THE RIKSBANK'S BUSINESS SURVEY

# "No strong wind in our sails"

February 2025

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

# The Riksbank's Business Survey in February 2025[1]

Economic activity is weak in most parts of the economy and largely unchanged compared with the previous survey in September. Companies believe that the situation will be marginally better in six months' time, but it is expected to take longer than that for there to be a tangible improvement.

While the grocery sector is experiencing stable sales growth, the durable goods and hospitality sectors are generally slower. It is therefore common to use various promotional offers to entice households to buy. Companies are still waiting for interest rate cuts and real wage increases to boost consumption.

Demand is weak in large parts of the manufacturing industry, which is partly linked to challenges in the European motor vehicle industry. Admittedly, some manufacturing companies are now a little more optimistic about the future than they were last autumn. However, they point out that the change in economic activity is not expected to come soon or be strong, and that it is only towards the end of the year that an improvement will be seen.

Grocery retailers and restaurants are increasing their selling prices, due to higher purchase costs for some commodities. However, the relatively weak demand makes it more difficult for companies in the durable goods sector and other sectors to raise their prices. Although there are plans to increase prices in the longer term, this will largely depend on how demand develops.

The announcement of import tariffs in the United States and possible retaliatory measures by the EU add to uncertainty about the outlook for international trade and are seen by many companies as a risk to the economic recovery. The majority of companies estimate that they will be affected to a small extent. But it is difficult to predict the consequences, as it is not known what form the possible tariffs will take. Companies that expect to be significantly affected by the tariffs anticipate having to raise their prices to compensate for them.

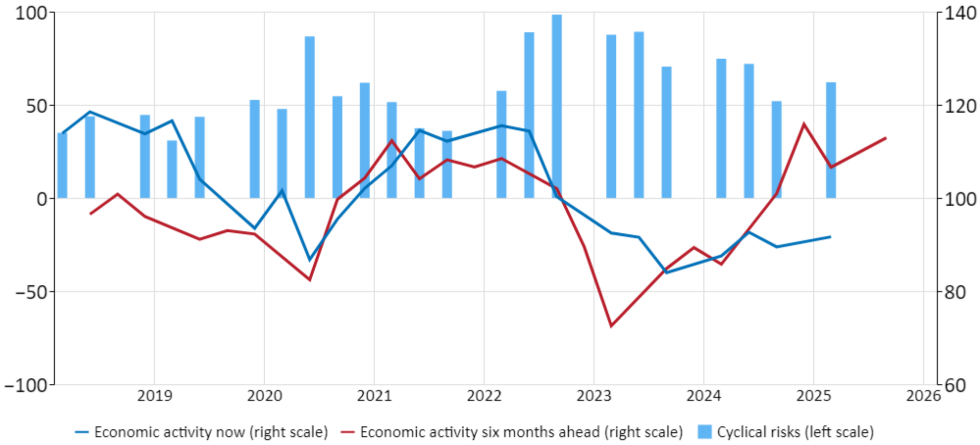
[1] During the period 31 January to 7 February, the Riksbank held interviews with 44 companies in the manufacturing, construction, retail trade and services sectors, as well as trade associations. The Riksbank's Business Survey is published on the Riksbank's website. All quotations in this report are from respondents to the survey.

## “Things are moving slowly out there”

Overall, the economic situation is relatively unchanged compared with last autumn, see Figures 1 and 2. It is described as remaining weak in most parts of the economy. As before, general demand is not meeting companies' expectations. At the same time, some are seeing a gradual improvement in sales and order intake. However, this is a small increase from low levels and, overall, companies do not interpret it as a sign of strengthening economic activity. The quote: “There is no strong wind in our sails now, we are moving forward, but with no speed” is very descriptive.

**Figure 1. Economic activity and cyclical risks**

Net figures (left scale) and index 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 economic activity is currently good or bad and those that say that economic activity will be better or worse in six months’ time. The red line, economic activity in six months’ time, has been moved forward two quarters. The bars show the net figures for companies that say that the risks to economic development (cyclical risks) are currently greater or smaller than normal.

