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EK Business Tendency Survey

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Weak business cycle will continue in the first half of 2014

Cautious expectations of growth in production – workforce will continue to shrink

The outlook for Finnish companies remained weak at the end of last year. In addition, no major improvement to the general business outlook is expected early this year. The current situation for all sectors is below average. The order books for most companies were small, with a lot of capacity free.

It is although a positive sign that Finnish manufacturing companies expect their production to grow by a fraction in the coming months, the growth rate being expected to pick up slightly in late spring. Shallow sales growth is also forecast in the service sectors. Employment expectations, on the other hand, remain cautious in all main industries.

Divergence between different companies has grown compared with the previous survey.

General expectations still modest

The coming months' **business outlook** balance indicator for manufacturing was -7 in January (-8 in October). In January, 15% of manufacturing companies expected the outlook to improve during the first half of the current year, while 23% forecast a gloomier outlook.

The business outlook balance indicator for construction was -16 in January (-25 in October). Only eight per cent of construction companies expected a turn for the better, whereas 24% of respondents expected a declining outlook.

The business outlook balance indicator for the service sectors rose to -2 (-14 in October). In the latest survey, 13% of respondents had expectations of a brighter first half of the year, compared with 15% who expected a weaker outlook.

The decline in **new orders** for manufacturing halted at the end of last year. The trend in orders for construction remained weak, as the number of orders declined compared to the previous quarter. The order book for both manufacturing and construction companies, however, was clearly smaller than usual. Finished goods inventories in the manufacturing sector remained at their previous level, slightly higher than average. The number of unsold homes owned by construction companies, on the other hand, grew over the previous figure.

Production is expected to grow only slightly in the coming months

Production by manufacturing companies grew slightly in October–December. This trend met the expectations held three months ago. The extremely shallow growth curve is expected to continue in the first quarter, with growth forecast to accelerate slightly in late spring. The production volumes of construction companies decreased towards the end of last year and are expected to remain more or less the same in the near term. The sales of the service sectors did not grow at the end of last year. Extremely slow growth is expected for the coming months, but the estimates for the second quarter are slightly more optimistic, with growth forecast to perk up in late spring.

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The capacity utilisation rate in manufacturing companies has improved somewhat, although it remains very weak. In the latest survey, only 53% of respondents indicated that their production capacity was fully utilised (48% in October).

Labour force suffering from a mild decline

The labour force trend among Finnish companies remained lacklustre at the end of last year, with the personnel strength of construction and service sector companies responding to the survey declining. In manufacturing, the trend was slightly better than expected, the labour force remaining more or less at its previous strength.

Expectations for the coming months are still cautious. In the service sectors, the labour force is expected to remain at the same level as late last year, whereas in construction reductions will continue. The labour force in manufacturing is forecast to begin a slight decline again.

In manufacturing, **sales prices** hardly changed in the last quarter of last year, and changes in the sales prices of service companies were likewise minimal. Meanwhile, in the construction sector sales prices began declining. Manufacturing companies' costs remained more or less the same as in the previous quarter, while in construction the rise in costs came to a halt. The costs of service companies maintained their moderate growth.

Manufacturing companies expect their steady price trend to continue. In the construction sector, prices are felt likely to fall slightly further, whereas in the service sectors the price level is anticipated to rise somewhat in the first quarter. Costs are expected to remain stable in manufacturing, whereas in construction and services they are likely to increase somewhat.

Profitability remained stable in manufacturing in October–December, while it weakened slightly in construction and services. Manufacturing companies expect their profitability to improve slightly early in the year. In the service sectors, profitability is estimated to remain at the current level, while in construction it is forecast to weaken.

Insufficient demand was still deemed to be the most common obstacle to growth in operations. 47% of manufacturing companies and 37% of service sector companies that responded saw their demand as weak. In construction, as many as 69% of respondents held the same view. Recruitment difficulties are mostly fairly minor, with ten per cent of service sector respondents reporting having experienced some. Six per cent of construction companies and only two per cent of manufacturing companies felt recruitment was problematic.

EK Business Tendency Survey

The Business Tendency Survey is published four times a year by the Confederation of Finnish Industries (EK). The survey has been carried out regularly since 1966. It is part of the European Commission's Joint Harmonised EU Programme of Business and Consumer Surveys, which is partially funded by the EU. 1,171 companies employing approximately 270,000 people in Finland replied to the survey carried out in January 2014.

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The Business Tendency Survey and other reports are available on the website of the Confederation of Finnish Industries at **www.ek.fi**.