

The Riksbank's Business Survey

**“Demand is not  
the problem – the  
troubles are on  
the supply side”**

May 2021



# The Riksbank's business survey in May 2021<sup>1</sup>

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The economic situation has continued to strengthen during the spring. In particular, economic developments for the manufacturing sector are strong, which is also benefiting other sectors such as the corporate services sectors. Construction activity has picked up during the spring. Construction companies are noticing that decisiveness among customers is beginning to come back and they are therefore optimistic about the development of the economy. In the trade sector, the economic situation is generally stable and positive, while the badly impacted hospitality industry is still weak, although some optimism about the future is beginning to be discerned there as well.

The risks of weakening economic developments are judged to be lower now than earlier in the pandemic, partly due to the generally strong demand. At the same time, supply disruptions are continuing to have a direct and indirect impact on an increasing number of companies and sectors. The shortage of semiconductors has led to production being stopped periodically in parts of the manufacturing sector, and the shortage of containers means that deliveries are delayed and costs are increasing.

Profitability is good, especially for the manufacturing sector. In addition, large companies have continued good access to external funding. Many companies have resumed their investment plans, which were temporarily suspended last year, and some companies have also extended them. The favourable situation, as well as higher freight and material costs, is making the manufacturing sector both raise sales prices and plan for further increases. The trade sector and companies selling services directly to households also plan to raise sales prices in the future to compensate for increased costs.

In May, companies were interviewed about the impact of the pandemic so far on their activities. Although more of them consider that the net effect of the pandemic has been negative, many see positive effects on productivity. Above all, the new work, travel and meeting routines are

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<sup>1</sup> During the period 27 April-7 May, the Riksbank held interviews, via telephone or video call, with 53 companies in the manufacturing, construction, trade and service sectors, as well as trade associations. The Riksbank's Business Survey is published on the Riksbank's website.

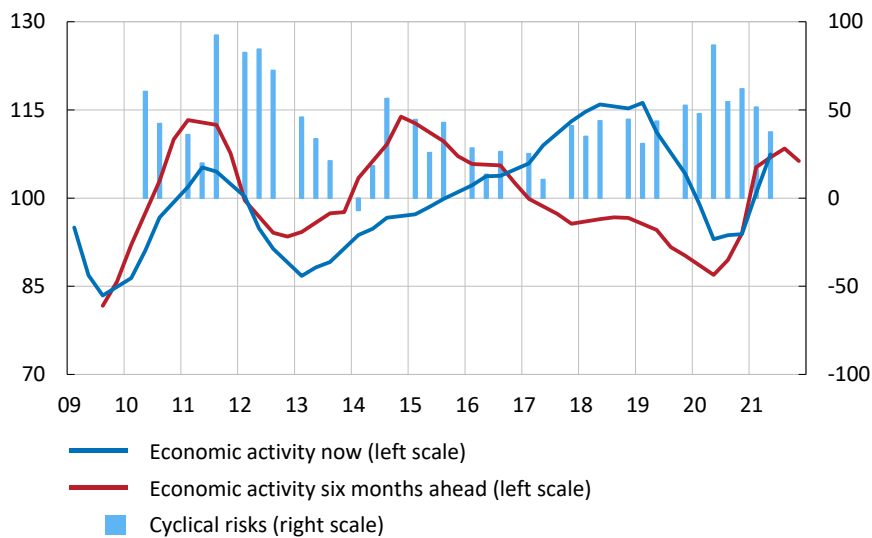
expected to increase the efficiency of operations. E-Commerce has also increased considerably during the pandemic, as have investments in it.

## “... the risks of the pandemic are still diminishing, the world is up and running”

The economic situation has strengthened further in May; see Figure 1. Demand is strong both globally and from the domestic market, while the expansionary economic policy is benefiting the economic situation.

