

THE RIKSBANK'S BUSINESS
SURVEY

Stiffer competition putting pressure on prices

September 2023

The Riksbank's Business Survey in September 2023¹

Economic activity is expected to continue to slow down and the weak economic situation is expected to persist over the next six months. The division in economic activity remains, where on the one hand companies that sell directly to households are still experiencing very weak demand and on the other hand export companies have so far had plenty of orders to work with. However, more industrial sectors are now beginning to notice a slowdown in economic activity, although they do not envisage any heavy fall in demand going forward, and instead expect a soft landing. The construction sector is clearly more pessimistic about economic prospects than before. This is partly due to the fact that other construction is no longer expected to compensate for the substantial fall in demand for new housing.

After a period of unusually large price increases, it is now clear that the retail trade in particular does not plan to continue raising sales prices. Among other companies, there is greater uncertainty than before about price developments. Since the May survey, cost pressures have generally been subdued. At the same time, competition intensifies when demand is expected to fall, which also makes it more difficult to raise sales prices.

The weak Swedish krona is beneficial for export companies' profitability. But at the same time, variations in the krona exchange rate entail increased uncertainty. Both importers and exporters want stability and predictability in the exchange rate as this facilitates their planning. Recently, the weak krona has been in focus for companies, but only a few of them are changing their currency risk management.

“The situation is much worse than normal”

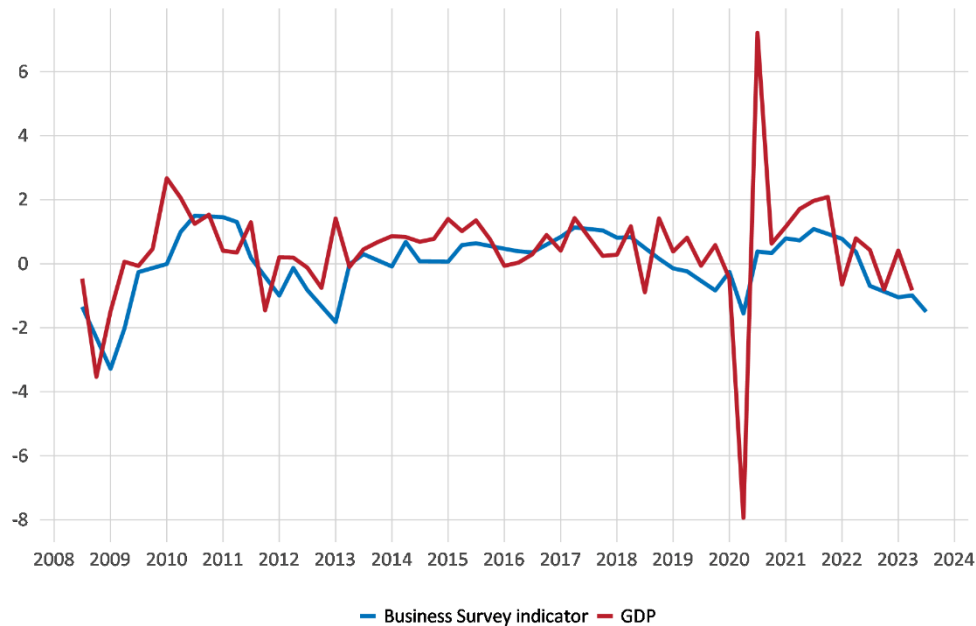
Economic activity is judged to be weak and has continued to deteriorate since the spring. The overall result of the September survey is summarised in the Business Survey indicator, which indicates that growth continues to be poorer than the historical average, see Figure 1.

¹ During the period 21 September-2 October, the Riksbank held interviews with 39 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.

However, there is a clear division regarding economic activity. The economic situation is weak for the retail trade and companies that sell services directly to households, while export companies in particular have continued to meet strong demand. In September, views on the economic situation were further subdued, see Figures 1, 2 and 4.

