THE RIKSBANK'S BUSINESS SURVEY

"Hard to see any improvement in the near term"

September 2024

S V E R I G E S   R I K S B A N K

The Riksbank's Business Survey in September 2024[1]

The economic situation has deteriorated somewhat since the spring, but it is above all companies' optimism about the future that has taken a hit. The lower expectations are most clearly visible in the manufacturing sector, which no longer expects an improvement in the near future. The export industry is feeling the effects of weaker demand from the rest of the world, which is reflected in the continued fall in new orders.

The retail trade remains the most optimistic sector, but even here optimism has moderated compared to the spring. Retail traders expected sales to be better than they were in the summer and early autumn. Traders are still waiting for households to start consuming more with lower inflation and falling interest rates, but this seems to be taking longer than expected.

Weak demand from Swedish households and businesses as well as the rest of the world will put broad and clear downward pressure on selling prices in the coming quarter. Companies plan to raise prices in one year's time, but this will largely depend on whether demand picks up.

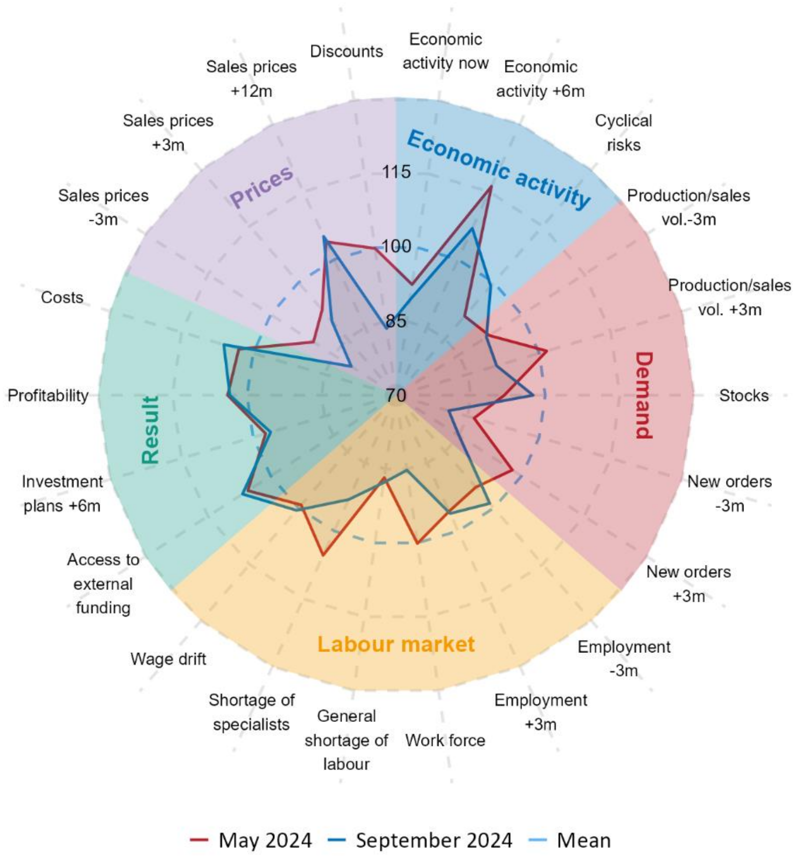
Ahead of the upcoming collective wage bargaining rounds, this time questions were put to companies and the social partners on wage formation. Companies and social partners believe that lower inflation and falling interest rates will make it easier for the parties to come to an agreement and that major conflicts can probably be avoided. But a number of factors are expected to influence the outcome of the collective bargaining rounds. They say this will be a negotiation against the backdrop of historically good corporate profits, and a lower demand for labour that has worsened the labour market situation.

[1] The Riksbank has held interviews with 47 companies in the manufacturing, construction, retail trade and services sectors, as well as employer organisations and trade unions. The interviews were mainly conducted between 25 September and 4 October. The Riksbank's Business Survey is published on the Riksbank's website. All quotations in this report are from respondents to the survey.

"Things did not get better as we had expected in May"

The hopes expressed by companies in the spring has clearly dampened after the summer, see Figures 1 and 2. It is primarily the outlook for the manufacturing industry that has deteriorated. Companies operating mainly in the Swedish market are so far not seeing any clear impact from the lower inflation and falling interest rates on consumption and sales. The conditions for an improvement in economic activity are in place, but companies now assess it will take longer than they previously thought.

