



# The Riksbank's Business Survey

The global economic upswing is  
strengthening the situation in  
Sweden

November 2017



## The Riksbank's Business Survey in November 2017<sup>1</sup>

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Economic activity has strengthened further during the summer and autumn and most companies are very satisfied with the prevailing situation.

Manufacturing companies perceive business to be at full throttle, with high demand from more or less all geographical markets, where Europe is particularly strong. Investments are now expected to increase slightly in that capacity utilisation is so high. At the same time, increasing numbers of companies are daring to invest in research and development after a longer period of strong earnings.

Construction activity is also strong, much due to Sweden having had a high demand for housing for several years. But during the autumn uncertainty on the housing market has increased, and some construction companies now perceive that it is taking somewhat longer to sell newly produced housing. In general, however, the major construction companies do not see any significant downturns in the demand for housing going forward, as it has mainly been more expensive apartments in parts of the Stockholm region that have been more difficult to sell.

Companies' costs are rising as strong demand and rising commodity prices have led sub-contractors to raise their prices for both goods and services. Despite this, profitability is good for manufacturing and construction companies, as they have been able to compensate for increased costs by raising sales prices.

For the trade sector, digitalisation continues to be one of the largest challenges and is perceived to have intensified further during the year. E-Commerce is leading to increased competition from foreign participants and changed behaviour among consumers, which continue to make it difficult for traders to push through desired price increases.

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### Strong demand globally

The economic situation is deemed to be very strong and has strengthened further since the spring, see Figure 1. In particular, demand from Sweden's export markets has increased. This development is worldwide, but companies are particularly pleased by demand in Europe, where the transportation industry is among the driving forces. Rising commodity prices have given the mining industry an upswing, which has had a positive effect on demand from several commodity-producing countries for example Russia. The view of the United States is slightly more mixed, with the postponed infrastructure investments above all being seen as a concern.

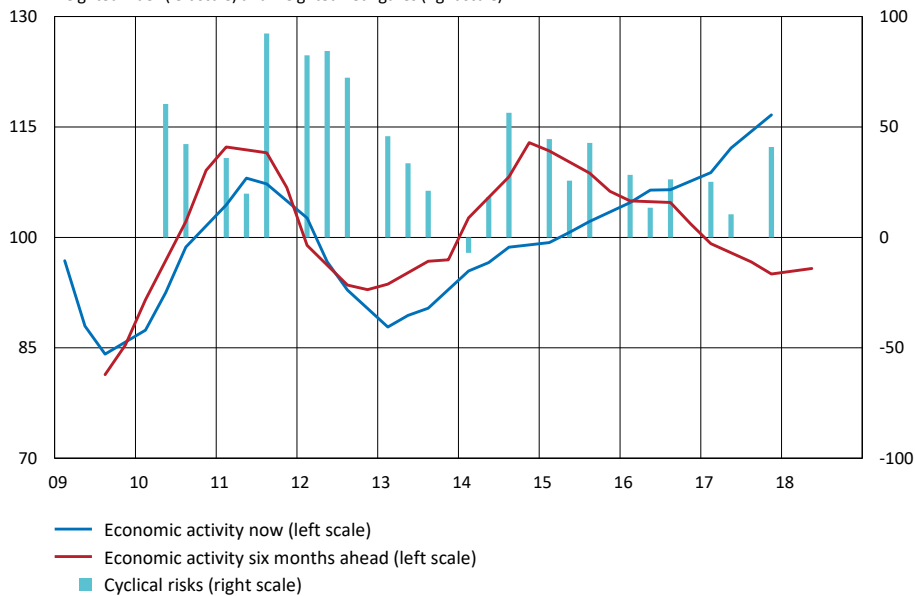
In general, the manufacturing industry sees few risks of economic development stagnating in the period ahead. As previously, potential political risks are mentioned, such as events related to North Korea and the United Kingdom's approaching exit from the EU, but

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<sup>1</sup> Three times a year, the Riksbank interviews the largest companies in the construction, trade, manufacturing and part of the service sectors. Representatives of 40 companies with a total of approximately 250,000 employees in Sweden were interviewed this time.

these do not seem to be affecting companies' plans to any great extent. Economic activity is expected to remain at a stable, high level over the next six months. Industrial companies are particularly optimistic, more so than in the spring. One business leader expresses this as follows: "Looking just at how the economy is doing in Europe and how customers are feeling, it seems as though things could continue to go well for many quarters to come".

