



The Riksbank's Business Survey

Good times for companies

May 2017

The Riksbank's business survey in May 2017¹

During the spring, economic activity has continued to strengthen and demand has broadened. In general, all sectors are very satisfied with the current economic situation.

Export companies are encountering ever-stronger demand from abroad. Europe stands out in particular but demand in commodity-producing countries has also increased as commodity prices have risen. The rate of production is high and as orders are strong, export companies do not see any signs of a slowdown in the next six months.

However, concern for setbacks in the economy is greater today than it was ten years ago when we last had such a good economic situation. For example, companies are slightly more cautious about their investment plans these days.

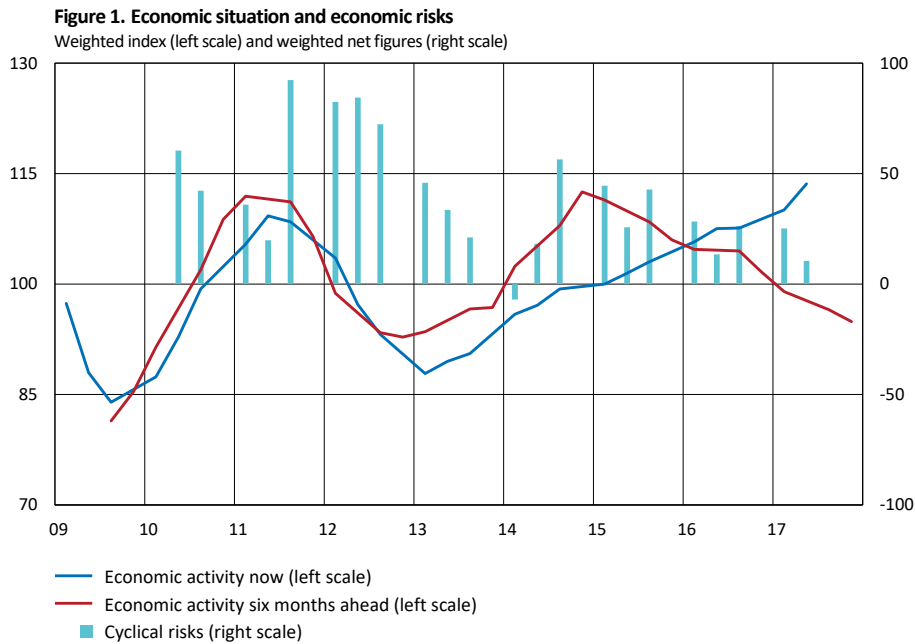
Demand has been strong in the construction and property sectors in recent years and the development of housing construction in particular continues to be very strong. A consequence of this is that it is increasingly difficult to find personnel. Another sign of strong demand is that property companies say that no properties are difficult to sell and there are very few premises standing vacant.

Manufacturing and construction companies are noticing commodity price increases when they purchase material and more and more sub-contractors have started to raise their prices. The good demand situation means that several manufacturing companies see opportunities to compensate by raising their prices in the period ahead. In the trade sector, the tough competition means that it has become more difficult for these companies to compensate for cost increases with higher prices.

“The economic situation is very good”

The strong economic situation persists and has continued to strengthen during the spring, see Figure 1. The economic situation has never before, since the business survey began, been perceived to be as strong as it is now. All sectors report a broad economic upturn. Domestic economic activity has been strong for some time while demand in the manufacturing sector has now strengthened further. As the economic situation has improved, fewer and fewer companies believe that economic activity will strengthen even further. However, the majority think that the economic situation will remain just as strong in the next six months. One striking quote is: “There are no signs of a slowdown.”

¹ Three times a year, the Riksbank interviews the largest companies in the construction, retail, manufacturing and services sectors. Representatives of 38 companies with a total of approximately 250,000 employees in Sweden were interviewed this time.



Note. The weighted index figures show a standardised value (mean value = 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 improve or deteriorate in six months' time. The red line, the economic situation in six months' time, has been moved forward two quarters. The lines show the weighted index figures expressed as a moving average, based on three observations. The columns show the weighted net figures for those companies that say that the risks are currently greater or smaller than normal. This survey is made three times a year, which means that there are only observations for the first three quarters of each year in the figure.

“Europe now feels more positive”

Orders continue to develop strongly as do production volumes, see Figure 2. This is because export companies are encountering good demand from several markets around the world. Europe stands out in particular and is generally strong. The positive development in demand in France and Italy receives a special mention. Demand from the United Kingdom is still stable, which is something of a surprise. Companies are continuing to analyse developments in relation to the UK's forthcoming exit from the EU but have not yet taken any action.

