

BUSINESS SWEDEN

BLEAK TIMES FOR SWEDEN'S EXPORTS

EXPORT MANAGERS' INDEX SECOND QUARTER 2020

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EXECUTIVE SUMMARY

The glimmer of hope that was on the horizon for Swedish exports in the beginning of this year was extinguished by the coronavirus crisis. Business Sweden's Export Managers' Index (EMI) plunged and hit rock bottom during the second quarter, with a decline of 19.1 points to 37.2, from 56.3 in the first quarter. This is the largest single quarterly drop since measurements began in 2007. EMI is now at parity with the level recorded during the global financial crisis (GFC) of 2008/2009. The fact that EMI dropped well below the 50-mark – which is the dividing line between optimism and pessimism – indicates that the export companies collectively have a strongly pessimistic view of export development.

The collapse of EMI is particularly bound to the decline of the EMI forecast which is the sub-index for the forward-looking issues. The EMI forecast fell by 23.9 points to 38.2 in the second quarter, from the high level of 62.1 in the first quarter. Current EMI fell by 14.2 points to 36.2 in the second quarter, from 50.4 in the previous quarter.

All sub-indices fell sharply – most of them by double digits – and are currently well below the 50-mark, which indicates a pessimistic view. Most of the sub-indices fell to the same low level recorded during the GFC, or even below. Large companies (with export sales of more than SEK 250 million) are consistently more pessimistic than small and medium-sized companies.

The index for export sales dropped both in the current measurement and in the three-month forecast. For the current situation the index fell by 14.8 points to 33.3 in the second quarter, compared with the previous quarter. The index for expected export sales over the next three months fell by 38.9 points to 28.8 in the second quarter – which is a free fall. The index for profitability in export sales has also worsened considerably, though primarily in the three-month forecast. The current situation index fell by just 8.1 points to 47.8 in the second quarter, compared with the previous quarter. The expansive monetary policy undertaken by the Riksbank, Sweden's central bank, the weak Swedish krona and the fall in oil prices all contribute to the relatively moderate decline.

There is no escaping the fact that the global coronavirus recession is having a severe impact on Sweden's export companies. The index for expected export demand fell by 20–40 points in the various export regions during the second quarter, compared with the previous quarter. The index drop for expected export demand was most severe in South America, the Middle East, Turkey and Africa. In Western Europe and Asia and Oceania the decline was not as severe as the other regions. The index for expected export demand is now at its lowest level since measurements began in 2007 for South America, the Middle East, Turkey and Africa, as well as Central and Eastern Europe. The index for Western Europe and North America remains just above the level recorded during the global financial crisis, while the index for Asia and Oceania is roughly at the same level as during the GFC.

Taken all together, we can observe in this survey that all sub-indices have fallen well below the 50-mark. This clearly indicates that both the current view on export and the three-month forecast among export companies is bleak, to say the least, and even dire. The overriding task now is to look for positive signs wherever they can be found. If the coronavirus crisis can be brought under control and more markets open up with an easing of restrictions, it is likely that we can expect a turning point in the third quarter.

The next Export Managers' Index will be published on 20 August 2020.

