

HOUSEHOLD AND CONSUMER SECTOR

Is the Home still that important to consumers?

Some Issues faced by SA's Stagnant Household Services and Domestic Worker Sector

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SUMMARY

Recently, the Institute of Race Relations published statistics regarding estimates of the number of people employed as domestic workers in South Africa annually since 2001, which it had compiled from various StatsSA surveys (see sources on page 8). While insightful, the figures were a cause for concern for some, as there had been little growth over the decade or so, and this sector is a significant employer of low skilled labour. It is estimated that, whereas there were 1.288 million domestic workers employed as at 2006, following a few great economic years which had arguably led to an increase in this number from 1.188 million in 2001, the number had once more dropped to 1.153 million by 2012. We had thus not made any progress in 2012, when compared to 2001.

In a country where less skilled sections of the labour force face high unemployment rates, these figures should perhaps be a concern, given that this sector has traditionally been a sizeable provider of employment to low skilled labour.

There is a degree of short term cyclicity to Household Consumer demand for Household Services, which includes Domestic Workers along with a broader spectrum of home maintenance and upkeep-related services, and the economy has not been firing on all cylinders in recent years.

However, there is a longer term trend of stagnation in the demand growth for household services that spans back a few decades, and there is reason to believe that such stagnation applies to the Domestic Worker sub-segment too.

Real Household Expenditure on Household Services has admittedly grown in the long term, buoyed by a growing number of households. However, the growth has been "sub-par", below overall real long term household consumption expenditure growth, as the average household depends less on household and domestic worker services, and allocates a larger share of income to other items.

Already from the late-1950s we have seen a long term decline in the percentage of homes built with domestic workers' quarters, an early sign of diminishing dependence on domestic workers as the "live in" worker started losing appeal for some.

Stringent labour laws in recent decades may well have been a factor in curbing domestic worker demand growth, while security motives may have also played a role in some cases. However, these can often lead to an outsourcing of domestic worker services to cleaning agencies and gardening services companies, and not always a reduction in demand. It thus probably goes a lot deeper than that, and the causes for stagnation are likely to be more varied.

Firstly, a long term increase in urban land scarcity (and thus land prices) has led to multi-decade decline in the average size of stands as well as the average size of homes built.

Of homes valued by FNB over the past decade or so, from a peak average stand size of 1,171 square metres for full title homes built in the 1975-79 period, the average stand size for homes built from 2010 to date has more than halved to 506 square metres. And on top of it there is a greater share of sectional title homes being built these days. With regard to average building size, the largest homes were also built in the 1975 to 79

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period, with average building size peaking at 212 square metres. This has since declined to 143 square metres for the period 2010 and beyond.

All other things equal, this should automatically reduce the dependence of the average household on Household and Domestic Worker services. This means that ongoing growth in the number of formal households, which has indeed happened, would be crucial in offsetting this negative impact and keeping demand for Household Services growing positively albeit at mediocre rates..

Delving deeper, and into long term consumption trends, Household and Domestic Worker services are also up against stiff competition.

And so, we come to the second probable cause of weak demand growth for Household and Domestic Worker Services. There is perhaps a “crowding out effect” emanating from a combination of high price inflation and proliferation in the number of existing items perceived by many as “essential”. These include Health Products and Services consumption expenditure, Education, Household Fuel and Power (including increasingly more expensive electricity), and Transport and Communication expenditure.

These 4 major expenditure categories have increased their joint share of nominal consumer spend from 10.6% in 1970 to 16.6% in 1990, and further to 25.2% by 2011, thus more than doubling their share in 41 years. Something else has to give.

