



The Riksbank's Business Survey

In the wake of the coronavirus
pandemic: “Everything has changed
in two weeks”

February and March 2020

The Riksbank's Business Survey in February and telephone interviews in March 2020¹

The Swedish economy has undergone very dramatic changes in February and March 2020. The ordinary Business Survey in February was therefore supplemented with telephone interviews in March to gather up-to-date information as a result of the spread of the coronavirus². In February, companies regarded the outbreak of the coronavirus as a risk to their business that was difficult to assess, but they saw no major effects. The situation deteriorated at an unprecedented speed in March, and affected companies in three different ways: disruptions in production, falls in demand and financing difficulties.

In mid-March, parts of the manufacturing industry began closing down in Sweden. The primary reason was not problems with the supply of goods during the Chinese shutdown. Rather, it was the result of restrictions on movement in Europe that led to other companies and borders being closed. This meant that production in Sweden, which has a highly specialised industrial supply system that is dependent on smoothly-functioning logistical solutions, also closed down.

The falling export income means that companies will reduce all of the costs they can, and that investment and maintenance may be postponed. The situation for large export companies means that sub-contractors, carriers and other peripheral companies are also forced to take drastic measures to reduce their own costs. Termination of consultants' contracts, redundancy notices and lay-offs therefore increase rapidly when the crisis hits further companies.

Households' fear of contagion has gradually increased, and this combined with restrictions on travel and public gatherings from the authorities has led to enormous consequences for travel agencies, hotels and restaurants, which have seen unprecedented falls in bookings and visits. Large sections of the durable goods segment have seen their turnover reduced, while the non-durable good segment instead increased sales in the wake of hoarding of storable consumption goods.

The substantial fluctuations on the financial markets have made it difficult for companies to refinance their loans, as it has not been possible to issue securities recently. At the same time, many companies are in dire need of loans to bridge over the acute period, not least in the segments hit especially hard by the fall in demand. Nor is it surprising that the companies that are hardest hit find it most difficult to borrow from the banks. Even the larger companies that

¹ Three times a year, the Riksbank interviews the largest companies in the industrial, construction, trade and part of the service sectors. Representatives of 31 companies with a total of approximately 230,000 employees in Sweden were interviewed during the period 12 to 28 February. On 4 to 6 March, telephone interviews were held with more than 50 companies in the industrial, trade and service sectors, and on 16 to 19 March, telephone interviews were held with more than 60 companies in the industrial, construction, trade and service sectors, as well as trade associations.

² The official name of the coronavirus in question is SARS-CoV-2 (Severe Acute Respiratory Syndrome Coronavirus 2) and the illness caused by the virus is known as COVID-19 (Coronavirus disease). In this report we use the term coronavirus.

have earlier been promised loans are holding discussions with the banks regarding both price and availability, similar to the financial crisis 2008-2009.

Telephone interviews 4-6 March and 16-19 March

“The situation is changing drastically, day by day”

Disruptions to logistics and production have increased in recent weeks, as a result of restrictions in parts of Europe, which prevent people getting to their workplaces and close borders to transports. Swedish **export companies**, including the **automotive industry**, have consequently needed to close down factories, or assess that they will be severely affected in the near future.

Manufacturing companies that produce input goods for other industries have so far not been affected very much by a decline in demand from China and the rest of Asia, but they are now envisaging major falls in demand as the automotive industry in Europe closes down. The sentiment here is illustrated by the quote “If it stayed at this level it wouldn't be so bad, but the thing is we don't believe it will”.

For **companies producing non-durable goods**, the hoarding of staple goods, such as tinned goods and toilet paper, has led to continued good demand and they are not reporting any disruptions to production. Companies in the **forestry industry** observe that “we aren't in a sector that is directly affected”. However, there are disruptions to logistics, as a large share of their production is exported to China and the rest of Asia.

