

# The Riksbank's Company Interviews

SEPTEMBER 2011



# ■ The Riksbank's company interviews in September 2011

## Cautious climate and high state of readiness

*The Riksbank's company interviews in September 2011<sup>1</sup> show that the general economic climate is still good but also that there is great uncertainty about the future course of development. The recent economic turbulence around the world has not yet become apparent as an actual decline in the operations of the companies, but the companies are maintaining a high state of readiness. All in all, expectations regarding the development of economic activity in the period ahead are pessimistic.*

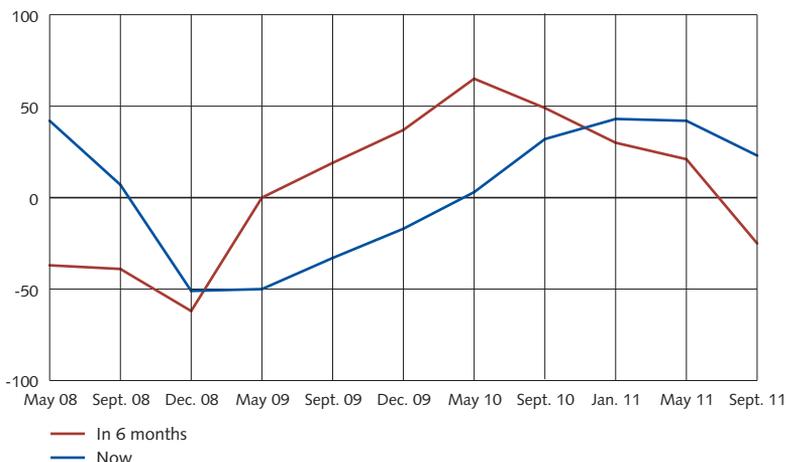
*On the whole, the companies say that they are now better equipped financially to deal with a downturn than they were during the crisis in 2008. They have also become more flexible in order to be able to deal with fluctuations in demand. The companies plan to increase prices at approximately the same rate as during the previous survey in May. The main reason for the price increases is that intermediate and material costs have increased.*

The companies' assessment of the economic climate in September was that it was good on the whole, although development had slowed down somewhat compared to the situation in May (see Figure 1). The manufacturing companies have had several very profitable quarters and one company summed up recent events by saying "However, we cannot yet see any sign of the downturn everyone is waiting for".

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<sup>1</sup> Most of the interviews were conducted between 29 August and 9 September. 40 companies were interviewed and, as previously, it was the largest companies that were interviewed. The interviewed companies have a total of approximately 250 000 employees in Sweden.

**Figure 1. The economic climate now and in six months' time**  
Net figures



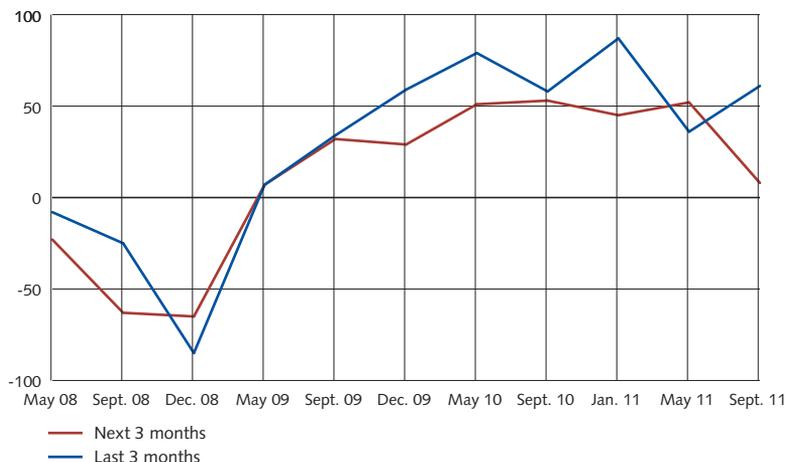
Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The question concerns the companies' assessment of the economic climate now and in six months' time. The net figures in the diagram represent the balance between the percentage of responses that the economic climate is (is expected to be) good (better) or poor (worse).

Production volumes have increased more slowly over the latest quarter compared to the situation in May and the companies said that stocks are somewhat too large, although this does not appear to be a significant problem at present. New orders have continued to increase for the manufacturing companies since May and only a few companies stated that their order books deteriorated during the summer (see Figure 2). The Swedish export companies see an ongoing increase in demand from abroad, although the very strong upturn on markets such as China and Brazil has now weakened somewhat. Demand from Russia, parts of Latin America and Eastern and Central Europe has continued to increase while the development of demand from the United States and Western Europe has tended to be weak.