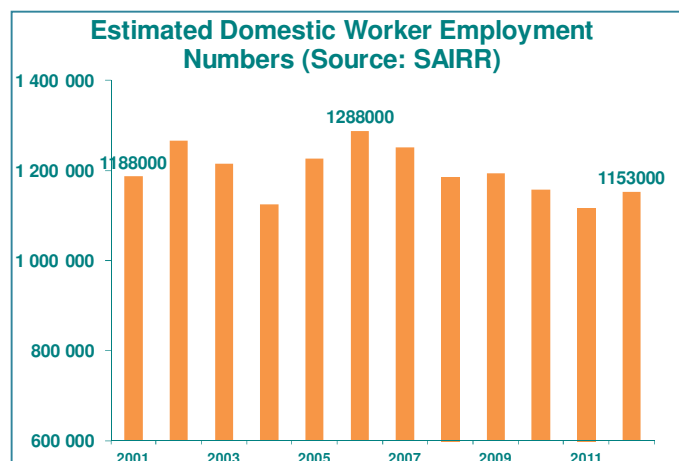
Thirdly, there’s a partial substitution effect emanating from the combination of price inflation in the Household Services Sector which has been above long term consumer price inflation, and an increased availability of partial substitutes in the form of a myriad of steadily improving household appliances aimed at making household tasks, from cleaning to food preparing to maintenance, easier. Household appliances have been subject to global competition, and thus have had very low price inflation rates over recent decades. In effect, therefore, one could probably say that SA’s Household Services and domestic workers are up against “partial” competition from global labour, including the highly-competitive East Asian labour forces where many appliances are made, and they’re probably not winning. The substitution effect is not all about cheap household appliances often produced by competitive foreign labour though. Domestically, food retailers are increasingly good at preparing food to “ready to eat” levels, and of course there’s the mushrooming fast food industry all making it easier-diminishing need for the domestic worker that prepares food for the household.

Fourthly, there’s the matter of long term changes in consumer tastes. Two of the most rapid long term growth areas in real consumption expenditure have been “Clothing and Footwear”, and “Recreation, Entertainment and Culture”. Perhaps, the reality too is that modern day household is less focused on the home and its condition, and more focused on enjoyment and looking good. That’s not only difficult for the Household Services industry to swallow, but perhaps for the Property Industry too.

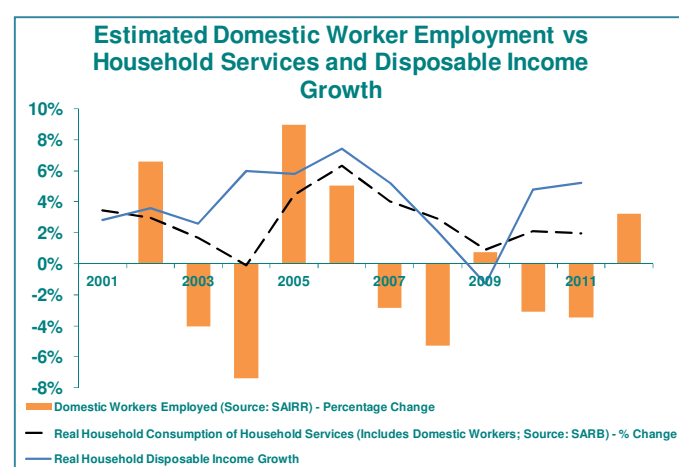
Therefore, one probably has to see the Household Services sector and its Domestic Worker sub-sector as being “mature”. This doesn’t mean that one can’t achieve growth in this sector should the economy grow fast enough to drive solid middle to upper income household growth rates. However, it is likely to continue to grow at a slower pace than overall real household consumer spend, and thereby its employment growth too, with jobs being in part replaced by jobs in appliance manufacturing and food retail services for instance, activities which partially replace household services and domestic worker value adding activities over time.

It would be difficult to halt the changing make-up of household consumption demand due to changing tastes and priorities. Important is that, where jobs are lost in such mature occupations as household services and the domestic workers component thereof, they are replaced by others in a modernizing and strongly growing economy. However, the transition, as other goods and services in part replace household and domestic worker services, is never a painless one.

KEY ISSUES FACING SOUTH AFRICA'S HOUSEHOLD SERVICES AND DOMESTIC WORKER SECTOR



Recently, the Institute of Race Relations released statistics regarding estimates of the number of people employed as domestic workers in South Africa annually since 2001, which it had compiled from various StatsSA surveys (see sources on page 8). While insightful, the figures were a cause for concern for some, as there had been little growth over the last decade or so, and this sector is a significant employer of low skilled labour. It is estimated that, whereas there were 1.288 million domestic workers employed as at 2006, following a few great economic years which had led to an increase in this number from 1.188 million in 2001, the number had once more dropped to 1.153 million by 2012. We had thus not made any progress in 2012 when compared to 2001.



Now there does appear to be some short term cyclical in the demand for domestic worker services, as there also appears to be in the real growth in Consumer Spending On Household Services, a SARB statistic which includes domestic worker services along with other home running and maintenance-related services. So, 2003 and 2004 saw slowing growth in Household Services spend and a decline in domestic worker employment, probably in lagged response to the interest rate hiking and slower household disposable income growth. Then, a recovery in both in 2005/6 in lagged response to real household disposable income growth around 6% from 2004-2006, followed by slowing growth again as interest rate hikes and global economic slowdown put the brakes on disposable income growth. A recovery in the economy from 2010, and resultantly stronger real disposable income growth, brought about a mild rise in growth in real

household services expenditure in 2010, and in 2012 finally a positive growth estimate in the number of domestic workers employed.

