The Riksbank's Business Survey

Towards the "new normal"?

September 2020

The Riksbank's Business Survey in September 2020[1]

The economic situation has gradually improved for the major Swedish companies after the substantial fall in demand in the spring. Companies have a brighter outlook on the future, but there are concerns about a second wave of the pandemic with new restrictions.

For many companies, demand has increased more rapidly than expected. But capacity utilisation in the industrial sector is generally still lower than before the pandemic. And despite some recovery, the situation is still difficult for sectors in which demand has been weakest during the pandemic, for example hospitality and travel. In general, the major Swedish companies think that it will take a long time before the economic situation is back to anything like its pre-pandemic level.

The pandemic has initiated and accelerated behavioural changes among households, in, for example, the way we shop, work and meet, and this is expected to lead to permanent changes in demand. Several companies call the new situation in the economy the "new normal". The technical prerequisites for this adjustment have been in place for a long time, but the pandemic has forced companies to adjust their operations to be able to meet a new demand.

The pandemic has also made industrial companies realise that their supply chains, i.e. the localisation of suppliers and associated logistics, might not be the most reliable. The pandemic may therefore result in a transition towards companies having suppliers in closer proximity. Staffing and organisational changes, that are not only due to the pandemic but may also be of a more long-term and strategic nature, are also being implemented.

In the spring, when uncertainty was at its greatest, many companies paused their investment plans. Many have now been resumed, albeit in somewhat modified form. Investments in research and development and in new technology are being prioritised.

The major companies have found it easier to obtain funding since the spring. They have good access to liquidity and funding terms are perceived to be favourable. Companies in sectors hardest-hit by the pandemic are still struggling with their funding, even though their funding sources have recently eased somewhat.

Companies are generally positive about the state support measures introduced as a result of the pandemic crisis, regardless of whether they have utilised them or not. In some sectors, there is still a need for state support measures, but

[1] The Riksbank regularly interviews the largest companies in industry, construction, trade and parts of the service sector. This normally happens three times a year but, as a result of the pandemic, the Riksbank has conducted five extra interview rounds mostly by telephone in March, April and June. In the Riksbank's Business Survey between 22 and 29 September, interviews were conducted by telephone/web-based services with representatives of 57 companies with a total of around 320,000 employees in Sweden. Representatives of various sector organisations were also interviewed during the same period.

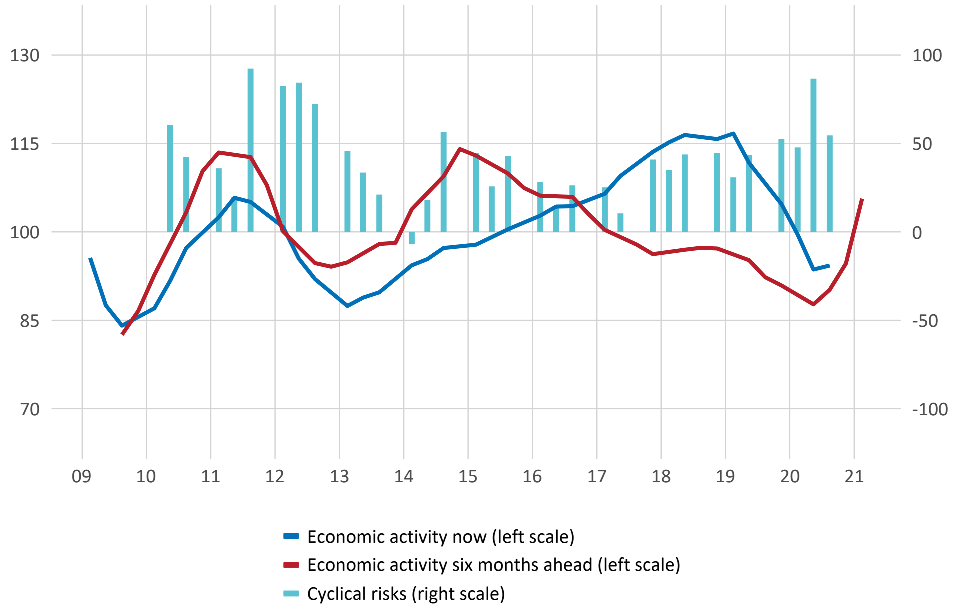
overall, the need is not considered to be as great now as at the beginning of the pandemic.