Figure 1. The Business Survey indicator² and GDP

Index figures and quarterly change in per cent respectively



Note: The economic Indicator is a summary measure of the questions in the Business Survey summarised using a principal component method. The index figures show a standardised value (mean value = 0 and standard deviation = 1) for the Business Survey indicator. A positive (negative) value indicates that the economic situation is better (worse) than the historical average. The GDP series is seasonally adjusted.

Sources: Statistics Sweden and the Riksbank.

"It will get worse before it gets better"

Most respondents do not see any improvement in the economic situation going forward, see Figure 2. Construction companies and parts of the manufacturing industry have become more pessimistic about the economic outlook. Some express hopes that a turnaround may be imminent, but see no clear signs of it. One company manager says: "Things should get better because it's so bad now, the question is how much better?" Some other companies with close links to households take a more optimistic view of the future and point out that household expectations are central to the recovery. When households begin to believe in an improvement in the economic situation,

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

they are expected to dare to make larger financial decisions to a greater extent. This could mean, for instance, having the courage to buy a new home or a trip abroad.

The risk that economic activity will deteriorate has been high for a long time and companies seem to have become accustomed to the situation. However, the risk factors they mention have changed somewhat. For example, more export companies than before are highlighting an increasingly uncertain world with geopolitical events and pointing to tensions between China and Taiwan, for instance, as a new risk factor.³

Figure 2. The economic situation now and in six months



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 series has been smoothed out with a moving average based on three observations.

"We are still counting on a soft landing"

Since May, orders received and production volumes have decreased in the manufacturing and business-related services sector. For the export companies, however, this is a decline from high to more normal levels. Demand from the various markets differs depending on the industry, but common to many is that the Nordic region and Sweden stand out in a negative way. This is partly due to the fact that the Swedish construction industry is doing poorly and that households have cut their consumption. When construction declines, it also reduces demand in related industries such as manufacturing, transportation and staffing.

Despite the weak construction activity, the larger construction companies still had a lot to do in the spring and saw relatively bright prospects ahead. In September, those with greater exposure to housing construction are clearly more pessimistic than they

³ The interviews were conducted prior to the Hamas attack on Israel on 7 October.

were in the spring. One construction company says that the demand for new housing is “a disaster and not just weak”. Other segments, such as infrastructure and public construction, can no longer compensate for the substantial decline in housing construction. This is reflected in the quote: “The good segments aren’t managing to lift the bad ones enough.”

Most respondents thus paint a unanimous picture that the situation will deteriorate further, but that it is difficult to know how deep and lasting the economic downturn will be. One company manager observes: “It will get worse, but we don’t know if it will be a little bit worse or a lot worse.” The export industry in particular expects a soft landing with regard to economic activity.

“In general, we see fewer shortages, even of specialists”

