

The Riksbank's  
Business Survey

# Price increases continuing, but discounts increasingly common

February 2023

# The Riksbank's Business Survey in February 2023<sup>1</sup>

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The large Swedish companies generally consider that economic activity has continued to weaken since the previous survey in September, but several of them point out that the situation is not as bad as they had feared. However, views on economic activity are divided; the manufacturing industry is much more satisfied with the situation than retail trade and the construction industry. Moreover, companies do not see any signs of an early improvement in economic activity; the situation is expected to still be weak in six months' time.

The fact that companies' views on economic activity vary is partly due to the weak krona, which benefits exporting companies on the one hand and disadvantages importing companies in the retail trade, for example. The deterioration in households' finances also has a negative impact on sales in physical trade and e-commerce, although discount stores are seeing a rise in sales. Retail traders also have large stocks that they need to sell off. The decline in households' purchasing power also dampens demand for certain goods and services from manufacturing and services. The construction industry also notes that household demand for new housing has fallen significantly.

Although the need for specialist expertise remains high, the weak demand means that companies' need for new recruitment decreases. Several report that replacement recruitment has largely ceased and that the workforce is therefore decreasing at a slow pace. Many costs, such as costs for purchasing goods and labour, are continuing to rise despite the decline in the rate of increase for certain inputs, transport and commodities. Going forward, price increases will be larger than normal, but they are expected to be lower than last year. At the same time, the number of campaigns with reduced prices has increased to attract households to buy "when their wallets are taking a beating".

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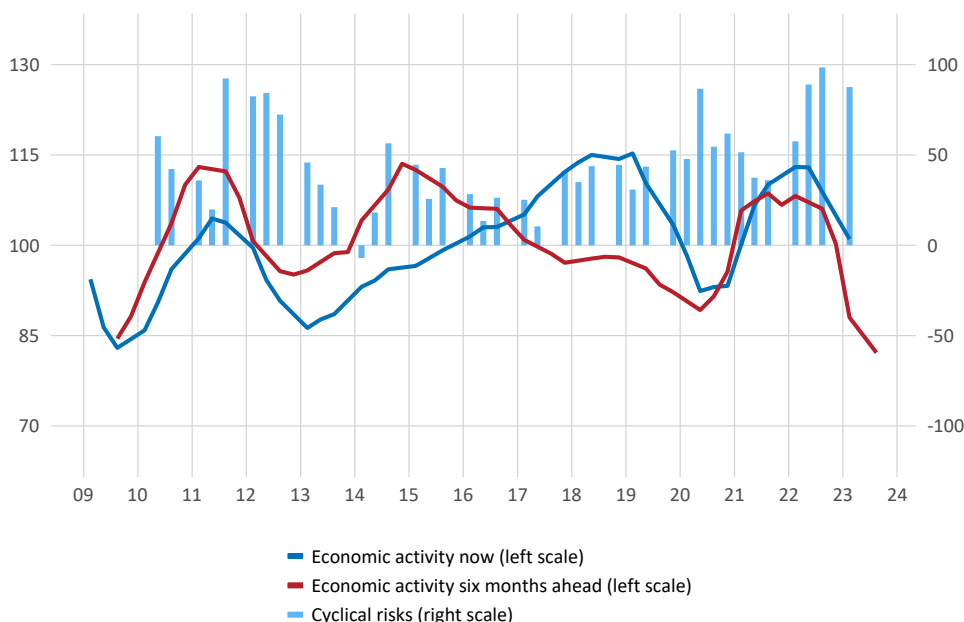
<sup>1</sup> During the period 9-22 February, the Riksbank held interviews with 35 companies in the manufacturing, construction, trade and service sectors, as well as trade associations. The Riksbank's Business Survey is published on the Riksbank's website. All quotations in this report are from respondents to the survey.

## “Surprising that economic activity has been so strong”

Companies on the whole state that economic activity has weakened since the previous survey in September, see Figure 1. But many of them point out that it has nevertheless been better than they thought six months ago. Respondents in the manufacturing industry and the parts of the service sector serving other companies in particular are positively surprised by the resilience of the economy, and regard the situation as still somewhat better than normal. However, there is a clear division of views on economic activity. The large construction companies are generally dissatisfied with the economic situation and refer to the very weak demand for housing construction. The same applies to the retail trade, where sales volumes and profit margins continue to decline. All in all, the economic situation in six months' time is expected to remain weaker than normal.

