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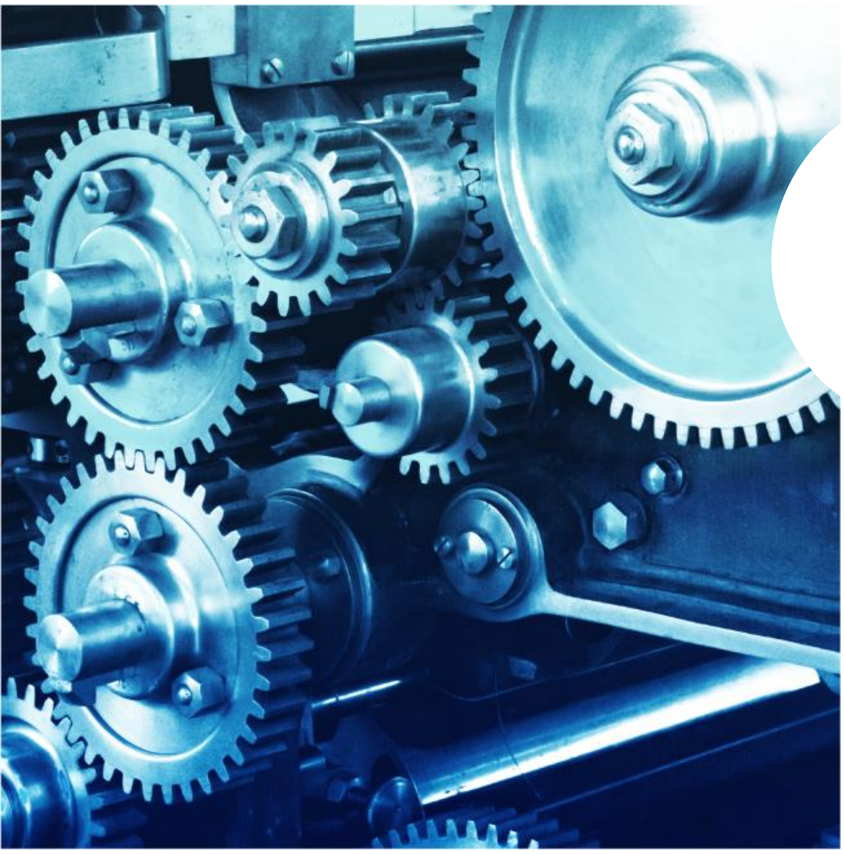


The Riksbank's Business Survey

"Everyone is talking about the problems, no one about how well things are going"

May 2022

S V E R I G E S   R I K S B A N K

The Riksbank's business survey in May 2022[1]

According to the major Swedish companies, economic activity continues to be strong. The manufacturing sector is particularly satisfied with the situation. Many respondents, mainly in the manufacturing sector, mention that they have never experienced such a favourable economic situation as now. The economic situation in the construction sector is generally weaker than in other sectors, but it is still somewhat better than normal. At the same time, there is an overall emphasis on the current uncertainty, which is making it difficult to assess future developments. The economic situation in six months' time is expected to be weaker than today.

Production and supply disruptions are continuing to affect the companies' operations. In addition, Russia's invasion of Ukraine and the subsequent sanctions are deemed to have exacerbated the situation, as have the closures of China's ports and factories, aimed at curbing the pandemic. Most respondents now also believe that the disruptions will last at least six more months.

For almost all companies, costs are continuing to increase sharply, particularly for purchasing and transport. There is also concern that the 2023 wage bargaining rounds will lead to higher wage costs than in previous collective agreements. According to the companies, the outcome of the wage bargaining rounds is expected to determine whether inflation remains high.

Many respondents believe that they will be able to continue to raise sales prices in step with rising costs, and price plans one year ahead remain on a high level. However, scope for raising prices is largely determined by how demand for goods and services will develop. It is uncertain how large the effects of the high inflation and economic policy will be on household consumption. Many companies are therefore doubtful about how much they will be able to raise prices in the future.