Rising commodity prices benefit commodity-producing economies outside Europe, such as Russia, where demand has developed strongly. The outlook in South America is not as positive, although there are some signs of a recovery in Brazil, albeit from low levels. There is also uncertainty surrounding the direction of economic policy in the United States, where infrastructure investments can stimulate demand while other proposals that affect free trade can have a negative impact on global growth.

In general, the risks associated with economic developments have decreased and companies see few new risks going forward. One business leader expressed it thus: “It feels more stable than for a very long time.” There is still some concern linked to the political development but the risks seem to have diminished slightly as some of the parliamentary elections in Europe have been held.

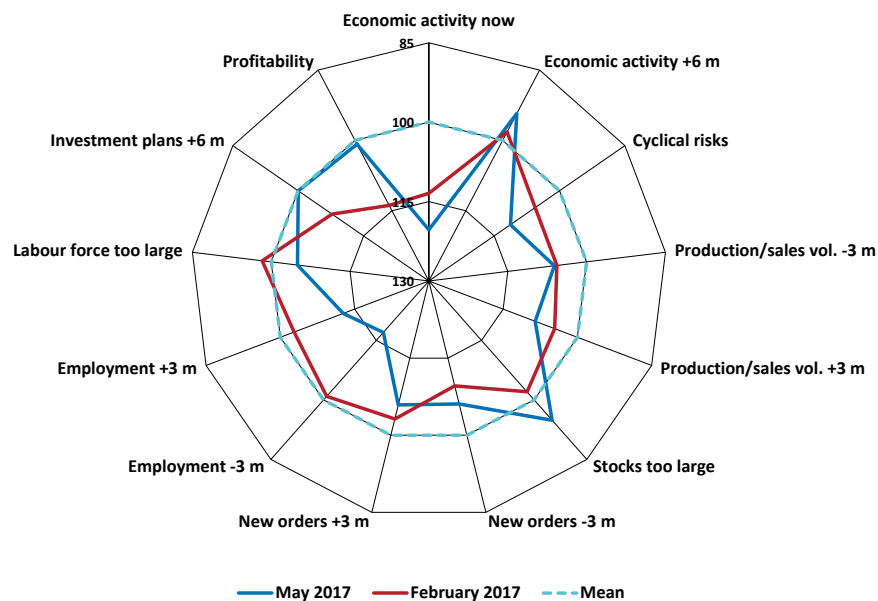
A comparison with the situation 10 years ago: companies more cautious now

The picture of economic development conveyed in May 2017 is similar in many respects to the picture reported by companies in the Riksbank's first business survey in the autumn of 2007. Then, as now, manufacturing companies spoke of a high rate of production and generally strong international demand which has led to higher prices and expectations of them continuing to rise. Construction volumes were close to construction companies' output ceiling and the demand for housing was particularly strong. The retail sector and companies selling services directly to households, such as restaurants, hotels and travel agents, believed sales would increase. But even then, the retail trade was more sceptical than other industries about the scope for raising sales prices. Many companies also spoke of challenges when it came to recruiting specialists, even if they did not perceive there to be any general labour shortage.

The current situation differs in some respects from the conditions in the autumn of 2007, however. Wages were increasing at a significantly higher rate than they are now. Many companies thought that the rate was too fast but most felt that they could manage the increases thanks to strong demand and higher prices. Another difference compared to the current situation is that more companies expressed concrete plans to expand production capacity in order to cope with demand. Even if many now say that there is an economic upswing and are optimistic in the near term, they do ponder the fact that "an economic boom cannot last forever." Despite a relatively favourable situation, they seem to be more cautious in their investment plans compared to ten years ago. Furthermore, there are more companies now asking themselves what will happen when the economy begins to fall back again and interest rates are still negative. One business leader said, for example: "It is an economic boom for us, and the interest rate is -0.5 per cent, last time it was +4.5 per cent. What are we to do in the next economic downturn?"

Figure 2. Companies' overall response patterns

Weighted index



Note. The responses to the questions are plotted along "spokes" in the figure where an index figure closer to the centre is better. The historical average is calculated for the periods when the questions were put and for all sectors. The term -3m / +3m refers to the most recent three months and the coming three months respectively. +6m refers to the coming six months.

