

THE FUTURE OF OFFICE WORK

PRESENTATION TO ISPT INSIGHTS CONFERENCE

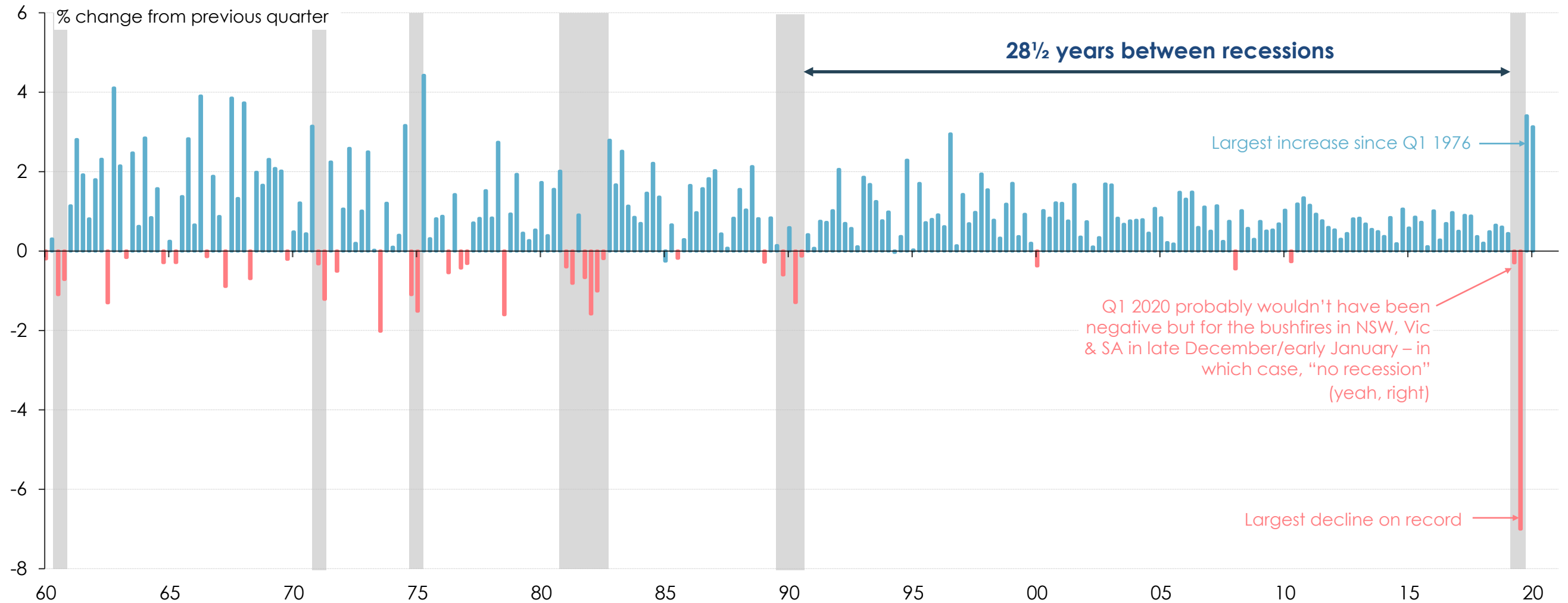
GEORGE PLACE, SYDNEY
25TH MAY 2021

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SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Australia is 'officially' out of its first recession in nearly three decades – and contrary to initial expectations the recovery has been 'V-shaped'

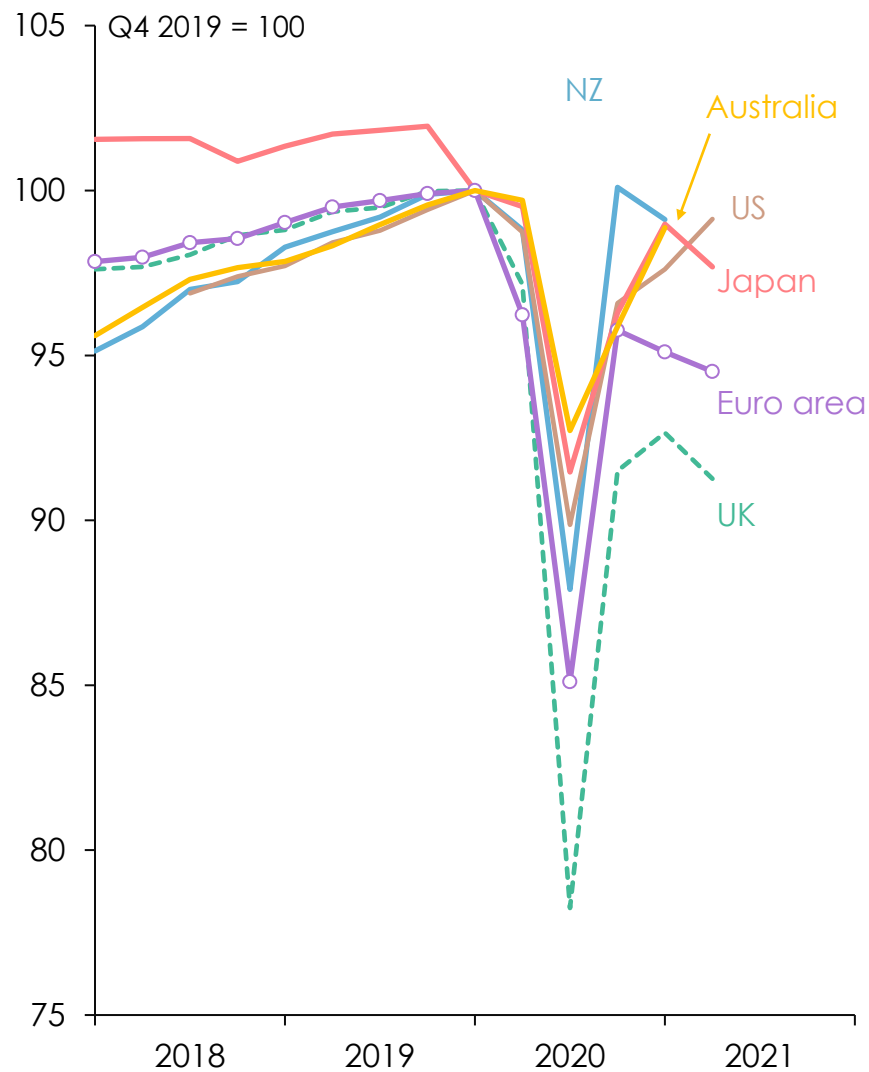
Quarterly growth in Australian real GDP, 1960-2020



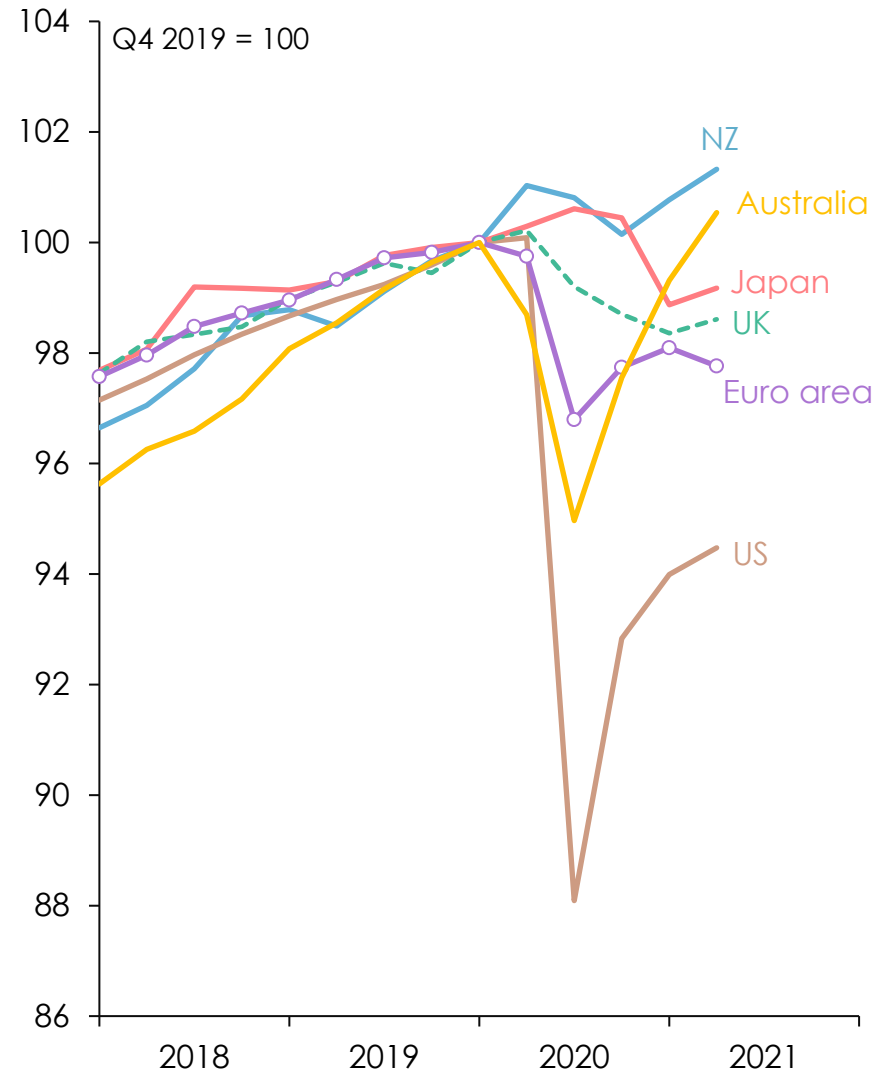
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020.

Australia's recession hasn't been as severe as those experienced in most other comparable countries ...

