Temporary Employment Services in South Africa: Assessing the Industry's Economic Contribution

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Introduction

- Attempt to understand the nature of employment changes and their impact in one particular sector, namely the temporary employment services (TES) industry.
- Colloquially known in South Africa as the ‘labour broker’ sector, TES has grown rapidly and is now a key feature of the South African economy and its labour market.
- Assessment of the role played by the TES sector in contributing to employment and output growth.
- Consider the characteristics of TES workers and the potential welfare consequences of this type of employment.

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Aggregate Employment Trends: The TES Sector in Context

The South African Labour Force, 1995 to 2014 (thousands)

Category	1995	2001	2014Q1	Change		AAG 1995-2014
	‘000s	‘000s	‘000s	‘000s	% Change	% Change
Official definition estimates						
Labour Force	11 676	15 836	20 153	8 477	72.6	2.9
Employment	9 645	11 181	15 084	5 439	56.4	2.4
Unemployment	2 032	4 655	5 069	3 037	149.5	4.9
Unemployment rate	17.6%	29.4%	25.2%			

Source: OHS 1995; LFS September 2001; QLFS Quarter 1, 2014 (Statistics South Africa).

Notes: 1. 1995 data is reweighted according to the 1996 Census. Data in 2000-2007 has been re-weighted according to the 2001 Census, while data from 2008 has been re-weighted according to the 2011 Census.

2. The change in definitions of the broad unemployment rate renders the 2014 estimate incomparable with those of 1995 and 2001.

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The Advent of Temporary Employment Service Providers

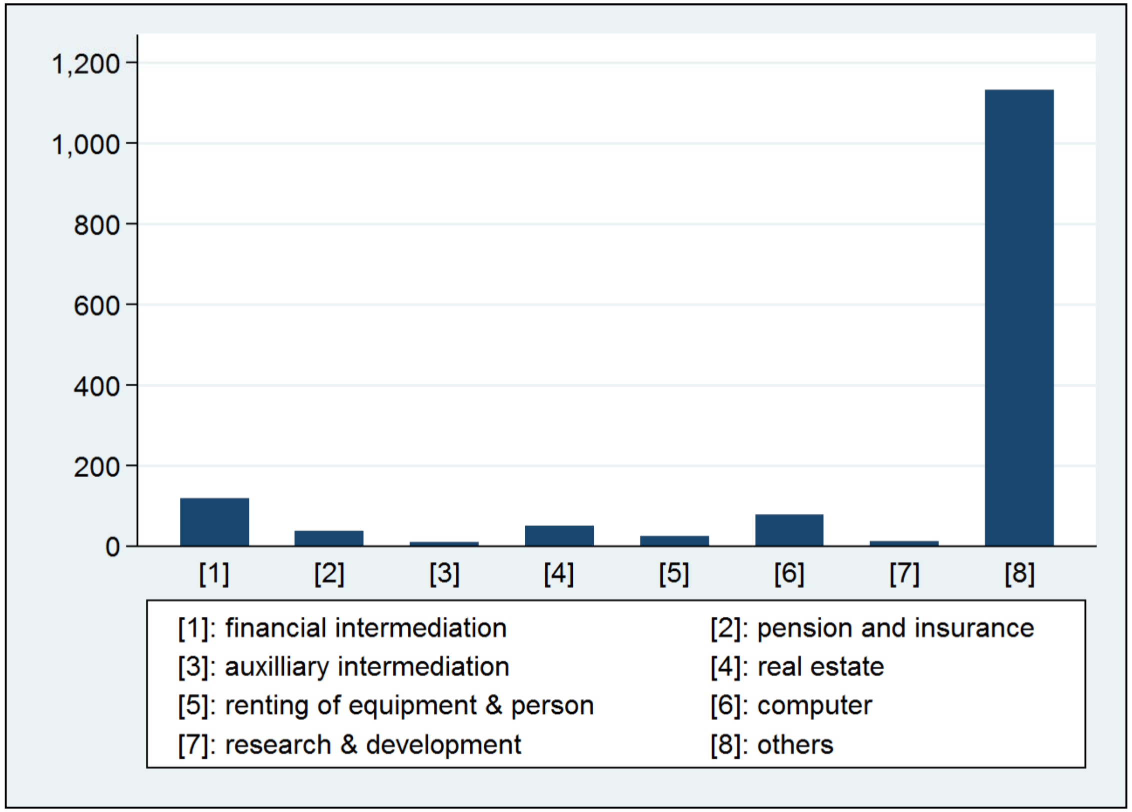
- The number of TES agencies registered with the Services Sector Education Training Authority (SSETA) alone rose from <u>1 076</u> in 2000 to <u>3 140</u> in 2006.

