



The Riksbank's Company Interviews

SEPTEMBER 2009

■ The Riksbank's company interviews in September 2009

Economic developments slightly better,
but still a long way to go

In the interviews conducted after the summer, the companies say that the economic climate has improved since the previous survey in May. The companies are also slightly more optimistic about the future now. However, demand and order intake are increasing from a very low level and the situation in, above all, the manufacturing and construction industries is still weak. Since the start of the financial crisis, the companies have substantially reduced their production and their inventory levels. It seems that these adjustments have now largely been completed. At the same time, many companies state that they intend to weather the recession with a combination of ample spare capacity and a good supply of labour. Developments in the retail sector during the summer have been surprisingly positive. The funding situation for the companies has improved during the summer but the perception is that funding difficulties are still restricting operations, above all in the construction sector and in small companies.

The Riksbank's company interviews mainly took place in September 2009 and covered 60 companies.¹

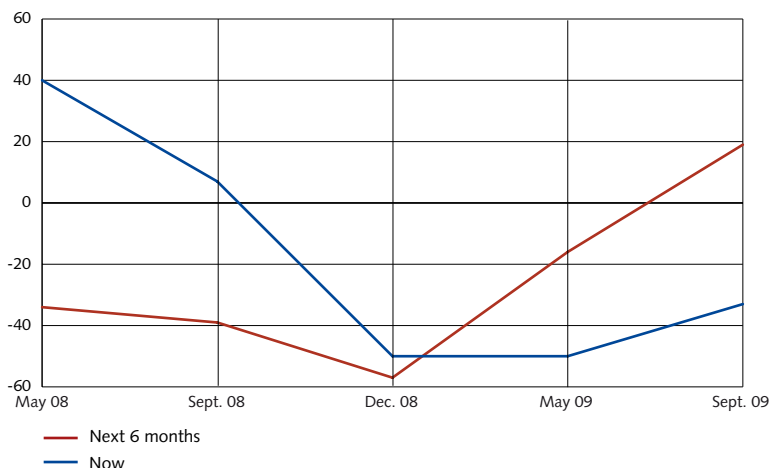
"FROM A FINANCIAL MELTDOWN
TO A GENERAL ECONOMIC DOWNTURN"

The percentage of companies that describe the economic situation for their company as poor has fallen considerably since the survey in May (see Figure 1). Almost all of the companies also state that the lowest point in the downturn has been passed and that demand or production has increased. However, according to most of the companies, a rapid recovery can not be expected: "even though we have reached some sort of lowest point, I don't believe that there will be a rapid recovery". A number of companies point to the risk that the upswing may be based on fragile foundations. Several companies also state that although the situation has improved in recent months the recovery will have to start from very low levels and it will probably take several years to get back to the levels of production and demand that applied before the crisis.

¹ For a more detailed presentation of the survey's purpose, methods, sample etc. see "The design of the Riksbank's company surveys", 2 February 2009, available at the Riksbank website www.riksbank.se in the section Press & Published/Reports.

Companies that direct their operations at private individuals, for example companies in the retail and service sectors, state to a much higher degree that the economic climate is satisfactory or good.

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



Note. Weighted net figures based on the number of employees in Sweden. 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 companies stating that the economic climate is (is expected to be) good (better) or poor (worse).

Source: The Riksbank

Several companies feel that the summer months were good, or even very good. Several factors are said to have contributed to this positive development. The relatively weak Swedish krona has led more Swedes to stay in Sweden during the holiday period and also attracted more foreign visitors to Sweden. Historically low interest rates together with tax cuts are also mentioned as factors that have contributed to the favourable developments in the retail and service sectors.