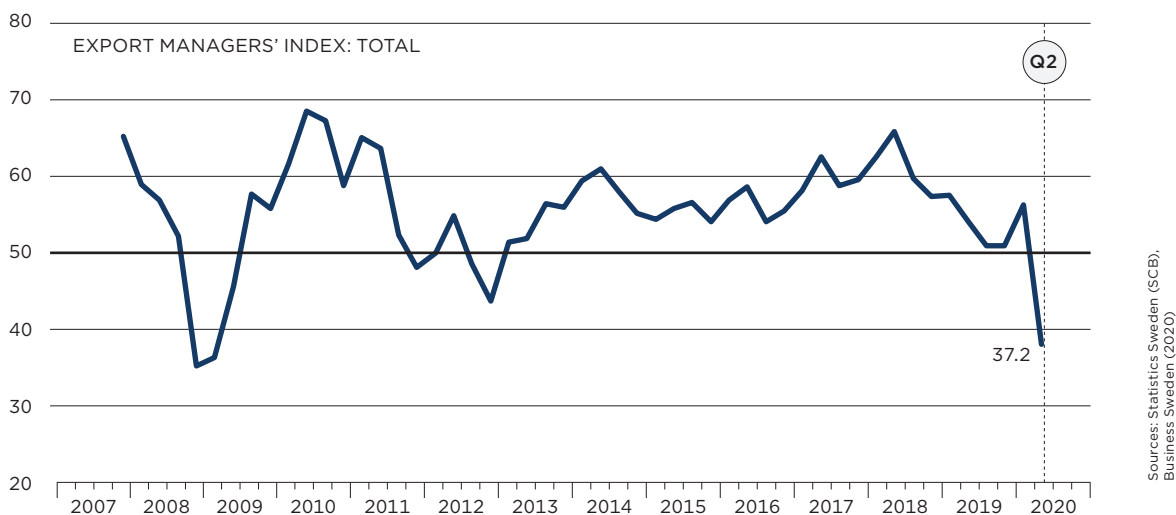


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Business Sweden

EXPORT MANAGERS' INDEX DROPS TO FINANCIAL CRISIS LEVEL IN SECOND QUARTER

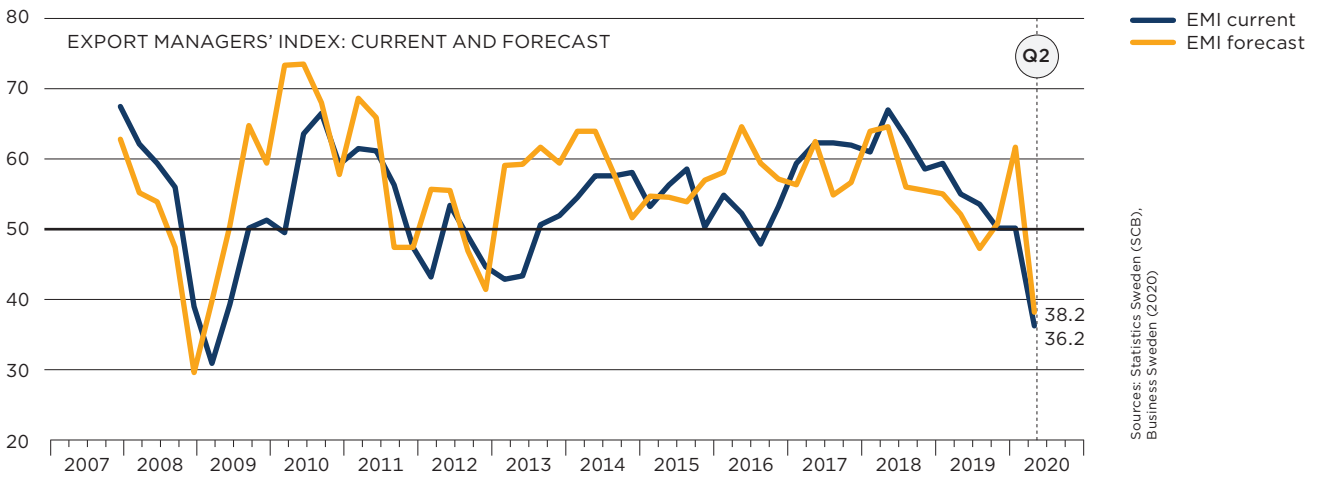
EXPORT MANAGERS' INDEX (EMI) FELL TO CRISIS LEVEL DURING THE SECOND QUARTER



Business Sweden's Export Managers' Index (EMI), which monitors the views of Swedish exporters of goods and services, fell during the second quarter to approximately the same low level recorded during the global financial crisis of 2008/2009. EMI plunged by 19.1 points to 37.2 in the second quarter, from 56.3 in the first quarter.

This is the largest single quarterly drop since measurements began in 2007. The fact that EMI dropped well below the 50-mark – which is the dividing line between optimism and pessimism – means that far more export companies believe in a weakening, rather than a strengthening, of export development. This indicates a very bleak sentiment among export companies.

