

BUSINESS SWEDEN



OPTIMISM DRYING UP OVER EUROPE AND ASIA

EXPORT MANAGERS' INDEX, SECOND QUARTER 2019

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EXECUTIVE SUMMARY

Business Sweden's Export Managers' Index, EMI, fell once again in the second quarter compared with the previous quarter. When the previous survey was conducted, the EMI was virtually unchanged after its decline from the middle of 2018. The decline in the EMI survey for the second quarter was comparatively sharp with a drop of 3.6 points to 53.9, compared to 57.5 in the first quarter. The fact that the EMI is still above the 50-mark – the dividing line between optimism and pessimism – is, however, an indication that sentiment among export companies remains optimistic.

Both the current EMI and the forecast EMI, which measures sentiment for the coming three months, show a decline. The current EMI fell 4.3 points to 55.4 in the second quarter compared with the previous quarter. The forecast EMI fell for the fourth quarter in a row, declining by 2.9 points to 52.4 in the second quarter. The forecast EMI is now at its lowest level since the fourth quarter 2014 and considerably lower than its historical average of 57.3.

Judged from an overall perspective, the results in this survey give a more gloomy impression, except when it comes to profitability in current export sales and forecast export sales. The fact that profitability in current export sales was strengthened most likely depends to a large extent on the weakness of the Swedish krona.

This gloomier outlook is reflected in the fact that export companies are dissatisfied with their export order stocks and that more companies expect shorter lead times, which is an indication of reduced activity. Simultaneously, fewer companies are optimistic with regard to current export sales.

The index for projected export demand showed a declining trend throughout the whole of 2018 but recovered temporarily during the first quarter of this year. In the second quarter the index fell by 5.9 points to 55.1 compared with the previous quarter. However, projected expected export demand varies between different regions. The fall in the second quarter is entirely explained by the decline in the index for projected export demand from Europe. The index for Western Europe fell by 5.6 points to 50.5. The index for Central and Eastern Europe fell by 3.1 points to 51.9.

The indices for projected export demand from North America as well as Asia and Oceania were virtually unchanged. By way of contrast, the index for South America during the second quarter increased by 3.9 points to 62.2 compared with the previous quarter. The index for the Middle East, Turkey and Africa increased markedly by 9.3 points to 48.3 in the second quarter. However, despite this substantial increase, the index remains below the 50-mark, which is an indication of continued pessimism for the region.

The division between the regions stands out. The indices for projected export demand from Europe as well as Asia and Oceania are close to the 50-mark, indicating normality for the export companies. On the other hand, the indices for North as well as South America are at high levels, above 60, which indicate strong optimism.

To summarise, we conclude that exporters' sentiment regarding Europe and Asia is cooling while optimism for North and South America remains strong – for now!

The next Export Managers' Index will be published on August 22, 2019.