The view of the economic climate was significantly different in the retail sector, where assessments were more negative. In May, companies in the retail sector expected development to be good during the summer. This was not the case, however, and several companies now stated that there has been a slowdown in consumption. One comment was "The market is very sluggish. Yes, things are bad right now". Falling sales have also given rise to a slight but involuntary build-up of stocks.

The companies in the construction industry, on the other hand, said that economic activity continues to be good due to a large order stock. What has changed since May is that the housing market has weakened somewhat, which among other things means that it now takes longer to sell completed housing than it did previously. The prospects for the economy in six months' time are expected to

**Figure 2. New orders**  
Net figures



Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The question relates to order intake in the manufacturing and construction sectors over the last three months and an assessment of development over the next three months. The net figures in the diagram represent the balance between the percentage of responses that orders have increased or decreased, or are expected to increase or to decrease.

be much poorer than today, although many companies added that it is very difficult to assess the situation. The companies have noted that their customers are cautious: “It feels as though many people have decided to wait and see” and “People are nervous and are reconsidering their consumption, while our customers are reviewing their stocks” were two comments from the manufacturing industry. The manufacturing companies expect this cautious approach to be reflected in the level of new orders in the quarter ahead (see Figure 2), but also said that it will not be possible to tell in what direction things are really moving until later in the autumn. Companies in the retail sector believed that economic activity would continue to be weak and one comment was: “I think the autumn will be really tough”.

#### “READY TO APPLY THE BRAKES”

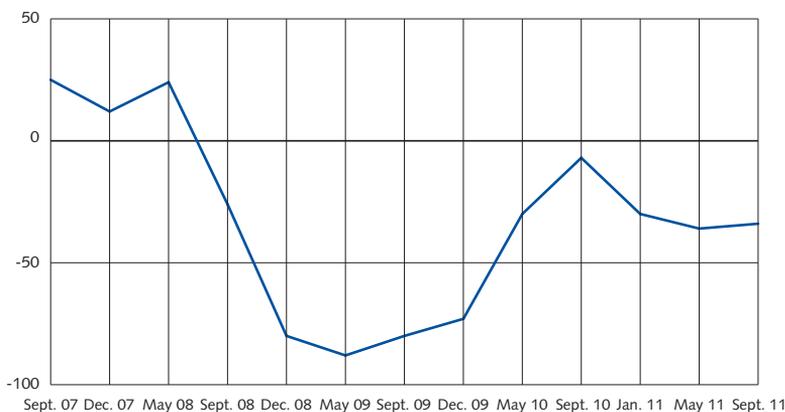
The companies see a significant increase in risks abroad and they now perceive these risks to be much greater than previously.<sup>2</sup> It is above all the risks relating to public finances in Europe and the United States and their contagion effects that are causing concern. The problems with public finances are increasing uncertainty and may lead to a fall in demand. Several companies saw parallels with the situation in the autumn of 2008 but said that they are in a better position today in that they have strengthened their balance sheets and their ability to adapt the workforce. “Flexibility is important” said one company regarding the need to be able to adapt rapidly in an uncertain world.

<sup>2</sup> This question has been included in the survey since May 2010.

## LITTLE NEED TO EXPAND CAPACITY

In general, the assessment is that there is no shortage of labour and no shortage of spare production capacity. The situation is largely unchanged since May (see Figure 3). A shortage of skilled labour is not seen as a general problem but only as a problem in certain specific sectors and occupations.

**Figure 3. Indicator of spare capacity**  
Net figures



Note. The indicator of spare capacity is based on two different questions. Manufacturing sector companies were asked: What possibilities do you have to manage an unexpected increase in demand? Major problems, some problems or no problems. Other sectors were asked: Is there a shortage of labour? Yes or no. In the indicator above the responses to these two questions have been combined with weighted percentages based on the number of employees in Sweden at the companies interviewed.

Some manufacturing companies said that they are in fact currently using a large part of the available capacity, but that increased flexibility makes it easier to adapt production to demand.

Investment continues to increase in the manufacturing industry, but not at the same rate as in May. The most common comment on investment plans was that they remain in place and that they have not been affected by any funding difficulties. A few companies did say that there was a risk that investment may have to be cut back if there is a significant reduction in demand.