"Slowly on the way to recovery"

The economic situation has gradually improved since the spring as demand has increased. According to several companies, the situation was at its worst during the second quarter and since then "things have gradually got better month by month". The recovery is expected to continue and lead to a better economic situation going forward, see Figure 1. The strength and durability of the recovery is uncertain, however. One business leader says that it is: "extremely difficult to prophesy about the future in this situation".

Figure 1. Economic situation and economic risks

Weighted index figures (left scale) and weighted net figures (right scale)



Note. The weighted 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 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 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. For 2020, and for the years before 2017, the observations for the first three quarters of each year are shown. For the years 2017–2019, there are observations for the two first quarters and for the final quarter of each year in the figure.

"It is very uncertain now"

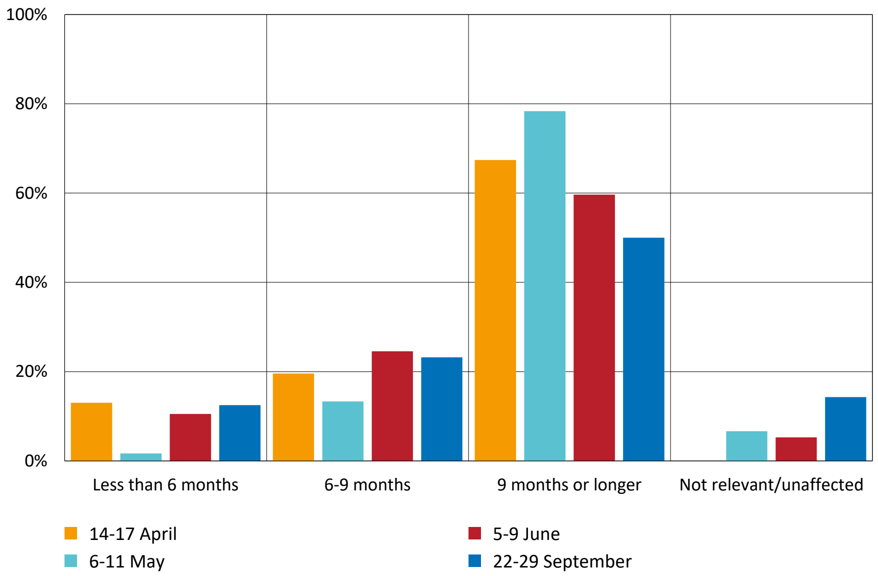
The risks that economic developments will deteriorate are seen to have decreased since the survey in May, see Figure 1. More companies now deem the risks of worse economic developments to be normal, but a majority of companies still think that the risks are greater than normal.

The development of the pandemic is the greatest single risk going forward. Companies are particularly worried about a second wave of the pandemic with new restrictions and lockdowns, in turn leading to disruptions in production and subdued demand. A continued rise in employment is also something that may reduce consumption in the period ahead. Industrial companies are also concerned that the recovery will be hampered by bottlenecks among suppliers who are not able to increase their production in line with increasing demand.

A return to normal will take time...

The pandemic has affected companies in all sectors, but to a varying extent. Some sectors have benefited or been quite unaffected by the pandemic, such as the food industry, non-durable goods segment and construction. The longer the pandemic has gone on, the more companies have started to make more optimistic assessments of how long it will take before the economic situation is back to something resembling normal. But the majority of companies still expect it to take nine months or longer before the economic situation is back to where it was prior to the pandemic, see Figure 2. Companies hit hardest by the crisis, such as those in the hospitality and travel business, are also those that think it will take longest for the situation to rebound. Some even think that it will take until 2024.

Figure 2. When will the economic situation for your company be back at a level comparable to where it was before the coronavirus outbreak?
Proportion of companies



Note. All companies.

...but it will be a "new normal"

Several companies are considering what might be the more permanent effects of the pandemic on society and the economy and what will be the "new normal". The pandemic has accelerated developments that were already happening, where trade and meetings are increasingly taking place digitally. Several of the behavioural changes caused by the pandemic, such as how we shop, how we work and how we meet, are expected to be permanent. Companies are therefore focusing on how demand for the goods and services they offer will be after the pandemic. The technology for the adjustment now taking place has existed for several years, but it is only now, in conjunction with the changes in demand caused by the pandemic, that it has become relevant for companies to adjust their operations.

