

The Riksbank's Business Survey

**“I've never before
experienced custom-
ers accepting price
increases so easily”**

February 2022

The Riksbank's Business Survey in February 2022¹

The Riksbank's Business Survey in February was conducted before the geopolitical situation deteriorated due to Russia's invasion of Ukraine. However, the tense situation that preceded the invasion has been highlighted as one of the major risks of a deterioration in economic activity.

The large Swedish companies generally consider that economic activity has continued to strengthen since the September survey, and most of them believe that the good economic activity will last over the coming six months.

The strong demand reinforces the logistics problems and the shortage of input goods that have affected the activities of the manufacturing industry and retail trade in particular for a long time. Access to semiconductors has not improved and continues to limit production in the automotive industry. At the same time, there is optimism that the situation will improve and the disturbances are expected to gradually decrease going forward.

Costs are increasing broadly in several parts of the companies' operations, such as input goods, transport, energy and labour. Stable and good demand and rising cost pressures have led several companies to increase their sales prices. Compared to the September survey, more companies are planning to increase sales prices going forward to compensate for the higher cost pressures. Companies are expecting inflation, according to Swedish consumer prices, to be more than two per cent one year ahead. At the same time, companies themselves plan to raise their own sales prices at the same rate as inflation, or slightly more.

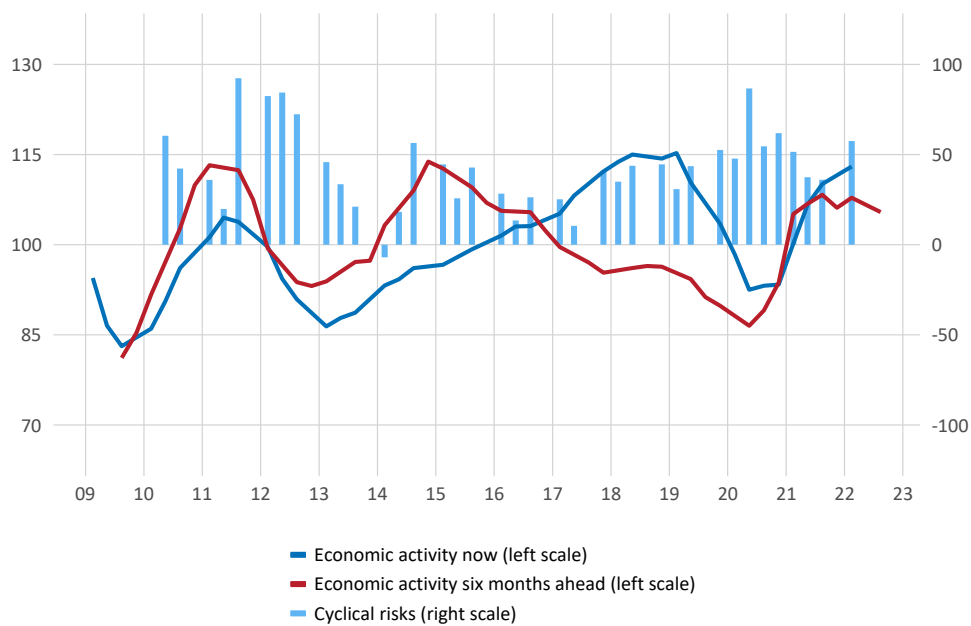
¹ During the period 10-21 February, the Riksbank held interviews, via telephone or video call with 33 companies in the manufacturing, construction, trade and service sectors, as well as trade associations. The Riksbank's Business Survey is published on the Riksbank's [website](#). All quotations in this report are from companies participating in the survey.

"Economic activity is strong, but there are many trouble spots"

The Riksbank's Business Survey in February was conducted before the geopolitical situation deteriorated due to Russia's invasion of Ukraine. However, the increased tensions between Russia and Ukraine, which preceded the invasion, were raised as a clear risk that could affect the global economy, and cause world market prices, for instance with regard to commodities, to rise. The risks that economic activity might deteriorate have increased overall, as a result of the geopolitical risks, together with rising inflation and interest rates. Logistics disruptions and the shortage of input goods continue to be a cause for concern. However, economic activity has continued to strengthen since the September survey, thanks to generally good demand, and this is expected to remain strong on the whole for the next six months, see Figure 1.

