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SPOTLIGHT

WFH and the staffers

Birth of a teratrend

WFH and tech changes will have a major impact on job prospects

Changed labour markets, wider catchment areas for jobs, more churn in higher-wage staff and shorter time to hire

Staffers exposed to this could see average placement values rise, more placements per consultant and perhaps less competition

This is a redacted version of the report published on 16-Sep-20. Please contact your HSBC representative or email AskResearch@hsbc.com for information.

Why read this report?

- WFH and tech changes will have a major impact on job prospects
- Changed labour markets, wider catchment areas for jobs, more churn in higher-wage staff and shorter time to hire
- Staffers exposed to this could see average placement values rise, more placements per consultant and perhaps less competition

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Different working practices and therefore different labour markets: Most office workers live and work within a 'reasonable' commute of the workplace. Some move to accommodate work, but this is a relatively small percentage. In the modern world moving city or region for work usually means considerable disruption. This in effect made the pre-COVID-19 labour market a series of local markets with some limited traffic between them. This may change with significant repercussions.

Staffing will remain cyclical but: An accountant, say, who currently wishes to work no more than 20 miles from home may be prepared to travel 100 miles if it is only once or twice a week. In effect, for many jobs the catchment area may be expanded materially. This means many more jobs for candidates and many more candidates for jobs. These may be disproportionately higher-paid 'knowledge workers.' The labour market is likely to remain cyclical but the degree of churn in the labour market may rise to new highs in a stronger economy. There are things to consider, though. Many SMEs may be more likely to need an agent to navigate much-less-local markets. More churn in the labour market should drive up placements per consultant; if these are older workers and knowledge workers it is likely to drive up the value per placement. If smaller, local agents struggle to compete there may be less price competition. Technology may reduce the time to hire, driving efficiency.

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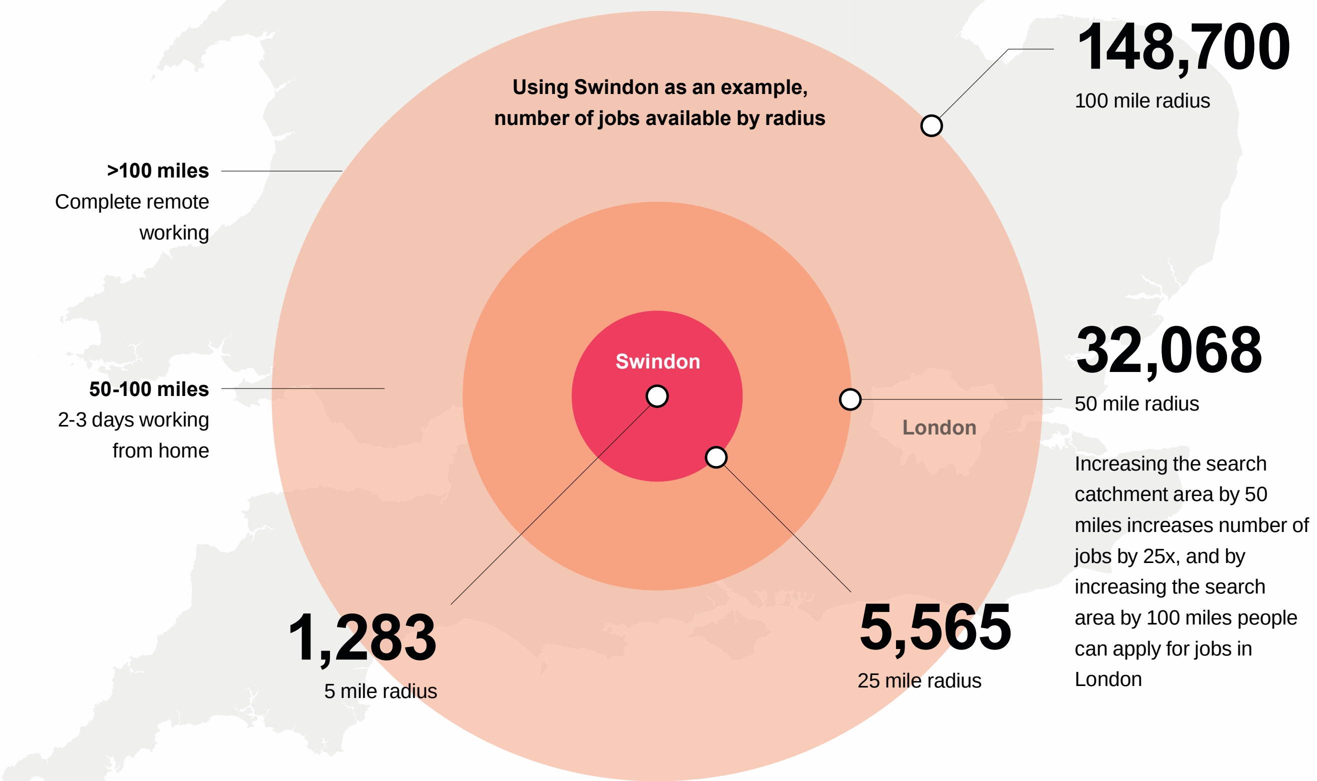
Contents