Industrial companies point out that they are reviewing their supply chains, that is to say the localisation of suppliers and associated logistics. But it may take several years to change these. Previously, the design of supply chains was primarily determined by cost factors. However, the pandemic has shown how costly it is when supply chains are broken and other considerations may therefore be needed. Dual-sourcing, that is when there are at least two suppliers of every component, is one way of coping with such problems. The pandemic has also shown that it is a considerable benefit if the production facilities of industrial companies and their suppliers are close together.

The funding situation has improved

Companies have generally found it easier to obtain funding since the spring. Industrial companies talk of a normalisation on financial markets, where there is good access to liquidity and loan terms are favourable. Low policy rates and continued asset purchases from central banks and subdued expectations of rate rises have contributed to lower interest expenses on securities markets. One business leader says that "borrowing on bond markets has never been cheaper". Although loan terms among banks are not considered to be as favourable as the terms on securities market, they are nevertheless seen as sufficiently advantageous.

During the spring, liquidity was particularly strained for those sectors in which demand was weakest as a result of the pandemic, for example the clothing trade, hospitality and the travel business. Some of the companies in these sectors have resolved their funding by postponing investments or via capital injections from owners, and have therefore not had a need for external funding. Other companies in these sectors that were finding it difficult to obtain bank loans in the spring, say that banks are now somewhat more willing to lend to them than previously.

"We are positive to the state support measures on offer"

Companies are generally positive to the various state support measures introduced as a result of the pandemic, regardless of whether they have utilised them or not.[2]' The measures are considered to have been necessary not only to keep normally profitable businesses afloat in the initial stages of the crisis, but also to maintain general demand in the Swedish economy. Several companies are satisfied with the measures taken by the Riksbank, as is reflected in the comment: "It was a good move by the Riksbank to go in and calm the markets".

However, several companies think that the regulatory frameworks for applying for the support measures have been unclear. One business leader says: "At the height of the crisis, it was rather cumbersome and complicated". At the same time, however, companies point out that it is not particularly surprising that the regulatory frameworks were not perfectly designed bearing in mind the speed at which they had to be implemented during the pandemic. A few medium-sized companies are critical of how the support measures have been designed to benefit large companies. One respondent also mentioned the risk of the state support measures keeping companies afloat that already had problems surviving before the crisis began: "There is a risk of distorted competition when really bad companies receive a lot of subsidies".

Companies consider the general support measures, such as the extended state sick-pay responsibility and the reduced employer social security contributions, to be important for their business. The measures that companies have to apply for have been utilised to a varying degree. The support measures that many companies have applied for are furlough schemes, tax respite, reorientation support and loan guarantees from the Swedish Export Credits Guarantee Board and the Swedish Export Credit Corporation. In some sectors, there is still a need for state support measures, but overall, the need is not considered to be as great now as at the beginning of the pandemic.

[2] The state support measures include increased government responsibility for sick-pay, respite from tax payments, furlough support, reorientation support, reduced employer social security contributions, rent discounts, loans and guarantees from ALMI Invest, the Swedish Export Credits Guarantee Board, the Swedish Export Credit Corporation and the Swedish National Debt Office, and the Riksbank's various measures. Companies must actively apply for most of the support measures to gain access to them. This does not apply to the extended government sick-pay responsibility and the reduced employer social security contributions, which are general state support measures and therefore apply to all companies that pay sick-pay and social security contributions for their employees. The Riksbank's various programmes are also general support measures that affect all companies.

"We don't cut down on something that may jeopardise the future"

The uncertainty created by the pandemic led to several companies pausing their investment plans in the spring and delaying new investment decisions. Several industrial companies stress that investments are often long-term and that the lead time for changing an earlier decision is long. Investments in research and development and in new technology cannot be delayed, as the competition is tough. They are prioritised regardless of the economic situation. During the spring, companies chose largely to only implement investments that had already been decided, as these were deemed too costly to withdraw. Investments in necessary maintenance were also implemented, even though the shortage of foreign labour due to travel restrictions caused some of them to be postponed.