- The National Association of Bargaining Councils (NABC) estimated that almost <u>1 million workers</u> were employed through labour brokers in 2010 (SABPP, 2012).

What does national survey data tell us?

The Advent of TES Providers: A Case of Statistical Hidden Identity

Change in Employment (1,000s), 1995-2014: Financial & Business Services, By Sub-Sector



Source: OHS 1995; QLFS Quarter 1, 2014 (Statistics South Africa).

- TES providers are not listed as a separate employment category in national labour force data.
- TES lies explicitly within the Finance and Business services sector.
- Of the total number of jobs created within this sector since 1995, 66% or 1.3 million were created within Business Services N.E.C/ Other category.
- Closer inspection of the Business NEC category reveals that in the main it includes labour broking activities and security service activities.

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The Advent of TES Providers: The Composition of Business Services NEC

Change in Employment: Business Activities Not Elsewhere Classified (“Other”)

				Average Annual Growth Rates	
Year/Activity	**1999**	**2001**	**2014**	**1999 - 2014**	**2001 - 2014**
Business Activities NEC/Other	312 401	398 022	970 783	7.9	7.1
Selected Occupations					
Protective Services Workers NEC	147 165	169 360	419 176	7.2	7.2
Helpers, cleaners in offices, hotels, etc.	40 715	58 774	143 771	8.8	7.1
Farmhands and Labourers	131	0	55 710	49.7	

Source: OHS 1999: LFS September 2001; QLFS Quarter 1, 2014 (Statistics South Africa)

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The Advent of TES Providers: Employment Trends by Main Sector

Sectoral Distribution of Employment Change

Year/ Sector	1995		2001		2014Q1		AAG 1995 to 2014	Change	
	'000s	Share	'000s	Share	'000s	Share		'000s	Share
Primary	1 696	17.9	1 732	15.5	1 135	7.5	-2.1	-561	-10.0
Agriculture	1 247	13.2	1 178	10.5	710	4.7	-2.9	-537	-9.5
Mining	449	4.8	554	5.0	424	2.8	-0.3	-25	-0.4
Secondary	1 988	21.0	2 348	21.0	3 138	20.8	2.4	1 150	20.4
Manufacturing	1 452	15.4	1 620	14.5	1 808	12.0	1.2	356	6.3
Utilities	86	0.9	94	0.8	130	0.9	2.2	44	0.8
Construction	449	4.8	634	5.7	1 200	8.0	5.3	751	13.4
Tertiary	5 774	61.0	7 058	63.1	10 808	71.7	3.4	5 034	89.5
Retail	1 684	17.8	2 454	22.0	3 195	21.2	3.4	1 511	26.9
Transport	483	5.1	546	4.9	897	5.9	3.3	414	7.4
Finance	592	6.3	1 035	9.3	2 050	13.6	6.8	1 458	25.9
CSP	2 205	23.3	1 989	17.8	3 433	22.8	2.4	1 228	21.8
Private Household	809	8.6	1 034	9.2	1 234	8.2	2.2	425	7.6
Total	9 458	100	11 179	100	15 081	100.0	2.5	5 623	100.0
TES	199	2.1%	398	2.6%	970	6.4%	8.7	771	13.7

Source: *OHS 1995; LFS September 2001; QLFS Quarter 1, 2014 (Statistics South Africa).*

Note: *AAG is the average annual growth rate, estimated as the average of the growth rates from 1995 to 2014. Other and unspecified categories are not shown here. The aggregate employment numbers in the table are different to the values in Table 1 because Table 2 does not include the employed in other or unspecified industry category. The numbers provided in the '1995' column for TES are actually for 1996 as it was not possible to disaggregate TES employment in 1995.*