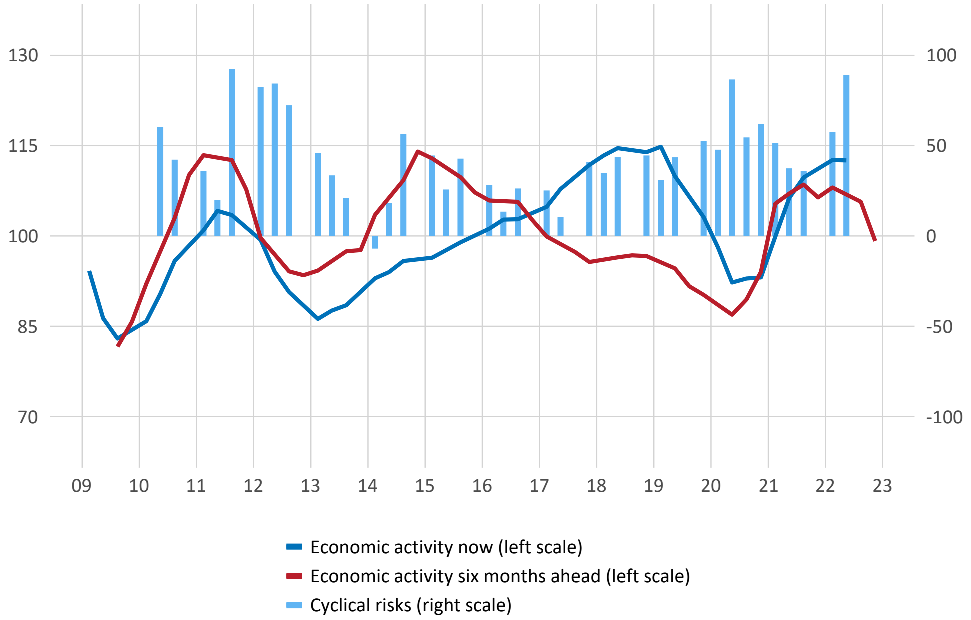
[1] During the period 28 April-11 May, the Riksbank held interviews with 41 companies in the manufacturing, construction, trade and service sectors, as well as trade associations. The Riksbank's Business Survey is published on the Riksbank's website. All quotations in this report are from companies participating in the survey.

"We're at full throttle"

Companies general consider that the current economic situation is strong. The situation remains largely unchanged since the February survey, but it continues to be significantly stronger than normal (see Figure 1). Manufacturing companies in particular are satisfied with the situation. Many respondents also mention that they have never experienced such a favourable economic situation as now. The economic situation in the construction sector is generally weaker than in other sectors, but it is still somewhat better than normal.

Diagram 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 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. 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're in tricky territory right now"

Companies consider that the risks to economic development have increased since the survey in February (see Figure 1). As in the past, companies mention risk factors such as the future development of the pandemic, problems with logistics and supply chains, and the lack of semiconductors and other input goods. Russia's invasion of Ukraine occurred shortly after the end of the interview period in connection with the February business survey. The war and the subsequent sanctions are now mentioned as a significant uncertainty factor for the economic situation in the future, as are closed ports and production facilities in China aimed at curbing the pandemic. All of these risk factors are exacerbating uncertainty and making it difficult for companies to plan and take decisions on their operations.

Many respondents in the manufacturing sector are finding it difficult to imagine that the economic situation can get much stronger than it is now. However, when the economy is peaking, or at least close to it, the risks of the situation deteriorating also increase: "There is a greater risk of change now." There are also concerns about how the high inflation and economic policy may affect the development of demand and the economy, particularly in the trade sector. This uncertainty is also making it more difficult to assess how economic activity will develop and respondents are therefore cautious in their long-term forecasts. Overall, however, they expect that the economic situation in six months' time will be weaker than today (see Figure 1).

