

## ■ The Riksbank's company survey: a minor slowdown during the autumn and increased concern over economic activity

Companies report that both production and employment have continued to increase in the most recent quarter compared with the previous one. However, companies' responses suggest that there has been a certain slackening of activity during the autumn. Expectations ahead of the coming quarter/year have been revised downwards. Above all, this is evident in companies' pricing plans for the coming year. Companies now report that the price increases will be lower than suggested in the previous survey in September. There are few indications that demand and supply conditions in various markets have changed significantly during the autumn, according to the companies. In their replies, companies appear to be more concerned over the general unease about economic development than over the actual change in conditions. The financial turmoil of the autumn has had little direct effect on companies' business activities to date. As in the previous survey, food producers and companies in the non-durables sector anticipate that certain food prices will continue to rise as a result of higher international prices on feed and grain.

### Facts about the survey

The Riksbank carries out a survey among companies in the business sector prior to the publication of each Monetary Policy Report, that is, three times a year. The main purpose of the survey is to obtain in-depth information on how the companies view the current economic situation and how they intend to plan and act on the basis of the present conditions. Another purpose is to increase the Riksbank's knowledge of the conditions for companies and sectors in the business sector in general. The results of the survey thus supplement other statistical sources and methods used by the Riksbank.

There are limits as to how the results can be generalised, as the number of companies interviewed is relatively small (approximately 60) and the sample is not particularly representative for the business sector as a whole. The advantage of carrying out in-depth interviews is instead the fact that they provide a large amount of detailed information about how the companies act in the current economic circumstances. With the aid of this information it should be possible over time to distinguish different patterns of action among the companies that are specific to particular economic conditions. An analysis of these patterns could also improve the possibilities for interpretation of the general statistics. These patterns are not easy to classify but are valuable to the Riksbank in building up knowledge about the companies' situation and behaviour.

### **Around 60 companies were interviewed, mainly in december 2007**

Staff at the Riksbank interviewed around 60 companies between week 48 and week 2. Medium-sized and large companies alone take part in the survey and companies mainly other than those that took part in the previous survey were interviewed this time.

Together, the interviewed companies employ just over 300 000 in Sweden, approximately 11 per cent of the total number employed in the business sector. In most cases the interviews, which lasted roughly 1 hour, were carried out with representatives of the company management at the companies. Those interviewed have responded to questions on how they view the company's present situation with respect to production, employment and prices, for instance. The responses have then been marked on a three-point scale: "increased", "unchanged" or "declined" and in certain cases as "yes" and "no".

### **Continued good development in the business sector but a slackening during the autumn and greater unease**

The central issues in the Riksbank's company survey concern the companies' assessments of developments in production/sales, employment and prices. In addition, questions were also asked about assessments of capacity utilisation, competitive situation, shortage of labour, profitability and investment plans. In the survey, which has been carried out during the winter, the companies state that there was some slackening of activity during the autumn and that they are concerned over future economic activity. The results of the Riksbank's survey are in line with those of other sources, for example, the business tendency survey, which also shows that there has been a slackening of activity in the business sector. The most important conclusions from the Riksbank's survey can be summarised in the following points:

- Production, employment and prices have continued to increase in the most recent quarter/year but there has been some slackening of activity compared with the previous survey at the beginning of the autumn. This is most clearly seen in industry and in the retail trade.
- Expectations ahead of the next quarter are generally more subdued now compared with the September survey, above all with respect to the companies' production/sales as well as industry's and construction companies' employment plans. The downward revision to expectations can also be seen in the companies' views of price developments for the coming year, which are lower than in the previous survey.
- There are few indications that the financial turmoil in the world has had a direct impact on the companies. However, there is concern that a general slowdown in the economy may be imminent.
- The companies continue to state that productivity growth has been good and do not recognise the picture of declining productivity growth from the National Accounts' statistics. They also say that they have not noticed that costs have increased significantly.

- The outcome of last year's wage bargaining rounds is described by the companies themselves as “high” and this is expected to lead to further rationalisation of operations and/or higher prices.
- Rising world market prices on grain, for instance, have led to price rises on foodstuffs. According to both producers and traders, further price increases for some products such as meat and bread can be expected in 2008.

### **Production/sales increasing but subdued expectations**

Companies in industry, the construction sector, the retail trade and private service industries state that both production/sales and employment continued to increase in the most recent quarter. The development is strongest in the construction sector, where all companies interviewed state that building volumes have increased in the most recent quarter. In the service industries also a majority of companies state that sales or demand for the company's services has increased. The companies in these sectors generally state that the economic climate continues to be very good. The answers can be illustrated as follows: “It's an incredibly good economic climate”, “We read about crises in the newspapers, it's not something we have noticed”.

In parts of industry and the retail trade there are clearer signs that a slackening of activity has occurred during the autumn and the way the situation is described can, for example, be of the following nature: “After the summer the rate of increase in demand has slowed down”, “Slightly more sluggish in the market”, “Inventories has increased more than desired in the autumn, there is a slight slowdown under way”, “It's not as heated as it has been previously”.

