

The Riksbank's Company Interviews

MAY 2009

■ The Riksbank's company interviews in May 2009

Signs of stabilisation but anxiety about a setback

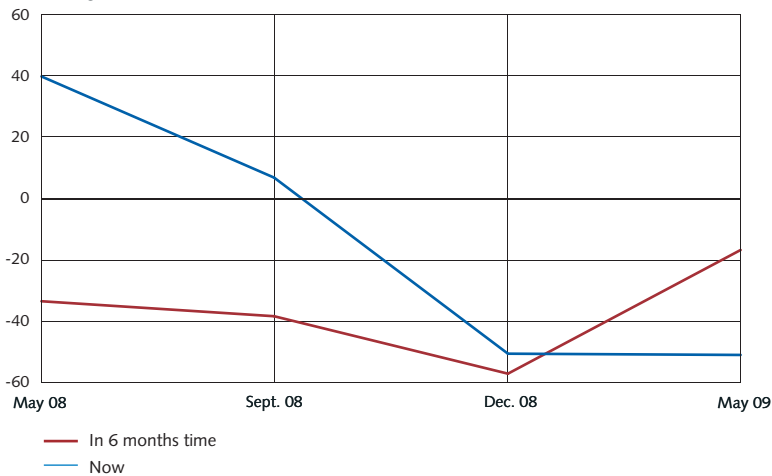
In the discussions with the companies in the spring, a picture emerges of a certain degree of stabilisation and of cautious optimism following the sharp downturn of the autumn and winter. The clearest signs of the stabilisation of production and sales are primarily to be found in the manufacturing and retail sectors. At the same time, there is considerable anxiety about a setback in the development of economic activity, which partly relates to the fact that funding remains tight. Since the previous survey in December, the funding situation seems to have eased somewhat, above all as the result of an improvement in the functioning of market borrowing using corporate bonds and commercial paper. The companies also report that wage costs are expected to be lower than previously. More companies than previously speak about lower prices in the period ahead. According to the companies, the main effects of the weak krona on the companies' pricing may have already arisen.

The Riksbank's interviews with Swedish companies mainly took place in May 2009 and comprised 62 companies .

Approximately two-thirds of the companies interviewed described the economic situation as poor, while most other companies, mainly in the retail sector, believed that it was satisfactory. The responses mean that the companies' perception of the current economic situation is largely the same as at the time of the previous survey in December 2008 (see Figure 1). A marked change since the previous survey is, however, that only one third of the companies contacted now expected to see a further deterioration in economic activity. Apart from in the construction sector, the assessment of most companies is that economic activity is beginning to stabilise. The manufacturing sector in particular notes signs of an upturn, although from very low levels.

¹ For a more detailed presentation of the survey's purpose, methods, sample etc, we refer to "The design of the Riksbank's company interviews", 2 February 2009. ([www.riksbank.se/Press & published/The Riksbank's company interviews](http://www.riksbank.se/Press%20&%20published/The%20Riksbank's%20company%20interviews))

Figure 1. Assessment of the economic climate now and in six months' time
Net figures



Source: The Riksbank

Note. The question concerns the companies' assessment of the economic climate now and in six months time. The net figures represent the balance between the percentage of companies that reported that economic activity is (is expected to become) good (better) and those that reported that it is bad (poorer). See also "The design of the Riksbank's company interviews", 2 February 2009. ([www.riksbank.se/Press & published/The Riksbank's company interviews](http://www.riksbank.se/Press%20&%20published/The%20Riksbank's%20company%20interviews)).