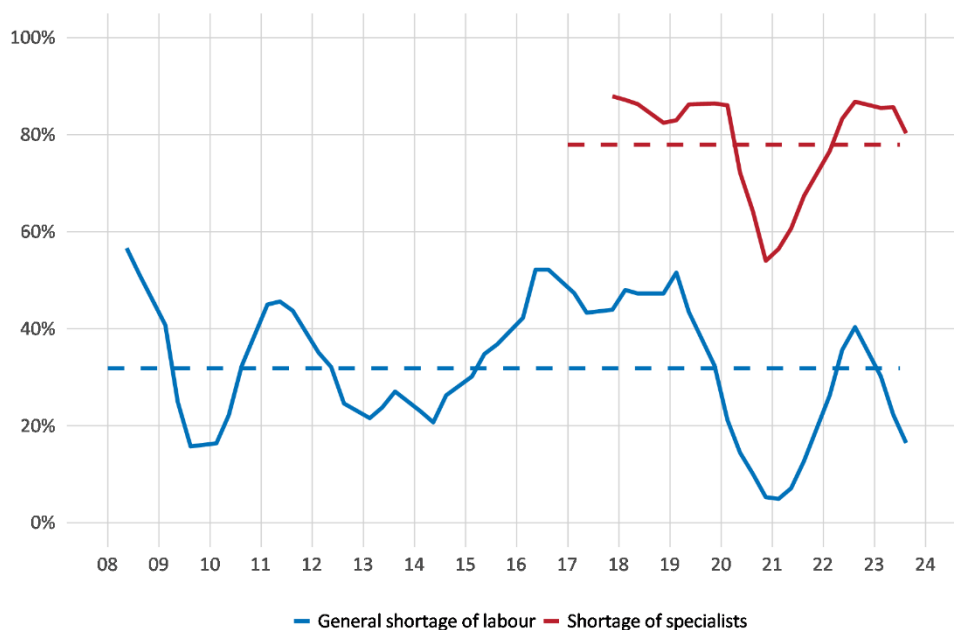
The economic downturn has also begun to have an impact on the labour market. The shortage of labour in general has declined since last year, and there are now also signs that the shortage of specialists is decreasing, see Figure 3. One company manager noted that this was due to a decrease in the demand for specialists, rather than an increase in supply. Manufacturing companies, which are generally experiencing a somewhat lower level of activity, have now begun to apply a more flexible approach to their personnel supply to avoid reducing the number of employees. For example, they use the hours worked in time banks and also temporary agency workers.⁴ One company testifies that they are retaining staff while waiting for activity to increase: “We need to be prepared for when it turns around, because it will turn around, the question is only when.”

The reduced activity in the construction sector has meant that companies have reduced staff and one company manager stated that “people are being laid off every month”. This is partly a question of project employees leaving as the projects they have worked on are completed. But in general “staff cuts are not happening at a dramatic rate.”

⁴ Some collective wage agreements allow workers to earn time for each completed working week to put into an individual time bank. The time worked can be taken out in paid leave, for example, by agreement between the employee and the employer. For example, an employee can reduce their working hours without a salary deduction.

Figure 3. General shortage of labour and shortage of specialists

Percentage of yes responses



Note: The questions asked are: Is there a general shortage of labour? and Is there a shortage of specialists? The figure shows the percentage of yes responses as a moving average based on three observations.

Household demand: “It’s tough, no wind in our sails”

Lower real wages and higher interest costs have led households to reduce their consumption. Retail companies are testifying to weak demand among households, and more now than in the spring assess that they are in a recession. Moreover, many believe that sales will decline further in the future.

A retail trade company notes that Swedish households and their reduced demand stand out compared to households in other parts of Europe. This is explained by the fact that Swedes have larger debts and shorter interest-fixation periods on their mortgages and are therefore affected more when interest rates rise. In line with this, another company in the retail trade argues that sales in larger cities, where households are generally more indebted, have developed weaker than in other parts of the country. One company manager observes: “Our feeling is that it can get tougher before it gets better, given the delayed impact of interest rates on household finances.” Furthermore, the building supplies segment is experiencing lower demand as a result of fewer people renovating their homes, which coincides with fewer people moving in the current situation.