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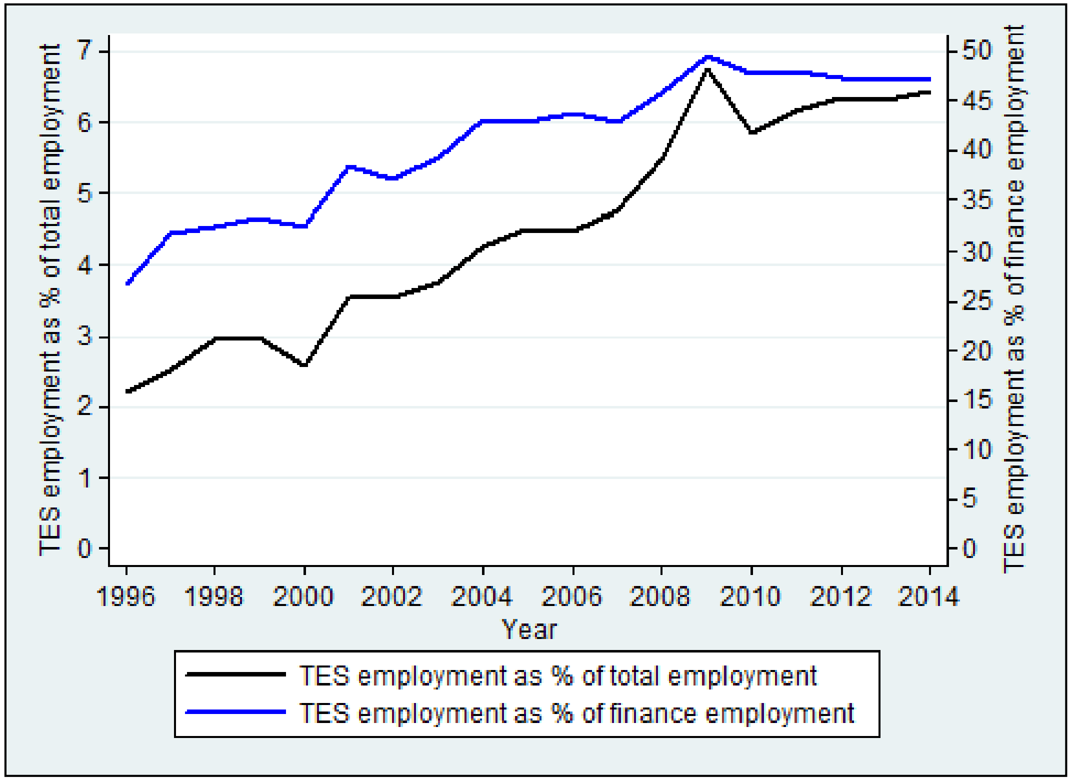
The Advent of TES Providers: Employment Trends by Main Sector

TES employment as proportion of total employment and finance employment, 1996-2014



- Employment growth in TES has been far more rapid than that of all broad industry categories.
- As a share of the finance industry, TES has increased from 27% in 1996 to 47% in 2014.
- As a share of total employment, TES has increased from 2% in 1996 to 6% in 2014.

Source: OHS 1996-1999: LFS September 2001-2007; QLFS Quarter 4 2008-2013, QLFS Quarter 1 2014 (Statistics South Africa)