Key drivers for staffing and WFH

Staffing driver 1: More churn and higher volumes

Breaking geographical immobility and wider catchment area opens a larger pool of candidates for each vacancy, and more jobs for available for candidates – creating more churn and higher volumes



Staffing driver 2: Time to hire

Technology could help employers reduce the lengthy 'time to hire' process, increase consultancy placements and reduce costs

- Virtual conferencing interviews
- Reduced delays in hiring process
- More placements per consultant
- Improved consultant productivity

Staffing driver 3: Pay

More churn from older workers in higher-wage categories (where it once had lowest churn) creates upward pressure on reward

- Wages adjusted for city weightings
- Reduced bid-premium scarcity
- Wage rate mix from high wage older population
- Higher churn in local markets

Staffing driver 4: Key issues

- Past investment in IT will determine the feasibility and success of WFH. Some companies do not have the systems infrastructure to successfully WFH
- As remote working increases HR policies and practices will have to adapt, in particular the regarding onboarding & training process for new starters, and health and safety processes
- With WFH trends expected to rise, we expect an increase in the number of people working in a 'city' job, and being paid a 'city' wage, but living out of town
- Remote working could also drive a higher churn in high wage rate older population who historically are less likely to move jobs – with labour markets becoming more fluid

Source: Glassdoor job search – Swindon (September 2020), HSBC

Facts and figures

5-8%

Pre-COVID-19 figures for people who 'usually' WFH (US and Europe)[1]

35-41%

People working from home during COVID-19 (US and Europe)[2]

workers demand greater flexibility with a **50/50** split of remote and office as ideal post COVID-192[3]

24-34%

Of jobs can be performed from home (Italy, Spain, France, Argentina, Germany, UK, Sweden and US)[4]

78.5% of people change jobs within London; 71.5% in US change jobs within same metro[5]

4x-60x

increase in available jobs if the catchment area increases by 50-100 miles in Orléans (France)[6]

25x-117x

Increase in available jobs if catchment area increases by 50-100 miles in Swindon (UK)[6]

100 bps increase in churn = 5.3%

volume growth for staffers[7]

"Those that do (100% remote model) cite cost savings from less office space and the ability to recruit beyond a narrow geographical area, as the main motivators" – Robert Walters survey[8]

Pre-COVID-19 6-8%

of jobs were done WFH for major UK staffing companies[7]

Theoretical 62-75%

of jobs could be down WFH for major UK staffing companies[7]

1) United States Census Bureau - 'Home-Based Workers in the United States: 2010' report (2012); Eurostat - Employed persons 'sometimes' working from home as a percentage of the total employment (%) (2010-2019); BLS 'Workers who worked at home and how often they worked exclusively at home by selected characteristics' (2017-2018); ONS 'Percentage of UK workforce homeworking by age group' (2019)
2) Source: Eurofound – 'Living, working and COVID-19 First Findings' report (April 2020); ONS; Source: National Bureau of Economic Research study by Brynjolfsson et al 'COVID-19 and remote work: an early look at US data' (June 2020)
3) Adecco survey, 'Resetting Normal: defining the new era of work' report (June 2020)
4) Source: International Labour Organization 2020
5) Glassdoor Metro Movers: Where Are Americans Moving for Jobs, And Is It Worth It?.(May 2018); ONS
6) Glassdoor job search – Orléans (September 2020), Google Maps
7) HSBC Calculations
8) Robert Walters 'Returning to the new world of work: A practical guide for business leaders' (2020)