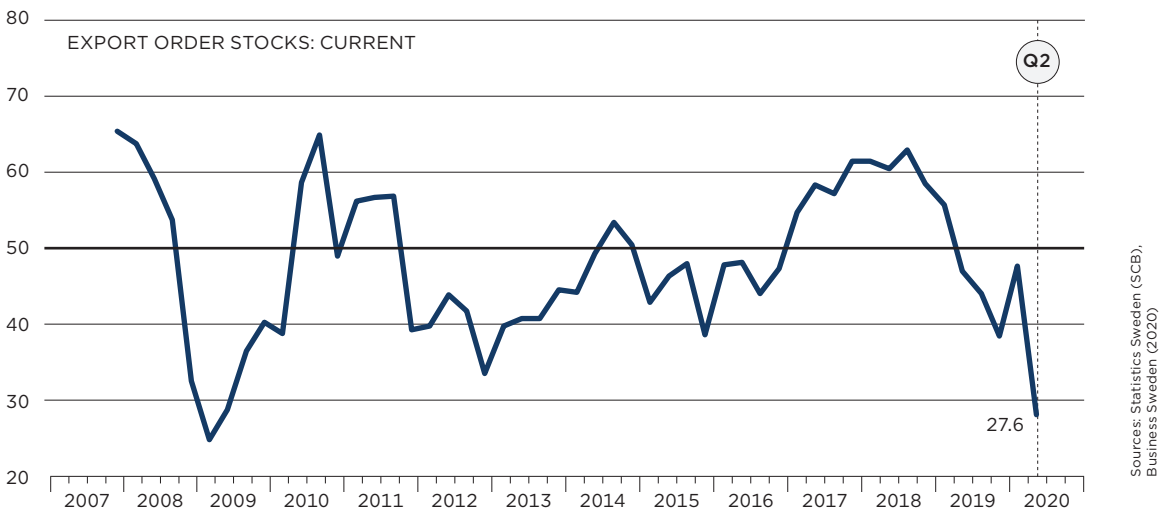
PLUNGE IN EMI FORECAST HAD PARTICULAR IMPACT ON INDEX DECLINE



The EMI current and EMI forecast indices both fell to historically low levels. The EMI forecast – which is the sub-index for forward-looking issues – plunged by 23.9 points to 38.2 in the second quarter, from a high level of 62.1 in the first quarter. The EMI current index fell by 14.2 points to 36.2 in the second quarter, from 50.4 in the previous quarter.

The fact that both the EMI current and EMI forecast sub-indices fell well below the 50-mark indicates that export companies have a very bleak view of export development today and over the next three-month period.

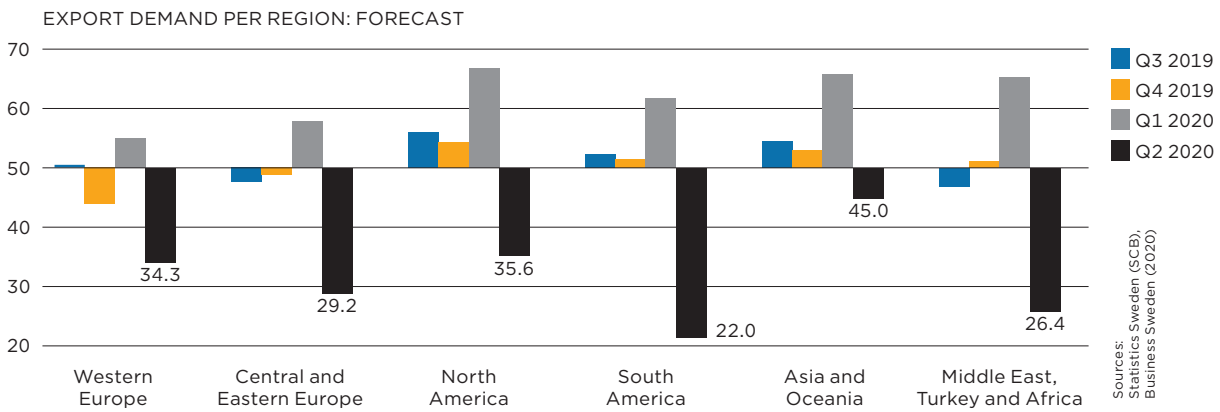
MANY COMPANIES ARE DISSATISFIED WITH EXPORT ORDER STOCKS



The index for sentiment on export order stocks fell by 19.7 points to 27.6 in the second quarter, from 47.3 in the first quarter. While this drop is considerably steeper than during the global financial crisis, the index remains nonetheless just above the lowest recorded level of 24.4 in the first quarter of 2009.