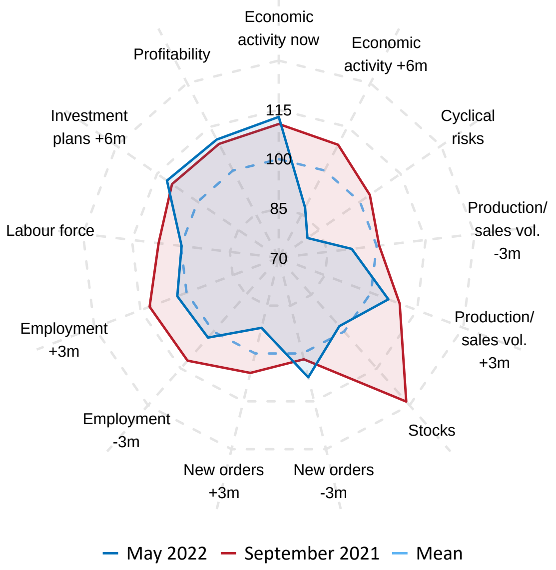
"Despite the disruptions, results are exceptionally good"

Companies are generally satisfied with profitability (see Figure 2). The strong demand has contributing to it largely being possible to transfer the increased costs to customers. In addition, some companies in the manufacturing and transport industries point out that the production and supply disruptions have increased customer acceptance of price increases. They have thus been able to raise sales prices more than costs have increased, which has improved profitability. For the temporary employment sector, the disruptions, together with the uncertainty about economic developments, have strengthened the demand for several of their services and thus also profitability. These include hiring out labour, such as warehouse workers and drivers, to deal with disruptions. Demand and profitability are continuing to develop strongly for IT consultants and consultants focused on the manufacturing industry.

Companies' investment plans remain above the historical average (see Figure 2). There are several reasons for this. Firstly, there is a reluctance to cancel large and longer-term investment projects, especially if they are expected to increase productivity and profitability. Secondly, companies are discussing a continued need for investment in IT and logistics, together with investments to speed up the green transition. For example, they mention investments in battery factories and the production of environmentally friendly fuels, wind power and other renewables. Investments in IT and logistics are expected to increase companies' productivity, while green investments are aimed more at meeting demand. Investments associated with fossil fuels, on the other hand, are being met with little interest from financiers. The fact that companies' investment plans are in a higher gear than normal could also to be interpreted as showing a degree of optimism about economic developments, at least in the longer term.

Diagram 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 stocks of finished goods and reduced stock size means a higher index figure. 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.

"An upswing of a rarely-seen type"

Demand for companies in the manufacturing industry started to fall in early 2019 and the pandemic outbreaks over the following year weakened economic activity further. Subsequently, at the end of 2020, industrial activity recovered "surprisingly quickly" and several respondents have described the last year as "a strong upswing". Some respondents that have long been active in the sector mention that they have never experienced such a favourable economic situation as now. Several are experiencing generally good demand from all regions and markets. Nevertheless, the strongest demand is being seen from North America, while it is not as strong from Europe, although companies are generally satisfied with this level too.

New orders for manufacturing companies have generally increased over the past three months (see Figure 2). Several respondents also say that they currently have more orders than normal. There is a frustration that manufacturing is not able to meet demand: "We have a huge backlog and the orders are continuing to arrive." Delayed or missed deliveries are continuing to disrupt production and one respondent states, "as positive as our new orders are, things are equally problematic on the delivery side".

Increased demand for housing is boosting construction activity

The economic situation in the construction industry is generally considered satisfactory, but is still lower than during the boom years of 2016-2018. At the start of 2019, construction activity began to deteriorate and this continued until the beginning of 2021, when there was a renewed upturn. As in the past, increased demand for housing has improved economic activity. Demand for public construction, including schools and care and retirement homes, has continued to develop steadily. During the pandemic, demand for commercial construction declined sharply but is now increasing, primarily for logistics properties but also for offices. Demand for infrastructure and facilities, which was sustained by increased public sector orders during the pandemic, is continuing to develop steadily. Overall, the inflow of orders developed well over the start of the year, but companies fear that it may weaken in the period ahead. The large construction companies currently have no stopped orders, which can occur during periods of higher prices for construction materials and uncertain economic development. In general, the order stock extends into 2023, but companies are keen for more "long-term" construction projects to come in to stabilise operations further.