## “We have confidence in the future and expect things to get better, but aren’t really seeing it yet.”

Companies continue to hope that lower inflation and interest rates will lead households to consume more. A majority therefore believe that the economic situation will improve in the future, but in six months' time it is expected to be only marginally better. It is expected to take longer than this before economic activity visibly improves. Risks to the economic outlook are still considered high, see Figures 1 and 2. Many respondents highlight the uncertainty surrounding economic policy following the US election as a risk to the economic rebound. “We are all waiting to see what decisions will be made in the USA,” said one business leader.

**Figure 2. The companies' overall response patterns**

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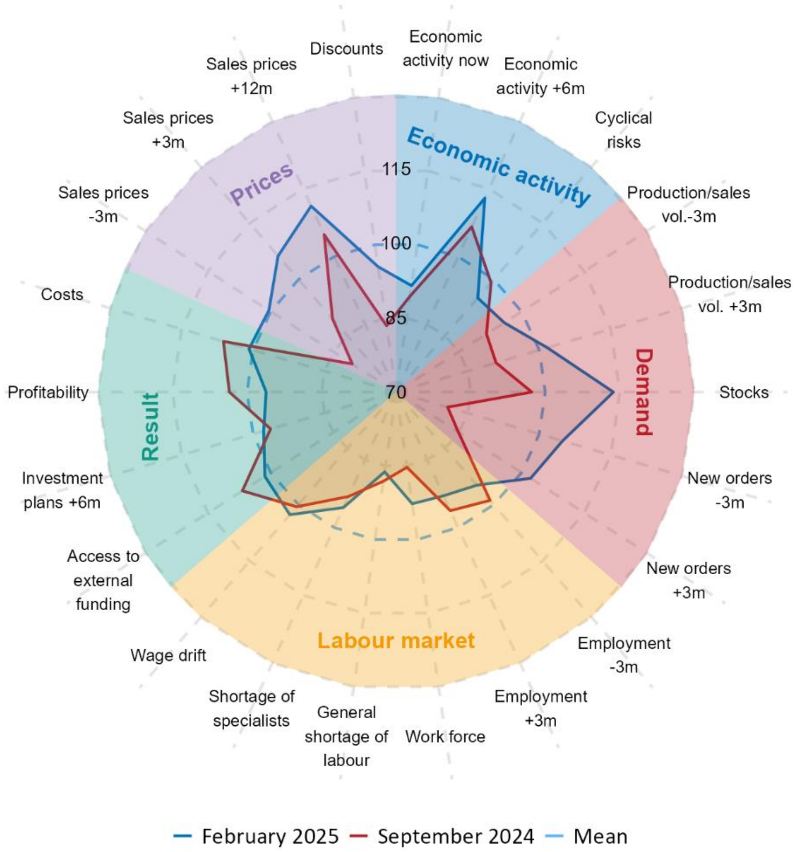


Note. The responses to the questions are plotted along 'spokes' in the figure, where an index figure closer to the centre is worse. The historical average is calculated from the date when the question concerned was first included in the survey. The designation -3m means the past three months, +3m means 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 the questions on selling prices, the construction industry only responds to the question on selling prices in twelve months (+12m). The answers to the other questions in the figure come from all companies in the survey.

## Grocery retailers: "People are up-trading"

Generally speaking, the economic situation is better for the grocery trade than for the durable goods trade. Since last spring, grocery retailers have seen households gradually upgrading their shopping baskets (known as 'up-trading') and increasingly buying higher quality goods. Moreover, households that had previously left the more expensive chains in favour of low-cost alternatives have gradually returned. Sales growth is positive, but the customers "are still under some financial strain", which is reflected, for example, in the fact that sales tend to increase when wages or benefits are paid.