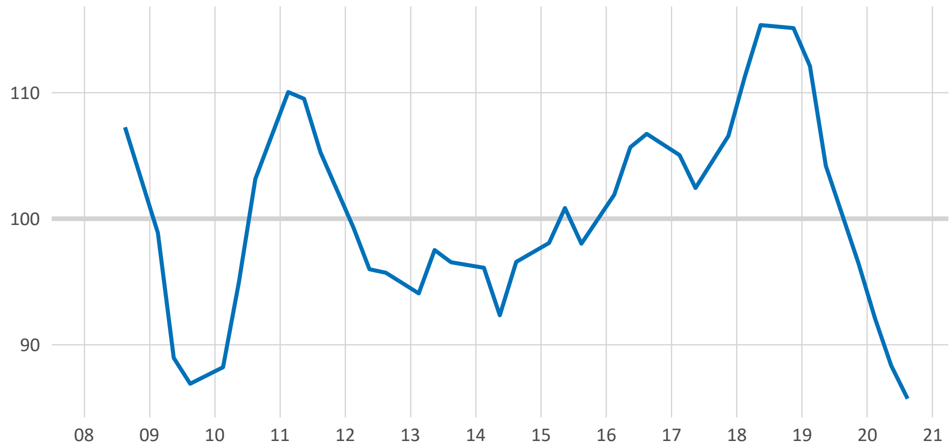
Most industrial companies have now reverted to their previous investment plans, albeit in somewhat modified form. But many companies, especially in the trade and service sectors, are still cautious about new investments. E-Commerce, which has seen explosive growth during the pandemic, is being prioritised by trading companies and also requires further investment to enable it to be more profitable.

Staffing: "A skills shift is under way and it's pace is now quickening"

After managing the pandemic crisis initially, many companies have implemented cost savings and various measures to improve efficiency. The measures taken include issuing redundancy notices, terminating employment contracts, introducing short-time work schemes and freezing recruitment, which have caused staff cutbacks of varying degrees in most sectors. But companies say that some of these personnel changes can also be seen as part of a long-term and strategic plan for their future organisation and staffing. One business leader expresses this as the pandemic providing an opportunity for "a rethink of the organisational structure". Several companies also talk of a skills shift that has been accelerated by the pandemic crisis.

The shortage of labour has been falling since the beginning of 2019, see Figure 3. In other words, it had already began before the outbreak of the pandemic. The shortage of specialists has also decreased, but significantly less than the general shortage of labour has done.

Figure 3. General shortage of labour
Weighted index figures



Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for those companies responding yes or no to the question of whether there is a general shortage of labour. The series has been smoothed out with a moving average based on three observations. The break in the series 2017:1, where the matter of labour shortages was divided into two questions: general labour shortages and a shortage of specialists.

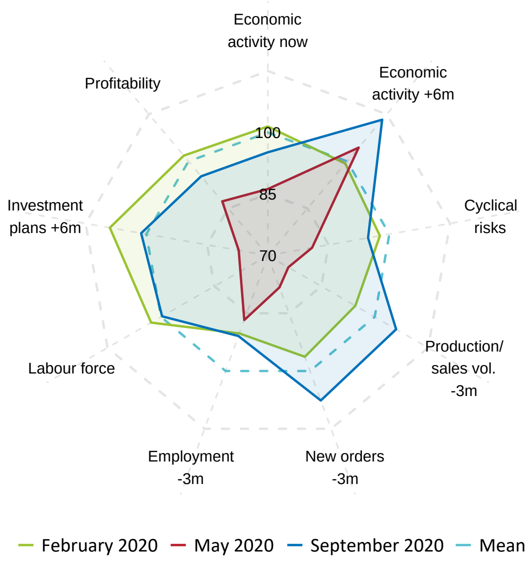
Differing views of economic activity on the sector and industry level

The aggregate responses of companies indicate that their economic situation has improved considerably since May, see Figure 4. However, the improvement is taking place from a deep downturn, caused by reduced demand as a result of the pandemic. The assessment of the economic situation is still worse than in February, however, before the outbreak of the pandemic. The view of economic developments differs among various sectors and segments. For this reason, companies' views of the economic situation are presented below on a more disaggregated level.

Demand fell sharply in some segments of the manufacturing industry during the spring. Economic activity has gradually recovered since then, however. Economic activity in the construction sector was already declining prior to the pandemic and although the sector has so far been relatively unaffected by the pandemic, companies are not seeing the same order inflow as they have had previously.