**Figure 1. Economic situation and economic risks**

Index (left scale) and net figures (right scale)



Note. The index figures show a standardised value (mean = 100 and standard deviation = 10) of the net figures for companies that say that the economic situation is currently good or bad and those who say that the economic situation will be better or worse in six months' time. The red line, the economic situation in six months' time, has been moved forward two quarters. The series for the economic situation has been smoothed out with a moving average based on three observations. The bars show the net figures for companies that say that the risks to economic development are currently greater or smaller than normal. As more business surveys were conducted than usual in 2020, there are observations for all quarters.

Activity in the manufacturing sector has continued to develop strongly during the spring, which has also benefited the corporate service sectors. Construction activity has picked up and construction companies are also clearly optimistic about the development of the economy. In the trade sector, the economic situation is generally stable and positive, although there are differences between different sub-sectors. The badly impacted hospitality industry is still weak, although some optimism about the future is beginning to be discerned there as well. The economic situation is expected to be strong going forward, but developments depend, among other things, on how

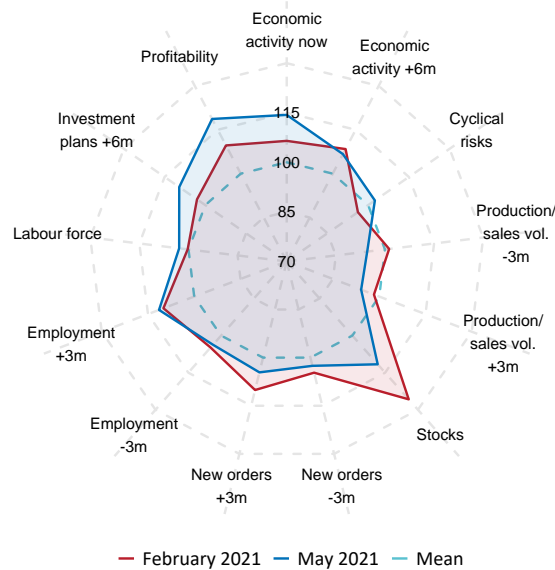
the economic stimulation measures are phased out. The already strong economic situation is probably contributing to slightly more companies than before now believing that the economic situation will remain strong but unchanged than believing it will strengthen further in the period ahead. One business leader says: "It is hard to believe that it will be anything but good, the risks of the pandemic are still diminishing, the world is up and running."

### **"There is a feeling that things are rolling along a little too well, and that there will be a slump somewhere"**

Overall, the risks that the development of the economy will weaken are judged to be lower now than they were earlier in the pandemic; see Figures 1 and 2. Although many still see the pandemic as a significant risk factor, there is not the same focus on it as in previous surveys. The risks associated with the pandemic are also expected to continue to decrease as more and more people are vaccinated, the spread of infection is reduced, and restrictions are eased. Companies have also become better at managing the pandemic so that the costs of operations will be minimised in the event of new outbreaks. Instead, there is an emphasis on the risks associated with various types of supply shock, such as the shortage of containers and semiconductor products. The strong demand situation in the manufacturing sector in particular is also contributing to some concern: "There is going to have to be a slowdown, everything is so revved up." At the same time, it is difficult to see what could reverse the development of the economy: "We can't see what's going to go off the rails in this."

**Figure 2. Companies' overall response patterns**

Index



Note. The responses to the questions are plotted along "spokes" in the figure, where an index figure closer to the centre is worse. Increased risks to economic activity are assumed here to be deteriorations and thus entail a lower index figure. Stocks refer to finished stocks and increased stock size means a lower index figure. The historical average is calculated from the date when the question concerned was first included in the survey. The term -3m / +3m refers to the most recent three months and the coming three months respectively. +6 m refers to the coming six months.

## Manufacturing sector: “We’re continuing to run at top speed, we can't increase much more”

The economic situation in the manufacturing sector has strengthened further over the spring. Most manufacturing segments have stable and high new orders. Overall, demand from Asia and North America in particular is judged to be strong, while demand from Europe is weaker, even if it is developing in the right direction. Several companies are already producing at maximum capacity and would currently find it difficult to deliver more, even if demand were to increase more. Instead, this would result in longer delivery times. It is production capacity that is now creating restrictions and not access to labour.