"Sweden feels quite stable, there is money"

The retail sector and companies selling services directly to households, such as hotels, restaurants and travel agents, are encountering households with good spending power, and, like other sectors, are witnessing strong economic activity. But competition, as before, is very tough, especially in the retail trade for durables (such as clothing trade). To keep sales on a stable level, they have therefore been forced to offer ever-larger discounts, which has reduced profitability, see Figure 2. Even if there are some temporary explanations for weak sales in the retail sector in recent months, including the weather, some parts of the sector

also say that households have changed their behaviour. One business leader expressed this as follows: "It has been going on for some time and it is perhaps time to consider whether it is necessary to shed light on any underlying factors that might be behind the purchasing behaviour." One explanation is increased digitisation, i.e. websites and e-Commerce being used increasingly often by households to prepare purchases. This has led to fewer people visiting shops in person while a greater number of customers actually make purchases once inside the shop. Furthermore, both the consumer goods segment and the clothing segment see that, as households' finances grow stronger, they choose to spend their money on restaurant visits and other entertainment. This is also something confirmed by companies selling services directly to households, in that they are generally more satisfied than the retail sector.

"No units are difficult to sell"

The construction industry continues to report strong orders and an increased construction volume especially when it comes to housing, but demand is also good in other segments such as infrastructure systems and facilities. The quote "high pressure in the construction sector" is a striking one. Competition for land has increased with rising land prices as a result; this contributes to construction companies being selective in their choice of investment project. Property companies talk of a market that is stronger than it has ever been for both housing and commercial property; fewer and fewer premises are standing vacant. One business leader expressed this as follows: "The market is extremely good, it is a typical economic boom."

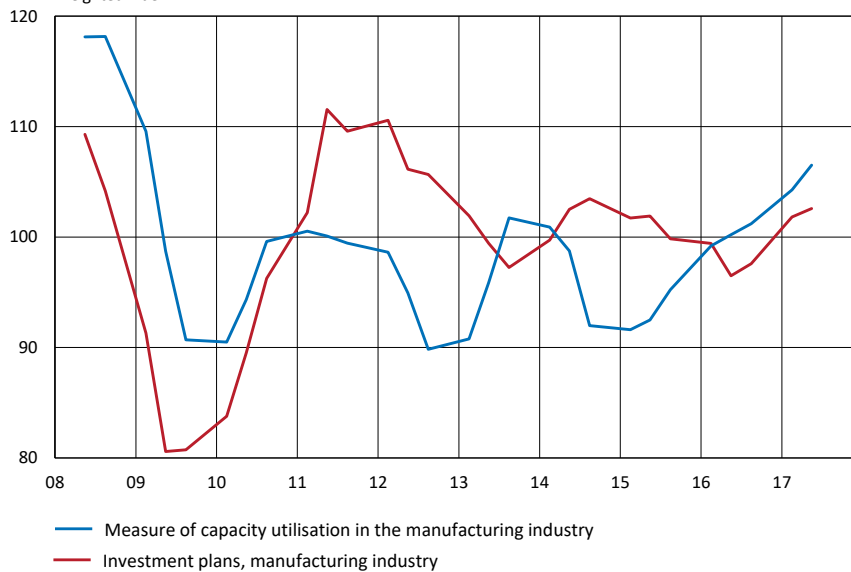
"Production is mostly at maximum capacity"

Capacity utilisation has continued to rise during the spring, see Figure 3. As production increases, more and more manufacturing companies are approaching the output ceiling in their Swedish factories. For most of them, it is not the labour shortage that is limiting their capacity but rather the limitations in their machine capacity that is setting the ceiling. For a long time, the automotive industry has encountered a number of bottlenecks in connection with increased production, but now, other sections of the industry speak of the same problem and of longer delivery times to customer as demand has increased further. This has contributed to growing stocks, see Figure 2.

However, the large demand leads to the industry and its sub-contractors needing to increase their workforce. Primarily, they bring in more staff from staffing agencies so that they have the flexibility to be able to adapt production volume if demand were to change. Employment has therefore increased and is also expected to rise slightly over the next three months, see Figure 2.

Some investment is being made to increase production capacity in Sweden, but much is instead being planned abroad. As before, the focus is mainly on investments in maintenance and replacements, for example in the mining industry, where there has been a long-term need to replace machine fleets.

Figure 3. Measure of capacity utilisation in the manufacturing industry and its investment plans
Weighted index



Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the number of manufacturing companies that say that they at present have major difficulties or have no difficulties in managing an unexpected increase in demand (measured as capacity utilisation in the manufacturing sector) and the net number of manufacturing companies responding that they have increasing or declining investment plans for the coming six months. Both the series are shown as the moving average of three observations.