The economic situation for consumer service industries is generally very poor. There is talk of a continued critical situation and several companies are fighting for their survival. Corporate service providers are more optimistic about the economic situation. However, they are affected by economic developments in other industries to a large extent. The fall in demand in the manufacturing industry, for example, has been serious for several of them. The economic situation for the trade sector is split in two. There is high demand in the non-durable goods segment, while demand is clearly worse in the wholesale trade and parts of the durable goods segment.

Figure 4. Companies' aggregate response patterns
Weighted index figures



Note. The responses to the questions are plotted along "spokes" in the figure, where an index figure closer to the centre is worse. Greater cyclical risks, too large stocks and too large a workforce in comparison to demand/production are assumed here to be deteriorations and therefore lead to lower index figures. The historical average is calculated from the date when the question concerned was first included in the survey. The terms -3m / +6m refer to the most recent three months and the coming six months respectively.

"It is better than could be expected – fears have not been realised"

The economic situation in the **manufacturing industry** is still considered to be poor, but demand has gradually improved since the spring and the recovery has progressed faster than expected for several companies. One business leader says: "Things that once looked entirely bleak now look quite good." Neither are there significant production disruptions any longer.

Global demand is increasing as the recovery continues and follows in the wake of the pandemic. Exporting industrial companies in several different segments report high demand from China, which has also compensated for somewhat weaker demand from Europe. But "there are signs that Europe is starting to pick up slightly", especially in Germany. Demand from southern Europe is still subdued. South America has been hit hard by the pandemic, which is reflected in weak demand from there. The forest industry reports strong demand from the United States.

In contrast to the assessment by the major industrial companies, smaller suppliers have a more pessimistic view of the situation. They see a tougher economic situation, in which order inflows and production volumes have not returned to where they were prior to the pandemic. One respondent says that "we shouldn't be blinded solely by what is happening in Sweden". For example, the situation in Europe is tougher than in Sweden, and there are concerns in Europe that demand will fall again from an already weak recovery. Capacity utilisation in some segments in the manufacturing industry is still lower than before the pandemic. One business leader says that the order inflow "is not bouncing back as quickly as it fell". The strength and durability of the recovery are also difficult to assess, as it is hard to determine what proportion of the rise in demand is temporary and caused only by catch-up effects from previous falls in demand and production problems. There is therefore a risk that the increase in demand will slow down later on.

"Economic activity in the construction sector turned downwards before the outbreak of the pandemic"

The situation as regards economic activity in the construction sector is described by **construction companies** as satisfactory, although many also point out that it is bordering on bad. This is a decline from the strong boom in the industry during the period 2016–2019. Economic activity in the construction sector had already begun to fall during the second half of 2019. Although construction companies consider their operations have so far been relatively unaffected by the pandemic, they still think that the pandemic may have exacerbated the decline in economic activity. The economic situation in the sector is expected overall to have improved in six months.

"Demand is generally better for public-sector construction than for commercial/private-sector construction"

In general, **construction companies** describe demand from public-sector customers as high, while demand from private customers is low. This division is well described by the comment: "Hotels, offices, car parks and retail are not going well. Logistics, hospitals and homes for the elderly are better". Facilities and infrastructure are described as a stable segment, in which demand is being sustained by public investment.

The demand for housing has decreased, although this had started before the outbreak of the pandemic. When order inflows declined, several construction companies invested in their own housing projects, both rented accommodation and tenant-owned housing, which they think will become profitable. But it is also a question of sustaining construction activity and not losing valuable skills. For the same reason, construction companies are investing in other potentially profitable projects, such as schools and homes for the elderly.

Consumer service companies: "We are still in a very critical situation"

The situation is still serious for **hotels, restaurant** and **travel companies**. One business leader says: "It is a complete disaster, is "poor" really the worst response option?" However, the sales levels for hotel and restaurant companies have increased from the rock-bottom levels this spring. Travel sales increased during the summer from very low levels, but have since fallen back to largely the same low levels as in the spring. Comments such as "Customers don't want to travel even if they are allowed to" and "Travel will pick up again, it is a question of survival until then" reflect the prevailing situation well. Despite the major uncertainty, it is believed that demand will gradually increase in the longer term, but this belief is based on the assumptions that a vaccine will quickly become available and that no new restrictions will be introduced.

Corporate service industries are generally more optimistic

The **transport sector** sees a satisfactory economic situation and its transport volumes are approaching pre-pandemic levels. But e-Commerce has led to changes in trading patterns and this is also affecting their business. Container transport at ports has managed relatively well during the pandemic, although goods volumes are not back to the same levels as before the pandemic.