Some manufacturing companies are postponing investments and plant maintenance. In addition to wanting to keep costs down, they are expecting sick leave and travel obstacles for foreign sub-contractors to make maintenance work difficult. It can also be troublesome to allow external staff into the factories as “It makes people nervous”. The fact that the manufacturing industry is postponing maintenance of its plants has ripple effects on the economy, in that the small companies that often supply these services will lose income.

The large **construction companies'** activities have not been affected very much as yet, but they are experiencing some problems obtaining input goods from China and Europe. One concern they see going forward is whether their staff will be unable to work out in projects, which would be devastating for their operations. They are counting on orders declining, as decisions to procure new projects are being postponed at present.

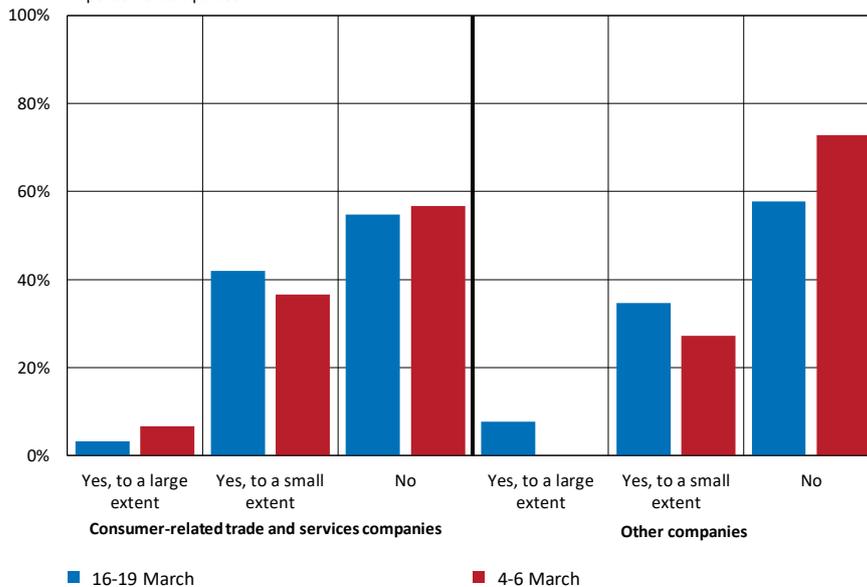
It will take time for the logistics to function normally again

In the interviews held at the beginning of March, it was mentioned that the disruptions to production were still relatively minor, see Figure 1. Cargo ships with deliveries from China and the rest of Asia to Sweden and other parts of Europe had departed before the production and transport problems related to the spread of the coronavirus arose. These disruptions were expected to become greater during the second quarter. But as early as February, some companies were expecting the shortage of containers in Europe to make deliveries of their products more difficult and more expensive. In March, several companies were experiencing these problems. Previously, the problem was that the containers were stuck in China, as Chinese exports declined, which contributed to a shortage of containers for exports from Sweden and other countries. Now the reverse problem may arise, that is, the containers will instead get stuck in Sweden and other countries when their exports decline.

Companies with production in China are reporting that production has gradually got going there, and that “the Chinese society is beginning to function again”. One concern is that the closure of factories in Europe and the rest of the world will mean that China cannot receive deliveries of materials, which may further aggravate the financial problems in China.

As passenger ferries have been cancelled, transportation of goods has also been affected. When the shipping companies reduce the number of ferries, the delivery chains become less precise. Previously daily deliveries are now made every second or third day, which affects companies and consumers. A further effect is that freight volumes by air have also declined, as a result of the sharp decline in air travel. The large intercontinental flights normally carry goods in the hold, but as it is not economically viable to fly these planes with goods only, these deliveries will cease.

Figure 1. Has the outbreak of the coronavirus led to disruptions in production or deliveries to Sweden?
Proportion of companies



Note. Consumer-related trade and services companies refer to the trade sector and those companies that sell services directly to households.