## “We are much more concerned about the semiconductor shortage than about the pandemic right now”

The shortage of semiconductor products is continuing to be a major problem for the automotive sector in particular, which has had production stoppages at times. Other

segments of the business sector are also being affected, directly and indirectly, by the shortage, and more companies are more concerned about it now than in February. The shortage is expected to last until next year. There are also reports of some shortages of other input goods and commodities.

Transportation by shipping is being marked by the shortage of containers, which is causing tangible problems in logistical flows and deliveries, particularly to and from Asia. One business leader describes the situation as an “imbalance in the global system”. Several different explanations for the shortage of containers are highlighted. One is that container traffic has been diverted to the geographic markets where demand is greatest, which has led to shortages in other parts of the world. Another explanation is that pandemic restrictions have led to containers being left unused in various countries. However, it also appears that fewer containers have been manufactured in 2020 than in previous years.

Strong demand and continued supply shocks are making it difficult to meet demand and delivery times are becoming prolonged. In order to keep production and sales up and running, more expensive freight alternatives, such as air and road transport, are also being used. There are even examples of transportation from China to Europe taking place by road. Some companies say that, as far as possible, they are deliberately holding larger stocks than normal to be able to manage deliveries. The following quotation is telling: “There’s never time to stock, we’re delivering against order books with longer delivery times than usual.”

## Construction companies: “Decisiveness is beginning to come back”

Construction activity has picked up over the spring and the larger construction companies expect the economic situation to have clearly improved in six months’ time. Demand in facilities and infrastructure has been stable and strong throughout the pandemic. On the other hand, the construction of different types of property has generally been a wait-and-see market. However, customers are starting to be able to make decisions again, which is reflected by customer inquiries and new orders. However, previous large construction projects in metropolitan areas may have partly saturated demand there, for example for new infrastructure. Demand is therefore weaker in Stockholm and western Sweden, while it is stronger in southern and northern Sweden.

Demand in the housing market is considered to be good, although it is not as high as in 2016 and 2017. Construction companies are now starting to see greater demand for housing projects, particularly from private operators. The large construction companies are also continuing to invest in their own housing development projects, for example for rental and tenant-owned homes, but there are long lead times before construction can start. Own projects represent a smaller proportion of their total housing construction, but this proportion has increased slightly during the pandemic.

## **“We don't think the office market is dead, offices are always developing”**

Since the outbreak of the pandemic, there have been indications that demand for public sector construction, for example of schools and sports facilities, has increased. For commercial properties, such as offices, shopping centres and hotels, demand has instead declined and has remained weak. However, it is expected to increase when investors understand their future needs for premises better. Demand for new care homes for the elderly is also weak: “Since the pandemic, people do not want to have their elderly relatives in care homes.”

## **Trade sector: “The whole home and garden sector is going very well”**

The economic situation in the trade sector is good on the whole, and relatively unchanged since February. The clothing trade, which has been clearly negatively affected by the pandemic, is now seeing a return in demand. The consumer goods, building materials trade and electronics trade have benefited from the changes in our behaviour and preferences brought about by the pandemic and subsequent restrictions, such as more remote working, reduced travel, fewer restaurant visits and a greater focus on the domestic environment. Among these companies, there is uncertainty about what will happen when society increasingly opens up and households' behaviour more or less returns to normal. Among other things, this is reflected by the comment: “2021 is incredibly difficult to judge.” Competition for customers is also expected to increase in the future, “because disposable income will be used for travel and other things”.

## **“The rate of vaccination is our best friend”**

For the hospitality industry, demand has been constantly weak since the restrictions were tightened again at the end of last year. Nevertheless, there is still optimism in the industry. A high vaccination rate, combined with eased pandemic restrictions, is expected to increase demand in the near future. As a representative of the hospitality industry points out, “there is probably a pent-up need to consume our services”. Leisure travel within the country is expected to increase fairly soon, while business and foreign trips are expected to start only after the summer. A travel agency notes that they have many more bookings for trips abroad for winter and next summer than they usually do this far in advance. Exclusive travel and exotic destinations are also in more demand than ever before.