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 than normal were conducted in 2020, there are observations for all quarters.

"Our industrial customers are the ones who are keeping up demand"

The manufacturing industry reports good economic activity, with strong demand reflected in orders and sales. Those who supply services to the manufacturing industry

are also experiencing continued good economic activity. Staffing companies, where demand is largely driven by the manufacturing industry, are now seeing growing demand from other areas as well. Construction activity is somewhat stronger than normal, but not at the same level as during the construction boom in 2016-2018, or as the current manufacturing activity. Large investments in the manufacturing industry are driving demand for construction in northern Sweden, while residential construction is the main driver in southern Sweden.

Households buying more services

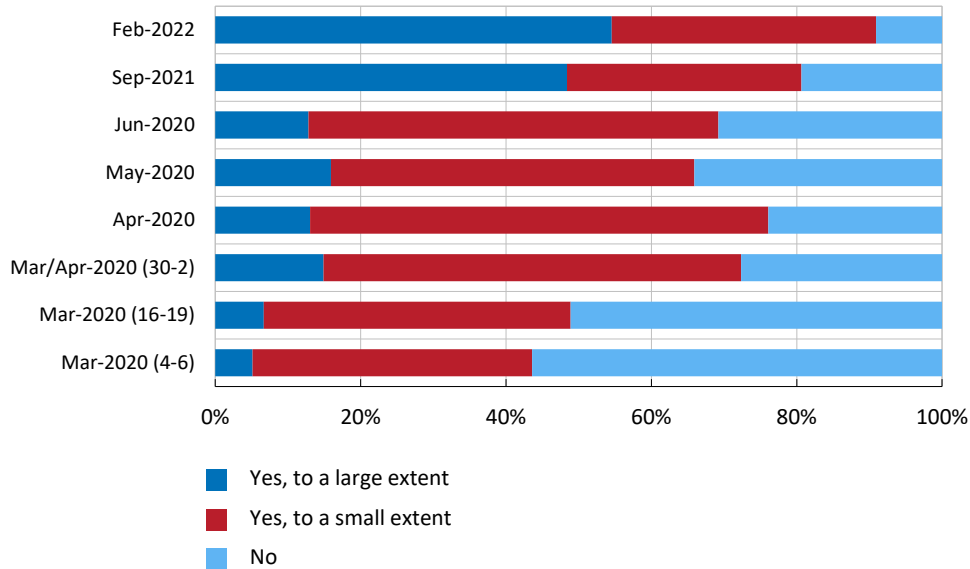
As earlier during the pandemic, household consumption of goods and services has varied in line with the level of restrictions. In connection with the withdrawal of restrictions in February, increased consumption of hotel and restaurant visits, clothing and shoes was again visible, while sales of non-durables and electronics fell. Retail trade respondents estimate that their sales may decline going forward as households face higher expenditure when energy prices and interest costs rise. In the tourism industry, it is feared that foreign tourism may be delayed, while it is believed that business travel will be partially replaced by digital meetings.

Continued problems with production and transport, but signs of improvement in the coming year

The strong demand reinforces the logistics problems and the shortage of input goods that has affected companies' operations for a long time in varying degrees, see Figure 2. Several companies also mention the exceptionally high sickness absence rate in the last three months due to the infection control measures, and this was a temporary problem for production. However, there is increased optimism that the disruptions will decline over the remainder of the year. Some types of disruption, such as pandemic restrictions, have already been reduced or withdrawn, while others are expected to live on a little longer: "The container problems will probably remain for most of this year."

Figure 2. In the last three months, have you noticed disruptions to output in Sweden and/or problems in delivering your products?

Percentage of companies



Note. The figure shows results from the manufacturing sector, construction sector and trade sector. The figure heading presents the question asked to companies in the manufacturing sector. To trade companies: Have you experienced disruptions to deliveries to Sweden in the last three months? To construction companies: In the last three months, have you noticed disruptions to output, construction projects and/or problems in deliveries of construction material?