Stabilisation out of step

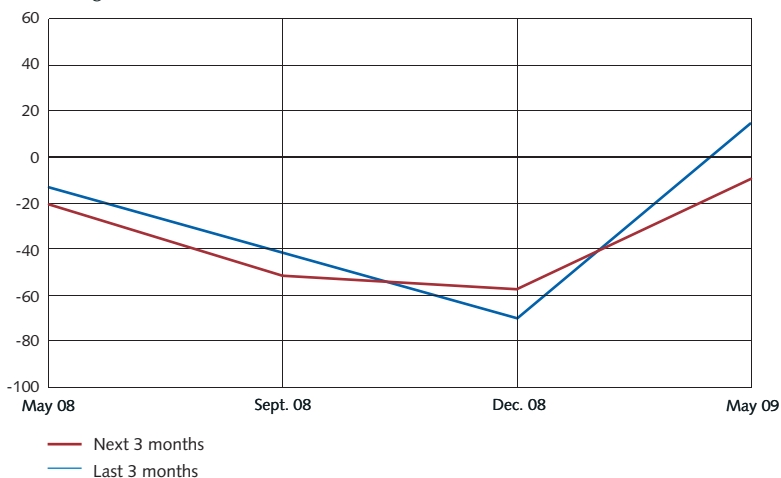
There are, however, clear differences between different sectors. While the non-durables segment of the retail sector largely assesses the situation as satisfactory and there are some signs of light at the end of the tunnel in the export sector, the situation is weaker in the rest of the retail sector, particularly with regard to electrical goods. The situation is much worse in the construction sector, where apart from the caution being exercised by the customers in the current situation, companies also mention the difficulties involved in finding funding for new projects. However, for most of the companies covered by the survey the funding situation has improved somewhat since the Riksbank's previous survey in December. A contributing factor is also that the securities markets have begun to function again, although at a high cost for the issuers.

Light at the end of the tunnel for the manufacturing industry

Most of the companies in the Riksbank's survey believed that the economic situation, following the sharp and repaid downturn, is now very weak: "the economic situation is tough, I don't know what quantitative terms you can use, but it's definitely tough." However, several companies also made assessments such as "things have begun to stabilise from a very low level" and "things have levelled out since the end of the first quarter, things have bottomed out". Some export

companies have noted an increase in demand, although this is limited to certain markets. Another sign that the downturn has been halted and that the situation may have stabilised is that order intake has increased in some parts of the manufacturing sector (see Figure 2). Caution should be exercised, however, when interpreting the data on order intake as the companies themselves did not see this as a sign that a general upswing is imminent.

Figure 2. Order intake in the manufacturing industry
Net figures

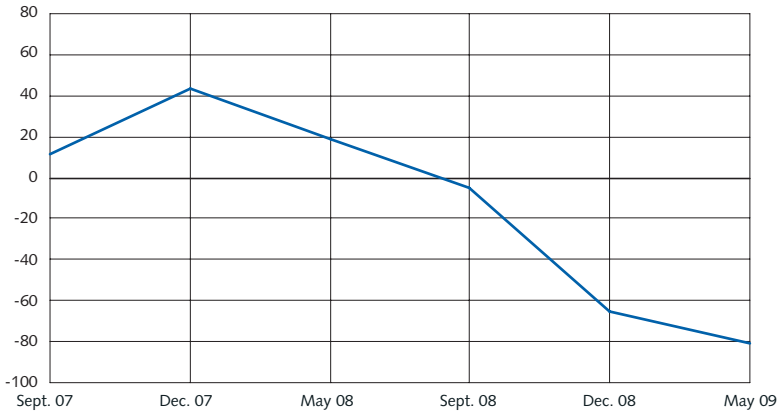


Source: The Riksbank

Note. The question relates to the companies' order intake over the last three months and an assessment of development over the next three months. The net figures represent the balance between the percentage of companies that reported an increase (expected increase) in order intake and those that reported a decrease (expected decrease). See also "The design of the Riksbank's company interviews", 2 February 2009 (www.riksbank.se/Press & published/The Riksbank's company

There was in general a great deal of uncertainty about the development of the economy over the next six months. Several companies expressed a certain amount of anxiety about development in the autumn: "A "W" is quite likely, in other words that we will see an upturn now and then a period of stagnation during the summer holidays, after which there will be a downturn again". Several manufacturing companies are planning to extend the holiday stoppage of production during the summer months. Negotiations with the trade unions on working hours are also underway or planned. Some companies expressed concern about the situation of subcontractors, which the companies believed could deteriorate further after the summer. Their concern was that financially-weak subcontractors may be squeezed between lower sales income and fixed costs that they can not change.