**Figure 1. Economic situation and economic risks**  
Weighted index (left scale) and weighted net figures (right scale)



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. From 2017 there are only observations for the first two quarters and the last quarter of each year in the figure.

## “Economic activity is good – as it is for everyone I assume”

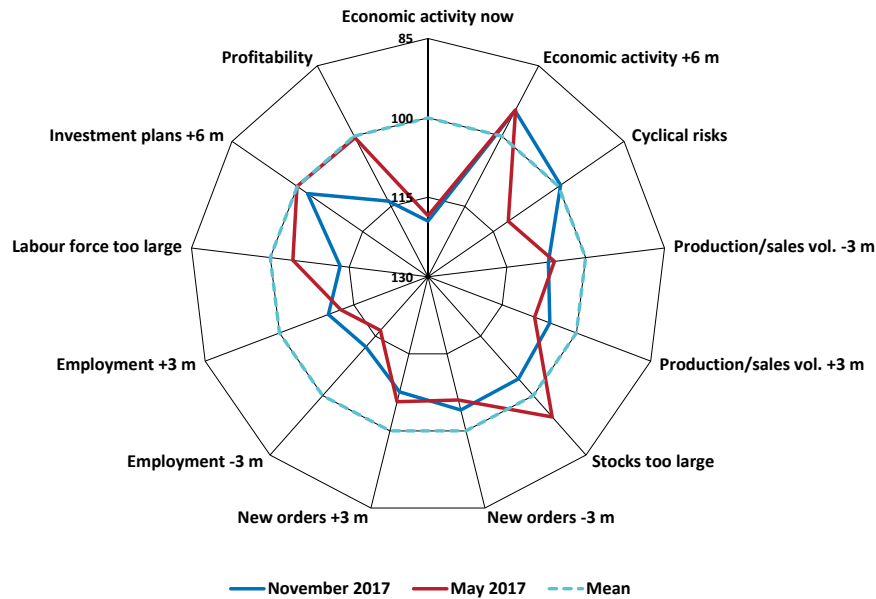
The companies' total response pattern indicates that the situation in November is better than the historical average, see Figure 2.

Service companies in the domestic market are reporting a good economic situation, and particularly those companies who sell services directly to households, such as restaurants and telecommunications companies. The trade sector is on the whole satisfied with sales, but here developments are divided. Retail sales volumes in consumables have remained at a stable level. Turnover is rising thanks to consumers choosing more expensive food alternatives to a greater extent, for instance, locally produced and ecological goods. One striking quote here is: "What was previously luxury food is now everyday food."

However, in the durable goods segment (such as clothing trade) the situation is more strained. One business leader says: "There is strong purchasing power, but a lot of segments competing for the extra money." At the same time, foreign e-Commerce companies have become increasingly aggressive and acquired market shares on the Swedish market. Although e-Commerce still comprises a relatively small percentage of the total sales, many say that at present it is only e-Commerce that is driving sales growth.

**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.

## “Things have begun to happen on the housing market”

The large demand for housing is a strong contributory factor to the very good construction activity. Orders to construction companies have been strong for a long time, which means that order stocks are large.