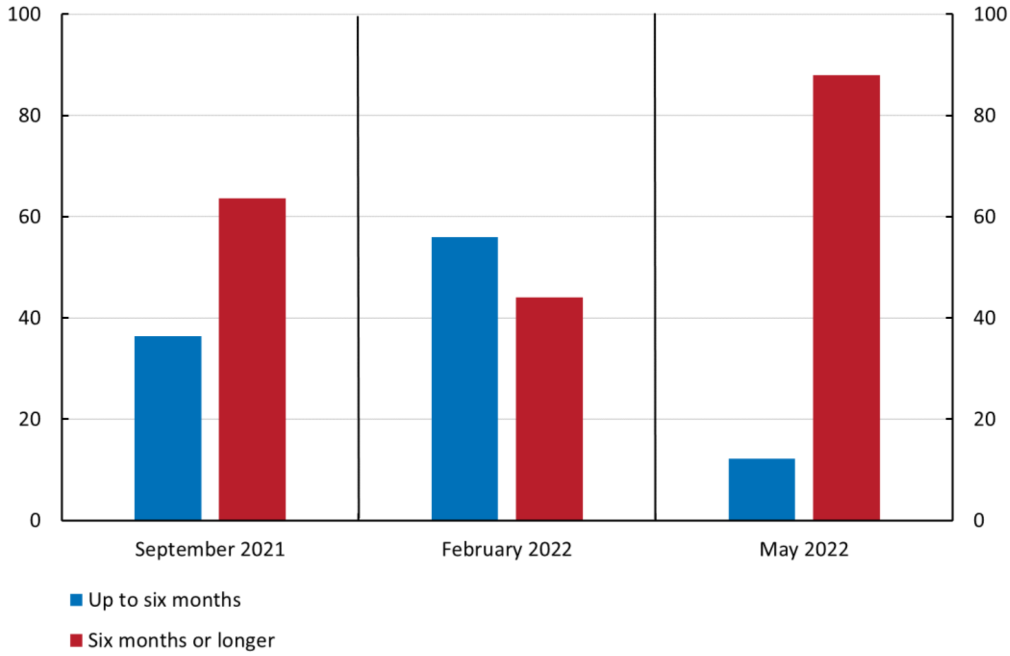
"Put simply, we've had two years of disruptions"

Companies are continuing to report various disruptions that are affecting their operations. Like previously, they are finding it difficult to obtain certain goods within a reasonable period of time, including various input and electronic goods. They are also concerned about the strong price development of many goods. Similarly, the logistical problems are continuing, with a shortage of containers, port capacity, container ships and road transportation, for example. The ongoing supply and production shocks are seen as the lingering effects of the pandemic, at the same time as these are generally considered to have been aggravated by Russia's invasion of Ukraine, as well as by the closures of ports and factories in China in recent months.

Slightly more companies than in February feel that the disruptions have affected operations to a major extent over the past three months, while slightly fewer are experiencing a minor impact and the number of companies considered unaffected has increased slightly. Overall, the situation has not changed much since the February survey. A majority of companies estimate that this disruption will last at least six more months, as shown in Figure 3. The companies' view of the situation is made clear by the quote "we expect things to be difficult all this year, at least". This is partly due to new events such as the war and lockdowns. At the same time, companies assess that it will take more time to address logistics problems and shortages of goods, vehicles, ships and warehouses. For example, one respondent mentions that it will take at least three years for production to start up at a new semiconductor factory. It also takes a long time to manufacture new container ships and rebuild ports to remove congestion. Sometimes, this is also something of a Catch-22. More goods vehicles are needed for transportation but, at the same time, there is a lack of semiconductors and other input goods for them. Several respondents believe that the war may be prolonged and that sanctions against Russia and Belarus will remain in place for a long time. Even if it is a long time before the disruptions disappear, many people believe that they will gradually decrease.

Diagram 3. How long do you think the disruptions will continue to affect your business?