“Continuing major problems with supply of semiconductors”

The automotive industry is experiencing continued production disruptions as a result of the semiconductor shortage and the situation has not improved since last autumn. Several respondents point out that the production of semiconductors must be scaled up in order to solve the problems. Logistics problems continue to pose challenges for the transport industry, which needs to resolve them to meet the strong demand for transport. Companies are now raising the impact on their operations of logistics problems to a greater extent than before: “Logistics, of course, is our greatest concern and has caused costs, delays and problems.”

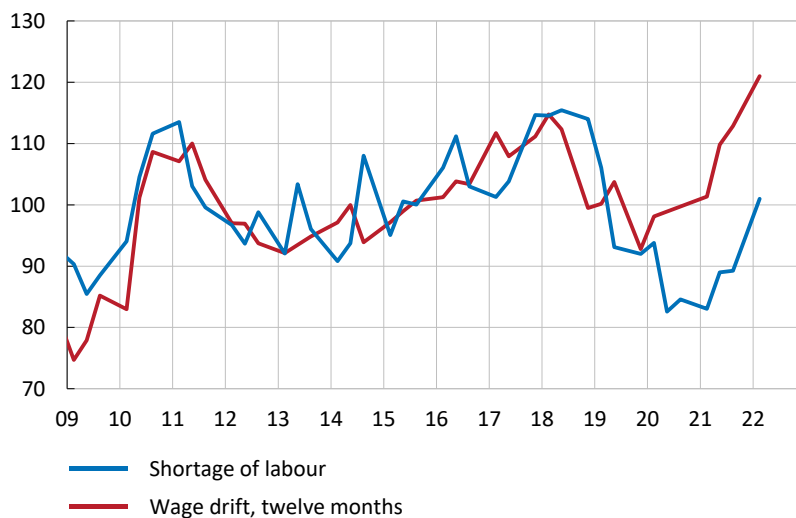
Cost pressures from several directions

Companies are seeing costs rise in several areas. The shortage of input goods and the logistics problems are leading to high freight and purchasing costs. The strong labour market and increasing wage drift lead to higher labour costs. High energy prices, which have both direct and indirect effects through increased purchasing costs for electrically produced goods, such as steel and plaster, also contribute to increased costs.

The general shortage of labour has increased since last September, particularly in the case of white-collar workers, while there is still a considerable shortage of specialists. Recruitment is not only perceived as more difficult, but also takes longer. Staff supply has periodically been made more difficult by the high number on sick leave, and several respondents also talk about a high turnover of staff. This, combined with high wage claims for new employment, is driving up wage drift, see Figure 3.

Figure 3. Shortage of labour and wage drift, all companies

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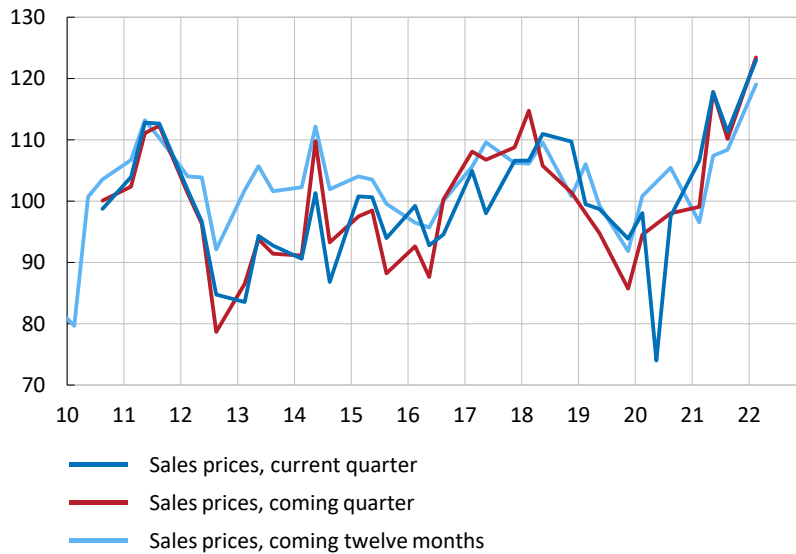


“I've never before experienced customers accepting price increases so easily”

The need to compensate for the increased costs is considerable, as it was in the autumn. A business executive says “We don't have time to increase prices charged to customers at the same rate as the prices of goods we buy in are rising.” Most companies are in the same situation, and manufacturing companies in particular feel that there is an understanding among customers that cost pressures require price increases. Retail trade companies are generally more uncertain over how much of the increased costs can be passed on to the customers, however. Compared to September, a more coherent picture is being presented, with even more companies planning to increase sales prices, see Figures 4 and 5.