Source: The Riksbank

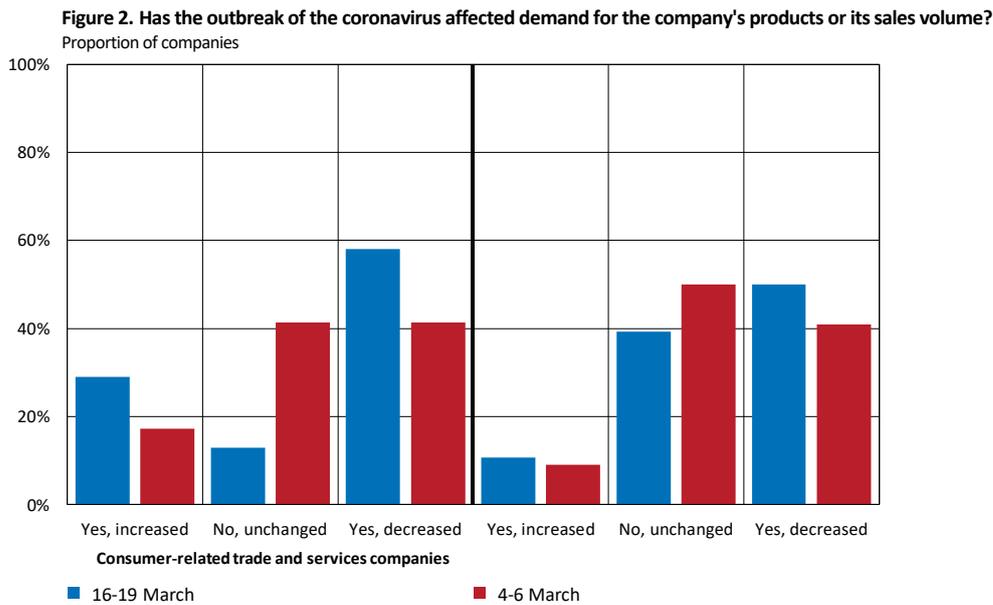
“Sales are plummeting”

The majority of the **consumer-related trade and services companies’** sales have fallen and developments have escalated in recent weeks as consumers’ unease has increased, partly as a result of new recommendations and restrictions from the Public Health Agency of Sweden, see Figure 2.

The consumer-related services companies, for instance **travel agents, hotels and restaurants**, are particularly vulnerable and were affected at an early stage of the developments when, for instance, conferences and customer meetings were cancelled at a rapid rate. Over the past two weeks, they have reported extremely large falls in sales volumes. The loss of income is large in relation to their fixed costs and if the situation does not change soon, some businesses may need to be closed down.

In the **clothing trade**, too, sales volumes have declined significantly in recent weeks. The clothing trade has reduced opening times and is planning to close shops temporarily if needed. There is speculation that e-commerce may receive a boost from this in the long run. But although e-commerce has increased, this does not outweigh the reduced sales in shops.

In contrast to this development, the **non-durable goods segment** and other trade in consumer goods and prescription drugs are seeing a large increase in sales. It is primarily storable consumer goods, such as tinned goods, toilet paper, soap and pharmaceuticals that have contributed to this.



Note. Consumer-related trade and services companies refer to the trade sector and those companies that sell services directly to households.

Source: The Riksbank

“It started out as a supply problem, now it's a demand problem”

Several **retail and services companies** emphasise that developments have shifted from a supply stop to a demand shock, see Figures 1 and 2. What started out as minor disruptions to deliveries due to closed factories in China and transport problems, and was viewed as a slight problem, has now developed into rapidly falling demand in that consumers have changed their behaviour. Most retail companies states that the lead times from China are generally fairly long. **The durable consumer goods segment**, which buys goods for the coming season, assesses that there will be delivery delays for the summer season of around 4-8 weeks because of the earlier shutdown in China. However, it is also reported that factories in China have not started up again. One business leader expresses this as: “We knew this as soon as the corona crisis arose over there and had an impact, that it would come to affect us in May/June”.

Some companies are beginning to worry about the situation in Europe, as a number of foods are imported from here, for instance, from Italy. Although most say they have not yet been affected, one business leader says: “Things move faster in Europe.”