Construction companies and property companies are noting that the housing market has begun to slow down somewhat in recent months, despite the good demand situation. It is taking longer time than previously to sell housing. However, several of them say that the slowdown in demand only applies to the parts of the Stockholm region where prices are set very high. The demand situation in large parts of the Stockholm region where there are “normal prices” remains more or less the same and “in large parts of Sweden the situation is normal”. At the same time, there is also concern over what Finansinspektionen’s, proposals regarding further amortisation requirements might mean for demand on the housing market going forward. Several say that it is “very bad timing” to introduce this regulation now.

Many respondents in the trade sector and in companies selling services directly to households see risks if the housing market cools down too quickly. Mass media reports on the housing market create uncertainty and this is assessed to affect household consumption. Trading companies that sell certain types of capital goods are experiencing a decline in the inflow of customers and that their customers have become somewhat more cautious. At the same time, the construction and property sectors say that a lot of the reports in the media are exaggerated.

### Is the high level of housing construction sustainable in the long run?

The demand for housing has been very high for several years. In the November survey, construction companies and property companies have responded to questions on how they view housing construction in a longer perspective and more specifically how they manage risks linked to the production and sale of housing.

The strong demand for housing in recent years has meant that an increasing number of players have entered the market and that competition between them has pushed up the price of land. Projects in areas where land prices have risen substantially are often rejected by the large construction and property companies. One respondent says: "We have gone from 40 to 300 companies who are building housing, and many of the companies are opportunists." Most respondents say that the construction volume is sustainable in the long term, but that what is being built does not always correspond to what is in demand in the market. This refers in particular to construction in parts of Stockholm, but most say that it is not a general problem. The following quote is telling: "Prices are too high in certain parts of Stockholm and there we don't take on any projects, while in other parts of Stockholm and the rest of the country, where prices are normal, our sales are still good."

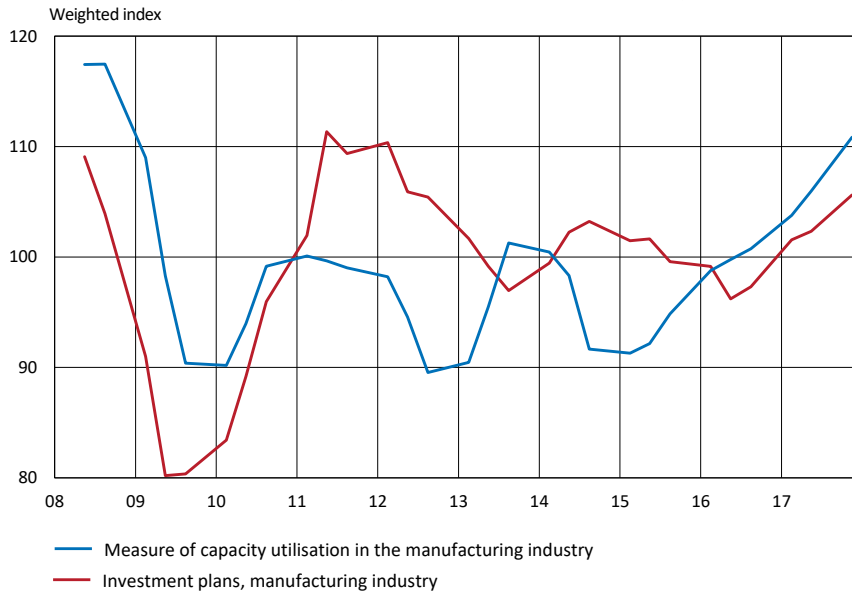
A general view among construction and property companies taking part in the survey is that the large, established companies in the sector are less inclined to take risks than some of the newly established companies. They say, for instance, that the large, established companies have more stable funding and well-founded routines for managing risk in the various housing construction projects. Booking fees, binding preliminary agreements and requirements regarding credit facilities with a bank are examples of ways in which companies reduce the risks when building new tenant-owned apartments. They also offer purchasers different solutions to reduce the risks, such as insurance policies against double home ownership over a longer period of time. Further, they say that so far it has been unusual for customers to fail to follow up on signed housing contracts, but if this were to happen there are regulations that could entail obligations to pay damages.