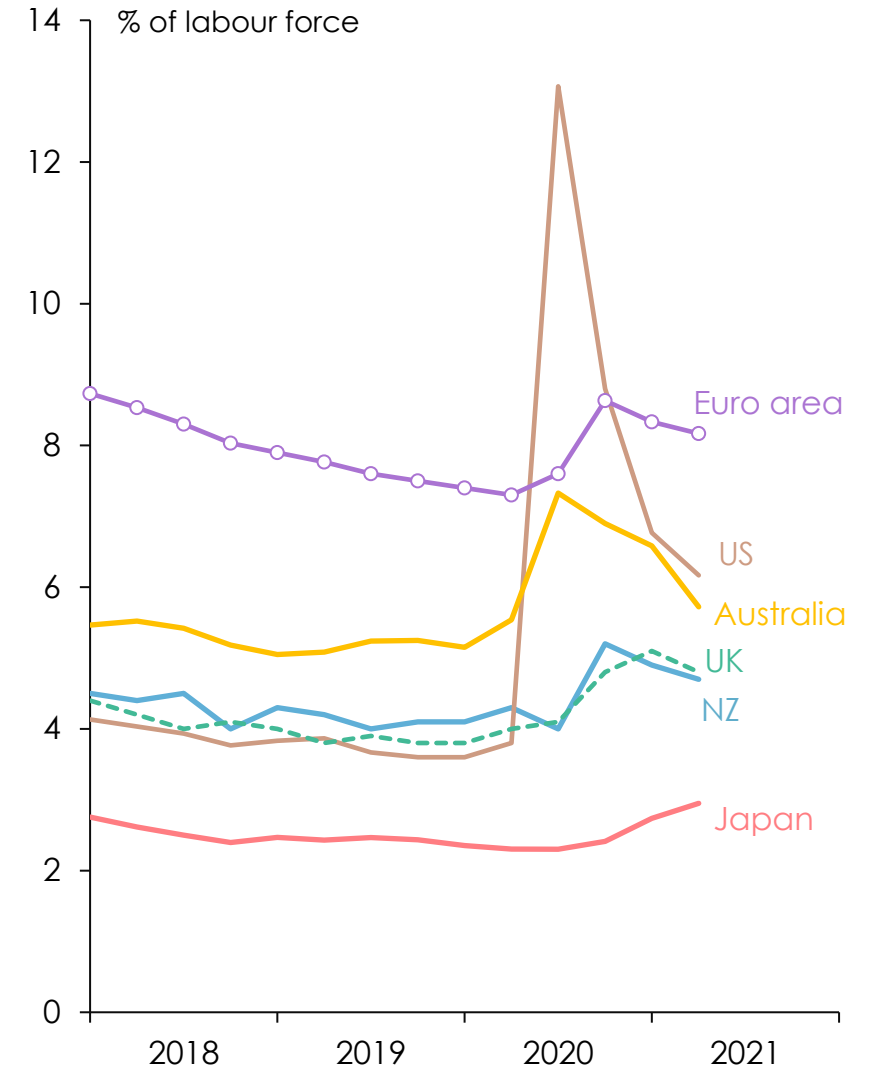
Level of real GDP



Employment

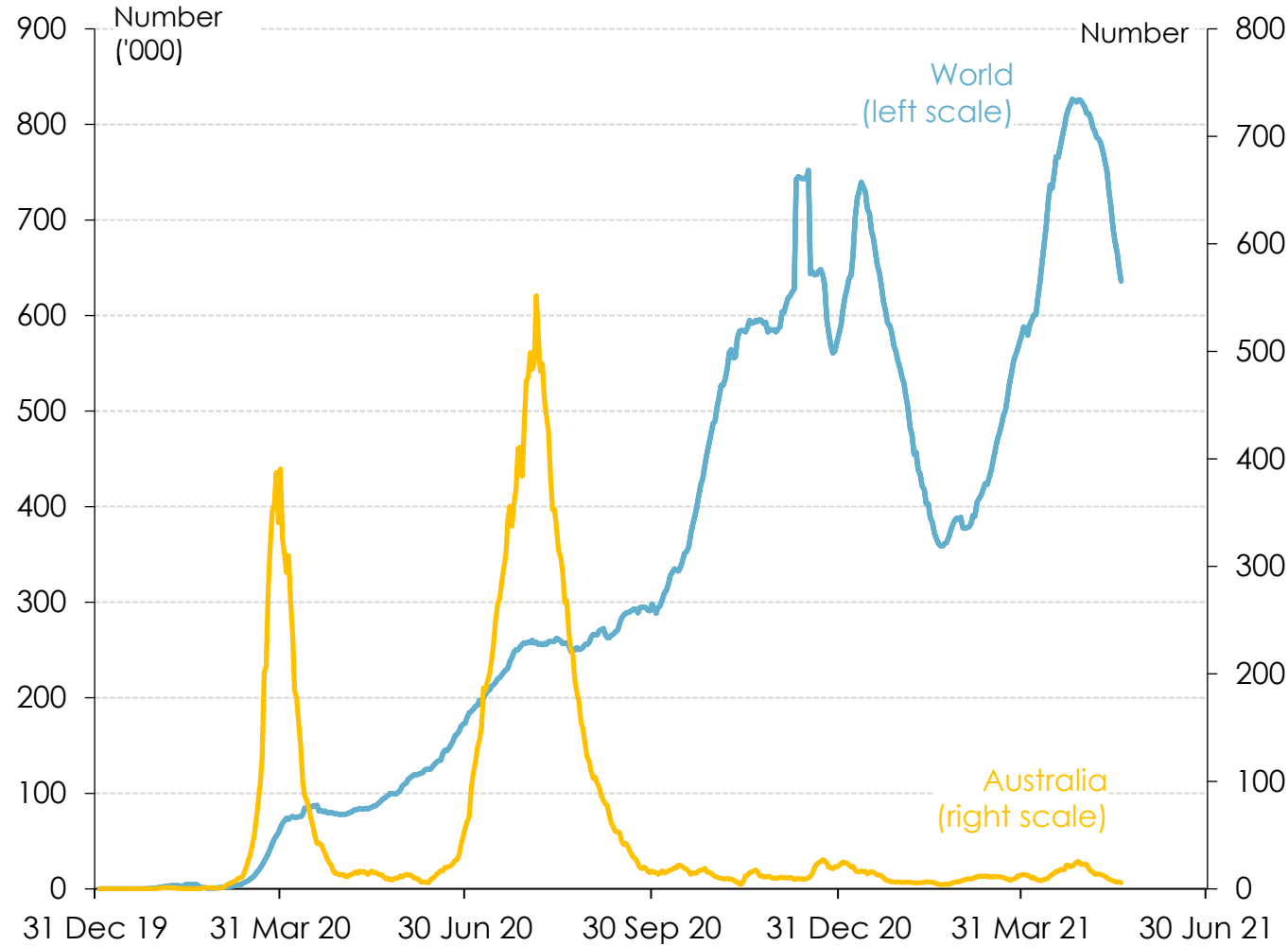


Unemployment

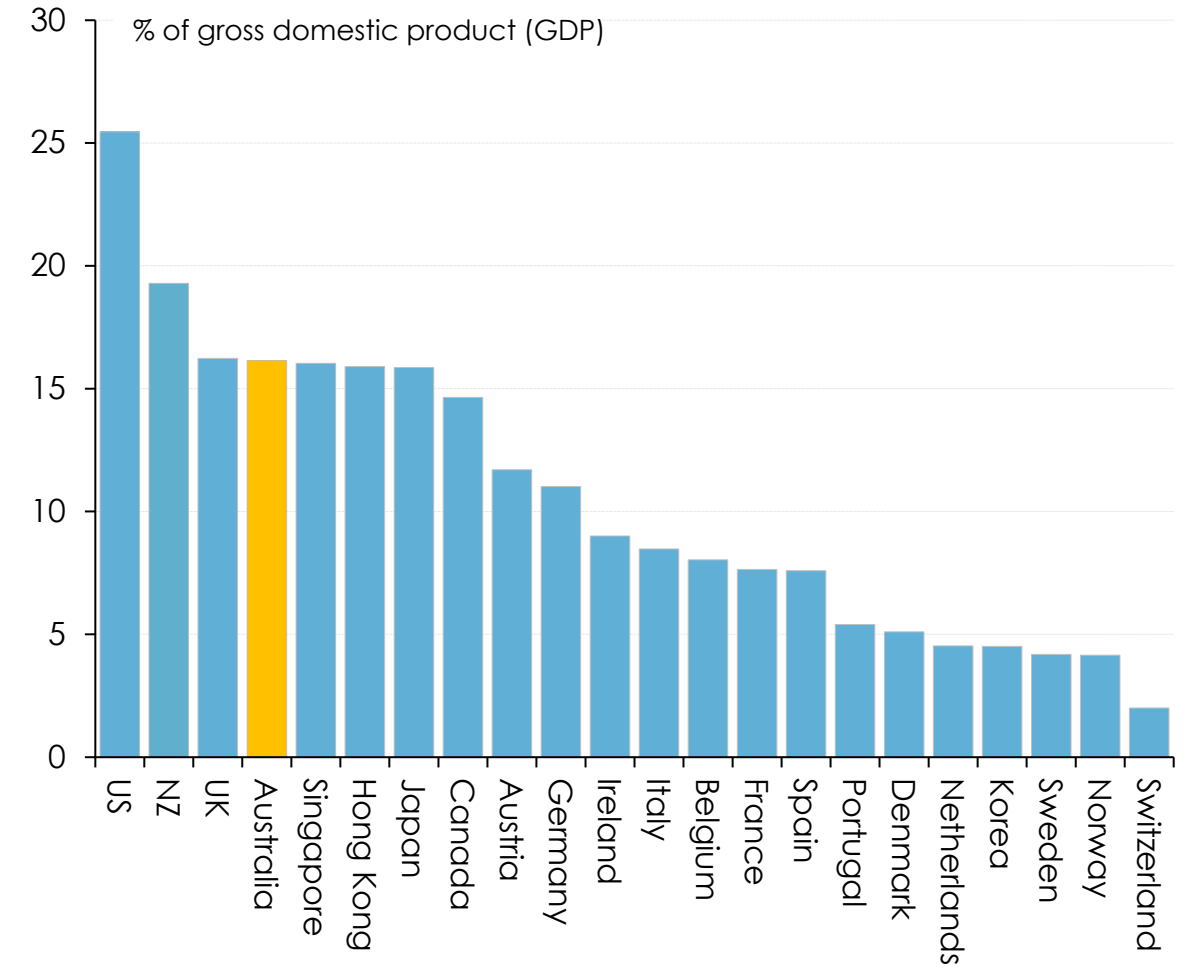


... that's because we've done a better job than most others of managing the virus – and because governments have provided more fiscal support

New covid-19 infections, Australia compared with the world



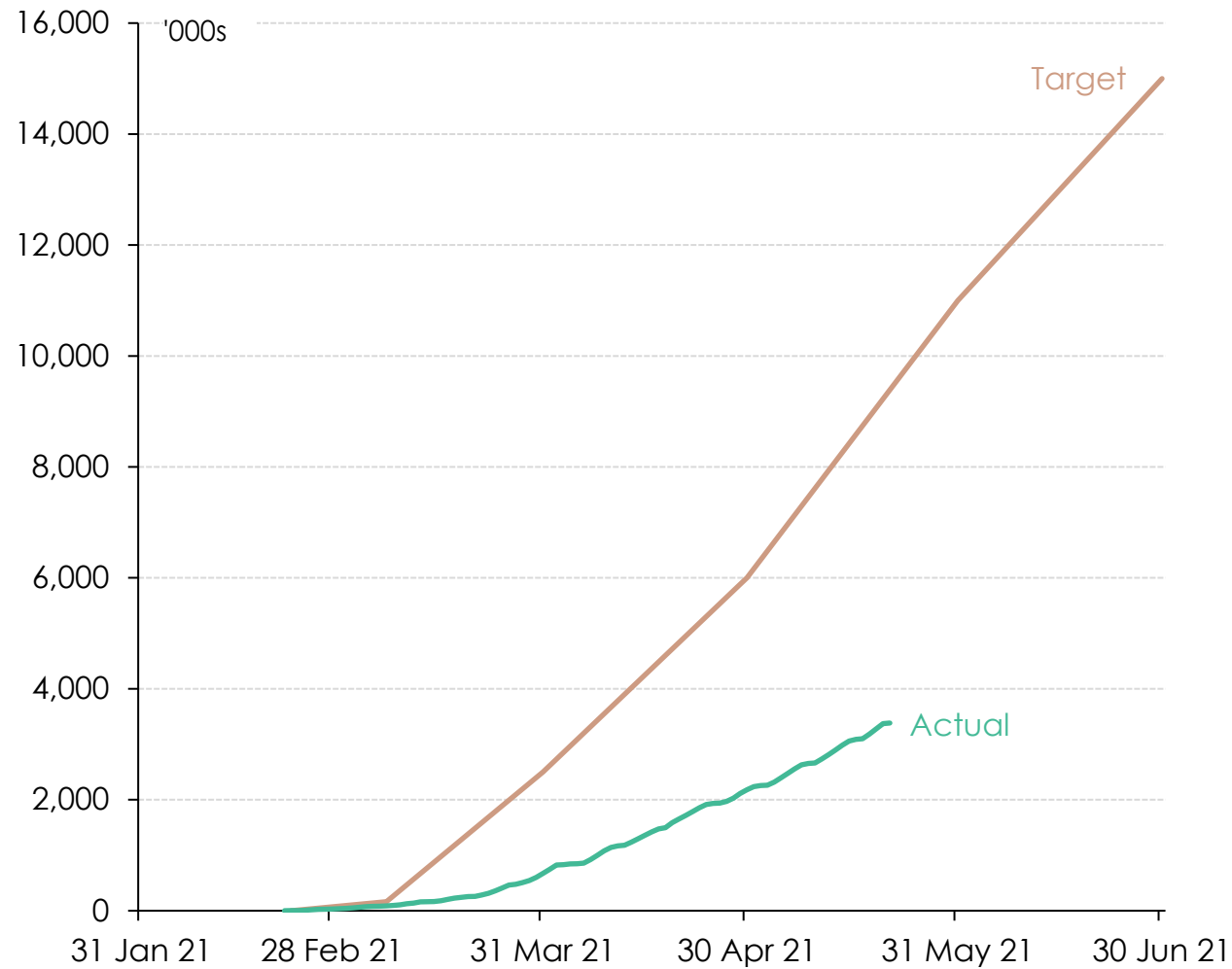
Fiscal policy responses to Covid-19 – selected 'advanced economies



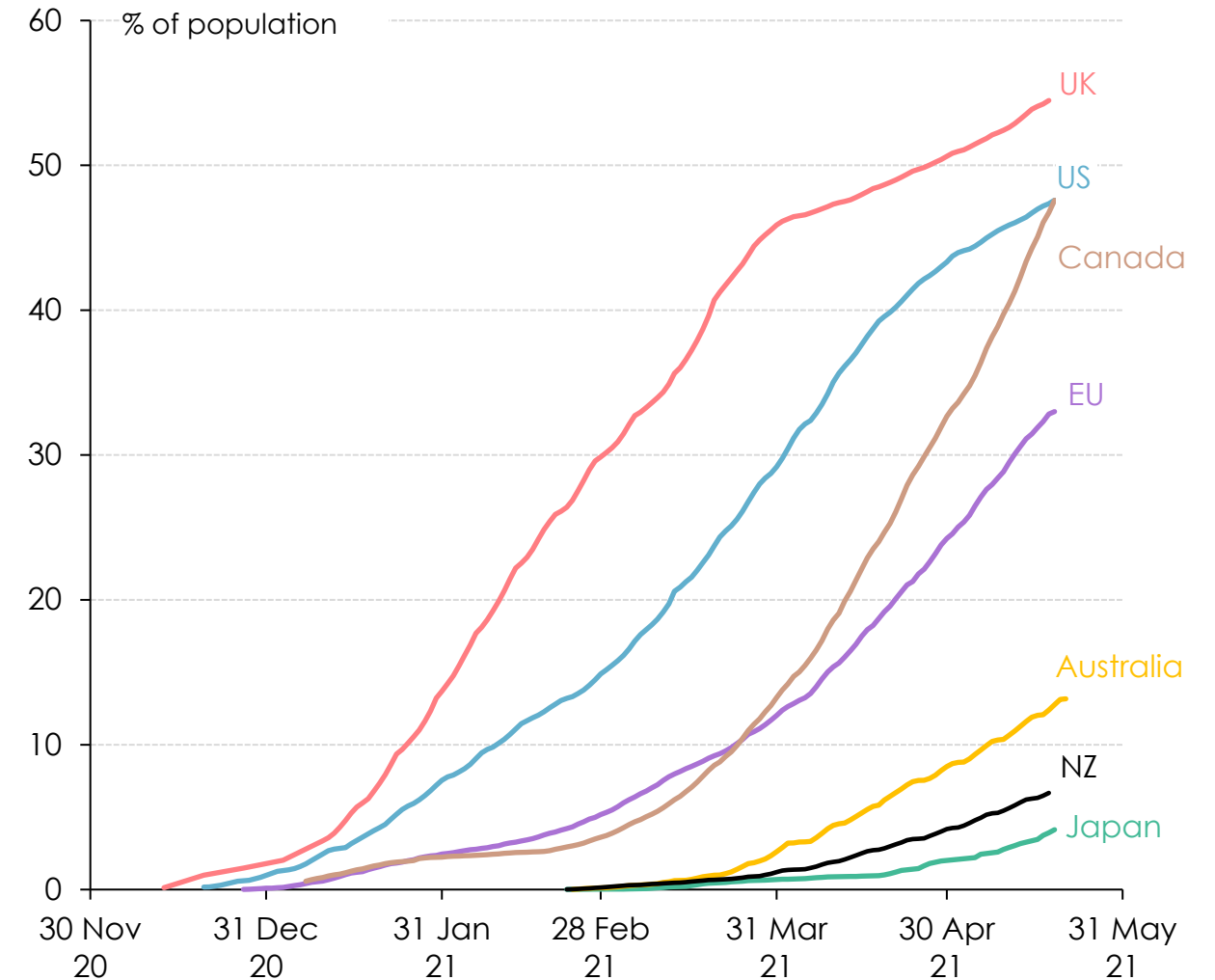
Sources: University of Oxford, [Our World in Data](#) (data up to 20th May); IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), April 2021 (includes measures announced up until 17th March 2021).

However, we aren't doing as well as our peers in vaccinating our population – which probably means our borders will stay closed for longer

Number of vaccine doses administered vs Government target



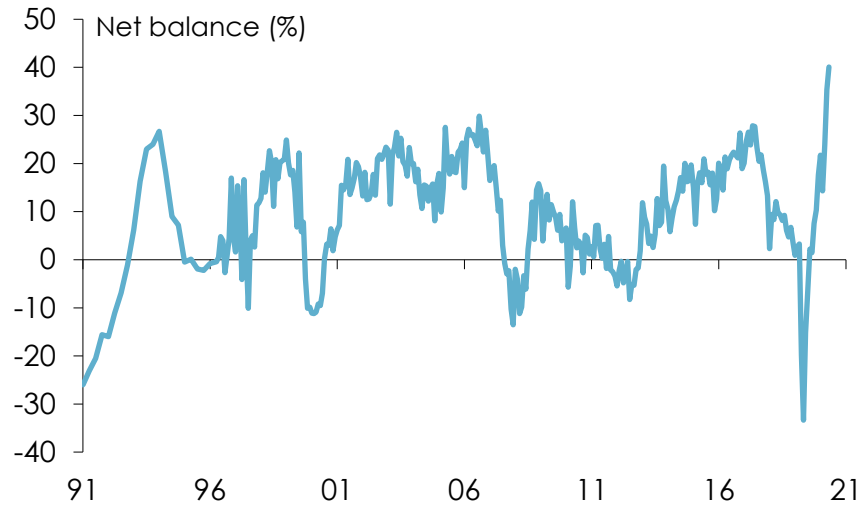
Percentage of major 'advanced' economies' populations who have had one shot



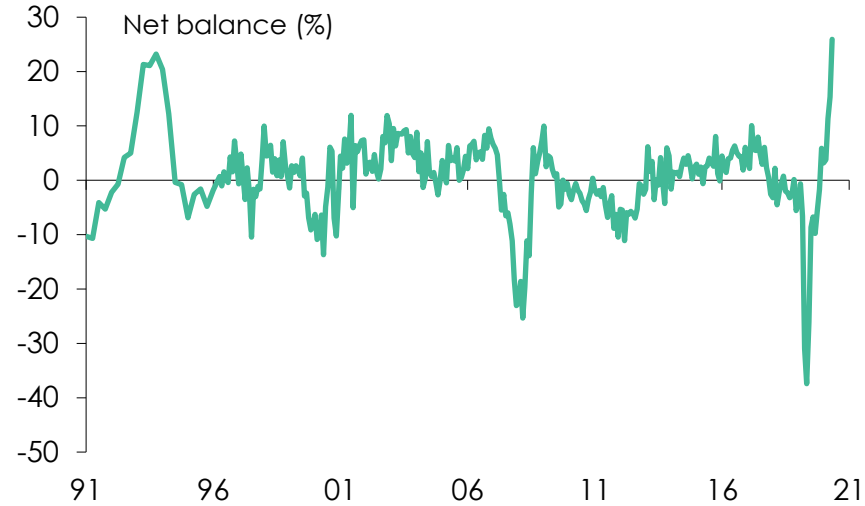
Note: data up to 20th May. Sources: Australian Department of Health, [COVID-19 vaccine rollout update on 14 March 2021](#); Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#); [covid19data.com.au](#).

Every component bar one of the National Australia Bank's well-regarded survey of business conditions is at a record high