Figure 1. The companies' overall 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. The historical average is calculated from the date when the question concerned was first included in the survey. The designation -3m means the past three months, +3m means the coming three months and +6m means the coming six months. Increased cyclical risks and discounts entail a deterioration and therefore a lower index figure. Increased costs are reflected in a lower index figure. The question of stock size is only addressed to the manufacturing industry (stocks of finished goods) and retail trade (stocks) and a reduction in stock size means a higher index figure. The questions about new orders are only put to the construction and manufacturing companies. For questions concerning the selling prices, construction companies only answer the question regarding selling prices in twelve months (+12m).The answers to the other questions in the figure come from all companies in the survey.

"It usually takes time to turn things around"

Exporters are coming out of a period of good profitability. Over the past year, they have seen a gradual slowdown in demand and a normalisation of economic activity. Last spring they, like other sectors, were optimistic about developments in the economy and demand. The outlook has become more gloomy since the summer, mainly as a result of weaker global demand reflected in a drop in new orders. "We are more pessimistic now," says one business leader. Overall, they do not see any improvement in the near future. A representative from the export industry says: "Over the last three or four months, it has become increasingly clear that the challenges have increased in most parts of the world." Demand from Europe, and especially from Germany, remains weak. There is some concern that it will take time before demand from China picks up again, which could risk further reducing demand in other markets as well. Stronger demand from North America has previously compensated to some extent for the low demand elsewhere. Demand remains stable, but the market is perceived as hesitant due to the upcoming presidential election.

"House builders are suffering"

Demand for residential construction remains weak and expectations of a broader recovery have been further postponed. They are now regarding 2025 as another "lost year" and believe the recovery will not come until 2026. The interest rate cuts have improved the conditions for housing construction, but "the market just isn’t picking up", as one respondent put it. In contrast, demand in infrastructure and civil engineering is very strong and order intake in these segments has increased. Public investment in areas such as defence and energy is expected to keep new orders strong in the coming years.

"Positive sentiments but too few sales"

There is still optimism among retailers and those selling services to households, but even this is more subdued now than in the spring. So far, the interest rate cuts have not had a major impact on sales volumes and respondents observe that households remain cautious. This applies particularly in the durable goods segment. One contributing factor highlighted is the sharp rise in demand during the pandemic years, when demand for home furnishings, building materials and electronics, for example, was saturated. A pandemic effect, coupled with a squeezed economic situation for many households, makes the durable goods sector more pessimistic than other retailers.

As in the May survey, food retailers are more optimistic. Even then, they saw that customers started to upgrade their shopping baskets with goods from more expensive segments. This behaviour has continued, with one business leader saying, for example, "you no longer chase the last penny difference when you stand there by the shelves".

"I don't think people will be wanting to spend a lot in six months' time"

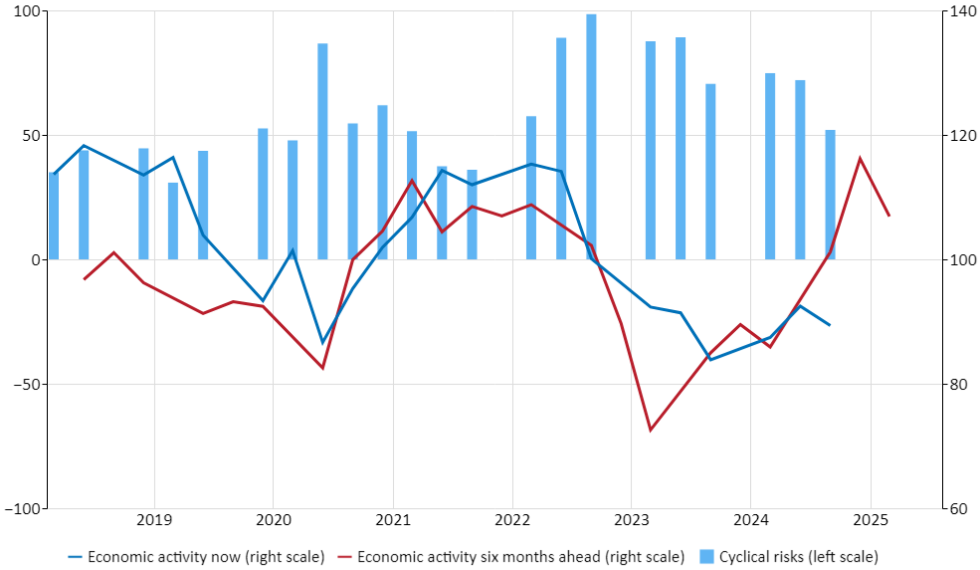
A majority of retailers believe that the economic situation will be better in six months' time, but few of them believe that the situation will be particularly good then. This can be seen in the quote: "it will probably take longer for the customer to shake off the last few years". Several companies express concern about further time lags between interest rate cuts and increased household demand. Some point to households potentially wanting to increase their savings before increasing their consumption, while others emphasise the risk of unemployment increasing and the effects this would have on consumption.