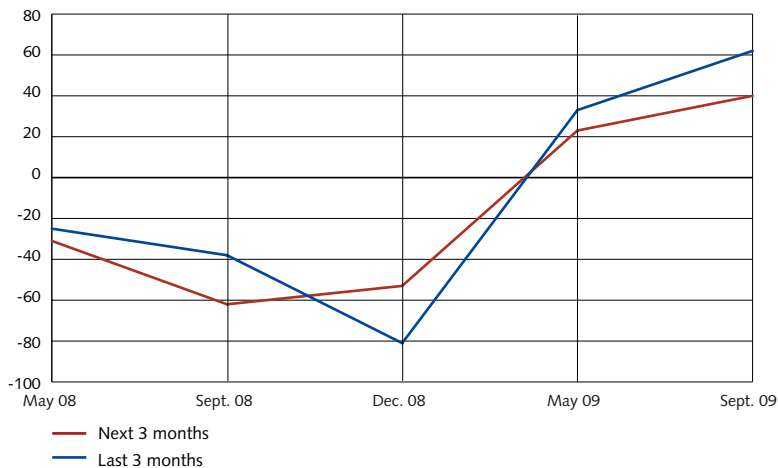
Many companies state that since the autumn of 2008 and during the first six months of 2009 they have focused on adapting production to a lower level of demand and on reducing their inventory levels. This mainly concerns companies in the manufacturing industry which, in the wake of the crisis, have also wanted to free up the capital tied up in inventory. Most companies now say that they are satisfied with their inventory of finished goods, although some companies still feel that inventory are slightly too high given the level of demand.

**"THINGS ARE ACTUALLY LOOKING A LITTLE
BETTER NOW FOR THE MANUFACTURING INDUSTRY"**

The level of demand in the manufacturing sector fell dramatically at the end of 2008 and the beginning of 2009. In May, the situation had

stabilised somewhat and it was possible to see some positive signs, particularly with regard to new orders. The companies state that there has been a further slight improvement in the order situation in recent months and that this positive development is expected to continue in the immediate future (see Figure 2).

Figure 2. New orders in the manufacturing industry
Net figures



Note: Weighted net figures based on the number of employees in Sweden. 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 in the diagram represent the balance between the percentage of companies stating that orders have increased (are expected to increase) or decreased (are expected to decrease).

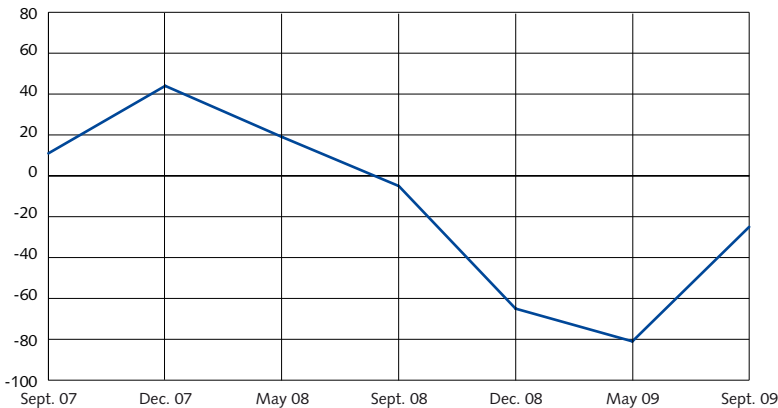
Source: The Riksbank

The outlook for the immediate future is, however, relatively muted. Several companies say that "the export market has not really picked up yet". Companies with operations in several countries have benefited from the relatively weak Swedish krona and – where possible – have located a larger percentage of their production in Sweden while cuts have mainly been made in other countries. On the whole, the companies state that it is important to keep costs under control and to be careful with the liquid funds available as they say that the funding situation is still not fully back to normal.

Transport companies have also been seriously affected by the downturn in the manufacturing industry. Several companies say that prices are under great pressure as a result of excess capacity in the sector. For the transport companies too, however, there are signs that the downturn has bottomed out and a slight increase in the need for transport can be noted. It is the assessment of the companies, however, that it will take some time for the situation to really improve: "We see 2010 as a lost year."