An index drop below the 50-mark to this extent indicates that most companies are dissatisfied with export order stocks.

PESSIMISTIC VIEW OF EXPECTED EXPORT DEMAND IN ALL REGIONS



The index for expected export demand fell in the second quarter by 20–40 points in the various regions compared with the previous quarter. The index drop for expected export demand was most severe in South America, the Middle East, Turkey and Africa. The index for Western Europe and Asia and Oceania fell more moderately compared with the other regions.

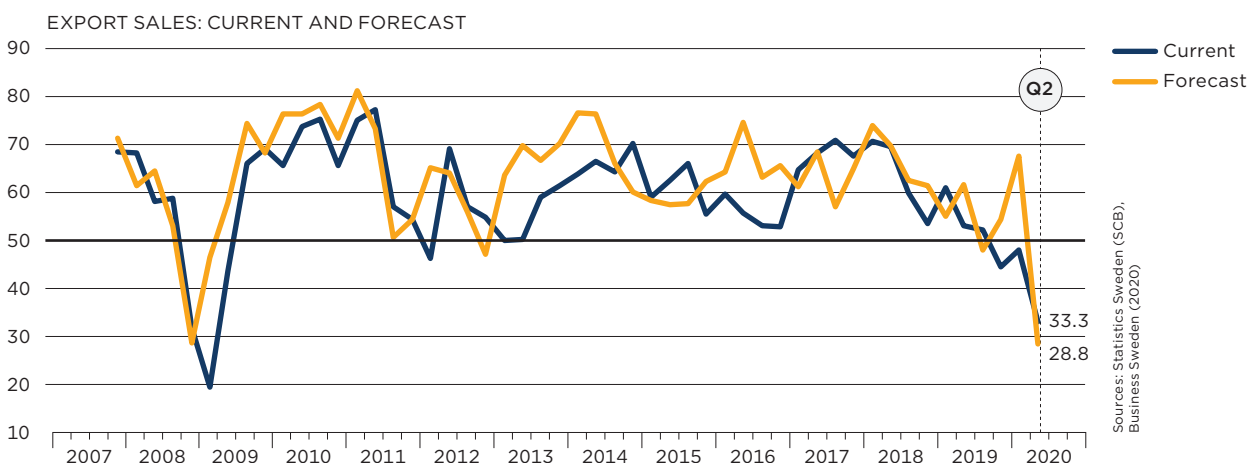
The index for South America fell by 39.5 points to 22.0 in the second quarter compared with the first quarter. The index for the Middle East, Turkey and Africa fell by 38.5 points to 26.4 in the second quarter. The index for Central and Eastern Europe fell by 28.5 points to 29.2 in the second quarter, while the index for Western Europe fell by 20.6 points to 34.3 in the second quarter compared with 54.9 in the first quarter.

For North America, the index fell by 30.8 points to 35.6 in the second quarter from a high level of 66.4 in the first quarter. The index for Asia and Oceania fell by 20.4 points to 45.0 during the second quarter, from 65.4 in the previous quarter.

The index for expected export demand is currently at its lowest level since measurements began in 2007 for South America, the Middle East, Turkey, Africa and Central and Eastern Europe. For Western Europe and North America, the index remains just above the levels recorded during the global financial crisis, while the index for Asia and Oceania is approximately at the same level recorded during the GFC.

Taken all together, it is evident that the index is well below the 50-mark and that sentiment among companies with regard to expected export demand is bleak – more or less dire – for all regions.