Ahead of the next quarter companies' expectations are somewhat more subdued compared with the previous survey. The majority of companies still believe that production and sales will increase but the proportion has decreased somewhat compared with the previous survey. The responses from construction companies and parts of the manufacturing industry are, however, still very positive. It is instead among the services companies and, above all, in the retail trade that expectations of further increases in sales have been revised down compared with the previous survey. Among other things, in the non-durables sector there is concern that the higher food prices could subdue other sales and thus reduce sales volumes.

There are more industrial companies now compared with the previous survey stating that they can, at present, manage to increase production if an unexpected increase in demand occurs, which suggests that companies have more spare capacity now compared with the previous survey. Some of the responses among the large companies suggest that it is mainly the subcontractors who have more spare capacity. In the retail trade and service industries, companies state that the labour shortage is somewhat less now than in the

previous survey. In the construction sector, companies still state that there is a shortage of labour. As in the previous survey, companies state that above all there is a shortage of people with different types of specialist skills. All in all, there is still relatively little in the companies' responses to suggest there is a general shortage of labour in the Swedish economy. Most companies state that they can find the labour they need.

### **Employment plans are revised down**

The companies state that employment has increased in the most recent quarter but fewer companies now than in the previous survey say there is an increase in employment. This is most evident in industry where just a few of the companies interviewed state they have increased the number of employees in the most recent quarter. New recruitment would appear to have continued to increase among companies in the construction sector and in the retail trade and service industries recently.

The results suggest that companies in general are more cautious about increasing the number of employees in the future. Companies in the construction sector, which unambiguously stated in the previous survey they had increasing employment plans, are now more divided in their view ahead of the coming quarter. To some extent this may be a seasonal effect (construction normally declines during the winter) but there are examples of companies that describe the situation as though "the construction sector no longer has full capacity utilisation". In industry also plans to increase the number of employees are now lower than in the previous survey. The changes are small in the service industries and the retail trade compared with September.

Staffing services companies' view of the coming employment trend is not clear-cut. Staffing services companies state that any potential slowdown in employment is noted first in the recruiting companies' employment plans. Some of the staffing services companies state that they have not observed any change in the companies' actual demand for staff or in their recruitment plans. However, others state that the companies are somewhat more cautious in their plans to hire staff and that they do not sign such long contracts as previously.

### **Companies now expect lower price rises than they did in the previous survey**

The majority of the companies state that in the past year prices have increased more than is generally common. Compared with the results of the previous survey in September the differences are small on the whole. However, the differences are greater with regard to the price plans for the coming year. Construction companies state that they will raise prices less than usual in the coming year. Among other

things, they state as a reason that price developments for housing and commercial premises have stabilised already. Some companies also expect a slowdown on the property market and in the economy in general this year and therefore expect the rate of price increase to be lower. In other sectors also there are signs that the plans to raise prices are more subdued compared with the September survey. Some of the companies refer to the uncertain economic prospects. In other cases there are sector-specific reasons why the rate of price increase can be lower. In the energy field, for example, the major investments lead to an expansion in electricity production which, according to companies, should squeeze prices in the longer term. There are also plans to raise prices more than normal. Some of the food producers have raised prices during the autumn and have stated that further price rises will occur this year. As in the previous survey, they state that this is the result of rising international prices on feed, meat and grain, for instance. In turn, the food industry states that it will pass on the price increases to consumers. Other reasons stated for the price rises are higher transport and wage costs in the retail trade.

#### **Cost and productivity development remains controlled**

Companies state that the outcome of the year's centrally-agreed wage increases was higher than in the previous round of wage negotiations. Several companies describe the agreement as "expensive". At the same time they state that the cost increases will lead to continued rationalisation of operations and even to fewer employees but also to higher prices. Above all it is companies in the retail trade and service industries that state that the wage cost increases are difficult to manage with higher productivity which is why the effects on employment and prices may also be greater. The companies in other branches in the business sector – for example, parts of industry and construction companies – appear to be somewhat less concerned about developments in wage costs. This, in turn, may be because these companies assess that it is easier to offset the cost increases via higher labour productivity and/or that it is easier to pass over the cost increases to customers in the form of higher prices.

As in the previous survey, the companies generally state that productivity development remains firm. Companies say that they do not recognise the decline in productivity registered by the National Accounts for the Swedish business sector in their own operations. Although it is difficult to measure and compare changes in productivity over time, the companies do not appear to have observed any major negative change in production efficiency or in costs recently. In those cases the companies state they have problems with productivity, this has been due to bottlenecks arising and production shocks that temporarily lower productivity. In other sectors declining demand and production has entailed that average labour productivity has fallen when employment has not declined to the same extent. The companies do not state either that profitability development in general has been affected by poorer productivity growth.

**“We are worried about the turmoil. There is much nervousness but we have not seen any downturn.”**

The companies were asked in the survey if they had noted any effects of the financial turmoil of the autumn in their operations. In general the companies had few direct observations. Some companies stated that borrowing had become somewhat more expensive and that it could also be slightly more difficult to receive a short-term loan but that it was not a question of any dramatic development. In businesses that are more sensitive to interest rates the higher short-term interest rates have led to increased costs for companies and/or customers. In turn, this may affect demand and profitability but this does not appear to be a question of any major effects here either. Other companies expressed some concern that the banks could reduce lending in the future but at present there is nothing to suggest this. All in all, there are then few indications that the financial turmoil of the autumn has had any direct, observable effects for the companies themselves.