“Good level of liquidity in the system”

The availability of external funding is good and many say that they can borrow money for investments and day-to-day operations as and when necessary. During the early part of the year, the availability of funding increased further and there is considered to be plenty of liquidity in the system, not just in Sweden but also in the rest of Europe.

Banks are charging more often for deposits and during the early part of the year have reduced the threshold amount for when companies start paying for deposits. For their part, companies are actively avoiding paying for their deposits by keeping their money with different banks in Sweden, as well as by placing it in banks abroad.

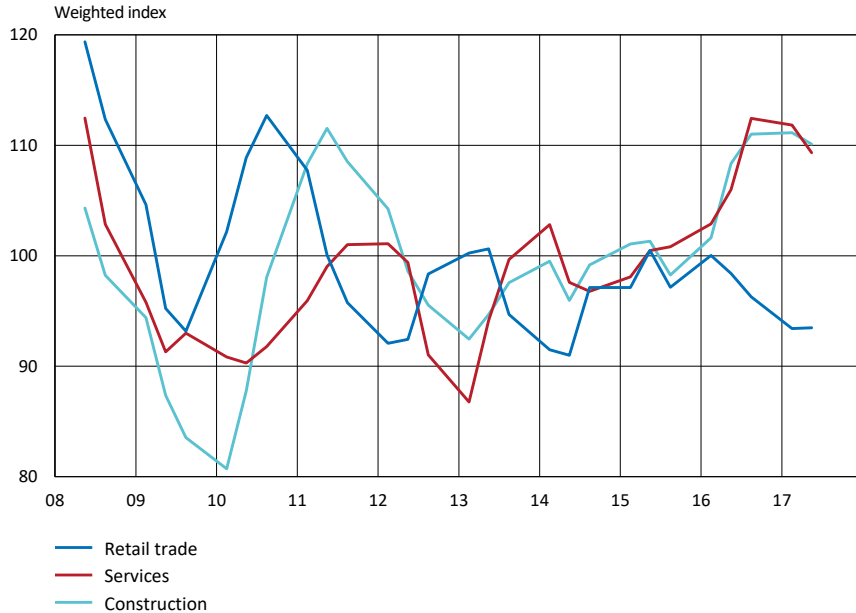
Even if several consider the negative interest rate to have had positive effects, for example export companies benefiting from a relatively weak krona, there are others who see no positive effects at all. In the discussions, it is evident both that negative interest rates actually build up risks associated with asset prices and that some feel obliged to take riskier positions, despite them preferring to avoid doing so.

“There is a shortage of highly qualified workers”

In the construction sector and parts of the services sector, the shortage of labour is becoming increasingly widespread, see Figure 4. The shortage is particularly significant in the construction sector, where, in addition to a lack of project managers, site managers and other specialists, it is also beginning to be more and more difficult to find personnel for new building projects. Construction companies are being forced to choose which projects they tender for and they can therefore not start as many projects as there is demand for. Consultant companies say that “it is a daily struggle” to find the right skilled workers and that it is particularly difficult to recruit IT professionals, such as software developers, web analysts and certain types of engineer. Several companies talk about people with this type of skill starting their own companies and then offering their services rather than becoming an employee.

In the retail and manufacturing sectors, there is no general shortage of labour even though there are also tendencies in these sectors towards rising staff turnover. The availability of workers for more straightforward jobs, without a requirement for academic education, is still good and labour is in general more available outside the metropolitan areas.