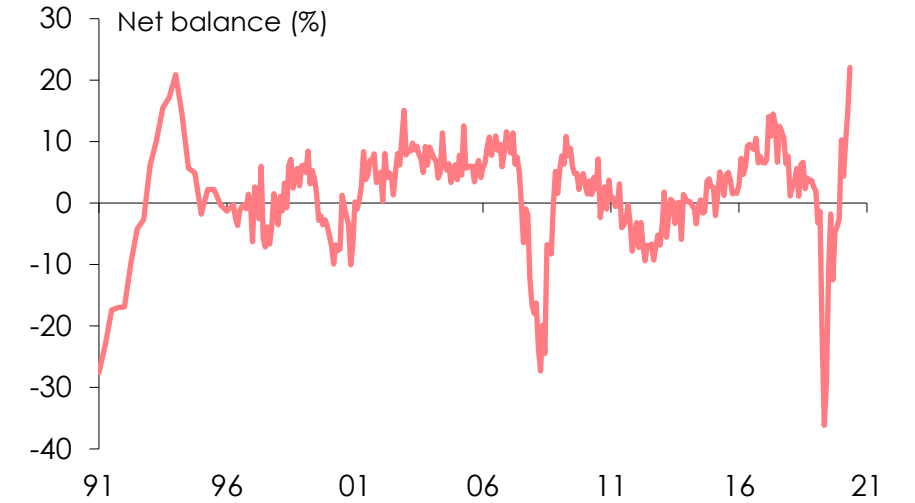
Trading conditions



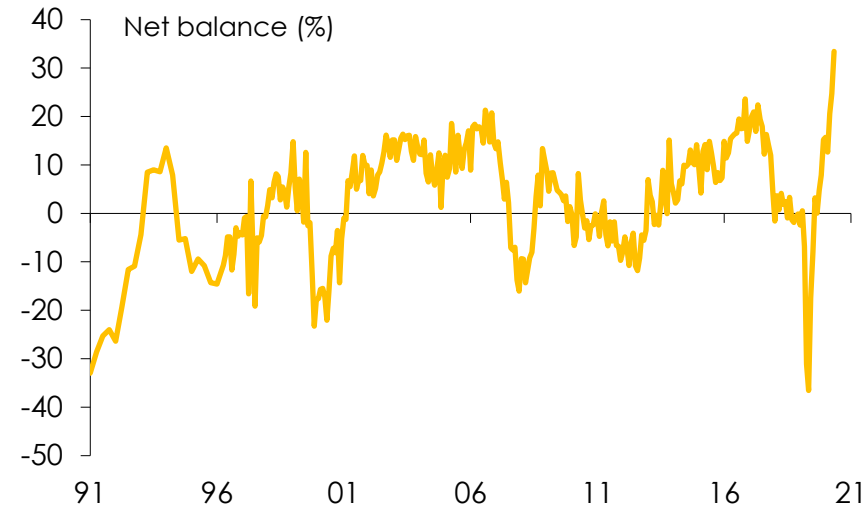
Forward orders



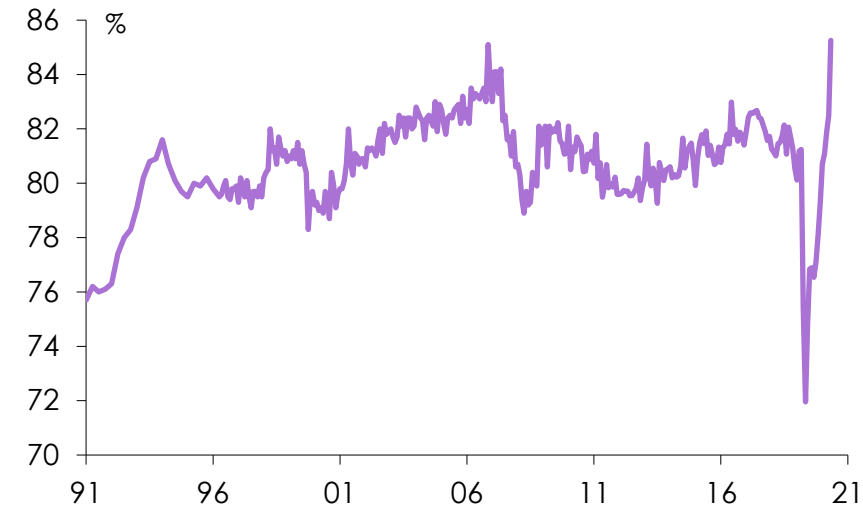
Employee hiring intentions



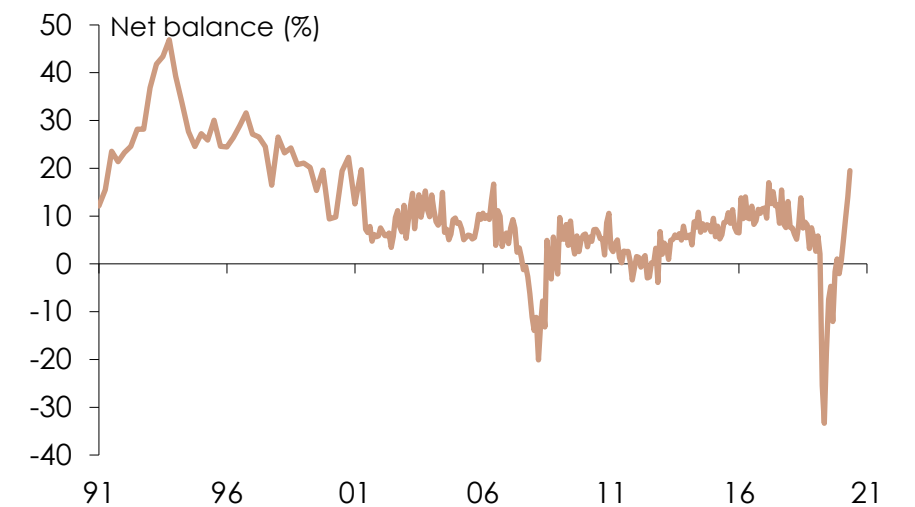
Profitability



Capacity utilization



Capital expenditure intentions

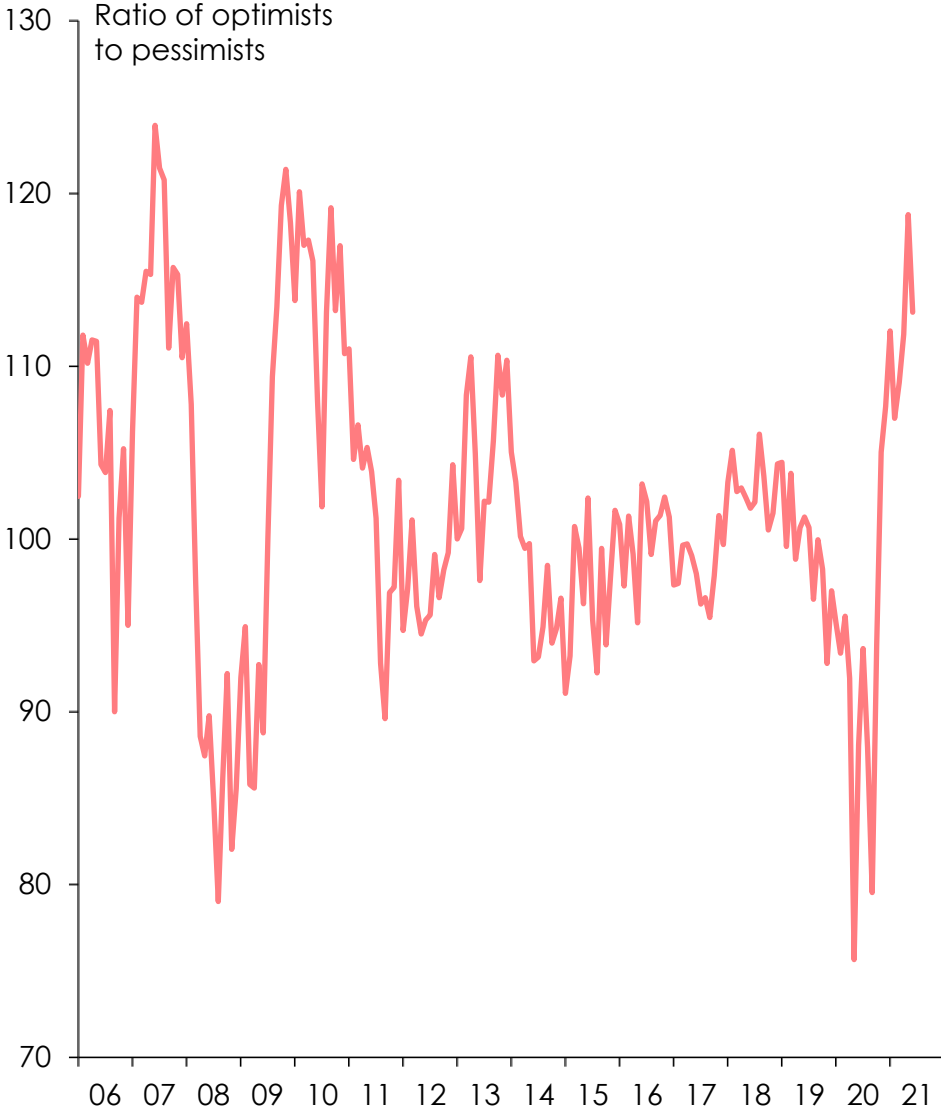


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

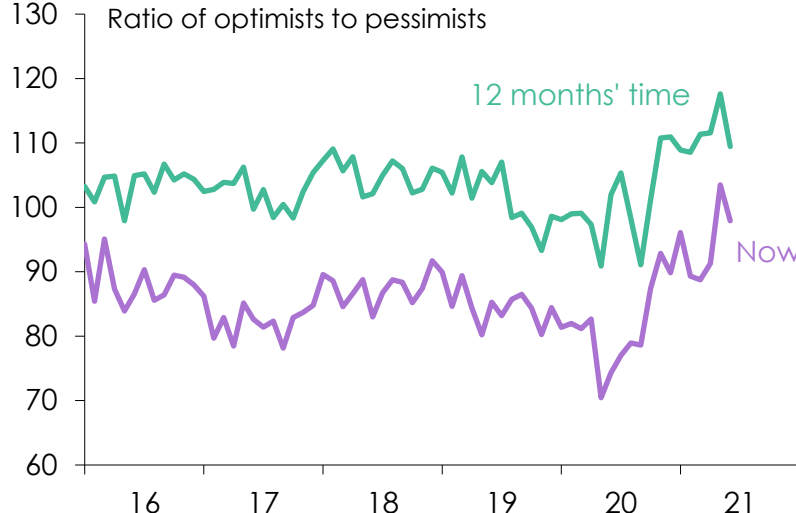
Source: National Australia Bank [Monthly Business Survey](#), April 2021.

Consumer confidence is at close to a 10-year high, although housing affordability concerns are rising (for understandable reasons)

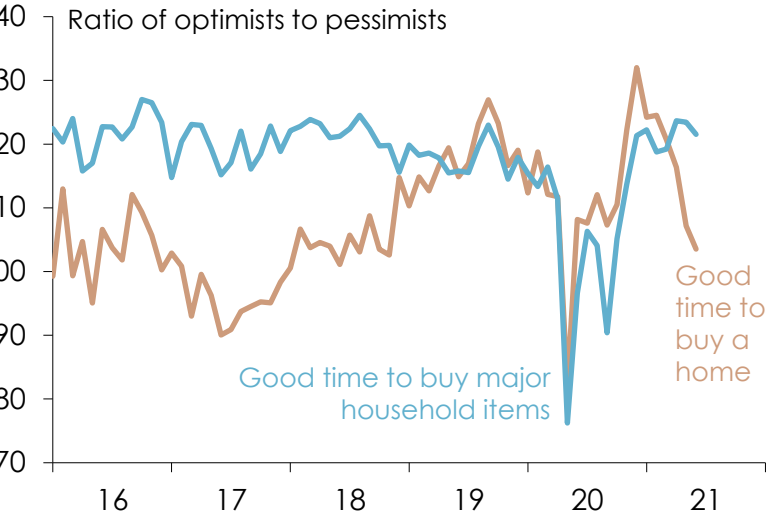
Consumer confidence index



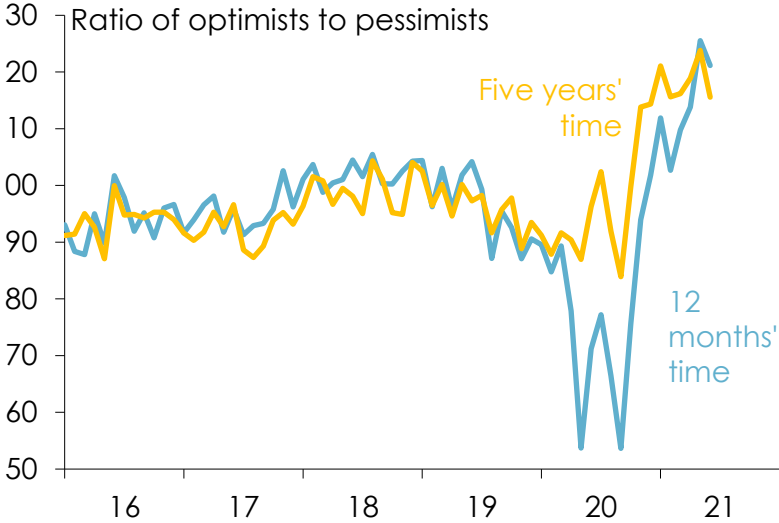
Household finances assessment



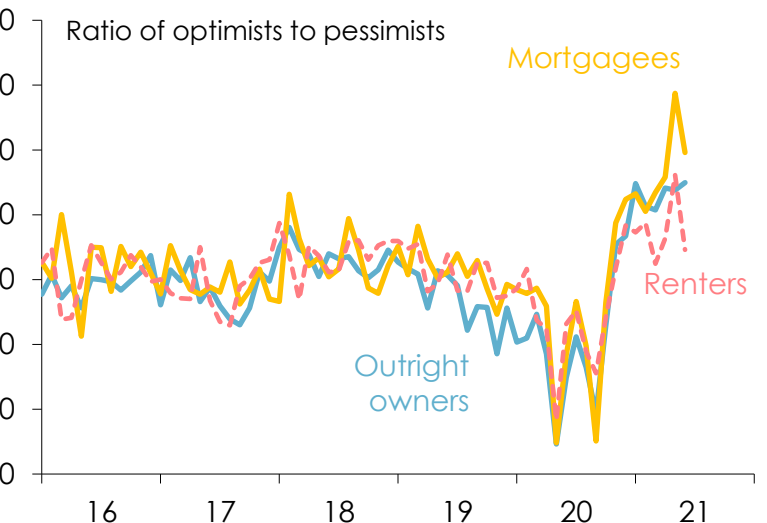
Buying conditions assessment



Economic conditions assessment



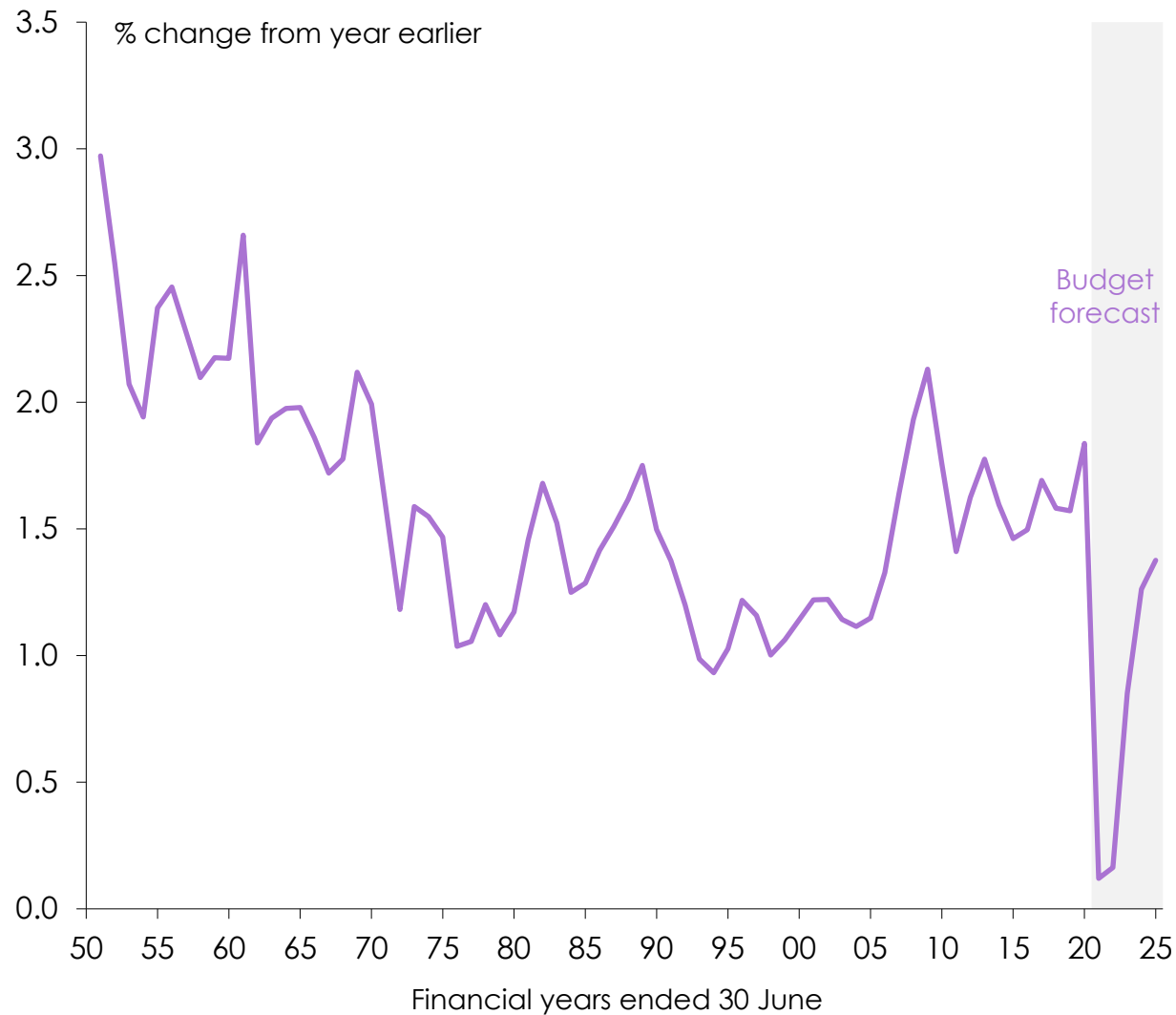
Confidence by housing tenure



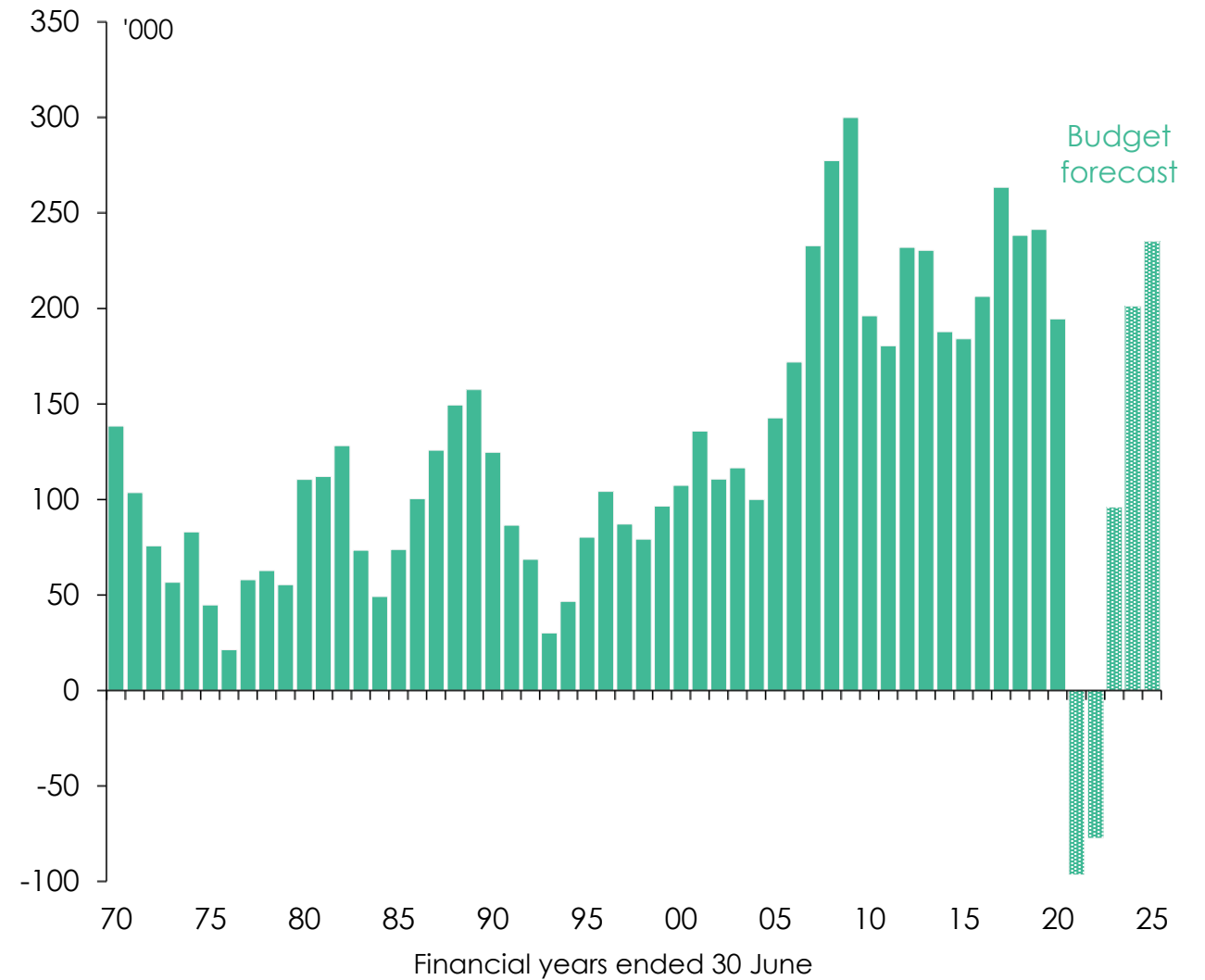
Source: [Westpac Banking Corporation](https://www.westpac.com.au).