Representatives of the durable goods sector are particularly aware that household finances remain under pressure. Few of them see any signs that demand has strengthened, noting that "customers are still holding on to their wallets". However, sales volumes have increased, although this is explained by intense promotional activity. It is argued that generous promotions are needed to ”save sales”. However, discounters are more positive than other durable goods retailers. They assess that they are in "the beginning of a recovery" and that customers are buying "less need-related and more impulse purchases".

## "People go out, but consume less once they are there"

The economic situation is still perceived as strained for the hospitality industry, and especially for the restaurant sector, where food costs have increased while demand remains weak. Restaurants are said to be often busy, but the average bill has fallen. The travel industry is also experiencing a challenging situation and the development of demand among Swedish households is described as significantly slower than for other Scandinavian households. A telling quote is "if you had the same discounts in a market other than the Swedish one, there would be a rush, but not here".

## "At some point consumers will start shopping"

Over the past year, companies selling to households have gone from being clearly optimistic in the spring, to expressing disappointment that consumption has not gained the momentum they had hoped for. A telling quote is "it would help us if people were out more and consuming now". There is concern that households will continue to be cautious for a while longer, with one respondent saying that "everyone seems to be saving". The vast majority believe in a slow recovery in consumption. Sales volumes are expected to increase marginally in the spring, but a more noticeable increase is not expected until autumn 2025.

# Manufacturing industry: "The current situation is challenging"

The economic situation remains generally weak in the manufacturing industry. Many respondents say that demand is particularly weak from Europe and especially from Germany. This is linked, among other things, to the European motor vehicle industry, which continues to struggle. China is seeing some improvement in demand, while demand in the United States continues to be strong. After experiencing a decline in new orders in September, more respondents now say that they have increased in recent months. Business areas such as electrification and energy saving are going strong. However, for most respondents the improvement in orders concerns minor changes from low levels. Slightly more companies than in September state that the size of their finished good inventory is too small, but on the whole it is not perceived as a problem. Companies do not seem to see the improvement in orders and smaller stocks as a clear sign that demand is accelerating. Some also report that they have reduced production rates and have spare capacity. “We're building up orders, but we can't run the machines at full speed”.

There are now more respondents who believe that the economic situation will improve in six months' time, than there were in September. At the same time, they point out that the rebound will neither be strong nor fast, and that it is only towards the end of the year that an improvement will be seen. “Things will pick up at the end of 2025 and in 2026 they will start to be good again." However, no one is talking about clear signs of a rebound. They point to macroeconomic indicators that suggest that things will get better and that the effects of the interest rate cuts already implemented should be seen soon. The following quote is telling, “As interest rates are lowered, demand will return and production will get going. Although we believe it will take some time.”

## “We are starting [housing] projects on speculation”

Several construction companies report that they have reduced the requirements for pre-sales before the start of construction. Thus, there is a change in strategy and a slightly higher share of risk, as households are less likely to buy a new home before the one they have is sold. This means that more and more properties in the large construction companies' own housing developments are being sold at a later stage of the construction process. Business leaders note that “our housing projects are more finished now than before when we put them up for sale”, and “we don't sell on blueprints anymore”.

The situation for the construction sector as a whole is relatively unchanged, but still divided. Demand for new housing remains weak. Some are seeing a certain increase in demand, in major cities, but from low levels. Those who build facilities and infrastructure continue to have a good order intake and as in the past, the situation is better for them. Last year's very strong order intake in the segment has fuelled investment needs, including new machinery. In addition, several mention the need to buy land for investment in housing projects under their own management. One business leader sees it as a sign of a slightly better situation in the industry, saying "It's a more stable situation and we are daring to invest more." It is only in the second half of the year that a more tangible improvement in construction activity is considered possible.