Percentage of companies



Note. The figure shows the responses from all companies stating that they have experienced disruptions in the past three months. The actual question is given in the figure heading.

"In the past we planned, now we react"

Over time, companies have generally become better at dealing with disruptions but, in many cases, it is a question of countering them in the best possible way. Orders are now being placed earlier, the monitoring of orders has increased, contracts have been signed with new suppliers and transport companies, and certain technical adjustments are being made to new input goods when necessary. Several business leaders in the manufacturing sector point out that recent years' disruptions show the importance of having a "broad supply chain", which is defined as several independent and geographically dispersed subcontractors for the same input good. One respondent believes that "we will never go back to being as lean as we were before". In order to reduce vulnerability further, respondents are seeking to reduce dependence on China and the rest of Asia, which is considered a "very large shift" from previous business strategies. This is also a question of reducing geopolitical risks and speeding up the green transition within production. It is also noted that good shock management requires not only relocation but also increased flexibility in organisations and increased use of new technologies and data.

"The war has exacerbated the prevailing situation"

Russia's invasion of Ukraine and the subsequent sanctions have mainly affected Swedish companies indirectly. In addition to a general increase in uncertainty, the indirect effects mainly consist of shortages of raw materials, metals, food, wood products, electricity, fuel and other more or less processed input goods and higher prices for these. In addition to oil and natural gas, mention is made of nickel, aluminium, palladium, steel, wood floors, plywood, packaging materials, wheat, maize, sunflower oil, feed and fertiliser. Many lorry drivers are from Ukraine and the war therefore means an increased shortage of this occupational group in the European transport market. Increased efforts have been required of lawyers and purchasers to interpret the sanctions rules correctly and to make adequate sanction assessments when purchasing various input goods. Care is required in this work to avoid 'reputational risks' that may arise in the event of a misjudgement. At the same time, the sanctions mean a larger supply of goods for other countries, which is seen as positive for the electronics trade, for example.

The direct effects are considerably less, since most respondents have only had small operations in Russia, Ukraine and/or Belarus, which they have quickly been able to close down or pause. However, a few have had quite extensive operations there that have been phased out over a short period of time, which has resulted in costs in the form of write-downs of accounts receivable, and cancellation of employment and rental contracts. They are still paying rent and wages in Russia, while they lack revenue from it. It is also highly uncertain whether companies will be able to extract their existing stocks from Russia. However, most respondents have managed to redirect goods on their way to Russia, even though customs, administration and relabelling of goods have been costly: "It was a simple decision to leave Russia, but a complicated decision in other ways."

"Customers only have one wallet"

Many trading companies are uncertain about how much of an impact high inflation and economic policy will have on demand for goods and services. There is clear concern that households will consume less in the future. One business leader says, "Customers only have one wallet." With increases in the prices of non-durables, housing costs and other necessities, the scope for consumption of durable goods may be reduced. One respondent in the non-durable goods segment believes that "households will have it tougher" and that they will have to prioritise between different purchases and expenditures to a greater extent. At the same time, the trade sector's costs, particularly for purchasing and transport, are continuing to rise. Several companies are also concerned about the development of the krona and the effects it may have on purchasing costs.

Household-related trade in consumer electronics and construction materials, which had strong sales figures during the pandemic, is now facing somewhat weaker demand. At the same time, the corresponding trade directed at companies is facing continued strong demand. In the non-durable goods segment, whose sales also increased during the pandemic, a return to more normal demand is expected. In addition, demand for cheaper goods is increasing. The shift from luxury to budget, so-called 'trading down', is also visible in the clothing trade.

Sales of travel, restaurant visits and hotel nights, which developed weakly during the pandemic, have increased and are expected to continue to do so. There is talk of a pent-up need for this type of service and it is expenditure that households will prioritise to a fairly high degree going forward, according to the tourism industry. The following quote is very telling: "It is clear that customers are now allowing themselves a little more luxury than usual." Ahead of the summer, companies in this sector note that the current uncertain geopolitical situation may lead to a slightly higher domestic demand than normal. Last summer, many people chose to spend their holidays in Sweden because of the pandemic. At the same time, it remains to be seen whether foreign travellers will return to Sweden to the same extent as before the pandemic.