But while there appears to be a short term cyclical nature to the demand for both overall household services and more specifically the domestic worker part of that, the reality is that through most of the recent short term cycles we saw real growth in household services growth being below real disposable income growth, and the domestic worker estimate for 2012 was still lower than the 2001 estimate despite a considerably larger economy these days. That would suggest that this is not a strong long term growth area of the demand side of the economy.

Now working with and understanding the less skilled segments of South Africa's labour market can be challenging, given South Africa's quite stringent labour laws. And so, when the statistics regarding a decline in the number of employed domestic workers were released, I was not too surprised when some people jumped to the conclusion that the key cause of this decline was the emergence of very stringent labour laws over the past 2 decades or so.

I do believe that such laws are probably a contributing factor, although in many cases they can lead to outsourcing of domestic worker services to garden services firms and cleaning agencies, and not always a decline in demand. They are laws that are designed to relatively favour larger sized businesses with the economies of scale, and effectively disadvantage smaller employers. The average household does not have a human resources department to deal with labour disputes, and when one runs into trouble with an employee the process can be a long and drawn out one, where it is often more the "hassle and time cost" factor than the monetary cost which is the major problem.

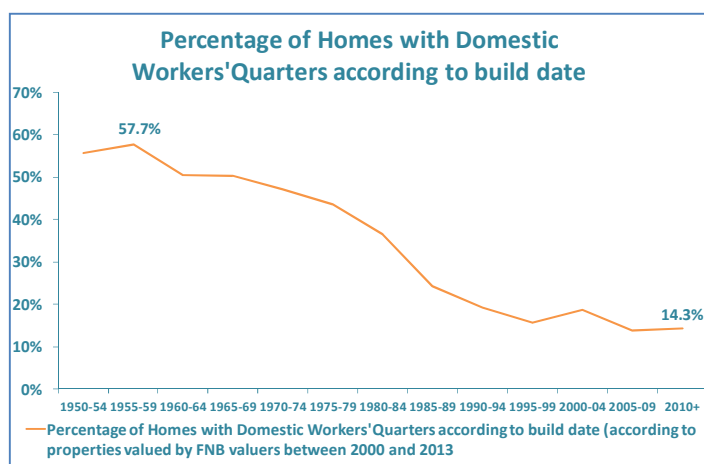
So I would believe that labour laws have probably been one of the reasons that some households have reduced their reliance on, domestic workers. Alternatively, some may have opted for outsourcing the employment of domestic workers to various agencies who employ an army of them, preferring to sign a simple service contract for domestic services provision with that company, and not have to deal with labour issues. These can include cleaning services, gardening services and a variety of other maintenance services.

But I believe that there is a bigger picture here, and that the long term decline in demand for domestic workers has been caused by a number of reasons starting way back before the advent of our more stringent labour laws..

Where did it start? Possibly as far back as the 1950s, some data shows the 1st signs. Decades ago, South Africa's middle to upper income households were, on average, larger in size, and lived in larger homes. Household appliances aimed at improving the productivity of domestic work were far less freely available, and pre-packed "ready to eat" meals or "fast foods" outlets were not nearly as common. Many domestic workers added huge amounts of value to the lives of middle and upper income households, not only doing far more "manual" chores minus many of today's household appliances, but they also often lived on the premises, and prepared food and minded children too. All of these roles still get performed today, but have arguably become far less common.

1. A change in property characteristics.

An early noticeable change in residential building characteristics was the decline in popularity of the "domestic workers' quarters in newly built homes, a trend which started way back in the 1950s. While this must surely have had to with a slowing in the demand for a "live in" domestic worker, the reasons for this early decline are perhaps not that obvious. Suburban households have seemingly become more "private" in the way they live over the decades, and that alone may have led to the concept of having employees living on one's premises becoming less "fashionable". Public commuter transport for low income workers was also improving in earlier decades, facilitating daily commuting. Later on, security concerns may have led others to abandon the "live in" domestic worker in favour of a commuting person, and of course when group areas restrictions were uplifted it became possible for many domestic workers to live closer to their place of employment. These are some speculations.