**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 columns 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.

## “We had expected things to get worse”

Overall, the order intake in the manufacturing industry has increased over the past three months and is expected to remain at the same levels in the next three months. The order situation is thus better than many of the companies were expecting in the September survey.

The exporting part of the business sector benefits from the weak krona. There is talk of a “doping effect” which will not continue indefinitely. Overall, demand from the

United States is still good, while demand from Europe is somewhat weaker but still better than feared. Demand in China has started to increase again as the latest pandemic wave waned faster than expected.

In the automotive industry, order books are full and there are currently no signs of a decline in demand. Demand from households, on the other hand, appears to have slowed down somewhat as interest rates have risen. Other parts of the technology industry also bear witness to well-stocked and full order books. The steel and metal industries are adversely affected by the decline in residential construction, but this is mainly offset by the strong demand from customers who invest in new energy solutions and more efficient production.

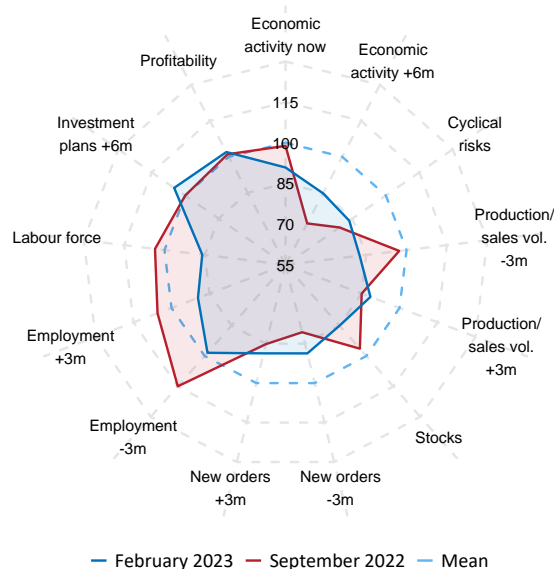
### “What will households cut down on?”

The risks that economic developments will deteriorate are still clearly larger than normal, see Figure 2. In particular, companies are concerned about factors that risk dampening household demand for goods and services. These include the development of inflation, interest costs and unemployment. There is also concern that monetary policy is at risk of becoming too tight, and dampening economic activity more than is necessary to bring inflation down.

Geopolitical risks, such as the development of Russia's invasion war with Ukraine and increased protectionism, may also dampen economic activity. However, companies no longer mention different types of business disruption as a risk factor.

**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. The historical average is calculated from the date when the question concerned was first included in the survey. The terms -3m and +3m refer to the most recent three months and the coming three months respectively. The term +6 m refers to the coming six months. Increased risks to economic activity entail a deterioration and therefore a lower index figure. The question of stock size is only addressed to the manufacturing industry (stocks of finished goods) and retail trade (stocks) and a reduction in stock size means a higher index figure. The questions about new orders are only put to the construction and manufacturing companies. Other questions, whose answers are presented in the figure, are addressed to all companies in the survey.

## “There are now large flows of customers to discount stores and it is really noticeable”

In trade, sales volumes have continued to decline since the autumn. The grocery trade bears witness that households are still adapting their purchases to a deterioration in purchasing power, including the removal of fruit, vegetables, meat and other foods from shopping lists where prices have risen relatively much. Overall, sales are expected to stabilise over the next three months.

In the durable goods segment, for instance, building-materials trade, electronics and furniture, sales have declined over the past three months. The exception is those traders operating in the low-price segment whose sales have increased and are expected to continue to increase. The clothing and sports trade is also seeing a decline in sales and is expected to continue to decline over the next three months. The weak sales figures, together with the large purchases during the period of freight disruption, explain that the majority of those active in the retail trade now consider their stocks to be too large.

At the same time, the retail trade companies see a decline in e-commerce in general. The deterioration in households' finances and changes in behaviour following the removal of pandemic restrictions may partly explain this. "Now people are back in the

shops", says one respondent. Other companies are also indirectly affected by a decrease in sales in physical shops and e-commerce. For example, the paper industry is affected by lower demand for packaging board and the transport industry by the reduced need for transport.

Several hospitality companies describe a decline in sales and believe that they will continue to decline in the next three months. One company manager believes that they now need to focus more on sales and costs because "households will have to adjust their consumption every day that passes", while "after eight years of zero interest, they are not used to thinking so much about costs". Another manager believes that they can increase their sales because the weak krona makes households more prone to holiday at home rather than abroad.

