



BUSINESS SERVICES

– increasingly important for the
Swedish economy

almeGa



Business services have gained increasing importance for the Swedish economy. In the last 20 years, they have contributed strongly to Sweden's output growth, exports and employment and have had a growing impact on Sweden's international competitiveness. But what type of services are these, and why are they, in fact, becoming all the more important? Almega wants to increase knowledge about the importance of business services to the Swedish economy and consequently the answers to these questions are important as input for politicians and decision-makers¹.

What are business services?

Business services is an umbrella term for a range of different industries that sell services primarily to other businesses. Examples of such industries are activities with a focus on technology, design, IT, research and development, the organisation of work, company management, advertising, temporary staffing agencies, security systems, building maintenance services, support services, etc.²

Business services are sold to customers in both Sweden and abroad either as inputs to the outputs of other companies, or as packaged services sold directly to end customers for consumption, or as investments.

¹ Read more in the report *Företagstjänster – allt viktigare för Sveriges produktion och konkurrenskraft* (Business services – increasingly important for Sweden's production and competitiveness). Almega, November 2014. This report is available in Swedish only at www.almega.se

² Almega defines business services based on the new industry code (SNI 2007) and includes the following industries in the term: SNI 69-82 and 61-63, i.e., basically scientific research and development, advertising and market research, administrative and support service activities, telecommunications, computer programming, computer consultants and information services.

Business services are knowledge-intensive

In the past two decades, the proportion of highly educated labour has increased in all sectors of the Swedish economy. The requirements for higher education for jobs in virtually all parts of the economy have increased as the production of goods and services has become more and more advanced.

Knowledge-intensive service industries³, in which business services are counted, have a relatively large proportion of employees with

post-secondary education. The proportion of highly educated people has increased markedly in a string of industries compared with 1993 (see Table 1).

Business services represent about 60 per cent of the knowledge-intensive part of the private services sector.⁴ The number of people employed in the knowledge-intensive services sector within the economy amounted to all of 1,072,000 in 2013.

Table 1:
Share of employees with post-secondary education 3 years or longer including postgraduate education

	1993	2007	1993-2007
	Share	Share	Change
	Per cent	Per cent	Percentage points
Postal and telecommunications companies	4.5	11.1	6.6
Banks and other credit institutions including support services	14.2	33.8	19.6
Insurance companies including support services	14.6	25.2	10.6
Hiring firms	5.0	6.5	1.5
Computer consultants and data service bureaus	30.1	43.5	13.4
Research and development (R&D) institutions	56.2	70.5	14.3
Other business services firms	18.6	27.6	9.0
Education	50.6	47.8	-2.8
Health and medical care, veterinarians	17.0	44.5	27.4
Units for recreation, culture and sport	17.1	24.3	7.2

Source: Statistics Sweden (RAMS).

³ Almega uses the definition of the knowledge-intensive services (KIS) sector that Eurostat has developed.

⁴ The percentage is calculated based on the national accounts and the traditional way of reporting the number of people employed in different industries. In Almega's report, we also demonstrate an alternative way of calculating the total output and employment for business services and for the mining and manufacturing industry, respectively.

Which sectors are behind the jobs growth in business services?

Business services are used in more or less all parts of the economy. Thanks to increased demand from various sectors, jobs in business services have grown. How then is the demand for business services distributed among the different sectors?

If we look at the industries that demand business services as input in their own production, demand is coming mainly from the services sector. About 57 per cent of those who work with producing business services as input services do so thanks to demand from both the private and public sectors. An additional approximately 30 per cent of those who produce business services as input ser-

vices do so thanks to demand from the mining and manufacturing industries. In addition, slightly more than 10 per cent of those producing business services as input services are in work thanks to demand from the construction industry (see Graph 1). The remainder work with producing input services to other sectors in the economy, such as agriculture and forestry, energy, water supply and wastewater treatment.

