THE RIKSBANK'S BUSINESS SURVEY

“No green shoots visible yet"

February 2024

Correction

Figure 4 on page 8 has been amended.

The Riksbank's Business Survey in February 2024[1]

Economic activity is continuing to weaken and large parts of the manufacturing industry are now starting to notice lower international demand. Domestic demand has been weak for some time and there are few signs that a turnaround is imminent. However, there are clear hopes, especially among household-related businesses, that the economic situation will improve going forward. These hopes are linked to expectations that lower inflation and interest rates will affect households' confidence and willingness to consume.

There are still major concerns about various geopolitical risks that could rapidly change the economic situation. At the same time, companies observe that the recent freight disruptions have been less extensive and not at all comparable to the major problems experienced during the pandemic. Experiences from the pandemic have also strengthened the ability to deal with disruptions.

Households are under severe financial pressure. The fierce competition for household spending power is leading to intense promotions and further discounts in the retail sector. Several household-related businesses are focusing on increasing sales volumes by lowering their selling prices, which is also expected to put pressure on their profit margins. There is a clear difference for businesses that sell goods and services to other businesses. They are instead planning to continue passing on their increased costs to customers by raising their selling prices, provided that demand does not weaken further.

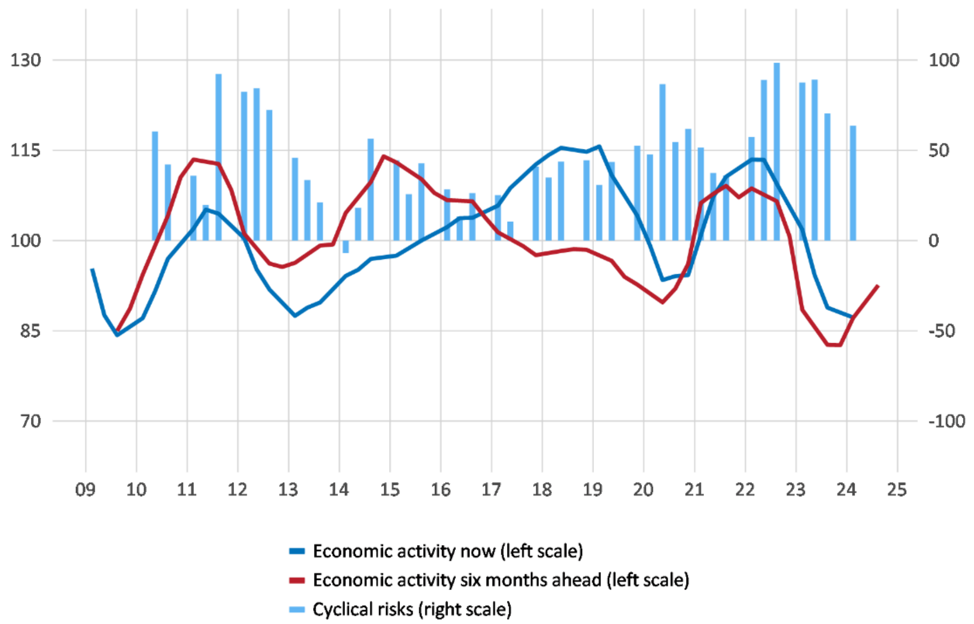
[1] During the period 1-13 February, the Riksbank held interviews with 42 companies in the manufacturing, construction, retail trade and services sectors, as well as trade associations. The Riksbank's Business Survey is published on the Riksbank's website. All quotations in this report are from respondents to the survey.

"We think things will get better"

The economic situation remains weak and has deteriorated somewhat since last autumn, see Figure 1. As before, the economic situation is unfavourable for household-related retail trade, the hospitality industry and the construction sector. At the same time, demand is also slowing down for export companies. Although one company manager in the manufacturing sector points to a recent increase in steel prices and another to the fact that customers' stocks are beginning to run out, which together should mean stronger demand going forward. But on the whole, respondents see few clear signs of an imminent economic turnaround.