"Things are a little cautious, a little slow"

Several companies mention that it is a generally cautious situation. They mention hesitant markets and cautious households. Manufacturing companies take up, for example, the uncertainty about the future political direction of the United States in the context of the upcoming presidential election. One respondent comments: "all investment plans are being postponed until after the US elections, it's a waiting game, so to speak". As inflation has stabilised and interest rates have fallen, cyclical risks have diminished somewhat. However, they are still expected to be higher than normal, see Figure 2. As in the past, geopolitical risks are perceived to be high, which contributes to general concerns about how the economy will develop.

The weak economy and uncertainty about the future mean that companies continue to focus on keeping costs down and their willingness to invest is held back. This is particularly true for manufacturing companies who say that they: "are generally in a phase of getting their houses in order" and that "no stone is left unturned". Decided investments are generally being implemented, but some are being postponed, and there is a more cautious approach to new ones.

Figure 2. Economic activity and cyclical risks
Net figures (left scale) and index (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 that 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 columns show the net figures for companies that say that the risks to economic development are currently greater or smaller than normal.

"People are concerned about the situation, but also about missing an upturn"

There are companies that are weighing up how the economy will develop and what measures need to be taken. A worse-than-expected situation could lead to staff reductions going forward. More companies than in May feel that their workforce is now too large in relation to demand, production and sales. Some say they have chosen to retain staff to be well prepared when the economy turns. "It is weak now, but you don't dare get rid of staff because then they may disappear", explains one respondent, adding that you don't want to end up in a situation where you are understaffed in an upturn. Such a situation can be very costly. For example, it can be difficult to find the right people and it is expensive to recruit. Another respondent refers to the pandemic: "We learnt our lesson when things got going in 2021, that we had got rid of too many people. Now we have a lot of overcapacity in both machines and people so that we don't miss the turnaround." A third respondent refers to the experiences of the financial crisis and says that it is "difficult to bring back staff who feel betrayed". This is why this company prefer short-time working weeks over lay-offs.

The green transition risks losing momentum

Weak economic activity and customer caution are affecting companies' sustainability efforts. "We want to do more for a green transition, but we are of course affected by the economic situation," explains a respondent in the transport sector, who also emphasises that the industry needs to continue to invest in sustainability. Retailers are experiencing a decline in interest in sustainable products as prices become more important in a weak economic climate. "Everyone has to respond to the green wave, but we are now seeing less interest and more focus on prices." The manufacturing industry is also experiencing weaker demand for sustainable products.

The slowdown in sustainability is also mentioned as a risk to economic growth. For example, there is uncertainty about whether and how different governments will subsidise investments in green technologies. So far, China and the United States have spent more on subsidies than the EU and it is mentioned that European companies are now postponing green investments. The green transition in northern Sweden has taken a hit, making investors and customers more cautious. Companies that have invested in sustainability are concerned about this trend, as the decline in demand is weakening their competitiveness: "We are well positioned and rather worried that the green transition will grind to a halt."

"Prices are under pressure"

Companies feel that weaker demand has led to increased competition. This in turn has resulted in that discounts and reduced prices have become more common than before, particular among those selling to companies. Several have therefore already reduced selling prices or are planning to do so in the coming months, see Figure 3. This applies both to those selling to companies and to households. A business leader from the manufacturing industry says: "We now realise that we are back in a very competitive market and that means discounts are increasing."

Even among those selling to households, competition is fierce and households continue to demand discounts: "It's our campaigns that bring in the customers." Some also mention that a greater proportion of promotional products are sold and that discounts have a greater impact than before. There are also examples of retailers who have raised prices too much and then had to adjust them downwards.