Besides demand for business services used as inputs in the outputs of other industries, business services are sold directly to end customers as packaged services for consumption, investment or export.

What distinguishes business services is that a relatively large proportion of those who work in the sector, 45 per

cent, have their jobs thanks to demand for input services from other industries. This shows that business services have a relatively large impact on the outputs of other industries and the service content of their products. Here, the business services industries differ from the mining and manufacturing industry, where a significantly smaller proportion of those employed produce inputs for other industries; only 11 per cent of total employment in the mining and manufacturing industry.

Business services – an engine for growth and jobs

Over the last 20 years, the output growth in business services has been stronger than for the private services sector as a whole. Growth in business services averaged 7.5 per cent per year, compared with 3.3 per cent for the private services sector as a whole during the period 1994-2013.⁵

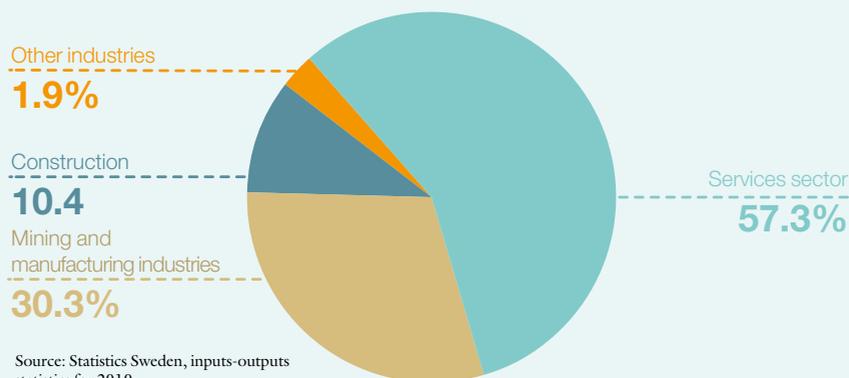
Among business services, growth was highest for telecommunications during the period, with an annual growth of slightly more than 10 per cent per year on average. In 2013, this industry accounted for 2.3 per cent of the total value added in the private services

sector. Computer consultants had the next strongest growth among business services in the 20-year period, with an annual growth rate of 6.7 per cent on average per year, and a 5.5 per cent share of the value added in the private services sector.

The annual average growth rate during the period from 1994 onwards for the whole of the private services sector conceals the fact that different service industries have been affected to differing degrees by the fluctuations in the business cycle. While education, health care and social services have been relatively insensitive to fluctuations in the business cycle, business services have been affected to a higher degree by their business environments (see Graph 2). This is linked to the fact that business services have contributed to Sweden's export performance to a growing degree, and are affected by changes in demand for Sweden's exports. Thus, and to a greater degree than more domestically-oriented service industries, business services have fluctuated in tune with the fluctuations in the business cycle for export industries (see Graph 2).

For example, business services were also impacted to a relatively high degree by the financial crisis during 2008-2009, and the mining and manufacturing industry to an even higher degree. Even in the most recent period, 2011 to 2013, business services were affected by weak demand from Sweden's export markets.

Graph 1:
Shares of those who are employed to produce business services as inputs to the outputs of other industries, 2010



Source: Statistics Sweden, inputs-outputs statistics for 2010.

⁵ All of the calculations in Almega's report, which is based on the Swedish national accounts, were made based on the most recent national accounts up to and including 17 September 2014. Thereafter, the new national accounts were introduced, which use new methods and audits according to the new system of national accounts based on the European System of National and Regional Accounts (ESA 2010). The statistics that Almega mainly used in its report, i.e., input-output data from the national accounts for 2010, are based on the previous regulatory framework for these accounts, and to be consistent, Almega has also used the previous national accounts for its other reporting of development in the economy which applied up until 17 September 2014.

