

The Riksbank's business survey

“Vaccine optimism” raises expectations

February 2021

The Riksbank's Business Survey in February 2021¹

The economic situation for large Swedish companies has strengthened in recent months – especially for manufacturing companies. Demand is expected to both increase and broaden as an increasing share of the population is vaccinated and society can gradually open up again. Companies are therefore optimistic about future economic prospects.

Companies in several manufacturing segments are now reporting good global demand and strong economic activity. Moreover, several companies experience that production has already hit the capacity ceiling. However, there are various types of supply-related problem that risk leading to disruptions in production and increased costs going forward. For instance, the global shortage of semiconductors is already leading to limitations in production, and can also lead to periodic stoppages in production for the remainder of the year. Another problem is deliveries of goods, particularly deliveries from Asia. The capacity for sea and air freight has declined since the pandemic restrictions were introduced, which has led to delays in deliveries of goods and a strong rise in freight prices in recent months.

The large construction companies are experiencing continued very weak demand for commercial construction, such as offices and hotels. They have therefore started up their own housing projects during the autumn, and demand for these exceeded expectations. They cannot yet see a recovery in construction activity, but the assessment is that it will bottom out during the spring and then improve gradually. Large parts of the retail sector still describe economic activity as positively stable. But the tourism industry, which has been hit very hard by the pandemic restrictions, is continuing to experience “extremely little activity”.

Demand is strong, and this makes it possible for manufacturing companies to raise their sales prices and strengthen profitability in the near term. At the same time, the competition means that sales prices are still being held back for household-related companies.

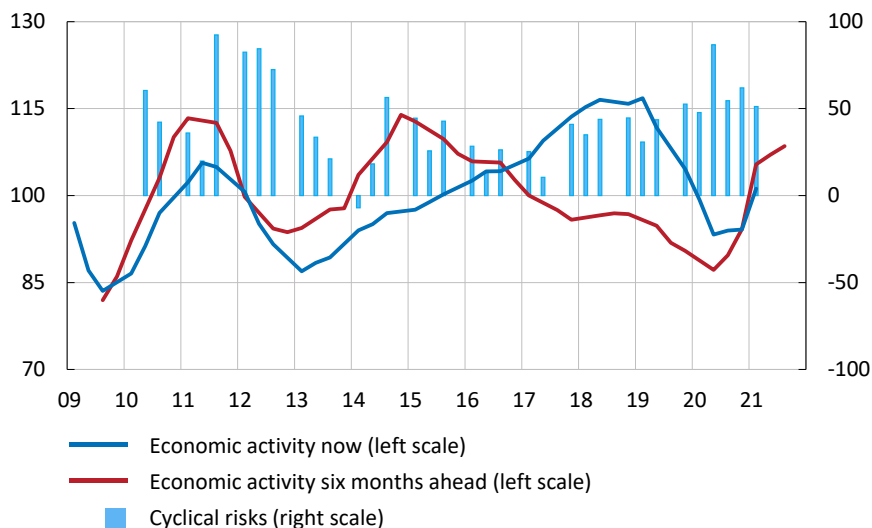
¹ During the period 10-19 February, the Riksbank has held telephone interviews with around 50 companies in the industrial, construction, retail and service sectors, as well as trade associations. The Riksbank's Business Survey is published on the Riksbank's website [web page](#).

“The recovery has been much faster and things have not been as bad as we feared initially”

The large Swedish companies feel at the same time that the economic situation has clearly strengthened at the start of the year, see Figure 1. Manufacturing companies in particular are experiencing strong demand. The economic situation is also expected to continue improving as vaccination progresses and society opens up. One business leader describes a “vaccine optimism” that is having a positive effect on expectations of future economic activity. Government measures packages, which have been announced in Europe and the United States, for instance, but not yet implemented, are also expected to strengthen demand going forward. Optimism regarding the future is also reflected in companies’ investment plans.

Figure 1. Economic situation and economic risks

Index (left scale) and net figures (right scale)



Note. The index figures show a standardised value (mean = 100 and standard deviation = 10) of the net figures for companies that say that the economic situation is currently good or bad and those 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 net figures for companies that say that the risks to economic development are currently greater or smaller than normal. A greater number of business surveys in 2020 means that there are observations for all quarters of the year.