## "The housing market is poor, but other parts outweigh this"

Construction activity is generally described as poor and may deteriorate further in the next six months. The demand for the construction of new dwellings has almost completely come to a standstill. Construction companies estimate that household demand for newly built housing will remain weak in the next six months. However, according to construction companies, there is a strong underlying need for new housing, but they believe that a turnaround in demand presupposes that inflation will decline, interest rates will stop rising and economic developments will be more predictable. When demand for housing construction decreases, this also affects other industries. Subcontractors, who supply steel, wood and electronics, for example, bear witness to this. It also leads to a reduction in the need for logistics services and to some extent to a reduction in the sales of construction equipment from vehicle manufacturers.

The demand for commercial construction has been weak since the start of the pandemic and, according to the construction companies, has not recovered since then, as is also reflected in the quote, "offices and hotels were much more hyped up prior to the pandemic, but it has been rather wait-and-see since then". To some extent, this has been offset by the industrial investments in Norrland, where there are hopes of a generally increased demand for construction going forward. However, the demand for facilities and infrastructure as well as public sector construction remains good. There is particularly good demand for construction for activities such as police, military, justice, healthcare and energy.

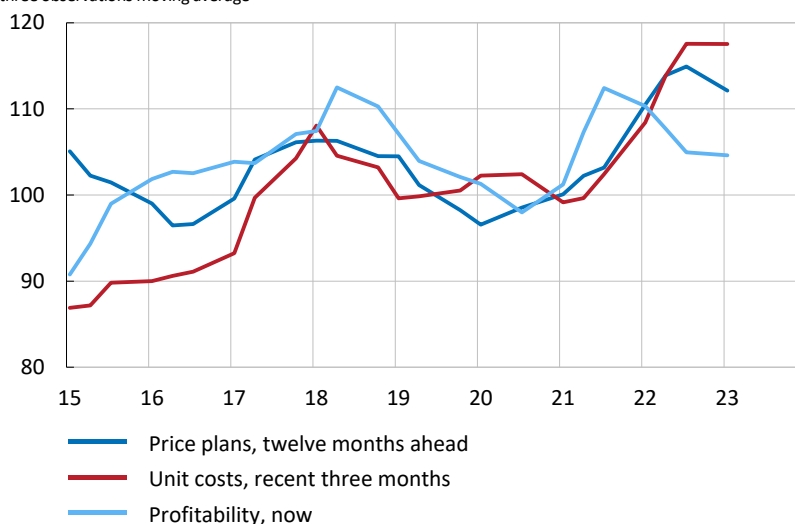
At present, construction companies' order books are normal in terms of size and length. One manager points out that about 60 per cent of the value of the order book extends one year ahead, while the remainder extends even further ahead, which is considered normal. What deviates from the normal situation is the distribution between projects, which is mainly shown by the fact that there are now fewer housing projects in the order book than usual.

## “We don’t believe costs will continue to grow at this rate”

Company costs have continued to increase, see Figure 3. The manufacturing industry mentions the costs of energy, coal, chemicals and certain metals used in, for example, battery production. In construction, labour costs, building materials and interest rates have had the most impact. Retail trade and the services sector emphasize the exchange rate as an important cost driver, but also local rents that have been raised because they are linked to inflation. However, for all sectors except parts of the service sector, cost pressures seem to have eased somewhat. “In any case inputs have had a lower rate of price increase”, a respondent notes. In addition, transport and commodity costs, such as cotton, steel and aluminium, have now also begun to fall. Overall, profitability remained unchanged compared with September. The weak krona has improved the profitability of the manufacturing industry, but it has worsened that for the retail trade.