An important difference between the mining and manufacturing industry and business services is, however, that the mining and manufacturing industry is even more oriented towards export markets than business services, which on the other hand are more oriented towards domestic demand than the mining and manufacturing industry. All the same, business services contribute input

services to the production of Sweden's exports to a high degree, and also export packaged services directly to customers abroad. Consequently, service providers are also affected by how demand in Sweden's export markets develops. Sweden's exports of business services as such for investment, consumption or as input services to companies abroad have increased during the last 20 years.

During that period, business services have been a strong engine for jobs in the private services sector. During the period 1994-2013, the number of people employed in business services increased in total by close to 300,000 counted as employed persons⁶.

The total increase in the number of people employed in business services during the last two decades is responsible for the entire 45 per cent of the total growth in jobs in the private services sector during the period, which amounted to 663,000 jobs. Furthermore, it explains the big increase in the total number of people employed in the private services sector – all of 80 per cent of Sweden's total employment growth over the last 20 years.

Graph 2:
Output growth, percentage change compared with the corresponding quarter of the previous year, calendar adjusted, 1994 through second quarter 2014



Source: Statistics Sweden, Macrobond.

80%

of Sweden's total increase in employment over the last 20 years, the private services sector is responsible for

6 According to the Swedish National Accounts, May 2014.

Business services account for almost 20 per cent of Sweden's GDP

Business services account for an even greater share of GDP than the 14 per cent shown by the traditional way of measuring a specific industry's share of GDP.

If all business services production is included, it accounts for one fifth, i.e., all of 19 per cent of GDP (the total value of all goods

and services produced in Sweden for one full year). This is due to the fact that business services create outputs both directly in these industries, and indirectly in other industries that produce input goods and services for the business services industries. By totalling all of this production, we get a more accurate measure of how much of Sweden's GDP business services accounts for in practice.

Business services constitute almost 1/5 of Sweden's GDP

Nearly 20 per cent of Sweden's employed work with business services

Business services account for a larger share of Sweden's employment than what is normally known according to the most common way to measure the number of people employed in an industry. With the traditional way of measuring, business services' share of Sweden's total employment amounts to about 14 per cent. However, if we also include the employment created in other industries for the production of business services, they generate a total of around 800,000 jobs. This is equivalent to approximately 18 per cent of Sweden's total employment.

As many as 360,000 people involved in the production of services are employed thanks to the demand for business services as inputs to the outputs of other industries. This corresponds to 45 per cent of those working in the production of business services in total. The remaining 55 per cent, equivalent to around 440,000 people, produce services for end customers in Sweden or abroad, either for investment or for consumption. Of these 440,000 people, slightly more than 90,000 work with producing input goods or input services from industries other than business services. In other words, for business services to be produced, these inputs of both goods and services are needed.

Graph 3:
How many jobs in total exist thanks to the demand for business services?



Source: Statistics Sweden, National Accounts, I/O statistics for 2010.

The business services used as inputs to the outputs of other industries can be, for example, service innovations, technical solutions, software, IT systems, security systems, design, organisation solutions, marketing, hired consultants and other personnel, etc.

That such a large proportion as 45 per cent of those who work in business services produce input services to other industries is a distinguishing feature of the sector. In other words, the demand for input services generates a relatively large proportion of the jobs in the business services industries, com-

pared with, for example, the demand for inputs from the mining and manufacturing industry where the proportion is significantly smaller.

Business services are used more or less in almost all sectors of the Swedish economy. The industries that demand business services and thus employ relatively many people in these industries include wholesale and retail trade, management of real estate, construction, public administration, the motor vehicle industry, health care and education. The latter two industries include both private and public health care and education.⁷

You can read more about this in the report "**Business Services - increasingly important for Sweden's production and competitiveness**" from Almega. This report is available in Swedish only at almega.se

⁷ The input-output statistics that this report is based on include all private and public services in their industries, such as health care and education.

Contact:

Lena Hagman, CFO
phone: +46(0)8 762 69 61
e-mail: lena.hagman@almega.se

Linnea Kvist, Economic analyst
phone: +46(0)8 762 66 21
e-mail: linnea.kvist@almega.se



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