Manufacturing companies continue to invest primarily in order to increase efficiency or restructure operations, and to replace worn-out equipment, while there are only a few cases where companies are investing to increase capacity. This reflects the fact that there is no great need to expand as there is still spare capacity.

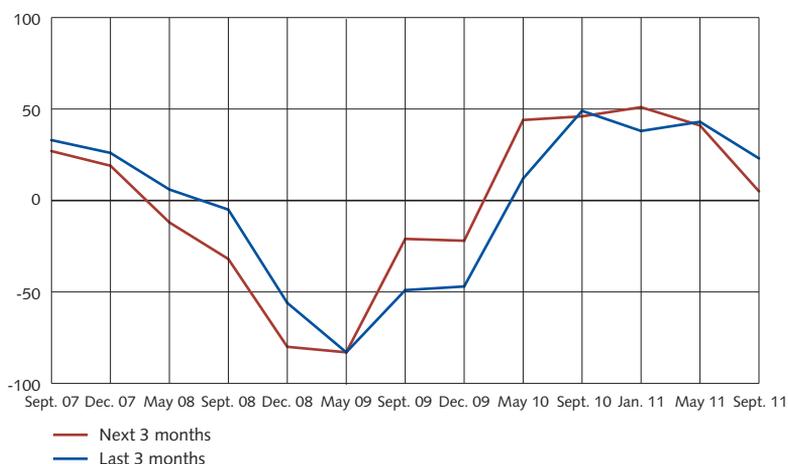
The picture of a slowly declining level of investment is confirmed by comments from the construction companies. In the short term they see only small changes in the level of construction activity, but they also noted a tendency towards caution on the part of their customers in discussions about new assignments.

## FEWER COMPANIES PLANNING TO RECRUIT NEW STAFF

The companies began to reduce the rate at which they recruit new employees during the summer. The employment plans for the next three months show that this rate is expected to decrease further and the number of employees will remain largely unchanged (see Figure 4). The current labour force is also often just right in relation to production and sales.

The largest turnaround in employment plans compared to May has taken place in the retail sector. The intention in May was to increase the workforce but now there are no such plans as a result of an adjustment to falling sales.

**Chart 4. Employment**  
Net figures



Note. Weighted net figures are based on the number of employees in Sweden at the interviewed companies. The question relates to the companies' assessments regarding employment in the last and the next three months. The net figures in the diagram represent the balance between the percentage of responses that employment has increased (is expected to increase) or decreased (is expected to decrease).

The construction companies also no longer need to recruit new employees to the same extent as before and they also said that the shortage of labour is not as acute as it was previously.

## BALANCE SHEETS HAVE BEEN STRENGTHENED

Access to external funding has deteriorated somewhat since the survey in May but this is not a serious problem.

Many of the companies said that they are better equipped today than they were at the time of the crisis in 2008. Improved profitability in recent years has strengthened their balance sheets. This means that they can fund their activities themselves to a greater extent, but it also makes it easier for them to get new loans when the need arises.

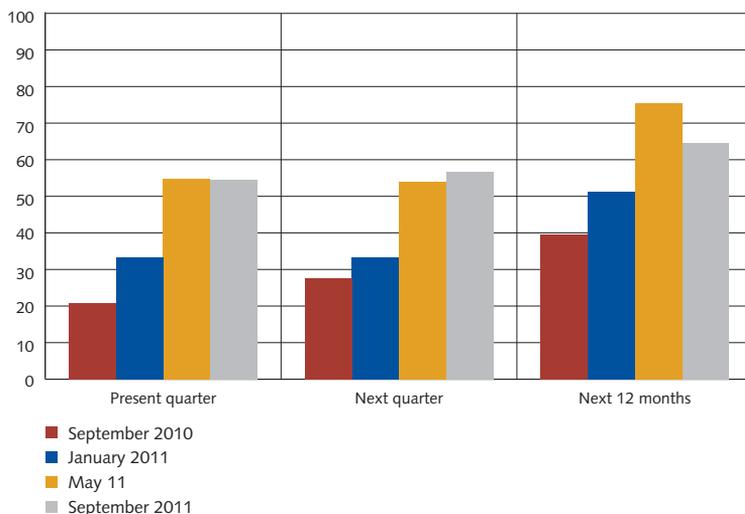
Most of the large export companies in the manufacturing sector said that it is not a problem to borrow money at present, but they did

express fears that the climate on the funding market may change very quickly. One of the large manufacturing companies put it this way: “The worst thing that can happen is that we get a credit crunch of the type that followed the collapse of Lehman Brothers”.