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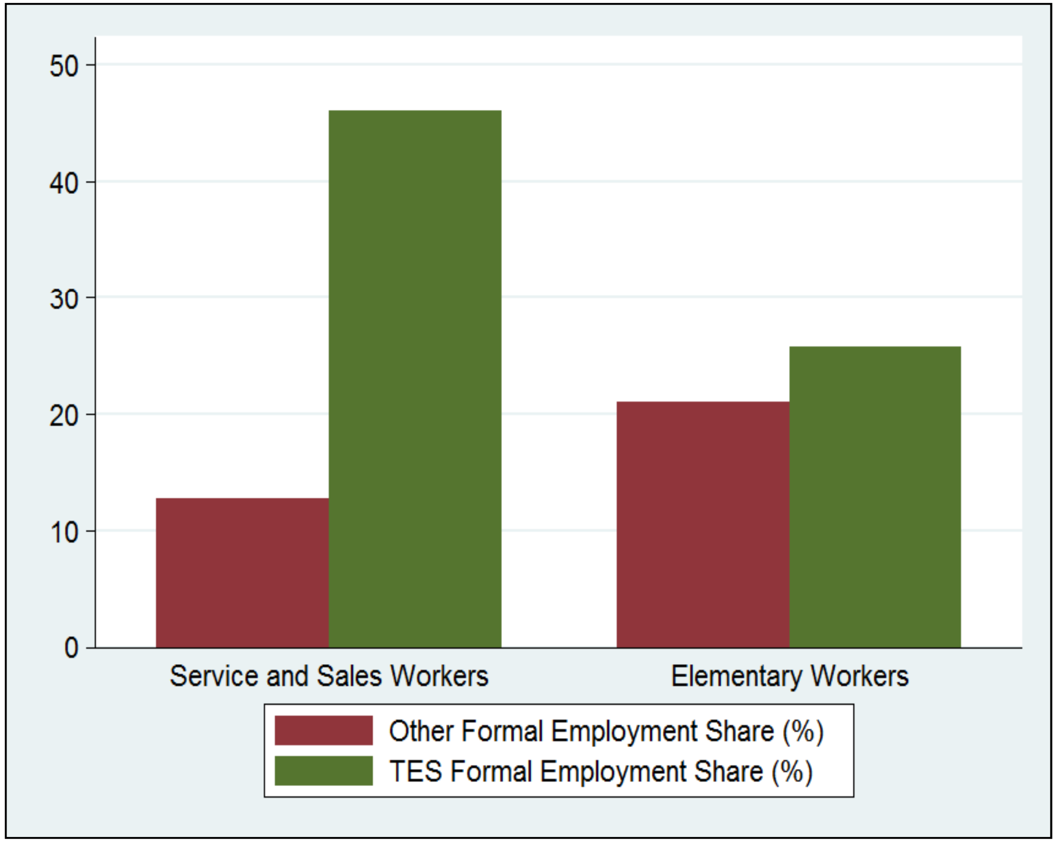
Employment Within the TES Sector: Occupational Trends Within the TES Sector

Share of Formal Employment and TES Sectors by Occupation



- More than <u>half of the jobs created in TES</u> in 2014 were through <u>services and sales</u> workers and a <u>quarter were elementary workers</u>.
- <u>Services and sales</u> workers are <u>over-represented</u> in TES relative to less skilled workers whilst <u>elementary workers</u> are <u>under-represented</u> relative to service and sales workers.
- <u>The notion that the sector is dominated by unskilled workers is not borne out in the data</u>.

Source: QLFS 2014 Quarter 1, 2014 (Statistics South Africa, own calculations)

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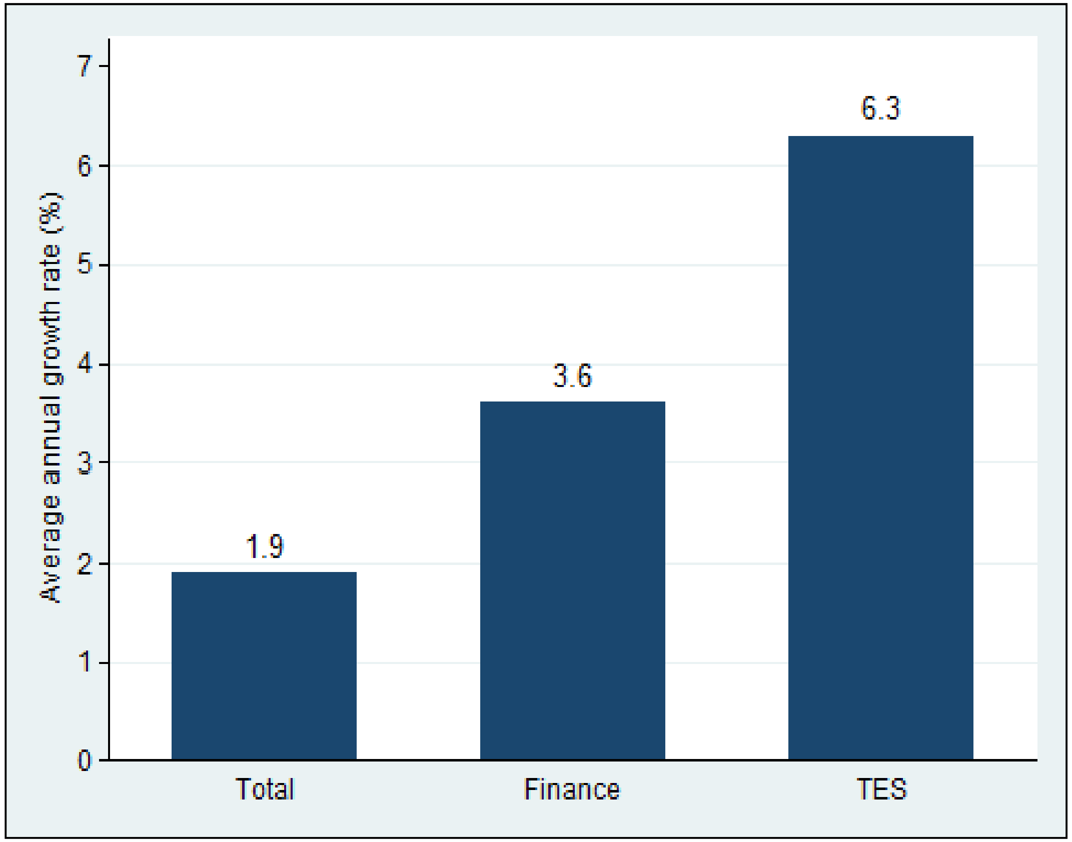
Employment Within the TES Sector: Youth Employment and TES