Lena Sellgren
Chief Economist

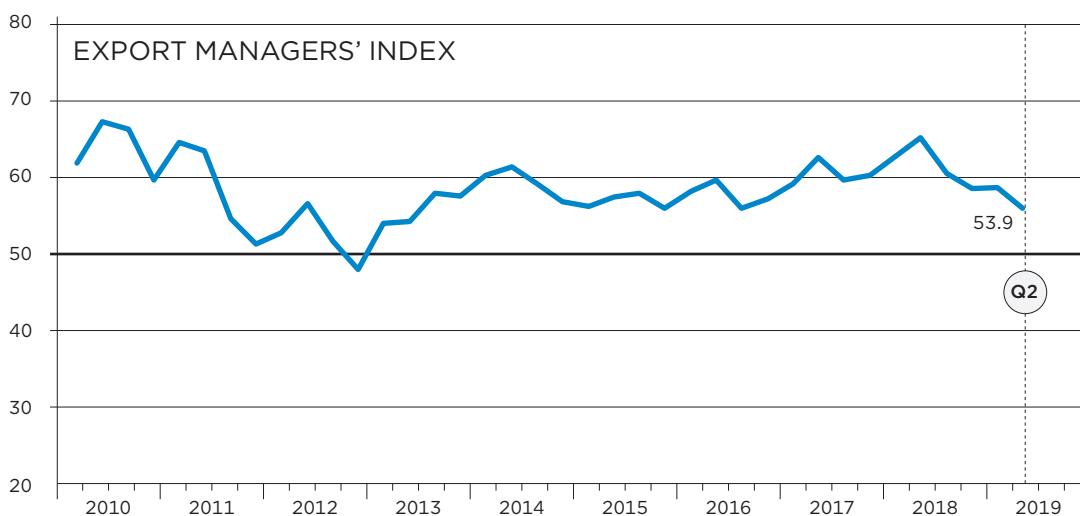


LENA SELLGREN

Chief Economist
Business Sweden

FALL IN EXPORT MANAGERS' INDEX, SECOND QUARTER

THE EXPORT MANAGER'S INDEX FELL IN THE SECOND QUARTER



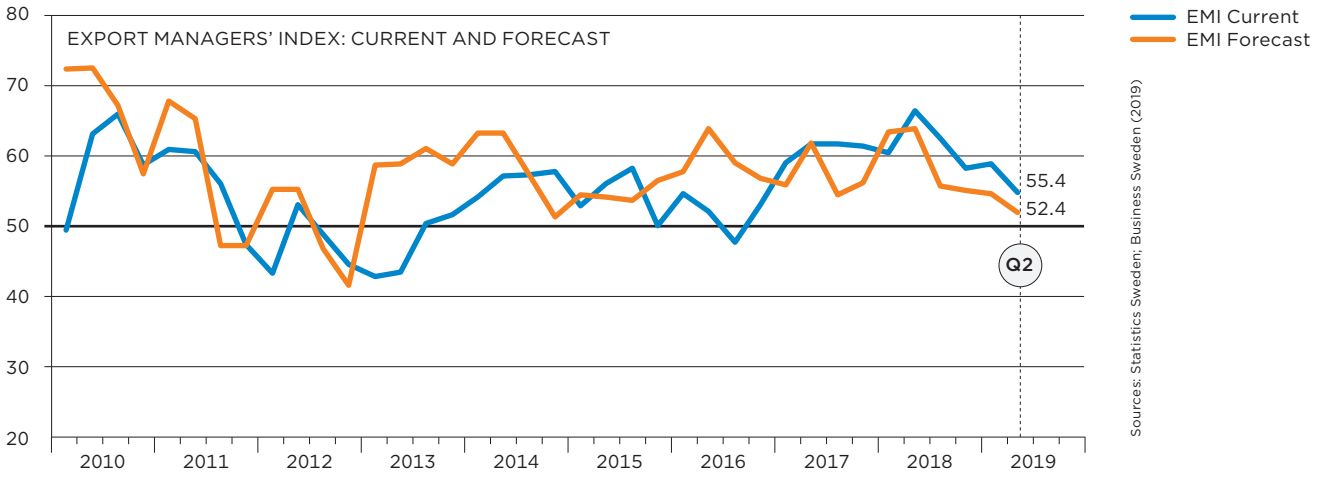
Sources: Statistics Sweden; Business Sweden (2019)

Business Sweden's Export Managers' Index (*EMI*), which measures sentiment among exporters of goods and services, fell in the second quarter of 2019 compared with the first quarter. In the previous survey, the EMI was almost unchanged after having fallen from mid-2018. In this survey, the EMI fell by 3.6 points to 53.9 in the second quarter, compared to 57.5 in the first quarter.

This indicates that confidence in the export industry has fallen once again. The EMI is just above the 50-mark but still below its historical average of 56.1.

However, the fact that the EMI is above the 50-mark indicates that there are more export companies that believe in a strengthening, rather than a weakening, of export development.