**Figure 3. Companies’ assessments of the price development of their goods and services, unit costs and profitability**

Index, three observations moving average

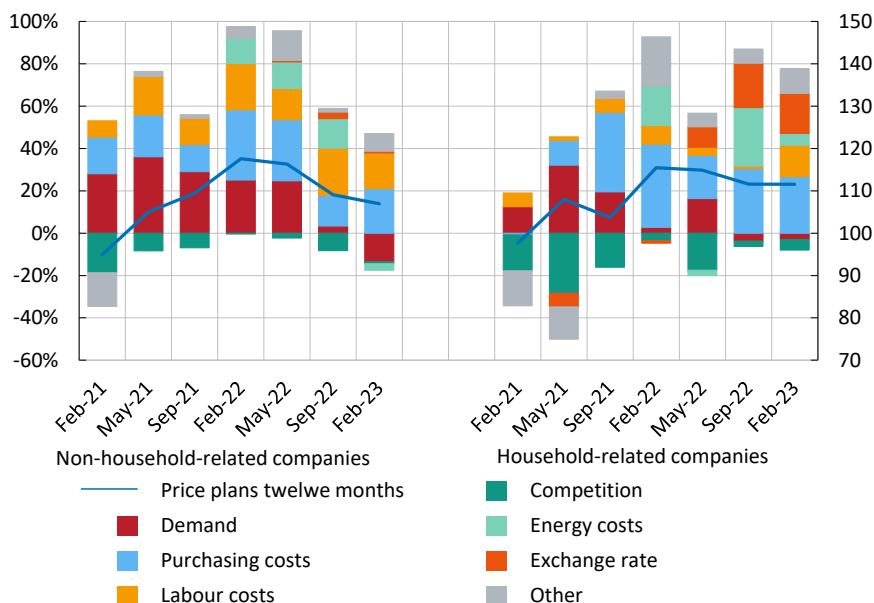


## “Higher than normal price increases, but lower than last year”

Companies are planning to continue to raise prices over the next twelve months, see Figure 4. This is mainly because costs have risen. “If cost increases are to be covered, prices must continue to rise,” says one respondent. The planned increases are expected to be higher than normal and prices are also raised more frequently than normal. However, companies have noted that some costs are not increasing as much as before, which may dampen price increases in the future. A company manager points out that “I even believe that reductions may be seen in some cases”. In addition, non-household related companies mention that weaker demand can also help to dampen price developments, see Figure 4.

**Figure 4. Driving forces behind pricing in the twelve months ahead**

Net percentages and index figures



Note. The columns (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 column 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 responding to the question regarding whether sales prices will be raised or lowered in the coming twelve months. Non-household related companies refers to manufacturing and construction companies and those companies that mainly sell services to companies. Household-related companies refers to the trade sector and those companies that mainly sell services to households. The item 'Other' includes, among other things, spare capacity, marginal changes, productivity growth, and rental costs.

Many of the construction companies find it more difficult to price new housing. Construction costs continue to be high, while demand is falling and prices need to be adjusted to the new situation. The quote “It is difficult to get the sums to work – there is a reduction in households’ ability to pay, while we have an increased cost situation” is telling. In many housing projects such as tenant-owned dwellings, prices cannot be lowered without goodwill losses: “For example, if a year ago we sold tenant-owned apartments to 60 per cent of our customers at a certain price, we cannot then lower the prices for the remaining customers.” Construction companies note, however, that as costs fall, as they are doing now for certain construction materials and services from subcontractors, they can better adjust prices to the demand situation for new housing projects. However, since it takes a long time from the planning of a housing project to the sale of housing, it is a slow price adjustment.

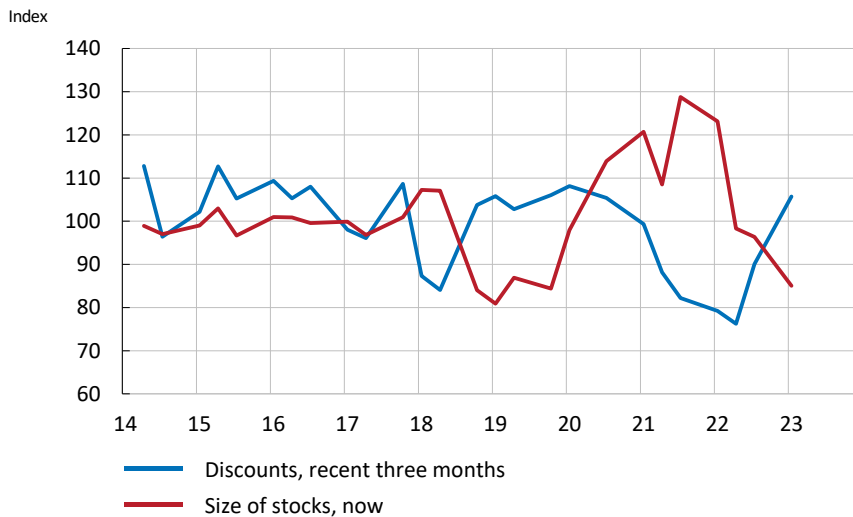
As in September, the household sector highlights the exchange rate as an important reason why prices will increase in the future. One company manager explains it like this: “Our greatest concern is not that the krona is weakening, it is the volatility or the pace of change that creates headaches for us when setting prices.” Labour costs are mentioned as an important factor in all sectors. “Everyone needs to raise their prices to meet wage increases,” explains a respondent.