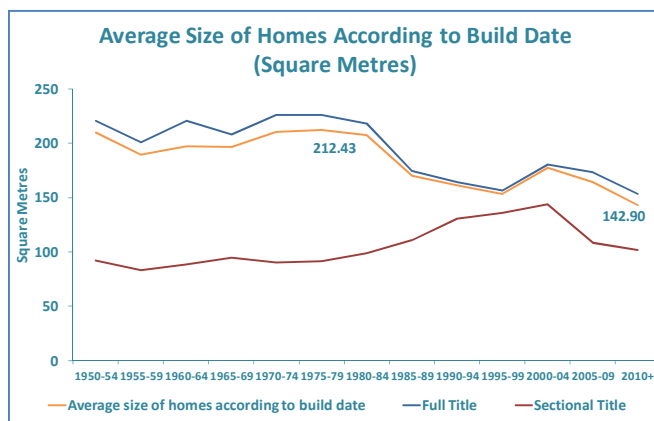
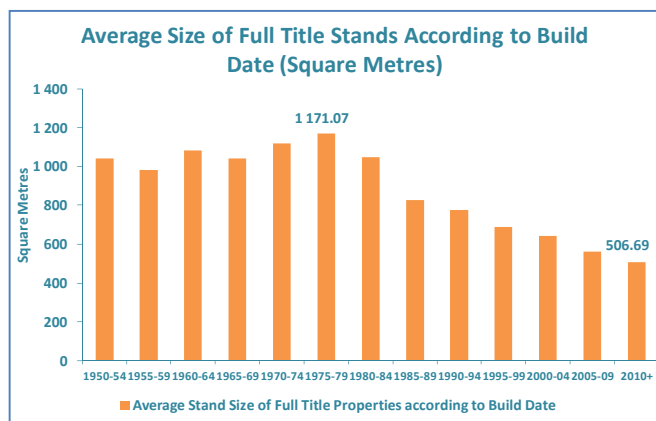
To identify and quantify the numerous possible reasons would be tough, but the reality is that FNB data on building characteristics does indicate a declining percentage of homes built with domestic workers' quarters, from a peak of 57.7% in the 1955-59 period, to only 14.3% in the period 2010 to date.

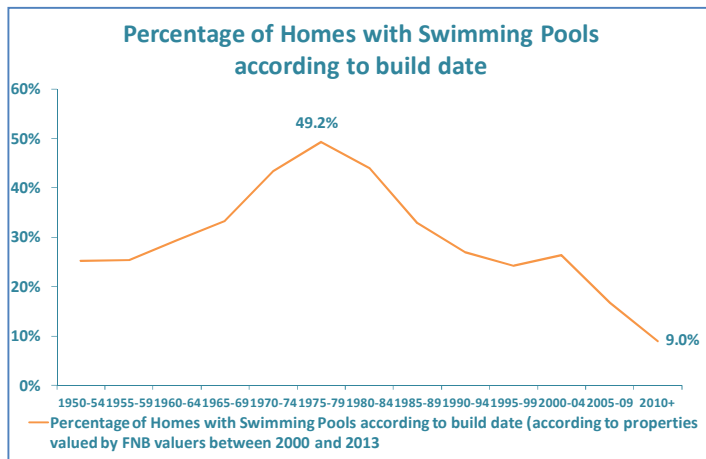
The decline in domestic workers' quarters only indicates a decline in demand for the "live in" arrangement and not necessarily for domestic workers per se.

But in later years, increasing land scarcity, caused by infrastructure constraints, caused further long term changes in residential building characteristics, and arguably reduced the need of the average household for domestic worker services altogether.

These include a declining average stand size, reducing the average need for the services of gardeners or gardening services, a decline in average home size built, and a "jettisoning of some of the luxuries such as swimming pools.

From a peak average stand size of 1,171 square metres for full title homes built in the 1975-79 period, the average stand size for homes built from 2010 to date has more than halved to 506 square metres. And on top of it there is a greater share of sectional title homes being built these days. With regard to average building size, the largest homes were also built in the 1975 to 79 period, with average building size peaking at 212 square metres. This has since declined to 143 square metres for the period 2010 and beyond. In short, less area requiring maintenance and upkeep.





And for the middle to upper income suburbs, the peak of the swimming pool era was also around 1975 to 79, where 49.2% of houses valued that were built in that period had swimming pools. By 2010 and beyond, this percentage had declined to 9%

All in all, therefore, while the number of households in South Africa has been growing over the years, which you would think would require an ever growing number of domestic worker services in some form or another, the reality is that the average home is declining in size and being built with less luxuries, thus requiring less domestic work services on a per home basis.