## “Unfortunately we have reached the ceiling, so we will be stuck at this level, we can't go any higher even if I wanted to”

Capacity utilisation in the manufacturing industry has risen further since the spring, and many say that the capacity ceiling has been reached, see Figure 3. It is therefore increasingly common, for instance, to increase production in factories in markets with somewhat lower demand and then to transport the goods to markets with higher demand levels. Some are also postponing planned maintenance and service stoppages in their factories.

The delivery times for certain types of material, such as steel, are long, at the same time as the sub-contractors have not had time to adapt their operations to the prevailing situation. Companies say that despite this, they do not like changing suppliers of materials or turning to other types of sub-contractor, as this would involve too much adjustment work. Often it is more profitable in the short term to accept price increases on goods and services and instead manage these problems when it is time to renegotiate the agreements. The situation also creates challenges for companies with regard to their logistics and stock-keeping. Some consider that stocks are too small in relation to the strong demand they are facing. Others say that stocks are too large as a result of bottlenecks in the logistics chain, which cause problems with deliveries. The assessment is that it will take a few further quarters before sub-contractors have time to remove the bottlenecks.

Investment is expected to continue to increase somewhat. Companies are investing to deal with the bottlenecks that are relatively easily resolved and a few are also investing to extend capacity. Some say that they are a little more daring now, after a period of strong demand and good, stable profitability. In addition to the more acute investments in production, there is a lot of talk about investing in research and development and in new technology. There is in particular talk of battery development and automation. Company acquisitions are also made with the aim of quickly acquiring new skills and ensuring capacity in these areas.

**Figure 3. Measurements of capacity utilisation in the manufacturing industry and its investment plans**

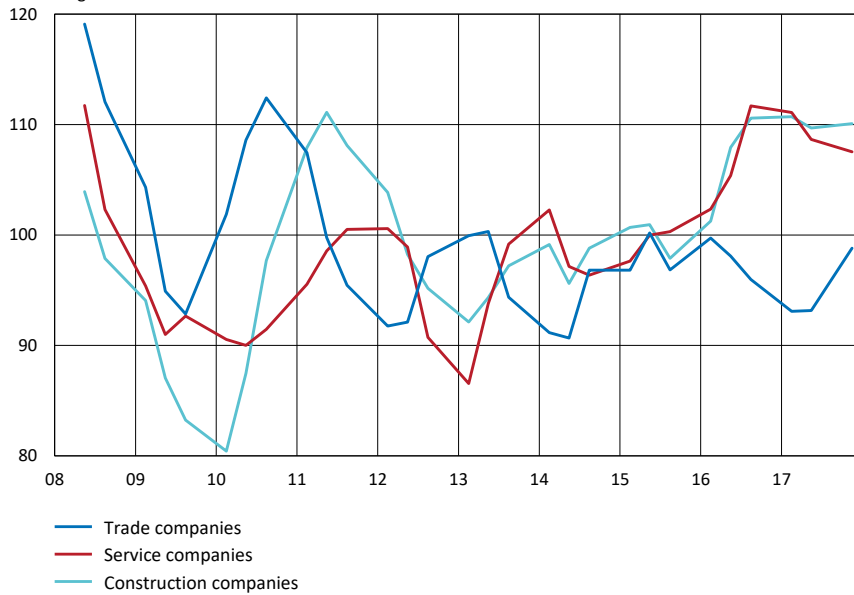
Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the number of manufacturing companies that say that they at present have major difficulties or have no difficulties in managing an unexpected increase in demand (measured as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

### “It is difficult to get hold of good staff in general”

As before, there is a large shortage of people with IT skills, certain types of engineer and economist in the service sector and project managers in the construction sector, see Figure 4. Companies are also saying that it is now becoming more difficult to get hold of staff in an increasing number of professional categories, both in Sweden and abroad. For instance, they mention stockroom workers and lorry drivers, although there are also shortages of staff with more specific professional training, such as welders and chefs. One sign of this is that in some cases they are recruiting people with no formal training, but who instead have experience of, and an interest in, that particular field.