An important assumption underlying the Budget forecasts is that net immigration resumes in 2022-23 and returns to previous levels by 2024-25

Population growth

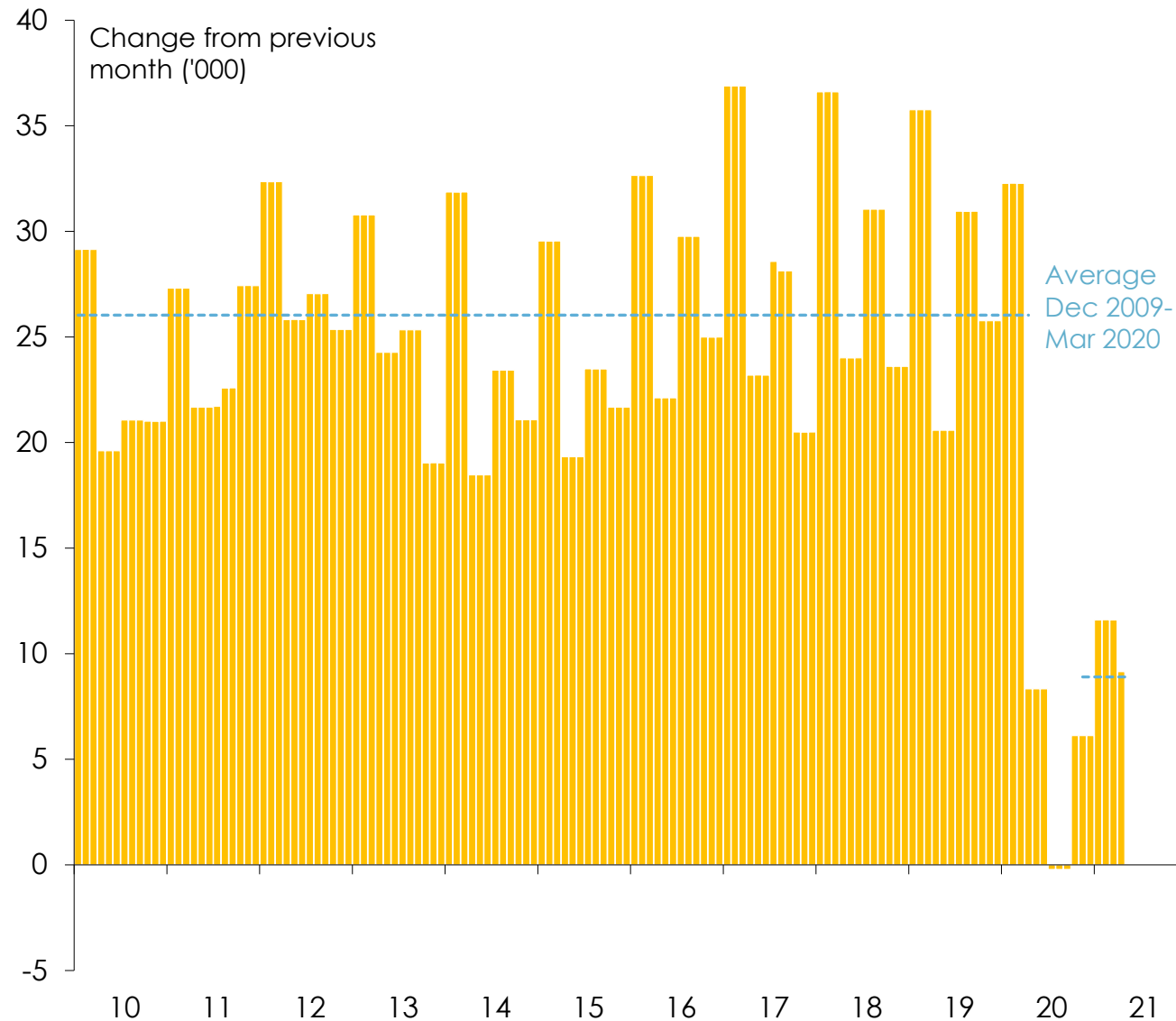


Net overseas migration



The closure of Australia's borders means that people looking for work aren't competing with migrants for the available jobs ...

Monthly growth in civilian working-age population

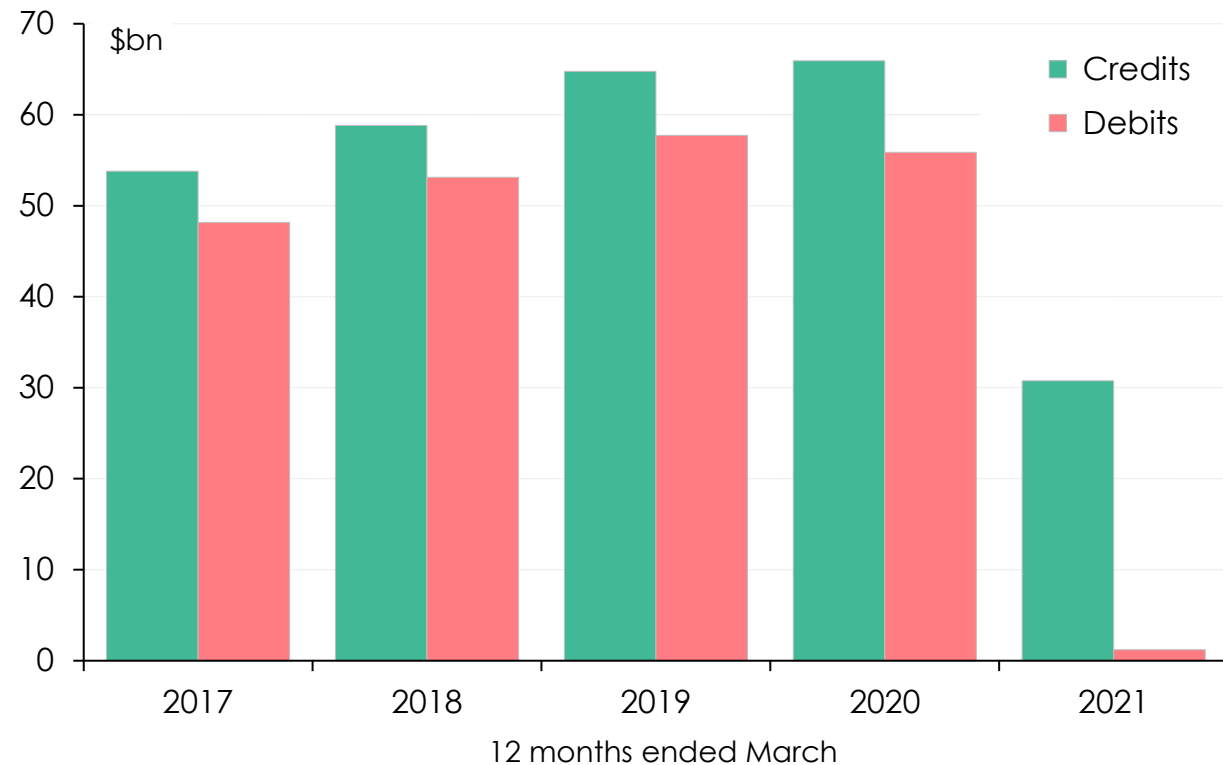


Source: ABS, [Labour Force, Australia](#), April 2021.

- ❑ Over the decade prior to the onset of Covid-19, the civilian working-age population (people aged 15 and over) grew by an average of 26K a month
 - which means that (assuming a constant labour force participation rate), employment needed to grow by an average of 16K a month in order to hold the unemployment rate constant
 - and that's more-or-less what employment did do over this period, which is why the unemployment rate went from 5.3% in the March quarter 2010 to 5.2% in the December quarter of 2019
- ❑ Since October last year however the working-age population has increased at an average of just under 9K a month
 - which means that (assuming the participation rate stays at its current record-high of 62½%) employment only needs to grow by an average of 5½K per month in order to prevent the unemployment rate from rising
 - anything better than that will drive the unemployment rate down
 - which is what's been happening

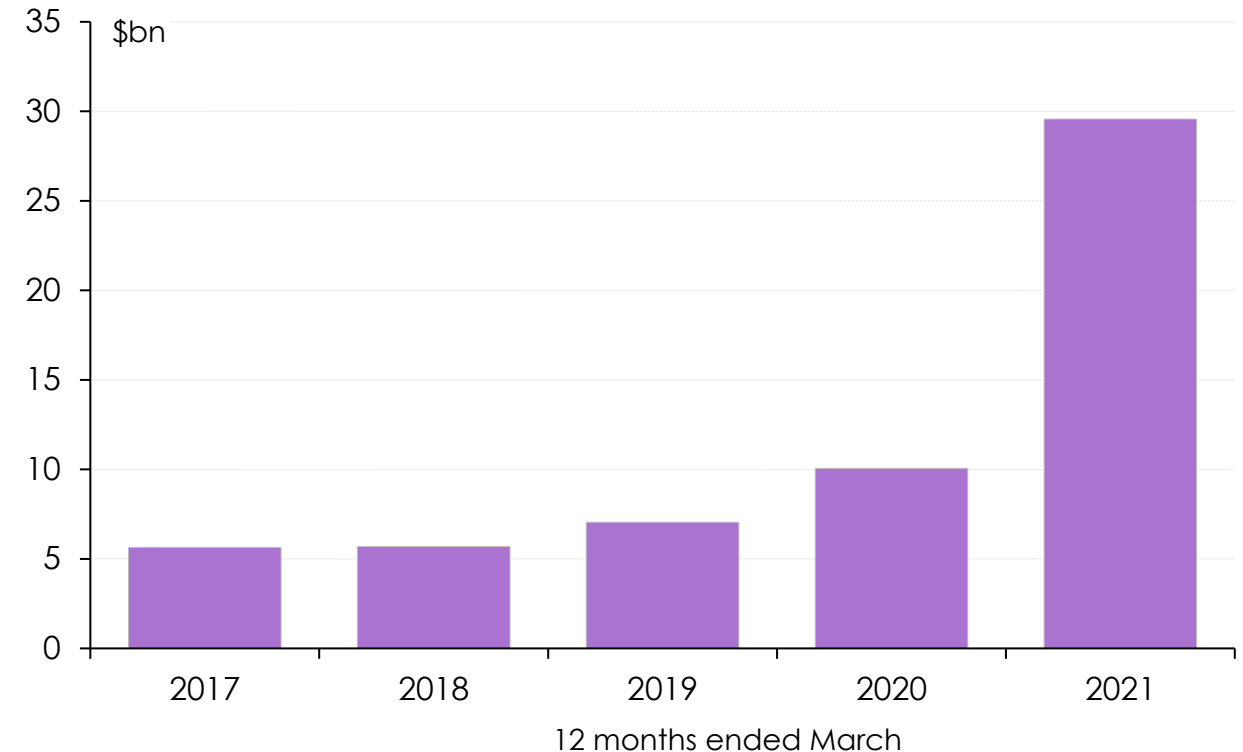
... and the *fatwa* on overseas travel has also provided a perverse and under-appreciated form of stimulus to domestic spending

Travel credits and debits



- Over the four years to March 2020, Australians spent an average of \$54bn per annum on overseas travel – as against just \$1bn spend in that way over the 12 months to March 2021, ‘freeing up’ a large amount which appears to have been spent in other ways (electronics, household goods, clothes, cars etc.)

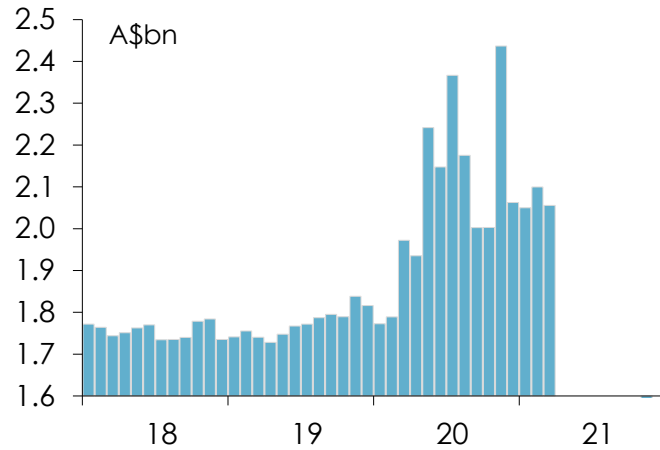
Net travel transactions



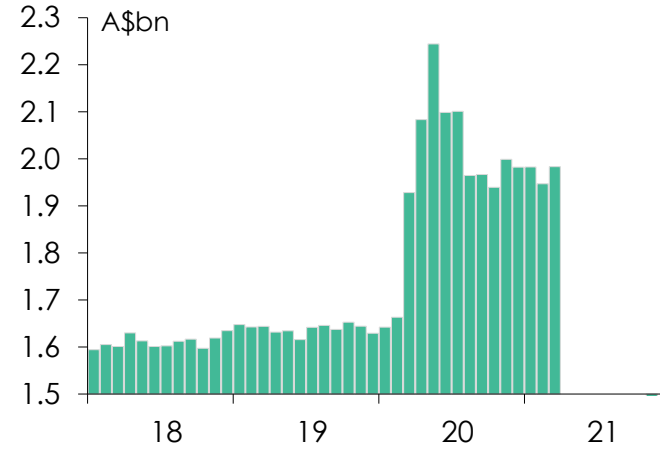
- Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent to about 1¼% of GDP

Australians have been spending a lot of what they would otherwise have spent overseas, in and on their homes, and on themselves