"We get plenty of applications, but they don't match the skills requirements"

The workforce is considered appropriate in relation to production and demand. The uncertain economic situation going forward is contributing to a certain degree of caution in the recruitment plans of companies that "do not want to be left with too many employees" if the economic situation deteriorates. The general shortage of labour is not considered excessive, but there is a significant shortage of specialists, experienced staff and skilled professionals. These include "skilled salesmen", drivers, engineers and data engineers. Several respondents point out that in many cases, applicants for vacancies do not match the requirements. Many of them also talk about a high turnover of staff. They find it difficult to retain staff who can easily change jobs because of favourable conditions in the labour market and thus increase their salaries.

The high turnover of personnel, shortage of skills in high demand and uncertainty about the future are driving demand for the services of temporary workers and, in particular, demand for staffing services. There is also strong demand for recruitment services, which can be interpreted as indicating "Our customers have confidence in the future because they are daring to recruit." At the same time, customer companies are signalling uncertainty about how much of the staffing companies' services they will be demanding in the future.

"The 2023 wage rounds will decide whether we remain in a high-inflation economy"

Wages are largely locked in existing collective agreements, which will help to keep wage increases back this year and at the beginning of next year. However, some wage drift will be added and this is expected to continue to increase in the next twelve months. Companies testify, among other things, to job seekers requiring higher entry wages to compensate for the high inflation. One company manager notes, "With high inflation and several collective agreements in principle locked for another year, one can only adjust one's salary by changing jobs or threatening to do so." It is a situation that not only helps to drive up wage drift but also staff turnover. Another explanation for the increased wage drift is that, at present, companies are paying a lot for IT staff and other specialist skills that are highly competitive. There is concern among companies over large wage increases in the forthcoming collective agreements, and wage bargaining is expected to be both "tough" and "sweaty". "We will not be able to resist" assesses one respondent.

Costs have "increased, increased, increased"

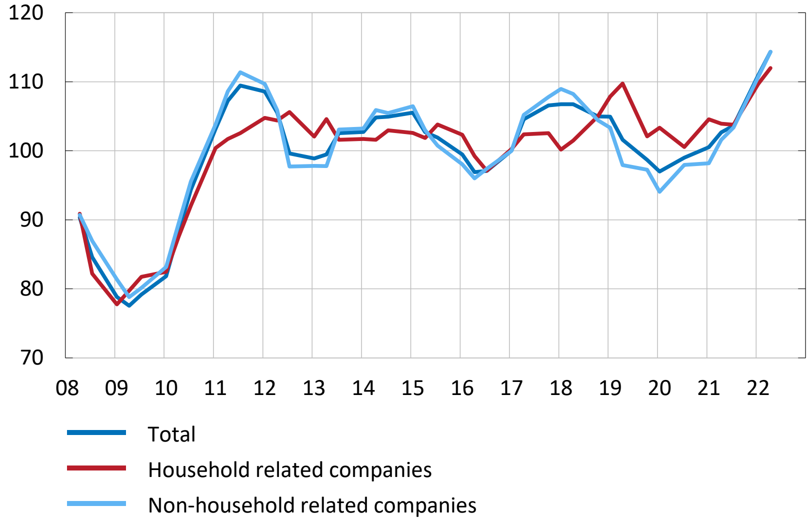
Almost all companies say they have experienced a sharp increase in costs over the past three months. One manager says, "I have never before experienced such high cost inflation". The increases are described as both large and individual, but also as smaller and frequent, which is caught by the quotes "100% cost increases" and "a steady stream of price notifications". The manufacturing industry mainly mentions increased costs for input goods, commodities, transport and energy. In the retail trade too, companies are talking about increased purchasing and transport costs. Additionally, the weak Swedish krona is considered an important explanation for their increased costs. They also mention that purchasing costs have increased in most product groups and the fact that, at supply level, there are "many companies who are taking their chance" to raise prices. In the services sector, the development of costs is particularly affected by rising wages due to the shortage of labour and the fierce competition for it. Moreover, companies report that the war and lockdowns, which have resulted in additional shortages of certain goods, are also an important explanation for the increased costs.