Companies in the **temporary employment sector** support the picture of high demand for logistics services. Demand in other segments, such as the manufacturing sector and in particular the automotive sector, has fallen substantially, however. The assessment is that it will take time for the demand for temporary employment services to recover.

In the **consultancy sector**, the view of economic developments is mixed, but consultants are generally satisfied with the prevailing economic situation. IT consultants in particular are optimistic and see increased demand for their services going forward.

Trade sector: "Sales are moving in the right direction"

There are major differences between different segments of the wholesale and retail trade. Especially for companies in the wholesale trade – suppliers of goods to hotels and restaurants, for example – economic activity is still poor. However, the **non-durable goods segment** sees a healthy economic situation with households preparing and eating more food at home, which is benefiting sales. E-Commerce has received a substantial boost from the pandemic and sales through this channel have increased considerably.

For the **durable goods segment**, the economic picture is split. Several sub-segments, such as general stores, home electronics, sport, furniture and home furnishing, are experiencing a good economic situation. Sales have benefited from more people being at home and having time to potter around, and from few having travelled abroad in the summer and instead have consumed in Sweden.

On the other hand, the clothing trade has been hit hard during the pandemic, and is continuing to see weak demand. We do not need to buy as many clothes when they are not moving around outside as much as before. Building material retailers report strong sales to households, but weaker sales to the construction industry. One business leader highlights that "consumer sales have been really strong all over Sweden".

"E-Commerce has seen explosive growth during the pandemic"
E-Commerce has been given an extra boost during the pandemic, and that is true for all trade segments. One business leader expresses it as "COVID has pushed the fast-forward button", in light of e-Commerce having been an underutilised channel despite all the new technology available. The non-durable goods segment continues to expand its e-Commerce, even though it has not been particularly profitable so far: "I really hope we have better margins the day our online sales hit ten per cent", one business leader points out. Another non-durable goods segment player says that their growth in e-Commerce was declining prior to the pandemic, and doubts that all e-Commerce will survive once the pandemic subsides.

E-Commerce has also grown rapidly in other sectors during the pandemic. Companies now need to work hard to rationalise e-Commerce. One company in the electronics trade notes that e-Commerce is the channel in which the company has its smallest margins, so when sales move from physical shops to online, the margins decrease. Discount stores are finding it difficult to generate profitability in e-Commerce, even though they too have seen increased e-Commerce sales during the pandemic, driven in part by older customers choosing not to go to the shops.

"We have had a price strategy, but need to know where the pandemic is heading"

One year ahead, companies especially in the non-durable goods segment expect increased sales prices, but price growth is expected to be lower going forward than it has been so far this year. Companies in other trade segments expect sales prices to be unchanged or lower one year ahead. Several companies highlight the development of the Swedish krona as an important factor in their pricing. The appreciation of the krona against the dollar means lower purchasing prices for several trading companies, which benefits margins but it also provides scope to reduce sales prices. Amazon's planned establishment in Sweden is expected to increase competition and squeeze prices in the durable goods segment.

Service companies are generally planning to raise their sales prices a few years ahead, in particular to cope with increased costs. But their scope for increasing prices in the longer term is, in many cases, dependent on economic developments.

Sales prices in the industrial sector are generally expected to rise in the year to come, but the crucial factors in how this turns out are the development of foreign exchange rates, global market prices and the economic situation. One business leader points out pricing must also take the situation facing customers into account. "You have to be responsive to an exceptional market." A few industrial companies, which see difficulties in increasing sales prices on their markets, will therefore try to keep their prices unchanged.

About the Riksbank's Business Survey

The Riksbank's Business Survey aims to reflect developments in prices and economic activity in the industrial, construction and trade sectors and some service sector segments. As only a few players account for a very large part of the Swedish business sector, relatively few interviews can provide information about a large part of the sector. Many of the interviewed companies also provide information about other parts of the business sector through their contacts with, for example, small and medium-sized enterprises.

The survey is conducted by personnel from the Riksbank who usually visit the companies. 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 normally 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 September 2020 Business Survey presents the results of interviews by telephone/web-based services with 57 companies, which were held between 22 and 29 September. Qualitative information from interviews with representatives of various sector organisations during the period concerned has also been used when compiling the report.

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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