## Cost pressures leading companies to raise prices now

Companies selling to households are increasing selling prices, see Figure 3. The price increases are the result of higher costs, particularly in the grocery and restaurant sectors. Frost, drought and torrential rain have caused crop failures for commodities such as cocoa and coffee, which has led to increased purchasing costs. In the durable goods sector, the costs of imported goods have increased as a result of a previously weak Swedish krona. However, raising prices is a challenge, according to one clothing retail executive, who says that "the market is not ready for it". Several respondents mention that IT costs are increasing more than before. Costs have generally fallen for those selling to other companies. This trend is particularly evident among construction companies, where falling world market prices for copper, aluminium and steel, for instance, have contributed to a reduction in the cost of construction materials.

**Figure 3. Sales prices current and next quarter, companies selling to households**
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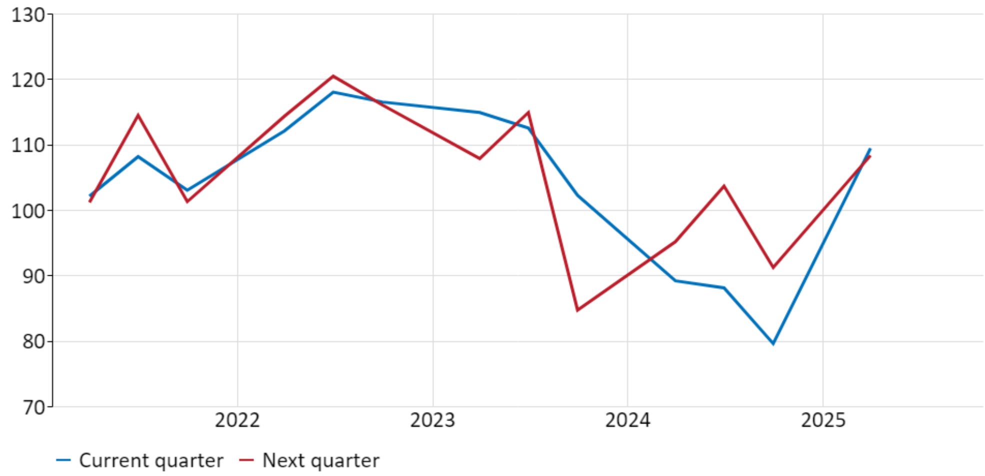



Note. Index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for companies responding to the question regarding whether sales prices will be raised or lowered during the current and next quarters.

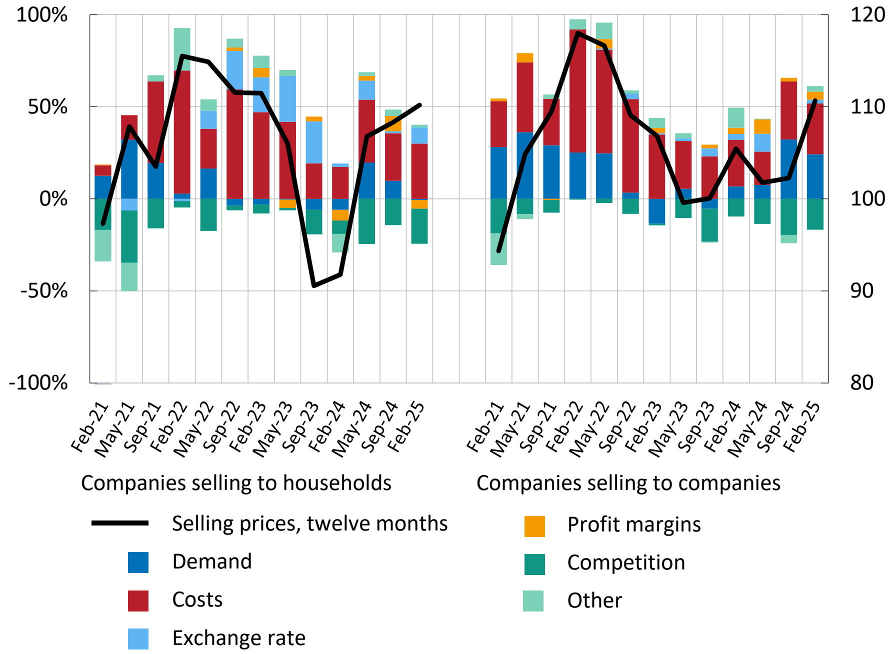
## "There is no appetite for price increases, but we have no choice"