At the same time, there is a clear shift in competence in several sectors. The trade sector and companies selling services directly to households are employing people with competence in digital commerce and IT, at the same time as they are trying to reduce their workforce in other areas of their operations. In the manufacturing industry, companies are investing substantially in research and development. One business leader says that “Those who work on the factory floor will become fewer, while those who work on development will become more and more.”

**Figure 4. Shortage of labour in the trade, services and construction sectors**  
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 they perceive a shortage of labour and those that do not perceive a shortage of labour respectively. The series are shown as moving averages based on three observations.

## Wage drift in several professions with shortages

Companies' expectations of wage costs and wage drift twelve months ahead have only changed marginally since the survey in May, see Figure 5. However, there has been an upward trend for several years and in parts of the manufacturing industry, the construction and services sectors and in professional groups with an explicit labour shortage, wages may rise more than before.

At the same time, companies are trying to show restraint in their wage-setting, even in the cases where they have difficulty getting hold of staff. One business leader says: "It isn't possible to bid higher without disrupting the entire wage structure." and another says: "We follow the collective wage agreements strictly, as we have so many employees."



**Figure 5. Wage costs and wage drift**

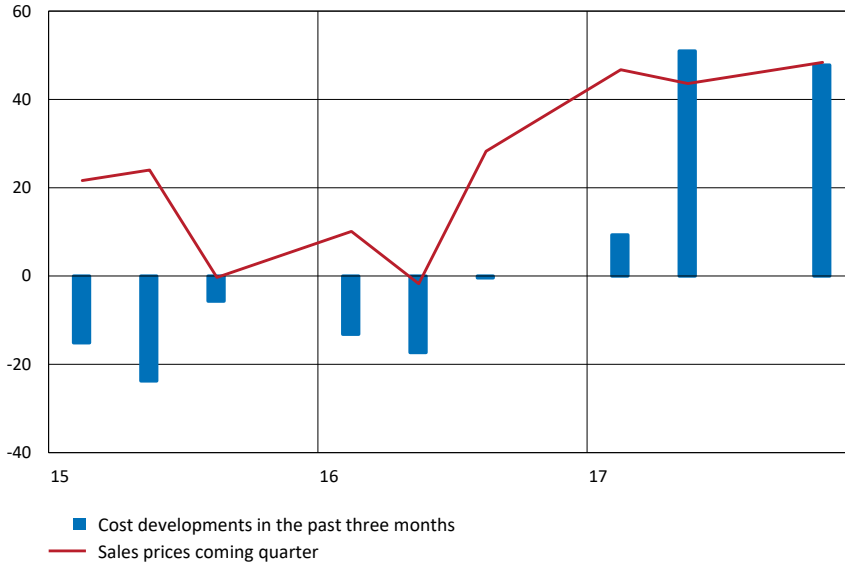
Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the number of companies saying that wage costs per hour will increase more than before during the next twelve months or increase less than before during the next twelve months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

## Companies' costs are continuing to increase

Costs have risen over the past year and the percentage of companies who are noting rising costs is still at a high level, which is one reason why many companies are now planning to raise their prices the coming quarter, see Figure 6. It is in particular higher costs for input goods in the manufacturing industry and high construction costs that lie behind this. The high level of capacity utilisation means that each further increase in production costs a lot, as it puts pressure on the entire production chain, from sub-contractor to delivery to the end-customer. Costs rise when one has to use overtime hours, buy in further services from sub-contractors, make use of global factories and in some cases transport goods by air freight instead of shipping them.

