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The Riksbank's Business Survey: Costs accelerating, economy slowing down

Economic activity remains good. But there are now more and more signs that demand is beginning to decline. This is reported by the major Swedish companies in the Riksbank's Business Survey. Companies' costs have continued to increase and prices are rising both by larger amounts and more often than normal. Moreover, there are general plans to continue raising prices in the coming year.

“We are preparing for a downturn”

It is mainly manufacturing companies that are satisfied with the economic situation. Parts of the retail trade feel instead that demand is already weak, as inflation has eroded households' purchasing power. In the construction industry, the production rate remains high, but the order intake for new housing has clearly slowed down.

A clear majority of companies are expecting the economic situation to deteriorate over the next six months. The development of energy prices is consistently identified as the greatest risk factor. However, many also mention the increase in inflation and interest rates with their potential effects on household demand. The recent weak development of the exchange rate is mentioned as a major source of concern for trading companies that import goods.

“We're constantly raising prices”

Demand has been strong in recent years, and together with production and supply disruptions and the shortage of key inputs, this has led to rapidly rising costs and higher prices. Prices are now rising more frequently and in larger steps than before. For example, within the retail trade extra staff have been hired to be able to keep up with changing prices at the same pace as costs increase. It has also become difficult to reach agreements on prices for deliveries further ahead, because there is considerable uncertainty over costs.

“It is a free-for-all regarding some specialists”

The expected economic downturn has not yet affected employment. On the contrary, the demand for people with specialist skills has increased. A manager describes the situation as almost a free-for-all regarding some specialists. Although the salaries of certain groups have



increased, both companies and the social partners interviewed by the Riksbank believe that salaries over and above agreements, so-called wage drift, are currently a relatively minor problem compared with other cost increases.

“The Swedish model will be preserved. It is in everyone’s interests”

Both companies and social partners believe that inflation will make the forthcoming wage bargaining rounds more challenging than for many years. It is also difficult to say how long the agreements will apply for. At the same time, there is strong confidence that the negotiations will lead to central wage agreements that the whole labour market will follow. The quotation “The Swedish model will be preserved. It is in everyone’s interests” is telling. But several factors, such as an ever-greater labour shortage, higher wages in competing countries and companies' relatively good profitability point to higher general wage demands than in recent years' wage bargaining rounds.

ABOUT THE BUSINESS SURVEY

The Riksbank regularly interviews Sweden’s largest companies in the manufacturing, construction and retail trade sectors and some service sector segments. Representatives of 39 companies and nine social partners were interviewed via visits/telephone/web-based services during the period 20- 30 September 2022. The results of the interviews are reported in the Riksbank’s Business Survey. The quotations above are from the interviews.