Executive summary

- Increased WFH seems likely to stick, having material implications for labour markets and thus staffing companies
- Distance as a barrier to a job, or a potential employee, will be weakened…
- …leading to more labour market churn, implications for wages, and potentially more outsourcing to agents

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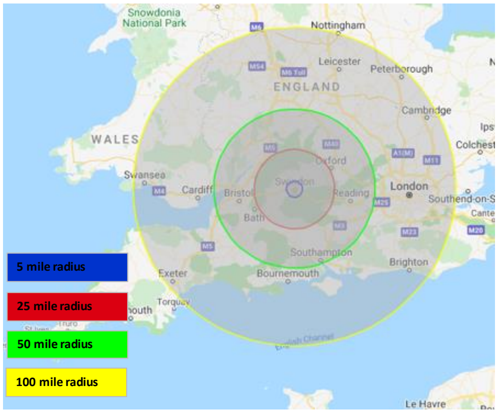
A massive social experiment here to stay. COVID-19 has forced a major economic dislocation and has caused a dramatic shift in working patterns. Many have successfully worked from home. There is a view that this may revert to the old normal when, eventually, social distancing and lockdowns are a memory. Alternatively, more flexible working has appeal both to corporates and staff. Corporates may have more-productive staff, and potentially lower office costs. They may also have a larger pool, geographically, from which they can draw talent. Staff may have more flexibility and a better 'work life balance.' Most international surveys point to work from home staying; the debate is largely around the extent to which the post COVID-19 working world offers flexibility. Staffing will remain cyclical and there will need to be improving aggregate demand for labour before growth returns. Yet the implications for labour markets, of changing labour patterns will likely be significant. In May 2018 a study by Robert Half estimated 40,000 job vacancies (openings) in the UK were unfilled for over six months, and 57,000 for three months. On average UK salaries, for six months, 40,000 unfilled jobs is GBP700m in wages. In 2017 the EU Commission forecast 756,000 unfilled vacancies in IT by 2020. Both studies cite geographic immobility of labour as a key constraint.

More volume of hires, more outsourcing, wages and cost savings

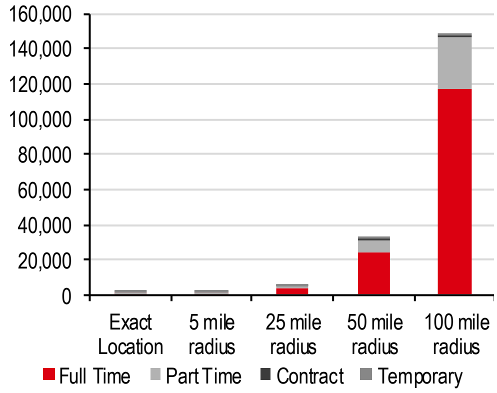
Breaking spatial barriers may mean more job changers. Pre-COVID labour markets were largely local with limited movement between regions (only c20% change jobs outside cities). WFH can potentially break the regional boundaries and barriers to geographical immobility. If people now have to travel less frequently to the office, say two or three days instead of five days a week, the catchment area for a job search increases. If flexibility extends to the start time of the "in office days" the catchment area may widen further. Taking the UK as an example, widening the catchment area by 50 miles increases the number of job vacancies by 25x for a candidate living in Swindon, a large regional town in South West England, or 117x by widening the catchment area by 100 miles as they can apply for jobs based in London as well. Even for someone working in London the number of job vacancies increases by 2-3 times by expanding the catchment area by 50-100 miles. Under such circumstances, candidate churn and vacancy fill rates could rise, as the number of potential vacancies available to a candidate rises by multiples as the constraints of geographic immobility are loosened.