In general, no problems are perceived with the supply of goods in the non-durable segment, although they report hoarding of consumer goods: “People are buying everything on the shelves”. One business leader says: “But in general I don't see that we have any problems with the supply of goods yet” and “Goods are still flowing at the moment”.

“Very large-scale redundancies”

Fixed costs, such as labour and rental of premises, are burdening **consumer-related trade and services companies** and they see in general a decline in the need for labour as a result of falling demand, see Figure 3. Companies have primarily cut down on temporary labour, such as consultants, but are also giving notice of redundancy to permanent staff. Many of the companies are negotiating with landlords to try to reduce rental costs for restaurant and shop premises. **The clothing segment**, which has already placed orders and bought in stock for the coming season, is working actively on trying to cancel some of these to adapt the supply to the lower demand. However, they assess that storage costs will increase going forward. In the long run, total costs are expected to fall, in line with demand and activity

declining. The increased costs companies are facing are primarily for staff on sick leave and for additional cleaning, see Figure 4.

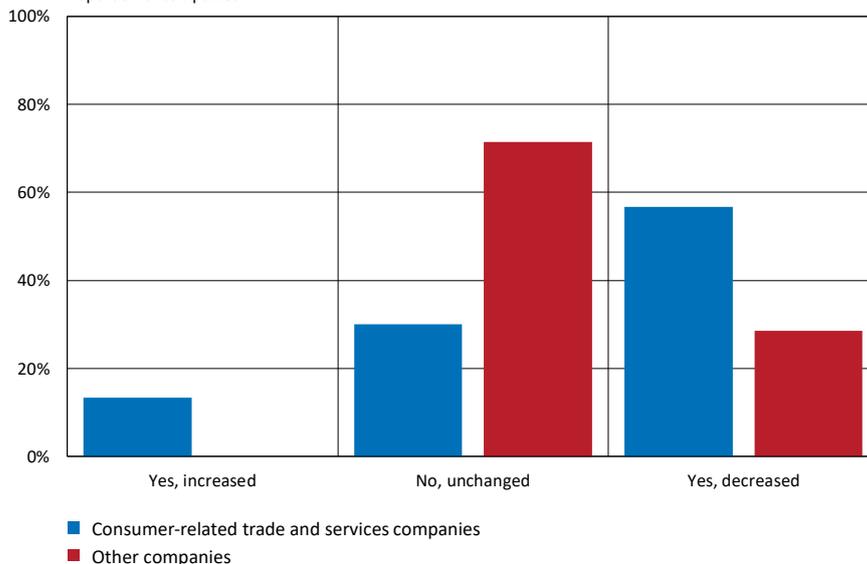
There are also some segments, for instance the **non-durable segment**, that have an increased need for labour, see Figure 3. They will first and foremost use existing personnel, but consultants are also being recruited to manage the increased demand. The increase in the number of people on sick leave also leads in some cases to extra staff needing to be called in. However, companies are somewhat cautious in bringing extra staff into their warehouse terminals and distributions centres. These are regarded as the hub in their in operations; if anyone there became sick and they were forced to close it would be very problematic for the supply of goods.

The automotive industry is reporting staff cutbacks, while several other **manufacturing companies** have not yet experienced a decline in the need for labour. On the other hand, they are expecting a decline: "Unfortunately we see that there will be a negative effect on the number of employees going forward".

Many companies are positive to the Government's crisis package, which includes short-term lay-offs and are examining how they can use this to cut costs while at the same time avoid making staff redundant.

Figure 3. Has the coronavirus outbreak affected your company's need for labour?

