



Tesi

Update to Growth Company Pulse Survey

25.04.2022

Introduction

The war in Ukraine and new virus variants have created a pressing need for a real-time review of Finland's economy to update the survey first necessitated by the COVID crisis. Simultaneous and complex shocks to the economy are difficult to perceive in their entirety, and economic signals in many cases are contradictory.

In view of the instability produced by the war in Ukraine and the Omicron variant, we have provided an update to the Growth Company Pulse Survey. This update is limited to the manufacturing, information & communication, and hospitality & catering sectors. The aim is to supplement the broader survey conducted last December, but for selected sectors only. The survey was conducted with an identical sample of the selected sectors, and the questions are comparable with the earlier survey conducted in December. The results should be treated as indicative and, based on previous experience, evaluating changes is especially challenging for companies in the initial phase of an economic shock.

The survey was conducted in collaboration with Finland's Ministry of Economic Affairs and Employment, while Bank of Finland and ETLA Economic Research professionals helped with its planning. The aim is to utilise the survey data as widely as possible with different stakeholders, and also to supplement the research material collected during the coronavirus crisis.

We will conduct a broader survey at the end of the autumn, when the full economic impacts of the war in Ukraine will also be more discernible. Changes in supply chains can produce complex multiplier effects that are difficult as yet to evaluate over such a short time span.

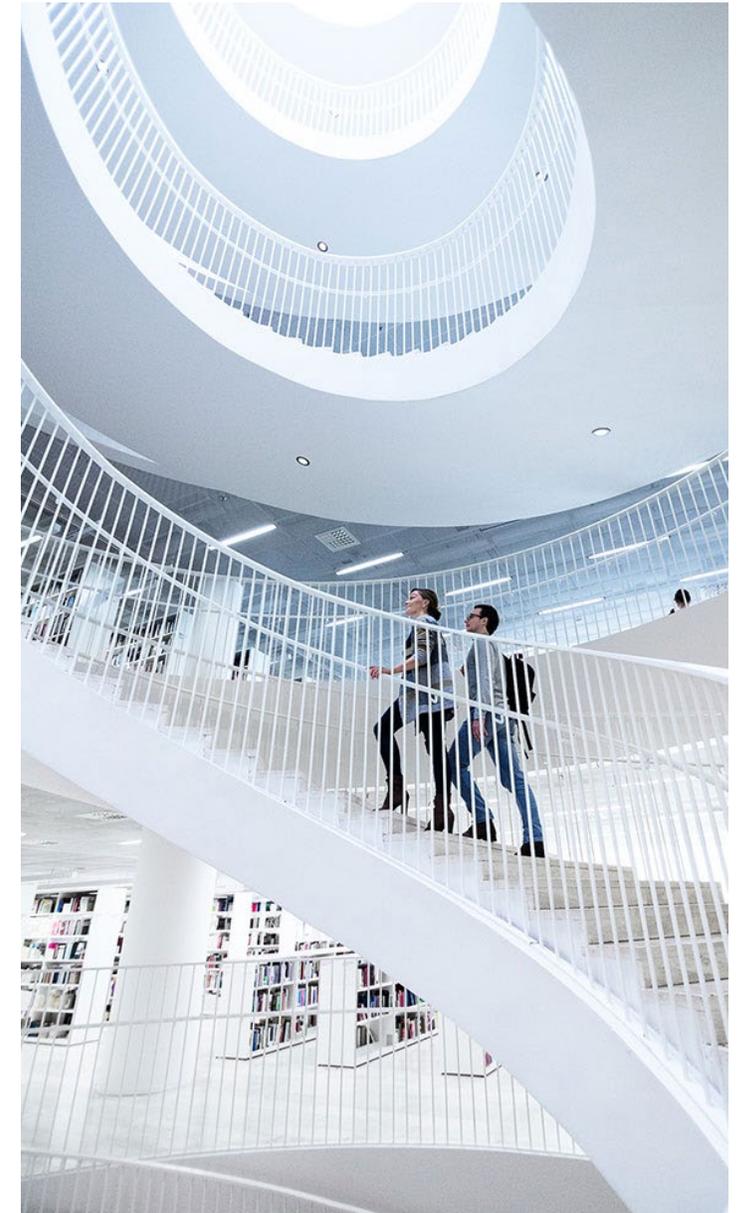
We would like to extend our thanks to all our partners who helped to plan and implement the survey. Your insights and experience have played an important role over the last few years.