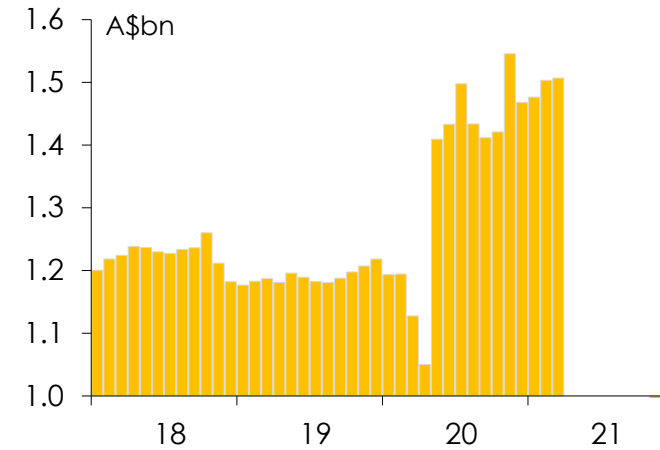
Electronic & electrical goods



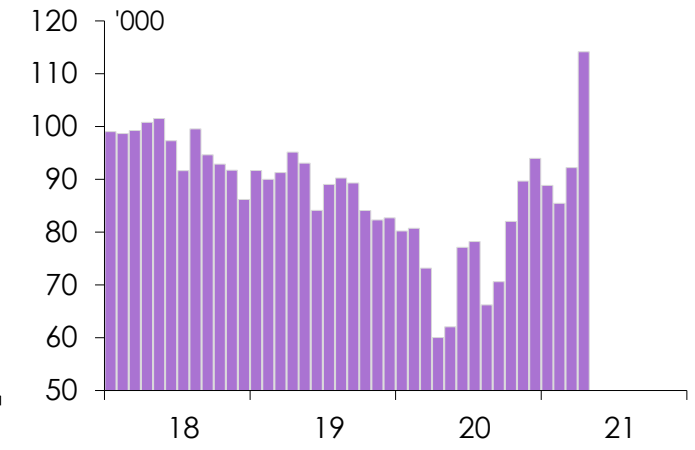
Hardware, building & garden supplies



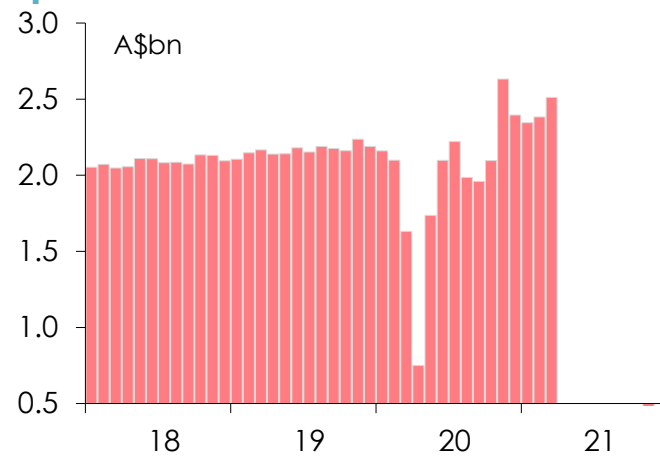
Floor coverings, furniture, housewares etc



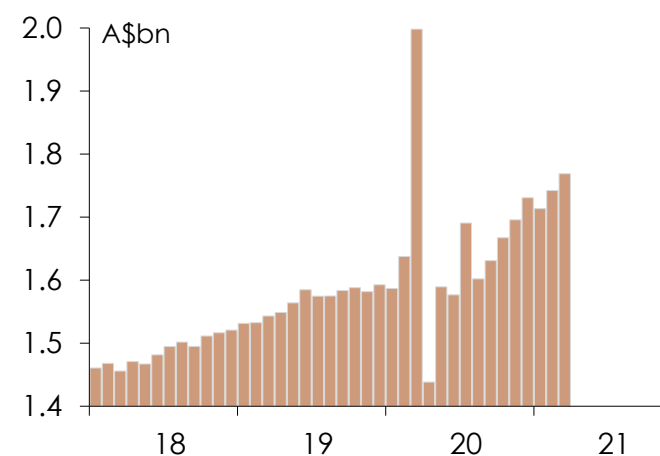
New motor vehicles



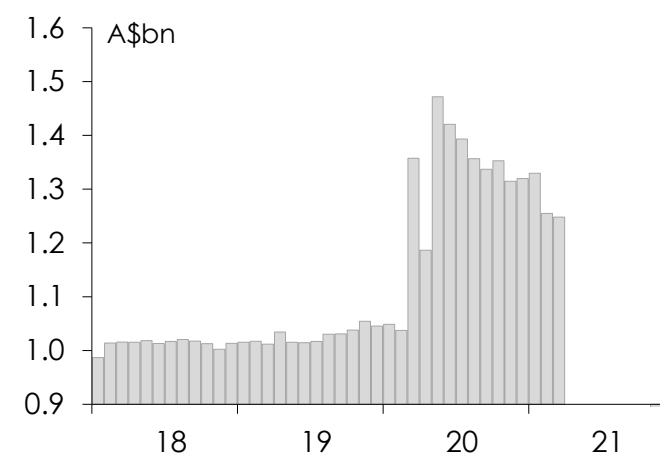
Clothing, footwear & personal accessories



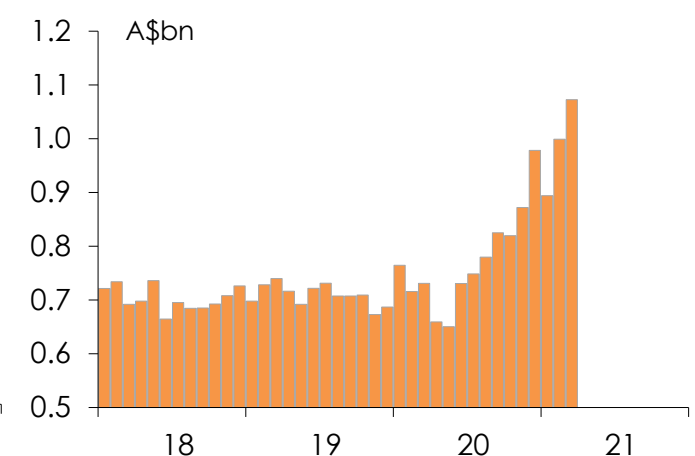
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



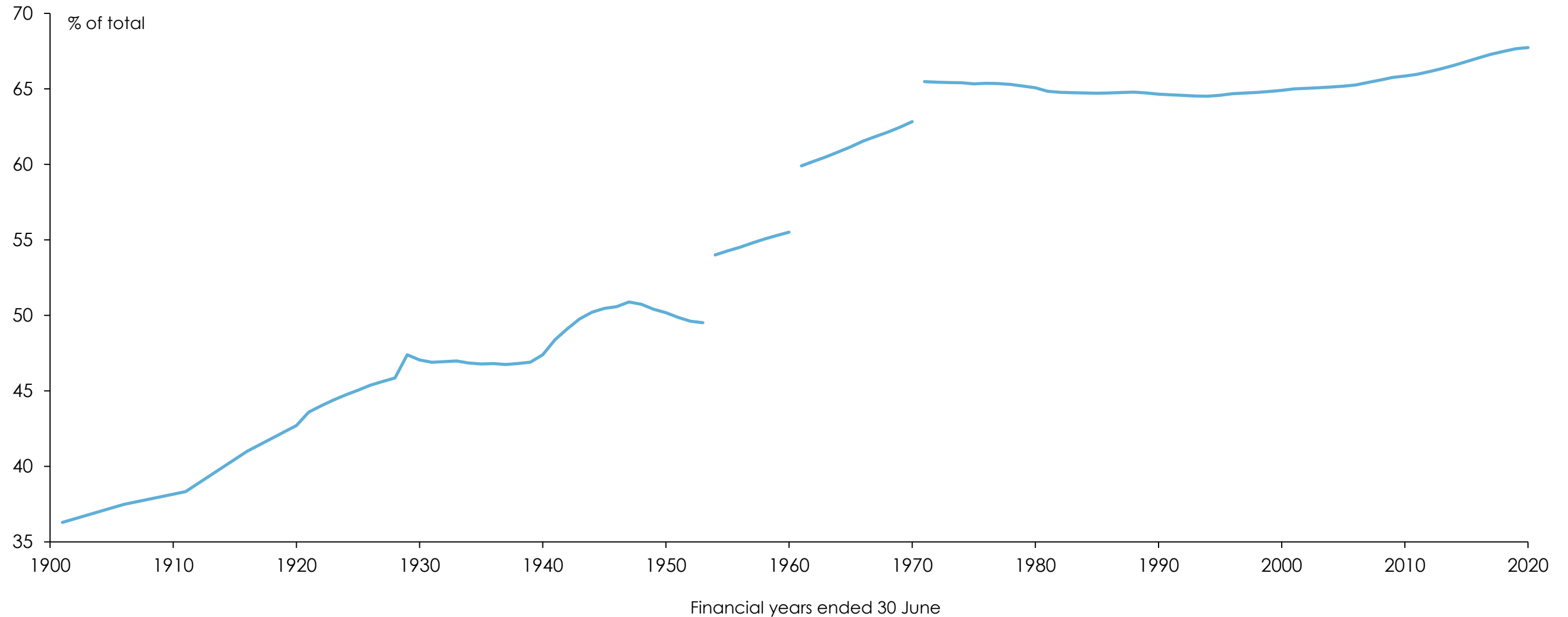
Renovations



Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), March 2021; [Building Approvals, Australia](#), March 2021; Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of Vfacts data by Corinna).

The proportion of Australia's population living in capital cities has been rising since at least Federation – but could Covid-19 change that?

Proportion of Australia's population living in 'greater capital city' regions

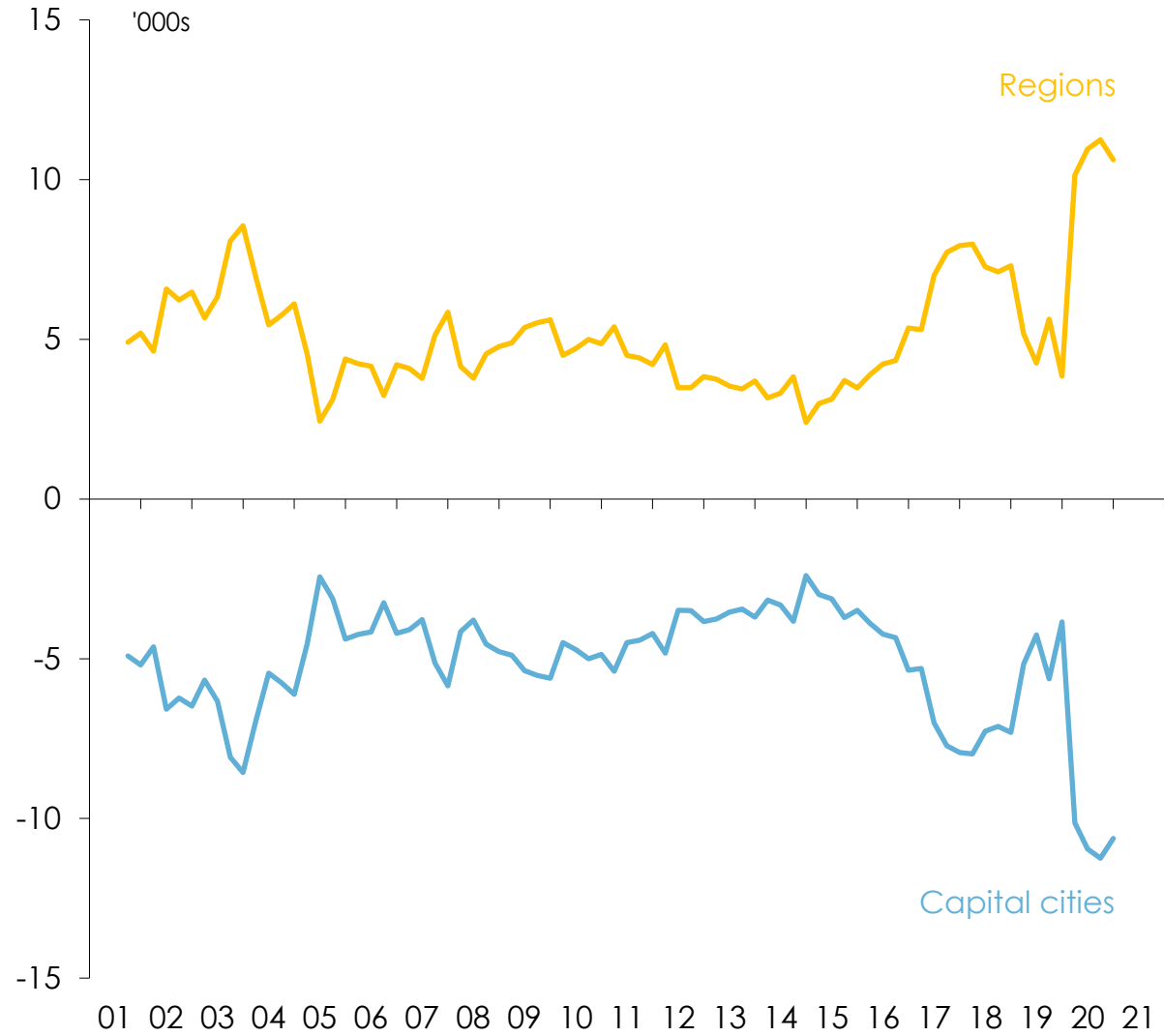


Note: There are series breaks in 1954, 1961 and 1971 due to re-definitions of the boundaries of 'greater capital city' areas.

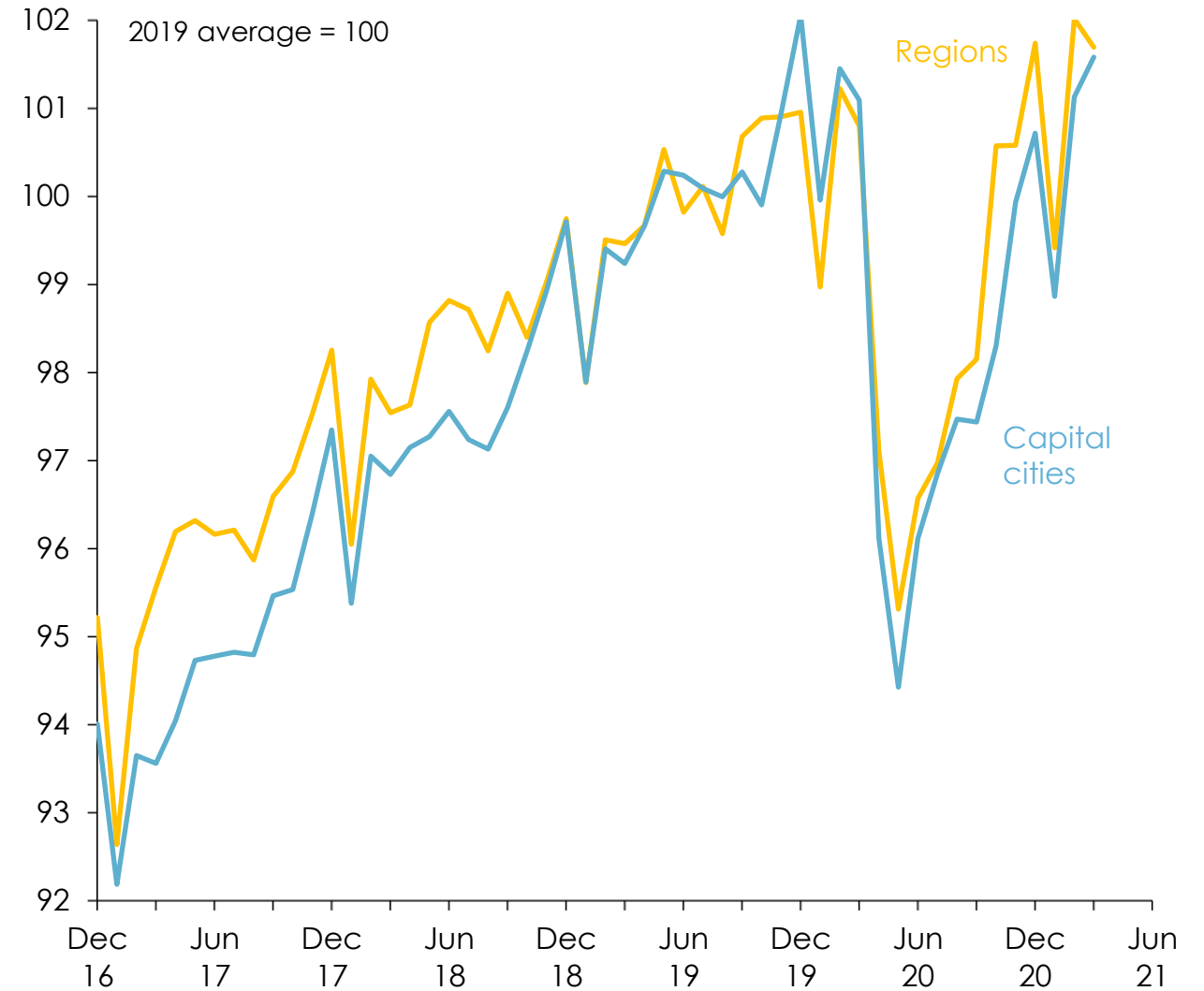
Sources: ABS, [Historical population](#), 2016 and [Regional population](#), 2019-20.