Developments in selling prices in the longer run are more uncertain. For businesses selling to businesses, and especially for business-related services, labour costs are the driving force behind price developments. Weak demand is leading to subdued price pressures in the manufacturing industry. Cost increases can possibly be charged to customers, but higher margins are generally not an option given the situation. The companies are planning to increase their sales prices in the coming year, see Figure 4. As in September, the price increases that will actually be implemented this year will depend on how demand develops.

Increased purchasing costs are expected to affect the pricing plans of companies selling to households in the coming twelve months as well, see Figure 4. In the durable goods sector, the need for a continued high level of promotional pressure is emphasised, which is also reflected in the quote: "Customers still need to be enticed to buy, given an extra carrot." The competitive situation for grocery retailers is also perceived as tough. To the extent possible, they are trying to compete with lower prices by resisting price increases, but recognise that this is not entirely possible. Parts of the hospitality industry have not compensated fully for the previous cost increases they have experienced. They are therefore planning for price increases that are also higher than normal, but they are unsure whether the price increases will be realised. In both the durable goods and hospitality sectors, there are hopes that demand will gather "a little more wind in its sails" after the summer, which would then enable price increases. Most companies selling to households are not planning to raise prices more or more often than normal.

**Figure 4. Driving forces behind pricing over the next twelve 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 of whether the factor will have an upward or downward effect on prices 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 twelve 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.

## "Previously it was hard to get hold of workers, now the reverse applies"

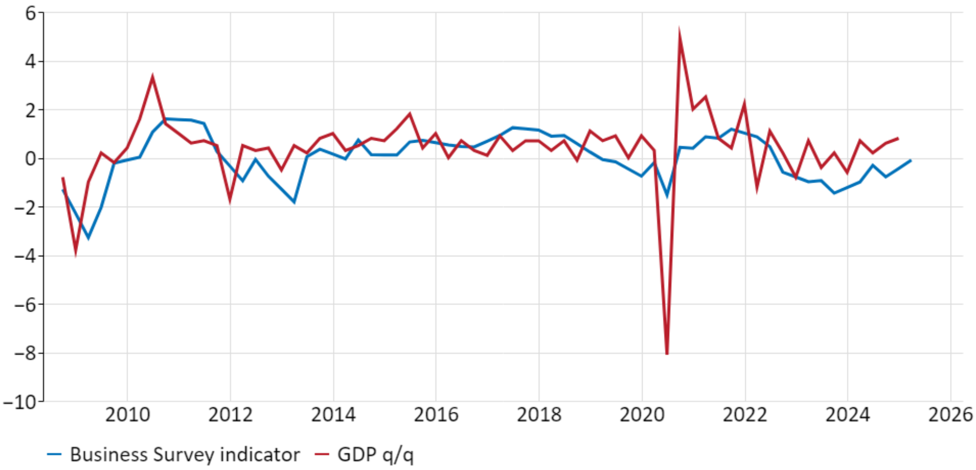
The weak economic situation means that many companies are continuing to focus on cost control and operational efficiency. One business leader observes: "To cope with wage and cost increases, we must continue to streamline and downsize." Among business-related service companies, more respondents than last autumn feel that the workforce is too large in relation to demand and are therefore planning to reduce their workforces. Some companies in other sectors that have already adapted their workforces are holding off on further downsizing, to be able to adjust quickly when demand increases. However, if this does not happen, further staff reductions may be necessary. In general, businesses do not have difficulty finding the labour they need. Several also feel that there are more applicants for their advertised positions and that the applicants are more qualified now than before.