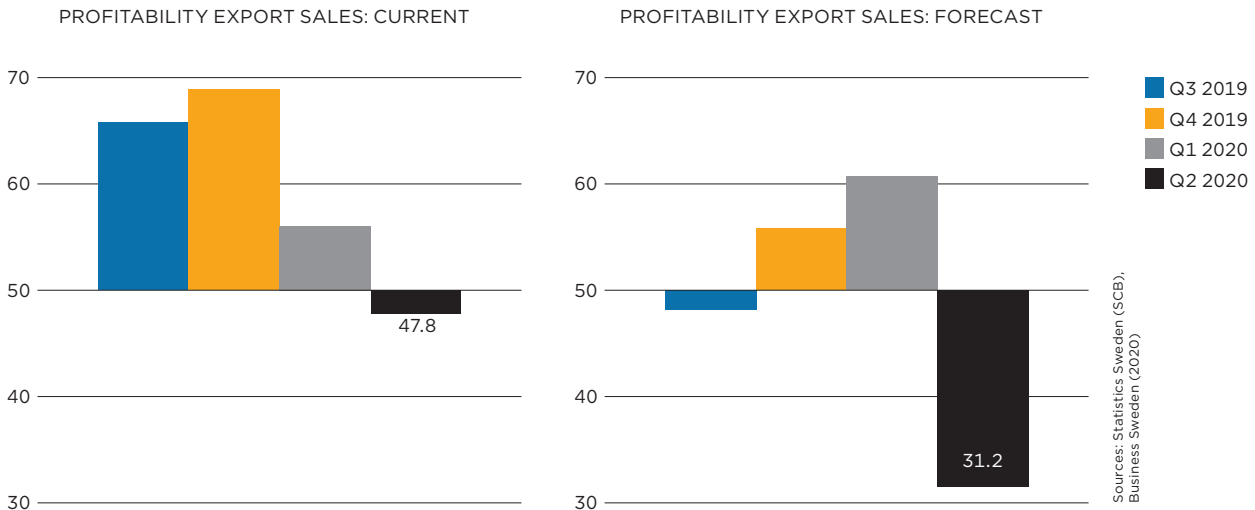
OUTLOOK FOR EXPORT SALES IN FREE FALL



An increased number of companies have a pessimistic view of current export sales. The index fell by 14.8 points to 33.3 in the second quarter, compared with 48.1 in the first quarter. The index for expected export sales over a three-month period has gone into free fall, dropping by an historical 38.9 points to 28.8 in the second quarter, from a high level of 67.7 in the first quarter.

The fact that both the current and forecast indices for export sales are well below the 50-mark indicates a pessimistic view among companies.

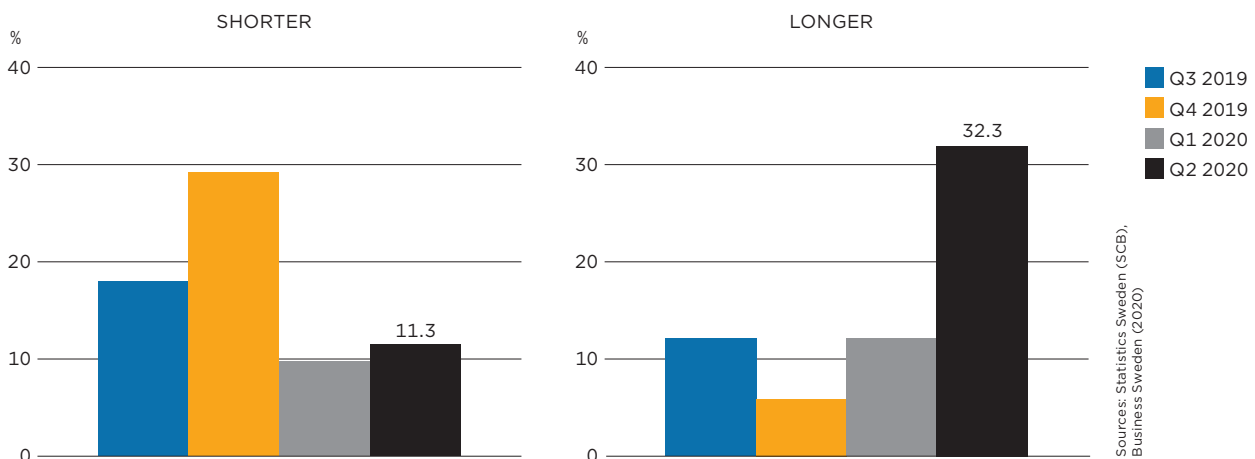
BLEAK EXPECTATIONS FOR PROFITABILITY IN EXPORT SALES



An increased number of companies have bleak expectations for profitability in export sales over the next three months. The index fell by 29.8 points to 31.2 in the second quarter, from 61.0 in the first quarter. The index for the companies' current assessment of profitability fell by a relatively more moderate 8.1 points to 47.8 in the second quarter, from 55.9 in the previous quarter.