Henri Hakamo

Klaus Majanen

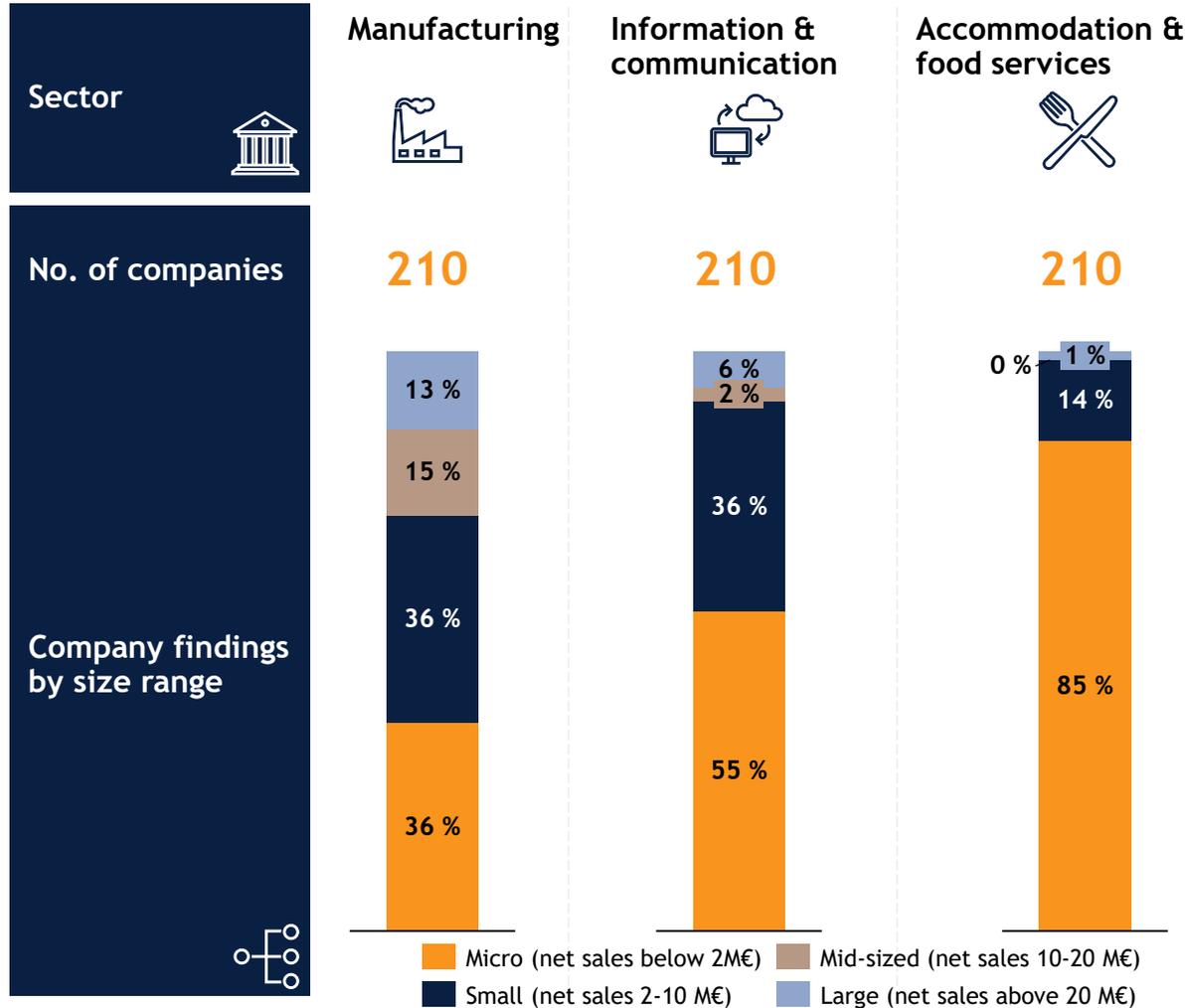
Chief Digital Officer

Analyst



Basic information about survey

Sample



Limitations

- Implementation of survey**
 - Phone interview (duration ~10 min)
 - Conducted by Taloustutkimus
 - Survey conducted 24.03 –08.04.2022
- Selection of sectors and companies**
 - Three reference sectors were selected for the Pulse Survey update. The sample does not broadly represent the entire economy nor should the results be generalised to other sectors.
 - No limit was placed on the top value of companies' net sales.
 - Companies of less than five people were excluded from the survey**
- Sampling logic**
 - For each selected sector, the survey sample was divided into exactly three different size classes (net sales of <2 M€, 2–10 M€ and >10 M€). Within the sample, larger companies were prioritised, when possible.
 - The survey addendum provides more precise descriptions of the final sample and of the survey's margin of error at levels TOL 1 and TOL 2.
 - The sectors are not weighted by GDP, number of personnel, or number of companies. All responses manifest the average situation of the different sectors and the importance to Finland's economy varies by sector.