Figure 3. Selling prices current quarter and next quarter
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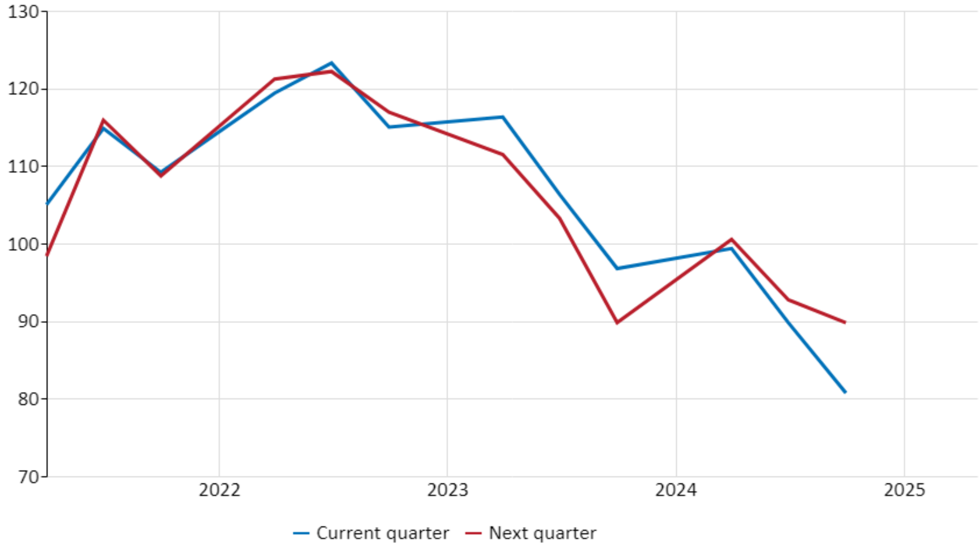


Note. Index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for companies responding to the question regarding whether sales prices will be raised or lowered during the current and next quarters.

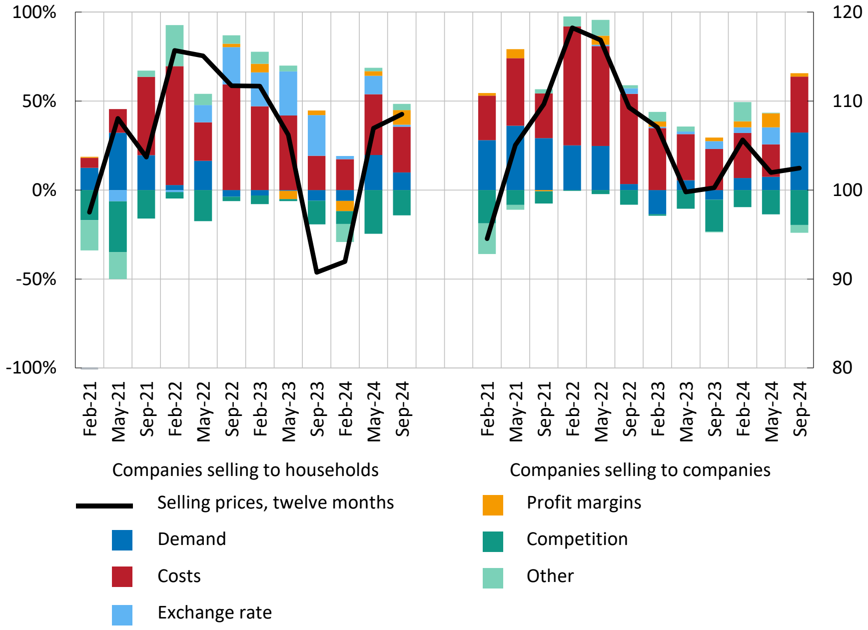
"One year ahead, we still believe in better prices"

One year ahead, companies are planning to raise selling prices, see Figure 4. At the same time, they are unsure whether this will be possible. Developments in demand largely determine the price increases that companies can implement. Rising prices are therefore largely explained by hopes of a better situation in which households' purchasing power is assessed to have strengthened, partly as a result of lower interest rates. Previously high cost pressures have eased, but labour, material and purchasing costs are continuing to contribute to price increases. Among those selling to households, there is still some need to compensate for increases in costs that they have not yet been able to pass on to customers. One company manager says: "We will continue to raise prices as consumers have more room to spend, to compensate for the loss of margin we have had to take."