Figure 1. The economic situation now and in six months

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



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

Going forward more respondents than before are expecting an improvement in economic activity, see Figures 1 and 2. These expectations are mainly motivated by the rate of inflation having fallen, which gives rise to hopes of lower interest rates going forward. This is particularly true among businesses in the household-related sectors. A company manager in the furniture and interior design trade noted that "if those who own a home, who normally buy a lot from us, experience some easing, then of course it also means something [good] for us". Another manager also attaches great importance to expectations: "The psychological aspects of expectations are extremely important. As long as you get inflation under control, people will expect interest rates to go down to low levels again and then everything will be fine."

Companies' views on the risks of a deterioration in economic activity remain at a high level and are captured in the quote: “It is the geopolitical risks that stand out, the rest we can handle.”

“Germany stands out with a weak performance”

Demand in the manufacturing sector is continuing to weaken, which is reflected, for instance, in stagnant or falling world market prices for items such as steel, wood and cardboard. Many manufacturing companies have enjoyed very good profitability in the past due to the high world market prices for these commodities, but profitability has now declined. One company manager observes that “profitability is OK, but showing a downward trend”. The weaker economic situation is also reflected in a lower order intake and lower production of, for example, vehicles.

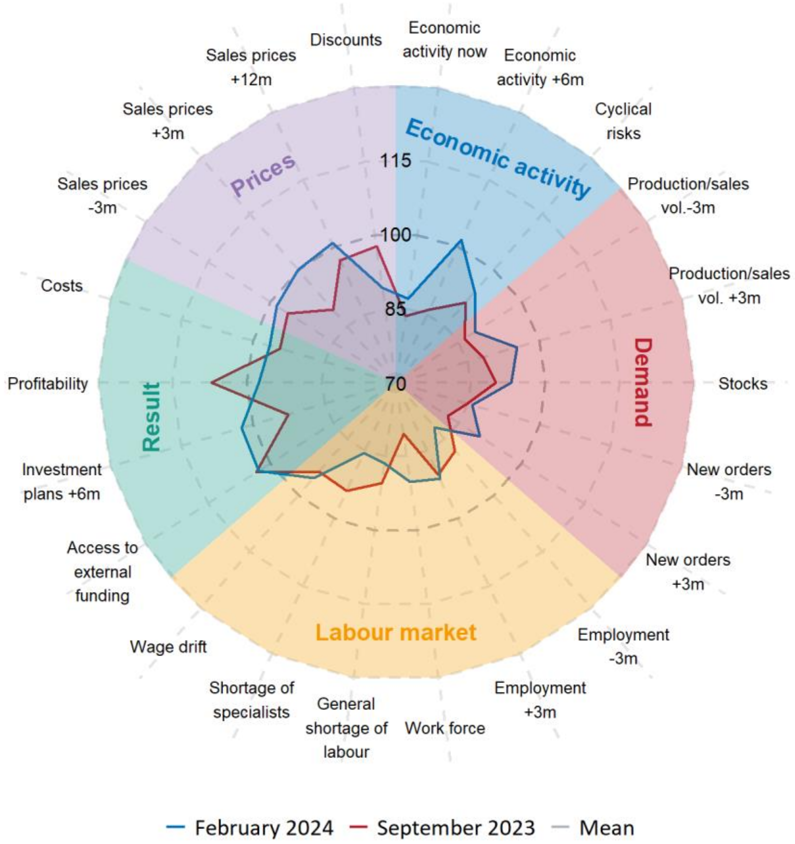
Although the economic situation is generally subdued, there are geographical variations. In the European market, demand is particularly weak in the Nordic countries and Germany. With regard to more geographically distant markets, several respondents mentioned that demand from the United States is on the whole “OK”. In contrast, demand from China is relatively weak, but demand from other parts of Asia compensates for this.