Larger catchment area: Swindon (UK)



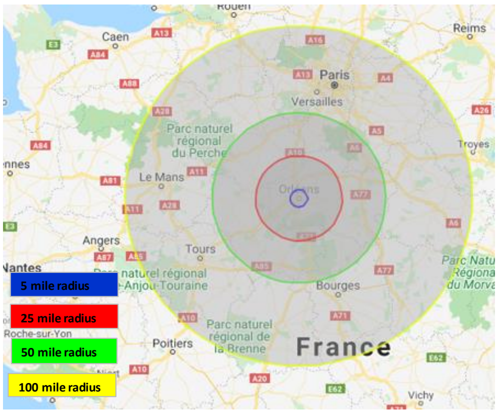
Source: Google maps, HSBC calculations

No of jobs available increases 25x when widening the search radius by 50 miles and 117x when by 100 miles



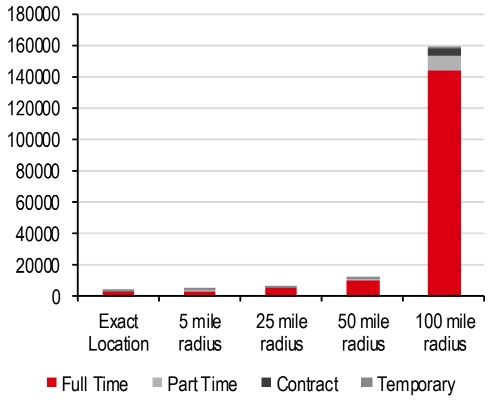
Source: Glassdoor job search – Swindon (September 2020), HSBC

Larger catchment area: Orléans (France)



Source: Google maps, HSBC calculations

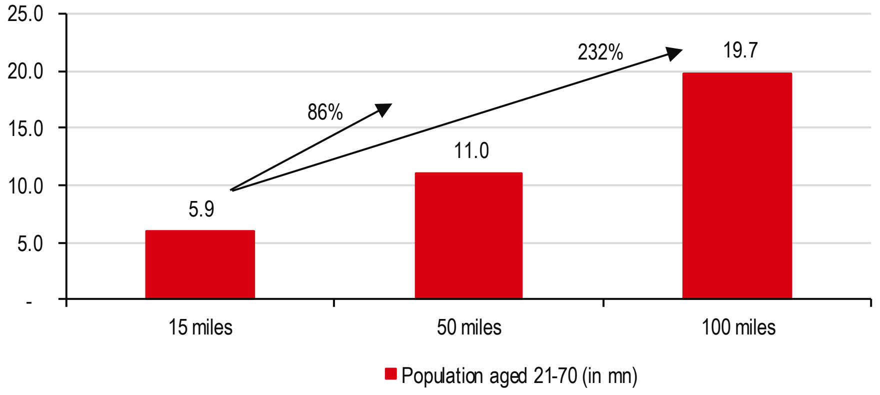
No of jobs available increases 4.3x when widening the search radius by 50 miles and 60x when by 100 miles



Source: Glassdoor job search – Orléans (September 2020), HSBC

Much will depend on the working patterns. Two days working in the office a month allows employers to recruit workers further away from the office than two days a week. Any increase in days from home above one per week is likely to increase the area from which workers can be drawn. This means more jobs available for candidates and more candidates available for each job, which is usually a catalyst for churn.