## **“Customers are daring to invest more”**

Demand for services from staffing and consulting companies continues to be strong from the manufacturing sector and logistics operations, but weak from the hospitality industry and parts of the trade sector. Recently, however, temporary employment



agencies' services have begun to be more in demand because customers are again investing and making decisions. The temporary employment sector is often affected early by changes in economic activity, which was also evident in connection with the pandemic: "We went into the recession early, but also came out of it early." Companies focused on staffing with white-collar workers and specialists have generally been less affected by the pandemic than those with blue-collar workers as their main focus.

## **"There is a very favourable situation on the credit market right now"**

Access to external funding, through bank loans and capital markets, continues to be good for large companies; see Figure 3. However, it is generally more difficult to access external funding for companies operating in sectors that have been particularly badly affected by the pandemic, such as the hospitality industry.

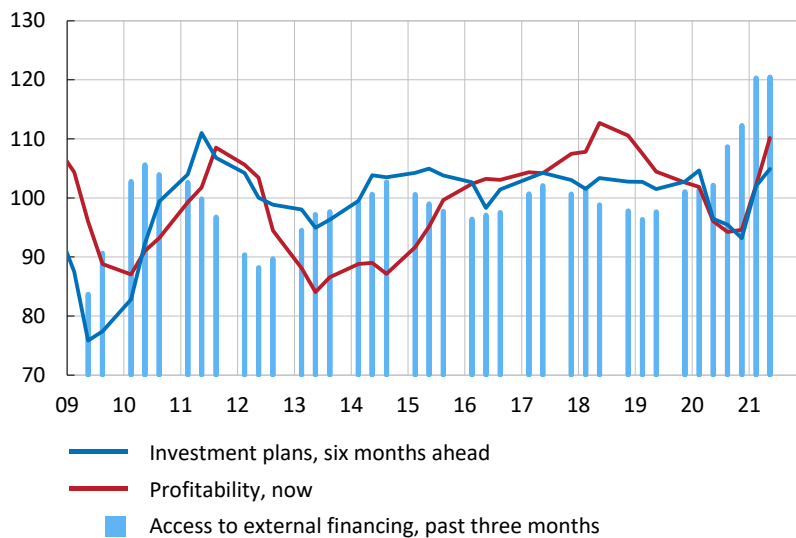
The strong growth in demand has strengthened the profitability of manufacturing companies in particular. The quote "It is not often I can say it but, at the moment, profitability is very good" is telling. The favourable situation means that more companies are reducing their loans: "This year, we are reducing our net debt as much as we can to give us the freedom we need to invest in the future."

## **From restraint to increased willingness to invest**

In connection with the outbreak of the pandemic, some companies put new investments on hold and paused their investment plans. Since then, they have been relatively restrained in terms of new investments. However, since last autumn, investments have increased and many are now more in line with their long-term investment plans and, in some cases, the plans have also been slightly expanded. Investments made relate to both increased production capacity and maintenance of production facilities. Many companies believe that the need for external funding will increase in the long term when major investments in new technologies need to be made.

**Figure 3. Access to external funding, profitability and investment plans**

Index



Note. The series have been smoothed out with a moving average based on three observations.