Manufacturing



Information & communication



Accommodation and Food Services

Management summary

Findings

Lowered expectations for 2022

- Companies started 2022 with optimistic expectations, and forecast significant improvement in both net sales and profitability across the sectors. Based on this update, companies have lowered their expectations, especially in manufacturing, although they expect growth to continue.

Supply chains and cost increases pose challenges for manufacturing

- Manufacturing is of great importance to Finland's national economy, and small changes have a widespread impact. Disruptions in subcontracting chains can produce widespread multiplier effects that can also be very rapidly triggered.
- Companies also expect the disruptions from the war to increase above their current level. Nevertheless, order books continue to be healthy so far and no large-scale disruptions have been observed yet.

More stable outlook for information & communication sector than manufacturing

- In the information & communication sector the impacts seem to be more moderate and the sector will likely endure the current situation better than manufacturing companies. Although continued strong growth is forecast, profitability is expected to decline across the board.

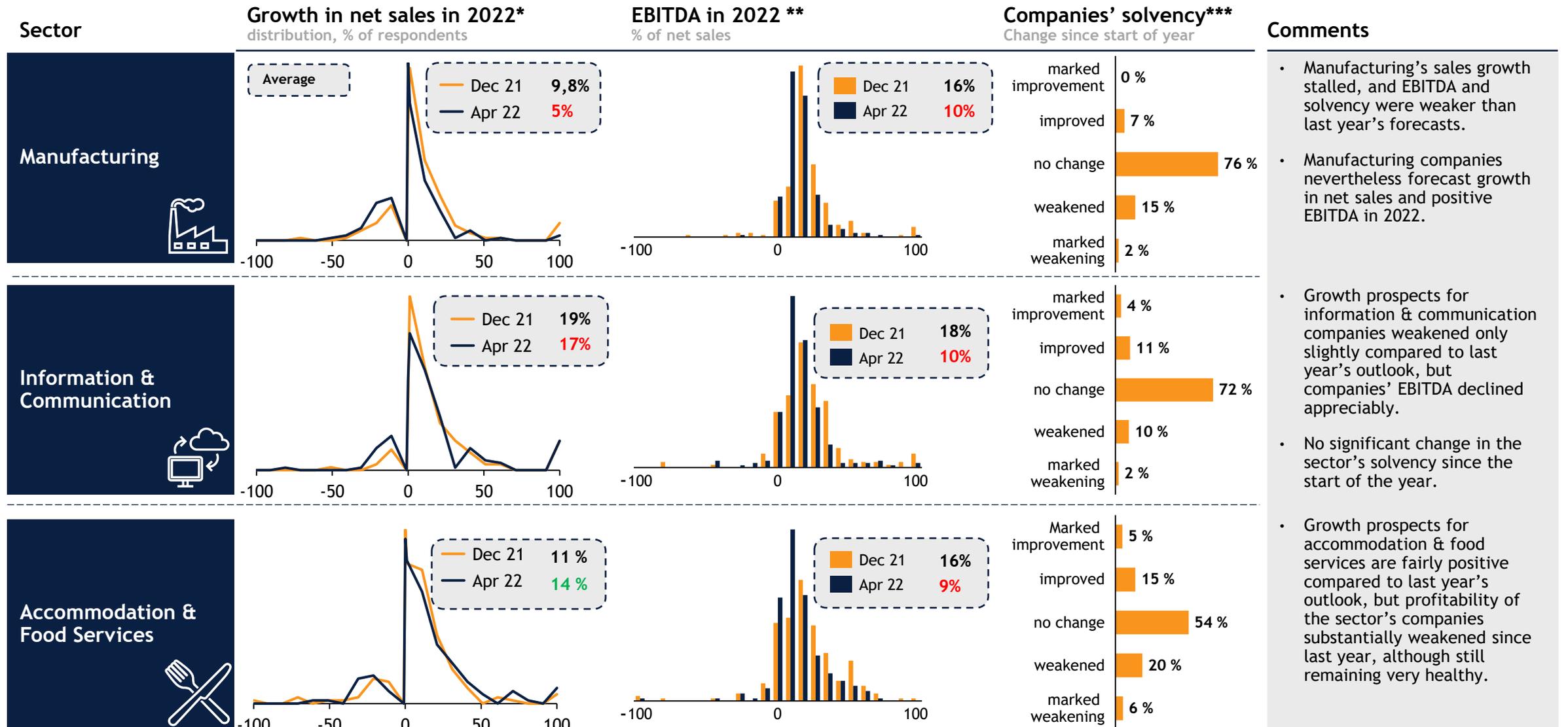
Impacts of Omicron on accommodation & food services are temporary