However, those selling to businesses are trying to resist price cuts: "We don't want to follow our competitors and cut prices so much that our margins are completely eroded." The manufacturing industry is continuing to enjoy good profitability and in recent years has been able to increase prices further and more often than in the past. This is reflected in the quotation: "We're happy if we can maintain the selling prices, they've gone up quite a lot anyway."

Figure 4. Driving forces behind pricing over the next 12 months

Net shares (left scale) and index figures (right scale)



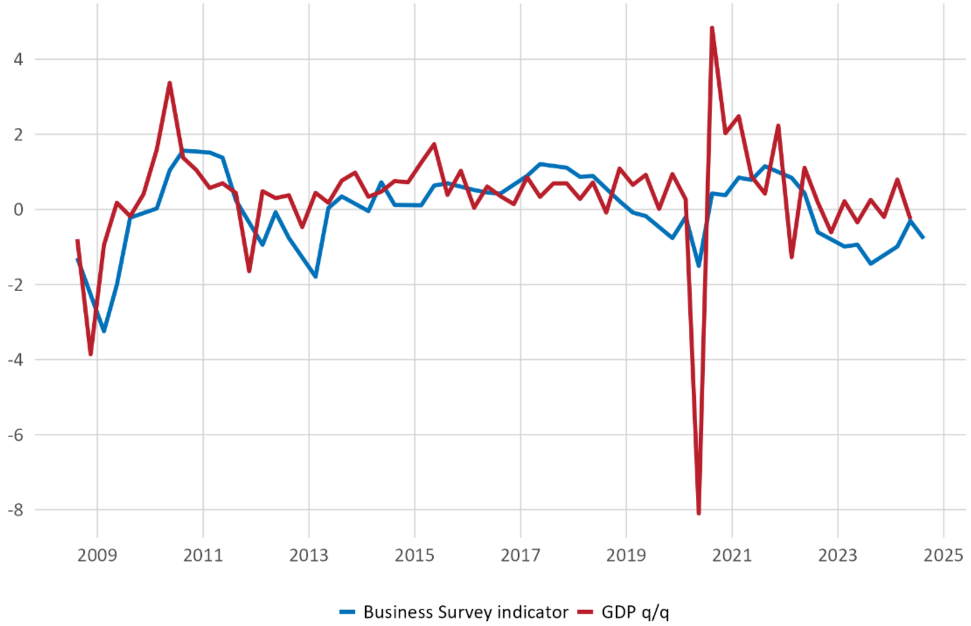
Note. The bars in the left-hand scale show the net of responses to the question whether the factor will affect prices upwards or downwards in the coming year. A bar above zero means that the factor contributes to rising prices in the future and below zero that it contributes to falling prices. The index figures in the right-hand scale show a standardised value (mean = 100 and standard deviation = 10) of the net figures for those companies that answer the question whether sales prices will be increased or decreased over the next 12 months. Companies selling to companies refers to manufacturing and construction companies and those companies that mainly sell services to other companies. Companies selling to households refers to retailers and companies that mainly sell services to households. The item "Costs" includes purchase costs, labour costs and energy costs. The item "Other" includes, for instance, spare capacity and productivity growth.

Weaker economic indicator

The overall result of the survey is summarised in the Business Survey's economic indicator, which points to a gloomier sentiment in the economy compared to last spring. Earlier in the year, the indicator strengthened largely due to positive business expectations. The dampened optimism, together with a weaker development in demand, especially for the manufacturing industry, caused the indicator to fall in September.

Figure 5. Business Survey's economic indicator and GDP

Index figures and quarterly change in per cent respectively



Note. The economic indicator is a summary measure of the questions in the Business Survey.[2] It is generated using principal component analysis. The index figures show a standardised value (mean value = 0 and standard deviation = 1) for the economic indicator. A positive (negative) value indicates that the economic situation is better (worse) than the historical average. As the Business Survey is conducted three times a year, the economic indicator has been interpolated for intermediate quarters. The GDP series is seasonally adjusted.

Sources: Statistics Sweden and the Riksbank.

[2] For further information on the Business Survey's economic indicator, see N. Holmer (2023), "The Business Survey's new indicator of economic activity - an early temperature gauge of economic activity", Economic Commentary No 5, Sveriges Riksbank.