Despite the expectations that the economic climate will improve, the manufacturing companies say that they will continue to be cautious about investments in the period ahead. Moves to increase production in the near future will not in general require any new investments as the companies already have a lot of spare capacity. A majority of the companies say that they expect a continued decline in investments, although fewer companies say this now than in May (see Figure 3). This change is not a reflection of a fundamentally more favourable investment climate, it is rather the case that investment is currently at a very low level. Some companies mention that the funding situation is also affecting investment. Although it seems that the companies have found it somewhat easier to find funding in recent months, many companies still feel that the banks are not always willing to arrange new funding, or that the banks' margins are unreasonably high when they do offer funding.

Figure 3. Investment plans in the manufacturing industry for the next six months
Net figure



Note: Weighted net figures based on the number of employees in Sweden. The net figures in the diagram 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.

Source: The Riksbank

"THE INFRASTRUCTURE SEGMENT IS INCREDIBLY STRONG!"

For most of the construction sector, the economic climate is still generally weak, but there are major differences as far as development in the various segments is concerned. While development in the construction of commercial properties and housing is weak, the development of civil engineering operations in various infrastructure projects is very strong. The construction companies have also succeeded in maintaining the level of profitability in some cases in that they are now completing projects under contracts that were signed at the prices that prevailed during the economic boom, while production costs have subsequently fallen and are now more favourable for the construction companies.

The strong development of civil engineering operations is due, above all, to the public infrastructure projects. Examples of ongoing projects include the City Line (a railway project) and the Northern Link (a road project) in Stockholm, but projects are underway throughout the country. The government's extended investment programme and other planned regional infrastructure investments are expected to keep up the level of demand for civil engineering works.

The construction of housing and commercial properties has fallen dramatically but is now believed to have bottomed out, although "it's a long way back up" as one of the companies put it. The public sector is also active in the construction of homes for the elderly, preschools and so on. On the other hand, the market for the construction of commercial properties is very weak and according to the companies practically no new office blocks are under construction. In general, tender prices for new projects have been squeezed dramatically over the last 12 months.

COMPANIES SAY THAT A LOWER LOAN-TO-VALUE RATIO IS RESTRICTING NEW CONSTRUCTION

Following the dramatic fall in the construction of housing the situation has now stabilised and there are even signs of a light at the end of the tunnel, although the companies do not believe that there will be a more stable upturn over the next six months. Most of the apartments built before the onset of the crisis have now been sold and there is an underlying need for housing, not least in the major urban areas. The construction companies have begun to receive enquiries about new projects, mainly in the large towns and cities, and some of the companies are also planning their own projects for the construction of tenant-owned apartments. The companies emphasise, however, that large projects have a long planning horizon and say that it will take some time before the construction of housing increases again.

The companies say that the funding situation is the most restraining factor with regard to new construction projects. The aspect that is mentioned most is that the banks now require the companies to invest more of their own capital in new construction projects before they will grant loans. One company says that it will be difficult to return to the construction volumes that prevailed before the crisis unless the banks increase the loan-to-value ratio. Rental apartments are also under construction, primarily by municipal housing companies that are taking advantage of the lower costs by starting new construction projects. There are also signs that the situation is improving for the manufacturers of prefabricated detached houses. They have noted a slight increase in orders, although from a very low level.

Builders merchants have also noted that their sales volumes have increased during the summer and assess the economic climate as satisfactory. It is renovation projects, not new construction projects, that

lie behind this increase in sales. Factors that have contributed strongly to this increase include tax relief measures, the low interest rate and the tax deductions for repairs, maintenance and improvements under the so-called ROT programme. A potential increase in unemployment is seen as the greatest threat to the development of builders merchants as it is above all private individuals who have taken advantage of the favourable situation to renovate their properties.