## Favourable position to increase sales prices according to companies

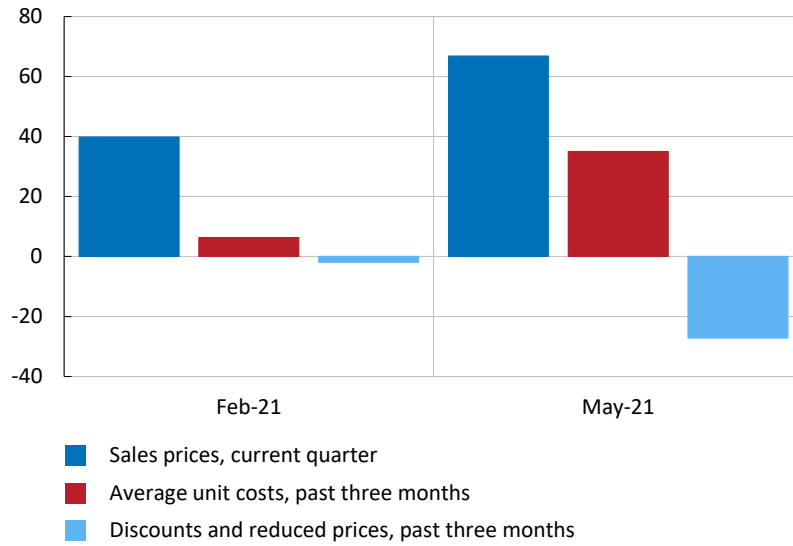
During the spring, world market prices for metals and commodities have continued to rise. “Price growth has been enormous,” says a business leader in the mining industry. Many manufacturing companies say that the cost of input goods has increased as a result. In general, the costs of commodities are higher than transport costs. However, the current disruption of sea freight and the need to use other more expensive shipping alternatives mean that this is no longer always the case.

As demand is high, it is becoming easier to transfer costs, including for material purchases and freight, directly to sales prices; see Figure 4. The favourable situation has strengthened the negotiating position with customers, particularly for manufacturing companies. This means that they can both increase margins and improve their conditions in existing customer agreements. The manufacturing sector has therefore been able to raise sales prices and is planning further increases.

The trade sector and the companies that sell services directly to households also want to compensate for increased costs for material purchases and freight and plan to increase prices in the longer term. For example, a company in the non-durable goods segment notes: “We are definitely not seeing any price reductions now.” As previously, competition determines whether prices can be raised at all and at what rate.

**Figure 4. The assessment by the companies of sales prices, unit costs and the existence of discounts and reduced prices**

Net figures



## ARTICLE – The effects of the pandemic on companies' operations

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In May, questions were asked about the impact of the pandemic so far on companies' operations.<sup>2</sup> Although more of them estimate that the net impact of the pandemic has been negative, many see a positive impact on productivity.<sup>3</sup> The new working, travel and meeting procedures are seen as particularly positive for operations. For the trade sector, the pandemic has meant that structural transformation has accelerated with a substantial increase in e-Commerce and investment in it.

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### The pandemic has not passed anyone by

Almost all companies have been affected by the pandemic in one way or another. More consider that the pandemic has had a negative effect on operations overall than see a positive effect; see Figure 5. The assessment depends on how demand, costs and productivity have been affected, but also on how well the company has managed to adapt to new conditions. The differences in assessment vary widely among companies, as the quotes "It was an epic year" and "Things have been useless due to the pandemic" illustrate.

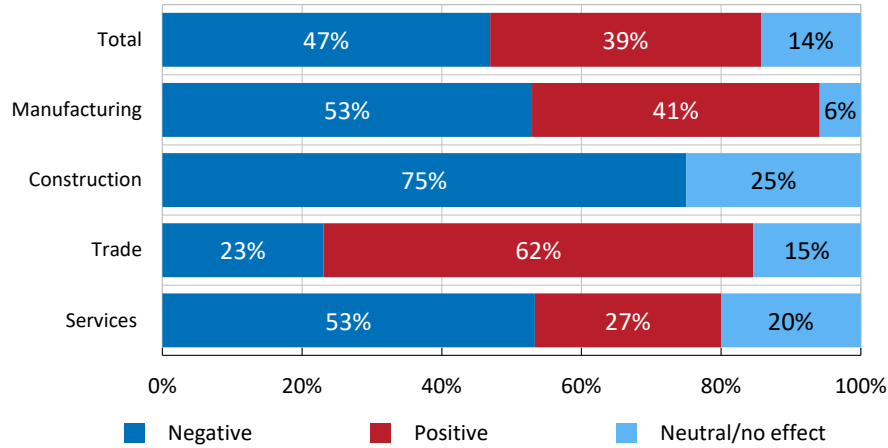
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<sup>2</sup> Some respondents pointed out that it is too early to evaluate and draw too far-reaching conclusions about the effects of the pandemic as we are still in it and do not know how it will develop.