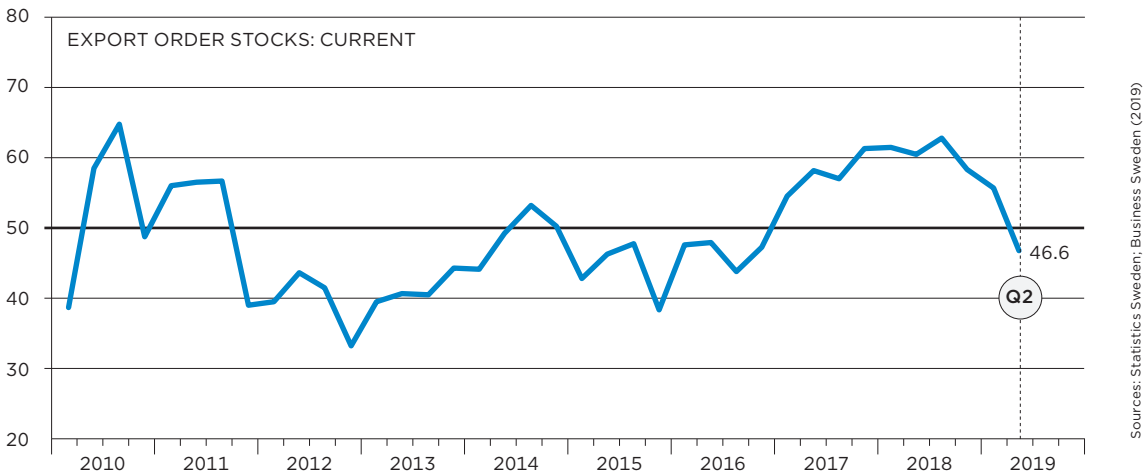
DOWNTURN IN BOTH CURRENT AND FORECAST EMI



The current EMI declined with a significant drop of 4.3 points to 55.4 in the second quarter, down from 59.7 in the first quarter. The forecast EMI, which measures sentiment for the coming three months, continued to fall for the fourth quarter in a row. The forecast EMI fell by 2.9 points to 52.4 in the second quarter, down from 55.3 in the first quarter.

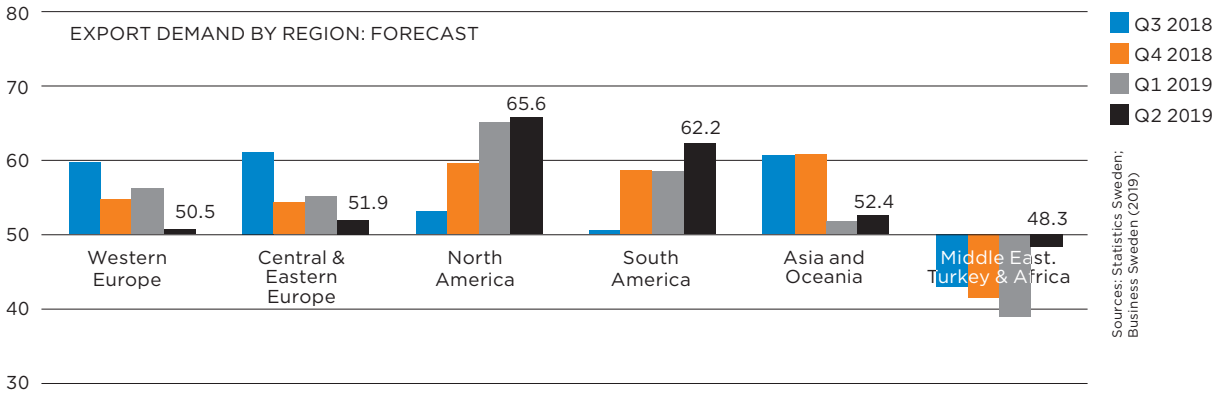
This means that the forecast EMI is now at its lowest level since the fourth quarter of 2014 and significantly lower than its historical average of 57.3. Both the current EMI and the forecast EMI remain above the 50-mark, indicating that confidence within export companies remain higher than normal.

COMPANIES DISSATISFIED WITH EXPORT ORDER STOCKS



The index for export order stocks fell for the fourth quarter in a row. The index fell sharply by 8.8 points to 46.6 in the second quarter, down from 55.4 in the previous quarter. This is the lowest level since the third quarter of 2016 and considerably below the 50-mark as well as the historical average of 48.3. This indicates that export managers are dissatisfied with their order stocks.