Youth Total Employment: AAG Rates, 1996-2014



- South Africa's exceptionally high level of youth unemployment reached 36% in 2014, suggesting that the youth are not being absorbed into formal sector employment.
- The TES sector has absorbed youth at a faster rate annually than Finance and Business as well as total employment.
- In 2014, 15% of the finance industry and 7% of TES was made up youth.

Source: OHS 1996 and QLFS Quarter 1 2014 (Statistics South Africa)

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Employment Within the TES Sector: Examining Youth Employment by Occupation

TES and Formal Sector Employment, Youth by Occupation

	Other Formal Employment		TES (Formal Employment)		
	Number	**Share (%)**	**Number**	**Share (%)**	**Ratio**
Managers	110 565	4.55	3 305	1.55	33.45
Professionals	417 008	17.17	24 788	11.62	16.82
Clerical Workers	431 583	17.77	34 510	16.18	12.51
Service and Sales Workers	357 011	14.70	74 384	34.88	4.80
Agr. & Fishing Workers	5 196	0.21	0	0.00	N/A
Craft & Trade Workers	337 580	13.90	8 433	3.95	40.03
Operators & Assemblers	191 294	7.88	4 985	2.34	38.37
Elementary Workers	578 472	23.82	62 853	29.47	9.20
Total	**2 428 709**	**100.00**	**213 258**	**100.00**	**11.39**

Source: *QLFS 2014 Quarter 1, 2014 (Statistics South Africa, own calculations)*
Notes: *The ratio is based on the share of formal non-TES employment to TES employment.*

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Employment Within the TES Sector:
Are TES Workers Less Likely to be Permanent Employees?

TES and Formal Sector Employment, Duration of Contract

	Limited	Permanent	Unspecified
TES formal sector employees			
2008	15.9*	65.7*	18.4*
2009	19.5*	63.5	17.0*
2010	18.3*	64.5	17.3*
2011	20.5*	63.2	16.2*
2012	21.5*	59.9*	18.7*
2013	21.2*	59.0	19.9*
2014	22.2*	59.7	18.2*
Other (non-TES) formal sector employees			
2008	11.8	62.2	26.0
2009	11.4	64.5	24.1
2010	11.1	65.6	23.3
2011	12.1	65.2	22.7
2012	12.6	64.7	22.7
2013	14.7	61.9	23.4
2014	14.4	62.9	22.8

Source: *QLFS Quarter 4 2008-2013, QLFS Quarter 1 2014 (Statistics South Africa)*
Notes: ** The proportion in the TES sector is significantly different from the proportion in the non-TES sector at α = 5%.*

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TES Employment and Firm Size

Firm Size Distribution of TES Sector, 2010

Firm size	% Firms
0-10 Employees	66.50%
11-25 Employees	19.80%
26-50 Employees	4.10%
51-100 Employees	2.00%
More than 100 Employees	8.10%

Source: APSO Survey data.

- The TES industry is split into two types of firms: 1) A few large corporates and 2) Small and Medium-sized firms with 20-60 employers.
- Around 90% of labour recruitment firms surveyed by APSO have less than 50 employees and 67% have less than 10 employees.
- Labour recruitment firms with less than 50 employees were also found to be of the majority in the SSETA member database.

