Box C

The Household Services Sector

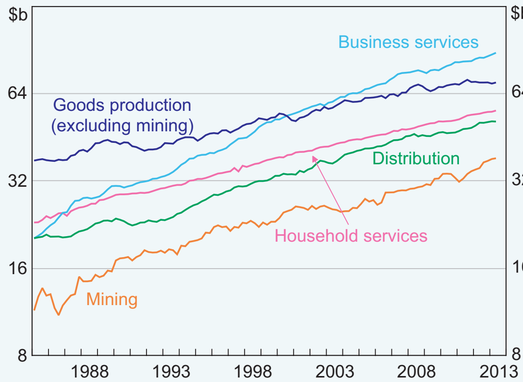
Service industries account for a large and rising share of Australian economic output. The increasing share of services is common among advanced economies as households tend to spend more on services as their income and wealth rise. Also, businesses demand more services as they outsource an increasing share of their non-core functions to more specialised firms.

Within the services sector there is a group of industries – collectively called the household services sector – that provide services primarily to households, including health, education, hospitality and art & recreation. Households also consume services from a range of other industries, such as finance & insurance, but these are typically classified as business service industries.[1] The household services sector accounts for almost one-fifth of Australia's output, equivalent to the manufacturing, construction and agricultural industries combined. The cyclical fluctuations in household services tend to be much less pronounced than those of other industries, as many services demanded by households – especially health and education – are less discretionary and so are relatively insensitive to cycles in economic conditions (Graph C1). As a result, the household services sector tends to be an important source of growth during periods of soft demand in the broader economy, thereby contributing to smaller fluctuations in aggregate output growth.

The share of workers that are employed in the household services sector, at almost one-third, is even larger than the share of household services in output. In part, this reflects the fact that workers in

1 The categorisation of service industries as primarily servicing households or businesses is necessarily imprecise, as these industries service both sectors to some degree (as well as the government sector). For a discussion of trends in the business services sector, see Manalo J and D Orsmond (2013), 'The Business Services Sector', RBA *Bulletin*, March, pp 1–10.

Graph C1
Gross Value Added by Industry
Log scale, chain volume

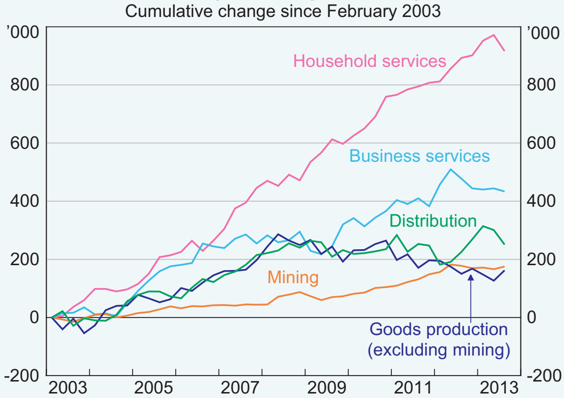


Sources: ABS; RBA

the household services sector tend to work fewer hours on average than in many other industries (with casual and part-time workers more prevalent than in the broader economy). But even accounting for the lower average hours worked in the household services sector, the employment share is greater than the output share as this sector is relatively labour intensive. Measured productivity growth also tends to be slower in the household services sector, owing in part to the considerable difficulties in measuring services output, particularly changes in the quality of that output. As is the case for output, employment in household services tends to be less cyclical than employment in many other industries. The household services sector has been a key driver of aggregate employment growth, more than offsetting the decline in employment in the goods production sector (manufacturing, construction, agriculture and utilities) since the global financial crisis (Graph C2).

While the sector as a whole has grown as a share of both output and employment over the past few decades, trends within the household services

Graph C2
Employment by Industry
Cumulative change since February 2003



Sources: ABS; RBA

sector have differed by industry (Table C1). The largest contributor to the growth in both output and employment has been the expansion of the health industry. Strong growth in demand for health services partly reflects households' increasing propensity to spend on health care to improve the quality and length of life. Related to this, the ageing of the population has also had some effect on the level of health spending to date, but larger effects are expected in coming years. Consistent with increased spending on health care in the past few decades, employment in the healthcare industry has grown strongly. Of late, liaison suggests that some healthcare providers have had difficulties in finding skilled staff, such as nurses, who constitute a significant share of their employees.

While the education industry also constitutes a comparatively large share of the economy, it has been relatively stable as a share of total (nominal) output. This stable share is the result of two offsetting influences. First, the demand for education services in real terms grows more in line with the population than with overall output, although the strong growth in the number of international students at Australian universities has increased demand over the past two decades. Second, and working in the other direction, the average prices paid for education services, such as university degrees, have increased by more than prices in other industries, reflecting in part the labour intensity of the education industry.

The hospitality industry, which includes hotels, restaurants and cafés, constitutes a relatively small share of total output, although it is a comparatively large employer within the economy. The output share of hospitality has drifted higher over the past few decades as the demand for eating out and other hospitality has increased. More recently, liaison with accommodation providers suggests that demand for leisure travel from both domestic and international visitors has increased in the past year or so; in contrast, demand from the corporate sector has slowed somewhat, as firms try to contain costs.

Table C1: Output and Employment in Household Services[(a)]
Per cent

	Output share (nominal)		Employment share (hours)	
	1989/90	2012/13	1989/90	2012/13
Household services	15	19	24	29
Health	5	8	7	10
Education	5	5	6	7
Hospitality	2	3	5	6
Art & recreation	1	1	1	2
Other services	2	2	5	4

(a) Excludes 'ownership of dwellings'
Sources: ABS; RBA