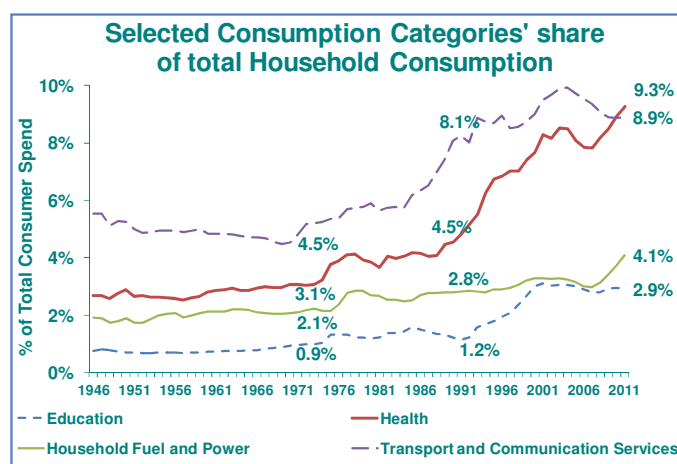
So, whereas a larger home may require a full time domestic worker, the modern day smaller average size home may require such a service one or two days per week perhaps. The modern day domestic worker thus often services more than one home on a weekly basis.

2. Crowding out by other non-related “essential” consumer items or services

The Household Service provider and domestic worker is also perhaps increasingly being “crowded out” by steadily increasing “essential” expenditure requirements of households, or at least items that many perceive as essential. These rising “essential” expenditure requirements are the result of a combination of sharply rising costs of certain “essential” expenditure categories, as well as an increasing number of “essential” (or at least perceived as essential) expenditure items that exist.

The Education consumer spending category is one which has not seen rapid real growth over the years. However, it has had one of the fastest price inflation rates over the years, driving the household sector to raise its nominal consumption spend on education goods and services from 0.9% of total household consumption expenditure in 1970 to 1.2% by 1990 and 2.9% by 2011.

Health Sector goods and services consumption has also seen a rapid growth over the decades. This, however, is the combination of high price inflation as well as strong real consumption growth as the number of available products and services proliferate, and, of course, as the country’s citizens’ lifestyle and health deteriorates. This category’s share of total consumer spend has risen sharply from 3.1% in 1970, to 4.5% in 1990 and 9.3% by 2011.



Household fuel and power’s share has been gradually rising over the years too, but this has become noticeably sharper in recent years due to power tariff hikes, and its share has risen from 2.8% in 1990 to 4.1% by 2011.

Then there is the interesting case of the Transport and Communication category. It has lower price inflation over the decades than the other categories mentioned here, but a proliferation of products and services in the area of communications has contributed to stronger real expenditure growth in this category (as new technologies, products and services become “essential” items), and its share has risen from 4.5% in 1970 to 8.9% in 2011.

Some of these percentages don’t necessarily appear too big. But cumulatively, these four categories’ share of total household consumption has risen from 10.6% in 1970 to

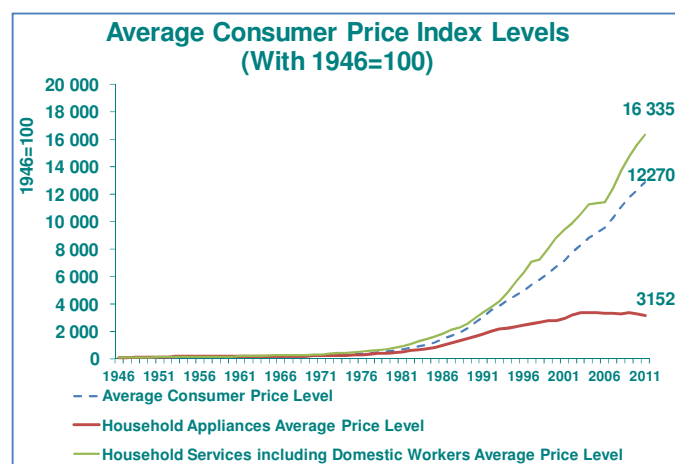
16.6% in 1990, and further to 25.2% by 2011, thus more than doubling their share in 41 years.

Older “traditional” services such as Household Services and Domestic Work thus have to compete for market share with high price inflation in certain “essential” areas of expenditure as well as a proliferation of new products and services in those areas – challenging for a group that is not necessarily always an essential service.

3. Competition from related products and services

As time goes by, so we see a proliferation of goods and services that are partial substitutes for, and thus compete head on with, household services and domestic workers. Although food products are not a rapid long term growth area, what has changed dramatically is the way that food is prepared, with the myriad of specialized food shops offering more and more “ready-to-eat” or ready-to-heat” pre-packed food products. And then of course there has been the growth in fast food outlets that dramatically reduce the time and effort involved in buying cooked foods.