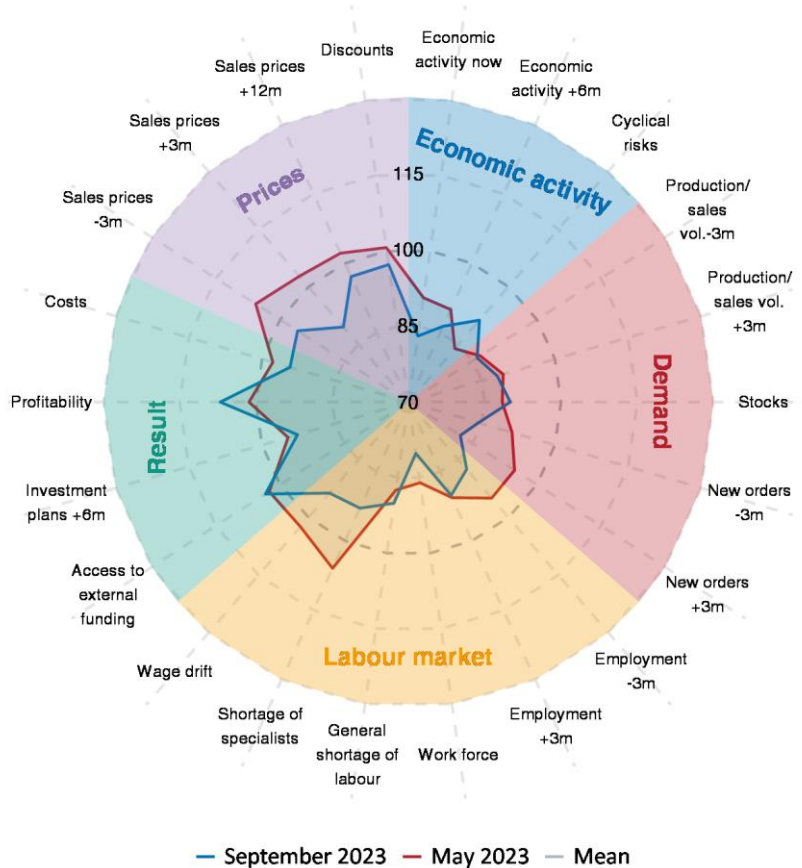
“People are very campaign-hungry”

To attract customers, companies in the retail trade are adapting their special offers. For example, clothing retail companies are adapting their special offers based on the sensitivity of customers to interest rates in different geographical markets. Another company is investing in offering customers more goods in the “need to buy” category rather than “want to buy” category. Another consequence of the weak demand is that several companies report that their stocks of durable goods are somewhat too large. However, one low-price actor feels that they have got it right at present as they state that “we have a bright outlook for the future – can’t see anything other than continuing strong demand.”

In both the durable goods and grocery trades, it is mentioned that customers are buying goods more often than before when they are on special offer, even if the number of offers has not increased. One grocery operator also notes that their sales have decreased somewhat as customers are increasingly seeking low-cost alternatives.

Figure 4. 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 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 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. Other questions, whose answers are presented in the figure, are addressed to all companies in the survey.

Stiff competition putting pressure on prices

The companies have revised down their plans for future price increases, both in the near term and in the coming year, see figures 4 and 5. It is largely companies that sell mainly to households that state that they will no longer raise sales prices, and of these, more than in the May survey are planning to lower prices. However, the price reductions are expected to be relatively limited. At the same time, those who plan to

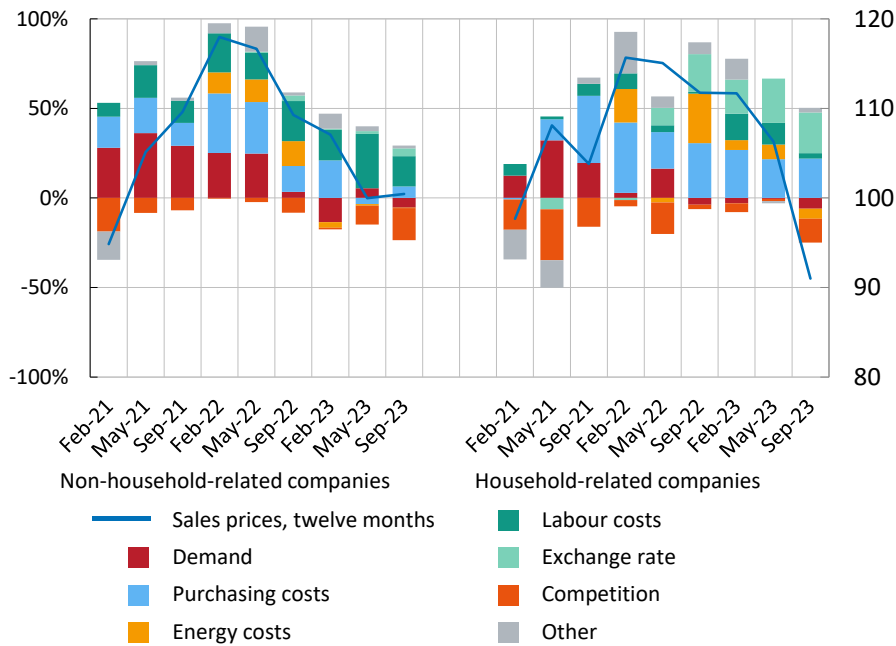
raise prices testify to a return to more “normal” increases. One reason why plans for future price increases have been revised down is that demand is falling and another that tougher competition is expected. One company manager says, “all competitors are fighting for a smaller cake.” Another respondent notes that: “The market is sensitive, there will be no dramatic increases.”