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Summary of findings: Data v Perception

- TES has been the single highest creator of jobs in the economy – growing at a faster rate than the main sectors of the economy.
- The majority of jobs created in this sector are semi-skilled, service oriented occupations as opposed to the perception of the sector being dominated by unskilled-intensive employment.
- The sector is biased towards providing employment for young people.
- A significant share of workers move into permanent positions.
- Employment is provided through a fair number of small businesses.

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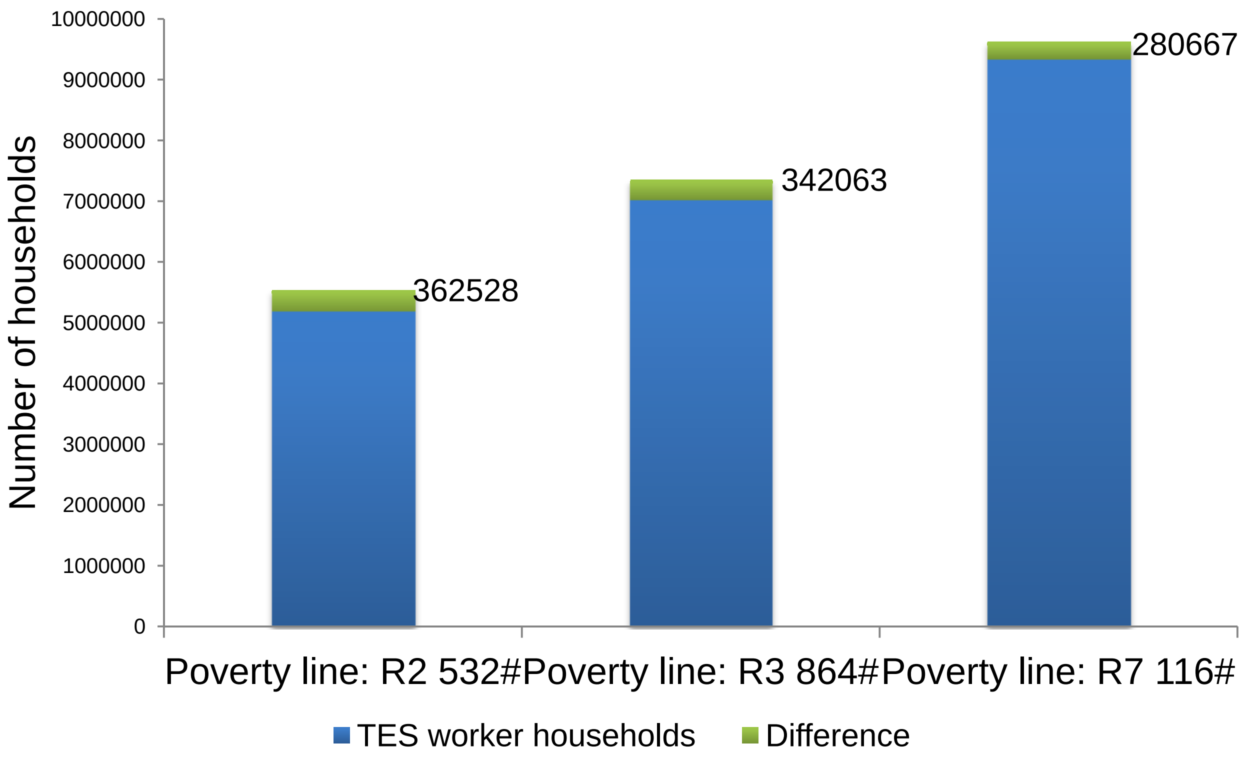
The Household Poverty Impact of the TES Sector: TES Earnings and Household Welfare

Household Poverty Increasing Impact of TES Worker Removal

Type of Household	Poverty headcount ratio	Poverty gap ratio	Squared poverty gap ratio
Poverty line: R2 532#			
TES worker households	0.3547	0.1716	0.1091
TES worker households - exclusion	0.3795	0.1883	0.1216
Difference	-0.0248	-0.0167	-0.0125
Poverty line: R3 864#			
TES worker households	0.4798	0.2578	0.1720
TES worker households - exclusion	0.5032	0.2771	0.1879
Difference	-0.0234	-0.0193	-0.0159
Poverty line: R7 116#			
TES worker households	0.6389	0.3997	0.2918
TES worker households - exclusion	0.6581	0.42	0.3107
Difference	-0.0192	-0.0203	-0.0189

The Household Poverty Impact of the TES Sector: TES Earnings and Household Welfare

Households in Poverty Increase: TES Earnings Removal



- Depending on the poverty line, 5-9 million households live in poverty.
- Without the TES sector, between 280 067 and 362 528 more households would be in poverty.
- We find between a 3% and 7% increase in household poverty if TES earnings are removed from households.