ARTICLE - Collective wage bargaining rounds 2025: "The fact that inflation and interest rates have fallen suggests that the wage bargaining rounds will not get out of hand"

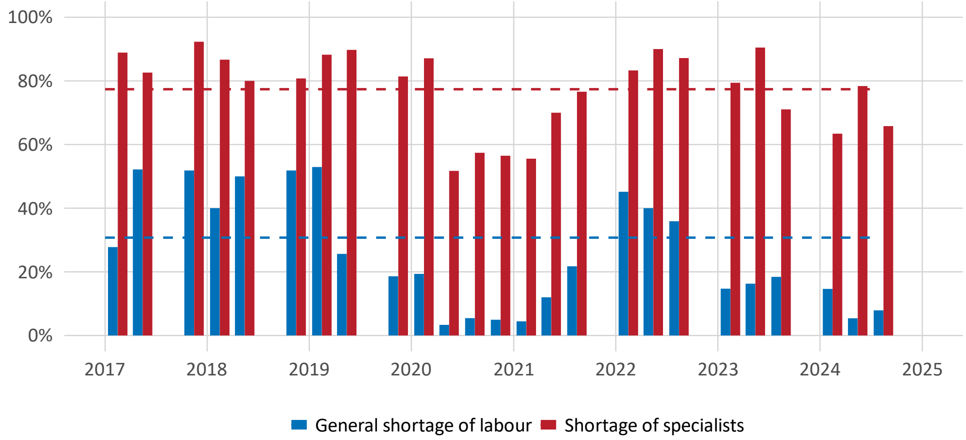
The September survey asked companies and social partners about labour shortages and wage drift, as well as the upcoming collective wage bargaining rounds. Similar questions were asked in September 2022. In the run-up to the 2025 round, the macroeconomic starting point is different from two years ago. Both labour shortages and wage drift are lower, the economic situation is weaker and inflation is lower. It is believed that these factors will make it easier for the parties to come to an agreement and prevent the collective bargaining process from "getting out of hand".

Specialists are recruited from abroad

Labour shortages are lower now compared with autumn 2022, which is mainly linked to a weaker demand for labour, see Figure 6. "The fact that the shortage has declined is just cyclical," says one company manager. Many find it easier than before to find staff, both in general and finding specialists. Another reason mentioned is that more people have entered the labour market after being made redundant.

Figure 6. Labour shortage

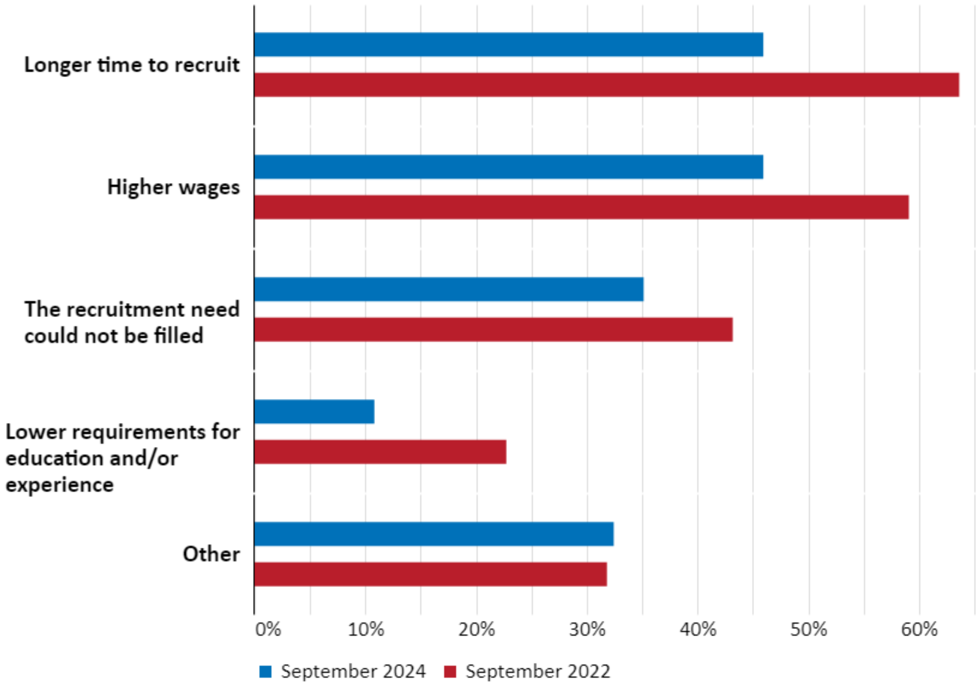
Percentage of yes responses



Note. The questions asked were "Is it generally hard to get hold of labour?" and "Is it hard to get hold of specialists?" The figure shows the companies' responses. The social partners are not included.