Figure 3. Investment plans in the manufacturing industry in the six months ahead
Net figures



Source: The Riksbank

Note. The net figures represent the balance between the percentage of companies that reported an increase and those that reported a decrease in investments over the next six months. See also "The design of the Riksbank's company interviews", 2 February 2009 ([www.riksbank.se/Press & published/The Riksbank's company interviews](http://www.riksbank.se/Press%20&%20published/The%20Riksbank's%20company%20interviews)).

In the previous survey it was noted that the companies had revised their investment plans mainly due to the substantial decline in demand and the difficult funding situation. In May, many companies confirmed that previously planned investment projects have been postponed. Projects that had already been started are, however, being completed in most cases, as well as investments that are absolutely necessary to keep production going, but a clear majority of the companies interviewed intend to further reduce their planned investments (see Figure 3). It also became apparent in the interviews that the companies were attempting to avoid cutbacks in the field of research and development as R&D are of major importance to their competitiveness in the future.

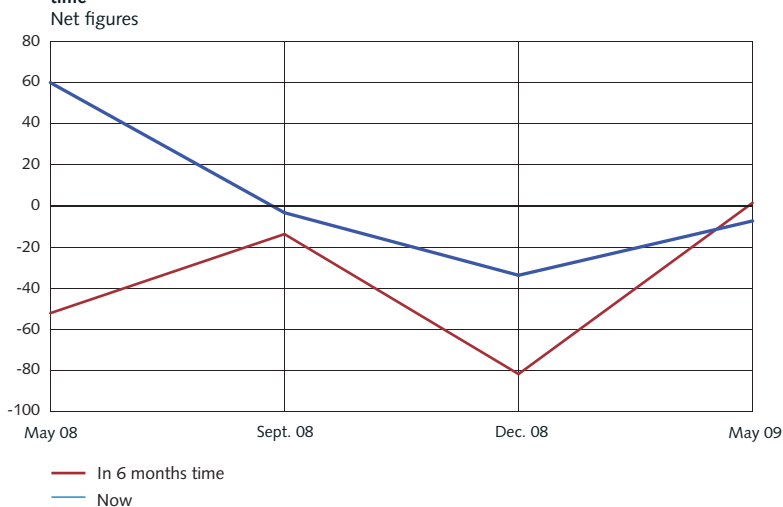
Confidence returning to the retail sector?

In the discussions with companies in the retail sector, many companies stated that they saw a slight improvement in sales in March and April, which is also reflected in the companies' assessments of the economic situation (see Figure 4). One comment was "it doesn't feel like a great black hole any more". At the same time, there is widespread concern about the effect on sales after the summer when many of those who have been served redundancy notices may actually become unemployed. Many retailers also pointed out that there has been a shift in their customers' purchasing patterns from more expensive to less expensive/more priceworthy products and that competition has increased. Retail chains with a low-price profile are more hopeful about the future than other companies. Several companies also

highlighted the differences between different parts of the country: sales are fairly good in Stockholm but much weaker in, for example, western Sweden.

Companies in the non-durables sector are generally speaking slightly more positive about developments in the period ahead, while those in the durables sector expect to see falling volumes to a greater extent. These companies emphasised to an even greater degree than those in the non-durables sector that price competition has increased in the form of many discounts, campaigns and sales. Companies in the durables sector also often stated that they have adapted their range by increasing the number of simple/less expensive products.

Figure 4. The retail companies' assessment of the economic climate now and in six months' time



Source: The Riksbank

Note. The question concerns the companies' assessment of the economic climate now and in six months time. The net figures represent the balance between the percentage of companies that reported that economic activity is (is expected to become) good (better) and those that reported that it is bad (poorer). See also "The design of the Riksbank's company interviews", 2 February 2009. ([www.riksbank.se/Press & published/The Riksbank's company interviews](http://www.riksbank.se/Press%20&%20published/The%20Riksbank's%20company%20interviews)).