The trade sector is also noticing the increase in transport costs, partly because customers are making greater demands with regard to fast, flexible deliveries of their e-Commerce purchases. Retail sales in consumables are also encountering an increase in purchasing costs, as prices of meat and full-fat dairy products have risen over the year.

**Figure 6. Cost developments and sales prices, all sectors**  
Weighted net figures



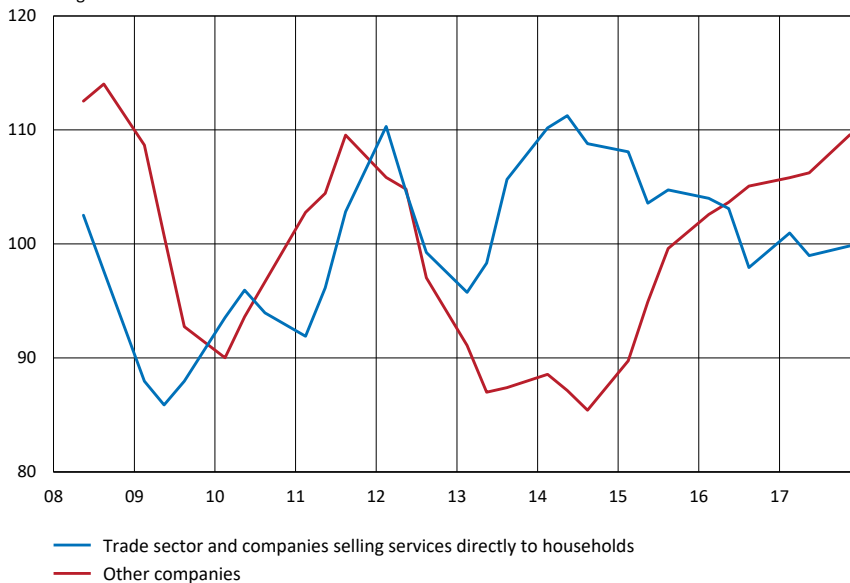
Note. The columns show the weighted net figures for the companies saying that costs have increased or declined over the past three months. The line shows the weighted net figures for the companies saying that sales prices will increase or decline the coming quarter.

## A divide in profitability developments

Manufacturing and construction companies have already been able, thanks to the good demand situation, to implement some price increases to meet their increased costs. The manufacturing industry has gained an increasingly strong position over the past year in its price negotiations with customers and has not needed to offer reduced prices to the same extent as before, which has contributed to stronger profitability, see Figure 7.

In the durable goods segment (such as clothing trade), on the other hand, profitability has been poor in several areas. They are therefore working intensively on various measures to make their operations more effective, as they see little opportunity to raise their prices.

**Figure 7. Assessed profitability at present**  
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 currently assessing their company's profitability to be good or bad. The weighted index figures are expressed as moving averages based on three observations.

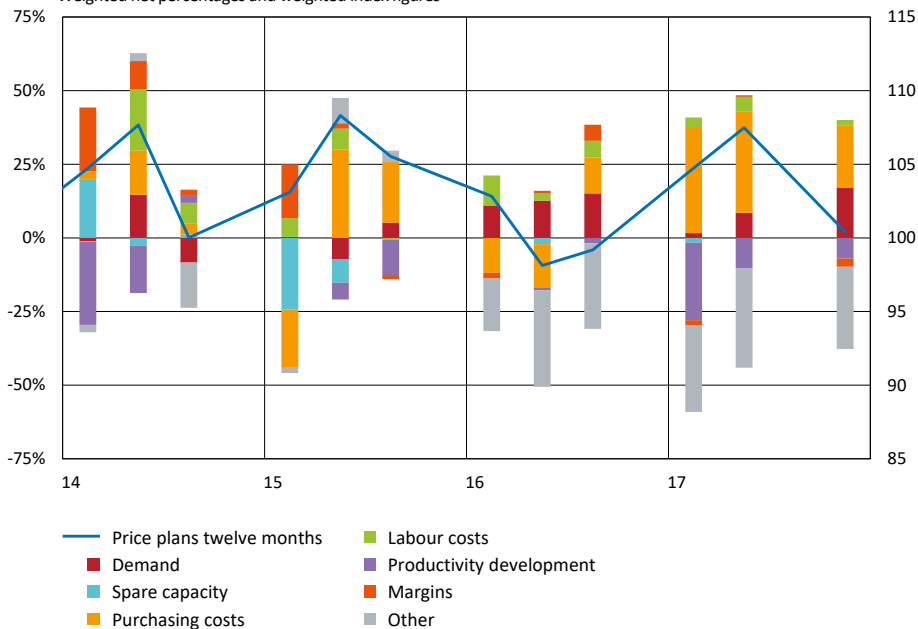
## “Competition and the fight for customers is demanding more price activities”