- Expectations of growth in the accommodation & food services sector have actually improved, despite Omicron. Also supply chain disruptions have substantially decreased and labour availability has improved.
- Cost pressures and inflation are clearly reflected in EBITDA forecasts, which are weaker than last December.

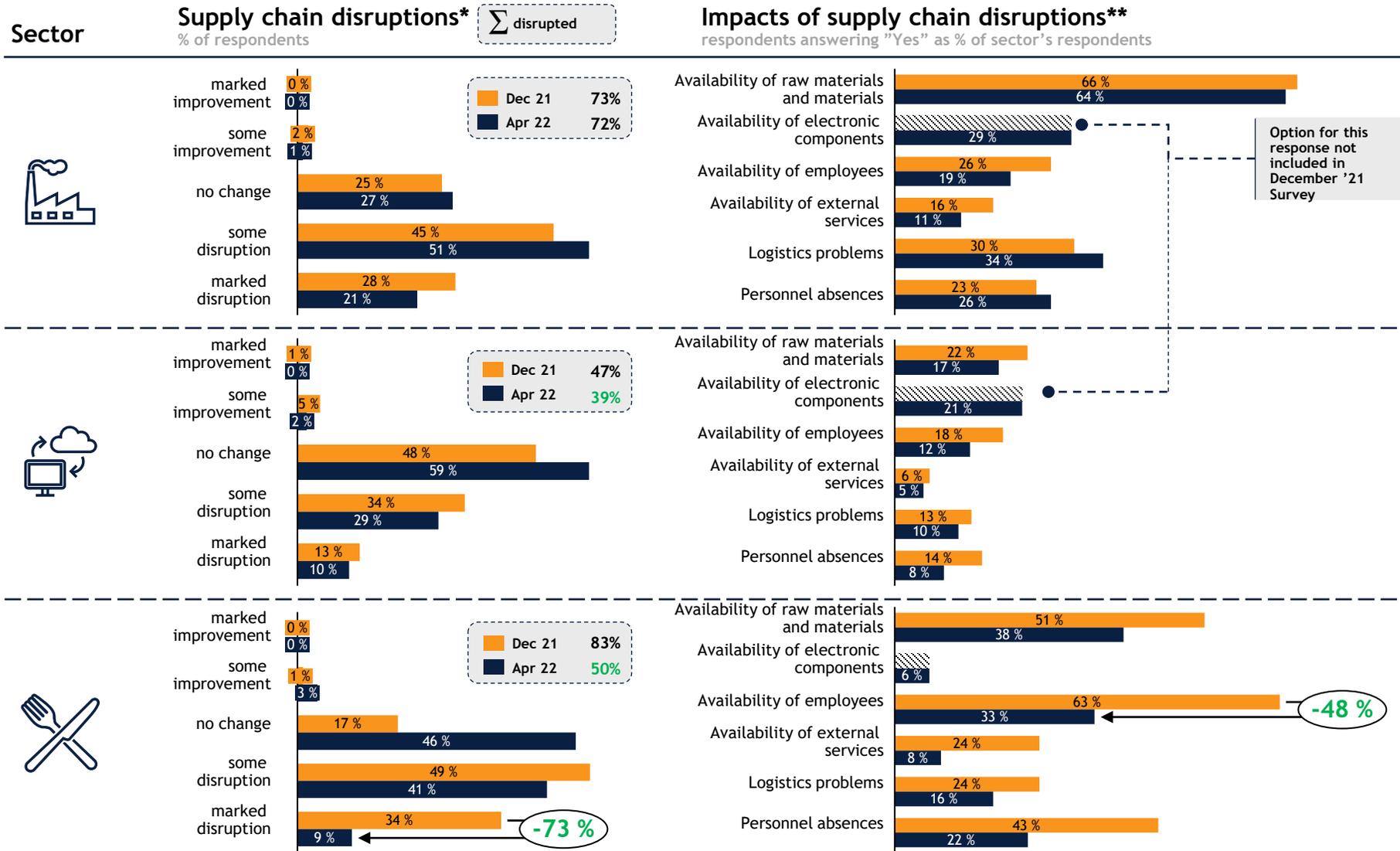
Direct impacts of war on companies are limited

- The direct impacts of the war on companies are limited in extent, but the changed macro environment challenges companies to react to the challenges posed by inflation and interest rate rises.
- The direct impacts can to a large extent be replaced over the next 12 months.