In the second half of last year, people moved out of capital cities in greater numbers than at any time in at least the last twenty years

Internal migration flows – capital cities vs regions



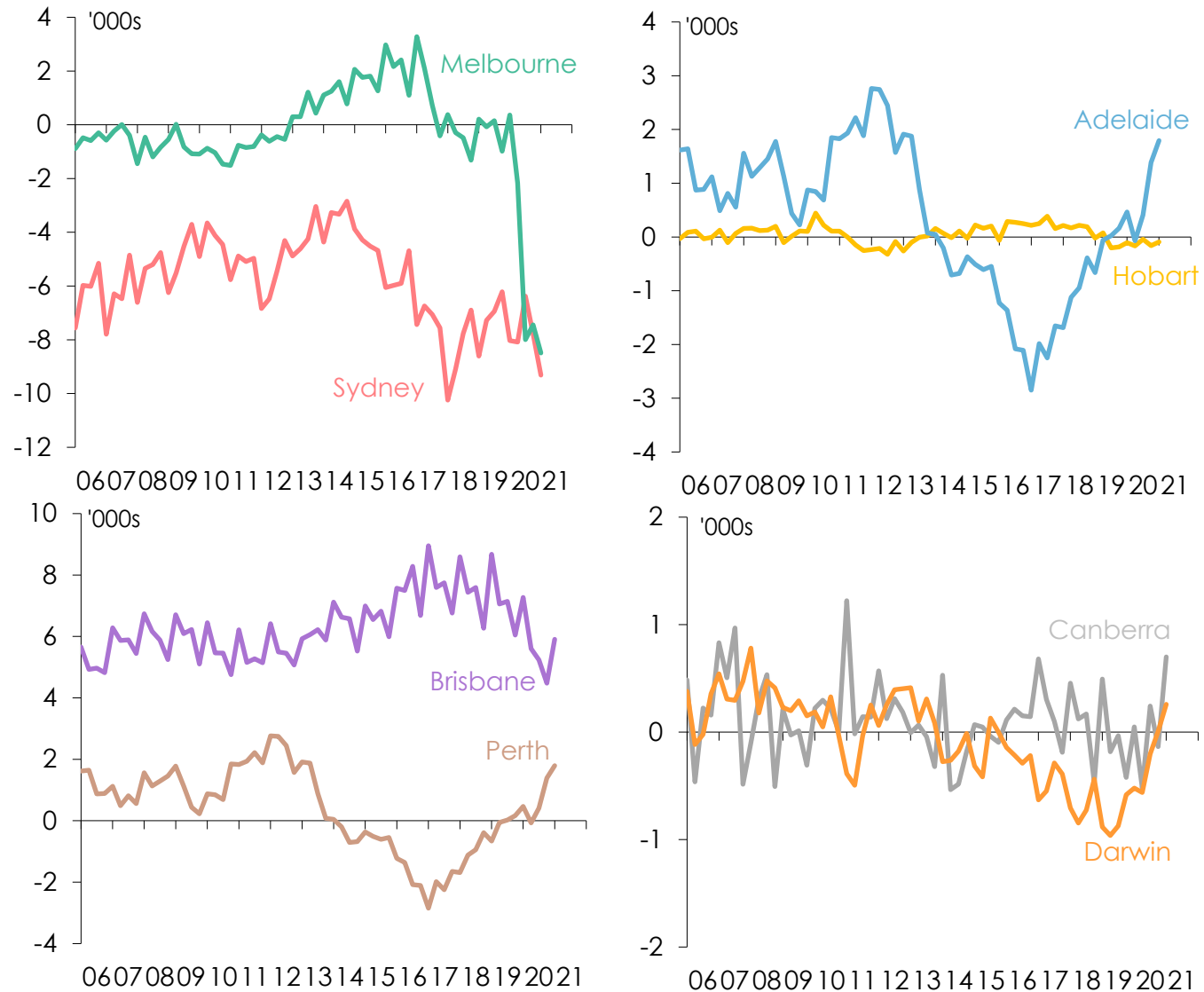
Employment – capital cities vs regions



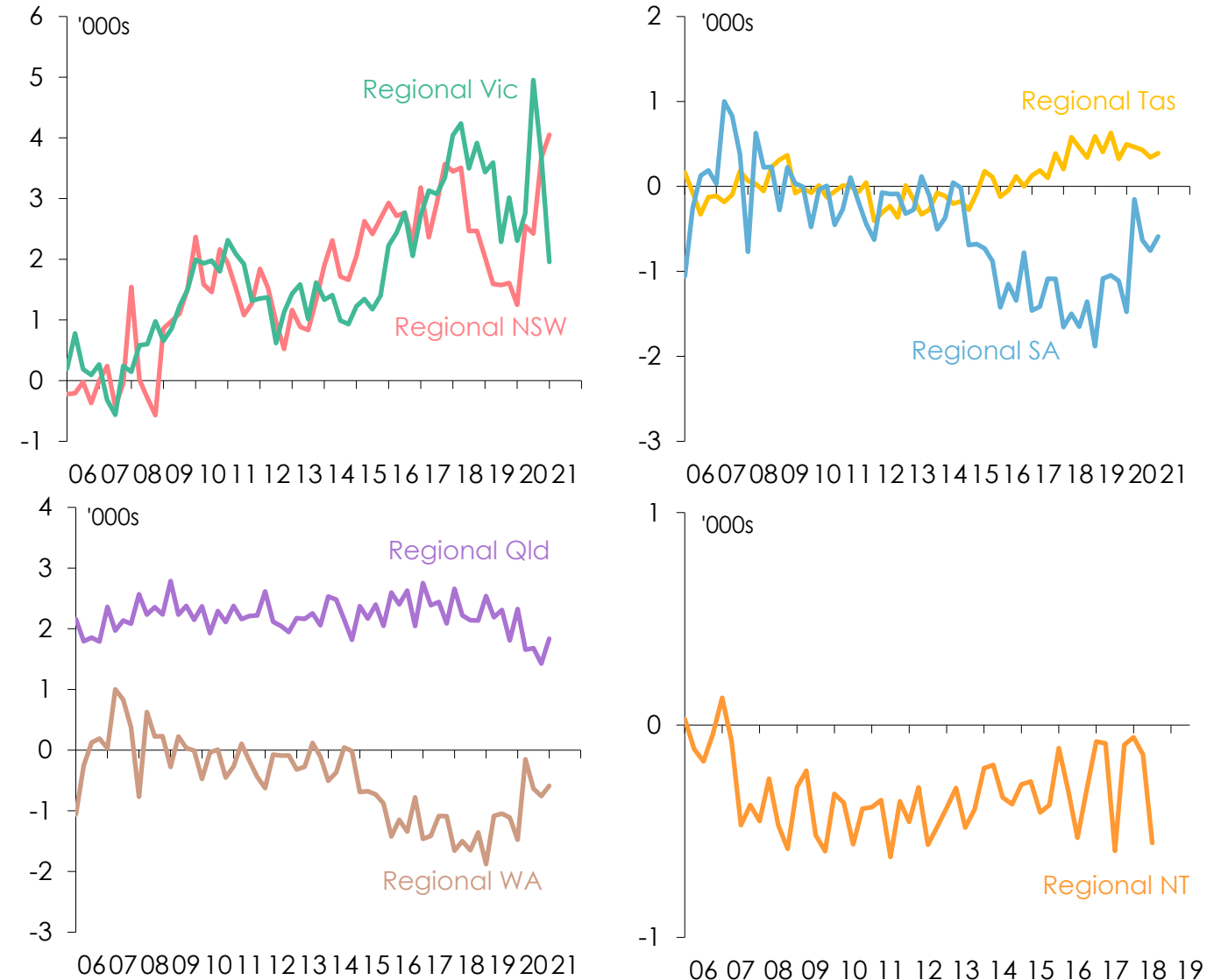
Note: 'internal migration' refers to the movement of people across specified boundaries (in this case, between 'greater capital city' areas and 'rest of state'), estimated using data from Medicare and (for military personnel) the Department of Defence. Source: ABS, [Regional internal migration estimates, provisional](#), December 2020; , [Labour Force, Australia, Detailed](#), March 2021.

The recent exodus from capital cities is mostly about Melbourne, and to a much lesser extent, Sydney

Net internal migration to or from Australia's capital cities



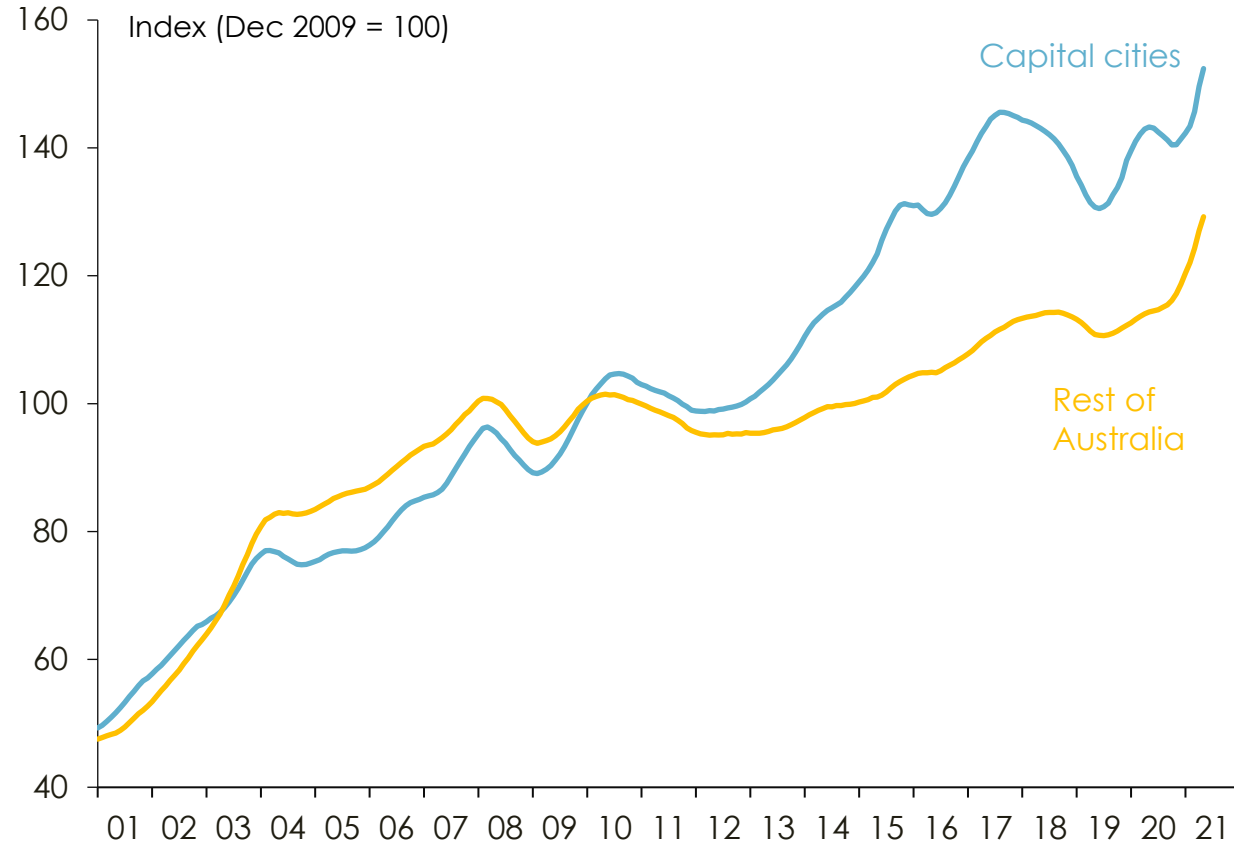
Net internal migration to or from Australia's regions



Note: 'internal migration' refers to the movement of people across specified boundaries (in this case, between 'greater capital city' areas and 'rest of state'), estimated using data from Medicare and (for military personnel) the Department of Defence. Source: ABS, [Regional internal migration estimates, provisional](#), December 2020.

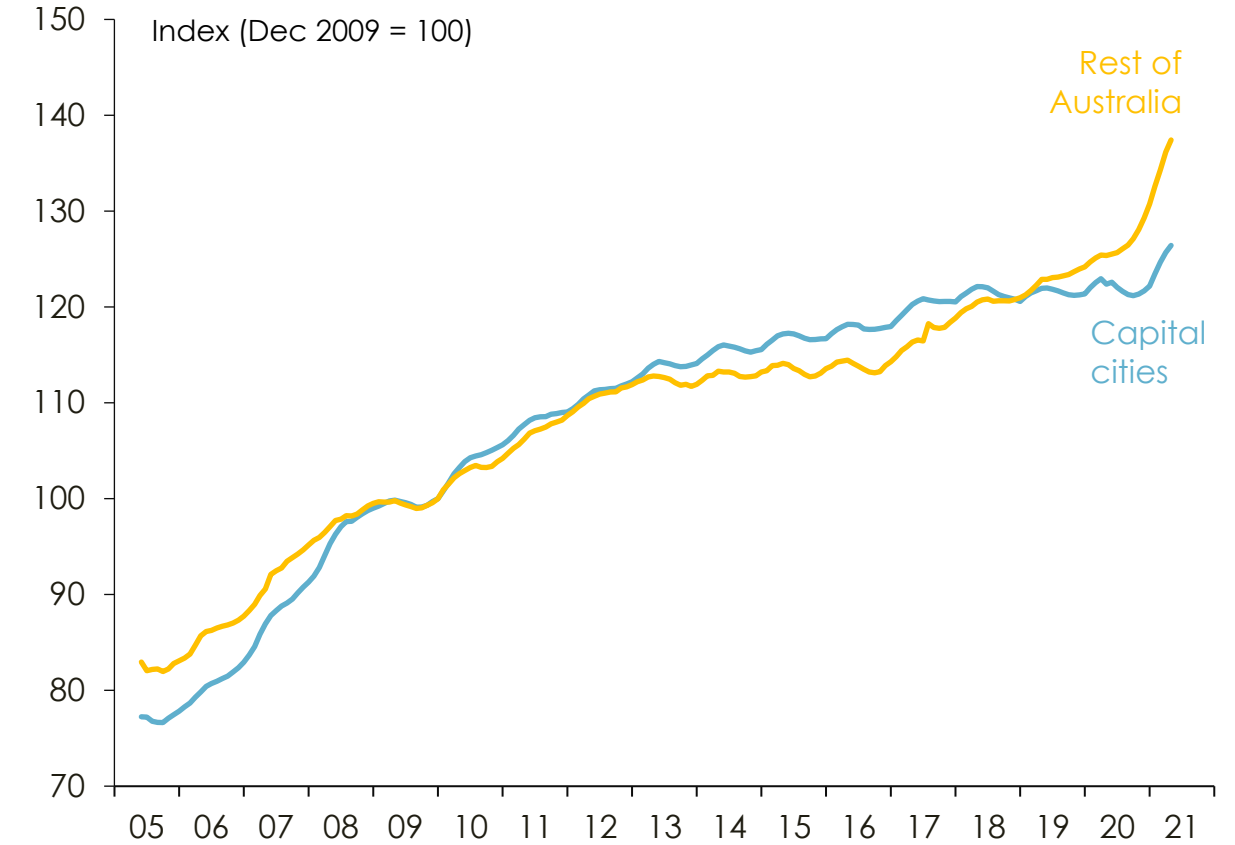
The most obvious consequence of this 'shift to regions' has been in property prices and rents (and that isn't an unalloyed Good Thing)

Capital cities and regional areas residential property prices



- ❑ Property prices have risen by 13.3% (on average) in regional Australia since March 2020, compared with 6.6% in capital cities (although they are still 34% cheaper than in capital cities)

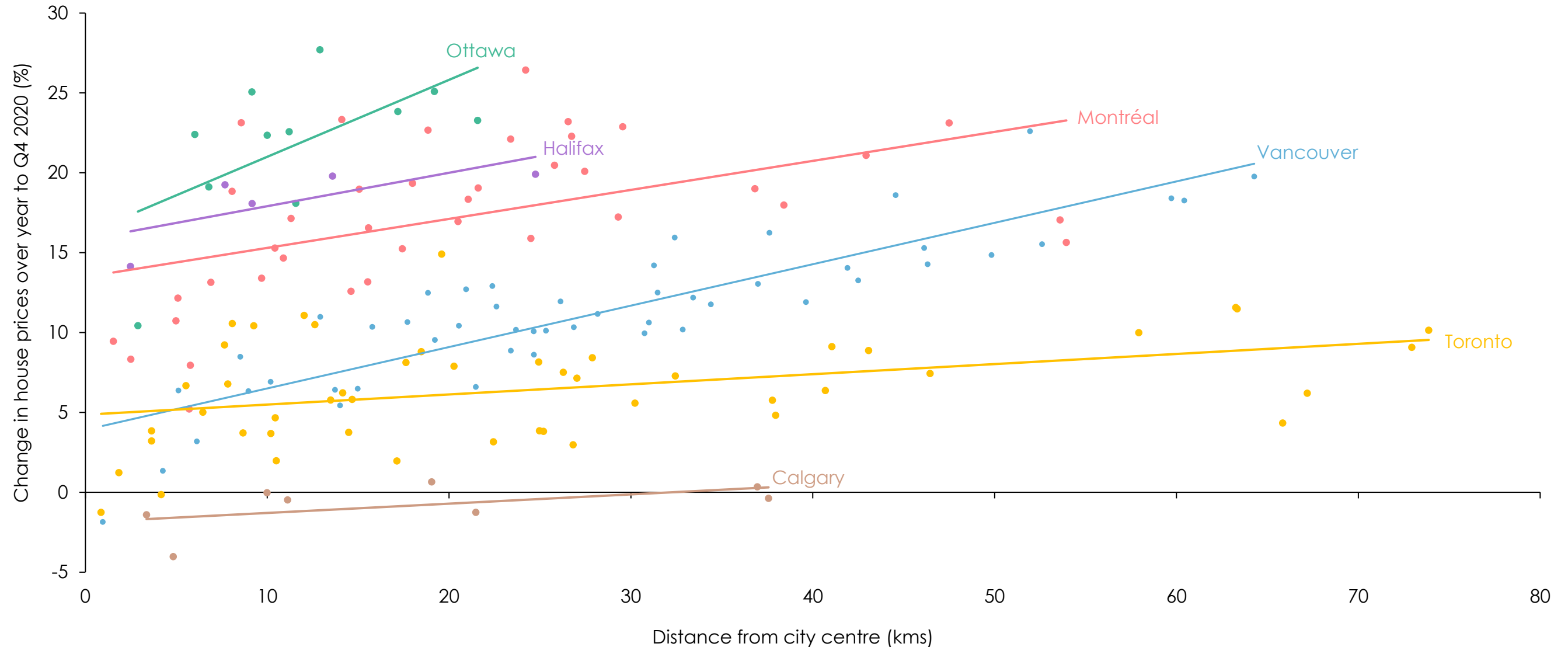
Capital cities and regional areas residential rents