Weak autumn and winter ahead for the construction companies

Even though many of the companies in the spring survey therefore hope or expect to see that the lowest point of the recession has been passed, this does not apply to the construction sector. The construction companies expect the downturn to continue during the autumn, a very weak 2010 and, in several cases, no upturn before 2011 or 2012. A common comment was that there are only a few, small projects to replace those that are now being completed and that there will be considerable effects in the form of a fall in employment after the summer. The order intake has fallen by almost 50 per cent for several companies compared to 2008 and housing construction in

particular has declined drastically. This general picture from the large construction companies is confirmed by manufacturing companies and service companies that are dependent on the development of the construction sector, including architectural and leasing companies.

The companies reported that a general problem in the construction sector is the lack of funding. The construction companies believe that the banks are unwilling to fund new construction projects. At the same time, there are signs that the low interest rates and the subsidisation of conversion and repair work has stimulated demand for the products and services of house manufacturers and small companies in the construction sector. The increase in government allocations for infrastructure investments is welcomed by the construction companies, but the main effects of this increase are not expected to arise for several years.

Most companies state that prices in the construction sector are falling as a result of the marked fall in the prices of certain input goods and the "fierce competition" for assignments. Some companies also see that there is a growing interest on the part of major foreign construction companies in large assignments on the Swedish market. Another fairly common comment is that restructuring within the sector will increase given that many small and medium-sized companies are experiencing serious problems.

The funding situation of the companies is still problematic

In March, the Riksbank conducted a separate survey on funding that covered all of the companies that have previously participated in the Riksbank's company interviews. This survey showed that some companies were not able to get the funding they said they needed and that there had been a considerable decline in the extent of certain forms of funding. The latter applied to access to funding in the form of commercial paper and bond programmes, which according to the companies interviewed in March was not satisfactory.

In May, a slight majority of the companies in the survey stated that access to funding had improved in the most recent quarter compared to the preceding quarter. In response to a direct question, approximately 10 per cent of the companies said that they had not received the funding they wanted. The corresponding figure in the funding survey in March was 14 per cent. The differences are, however, not so significant that it is possible to draw the conclusion that the funding situation for the companies that had problems in March has now tangibly improved. In the discussions it became clear that the funding problems of the companies are somewhat different in nature. Some companies devote a lot of time and effort to meeting

their day-to-day funding needs, while others believe that it is primarily funding for expansion and investment that is the big problem. A majority of the companies that experienced restrictions relating to funding believed that it was "the limited lending capacity of the banks" that was the main problem.

A clear picture emerges in the interviews that the funding situation is a cause for concern to many companies. The companies express this concern in different ways. Some companies stated, for example, that they do not dare to trust in the banks' promises to carry on providing funding in the future. Several companies also reported that some banks have wanted to renegotiate agreements and other loan conditions when the companies found themselves in a difficult situation. Many companies feel that the banks' margins have become unreasonably high. Several companies also proposed that the State and the government should implement measures that facilitate lending to companies on reasonable terms and at reasonable prices, for example by enabling the State-owned mortgage institution SBAB to lend to companies. The measures that the government has decided on, that is increasing the credit frameworks for the Export Credit Guarantee Board and providing additional capital to AB Svensk Exportkredit, were spontaneously mentioned in positive terms by several companies. The government's measures have eased funding and the completion of export deals. The companies often mentioned these measures in contexts where it was stated that competition between the banks in Sweden and the Nordic countries has weakened because foreign banks do not appear to be willing to increase their lending, or have even chosen to withdraw from the Swedish banking market.

