: "In some segments there is tough competition, but not in general." Otherwise, the general wage drift is not affected to any great extent and it is only with regard to certain types of jobs that wages are used as a competitive means.

The picture is different for construction companies, where the staff shortage is tangible and wage drift is increasing. To manage the shortage of staff, they seek to recruit abroad, for example. Several companies say, for instance, that they are establishing clusters of staff within specific areas of competence abroad, for instance, in finance. This gives both greater flexibility and lower staffing costs for the services with the main shortages. In this way, they can quickly bring in more staff when needed, at the same time as getting hold of competence that is in short supply in Sweden.

## Increased unit costs push down margins

Wage drift is not expected to increase in the retail trade and for service companies that sell directly to households, but in total, labour costs will increase, because companies have to pay full social security contributions for young people with effect from June. A new weakening of the krona in recent months also affects the purchasing costs for the retail trade and non-durable goods trade. Despite companies having raised prices in the current quarter and actively working on making their operations more efficient, they have not been able to retain their margins when costs have increased, see Figure 4. One business leader expressed this by saying: "We can't pass this on to consumers, we have to put up with lower profit margins."

**Figure 4. Price changes, unit costs and margins**

Note. Retail trade companies and service companies that sell directly to households. The weighted net figures show the total percentage of responses to the question of whether prices in the current quarter have increased (decreased), whether unit costs over the past 3 months have increased (decreased) and the total percentage of responses about whether margins have increased (decreased) over the past 3 months.

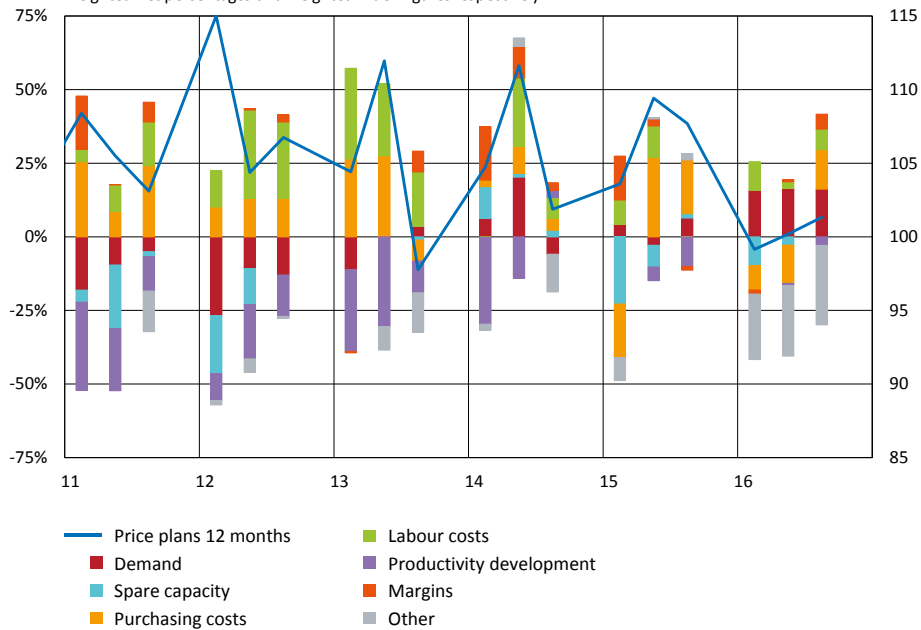
## “A very moderate upward adjustment in prices can be expected”

Retail trade companies and service companies that sell directly to households believe that prices will rise slightly over the coming year, see Figure 5. The main reasons for this are the strong demand and the rising costs for labour and purchasing. Last year, retail trade companies expressed a strong need to raise prices, as the large appreciation in the US dollar led to increased purchasing costs. Some companies say that they have now adapted their prices in full or to the extent possible, while others say that they still need to raise their prices due to the exchange rate. One business leader says: “Many in the retail trade now need to raise their prices because they are suffering from the exchange rate.” Regardless of whether it is compensation for the earlier dollar appreciation or a consequence of the krona depreciation in recent months, there is once again upward pressure on prices. In contrast to developments in the retail trade, the manufacturing industry does not envisage any rise in prices of input goods. Parts of the manufacturing industry have instead benefitted from falling commodity prices. Few respondents in the manufacturing industry mention raising their sales prices; most appear satisfied if they can hold their prices unchanged.

During 2016, it is primarily competition that has kept price plans at a low level for retail trade companies and the service companies that sell directly to households (“Other” in Figure 5). The increased transparency resulting from e-commerce means that companies still find it difficult to differ from their competitors and raise prices, even if their costs are increasing.

**Figure 5. Factors behind pricing in the 12 months ahead**

Weighted net percentages and weighted index figures respectively



Note. Retail trade companies and service companies that sell directly to households. The columns (left scale) show the net balance between responses that the factor concerned will have an upward or downward effect on prices in the year ahead. A column above (below) zero means that the factor will contribute to rising (falling) prices in the period ahead. In February, May and September 2016, the "Other" column consists mainly of competition. The weighted index figures (right scale) show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the companies that responded to the question regarding whether sales prices will be raised or lowered in coming twelve months.

## “Extremely important to hasten the move over to digital media”

E-commerce is continuing to increase rapidly and gaining ever greater significance for retail trade companies in particular. Developments are rapid and on a broad front and many are investing in new technology. These investments mainly concern IT, which includes “e-commerce becoming more integrated with selling in shops”. Another example is efficient logistics solutions, such as central stocks and “pick-up points”, which make it possible for companies to offer services to a greater number of customers. Several companies say that the competitive situation is pushing them to make this type of investment. One challenge that companies are facing in the development of e-commerce is that it means a lot of companies are seeking the same type of competence. The demand for labour with various types of IT competence will continue to increase as more companies develop their operations digitally.

In the longer run, several companies in all sectors envisage that the ongoing digitalisation process may have considerable impact on the current business models. In the manufacturing industry, technological developments in their products are leading to the emergence of various digital services linked to the products, which creates new business opportunities for the companies. The need for shop space in the retail sector may decline when more customers make their purchases via e-commerce and have their goods delivered home to them or just pick them up in a shop. Some respondents also talk about beginning to sell their goods directly to the customers and thus avoiding the retail channel altogether.



**About the Riksbank's Business Survey**

The Riksbank's Business Survey aims to reflect developments in prices and economic activity in the manufacturing, construction and retail sectors and in parts of the service sector. As only a few players account for a very large part of the Swedish business sector, relatively few interviews 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 enterprises.

The survey is conducted by personnel from the Riksbank who visit the companies for approximately one hour. The interviews are, as a rule, 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.

Approximately 40 companies are interviewed as part of the survey in May, September and February. Over 300 companies have taken part in the survey since it was started in 2007.

The figures in the report present the companies' responses weighted in terms of the respective companies' number of employees in Sweden. The indices in the figures capture upturns and downturns in the pattern of responses well. These responses are then combined with the companies' reflections during the interviews. The September 2016 report presents the results of interviews with 42 companies, which were mainly held between 7 and 20 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\\_eng.pdf](http://www.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_eng.pdf)



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