- ❑ Rents have risen 9.6% in regional Australia since March 2020, compared with 2.8% in capital cities (although they are still 8% cheaper, on average, than capital cities)

This isn't unique to Australia, but rather is happening in many countries around the world – for example, Canada

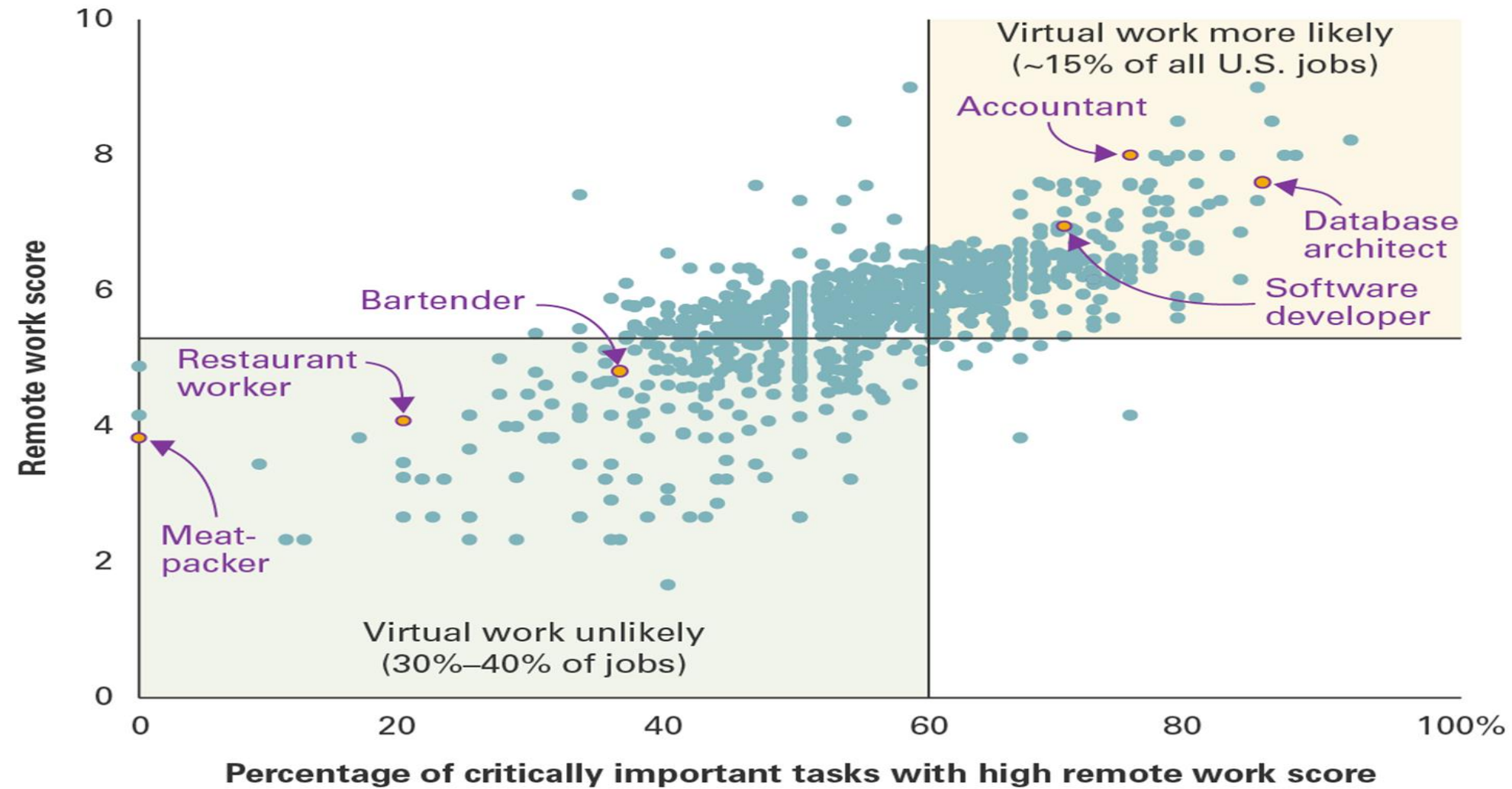
Changes in Canadian house prices vs distance from city centres, 2020



Note: Each dot represents a forward sortation area - a geographical unit based on the first three characters in a Canadian postal code. The lines are trendlines that illustrate the average relationship in each city between house price growth and distance from city centre. Source: Bank of Canada, [Monetary Policy Report](#), April 2021.

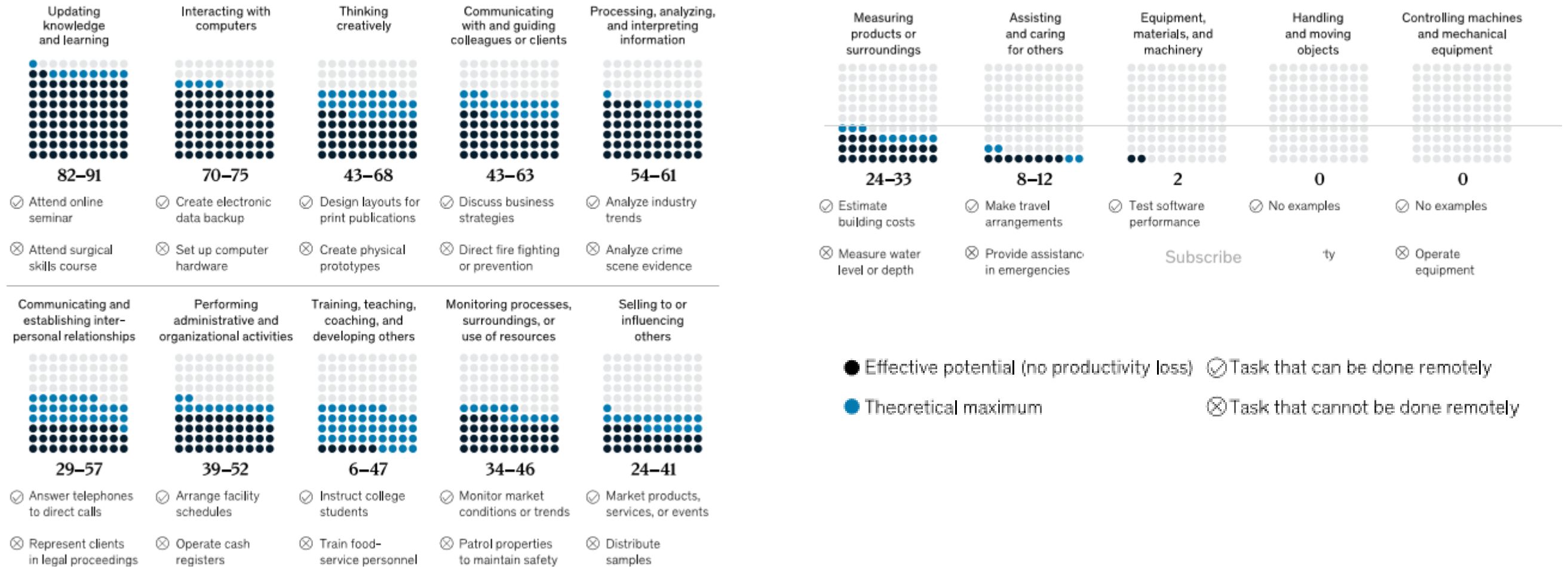
One recent US estimate suggests that around 15% of all US jobs (that's over 20 million people) could be done remotely

Percentage of important tasks which can be done remotely or virtually, by occupation



A McKinsey study suggests 20% of the workforce could work remotely 3-5 days a week as effectively as they could if working from an office ...

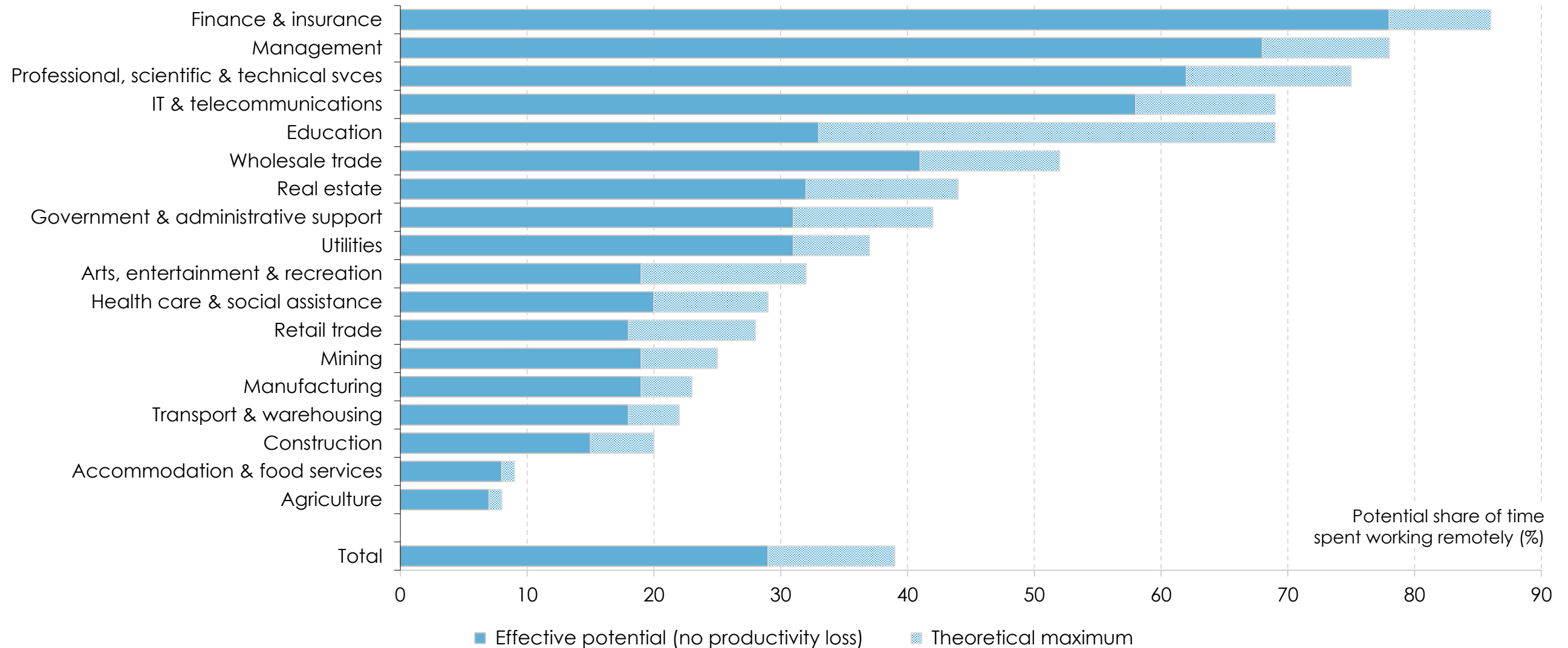
Activities with the highest potential for remote work in the United States



Note: The 'theoretical maximum' includes all activities not requiring physical presence on-site; the 'effective potential' includes only those activities which can be done remotely without losing effectiveness. Source: Susan Lund, Anu Madgavkar, James Manyika & Sven Smit. [What's next for remote work? An analysis of 2,000 tasks, 800 occupations and nine countries](#), McKinsey Global Institute, 23rd November 2020.

... although the potential for 'remote working' varies significantly across industries

Industries with the highest potential for remote work in the United States

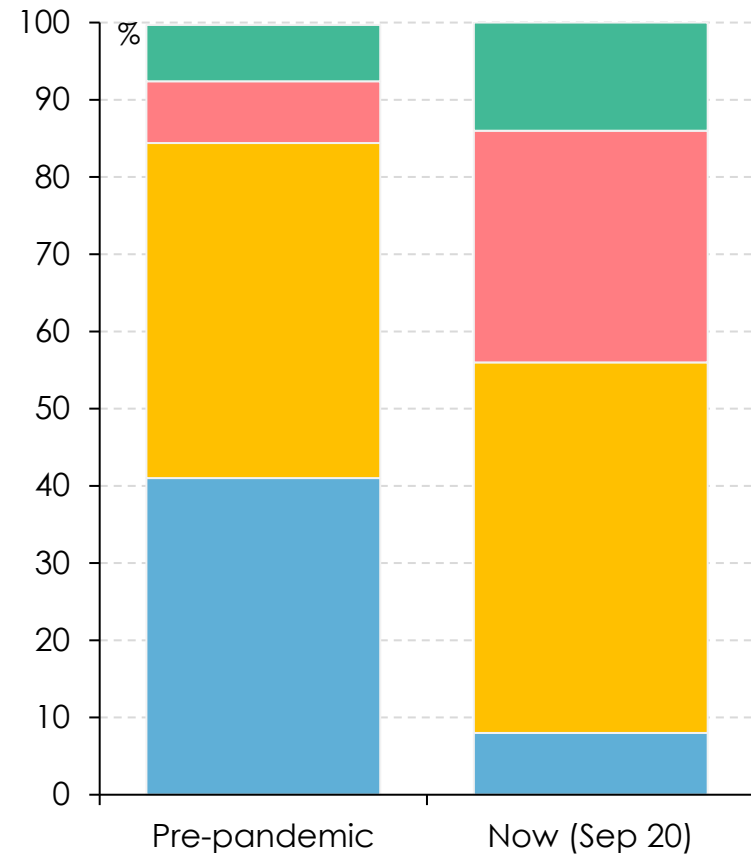


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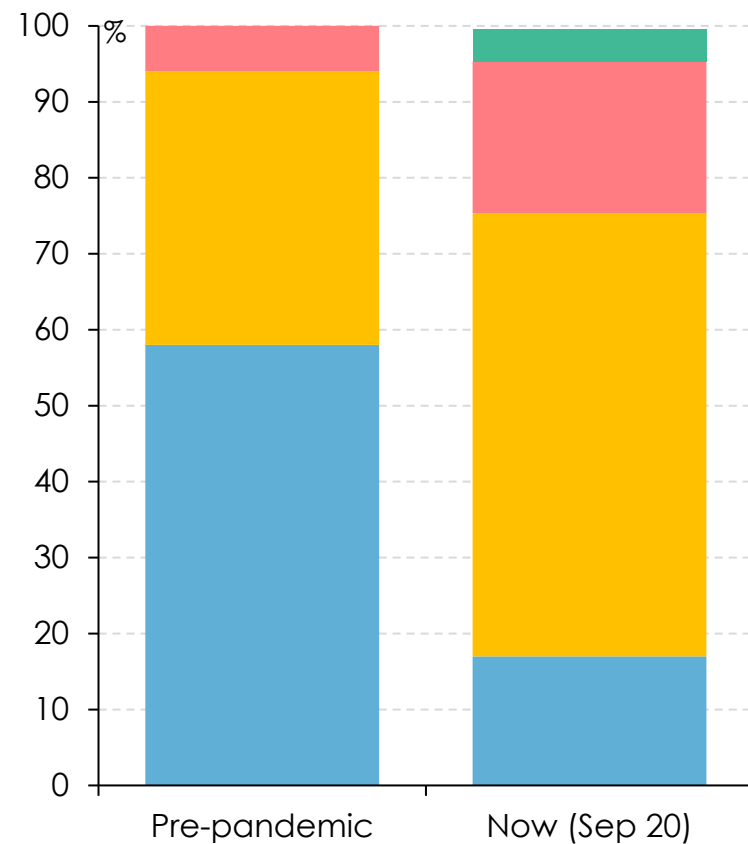
Most US employers (even in industry and manual services) are now much more willing to hire remote workers

Willingness of US organizations to hire full-time employees who work predominantly virtually or remotely