INCREASED SALES BUT SUBDUED EXPECTATIONS IN THE RETAIL SECTOR

Many retail companies say that sales volumes clearly increased during the summer despite the fact that relatively few companies expected this when interviewed in May. The companies explain this by saying that many Swedes chose to take their holidays in Sweden this year, that there has been an increase in the number of tourists from abroad and that the weaker krona has stimulated cross-border trade. Looking ahead to the autumn and winter, most of the companies choose to tone down expectations regarding sales and many of them stress the uncertainty associated with rising unemployment.

As in the interviews in May, several of the companies highlight regional differences in the development of sales. Growth has been good in the Stockholm area and southern Sweden but development is often characterised as much weaker in, for example, western Sweden. Many retailers also repeat that there has been a shift in their customers' purchasing patterns from more expensive to less expensive/more priceworthy products and that price competition has increased. Chains with a low-price profile say that they have gained market shares. However, several retailers also say that the shift in purchasing patterns has been more limited than they expected in May.

Companies in the non-durable goods segment are more positive about the development of the economy than those in the durable goods segment. This difference applies to development during the summer and to expectations regarding the autumn and winter. The companies in the durable goods segment also emphasise to a greater degree than those in the non-durable goods segment that price competition has increased in the form of many discounts and sales and that they have adapted their range by increasing the number of simple/less expensive products.

CORPORATE FUNDING – EASIER FOR THE LARGE COMPANIES

The funding situation of the companies has continued to improve somewhat. When asked how access to external funding had changed over the last quarter, the most common answer from the companies is "unchanged", but more companies say that the situation has improved than say it has deteriorated. However, the minority of the companies

stating that they can not get the funding they need was approximately as large in September as in May (approximately 10 per cent of the companies). In other words, the improvement during the summer appears to have been relatively limited.

A common consequence for the companies that have not received the funding they believe they need is that they have been unable to make important investments. These companies were also asked to state why they had not received this funding and in May they referred primarily to "the limited lending capacity of the banks". In September, however, this group of companies referred mainly to "the lenders' credit assessments". This change is in line with the statement by several of the companies that the banks "did not have any money to lend" in the spring and early summer, that is conditions that were not linked to the creditworthiness of the companies.

The comments of the large companies on their funding situation often reflect the improvement that has taken place with regard to the various forms of market funding (such as corporate bonds and commercial papers) both in terms of access to capital and borrowing costs. Several of the large companies are, however, clearly concerned about bank funding for their subcontractors and are seeking alternative solutions to ease their situation.

Many companies are still critical of the behaviour of the banks and this criticism often applies to the unwillingness to provide loans and to the margins associated with lending to companies. Some comments also relate to how the companies view the functioning of the credit market, for example "competition on the corporate market is practically zero", "the banks are reinforcing the effects of the fluctuations in economic activity", and express surprise that private individuals seem to find it easier to get loans than the companies that employ them.

EXTENDED CREDIT PERIODS

Several companies say that the financial crisis has led to a general focus on cash flows. This in turn has resulted in demands for extended credit periods. This view appears to be very widespread in all sectors and the companies say that proposals to extend credit periods from 30 to 60 days or more are common. Some companies feel that they are being pressured to "act as a bank" in this situation by clients and suppliers who have the negotiating strength required to make such demands. Several comments also indicate that the banks now more frequently offer to fund extended trade credit. A side-effect of the prioritisation of cash flows appears to be that many companies are working more actively to reduce their inventory levels.