In short, less and less effort goes into preparing of acquiring food, reducing the need for a domestic worker that cooks. And so we can consider other developments that reduce the dependence on physical labour in the home. Just consider the Creepy Crauly, invented to clean pools in place of a manually operated pool vacuum previously. The list goes on, and the home gets increasingly automated as more household appliances are introduced to the market.

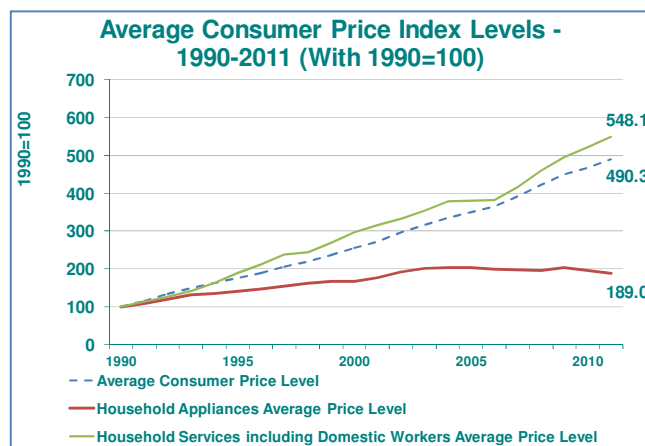
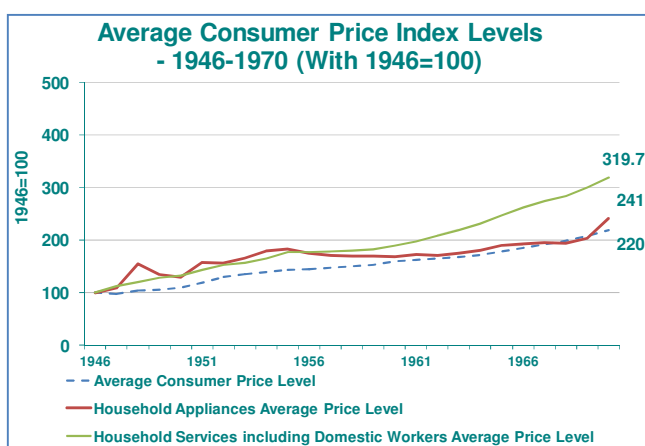


Not only have these household appliances been introduced at breakneck speed, but they have been introduced at increasingly competitive prices. Yes, the long and the short of it is that our country's domestic workers are in part competing against some highly competitive foreign labour forces, and even against our own manufacturing sector. This is an important lesson. It is very difficult to protect your country's labour, because while you can prevent other labour from directly replacing them, it is far more difficult to prevent other products from replacing them.

And so, examining the long term trend in major categories of South Africa's consumer prices (Using the SARB's Private Consumption Expenditure Deflator for its long term history), we see that the category Household Furniture and Appliances, despite often huge technological improvements,

has kept its long term price inflation far below that of Household Services, which is domestic labour-intensive.

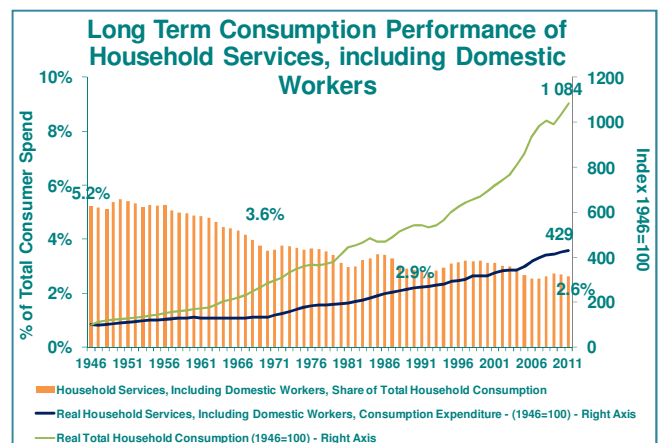
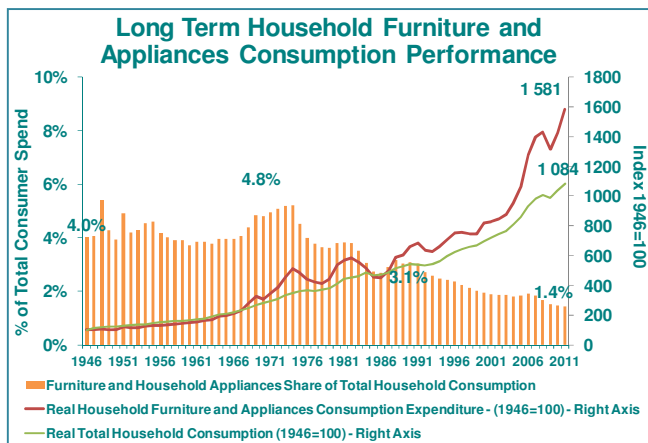
What is also significant is that the ability to suppress price inflation in the Household Furniture and Appliance sector has improved in modern times. From the period 1946 to 1970, the Household Appliances price level estimate rose by 141%, above the overall consumer inflation rate of 120% over that period. By comparison, from 1990 to 2011, Household Furniture and Appliances price level rose by only 89% in a period where overall consumer inflation increased by a far larger 390%, and Household Services by a huge 448%. In both eras, Household Services were thus estimated to have seen price inflation faster than the overall consumer inflation rate.