## The Business Survey indicator improves

The overall result of the survey is summarised in the Business Survey’s indicator of economic activity, see Figure 5. In February the indicator is just below its historical average. Construction companies' good order intake in civil engineering and infrastructure, as well as improved order intake in some parts of the manufacturing sector contribute to a slight rise in the indicator in February.

**Figure 5. The Business Survey 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 developed 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.

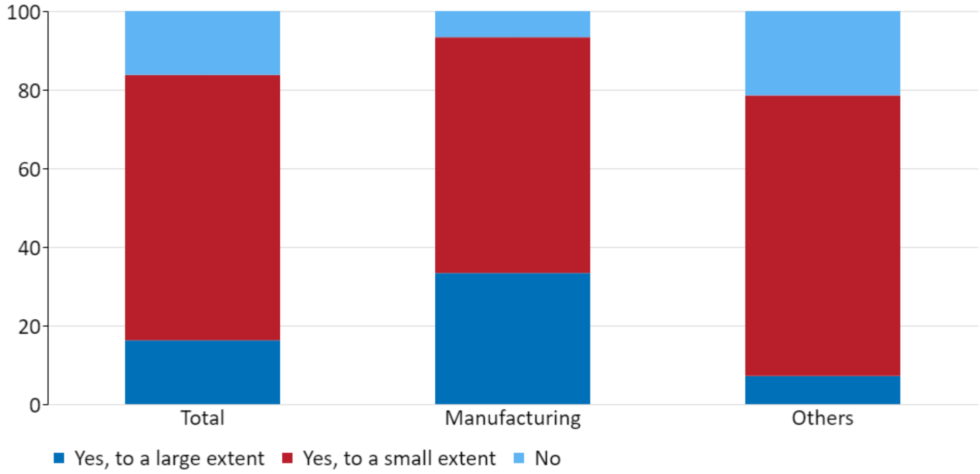
# ARTICLE – Import tariffs: "No one knows what will happen"

The new President of the United States has proposed imposing new import tariffs both on various countries and various goods.[3] The February Business Survey contained questions as to how companies might be affected by new US import tariffs, and how they intended to manage the possible impact on their companies. More than 80 per cent of companies believe that their business would be affected to some extent if import tariffs were imposed in the United States. The vast majority consider the effects to be small, see Figure 6. "Import tariffs can of course affect us to a certain extent, but essentially will not cause any drama," says one respondent.

In particular, survey respondents emphasise that the US President's announcement of tariffs creates uncertainty and it is seen by many as a risk to the recovery in the global economy. Most consider that it is difficult to assess the impact, given the great uncertainty about which countries and goods will be subject to tariffs and how the tariffs will be designed. As a respondent in the manufacturing industry points out, "it is challenging right now to understand what this means and how to react".

**Figure 6. Do you consider that your company will be affected if new or increased import tariffs or other trade barriers are introduced in the USA?**

Per cent




[3] During the interview period, the United States imposed import tariffs of 25 per cent on Mexico and Canada, which were quickly paused for 30 days. They imposed a 10 per cent import tariff on China, who responded with tariffs on US crude oil, liquefied natural gas and agricultural machinery. Moreover, the United States imposed 25 per cent tariffs on steel and aluminium. Additionally, the United States announced a plan to issue 'reciprocal tariffs' for each foreign trading partner.

## “It could be tariffs on tariffs on tariffs”

The way that companies have chosen to organise and divide their activities in global value chains is decisive in how they may be affected by new tariffs. It is above all in the manufacturing industry that companies say they estimate that they will be affected to a large extent by new import tariffs. What they have in common is that they have production in both the United States and the countries targeted by the tariffs at the time of the interview, that is, Mexico, Canada and China. One respondent gives the example that they have components that are first manufactured in the United States and then shipped to Mexico for processing. They are then shipped back to the United States for further processing and to be sold to US end customers. The same respondent wonders whether this means paying import tariffs every time the components cross the land border, depending on whether Mexico responds with countermeasures.