SUBSTANTIAL DOWNTURN IN PROJECTED EXPORT DEMAND FROM EUROPE



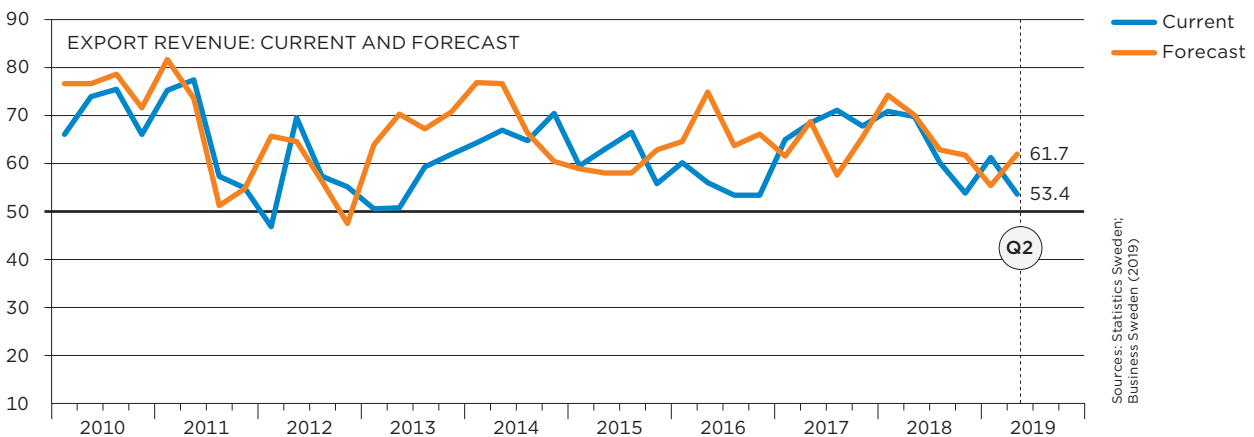
The index for projected export demand dropped throughout 2018, but recovered temporarily at the beginning of the year. In the second quarter, the index fell again and is now at its lowest level since the third quarter of 2015. The index fell by as much as 5.9 points to 55.1 in the second quarter, compared with the previous quarter. This is below the historical average of 60.8. This downturn is entirely attributed to the projected export demand from Europe. The index for Western Europe fell by 5.6 points to 50.5 in the second quarter, compared to the previous quarter. The Central and Eastern Europe index fell by 3.1 points to 51.9.

The indices for projected export demand from North America as well as Asia and Oceania were virtually unchanged in the second quarter, compared to the previous quarter. The index for North America remains high at 65.6, while the index for Asia is low at 52.4.

The index for projected export demand from South America increased by 3.9 points to 62.2 in the second quarter, up from 58.3 in the first quarter. After falling throughout 2018, the index for the Middle East, Turkey and Africa increased by as much as 9.3 points to 48.3 in the second quarter, compared with the previous quarter. Despite this strong upturn, the index remains below the 50-mark for the region, indicating continued pessimism.

Overall, the index for projected export demand differs between the respective regions. The indices are just above the 50-mark for Europe and Asia, which signals normality in export demand. The indices for both North and South America, on the other hand, are at high levels and indicate strong optimism.

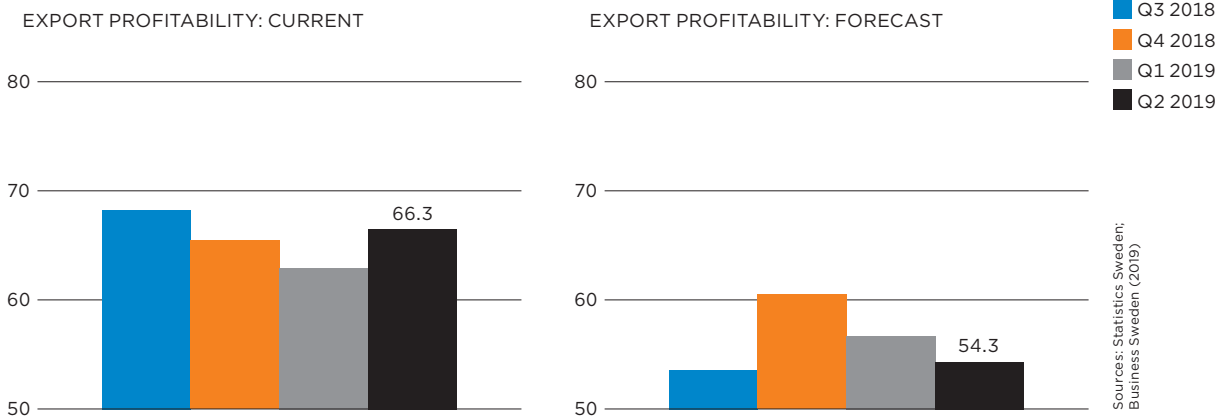
OPTIMISM IN EXPORT SALES FALLS AGAIN



The companies' optimistic view of current export sales fell again after a temporary upturn in the first quarter. The index fell by 7.6 points to 53.4 in the second quarter, down from 61.0 in the first quarter. However, the downward trend in forecast export sales was broken.