Construction companies, which are mainly exposed to the Swedish market, are continuing to experience very weak demand for residential construction on the one hand, and satisfactory demand for civil engineering and infrastructure construction on the other. One company specialising in housing construction notes that “It can't get much worse”.

“Tough price competition in housing”

The construction industry reports a more competitive bidding environment, particularly for housing projects but also other smaller projects: “There used to be five tenders, now there are fifteen.” Intensified competition is expected to continue for the foreseeable future, leading to a further decline in tender prices. To avoid competing only with price, companies are planning to put even more emphasis on quality aspects, project complexity and local. But at the same time, price will remain important and lower tender prices are therefore to be expected going forward.

Figure 2. The 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 designation -3m means the past three months, +3m means the coming three months and +6m means the coming six months. Increased cyclical risks and discounts entail a deterioration and therefore a lower index figure. Increased costs are reflected in 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. The answers to the other questions in the figure come from all companies in the survey.

"We have experienced worse disruptions"

Several companies mention that they have experienced disruptions to goods deliveries and logistics chains as a result of the situation in the Red Sea, for instance that delivery times have become longer and they have lost business as alternative transport solutions have become too expensive. However, many note that the effects of the ongoing disruptions are not comparable to those during the pandemic, although that could of course change if the problems persist for a longer period of time. Overall, companies are now better equipped to deal with disruptions as a result of their experience with the pandemic, particularly in relation to the delivery of goods and logistics chains. One company manager mentioned that they had recently "looked two levels back at the suppliers" to identify vulnerabilities linked to supply.

"There are fewer and fewer of us in the company right now"

Companies have continued to adjust their labour force in response to the decline in demand, as shown in Figure 2. However, these are not large-scale redundancies but smaller and more frequent adjustments. The quotation "we are adjusting our workforce cautiously and continuously" is telling. Companies are planning further staff reductions in the coming months, but even then it is a matter of making minor adjustments. The cautious attitude is partly linked to the fact that companies are expecting economic activity to improve in the future. "The workforce is on the verge of being too big, but we believe this will change and therefore do not intend to lay off any more people now", explains one respondent. Temporary employment agencies also report a tendency towards "labour hoarding", that is, the companies retail their labour force despite declining sales or production. An important reason for holding off on reducing the workforce is that it is costly for companies to make staff redundant and then need to recruit new staff.

"When your child benefit arrives, you go shopping for food – you can see how tough it is for many people"

Households appear to be under increasing pressure. Several companies note that spontaneous purchases are decreasing and that households are to a greater extent planning their purchases. For example, grocery retailers report a "very much clearer effect" of customers shopping more on paydays. Another example comes from the durable goods sector, which sees fewer spontaneous purchases in the evening via e-commerce and more purchases at weekends instead. Companies also report that households are buying fewer durable goods than before. For example, people only buy a TV when the old one breaks down and not when a new model is introduced. A grocery store company sees a tendency for households to choose slightly more expensive foods, which they believe is linked to the fact that people are choosing to cook more sophisticated food at home instead of going to restaurants. This is confirmed by the tourism industry: "People are tending to bring a packed lunch more often and cutting down on the restaurant visits they normally make". In addition to these changes, households are continuing to look for low-cost alternatives and to buy more during campaigns or sales.