Source: LMD 2012 (Statistics South Africa, own calculations)

Notes: The 'Difference' refers to the increased number of households that would be below the poverty line if TES earnings were removed from households.

 # Per capita per annum in 2000 prices.

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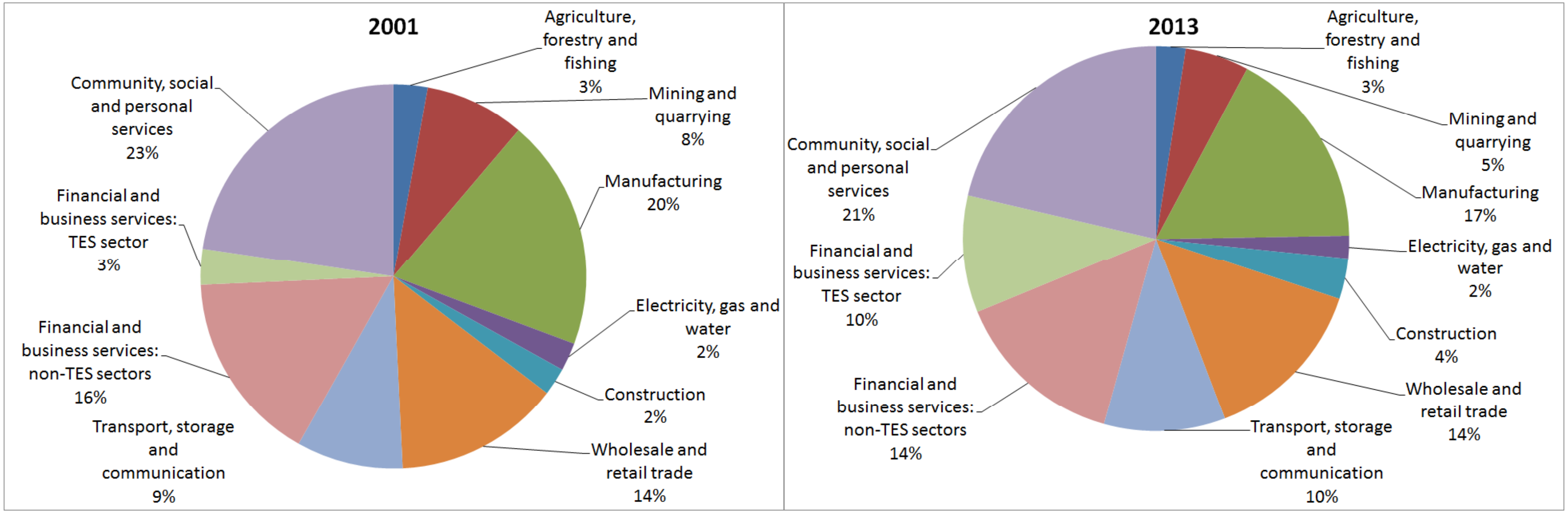
The Economic Contribution of the TES Sector:

Relative GDP Contribution of TES

Share of GDP by Sector, 2001 and 2013



Source: SARB; Authors calculations

- The primary sectors exhibit neutral or declining growth in GDP whilst the secondary sectors present mixed results with a growing Construction and a declining Manufacturing sector.
- The tertiary sector grew from 51% in 2001 to 56% in 2013, mainly driven by Financial and Business services.
- In part, this growth has been driven by the TES sub-sector that grew from 3% in 2001 to 10% in 2013.