<sup>3</sup> Companies' responses relate only to the net impact of the pandemic on their operations. Social effects of the pandemic should not be included in the responses.

**Figure 5. Has the pandemic had an overall positive or negative impact on your business?**

Percentage of companies



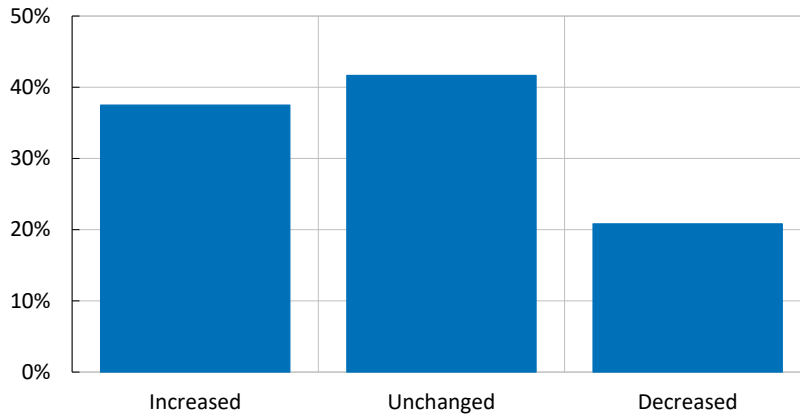
Note. The top row (Total) shows the percentage allocation of responses from all companies. The other rows show the percentage allocation of responses within each sector. Neutral effect means that the net effect is zero, which is to say that positive and negative effects offset each other.

## The pandemic seems to have increased productivity

Overall, productivity is expected to have increased or remained unchanged during the pandemic; see Figure 6. During the pandemic, several companies have adapted their operations, implemented cost savings and streamlined their operations faster than was otherwise planned, and this has increased productivity. Sometimes, a crisis within the organisation is needed to make it possible to implement certain measures, notes one business leader. Even for particularly hard-hit industries, such as the hospitality industry and parts of the trade sector, the pandemic has led to a productivity increase. This has been possible because employees have shown great creativity in problem solving and because companies have been able to make radical changes in organisation and working methods. The quote “In one year, we have been able to make major changes in the company that would have taken a very long time to do otherwise” is telling. The rapid increase in digitalisation is another factor that is judged to have increased productivity during the pandemic. One business leader in the retail sector describes it as “Everyone’s trying to increase digitalisation at the same time”.

**Figure 6. How do you estimate that the productivity of your business has developed during the pandemic?**

Percentage of companies



### “The pandemic has opened our minds to more flexible ways of working”

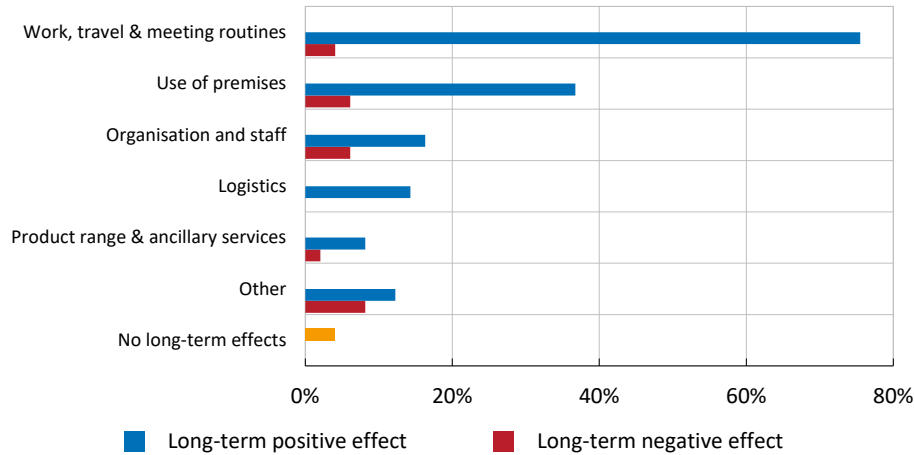
The changes in working procedures that have followed in the wake of the pandemic, such as increased remote working, reduced travel and new ways of meeting online, are seen by many as a change that is positive for operations in the long run; see Figure 7. The new way of working is considered not only to increase productivity, but also to make employees feel better and feel less stressed, which in turn can further increase productivity. “Properly managed, the increased freedom will provide greater efficiency” as one business leader puts it. For white-collar workers and other professional groups who can work from home, the changed working procedures have increased labour productivity overall. On the other hand, for those who do not have this opportunity, labour productivity may have decreased, among other reasons because of restrictions on distance, hand hygiene, and increased sick leave during the pandemic. The possibility of flexibility in work is also an important argument in the recruitment process. The temporary employment sector emphasises that it will be easier for it to recruit people with different competences when their work does not need to be performed in a specific geographical location.