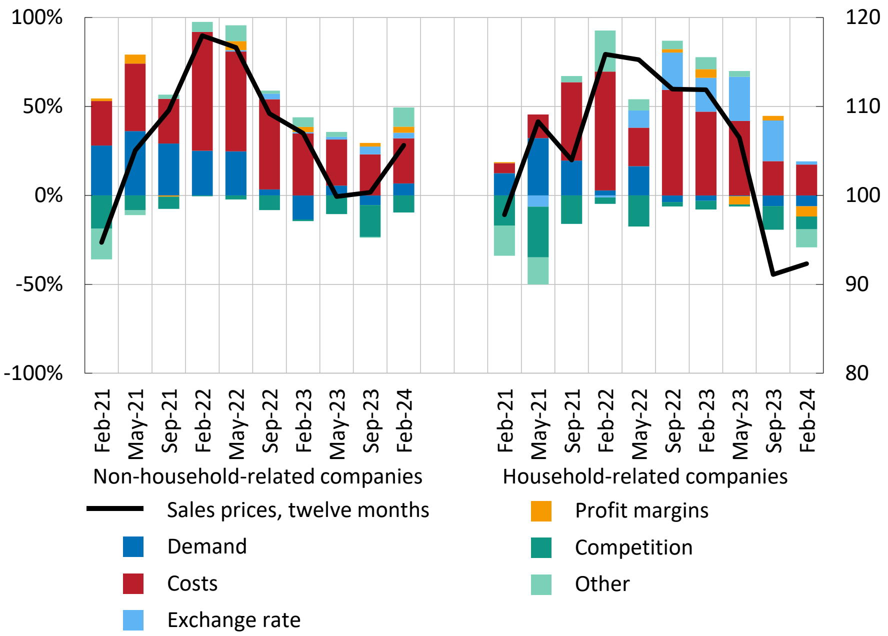
Households buying fewer and cheaper goods reduces both margins and sales volumes in the retail sector. Going forward, however, there are hopes that households will have more room for consumption as inflation is dampened and interest rates are lowered: "We think people will have a little more in their wallets."

Household-related businesses: "Lower prices over profitability"

The view of price developments going forward differs significantly between household-related businesses and other businesses, see Figure 3. Weak demand means that many retailers are prioritising increasing sales volumes and are therefore willing to accept reduced margins to attain them. Several retailers have therefore already reduced their selling prices and plan to reduce them further in the future. One company manager describes it as an investment: "We are investing a lot of money in lower prices." Unlike the household-related businesses, many manufacturing companies prefer to reduce production volumes rather than lower sales prices if demand declines further: "We have said that we prioritise profitability over volume."

Figure 3. Driving forces behind pricing in the twelve months ahead

Net percentages (left scale) and index figures (right scale)