The index increased by 6.5 points to 61.7 in the second quarter, from 55.2 in the first quarter. Both the current and forecast indices are below their historical average but above the 50-mark. The fact that the indices are above the 50-mark indicate that the companies have an optimistic view of current as well as forecast sales.

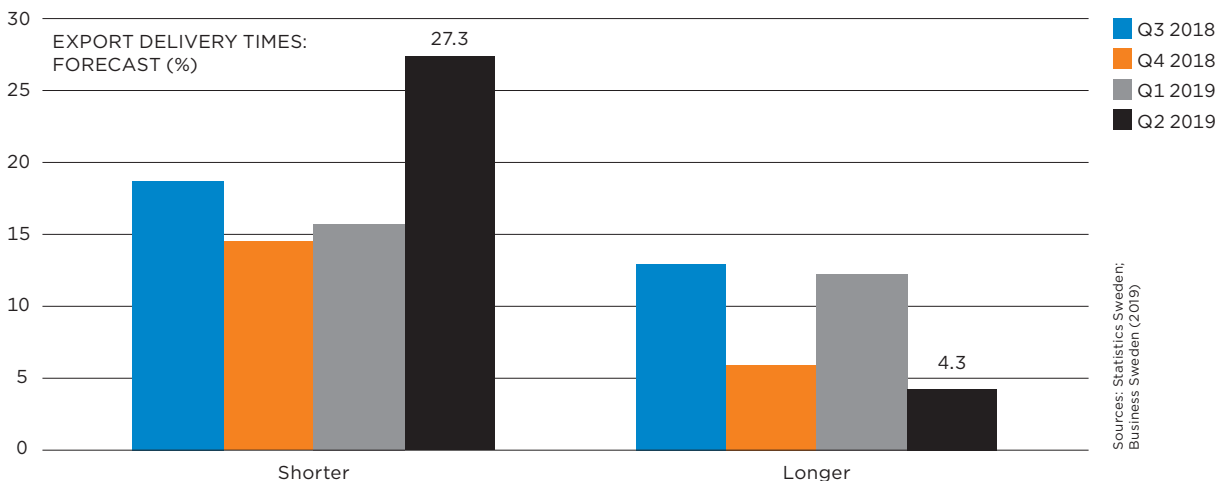
FALLING OPTIMISM IN FUTURE EXPORT PROFITABILITY



The companies' assessment of export profitability increased for current sales, but fell for future sales – sales over the coming three months – in the second quarter, compared with the previous quarter. The current export profitability index increased by 3.5 points to 66.3 in the second quarter, compared with the first quarter. However, the index for future export profitability fell by 2.4 points to 54.3 in the second quarter.

Indices for current and future export profitability are above the 50-mark, which indicates that companies are still optimistic about profitability in export sales. The weak krona probably contributes to this positive outlook on profitability, especially at the present time.

MORE EXPORT COMPANIES EXPECT SHORTER LEAD TIMES



The share of export companies that expect shorter delivery times for exports in the next three-month period almost doubled between the second and first quarters. The share increased to 27.3 per cent in the second quarter, up from 15.7 per cent in the first quarter.

At the same time, the share of companies expecting longer delivery times in the next three-month period decreased significantly to 4.3 per cent in the second quarter, from 12.1 per cent in the first quarter. The fact that more companies expect shorter delivery times for exports in the next three-month term is a cause for concern as it indicates that resource utilisation, i.e. the activities in the companies, is declining.

ABOUT BUSINESS SWEDEN'S EXPORT MANAGERS' INDEX

Business Sweden's *Export Managers' Index (EMI)* has been published every quarter 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). The survey interviews all major companies and a selection of small and medium-sized companies. Respondents are export managers or persons with a corresponding position in Swedish export companies. The survey covers a total of 180 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, a main index and two sub-indices, where one sub-index describes the current situation and the other focuses on expectations in the near future. The EMI is compiled from the answers to seven questions where three are about the current situation and four are forward-looking. The seven questions carry equal weight in the survey. The measurement for the second quarter of 2019 was conducted during the period 15 April – 9 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 people who 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 in 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 – three-month forecast