Therefore, over the long term, we have seen the household sector being able to drop its share of total spend on household furniture and appliances, but at the same time grow its spending in real terms on these products at rates that exceed long term growth in overall real household consumption expenditure, due to very low price inflation. Many household appliances are aimed at making household activities easier. Think of automatic washing machines and dishwashers, vacuum cleaners and microwave ovens, to very advanced coffee machines, vegetable juicers, Creepy Crawlies and Weed Eaters. This list is endless and getting longer. Household tasks are sped up, thus often reducing the average household's need for a domestic worker over the years as the home is increasingly "automated". In effect, household appliances are partial competitors to a household service providers and domestic workers, constantly reducing the share of value that these add to the overall household services load.

Therefore, the 2 graphs below show very different long term trends for the 2 consumption expenditure components. The share of total consumption expenditure taken up by spend on Household Furniture and Appliances declined from 4% in 1946 (although having initially risen to 1970) to 1.4% by 2011. However, in real terms the overall spend on this consumption category rose faster than overall real consumption expenditure, enabled by below average price inflation in the products.

The share of Household Services Expenditure (Which includes domestic workers along with a wider spectrum of services to the household), also saw its share decline from 5.2% in 1946 to 2.6% of total household consumption by 2011. However, very different to furniture and appliances was that in real terms, its growth was below overall real consumption expenditure over the decades, hampered by higher than average long term price inflation.

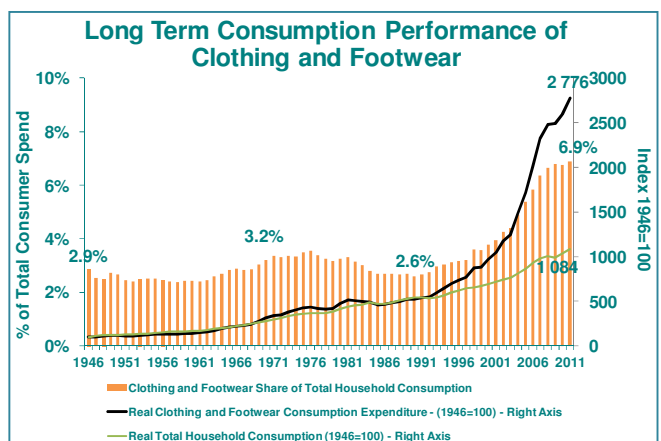
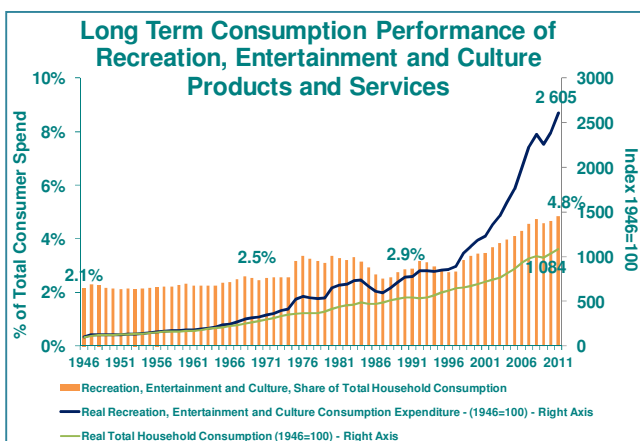


While not easy to quantify just how much the effect of this "competition" is, I am of the belief that what we have been seeing is a partial substitution of domestic services with competing household appliances, invented to make household work easier, and that this is reflected in far stronger long term real growth in furniture and appliances expenditure than in the more domestic labour intensive household services category of consumer spend.