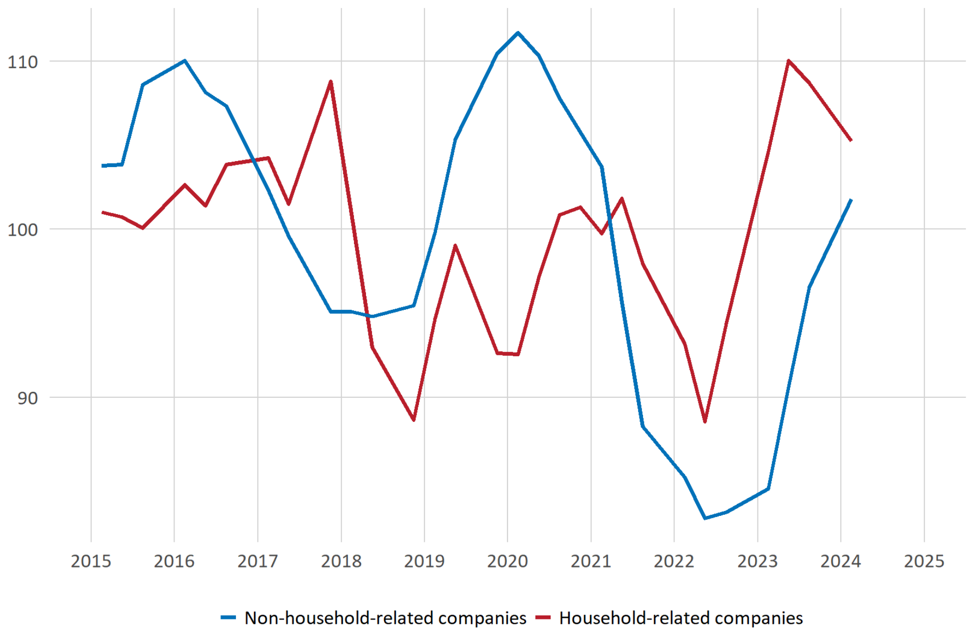


Note. The bars in the left scale show the net balance between responses that the factor concerned will have an upward or downward effect on prices in the year ahead. A bar above zero means that the factor contributes to rising prices in the future and below zero that it contributes to falling prices. Index figures in the right hand 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 refer to manufacturing and construction companies and those companies that mainly sell services to other companies. Household-related companies refers to the retail trade sector and those companies that mainly sell services to households. The item 'Costs' includes purchase costs, labour costs and energy costs. The item 'Other' includes spare capacity and productivity development.

"We have been forced to have more campaigns than we want"

Competition for household spending power is intensifying, as can be seen in Figure 4, which shows a continued high share of promotions and discounts. Both the behaviour of competitors and the buying behaviour of customers have an impact: "If you don't have promotions, they [the customers] go to the chain that has promotions instead." The tougher competition is also holding back firms' selling prices and limiting the scope for price increases among those who still need to compensate for the increased costs of recent years. Overall, household-related businesses thus continue to be cautious in their plans to increase sales prices, both in the near term and in the coming year, see Figure 3.

Figure 4. Companies' assessment of the existence of discounts or reduced prices
Index



Note. The index figures show a standardised value (mean = 100 and standard deviation = 10) of the net figures for those companies reporting more or fewer discounts/reduced prices than normal in the last three months. This question is answered by companies in manufacturing, retail trade and the service sector. The series have been smoothed out with a moving average based on three observations.

Manufacturing industry: Demand determines how much prices can be raised

In contrast to household-related businesses, those that mainly sell goods and services to other businesses are planning to continue to raise their sales prices in the coming year, see Figure 3. One company manager says: "We won't reduce our prices due to lower demand with the market position we have." Purchasing and labour costs are expected to drive price developments. At the same time, demand is considered to be the most important factor in determining price developments and the price increases that companies can actually achieve.

Less frequent price changes when cost pressures fall

Over the past two years, companies' purchasing and material costs have risen rapidly. To compensate for this, they have raised sales prices more frequently and the increases have been larger than usual. A majority of household-related businesses in particular have continued to change prices more frequently than usual. One representative of the retail trade observes "we are making more regular evaluations than we did in a low-inflation environment", and a representative of the hospitality industry says it is easier to push through smaller price increases more often, as "competition and customer price awareness mean that you don't want to raise prices too much at once". Those who mainly sell goods and services to businesses emphasise that when costs increase so quickly, price increases cannot follow normal schedules: "The usual way doesn't work, it's too slow." To increase the flexibility of contracts with customers, it has become more common in some sectors to include indexation clauses in the prices of, for example, input goods, construction materials and services. There has also been an acceptance by customers that prices need to be raised: "Before we couldn't even have a discussion about price increases – now we can, so that's different."

Although some companies consider that selling prices are likely to need to be adjusted more often in the future as well, the vast majority consider that the fundamental method for determining prices has not changed during the period of high inflation and will not change in the future. "We have a traditional way of working with purchasing and prices," says one company manager. A representative of a service company also states that "when the situation is more stable again, we see no reason for such frequent adjustments – our customers value long-term contracts and price stability". The companies also note that the period of high inflation has been relatively short-lived and that the higher frequency of price increases has been necessary to compensate for the increased costs.