“We've almost forgotten what normal risks are”

Although companies are on the whole experiencing an underlying positive trend with regard to demand, the pandemic is still creating considerable uncertainty. Factors that worry companies include delays in the distribution of vaccines, virus mutations and increased spread of infection leading to new restrictions and continued disruptions to supply. At the same time, some of them note that economic developments were not as bad as they initially feared, and that demand has generally been resilient to the great uncertainty created by the pandemic.

Large companies have continued good access to external financing

During the first wave of the pandemic in spring 2020, there were disruptions on the commercial paper market. But the access to and conditions for funding, both through the banks and the capital markets, has gradually improved since then for large companies. Several state that they have no need of external financing, which is partly explained by a good cash flow. It is rather the case that it is a challenge to invest liquidity to avoid limits and fees, and some have therefore chosen to amortise their loans.

Companies in the segments hit hardest by the pandemic, such as the tourist industry, emphasise that they have greater problems than before in gaining access to external financing, and that the terms are tighter. The following quotation is telling: “No one want to lend money to a company in crisis”. These segments have therefore chosen alternative routes for financing, such as capital injections from owners, and there are examples of restaurants that have been given credit for their purchases from wholesalers.

“Deliveries from China aren't getting through”

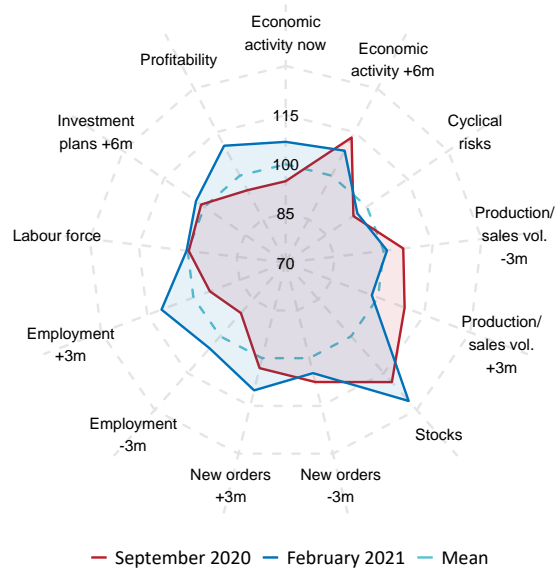
Recently, the manufacturing industry, as well as parts of the service sector and the retail trade, have noticed a rapid strengthening of demand. This has meant that various types of disruption to global trade and access to goods have once again attracted attention. The capacity for sea and air freight has declined significantly since the pandemic restrictions were introduced. The restrictions have meant that freight ships, and also containers, have “parked” in various harbours, which in turn has reduced sea freight capacity. The quotation “Our greatest challenge is finding containers” is also telling. Similarly, the decline in passenger air transport means that air freight capacity has declined significantly. It is primarily deliveries from Asia that are perceived as problematic. The disruptions lead to delays in deliveries of goods and increased freight costs, for instance.

“Our challenge right now is the supply of components, and in particular semiconductors”

Parts of the manufacturing industry and electronics trade are concerned at the global shortage of electronic components, particularly semiconductors. The shortage is caused by disruptions to the supply chain and a substantial demand for home electronics.² The situation already means that production is limited and costs have increased for a number of companies. They are assuming that the shortage of semiconductors will lead to further disruptions to production, and also periodic production stoppages, at least during the remainder of the year. The shortage, together with the strong demand, are also reflected in companies' assessment of the size of their stocks, where more companies than before assume that stocks are now too small, see Figure 2.

Figure 2. Companies' aggregate response patterns

Index



Note. The responses to the questions are plotted along "spokes" in the figure, where an index figure closer to the centre is worse. Increased risks to economic activity are assumed here to be deteriorations and thus entail a lower index figure. The historical average is calculated from the date when the question concerned was first included in the survey. The term -3m / +3m refers to the most recent three months and the coming three months respectively. +6m refers to the coming six months.

² The manufacture of semiconductors (data chips) occurs mainly in a few industrial plants in South East Asia. At the same time, semiconductors are used in an increasing number of products, from cars to home electronics. The pandemic has led to an increase in working from home, which has further increased demand for home electronics, such as computers and web cameras.

