

■ The Riksbank's company survey: rapid slowdown and widespread pessimism

The companies report that the business climate deteriorated further during the summer. Responses to the questions concerning production, sales and order intake are now more negative than in the previous survey in May. The weaker economic situation is also an important reason why fewer companies than previously plan to increase their prices in the future. Most of the companies state that capital costs have risen in the most recent quarter, and a third believe that there is less access to external financing. Higher commodity prices for, for example, oil, metals and food have over the last 12 months led to increasing costs for the companies and have affected the general price level. The companies' responses indicate that the commodity price increases in general have had a relatively rapid impact on their sales prices. This in turn may indicate that the greatest effects on prices have already occurred at this stage and that the recent rapid fall in oil and commodity prices will soon have a dampening effect on sales prices.

The Riksbank conducts a company survey ahead of every Monetary Policy Report and 61 companies were interviewed in the period 27 August to 30 September. The main purpose of the survey is to obtain in-depth information on how the companies view the current economic situation in Sweden and how they intend act on the basis of the present conditions.

More widespread economic slowdown during the summer

A turnaround in the view of the economic situation occurred during the summer in above all the retail trade and the private service sector. In the industrial sector, the assessment already in May had been overwhelmingly "Poor". A majority of the construction companies still characterised the economic situation as "Good" in September.

A majority of the companies believed that the economic situation will be poorer in six months. This change in view is also reflected in the perception of the development of production, sales and order intake over the most recent quarter. Compared to the previous survey in May, the view of these factors has become much more pessimistic. The weaker economic situation has also led the companies to revise their investment plans downwards, and a majority of the companies now reported that planned investments, for example in higher capacity, have been postponed.

Restrictions in the companies' financing

As a result of the unrest on the financial markets, the companies were asked about external financing and interest expenditure. External financing refers to access to loans via the companies' normal bank contacts or other financing via, for example, bond issues. When asked directly how access to external financing has changed in the most recent quarter, approximately 30 per cent of the companies responded that access has become more restricted, while the remainder of the companies

reported that there has been no change. It was stated, for instance, that borrowing on the market for corporate bonds has become considerably more expensive and that this form of borrowing has in principle come to a halt. It was also mentioned that it takes longer to get the loans approved by the banks and that in some cases it has been necessary to contact banks other than the company's regular bank to get a loan. It should be noted that the Riksbank's survey is primarily conducted among large and medium-sized companies that in most cases are relatively well-established. The survey does not therefore illustrate the situation for small companies. The situation on the credit market also deteriorated rapidly in September and the effects of this are only partly reflected in the survey.

Rapid impact of commodity price increases

An important question for the assessment of the development of inflation in the period ahead is how rapid and how great the impact of rising costs will be on the companies' sales prices (and ultimately on consumer prices). The companies reported that, over the last 12 months, the costs that have increased most have related to various commodity prices. The companies have often referred to these price increases as one of the reasons for increasing their own prices. Among the commodity prices, it is mainly the prices of oil, steel and food that are mentioned in the interviews.

The oil price affects the costs of the companies in different ways. One effect is an increase in transport costs when petrol and diesel prices rise. Another effect is that oil is used as an input good in production processes (for example in plastics), which increases production costs. In most cases, companies have signed agreements with transport companies that include fuel clauses, which mean that increases in fuel costs immediately lead to increased costs for the companies that buy transport services. One conclusion that can be drawn from the survey is that the higher petrol and diesel prices have a relatively rapid impact on the companies' transport costs. How much the increased transport costs affect the companies' own prices is a more difficult question to analyse. For the majority of the companies, input goods and wages are the predominant cost items and transport constitutes a smaller proportion.

In the industries that manufacture different types of plastic material, it appears that the rising prices for crude oil have had a relatively rapid impact on the prices charged to other companies. This is because the companies that the Riksbank has interviewed state that delivery times for the various types of plastic material that are used by other industries or consumers are often short. The costs for various plastic products for the different companies in the industrial, construction and retail sectors vary widely, but in general do not appear to be considerable. An overall assessment is that products that are affected by the price of crude oil have a relatively rapid impact on the companies' costs, primarily via transport and oil-related input goods. It is more difficult to assess how quickly the companies themselves change the prices they charge to consumers. A possible conclusion is that most of these price increases have already been implemented, as a majority of the companies state that they intend to

increase their prices to a lesser extent in the year ahead compared to the preceding year¹⁸ (see Figure B2). The oil price has fallen significantly in recent weeks. According to this analysis, it may therefore be assumed that the companies' sales prices will fall relatively rapidly in the period ahead.

For the industrial and construction sectors, it is the prices of various metals, mainly steel, that have led to significant cost increases. Several companies talked about the difficulty of passing on cost increases by increasing the prices they charge to other companies or consumers, but there were also examples of companies that have succeeded in passing on these increases in full. A decisive factor in this respect is the level of demand for the company's products, hence an economic slowdown may make it more difficult for a company to increase its sales prices. The prices of metals have also fallen significantly on the world market in recent weeks however, and this will also affect the companies' pricing.

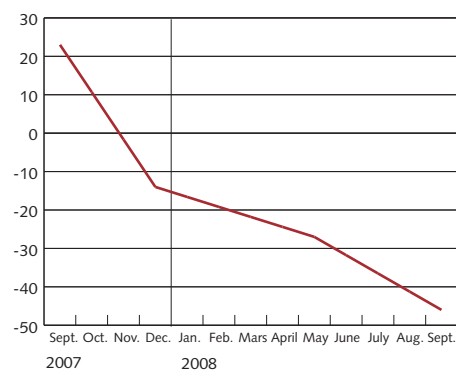
Food prices stabilising

For the food industry and retail sector, increasing prices for various foods on the world market have led to increased costs that have ultimately also led to higher consumer prices. As the purchase prices of the suppliers increased in 2007, prices for retailers were also increased as various commodity clauses came into effect. Prices were also increased, however, in the negotiations on future prices. Increases in international food prices culminated earlier this year, and prices have fallen since then. The retailers' negotiations with their suppliers on future food prices began after the summer. These may result in lower price levels for the consumers. How much lower depends, among other things, on the relative negotiating strengths of the suppliers and the retailers and on how other costs for items such as transport and wages develop.

Slower increase in wage costs

Another important issue is how the companies' pricing will be affected by the high level of inflation and whether this in turn will also affect other costs, for example wage costs. When asked directly about their assessment of the future development of wage costs, a majority of the companies responded that wage costs will increase slightly less next year than during this year. An important factor behind this view is that wage drift is expected to decline. This in turn mainly relates to the fact that the companies expect the situation on the labour market to worsen, but also to the fact that the companies will become more cost conscious and adopt a more restrictive attitude to wage increases over and above the central agreements.

Figure B2. Companies' planned price increases
Net balance



Note. In this case net figures refer to the balance between the share of companies (weighted in terms of number of employees) responding that they intend to raise prices more compared to those responding that they intend to raise prices less over the coming 12 months.

Source: The Riksbank

¹⁸ The question and its three alternative responses are worded as follows: How will you change your sales prices in the year ahead (twelve months) compared to the preceding year? Increase more than previously/As much as previously/Increase less than previously.