4. And finally there's changing consumer tastes

Finally, perhaps the home and the "state it is in" is not the big priority anymore. Perhaps we're a society that wants to increasingly have fun and look good ourselves. The evidence possibly lies in the consumption numbers relating to Household Consumption on Recreation, Entertainment and Culture-related goods and services, and on Clothing and Footwear. Both of these expenditure categories have had below average long term price inflation rates but yet have had real consumption growth far in excess of total long term consumption expenditure growth.

And so, while we often seem to go straight to the "sinister" causes of some negative event such as a decline in domestic worker employment, perhaps part of the cause is just a simple change in consumer tastes, whereby they desire to spend a smaller share on their home and more on themselves.



CONCLUSION

Recent estimates by the Institute of Race Relations regarding stagnant employment levels of domestic workers must surely be of some concern, given that this sector has traditionally been a sizeable provider of employment to low skilled labour.

While there is a degree of short term cyclicity to Consumer demand figures for Household Services, which includes the Domestic Workers sub-segment, and the economy has not been firing on all cylinders in recent years, there is a longer term trend of stagnation in the demand growth for household and domestic worker services that spans back a few decades. Already from the late-1950s we have seen a long term decline in the percentage of homes built with domestic workers' quarters, an early sign of diminishing dependence on domestic workers as the "live in" worker started losing appeal.

Stringent labour laws in recent decades have probably been a factor in curbing domestic worker demand growth, or at least leading to outsourcing, while security motives may have also played a role in some cases. However, it probably goes a lot deeper than that. The causes are likely varied. Firstly, a long term increase in urban land scarcity (and thus land prices) has led to multi-decade decline in the average size of stands as well as the average size of homes built.

All other things equal, this should automatically reduce the dependence of the average household on household and domestic worker services.

Then, examining long term consumption trends, household and domestic worker services are also up against stiff competition. Firstly, there is perhaps a "crowding out effect" emanating from a combination of high price inflation and proliferation in the number of items perceived by many as essential. These include Health Services and Products consumption expenditure, Education, Household Fuel and Power (including electricity), and Transport and Communication expenditure.

There's also a partial substitution effect emanating from the combination of price inflation in the Household Services Sector which has been above long term consumer price inflation, and an increased availability of partial substitutes in the form of a myriad of steadily improving household appliances aimed at making household tasks, from cleaning to food preparing, easier. It goes further, as domestic food retailers become increasingly good at preparing food to "ready to eat" levels, and of course there's the mushrooming fast food industry all making it easier.

Then there's the matter of long term changes in consumer tastes. Two of the most rapid long term growth areas in real consumption expenditure are "Clothing and Footwear", and "Recreation, Entertainment and Culture". Perhaps, the modern day household is less focused on the home and its condition, and more focused on its enjoyment and looking good. That's not only difficult for the household services industry to swallow, but perhaps for the property industry too.

Finally, South Africa's population growth rate has been slowing over the long term. This is arguably one factor that kept positive real growth in the demand for household services over the long term even though the average household, for reasons above, may have steadily been requiring less of them.

Therefore, one probably has to see the Household Services sector and its domestic worker sub-sector as being "mature". This doesn't mean that one can't achieve growth in this sector should the economy grow fast enough to drive solid middle to upper income household numbers growth rates. However, it is likely to continue to grow slower than overall real household consumer spend, and thereby its employment growth too, with jobs being in part replaced by jobs in appliance manufacturing and food retail services for instance, activities partially replacing Household Service and Domestic Worker value adding activities over time.

It would be difficult to halt the changing make-up of household consumption demand due to changing tastes and priorities. Important is that, where jobs are lost in such mature occupations as household services and the domestic workers component thereof, they are replaced by others in a modernizing and strongly growing economy. However, the transition, as other goods and services in part replace household and domestic worker services, is never painless.

Data sources:

- **Domestic Worker Employment Numbers:** South African Institute of Race Relations (SAIRR) who in turn compiled the series from various StatsSA surveys - Stats SA, Labour Force Survey, Historical revision March series 2001 to 2007, Statistical release P0210, p16; Quarterly Labour Force Survey Quarter 2, 2010, Statistical release P0211, 27 July 2010, p16; Quarterly Labour Force Survey Quarter 2, 2011, Statistical release P0211, 28 July 2011, p20; Quarterly Labour Force Survey Quarter 2, 2012, Statistical release P0211, 31 July 2012, p20
- **Household Consumption and Inflation Data:** SARB
- **Housing Build Characteristics:** FNB