Rapid recovery for manufacturing industry...

At the beginning of 2019, activity in both the manufacturing industry and the construction industry began to fall and the declines were then reinforced by the outbreak of the pandemic and the ensuing restrictions in spring 2020. Manufacturing companies have seen a gradual recovery since the summer 2020, which accelerated at the end of last year, despite a second wave of infection. The economic recovery has continued during the beginning of this year. Companies in several manufacturing segments are now describing good global demand. "The economic situation is currently surprisingly good" says one business leader, for instance. The recovery is reflected, for instance, in the development of orders, and an increasing number are concerned that their stocks are too small, see Figure 3. Moreover, several companies experience that production has hit the capacity ceiling. During the pandemic, extensive economic policy measures have been taken around the world to alleviate its economic consequences. There are expectations among manufacturing companies of further stimulation, and if they are realised, it could contribute to a continued strengthening of manufacturing activity.

Figure 3. Manufacturing companies' assessments of orders and the size of current stocks, finished goods

Index



Note. The index figures show a standardised value (mean = 100 and standard deviation = 10) of the net figures for companies stating that orders have increased or decreased in the past three months in relation to the previous three months, and those stating that the company's stocks of finished goods are too small or too large. The series have been smoothed out with a moving average based on three observations.

...but the recovery in the construction sector will take time

Construction companies are not seeing any recovery in activity. The uncertainty following on from the pandemic has meant that currently very few offices, hotels and other commercial properties are being built. Investors are uncertain as to how demand for commercial property will develop in the future, which means that investment decisions will continue to be postponed. The impact of the pandemic on the Swedish economy is expected to gradually decline this year, however, which the construction companies feel will provide a good foundation for stronger construction activity in 2022. They therefore assess that construction activity will bottom out in the spring and then gradually improve.

“The housing market has nevertheless been pretty strong during the autumn”

The low level of activity in certain segments has enabled the large construction companies to start up several housing projects of their own during the autumn. The demand for this housing has been greater than expected, although it cannot be compared to the demand for housing a few years ago. Expectations here are still high: “We will be starting up more housing projects of our own this year than we have in previous years”. They also see a continued stable demand for housing from both private property companies and public housing.

Stable demand for retail trade on the whole

The economic situation in the retail trade is stable on the whole, and relatively unchanged since December. However, developments differ somewhat from sector to sector. The consumer goods trade, building materials trade and electronics trade are continuing to benefit from the restrictions due to the pandemic, which have led to fewer trips abroad, fewer restaurant visits and increased working from home with a strong demand for home electronics. Quotes such as the following are telling: “Tougher restrictions gave a further boost” and “As long as people can't travel, we believe the renovation boom will continue”. The clothing trade, which has been hit hard by the restrictions, is experiencing a continued tough situation. But they believe that there is a pent-up need to consume, and that when the restrictions are withdrawn, it will be a challenge for companies to “scale up” their operations quickly enough to meet the demand: “People are tired of sitting around at home in sweatpants”.

The development towards increased e-commerce, which has been in progress over a long period of time, has been further boosted by the pandemic. Companies are continuing to invest in various user-friendly digital solutions and automated stocks to make e-commerce more efficient. The strong e-commerce development also benefits other sectors, such as the staffing and transport sectors, which are experiencing increased sales of services.

Continued challenge for companies providing household services

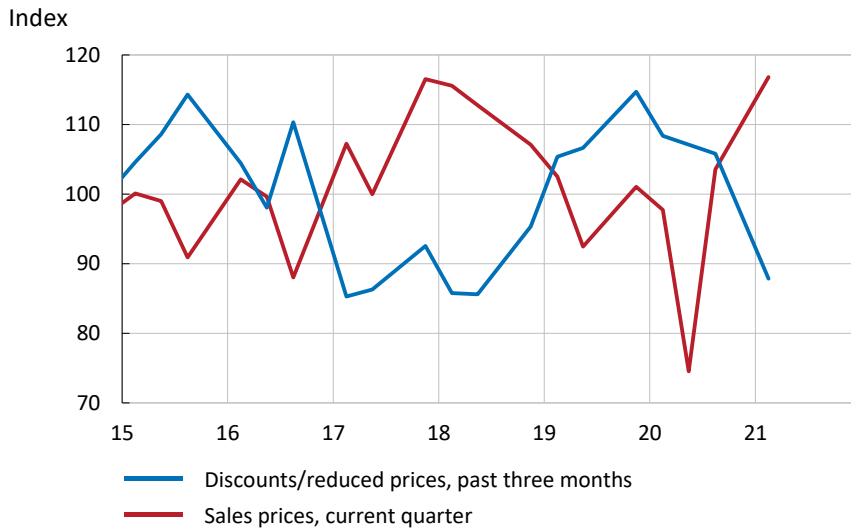
The tourism industry has been hit very hard by the restrictions. It saw some recovery during the late summer and early autumn, but the stricter restrictions in November worsened the economic situation once again. However, the companies believe the situation will improve: "Activity is extremely low, so there is little risk that things will get worse".