The fact that both the current and three-month forecast indices for profitability in export sales are below the 50-mark indicates a pessimistic view among export companies. The fact that the current index for profitability in export sales did not decline further can in part be explained by the expansive monetary policy undertaken by the Riksbank, Sweden's central bank, as well as the continued weak Swedish krona and the sharp drop in oil prices.

A CONSIDERABLY LARGER NUMBER OF EXPORT COMPANIES EXPECT LONGER DELIVERY TIMES



The share of export companies that expect shorter delivery times for exports in the next months increased in the second quarter to 11.3 per cent, up from 9.6 per cent in the first quarter.

At the same time, the share of companies expecting longer delivery times in the next three-month period increased in the second quarter by as much as 20 percentage points to 32.3 per cent, from 12.3 per cent in the first quarter. When more

companies expect longer delivery times for exports this usually indicates that resource utilisation, i.e. activities within companies, are increasing. Given the difficulties of the current coronavirus crisis situation, this increase in the share of companies expecting longer delivery times is more likely to reflect that companies are facing problems with supply chains (lack of intermediary goods, delayed goods transport due to border restrictions etc).

ABOUT BUSINESS SWEDEN'S EXPORT MANAGERS' INDEX

Business Sweden's Export Managers' Index (EMI) has been published quarterly since 2007. The EMI takes the temperature of Swedish export companies and serves as an important economic indicator in relation to Swedish exports.

The survey is conducted in the form of telephone interviews conducted by Statistics Sweden (SCB). All major companies and a selection of small and medium-sized companies are interviewed. Respondents are export managers or persons with a corresponding position in Swedish export companies. The survey covers a total of 212 companies, of which half have export sales of more than SEK 250 million (large companies) and half have export sales of SEK 25–250 million (small and medium-sized companies). The EMI is based on information from the VAT register and includes exports of both goods and services.

The Export Managers' Index consists of two parts; one main index and two sub-indices of which one describes the current situation and the other describes expectations for the near future. EMI result is compiled from the answers to seven questions where three focus on the current situation and four are forward-looking. The seven questions carry equal weight in the survey. The survey for the second quarter 2020 was conducted during the period 20 April – 8 May. The results are presented in the form of a so-called diffusion index. The dividing line between strengthening and weakening has been set at 50.

Values above 50 mean that there are more companies that believe in a strengthening than a weakening, and vice versa. The result is weighted with the companies' export value.

The response rate amounted to 84 per cent (weighted). The National Institute of Economic Research has evaluated the EMI in order to assess its usefulness for forecasting export development. The result shows that the EMI offers information that increases forecasting precision compared to the historical average. This means that EMI is useful for this purpose (*see www.tinyurl.com/l8ebjmx*).

Questions asked:

EMI current

- What is your estimate of your company's sales over the last three months?
- What is your estimate of your company's export order stock?
- What is your estimate of your company's current export profitability?

EMI forecast, next three months

- How do you think market demand for your company's exports will develop over the next three months?
- How do you think your company's export sales will develop over the next three months?
- How do you think your company's profitability in export sales will develop over the next three months?
- How do you think your company's export delivery times will develop over the next three months?

Answers to all these questions form the basis for the main EMI.