All in all, trading companies' price plans for the coming year have fallen in November, see Figure 8. Stronger demand and increased purchasing costs are factors that are expected to contribute to price increases, but sales prices have, as before, been held back by increased competition. One business leader expresses this as: “There is a structural downward price pressure as a result of e-Commerce.”

The increased competition described by the trade sector means that prices are constantly in focus. Several companies say that discount campaigns have become increasingly common over the past year. Periods, such as the weeks when wages are paid and during the autumn, in which traders could sell at full price, now contain a larger number of various campaigns. In addition, one business leader says that the sector has, to a certain extent, contributed to the current situation and expresses this as follows: “Customers are much more inclined to defer their purchases and instead grasp the opportunity when an offer comes along.”

**Figure 8. Driving forces behind pricing in the twelve months ahead in the trade sector**

Weighted net percentages and weighted 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. 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.

**“Digitalisation and customer behaviour are the factors having the most impact on our industry”**

Digitalisation is one of the largest challenges facing the trade sector and developments are rapid. One business leader characterises what is happening in e-Commerce as follows: “The trade sector is going through quite a dramatic and rapid transformation.” Several see the current year as a tipping point at which the trend for e-Commerce has progressively strengthened. To make things easier for consumers and increase their freedom of choice, trading companies are developing and expanding their range of services both in connection with their physical shops and for e-Commerce. The introduction of different flexible payment solutions is an example. At the same time, one business leader said that “It is not e-Commerce or shop, instead they are merging together.” In the long run, physical shops are seen as a challenge, and one business leader asks: “What are we to do with all these shops and square metres?” Related to this, construction companies are reporting an ongoing shift in demand as regards commercial construction, from new malls and shopping centres to new offices. Transport companies say that the transformation in e-Commerce is having an effect on the demand for transport and is leading to large volumes of goods when products are bought and returned.

Digitalisation is also causing consumers to change their behaviour – they are making more e-Commerce purchases and are finding it easier to compare prices. Companies are also experiencing other changes in households’ consumption. Households are choosing experiences, travel and restaurant visits above the consumption of goods. At the same time, e-Commerce is creating space for more players, both domestic and global. One business leader says: “We have to understand that we are competing with the whole world.” and another puts it thus: “International e-Commerce, where Swedes buy from abroad, is increasing considerably.”

In several cases, competition, new technology and changed consumption patterns are driving the trade sector’s investment in IT and logistics. The idea is to increase efficiency. One business leader expresses this as: “We are investing heavily in more automation.” The development is affecting everyone in the industry, both those primarily active in e-Commerce and those who have started trading on the Internet more recently. IT-platforms are often not adapted for e-Commerce. At the same time, developments are moving rapidly and newer IT-platforms also need to be adapted to ensure companies don’t lag behind. Smarter discount campaigns and a desire to give customers better offers also place higher demands on IT-systems and analytical capacity.

### **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 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 the survey 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 November 2017 report presents the results of interviews with 40 companies, which were mainly held between 26 October and 10 November.

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.

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