The companies believe that borrowing on the market for corporate bonds is working better than previously, although borrowing mainly takes place at relatively short maturities. Several large companies mentioned, however, that they have managed to issue bonds at longer maturities this year. It nevertheless appears that the companies still believe that the market for corporate bonds is only slowly returning to normal. It also seems that some of the companies are discouraged by today's relatively high prices (interest rates) for long-term borrowing.

Price pressures still low

The general picture conveyed by the companies is that price pressures are still low and that this is only partly counteracted by rising import prices as a result of the weak krona. A common comment from the companies was that "it is difficult to increase prices in the present situation." This indicates that the weak economic climate at the moment is a central factor in the companies pricing plans. There are, however, differences between the companies in the survey. For

companies in the retail sector that have a high proportion of imported goods in their sales the exchange rate naturally plays an important role. Judging by the responses of the companies, most of the effects of the weaker krona on sales prices should arise within six months and they may thus have already had an impact on pricing.

The picture of generally low price pressures is reinforced by the fact that around 10 of the 62 companies interviewed pointed out that for their part it was not primarily a question of a decline in the rate of price increases in the period ahead but rather a question of falling prices. In all of the surveys carried out to date, a small number of companies have spoken about falling prices, usually as the result of rapid technological development and large production volumes that make it possible to reduce prices, but in this round of interviews there are actually more companies than before that speak about reduced prices. Comments about reduced prices were made in all of the sectors, that is in the retail sector too, but they were most common in the construction sector.

Many companies referred to an increase in price competition on shrinking markets at the same time as several important costs have fallen. The latter applies to the price level of various commodities that previously increased dramatically in price, for example different metals and foods. Many companies also mentioned that transport costs have declined.

The development of wage costs is in most cases in line with the levels agreed for this year in the current three-year agreements. Ahead of 2010, the companies clearly expect that wages increases will be lower than over the last 12 months. "Non-existent" was a term often used to comment on wage drift. In the manufacturing industry, a new framework agreement has made it possible to reduce both working hours and wages. The companies welcomed the greater flexibility provided by the agreement and said that it enables them to retain labour in reserve in the event that demand should suddenly increase again. Wage costs have also been dampened to some extent by the fact that contractual wage increases have been postponed in some areas.

The companies were asked about their own assessments of the recent development of productivity. Since mid-2008, the most common assessment has been that productivity, as perceived by the companies, has fallen as a result of declining demand and a reduction in capacity utilisation with unchanged fixed costs. On the other hand, the companies' assessment is that technical efficiency in, for example the manufacturing industry, has continually improved. The companies' assessment of the development of their productivity was more positive in May than in the previous survey in December. This response may

indicate that some of the companies have now had time to adapt their production plans and personnel requirements to a lower level of demand.

Has the major part of the exchange rate's impact on prices already occurred?

The importance of the exchange rate to the companies varies greatly from sector to sector and even between companies in the same sector. Of the companies in the survey that were asked about the importance of the exchange rate, three out of four responded that changes in the exchange rate had an impact on the company's prices within a time horizon of six months. The time lag is partly due to the duration of the hedging contracts signed by the companies and partly to the duration of the agreements with different suppliers. The clearest link between the exchange rate and prices was in the case of companies that have a large proportion of imported goods in their production and sales. For other companies, the link between the krona and the companies' pricing plans is more complicated. Several of the exporting companies found it difficult to directly relate a weakening of the exchange rate to changes in prices, which indicates that for several of the companies the exchange rate does not appear to be the most important factor in pricing. It is therefore not self-evident that the companies at present want to reduce their prices (in foreign currency) in order to win a larger market share, even though a weak exchange rate for the krona would make this possible. This may in turn be due to several different factors. One such factor may be that the current situation is very special; reducing prices in connection with a dramatic fall in demand may be seen by the companies as a measure that will have no effect when the level of uncertainty on the market is so high. Another explanation may be that the companies set prices in the importing country's currency. If so, exchange rate fluctuations tend to have a relatively limited impact on the companies' export prices. On the other hand, sales income in kronor naturally varies more.



Sveriges Riksbank
SE-102 37 Stockholm

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se