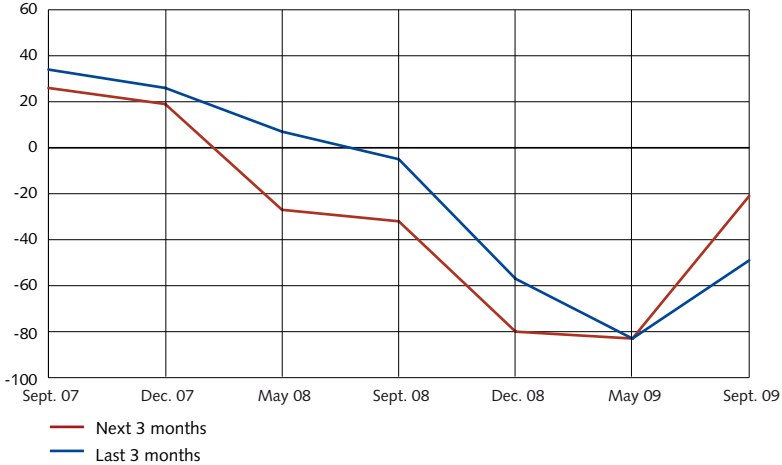
A closely-related problem concerns more expensive credit insurance schemes. The costs of insuring against the risk that a company will not be paid for a delivery are described as very high. Several companies state that they have therefore requested payment in advance instead or have chosen to take greater credit risks than normal. As in the previous round of interviews in May, several large companies emphasise the importance

of the fact that the Export Credit Guarantee Board and AB Svensk Exportkredit have been given greater scope to assist companies in connection with export deals.

"THE WAVE OF REDUNDANCY NOTICES HAS EBBED OUT"

Most of the companies in the survey state that the number of employees has remained unchanged over the last three months. Among the remaining companies, there are more that say they have reduced their workforce than say that they have increased it in this period. A certain degree of stabilisation of employment in the companies has taken place compared with the survey in May (see Figure 4).

Figure 4. Assessment of employment
Net figures



Note: Weighted net figures based on the number of employees in Sweden. 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 companies stating that employment has increased (is expected to increase) or decreased (is expected to decrease).

Source: The Riksbank

MANNING IN THE FUTURE: "WAIT AND SEE"

Many companies state that during the downturn they began by laying off temporary employees and then went on to issue redundancy notices to permanent employees. Most companies also say that they will not or do not plan to issue more redundancy notices. Many companies, however, point out that this assessment is uncertain and express a "wait and see" attitude regarding the future size of the workforce. Several companies emphasise that they believe it will take a long time before they need to employ new staff again. Some companies say that they have decided to lease personnel until the prospects for the future become clear.

"WEATHERING THE STORM WITH SURPLUS STAFF"

There is also a tendency among the companies to retain staff to a greater extent than is justified by the current level of demand. One of the companies calls this "weathering the storm with surplus staff". This tendency is particularly clear in companies in the manufacturing industry where the crisis agreements entered into entail lower labour costs and thus greater opportunities for these companies to retain their staff. However, the tendency is also noticeable in other sectors. Many companies mention the costs that arise in connection with redundancies and recruitment and the supply of competent staff in the future as the most important reasons for their decision to retain surplus staff.

"YOU CAN DO A LOT IN FOUR DAYS AS WELL"

It also emerges in the interviews that the companies have ample spare capacity. An overwhelming majority of the companies interviewed state that handling a temporary increase in demand is not a problem or that they do not have a shortage of labour. Many of the companies also point out that they have quite a way to go before they reach full capacity utilisation. Several manufacturing companies are now working a four-day week and have also reduced the number of shifts. Only very few companies state that they have completely shutdown production plants. All in all, most of the indications are that there is ample spare capacity at the companies at the moment, even though the rate of production has increased somewhat since the previous survey in May.