Compared to last December, the positive outlook has weakened and in particular EBITDA is expected to decline this year



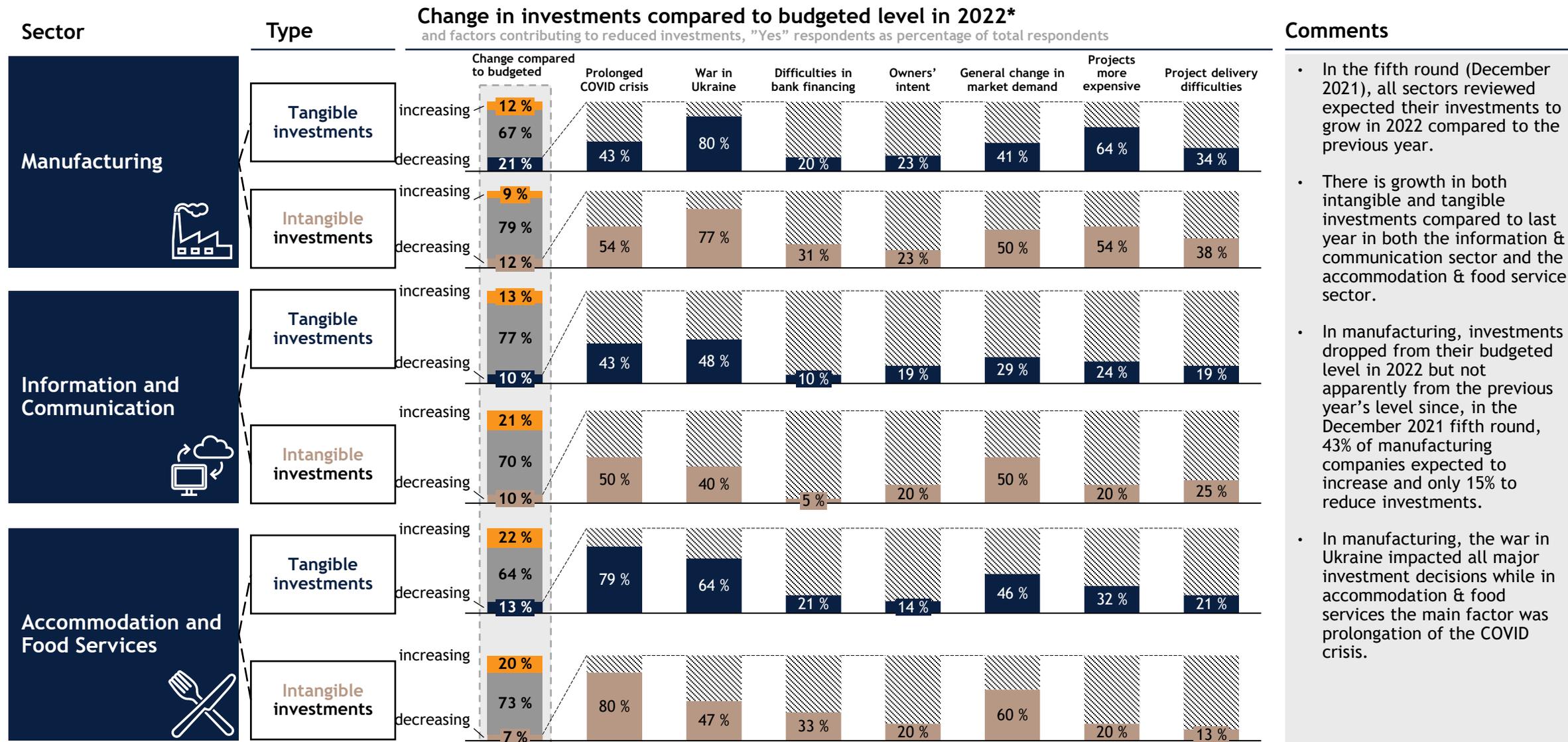
Apart from the manufacturing sector, supply chain disruptions are slightly easing