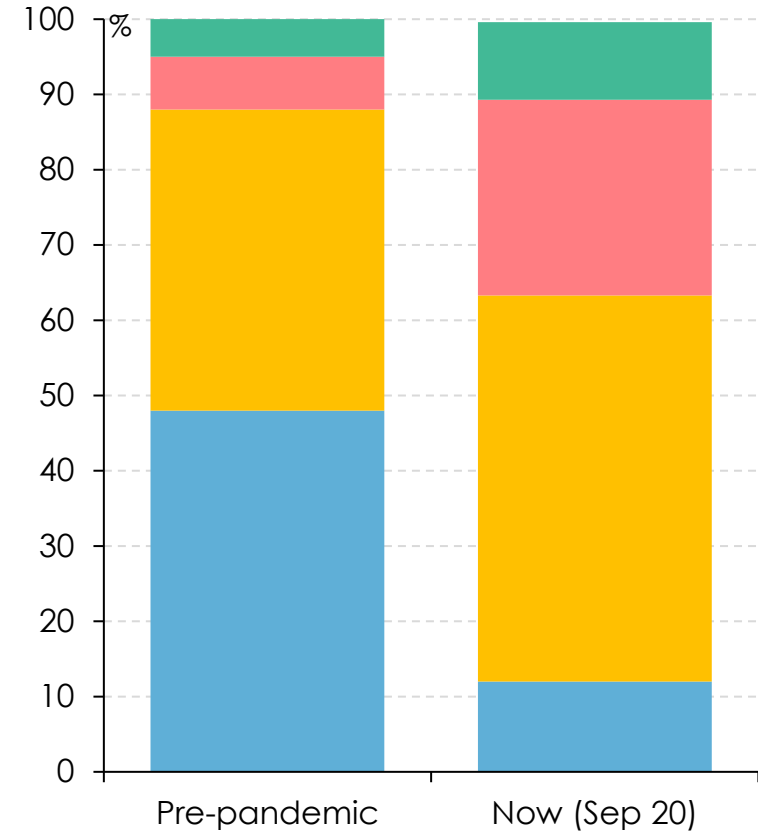
Mostly professional and office



Mostly industry and manual services



All organizations



- Not willing to hire 'virtual' employees
- Willing to hire 'virtual' employees if they can occasionally commute into the office
- Willing to hire 100% 'virtual' employees from anywhere in the US
- Willing to hire 100% 'virtual' employees from anywhere in the world

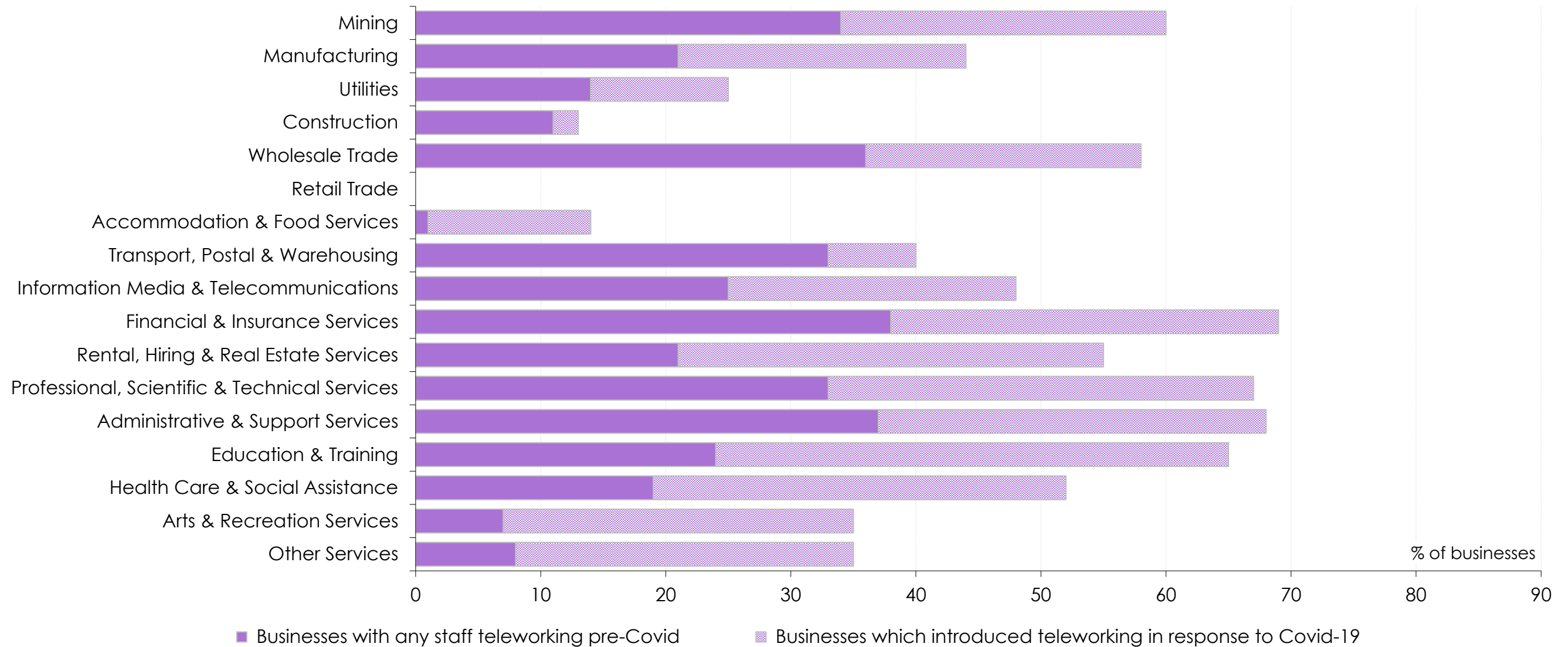
Source: Frank Steemers, Robin Erickson, Amanda Popiela & Gad Levanon, [Adapting to the Reimagined Workplace: Human Capital Responses to the Covid-19 Pandemic](#), The Conference Board, 6th November 2020.

'WFH' in the post-pandemic US economy could be only 40% of its average level during the pandemic, but still four times larger than pre-pandemic

- ❑ Covid-19 “necessitated costly experimentation with WFH by individuals and organizations” which “swept aside inertial forces related to experimentation costs, biased expectations, and co-ordination within networks that had previously inhibited remote work”
- ❑ The average worker has invested 15 hours of time and US\$561 in home equipment to facilitate WFH (equivalent to 0.7% of GDP across the entire economy)
 - so both workers and firms are better positioned to work from home effectively
- ❑ The pandemic has altered attitudes in ways that support a shift to WFH
 - two-thirds of respondents to the Survey of Working Arrangements & Attitudes report improved perceptions about WFH while fewer than 7% report any deterioration “among some, most or all people you know”
- ❑ The share of new patent applications that advance WFH technologies more than doubled last year
- ❑ Covid-19 has spurred regulatory changes easing the way for (eg) ‘telehealth’ consultations
- ❑ Workers perceive large benefits from a shift to WFH, mainly due to reduced commuting times
 - although these benefits accrue disproportionately to the well-educated and well-paid
- ❑ “Re-optimization” of working arrangements will boost productivity by an estimated 4½% relative to pre-pandemic levels
 - of which 3½ pc points comes from reduced commuting times

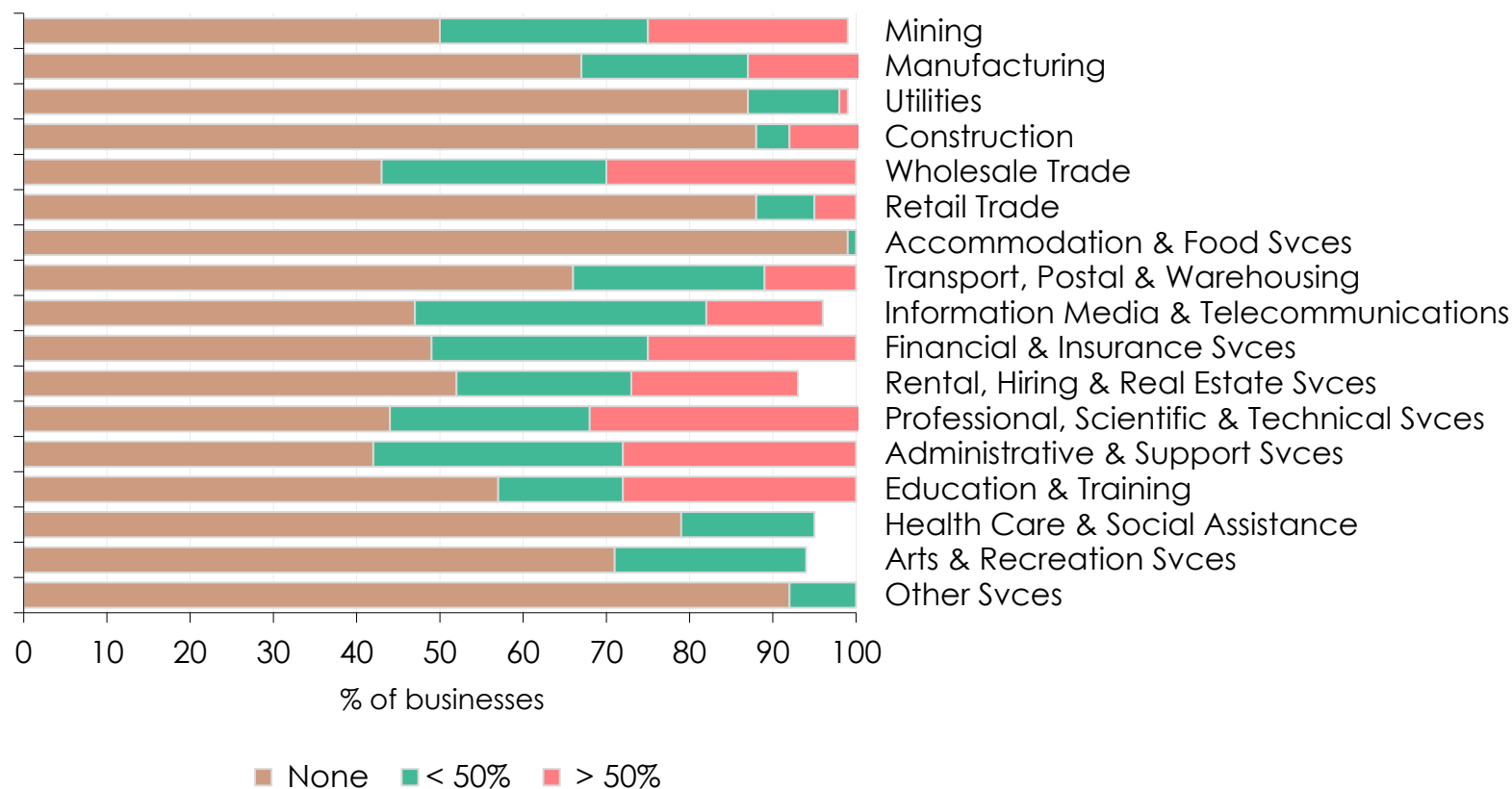
In Australia, 'teleworking' has become more common-place in most (but not all) industries since the onset of Covid-19

Percentage of Australian businesses with staff 'teleworking' before and after Covid-19

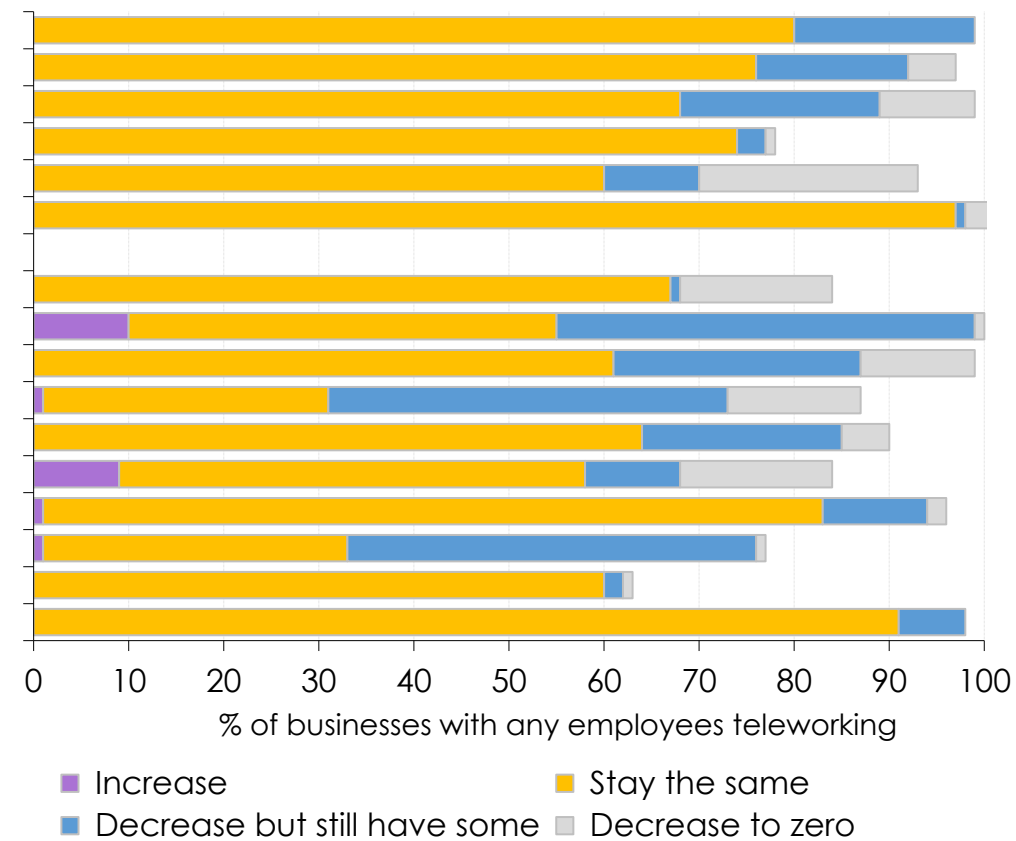


31% of all businesses (but 75% of large businesses) have at least some of their staff working remotely – and most expect it to stay that way

Percentage of Australian businesses' workforces which were 'teleworking' in March 2021, by industry



Expected long-term change in percentage of workforces 'teleworking', by industry



75% of large businesses (but only 42% of medium and 30% of small businesses) currently have some of their workforces working remotely

Only 28% of those businesses which currently have some of their staff working remotely expect the proportion who are to decline 'over the long term'

Note: 'large' businesses are those with more than 200 employees; 'medium' businesses have between 20 and 199 employees; and 'small' businesses are those with fewer than 20 employees. Source: ABS, [Business Conditions and Sentiments](#), March 2021 (released 30th April 2021).

What are the potential upsides and downsides from a sustained increase in the proportion of people working remotely?

Potential advantages

- ❑ **Reduction in time spent commuting**
 - less congestion on freeways, arterial roads and public transport (and diminished requirement for additional spending on urban road and public transport networks)
 - better ‘work/life balance’, more time to spend with partners/families (or, alternatively, working)
 - reductions in transport carbon emissions
- ❑ **Savings in office accommodation costs**
 - partly or wholly offsetting increased costs incurred in complying with ‘Covid-safe’ workplace regulations
- ❑ **Savings in other time and costs**
 - most obviously time devoted to, and costs incurred in, attending conferences, ‘marketing trips’, etc
- ❑ **Enables employers to access a broader and more diverse workforce**

Potential disadvantages

- ❑ **Possible loss of productivity arising from ‘distractions’ in home environment, greater difficulties in facilitating collaboration and team-work among employees**
 - although evidence of such losses is to date fairly limited
- ❑ **Potential loss of innovation and productivity gains arising from planned or serendipitous interactions among people working in different firms or industries, ‘networks’ etc**
 - the scope for which is one of the reasons why productivity is typically higher in CBDs than in other workplace locations
- ❑ **Diminished scope for worker mobility between different employers**
 - which is one of the principal channels by which workers (especially younger workers) secure pay increases
- ❑ **Diminished scope for worker mobility between different employers**
- ❑ **Greater obstacles for new entrants to the work force (those completing education, migrants, people re-entering work) to gain access to good jobs**

There's a wide range of opinion among big employers as to the desirability of 'remote working'

EDITORS' PICK | Apr 28, 2021, 08:15am EDT | 20,064 views

JPMorgan Requires Employees To Return To Their Offices By July, Striking A Blow To The Remote-Work Trend

We want you back in the office, law firm tells partners

Michael Pelly Legal editor



M: **TECH**

Microsoft will let employees work from home half the time

PUBLISHED FRI, OCT 9 2020 11:26 AM EDT | UPDATED FRI, OCT 9 2020 11:57 AM EDT

Goldman Sachs: Bank boss rejects work from home as the 'new normal'

Groupe PSA presents its new principles of working methods

- An approach consistent with the intangible principle of employee and company protection
- A project that contributes to Groupe PSA's Group's environmental performance by reducing the company's carbon footprint
- Encouraging greater complementarity between remote work with collaborative and collective experiences on the sites
- A project that promotes agility, efficiency and a better work-life balance, developed in co-construction with the social partners and in continuation with the ["Motivation and Well-being at Work"](#) agreement



By **Christine Ro** 31st August 2020

Companies are looking to the post-Covid future. For many, the vision is a model that combines remote work and office time.

To the extent that ‘working remotely’ does become more commonplace, there are clearly challenges for owners and managers of office buildings

- ❑ **Can older office buildings be re-configured to make them more appealing to people who work in them?**
 - provision of services or amenities regularly used by office workers (especially if it becomes less viable for independent small businesses to provide them)
 - recreation and entertainment options?
- ❑ **Should office buildings incorporate some kind of accommodation facilities?**
 - to cater for employees who need to ‘come into head office’ (say) a few times a month rather than every day, and who live far enough away from head office that they need somewhere to stay overnight
- ❑ **Is it possible for office buildings to cater for a range of different transport needs and modes**
 - not just more bicycle racks, but parking for (not-so-senior) employees who need to ‘come into head office’ for intermittent periods
- ❑ **Can office buildings find ways to facilitate ‘serendipitous encounters’ among people who *don’t* work for the same employer?**
 - and other ways to enhance ‘networking opportunities’ for people who are not coming to the same place, every working day
- ❑ **Is the ‘office of the post-covid future’ some kind of ‘urban village’?**