Figure 4. Companies' assessment of developments in sales prices, all companies

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“Price increases are common for most of us, everyone is doing it at the same time”

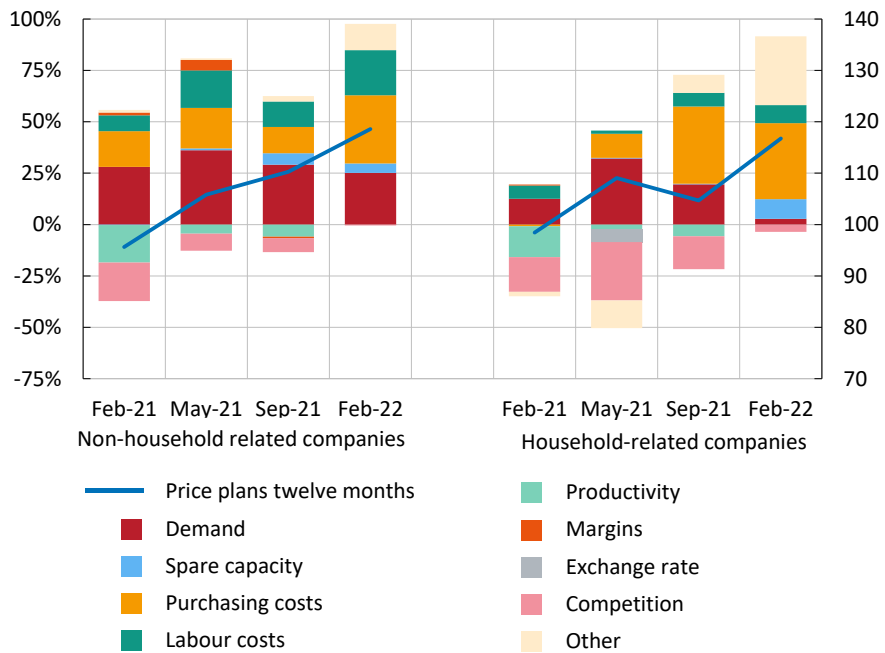
The manufacturing industry has already raised its sales prices and is planning further increases. In the construction sector, tender prices are also expected to continue to rise in the future. In the non-durable goods and building supplies segments, increased costs for raw materials and processed goods are rising relatively quickly and, like the manufacturing industry, they have increased sales prices. For other parts of the retail trade, costs are affected by a certain time lag due to seasonal purchases, but here too the increased costs are now starting to have a greater impact on sales prices. Competition is not highlighted as a price-dampening factor to the same extent as before, instead, cost pressures are in focus, see Figure 5.

In February, questions were asked about expectations of Swedish consumer prices. A majority of respondents expect inflation to be higher than two per cent in one year's time and, on average, it is estimated to be around three per cent.² However, there are different views as to whether this is a temporary or a more permanent rise in inflation. Overall, companies have plans to increase sales prices at the same pace as they are expecting for inflation, or slightly faster, as is also apparent from the quote: “With not having any inflation for a long time, there is a pent-up need for a larger increase.”

² Inflation expectations are expressed as an annual percentage change.

Figure 5. Driving forces behind pricing in the twelve months ahead

Net percentages and index figures



Note. The bars (left scale) show the net balance between responses that the factor concerned will have an upward or downward effect on prices in the year ahead. A bar above (below) zero means that the factor will contribute to rising (falling) prices in the period ahead. Index figures (right scale) show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for companies that responded to the question regarding whether sales prices will be raised or lowered in the coming twelve months. In February 2022, the factor “Other” consists mainly of energy and freight costs.

About the Riksbank's Business Survey

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. As a result of the pandemic and its effects on the economy, the Riksbank held a total of eight rounds of telephone interviews with the larger Swedish companies during 2020. 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.

This report for February 2022 reports the result of telephone interviews with 33 companies and trade associations, mainly conducted over the period 10-21 February. 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



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