Cost increases are still the main reason for the increase in sales prices. However, costs are not increasing as quickly as before, and not all costs are continuing to rise. With regard to import companies, it is mainly a question of the effect of the exchange rate on purchasing costs, while the manufacturing industry and business-related service companies highlight labour costs as the driving factor behind planned price increases. Over the past year, the manufacturing industry has been able to compensate for the cost increases and, in several cases, to increase its margins. Now that demand and cost pressures are declining, there is greater uncertainty as to whether planned price increases will be possible.

Previous price increases have so far kept profitability up. In the future, however, the importing retail trade companies see margins coming under pressure. This is because the weak krona leads to higher purchasing prices, at the same time as declining demand and increased competition makes it more difficult to raise sales prices. (See the article: Few changing their currency hedging despite weak krona).

Figure 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 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 companies. Household-related companies refer to the retail trade sector and those companies that mainly sell services to households. The item "Other" includes, among other things, spare capacity, margins and productivity developments.

Few changing their currency hedging despite weak krona

Over the past two years, the Swedish krona has weakened. One company manager points out that: "This is an issue that is being discussed by our board." Another says that: "I'm now checking the USD exchange rate at least once a day." Stability and predictability are generally desired when it comes to the exchange rate, as they make planning easier and reduce uncertainty. Nevertheless, few companies are changing their currency risk management as a result of exchange rate changes.

During previous periods with a weak krona, the Riksbank has on several occasions asked questions in the Business Survey about how exchange rate fluctuations affect companies' operations and how they manage currency risks.⁵ Currency hedging is used to different degrees. Some do not hedge at all, but choose to take the "hit" directly or during individual quarters, while others prefer to "spread out" or postpone the effects of exchange rate fluctuations and have different strategies for hedging. Some hedge large orders or projects, while others have an ongoing currency hedge. The scope also varies from single projects or a small percentage to "everything they have on the balance sheet". As it is so difficult to analyse the movements of the krona relative to other currencies, most respondents refrain from making their own assessments of the development of the exchange rate.

The vast majority of respondents handle the exchange rate risks in the same way as before, despite the weaker krona. In general, it is the company management that makes decisions on the policy for managing and hedging currency risks. The policy needs to be "all weather" and not changed due to variations in the krona exchange rate.

The weak krona raises the price of imported goods and the cost increase experienced by many trading companies has so far been passed on to customers in the form of higher sales prices. However, declining demand and tougher competition make it more difficult for them to compensate themselves for the weaker krona. Exporting manufacturing companies are instead positively affected by the weak krona, as they sell goods in relatively strong foreign currency, which benefits profitability. But a longer period with a weak krona is not only positive for these companies. Several exporting companies say that it is difficult to improve productivity because the results are already so good. It is said that parts of the business sector are "doped" by the weak krona. "Even if we benefit from the weak krona, it's not something we wish for," explains one company manager.

⁵ See the Business Surveys in May and September 2015, February and May 2016, February 2017 and May 2018.

About the Riksbank's Business Survey

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 again 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 usually presented in a report published on the Riksbank's website three times a year. The report for September 2023 presents the results of interviews with 39 companies and trade associations, which were mainly held in the period 21 September-2 October. 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 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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