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

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

APPENDIX

DATA: WEIGHTED TIME SERIES

EMI	SAMPLE	Q1 2019	Q2 2019	DIFF Q2 19 - Q1 19	
1. EMI total	Total	57.5	53.9	-3.6	↘
1. EMI total	SEK 25-250m	59.6	58.5	-1.1	↘
1. EMI total	>SEK 250m	57.2	53.4	-3.8	↘
2. EMI current	Total	59.7	55.4	-4.3	↘
2. EMI current	SEK 25-250m	59.4	56.7	-2.7	↘
2. EMI current	>SEK 250m	59.8	55.3	-4.5	↘
3. EMI forecast	Total	55.3	52.4	-2.9	↘
3. EMI forecast	SEK 25-250m	59.9	60.3	0.4	→
3. EMI forecast	>SEK 250m	54.7	51.5	-3.2	↘

EMI	SAMPLE	Q1 2019	Q2 2019	DIFF Q2 19 - Q1 19	
Question 1 - Export sales	Total	61.0	53.4	-7.6	↘
Question 1 - Export sales	SEK 25-250m	65.1	63.5	-1.6	↘
Question 1 - Export sales	>SEK 250m	60.5	52.1	-8.4	↘
Question 2 - Export order stock	Total	55.4	46.6	-8.8	↘
Question 2 - Export order stock	SEK 25-250m	45.4	45.2	-0.2	→
Question 2 - Export order stock	>SEK 250m	56.9	46.7	-10.2	↘
Question 3 - Export profitability	Total	62.8	66.3	3.5	↗
Question 3 - Export profitability	SEK 25-250m	67.8	61.5	-6.3	↘
Question 3 - Export profitability	>SEK 250m	62.1	66.9	4.8	↗

EMI	SAMPLE	Q1 2019	Q2 2019	DIFF Q2 19 - Q1 19	
Question 4 - Export market demand	Total	61.0	55.1	-5.9	↘
Question 4 - Export market demand	SEK 25-250m	66.4	64.2	-2.2	↘
Question 4 - Export market demand	>SEK 250m	60.3	54.0	-6.3	↘
Question 4a - Western Europe	Total	56.1	50.5	-5.6	↘
Question 4a - Western Europe	SEK 25-250m	62.3	61.6	-0.7	→
Question 4a - Western Europe	>SEK 250m	55.3	49.2	-6.1	↘
Question 4b - Central & Eastern Europe	Total	55.0	51.9	-3.1	↘
Question 4b - Central & Eastern Europe	SEK 25-250m	59.5	59.8	0.3	→
Question 4b - Central & Eastern Europe	>SEK 250m	54.6	51.1	-3.5	↘
Question 4c1 - North America	Total	65.0	65.6	0.6	→
Question 4c1 - North America	SEK 25-250m	65.6	67.7	2.1	↗
Question 4c1 - North America	>SEK 250m	64.9	65.4	0.5	→
Question 4c2 - South America	Total	58.3	62.2	3.9	↗
Question 4c2 - South America	SEK 25-250m	59.3	65.4	6.1	↗
Question 4c2 - South America	>SEK 250m	58.2	61.9	3.7	↗
Question 4d - Asia & Oceania	Total	51.7	52.4	0.7	→
Question 4d - Asia & Oceania	SEK 25-250m	63.4	66.7	3.3	↗
Question 4d - Asia & Oceania	>SEK 250m	50.5	51.1	0.6	→
Question 4e - Middle East, Turkey & Africa	Total	39.0	48.3	9.3	↗
Question 4e - Middle East, Turkey & Africa	SEK 25-250m	53.8	57.8	4.0	↗
Question 4e - Middle East, Turkey & Africa	>SEK 250m	37.5	47.4	9.9	↗
Question 5 - Export sales	Total	55.2	61.7	6.5	↗
Question 5 - Export sales	SEK 25-250m	69.1	66.9	-2.2	↘
Question 5 - Export sales	>SEK 250m	53.3	61.1	7.8	↗
Question 6 - Export profitability	Total	56.7	54.3	-2.4	↘
Question 6 - Export profitability	SEK 25-250m	56.6	59.5	2.9	↗
Question 6 - Export profitability	>SEK 250m	56.7	53.7	-3.0	↘
Question 7 - Export profitability	Total	48.2	38.5	-9.7	↘
Question 7 - Export profitability	SEK 25-250m	47.3	50.7	3.4	↗
Question 7 - Export profitability	>SEK 250m	48.3	37.0	-11.3	↘

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



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