APPENDIX

DATA: WEIGHTED TIME SERIES

EMI	SELECTION	Q1 2020	Q2 2020	DIFF Q2 20 - Q1 20	
EMI total	Total	56.3	37.2	-19.1	↓
1. EMI total	SEK 25-250m	55.8	40.4	-15.4	↓
1. EMI total	>SEK 250m	56.3	36.8	-19.5	↓
2. EMI current	Total	50.4	36.2	-14.2	↓
2. EMI current	SEK 25-250m	50.4	38.0	-12.4	↓
2. EMI current	>SEK 250m	50.5	36.0	-14.5	↓
3. EMI forecast	Total	62.1	38.2	-23.9	↓
3. EMI forecast	SEK 25-250m	61.2	42.9	-18.3	↓
3. EMI forecast	>SEK 250m	62.2	37.6	-24.6	↓

QUESTIONS CURRENT	SELECTION	Q1 2020	Q2 2020	DIFF Q2 20 - Q1 20	
Question 1 - Export sales	Total	48.1	33.3	-14.8	↓
Question 1 - Export sales	SEK 25-250m	56.9	34.8	-22.1	↓
Question 1 - Export sales	>SEK 250m	47.0	33.1	-13.9	↓
Question 2 - Export order stock	Total	47.3	27.6	-19.7	↓
Question 2 - Export order stock	SEK 25-250m	34.8	30.4	-4.4	↓
Question 2 - Export order stock	>SEK 250m	49.0	27.2	-21.8	↓
Question 3 - Export profitability	Total	55.9	47.8	-8.1	↓
Question 3 - Export profitability	SEK 25-250m	59.4	48.7	-10.7	↓
Question 3 - Export profitability	>SEK 250m	55.4	47.7	-7.7	↓

QUESTIONS FORECAST	SELECTION	Q1 2020	Q2 2020	DIFF Q2 20 - Q1 20	
Question 4 - Export market demand	Total	68.3	32.3	-36.0	↓
Question 4 - Export market demand	SEK 25-250m	70.9	34.2	-36.7	↓
Question 4 - Export market demand	>SEK 250m	67.9	32.0	-35.9	↓
Question 4a - Western Europe	Total	54.9	34.3	-20.6	↓
Question 4a - Western Europe	SEK 25-250m	64.9	36.0	-28.9	↓
Question 4a - Western Europe	>SEK 250m	53.7	34.1	-19.6	↓
Question 4b - Central & Eastern Europe	Total	57.7	29.2	-28.5	↓
Question 4b - Central & Eastern Europe	SEK 25-250m	53.0	33.1	-19.9	↓
Question 4b - Central & Eastern Europe	>SEK 250m	58.2	28.8	-29.4	↓
Question 4c1 - North America	Total	66.4	35.6	-30.8	↓
Question 4c1 - North America	SEK 25-250m	65.7	36.5	-29.2	↓
Question 4c1 - North America	>SEK 250m	66.4	35.5	-30.9	↓
Question 4c2 - South America	Total	61.5	22.0	-39.5	↓
Question 4c2 - South America	SEK 25-250m	55.2	39.8	-15.4	↓
Question 4c2 - South America	>SEK 250m	62.2	20.3	-41.9	↓
Question 4d - Asia & Oceania	Total	65.4	45.0	-20.4	↓
Question 4d - Asia & Oceania	SEK 25-250m	63.5	43.5	-20.0	↓
Question 4d - Asia & Oceania	>SEK 250m	65.6	45.1	-20.5	↓
Question 4e - Middle East, Turkey & Africa	Total	64.9	26.4	-38.5	↓
Question 4e - Middle East, Turkey & Africa	SEK 25-250m	55.1	35.8	-19.3	↓
Question 4e - Middle East, Turkey & Africa	>SEK 250m	66.0	25.5	-40.5	↓
Question 5 - Export sales	Total	67.7	28.8	-38.9	↓
Question 5 - Export sales	SEK 25-250m	69.6	35.4	-34.2	↓
Question 5 - Export sales	>SEK 250m	67.5	27.9	-39.6	↓
Question 6 - Export profitability	Total	61.0	31.2	-29.8	↓
Question 6 - Export profitability	SEK 25-250m	55.7	42.4	-13.3	↓
Question 6 - Export profitability	>SEK 250m	61.7	29.8	-31.9	↓
Question 7 - Export profitability	Total	51.3	60.5	9.2	↗
Question 7 - Export profitability	SEK 25-250m	48.7	59.5	10.8	↗
Question 7 - Export profitability	>SEK 250m	51.7	60.6	8.9	↗

↗ = $\Delta > + 1.0$ → = $\Delta \leq \pm 1.0$ ↓ = $\Delta > - 1.0$



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