### “There is something in the human meeting, a creativity, that is difficult to replace over time”

At the same time, several respondents emphasise the importance of personal meetings, both within an organisation and outside it. One business leader describes the difficulties of distance meetings: “It’s possible to maintain an existing relationship remotely, but it is much more difficult to create new relationships and introduce new employees.” For those who want to build a good corporate culture, physical meetings within the organisation will continue to be important. There are also concerns that remote working reduces the ability to innovate and renew, as the interaction between individuals in a workplace can foster creativity.

**Figure 7. What long-term effects (positive or negative), if any, do you expect the pandemic to have on your business?**

Percentage of companies



## Logistics changes and changes in the use of premises are generally seen as positive long-term effects

During the pandemic, the manufacturing sector has seen the emergence of regional markets, which means a change in logistics and reduced competition from abroad. In the trade sector, the pandemic has forced logistics to function better with better e-Commerce platforms, increased capacity in central warehouses for order picking and more delivery options, for example.

For many companies, remote working means that such large office spaces are no longer needed and that unused space can be used in other ways. However, no one knows exactly what future needs will be, and investors have therefore put investment decisions on hold. This means fewer projects for construction companies and changes in the way premises are used are therefore seen as a long-term negative factor. Reduced use of office premises may also reduce demand for IT services.

## The supply of personnel may be affected in the long term

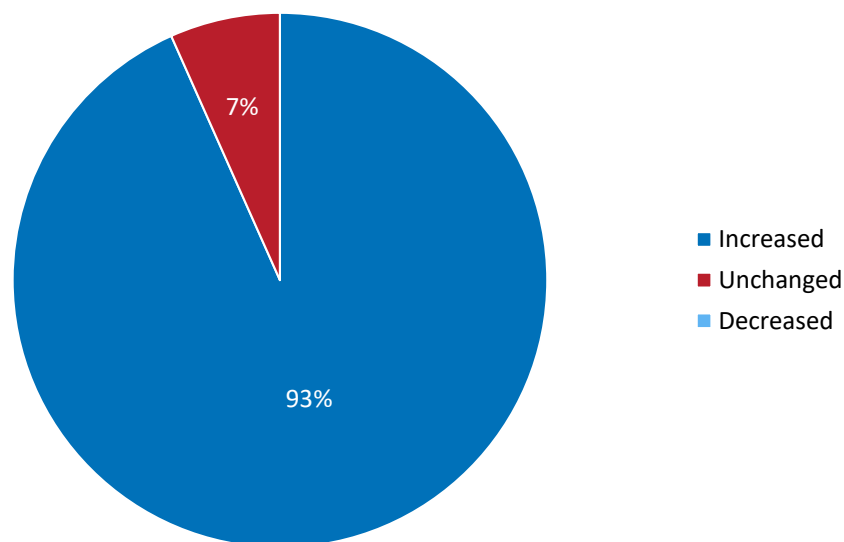
Companies that have been able to maintain their own staff to a large extent during the pandemic feel that this is positive for competency building and the long-term productivity development of operations. Correspondingly, companies who have been forced to lay off their own personnel see a negative long-term effect. The supply of personnel may also have been affected in the long term by the pandemic. This is exemplified in the sectors that have been particularly badly affected, such as the hospitality industry: "It may become more difficult to attract skilled workers because the sector has shown itself to be insecure in this type of situation."