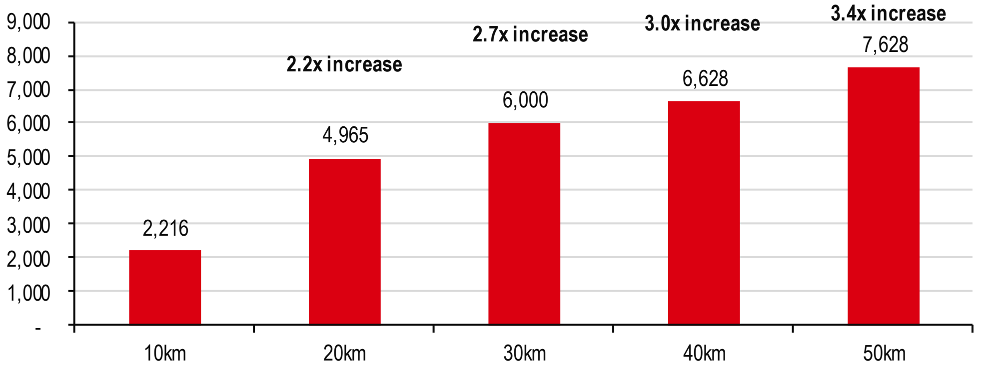
Wider talent pool as the catchment area increases: Working population (aged 21-70) around Greater London, +50 miles away and +100 miles away



Source: ONS - Persons by single year of age and sex for local authorities in the UK (2019) , HSBC calculations

The example below from a major UK staffer's database shows how the number of candidates (software developer in this case) in the company's system increases if we increase the catchment area from 10km to 50km (3.4x increase). Increased candidate availability materially increases the potential for higher fill rates for staffers. Most of these won't be available or want the employer but the magnitude of the change is material.

Number of software developer with .net/cloud/java script experience based in central London and expanding the search radius



Source: company database

This may actually mean that the churn (people changing jobs) goes up the most in the higher-wage categories where it was once the lowest

Wages and wage disparities: The higher-wage, older, working population have been historically less likely to move jobs. Much of the evidence suggests these are more likely to have embraced work from home. This may actually mean that the churn (people changing jobs) goes up the most in the higher-wage categories where it was once the lowest. So the average wage of staffing company placements could see upward pressure. This will likely be partially offset by hiring staff from areas where wages are perhaps lower. The regulatory and tax implications of hiring lower-wage workers because of the geography they live in will be a factor but a cheaper price for an equally qualified candidate may be appealing to many corporates. Much will depend upon demand, and thus the cycle, but each candidate may have more choice and so might each employer. For a lucky few the expansion of demand for their skills will be far greater than the expansion in supply of other candidates and wage expansion will likely follow.

More use of agents: This is likely to be a complicated change in the recruitment markets. Staffers and recruitment agents account for c15-20% of temp and perm hiring; the rest is done directly. If and when demand levels pick up and churn follows as people are approached about jobs further away, those people will often need to be replaced. Employers will need to consider how to reach, and persuade candidates, with different locations and WFH requirements. They will have to deal with a new and more complex market. If churn rises and drives up volumes of gross hires for each business then they seem more likely to outsource, either because of the greater complexity, the sheer volume or because finding suitable staff becomes, in some cases, more competitive. If there is more volume of hiring and more knowledge needed of candidates further geographically removed, outsourcing to agents may become more appealing.

Larger national or in some cases international staffers may face less competition from smaller local agencies

If locality becomes less important and candidate pools widen, this increases the staffers' value add as a staffing agency with a broader talent pool will be in a better position to hire a more suitable candidate than an in-house HR department of a firm. This is probably truer at smaller firms where they know the local labour market and the local candidates know the business seeking to hire. However, finding candidates from further away is harder. Larger national or in some cases international staffers may face less competition from smaller local agencies. The value add to the customer has risen. Advice may be needed on the impact on wage inflation from reduced geographic disparity, implications for diversity, health and safety and, of course, culture and wellness.

The P&L implications for staffers

Wider geographic catchment areas should lead to more placements per consultant per quarter

One of the key volume drivers for temp and perm staffing is 'gross hiring' i.e. people changing jobs. For a perm placement agent it is when a company uses an agency to hire someone, and they fill the role, that they take a fee - normally a percentage of the salary. The more job changes, the more hiring and the more need for an agent if candidates are complex to source or there is a heavy administrative burden. In temping and contracting the fee is spread out over the duration of the role but roles that are filled are still the source of revenue. The more candidates the staffers can find, the greater the 'fill rates'. So wider geographic catchment areas should lead to more placements per consultant per quarter – i.e. more volume.