Comments

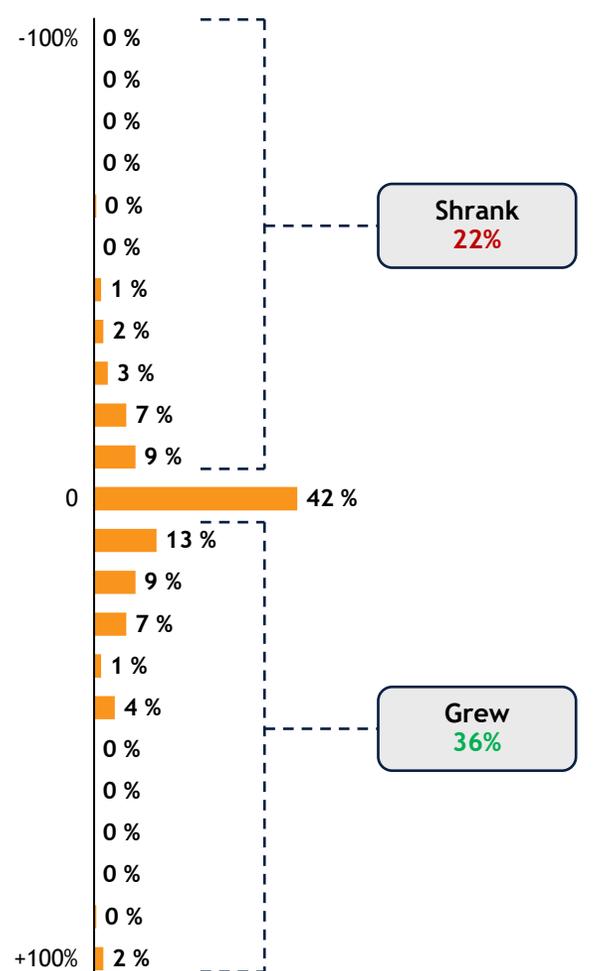
- There have been disruptions in companies' supply chains for some time now. No significant changes to situation in fifth round (December 2021) were observed.
 - The availability of materials and raw materials still one of the greatest problems, especially in manufacturing.
 - There is less disruption to supply chains in the information & communication sector than in other sectors, and these disruptions have diminished further.
 - An appreciable easing in supply chains is observable in accommodation & food services.
 - In particular, the availability of employees has improved as the proportion of respondents answering "Yes" dropped by some 30% since the December 2021 review.
- Supply chain disruptions are still ongoing, but the war has not had a significantly negative impact on the situation.

Changes in investments compared to planned level are moderate, but particularly in manufacturing the situation needs monitoring