"We are raising prices much more frequently now than we've ever done"

Companies are planning for further increases in sales prices over the next twelve months and the one-year price plans remain at a high level (see Figure 4). However, price plans vary slightly between companies. Some envisage broad increases over more or less the whole range in future, while others see more selective ones. To avoid the risk of losing customers, it is primarily sales prices for more unique and less competitive products that are being raised. Some believe that price differentiation will become more important when inflation increases, since households will then seek lower prices to a greater extent. Keeping certain prices down will be a way of attracting customers and gaining market shares when prices in general are increasing. Many also point out that they are increasing prices more frequently than usual, while at the same time having fewer discounts, promotions and reduced prices.

Diagram 4. The companies' assessment of sales prices for the coming twelve months

Index, three observations moving average

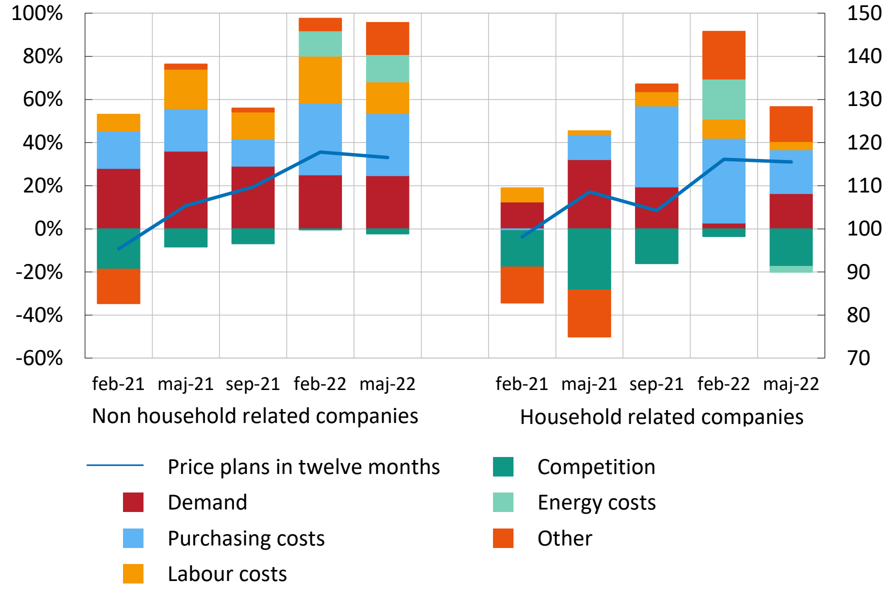


"Going forward, customers will not accept price increases so easily"

Strong demand and rising purchasing costs are expected to contribute to higher sales prices going forward (see Figure 5). Competition is again mentioned as a dampening factor for price developments in the period ahead, especially among household-related companies. They point out that today's broad price increases are making households more aware of prices, which in turn is contributing to tougher competition between companies, for example in the non-durable goods and clothing trade. Ultimately, this leads to somewhat subdued price plans. There is a clear concern about households' reduced scope for consumption and how they may choose to change their consumption behaviour when "wallets are shrinking". The non-household related companies state that there has been no concern regarding raising prices so far, but given the recent sharp increases, some are now doubtful as to whether it will be equally easy to increase prices further in the future.

Diagram 5. 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 that responded to the question regarding whether sales prices will be raised or lowered in the coming twelve months. Non-household related companies refers to manufacturing 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, exchange rates and transport 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. Because 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 again being conducted in the form of visits. 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 response rate for the survey is high and is often around 95 percent.

The results of the survey are usually presented in a report published on the Riksbank's website three times a year. The report for May 2022 presents the results of interviews with 41 companies and trade associations, which were mainly held in the period 28 April-11 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

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