## “E-Commerce has taken a leap of several years in just one”

The transition to increasingly digitalised operations has been going on for a long time in the trade sector. For the majority of trading companies, sales via e-Commerce have been given a clear boost and continued to increase during the pandemic; see Figure 8. At the same time as the pandemic has led to an increase in online commerce, sales in shops have declined, which has further increased e-Commerce's share of total sales. E-Commerce has also spread to new customer groups who previously wanted the security of shopping in shops. As a share of total sales, e-Commerce for several companies has thus doubled during the pandemic and, for some, significantly more than that.

**Figure 8. How have e-Commerce sales developed over the past year compared to the pre-pandemic period?**

Percentage of trading companies



Note. This question was addressed only to trading companies.

How far a company had come in developing its e-Commerce before the pandemic has now been crucial to productivity. Companies that already had well-established e-Commerce before the pandemic outbreak mainly see the increase in e-Commerce sales as an increase in productivity. However, for those companies that have had to build up e-Commerce, it has been costly. Major investments are needed in e-Commerce platforms, warehouses, logistics and elsewhere. It is also necessary to learn a new way of working to achieve efficient operations. These companies therefore consider that e-Commerce, at least initially, contributed to weak productivity development for their operations during the pandemic.



## “The digital and physical will merge into one”

E-Commerce is expected to continue to grow in the long term. It is also becoming more complex over time, with many new delivery and collection services demanded by customers. For this reason, a lot of investment is being made in the digital environment, in new warehouses and in improved logistics solutions. However, the trade sector is uncertain as to what temporary or long-term changes in customer behaviour, preferences and demand will be, once the pandemic is over - “We’re playing a guessing game about shop size and investment.” Many respondents believe that physical trade will continue to be transformed in the period ahead, moving more toward showrooms and physical warehouses where goods can be picked up. Even so, the majority of respondents expect trade in shops to continue in some form in the future.

## About the Riksbank's Business Survey

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The Riksbank's Business Survey aims to reflect developments in prices and economic activity in the manufacturing, construction and trade sectors and some service sector segments. As only a few players account for a very large part of the Swedish business sector, relatively few interviews can provide information about a large part of the sector. Many of the interviewed companies also provide information about other parts of the business sector through their contacts with, for example, small and medium-sized enterprises.

Over 300 companies have taken part in the survey since it was started in 2007. In the surveys carried out during the period 2007-2019, around 30 companies were interviewed in February every year and around 45 companies in May and November. The interviews were carried out by Riksbank staff during visits of around one hour. Because of the pandemic and its effects on the economy, the Riksbank has been holding interviews via telephone or video call with larger Swedish companies in 2020 and 2021. During 2020, more surveys were carried out than in previous years. The interviews are, as a rule, conducted with members of the company's management. The discussions give the companies an opportunity to develop their answers and the interviewer the chance to ask more detailed follow-up questions. From time to time, specific questions are asked about current issues in monetary policy.

The report for May 2021 presents the results of interviews, via telephone or video call, with 53 companies and trade associations, which were mainly held between 27 April and 7 May. Unless otherwise stated, the figures in the report present the companies' responses weighted in terms of the respective companies' number of employees in Sweden. The indexes in the diagrams capture upturns and downturns in the pattern of responses well. These responses are then combined with the companies' reflections during the interviews.

A more detailed description of the survey can be found on the Riksbank's website: Hokkanen, Melin and Nilson (2012), "The Riksbank's Business Survey – a quick indicator of economic activity", *Sveriges Riksbank Economic Review* 2012:3.

[http://archive.riksbank.se/Documents/Rapporter/POV/2012/rap\\_pov\\_artikel\\_3\\_121017\\_eng.pdf](http://archive.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_eng.pdf)



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