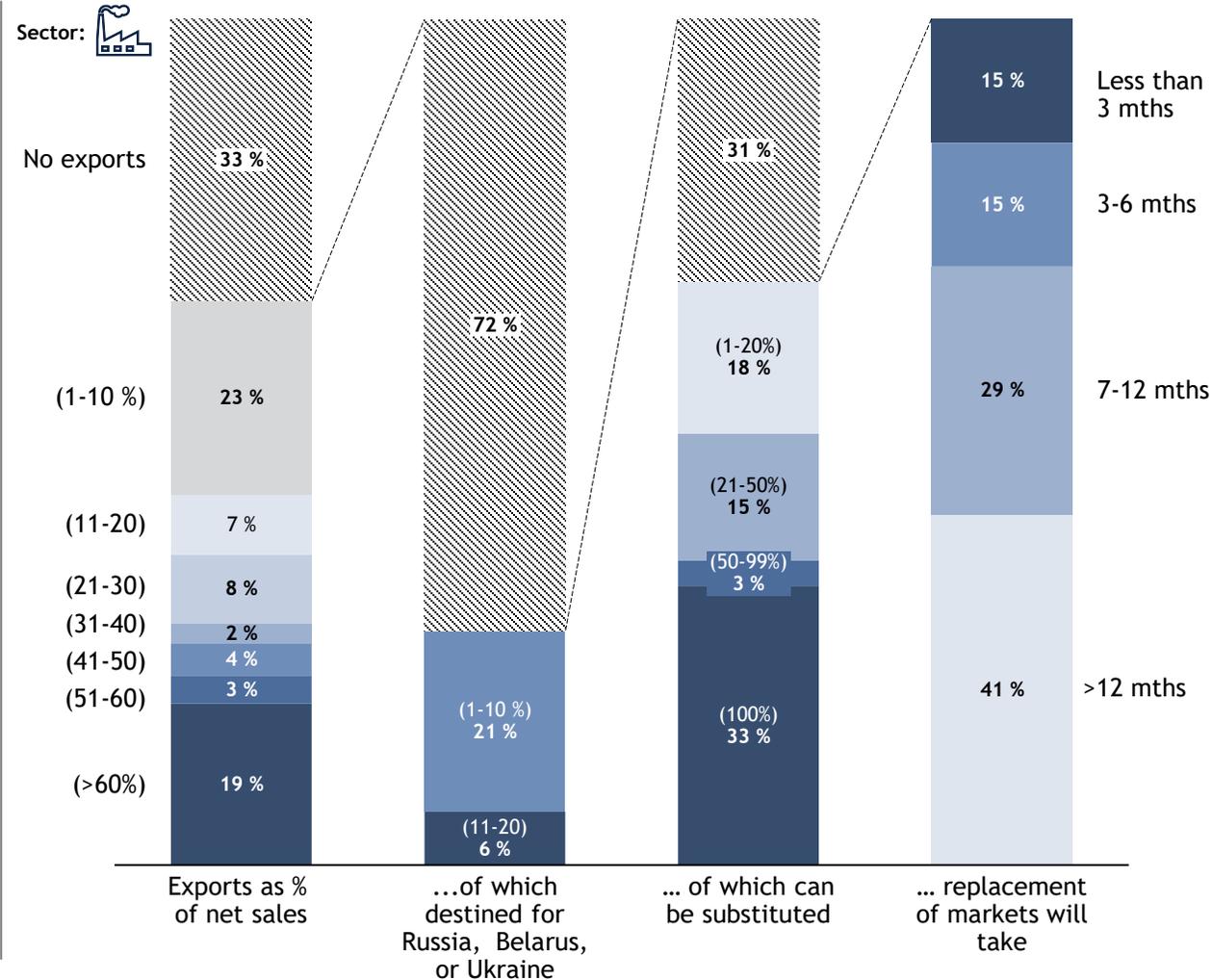


Manufacturing's order intake grew since the start of the year, limited impacts on business of reduced exports due to the war

Change in order intake since start of year*
% of respondents



Exports to war zones and finding substitute markets**
% of respondents



Comments

- There has been a slight uptick in manufacturing's order intake compared to the start of the year. 36% of respondents said their order intake had grown and 22% that it had shrunk since the start of the year.
- 67% of manufacturing companies responded that exports generated at least a part of net sales.
- Of these exports, only a fraction (approx. 2%) were destined for Russia, Belarus, or Ukraine.
- 69% of companies which exported to war zones believe exports to new markets will, at least to some extent, replace these lost exports.
- 59% of companies believe they can replace markets lost because of the war in less than a year.

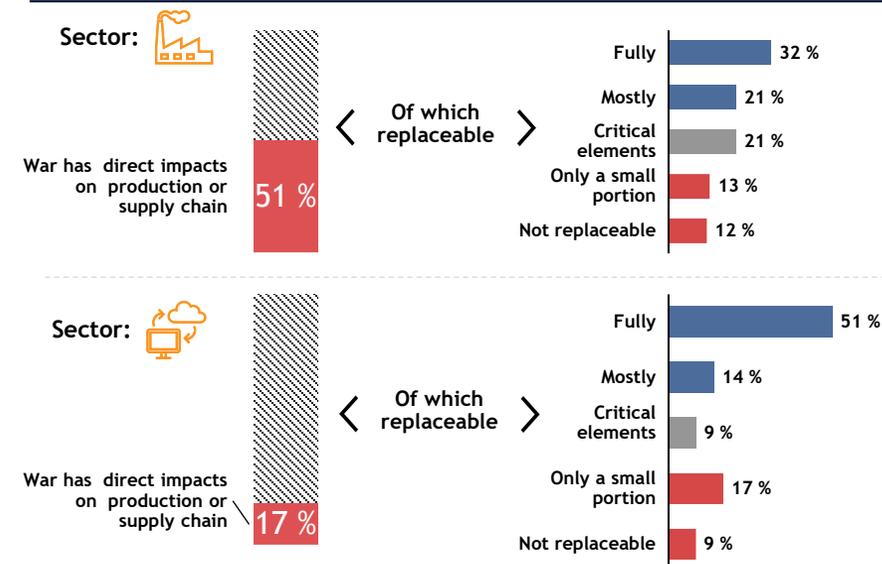
Direct impacts of reduced exports on manufacturing SMEs are very limited.

The war in Ukraine has significant negative impacts in all sectors reviewed, and these impacts are expected to intensify.