Figure 4. Shortage of labour in the trade, services and construction sectors



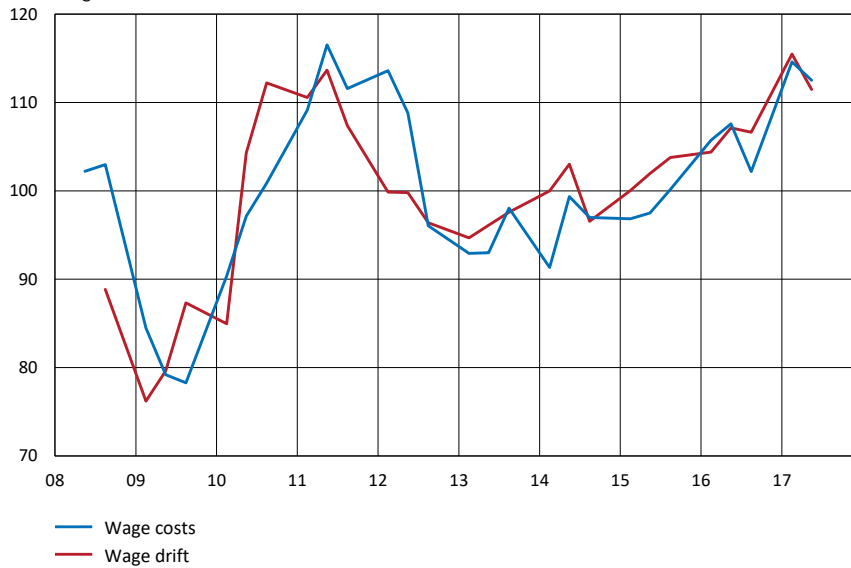
Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the number of companies saying that they perceive a shortage of labour and those that do not perceive a shortage of labour respectively. The series are shown as the moving average of three observations.

“We are careful not to destroy our pay structure”

Relatively many companies still believe that wage costs and wage drift will increase more in the coming year, see Figure 5. To be able to fill positions where there is a major shortage of labour, companies are forced to increase wages more than the level agreed in the central wage bargaining rounds and even though the people recruited often only constitute a small proportion of their workforce, it still has some impact on companies' total wage costs. Another contributory cause of rising wages is reported to be increased staff turnover. More well-educated people than previously choose to change jobs in good economic times and thereby increase their wages. This leads to a rise in companies' costs, as they have to pay slightly more in wages to new employees than to those they already employ. One business leader says: “There are tendencies that wage drift, which has been low for many years, may now rise slightly.” At the same time, companies are doing all they can to hold back wage costs. They are careful to keep to the established pay structure and for most employees, wages will follow the concluded agreements, which were largely in line with companies' expectations.

Figure 5. Wage costs and wage drift

Weighted index



Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the number of companies saying that wage costs per hour will increase more than before during the next twelve months or increase less than before during the next twelve months and the net number of companies who expect wage drift to increase or decrease over the next twelve months.

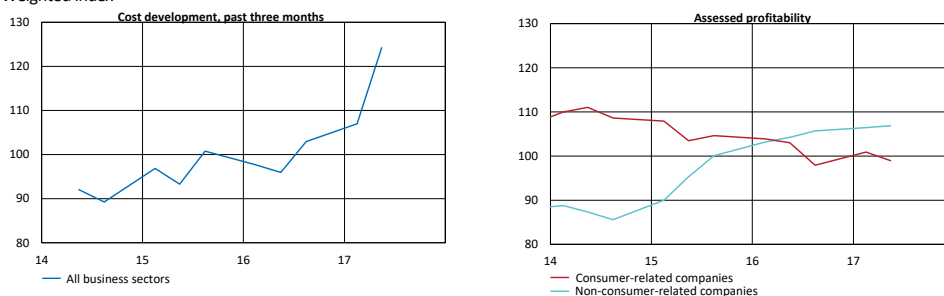
“We have good competitiveness and are slightly “currency-doped” just now”

Despite increased costs, profitability has improved at a stable rate for non-consumer, manufacturing and construction companies, see Figure 6. The export industry has benefited from strong demand from abroad while the relatively weak krona has contributed to good competitiveness and good earnings. Sub-contractors have started to raise their prices of goods and services, however. Rising commodity prices for a period have also increased costs for companies as purchasing contracts have been renegotiated. Rising costs have been partly counteracted by a higher rate of production, and this, together with constant cost savings, has contributed to a rise in productivity.

For several years, consumer-related retail and service companies have found it difficult to increase their sales prices and hence pass on increased costs to their customers. This has contributed to a fall in profitability.

Figure 6. Cost development and assessed profitability

Weighted index



Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the number of companies saying that costs have increased and decreased respectively in the last three months and the number of companies who currently assess their profitability to be good and bad respectively. The weighted index figures for the question about profitability are expressed as moving averages based on three observations.