Proportion of companies

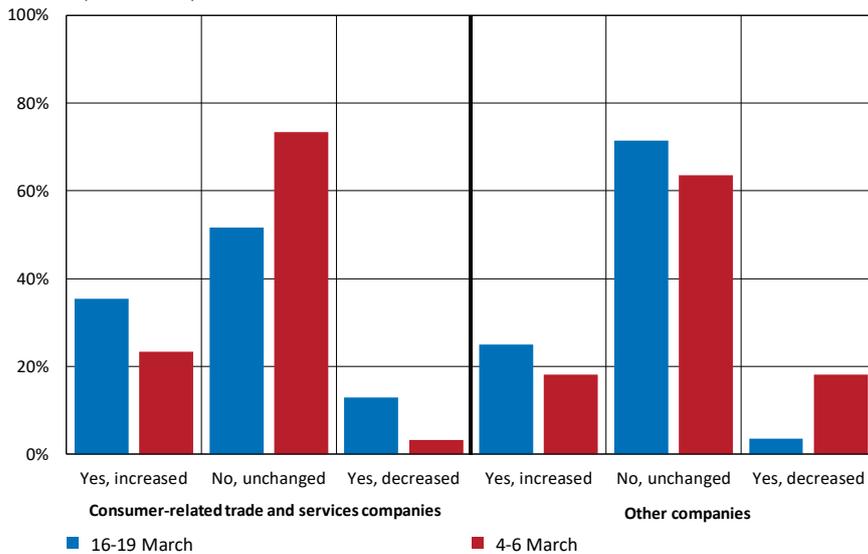


Note. Consumer-related trade and services companies refer to the trade sector and those companies that sell services directly to households. This question was only asked in the telephone interviews held between 16 and 19 March.

Source: The Riksbank

Figure 4. Has the coronavirus outbreak affected your company's costs?

Proportion of companies



Note. Consumer-related trade and services companies refer to the trade sector and those companies that sell services directly to households.

Source: The Riksbank

“Liquidity, that’s what it's all about”

At the beginning of March, companies did not feel that access to external financing had been affected. But in the middle of March, many **manufacturing companies** considered that the terms and conditions for external financing had deteriorated. As incomes decline rapidly, many companies are worried about a liquidity shortage. With few exceptions the markets for commercial papers and corporate bonds are described as “dead” at the same time as the banks are perceived to be overloaded with enquiries from all directions: “the banks have difficulty pricing” and “it is a question of resources to have staff and the capacity to be able to manage so many loan applications at the same time”.

“Sellers want to be paid quicker and customers want a longer time to pay”

Larger companies are concerned over how customers and sub-contractors will be affected by the financial stress: “We see that the entire chain of suppliers is ringing and tightening its credit because they have liquidity problems.” Although the companies have a relatively good amount of money, they want to “save for a rainy day”: “I remember the Lehman/financial crisis in 2008, and I think that what we are seeing now is actually worse”. There is also some criticism of the banks’ actions, which is illustrated by the quote: “The banks have shown a clear appetite for making money off our backs”. Some companies are also concerned that the banks will raise interest rates in the consumer segment, which would affect demand.

Some **restaurants and retail companies** feel that financing costs have increased and the discussions with the banks are more difficult than before. Some companies are planning to initiate discussions with the banks to see how they can help out going forward. Other companies have not yet experienced a need to review their financing situation, but assess that access to external financing may deteriorate going forward if the banks become more restrictive in their lending.

“Time is of the essence now, we are bleeding every day”

They describe their existence as very uncertain right now, many companies have daily management meetings and are discussing potential crisis scenarios that could affect their businesses. All types of business development that were previously in focus are now being put to one side. Comments that describe this situation include, “I have never known anything like it before” and “everyone needs to understand how serious this is, it is no game”.

Companies are also investing a lot of their time on managing their employees' concerns.

Companies are positive to the Government's crisis package and they are examining how they can make use of the various measures. At the same time, many say that more needs to be done for vulnerable sectors. Time is of the essence in the travel, hotel and restaurant branches. If this scenario is prolonged, many small companies may be forced to consider closing down. Loans can help temporarily, but they also have to be repaid.