- The majority of companies believe war in Ukraine will impact their business over the short term (spring and summer 2022) as well as over the long term (autumn and winter 2022-2023).
- The war will have most impact on manufacturing, with the conflict directly impacting both their business (60-70% of respondents) and their production (51% of respondents).
- Only 5% of information & communication sector respondents expect the war to have significant negative impacts on their business operations. In addition, 17% of sector respondents estimate the war will have direct impacts on production or supply chains. 74% of respondents nevertheless believe they can replace the war's impacts on production, at least the critical elements.
- Of accommodation & food services respondents, 69% believe the war will impact business over the short term and 70% over the long term.
 - The sector's companies have already noticed a decline in enquiries from international customers (17% of respondents) and cancelled reservations (26% of respondents).

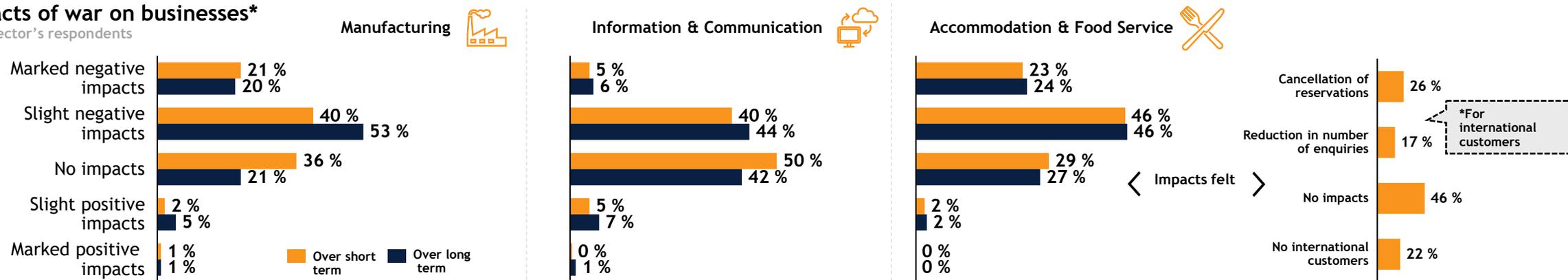
Impacts of war on production and supply chains**

% of sector's respondents



Impacts of war on businesses*

% of sector's respondents



Accelerated pace of inflation is rapidly changing the business environment and challenging companies to adapt their business

Average rise in factor input prices since start of year*



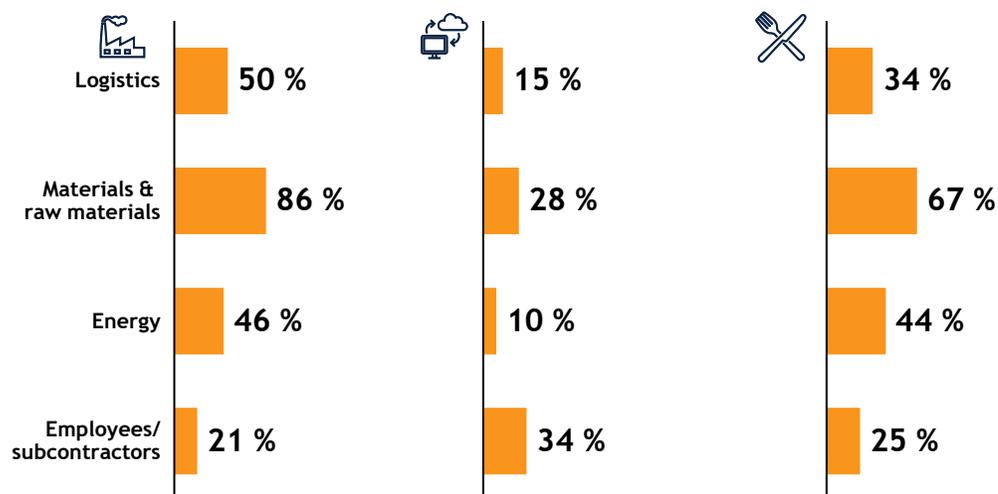
Average rise in product prices 2022***



Comments

- Prices of factor inputs have risen very rapidly since the start of the year, particularly in manufacturing. Raw materials and materials are most affected by price rises.
- Significant salary increases are expected during 2022. Salaries will rise most in accommodation & food services companies, which are suffering from labour shortages.
- Respondent companies forecast significant increases in prices of products and services, but not sufficiently to fully cover increased factor input prices. This will result in a slight decline in EBITDA.
- The largest difference between the price rises of factor inputs and products is in manufacturing, up to 3.5%.

Input factors particularly hit by price rises**



Majority of companies expect approx. 2-5% rise in salaries

Average rise in salaries 2022****