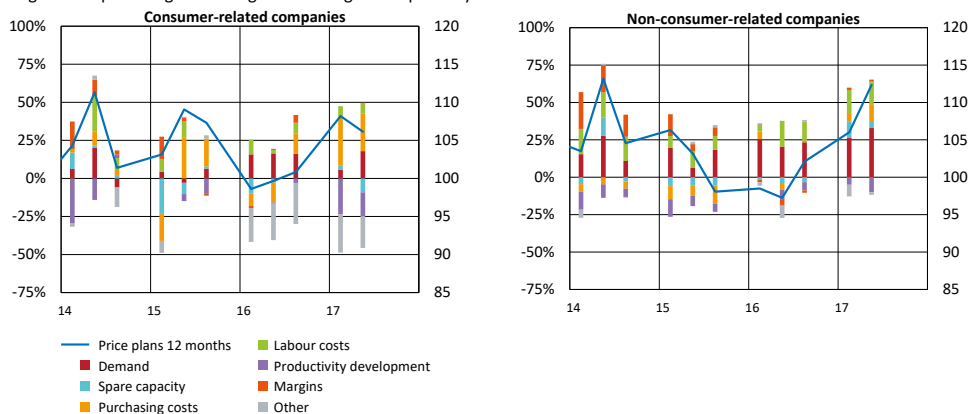
“Demand always drives price”

Consistently rising demand has given an increasing number of companies hope of being able to increase their sales prices, see Figure 7. Manufacturing companies, in particular, who see continued strong demand from abroad, and the construction sector, which is encountering very good demand for housing, see scope for increasing prices in the period ahead. The healthy demand means that it is easier for companies to choose customers who are prepared to pay more for products and they can therefore increase their margins.

Greater costs are the strongest factor contributing to the retail trade and companies selling services directly to households planning to raise prices. At the same time, competition is still high in several sub-sectors, for example the travel business and clothing industry, making companies more cautious about increasing their prices. E-Commerce is also consistently taking an ever-greater share of the retail trade and competition from foreign actors with no network of shops in Sweden is seen as particularly problematic. One business leader said that “e-Commerce has put a ceiling on how much one can charge for a product”. E-Commerce has not affected the consumer goods segment to the same extent as it has the retail trade for durables segment, but is nevertheless an important focus area. The main focus is on increasing efficiency in the whole chain, from when the customer buys something online to home delivery, in order to achieve greater customer loyalty and better profitability.

Figure 7. Factors behind pricing in the twelve months ahead

Weighted net percentages and weighted index figures respectively



Note. Retail trade companies and companies selling services directly to households to the left and manufacturing and construction companies to the right. 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. From February 2016 onwards, the “Other” bar consists mainly of competition. The weighted 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 coming twelve months.

“We believe strongly in moving into service provision”

In the May 2017 interview round, the retail sector and manufacturing companies were asked in-depth questions about their sale of services.

For a long time, manufacturing companies have been selling services linked to the products they sell, such as repairs and maintenance. This type of service is sometimes included in the total offer to the customer and is not sold separately, which has made it difficult for some companies to charge for such services. Several manufacturing companies now have clear plans to develop their range of services in the period ahead. They are also looking into the possibilities of charging for traditional services that are included in the sale price of goods and selling them separately. Some are talking about starting to let the goods they sell. This may mean, for example, that instead of selling a machine, they charge the customer when the machine’s capacity is utilised. In this context, companies also mention different types of business model in which payment is made per hour or per unit of utilised capacity.

In the retail sector, the range of services is small and is primarily seen as a complement to other sales and as something that can create loyalty among existing customers or used to attract new customers into the shops.

“We are facing a technological shift and it is moving faster than we thought”

A recurrent theme among manufacturing companies is that digitisation and technical development are creating new business opportunities. Connected machines and vehicles store a large amount of information which can then be used to streamline the use of the sold product. Instead of manually inspecting wear and tear, digital information can be used to diagnose the machine. As a result, troubleshooting can be done and advice can be given remotely. The majority of business leaders describe how they are now looking into the possibilities of developing a range of digital services, and how they can charge for them. This may include renting out engineering skills to customers so that they can optimise their production processes. Consultant firms are also noticing this change, as a result of an increase in demand for both IT skills and help with implementing large-scale change projects in IT and other technology.

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 retail sectors and in 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 interviewed companies also provide information about other parts of the business sector through their contacts with, for example, small and medium-sized enterprises.

The survey is conducted by personnel from the Riksbank who visit the companies for approximately one hour. 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.

Around 40 companies are normally interviewed in May and November, and around 30 companies in February. Over 300 companies have taken part in the survey since it was started in 2007.

The figures in the report present the companies' responses weighted in terms of the respective companies' number of employees in Sweden. The indices in the figures capture upturns and downturns in the pattern of responses well. These responses are then combined with the companies' reflections during the interviews. The May 2017 report presents the results of interviews with 38 companies, which were mainly held between 2 May and 17 May.

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://www.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_eng.pdf



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