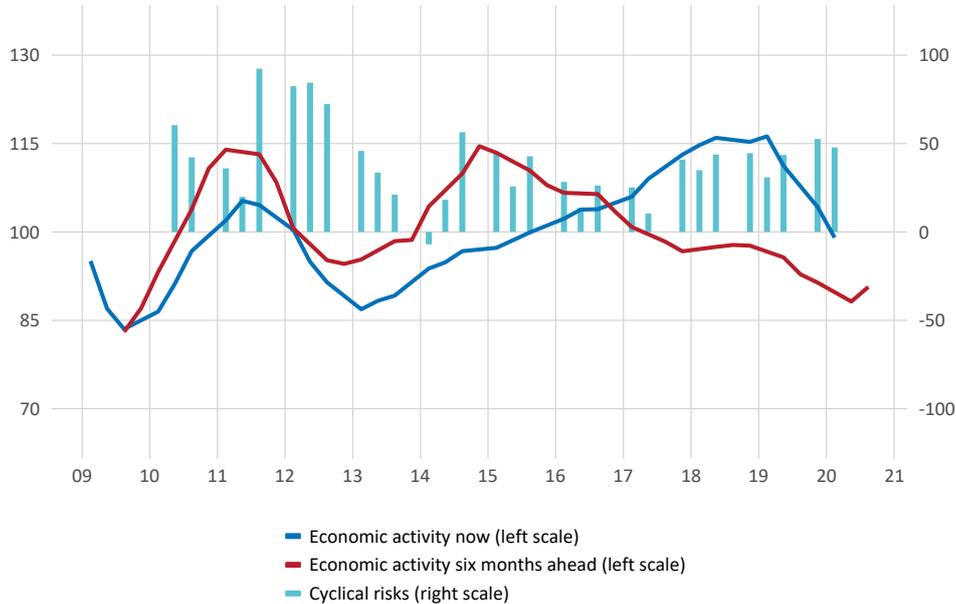
The Riksbank's Business Survey in February, 12-28 February

On the whole, a better situation in February before the virus hit

Last year, economic activity gradually slowed down. The slowdown was due to lower demand, with a decline in orders in the manufacturing sector in particular. According to the February survey, the situation had stabilised, and on the whole more companies had a positive view of developments in the longer term, see Figure 5. One business leader expressed it as: “Things seem a little positive nonetheless.” Given the strong developments in recent years, however, they were expecting relatively weaker growth going forward.

Figure 5. 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 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 bars show the weighted net figures for those companies that say that the risks to economic development are currently greater or smaller than normal. The survey is performed three times a year, which means that there are only observations for three quarters of each year in the figure. As of 2017, there are observations for the two first quarters and for the final quarter of every year in the figure.

“The primary risk is the coronavirus”

Over the past two years, companies have mentioned two risks that have been particularly great, namely the United Kingdom's withdrawal from the EU and the trade conflict between the United States and China. Although there are many outstanding questions, these risks were assessed to have declined in February when the United Kingdom's withdrawal from the EU had entered into force and the United States and China signed a partial trade agreement. One business leader expressed it as: “Brexit is gone, the trade war is gone, now we have this coronavirus”.

The outbreak and spread of the coronavirus was regarded as the primary risk to economic activity in February. But there was considerable uncertainty regarding the consequences of the outbreak and spread. In February, most companies assessed that the coronavirus comprised an isolated event with temporary effects, and said it was difficult to gain an overview of future risks. Production, demand and company profits had only been marginally affected in February. One executive said: “So far, it is a relatively isolated Chinese problem”. However, the companies believed that in the long run this could have consequences for economic activity in general, particularly through subdued demand in the manufacturing sector.

Fewer companies than before are paying for bank deposits since the rate increase

In December 2019, the Riksbank raised the repo rate to zero per cent. Following this increase, fewer companies than before are now paying for bank deposits and some companies reported adjusted interest terms and conditions for short maturities. In general, access to external financing was good in all sectors in February. However, the clothing trade perceived that access to financing had deteriorated in recent months as a result of the difficulties the branch is facing due to the ongoing structural transformation, with digitalisation and increased e-commerce.

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.

Approximately 30 companies are interviewed in the survey in February and about 45 companies in May and November. 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 changes that the economy has undergone in recent months mean that the February 2020 report differs from earlier reports. It describes both the results of interviews with 31 companies largely held between 12 and 28 February, and the supplementary telephone interviews held mainly on 4-6 March and 16-19 March.

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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