Hopes for the future are reflected in the Business Survey's economic indicator

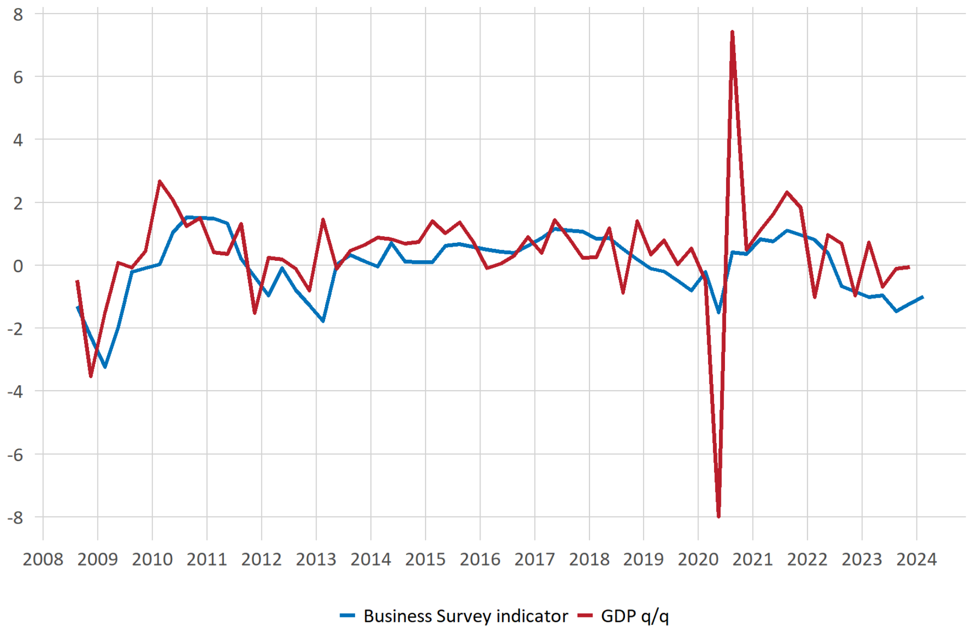
The results of the survey are summarised in the Business Survey Indicator, which points to economic sentiment having improved since the previous survey, but still being worse than the historical average, see Figure 5. The indicator is a summarising measure of the companies' responses to a number of questions in the Business Survey.[2] Some questions aim to capture the companies' assessment of the current situation, while others concern the companies' expectations for the future. The increase in

[2] For further information on the Business Survey's economic indicator, see N. Holmer (2023), "The Business Survey's new indicator of economic activity - an early temperature gauge of economic activity", Economic Commentary No 5, Sveriges Riksbank.

the first quarter of this year is mainly explained by a more optimistic response to forward-looking questions. As Figure 2 shows, more companies now believe that demand and economic activity will strengthen in the long term, and it is this change that primarily drives the indicator upwards.

Figure 5. The Business Survey Indicator and GDP

Index figures and quarterly change in per cent respectively



Note. The Business Survey Indicator is a summary measure of the questions in the Business Survey summarised using principal component analysis. The index figures show a standardised value (mean value = 0 and standard deviation = 1) for the economic indicator. A positive value indicates that economic activity is better than the historical average and a negative value indicates that it is worse. The Business Survey is conducted three times a year and therefore the indicator is interpolated to quarterly data. The GDP series is seasonally adjusted.

Sources: Statistics Sweden and the Riksbank.

About the Riksbank’s Business Survey

The Riksbank regularly interviews the largest companies in the manufacturing, construction, retail trade and parts of the service sectors in its Business Survey to see how prices and economic activity are developing. 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 the Riksbank began conducting it 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. In 2020, the Riksbank instead conducted a total of eight rounds of telephone and video calls with companies and trade organisations due to the pandemic and its effects on the economy. As of May 2022, part of the interviews are once being conducted in the form of visits. Nowadays, the Riksbank interviews between 30 and 50 companies and trade associations on each occasion. 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. Sometimes the Riksbank asks specific questions on topics relevant to 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 report for February 2024 presents the results of interviews with 42 companies and trade associations, and these were conducted mainly during the period 1-13 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. 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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