RISING PRODUCTIVITY, BUT NOT IN THE MANUFACTURING INDUSTRY

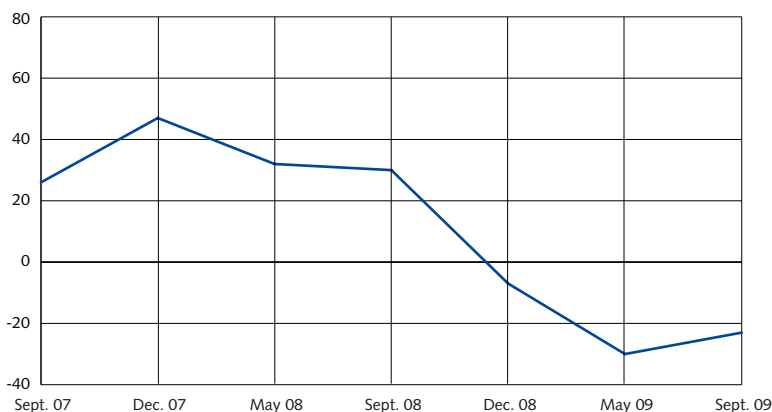
The companies were also asked how they view the recent development of productivity. In all of the sectors except manufacturing, the perception of a majority of the companies is that productivity has increased over the last six months. Increased motivation among the employees and implemented rationalisation/reorganisation programmes at the companies are mentioned as important reasons for this. In the manufacturing industry, most of the companies state that productivity has fallen over the last six months. Some manufacturing companies mention the low production volumes as the main cause of the fall in productivity. Other companies say that the main cause is that the machine park and/or the labour force are over-dimensioned.

DISSATISFIED WITH PROFITABILITY

The companies' responses indicate that they are somewhat more satisfied with profitability now compared with the survey conducted in May. Higher sales volumes and/or a better-adjusted cost structure are mentioned as reasons behind the improvement in profitability. However,

more companies are still dissatisfied than satisfied (see Figure 5). Assessments of profitability also vary widely from sector to sector. In the manufacturing industry, a majority of the companies say that profitability is poor. Low sales and high production costs, above all in the form of labour and stock costs, are two of the reasons mentioned for the poor profitability in the manufacturing industry. Most of the companies in the retail and construction sectors say that profitability is satisfactory, while most of the companies in the "other services" category say that profitability is good.

Figure 5. The companies' assessments of their profitability
Net figures



Note: Weighted net figures based on the number of employees in Sweden. The question relates to the companies' assessments of their profitability at present. The net figures in the diagram represent the balance between the percentage of companies stating that profitability is good and those stating that profitability is poor.

Source: The Riksbank

"WAGE DRIFT IS MARGINAL OR NON-EXISTENT NOW"

Ahead of 2010, the companies clearly expect that wages increases will be lower than over the last 12 months. The weaker labour market, low inflation, the poor profitability of the companies and the favourable development of real disposable incomes for employees are some of the factors mentioned as reasons for this assessment. A few of the companies spontaneously mention what they believe will be the level of wage increases in the central agreements next year. The estimates vary between 0 and 3 per cent.² A majority of the companies also state that wage drift, that is wage increases over and above the levels in the central agreements, is marginal or non-existent now. It is the

² For a large part of the labour market, the central agreements signed in 2007 will apply until 31 March 2010. The annual rate of increase for centrally-agreed wages in the private sector in the first quarter of 2010 is almost 3 per cent. This means that the central agreement levels in the private sector will increase wage costs by approximately 0.7 percentage points already in the initial position for the calendar year 2010.

assessment of practically all of the companies that wage drift will be unchanged in the next calendar year.

PRICE PRESSURES WILL CONTINUE TO BE LOW IN THE PERIOD AHEAD

The picture that emerges in the interviews with the companies is that price pressures will continue to be low in the period ahead. This tendency is, however, not quite as clear as it was in the previous surveys in December and May. One explanation of this may be that the companies' assessment of the economic climate has now improved somewhat. Other important determining factors for pricing mentioned by the companies are the development of the exchange rate, the development of world-market prices for the companies' input goods, labour costs and the competitive situation on the product markets. The picture of generally low price pressures is reinforced by the fact that a number of the companies interviewed point out that for their part it is not primarily a question of a decline in price increases in the period ahead but rather a question of falling prices. However, a slightly smaller percentage of the companies say that their sales prices may fall in the period ahead compared to the survey in May.



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