## “We’re holding campaigns all the time”

In contrast to planned price increases, several respondents in the retail trade describe how campaigns and discounts have become more common in recent months. Companies use campaigns to market products for a limited period of time or to recognize reduced selling prices to prospective buyers. There are several reasons for the increased campaign intensity. Competition for the shrinking consumer scope that households now have is considered “brutal” and campaigns are conducted both to retain old and attract new customers. “We are fighting for their wallets!” as one company manager puts it. Several respondents mention that their competitors are offensive in their campaigns, and one manager explains that “we are working much more with reductions and campaigns because we are forced to do so”. Given the excessive stocks and declining sales, there is also a need for both inventory clean outs and to increase sales, see Figure 5.

**Figure 5. Household-related companies’ assessments of the existence of discounts/reduced prices and the size of stocks**



Note. The question of discounts/reduced prices is put to the manufacturing industry, trade and services sector. The question of stock size is only addressed to the manufacturing industry (stocks of finished goods) and retail trade (stocks) and an increase in stock size means a lower index figure.

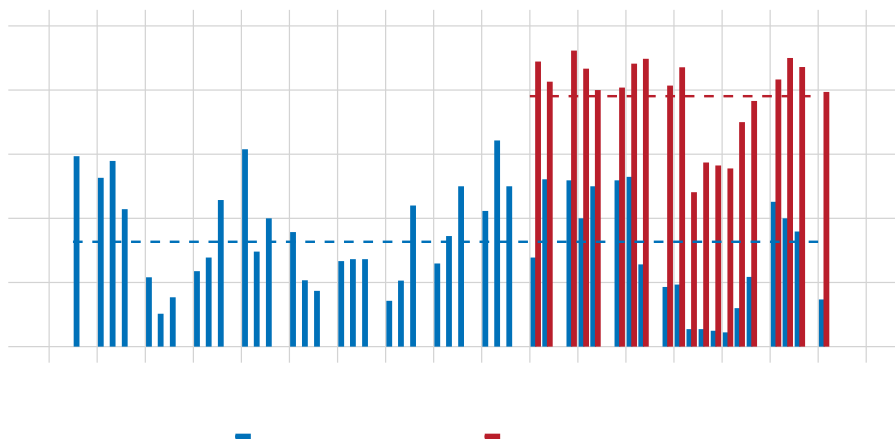
## “We've managed to adjust staff numbers gradually”

In general, the number of employees is considered to be too high. The number of employees is falling in all sectors and further reductions are planned. In trade, a few companies have already given notice of termination to employees and, above all, these are central functions at their head offices. For the majority, however, the reductions are about the non-replacement of staff who leave and/or about the fact that they have fewer fill-in staff and hourly employees. In the construction industry, hired personnel and consultancy services are not being used to the same extent as in the past. However, in the low-cost trade, some have increased and are planning to continue to increase their workforce, but they see themselves as an exception: “It feels like we are the only retail company that hasn't laid off hundreds of people out of the headquarters and stores.”

More companies feel that it is now generally easier to obtain the labour they need, see Figure 6. On the other hand, it is still hard to get hold of specialists. The lack of specialists leads, above all, to longer recruitment times and to higher wages being offered to them. Several companies also mention that they have chosen to recruit from abroad.

**Figure 6. Is there a general shortage of labour and/or a shortage of specialists?**

Percentage of yes responses



## About the Riksbank's Business Survey

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The Riksbank's Business Survey should reflect developments in prices and economic activity in the manufacturing and construction industries, the retail sector and parts of the service sector. 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 companies interviewed 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 and video interviews with companies and trade associations in 2020. Nowadays, between 30 and 50 companies and trade associations are interviewed on each occasion. As of May 2022, part of the interviews are once being conducted in the form of visits. The interviews are usually conducted with members of the company's management. The interviews 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 response rate for the survey is high and is often around 95 per cent.

The results of the survey are presented in a report published on the Riksbank's website, usually three times a year. The February 2023 report presents the results of interviews with 35 companies and trade associations. The survey was conducted mainly during the period 9-22 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 Figures reflect 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.

[The Riksbank's business survey – a quick indicator of economic activity](#)



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