The corporate service industries, such as staffing companies, have benefited from the recovery in the manufacturing industry and have seen gradually improved economic activity, with increased sales of their services.

The strong demand enables manufacturing companies to raise their sales prices

Strong demand enables manufacturing companies to raise their sales prices in the near term, see Figure 4. They have gained a stronger position in price negotiations with customer companies and do not need to offer price reductions to the same extent as before. Several companies also assess that profitability has strengthened recently.

They also mention increased costs, in particular as prices of metal and commodities have risen. There is considerable demand for metals, and in particular for steel, at the same time as the stocks are small globally, which pushes up prices. One business leader says that in the long run there are "fantastic inflationary pressures" from commodity prices. Prices of sea and air freight have "risen violently" in recent months, as a result of the pandemic restrictions. The disruptions to supply can in the long run lead to increased costs for purchasing input goods. In addition to the strong demand, it is thus increased costs that are contributing to the industry's possibility to raise prices going forward.

Figure 4. Manufacturing companies' view of sales prices and discounts/reduced prices

Note. The index figures show a standardised value (mean = 100 and standard deviation = 10) of the net figures for companies stating that it has become more common or less common to apply discounts/reduced prices over the past three months, in relation to the previous three months, and for the companies stating that sales prices will be raised or lowered in the current quarter.

“Increased e-commerce has led to tougher price competition”

As before, competition is perceived as tough in the retail trade and the companies selling services to households, and they see on the whole few opportunities to raise sales prices. They say that it is not possible to deviate too far from competitors' prices. But the durable goods and sport segments have at least not needed to offer campaign prices to the same extent as before, thanks to the good demand brought about by the favourable cold winter weather this year.

In the tourism industry, demand in particular is affecting sales prices and the segment's pricing is therefore considered to be entirely dependent on how the pandemic develops. If demand increases apace with vaccination, restaurant companies see greater opportunity for price increases. However, hotels are more doubtful about the possibility of price increases, as it appears to be taking a long time before business travel, which generally raises the average room prices, returns. The current low level of activity in the sector is considered to have very little to do with pricing. “It isn't the prices that are stopping people from travelling”.

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.

Over 300 companies have taken part in the survey since it was started in 2007. In the surveys carried out during the period 2007-2019, around 30 companies were interviewed in February every year, and around 45 companies in May and November. The interviews were carried out by Riksbank staff during visits of around one hour. As a result of the pandemic and its effects on the economy, the Riksbank held a total of eight rounds of telephone interviews with the larger Swedish companies during 2020. 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.

This report for February 2021 presents the results of telephone interviews with around 50 companies and trade associations, which were mainly held between 10 and 19 February. Unless otherwise stated, the figures in the report present the companies' responses weighted in terms of the respective companies' number of employees in Sweden. The indexes in the figures capture upturns and downturns in the pattern of responses well. These responses are then combined with the companies' reflections during the interviews.

A more detailed description of the survey can be found on the Riksbank's website: Hokkanen, Melin and Nilson (2012), "The Riksbank's Business Survey – a quick indicator of economic activity", Sveriges Riksbank Economic Review 2012:3.

http://archive.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_eng.pdf



SVERIGES RIKSBANK

Tel +46 8 - 787 00 00

registratorn@riksbank.se

www.riksbank.se

PRODUCTION SVERIGES RIKSBANK

ISSN ISSN. (online)