It is also mentioned that subcontractors have the same set-up as in the example above, which makes the supply chains even more complex. This type of complex global value chains also makes it difficult to gain an overall view of what the final effects of the tariffs will be. “It is very difficult to assess in the end, because it is very difficult to understand how the components move between countries", explains one respondent.

## “We could benefit in the short term”

Swedish companies with production in the United States and which mainly buy inputs from local US companies instead state that they will benefit from the tariffs in the short term. “We have a large local production in the United States and I know that many other Swedish companies do too, so this means we should do quite well", explains one business leader. Others gain a competitive advantage from having important competitors in countries that may be affected by the tariffs. However, even those who will benefit add that “in the long run, it isn't good if some form of trade war breaks out”.

## “Maybe we should source from South-East Asia instead?”

Companies expect that they will have to charge higher selling prices to compensate for the import tariffs. “There is no other way”, they say. In the short term, suppliers may face financial problems and risk being forced out of business if they lack the liquidity to pay the tariffs before they are paid by their client companies. “There would be major financial consequences,” explains one respondent.

In the longer term, many are talking about reviewing their global value chains. In some cases, this may involve moving more production to the United States. In other cases, it could mean reducing dependency and relocating activities away from the countries and regions most affected by tariffs and other trade barriers. For example, companies with production in China say that they are disadvantaged by their competitors producing goods in South-East Asia, which has so far not been mentioned in the context of tariffs. However, relocating the production of industrial goods is not something that is done lightly and it involves long-term decisions. “It is a project that takes many years and it requires huge investments.”

To summarise, companies are closely following developments in the United States and are prepared to take action, but at the time of the interviews they had not taken any concrete measures, “we have chosen not to speculate as to what might happen or to make proactive changes”. If countermeasures are introduced, the impact is expected to increase: "If there is a further escalation of trade barriers then there will be greater challenges for us."

## “If it becomes more difficult for certain industries that have large exports and imports, there will be a slowdown”

Many of those who do not have sales to the United States say they may be indirectly affected, mainly through costs. Those companies with purchases priced in US dollars see a potential impact via the exchange rate. The construction industry also highlights that global commodity prices could push up the price of construction materials, especially if the trade conflict escalates. Several also express concern about an indirect impact through a slowdown in industrial activity and economic developments in general. A retail trade representative explains: “If a lot of people lose their jobs, or are worried about losing their jobs, they might not be as inclined to go shopping.”

## About tariffs in previous Business Surveys

In 2017, companies stated that the then new political administration in the United States created some concern and contributed to uncertainty, as potential import tariffs and other trade barriers could slow down global economic growth. At the same time, economic activity was considered favourable and the outlook for the future was generally positive. When US tariffs on steel and aluminium were imposed in 2018, companies' reasoning did not change very much and the risks to the economic outlook were largely unrealised. Overall, few concrete effects of the new tariffs were described, although they continued to be an important risk factor. However, the economic situation in 2017-2018 in particular was different from now. The economic situation was strong across all sectors, and companies were surprised that demand held up so well. In 2019, companies raised the risk of US tariffs on European vehicles and assessed that the US-China trade conflict had contributed to a strengthening of the dollar. One risk that gained greater weight during the year was a no-deal Brexit. This risk disappeared in February 2020, when the United Kingdom's exit from the EU came into force and the United States and China signed a partial trade agreement. Although there were some outstanding questions regarding international trade, these were overshadowed by the outbreak of the pandemic: "Brexit is gone, the trade war is gone, now we have this coronavirus" is how one company summarised the situation.

## 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 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 per cent.

The results of the survey are presented in a report published on the Riksbank’s website, usually three times a year. The report for February 2025 presents the results of interviews with 44 companies and trade associations, and these were conducted mainly during the period 31 January to 7 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 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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