As in autumn 2022, the labour shortage that exists has mainly led to longer recruitment times and higher wages, see Figure 7. The responses under the "Other" option differ from the survey two years ago. Companies responded then that the shortage had led to lost business, delayed projects, reduced sales and slower growth. The latest survey mentions in particular recruitment from abroad. The types of service mentioned include research and development and IT. "We have realised over time that we need to have a global approach," explains one business leader, who also says they are recruiting for data centres abroad. It also emerges that it is not easy to attract foreign labour in these shortage areas to Sweden, which drives up wages.

Figure 7. Consequences of the labour shortages in the past six months
Per cent



Note. The question asked was "What consequences has the shortage of labour/specialists had in the last six months?" Several responses were possible. It was answered by companies and social partners. Three respondents abstained from responding in 2022 and 10 abstained in 2024. The figure shows the proportions of those who have answered the question.

Wage drift mainly in occupations with shortages

Wage drift is low and in some cases described as "non-existent". "We have no wage drift to speak of" says one business leader. Several say that contracts are strictly adhered to and that wage drift only occurs for certain specialised skills, which make up a small proportion of the workforce. Many also state that wage drift is now less than it used to be and explain this by low demand for labour and a weaker economic situation. This also differs from autumn 2022, when more people felt that wage drift was greater than normal.

"I hope these will be constructive wage bargaining rounds, as they usually are"

With the weaker macroeconomic situation today compared to the autumn of 2022, sentiment is also different during discussions with companies. Previously, there was widespread concern, both about the risk of conflict and the level at which collective agreements would be reached. Now most companies are cautious in their statements. Many believe it will be easier this time around, pointing to the fact that it went well last time when conditions were more difficult and the wage formation model was under pressure. "There was a great deal of responsibility shown," notes one company manager.

Several retailers mention that higher agreed wages would generally contribute to a stronger household sector economy, which would be welcome for retailers. "We hope that an increase in real wages and lower interest rates will increase purchasing power", says one respondent.

The recovery in real wages will be a gradual process

Both the companies and the employers' organisations see a risk that there may be demands for compensatory wage increases from the trade unions in the light of the real wage cuts of recent years. One respondent explains: "It's still a special situation - coming from a situation of a large real wage loss that you would like to recover, combined with the fact that some companies have benefited from a weak exchange rate." However, most of those who raise potential difficulties and risks of conflict link them to factors other than the level of the agreements, such as the reduction of working hours or the right to work full-time. They say that this is a difficult issue for retailers and service providers, among others, whose activities need to adapt to customer flows. There is a need for a high degree of flexibility in staffing.

Trade unions point to high corporate profits and argue that workers have not benefited from them. One respondent states that "[The companies'] gross profit shares are high, but have not been distributed to the employees". At the same time, they say they are not envisaging any clear requirements for compensation for the previously high inflation. Several say that real wage increases will come in the long run, but that it is a process that will take time.

Overall, the social partners are confident that new agreements will be reached. Now, as in autumn 2022, they express both confidence and pride in the Swedish model. The following quote is telling, "There is nevertheless a good atmosphere regarding these issues."

About the Riksbank's Business Survey

The Riksbank's Business Survey should reflect developments in prices and economic activity in the manufacturing and construction industries, the retail sector and parts of the services 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 companies interviewed 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 and video interviews with companies and trade associations in 2020. Nowadays, between 30 and 50 companies and trade associations are interviewed on each occasion. As of May 2022, some of the interviews are once again being conducted in the form of visits. The interviews are usually conducted with members of the companies' management teams. The interviews 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. The response rate for the survey is high and is often around 95 percent.

The results of the survey are presented in a report published on the Riksbank's website, usually three times a year. The report for September 2024 presents the results of interviews with 38 companies and nine employer organisations and trade unions, and they were conducted mainly during the period 25 September - 4 October. 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 closely reflect upturns and downturns in the pattern of responses. 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.

The Riksbank's Business Survey – a quick indicator of economic activity

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