#### PRICE PRESSURES LARGELY UNCHANGED

As in May, a majority of the companies are planning to increase their prices in the period ahead (see Figure 5). In the case of the present quarter and the next quarter this applies to slightly more than half of the companies, while even more plan to increase their prices over the next 12 months. Compared to the situation a year ago, significantly more companies are now planning price increases. However, only small changes have been made in these plans since May, although somewhat fewer companies now intend to increase prices looking one year ahead.

**Figure 5. Percentage of companies intending to increase prices**  
Per cent



Note. The columns show the percentage of companies that (net) intend to increase or reduce prices during the present quarter, next quarter and next 12 months. The figure shows weighted percentages based on the number of employees in Sweden at the interviewed companies.

Many companies had reservations about their plans to increase prices. Several companies said things like “This is what we are planning, but it may be difficult if the unease about the economic situation lasts”. These reservations are stronger now than in May.

However, comments from the non-durable goods segment indicate rather clearly that food prices will rise. Earlier international food-price increases have not yet had their full impact in Sweden,

partly because of the strengthening of the Swedish krona during the spring. Unless the krona strengthens further, food prices are now expected to rise at a gradually increasing rate.

The comments of the companies in the durable goods segment were often rather different. It was relatively common that these companies feared they would have to reduce prices, partly because of severe competition and partly because of weak demand.

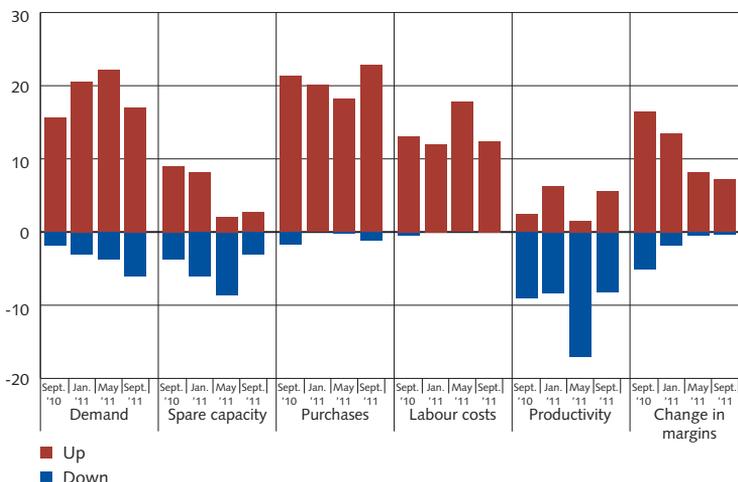
#### RISING PURCHASING COSTS A REASON FOR PRICE INCREASES

As in previous surveys, demand and changes in purchasing costs are the most common reasons given for planned price increases in the year ahead (see Figure 6). In addition, several companies referred to rising labour costs and the need to improve margins, while others saw a positive development of productivity as a reason for refraining from price increases.

The percentage of companies that plan to increase their prices due to higher purchasing costs is higher than in May, and the retail sector contributes to this. This tendency may be due to a remaining need to compensate for earlier price increases on the international commodity markets.

Concern about a decline in economic activity has led the companies to mention demand factors as a reason for price increases to a lesser extent than before. Relatively more companies than previously also said that weak demand calls for price reductions. This applies particularly in the durable goods segment.

**Figure 6. Reasons behind pricing in the coming twelve months**  
Percentages



Note. The columns show the relative percentages for the different factors affecting prices upwards or downwards 12 months ahead. Percentages are weighted based on the number of employees in Sweden at the interviewed companies.

Fewer companies referred to rising labour costs as a reason for price increases compared to the responses in May. Although the companies still expect that wages will increase more rapidly than previously over the next 12 months, these expectations have weakened somewhat since May. It is mainly in the manufacturing and construction sectors that fewer companies now referred to rising wage costs as a reason for price increases, while companies in the retail sector referred to wage costs to approximately the same extent as previously.

Some companies, notably in the retail sector, mentioned factors other than those presented above as being important for the development of prices over the next 12 months. The foremost of these was that competition has increased and it can be assumed that this will restrict price increases.





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