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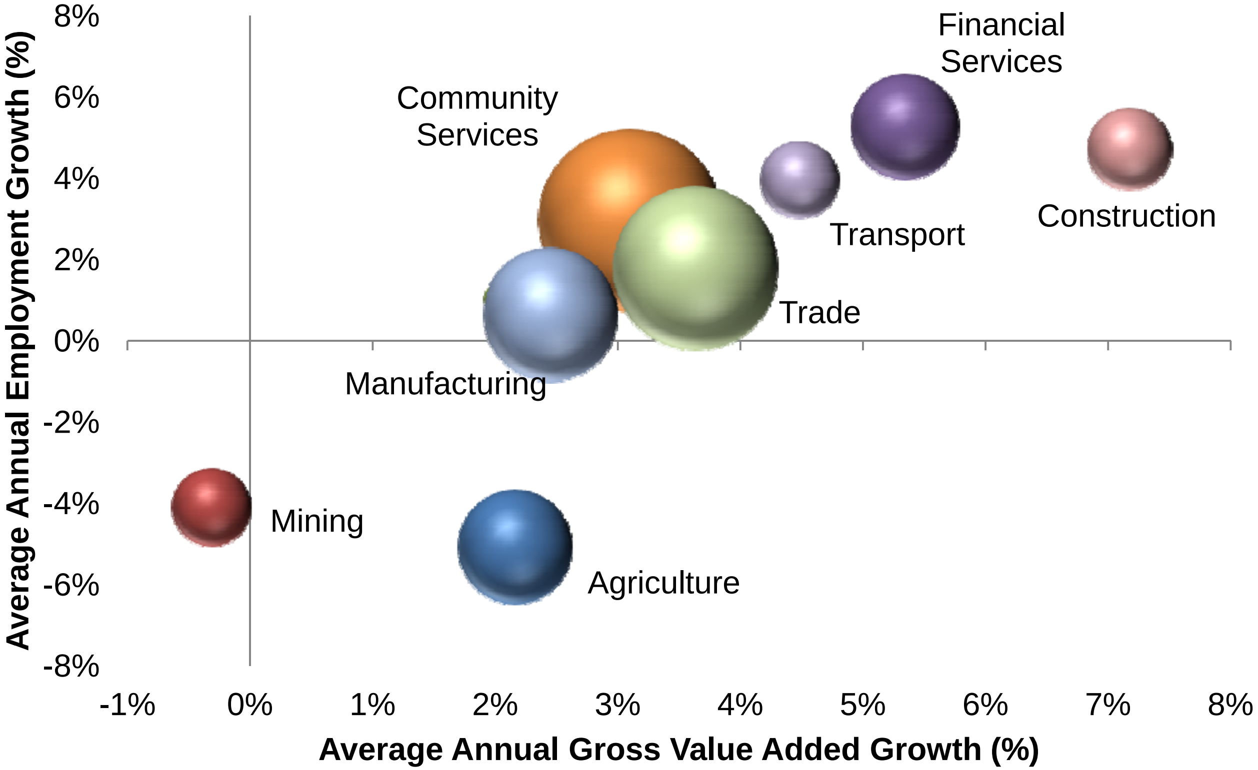
Sector:
Gross Value Add, Employment and Capital Formation

Gross Value Added and Employment Growth, by Sector: 2001-2012



- Amongst all sectors we find Financial services and Community Services to have labour-neutral growth.
- Whilst it is not possible to discern value add from the TES sector, the notable employment growth suggests that it drives value add within Finance.
- Apart from Community services, the TES sub-sector has indeed been the most employment intensive sector.

Source: *SARB & Stats SA (LFS 2001 and QLFS 2012), Author's Calculations*

Notes: *Employment and GVA figures for 2012 were used because the 2013 QLFS used 2011 Census weights for the 2013 data that 'inflates' the 2013 figures in comparison to 2012. Using the 2013 data would therefore incorrectly represent the annual employment growth.*

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Conclusions

- Since 1994, the use of TES has increased extensively – employers have voted with their feet and decided not to employ workers directly.
- Growth in the Finance and Business sector gives an indication of employment growth.
- The lack of research on TES has left the public misinformed about the characteristics of TES workers. The data tells us that:
  - TES workers in the sub-sector are largely medium-skilled and not just unskilled workers;
  - TES workers are more likely to be permanent rather than working on a limited or contractual basis;
  - The sub-sector employs youth at a faster rate than other sectors; and
  - SME firms are a predominant firm type in this industry.
- More broadly, TES contributes to households' welfare (keeping 3-7% of households above the poverty line) as well as economic growth (contributing 9% to GDP in 2013).
- TES is an important driver of employment and output in the context of SA's high levels of unemployment and poor economic growth.

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Thank you

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