The value of each placement will be determined by how much wages are dragged down by those who don't live in the metropolis vs how much more higher-wage (older) gross hiring picks up

And the value…may counterintuitively rise as well. Workers from further away may not be eligible for the premiums that traditionally come from metropolitan weightings in pay offers. A worker earning lower wages may be prepared to take a low wage by London or New York standards and still get a pay rise. In aggregate this will be a downward pressure on wages. So the value of each placement could contract. We suspect this will be, initially, the received wisdom. It will be a factor. There will, though, be others. People over 40 tend to change jobs materially less often. They tend to earn more. If WFH releases some of the constraints, namely the difficultly of moving, then a higher proportion of gross hires may actually be at higher wages. It is too early to know the balance of these two factors but wage pressure in the value per placement at staffing agencies is likely to have both positive and negative pressure.

Gross margins may actually rise. For most of the last cycle gross margins were stubbornly weak; only towards the end of the cycle did they begin to rise. This may have been a product of increased centralised purchasing, ie large volume-led contracts. Although we would disagree, some believe this may be due internet competition. However, gross margins have always been higher for higher-wage roles. If churn, ie job switching, becomes more prevalent in the WFH (partially) era we seem to be entering then the average gross margin is likely to be dragged up if older, higher wage, workers switch roles more often. We suspect some will see the potential to fill more of the hard-to-fill roles as an opportunity to discount. If a staffer offers a discount for volume of vacancies then the undoing of the economics is when the proportion that are unfilled gets higher than assumed in the bid costing. Wider pools of candidates will reduce this problem, in theory. This will cap the potential to increase gross margins. The more the industry keeps to its recently rediscovered discipline on pricing the better the gross margin trend.

Early anecdotal evidence suggests a meaningful compression of the time taken to get through the interview process

'Time to hire' changes, perhaps for ever. One key variable is how long the process takes. From the creation of an opening or vacancy to the person starting is referred to as time to hire. The longer it is the fewer applicants the agent places in a given time period, and the more disrupted the employers' businesses may become. There is a potential for time to hire to reduce with technology advances in hiring and staffers could find it much easier to get hold of candidates who may otherwise be busy, or reticent to talk while in the office. Physical interviews will not go away, we imagine, though there are cases of purely on-line hires in lockdown. However, it may be easier to get hold of candidates who are willing to talk and it may be easier to schedule early interviews over Zoom, Skype or Teams than physical meetings. Early anecdotal evidence suggests a meaningful compression of the time taken to get through the interview process. Reduced time-to-hire due to virtual interviews could have material implications for volumes and productivity (gross profit per consultant). Even if one takes a view that working patterns revert to those pre-crisis, more virtual interviews are still likely to be an operational driver for staffers' productivity and can drive larger profit growth through reduced time to hire. Reduced time to hire could drive up placements per consultant per period. This adds to growth and reduces the attendant costs.

Some will see the opportunity to take a restructuring cost now, reduce office costs and present attractive 'underlying numbers' with lease costs reduced

Smaller offices for the staffer. There is much debate about the nature, scale and location of offices. We suspect that sales-led organisations such as staffing agencies need a culture, competition and to train younger hires. It seems to us that therefore an office will be required. However, the staffers may need fewer interview rooms, and eventually fewer desks if the staff work partially remotely. This means a reduction in cost. Some will go faster than others. Some will see the need to maintain culture and a working environment for more junior staff as important and not 'rush their fences.' Leases after all take time to run out. Others will see the opportunity to take a restructuring cost now, and present attractive 'underlying numbers' with lease costs reduced.

A question of exposure and execution

Surveys find that 24-34% of jobs could be performed from home, and the number may not have finished rising

Not all jobs will be work from home, not all jobs were office jobs before COVID-19 Knowledge workers in sectors such as Finance & Insurance, Professional Services, IT and Communications seem likely to continue to lead the way with home working. That said, COVID-19 has taught us that many more jobs can be done from home than traditionally believed. Pre-COVID-19, WFH accounted for approximately 7-8% of roles. This was as high as 35-41% during COVID-19. Surveys find that 24-34% of jobs could be performed from home, and the number may not have finished rising.

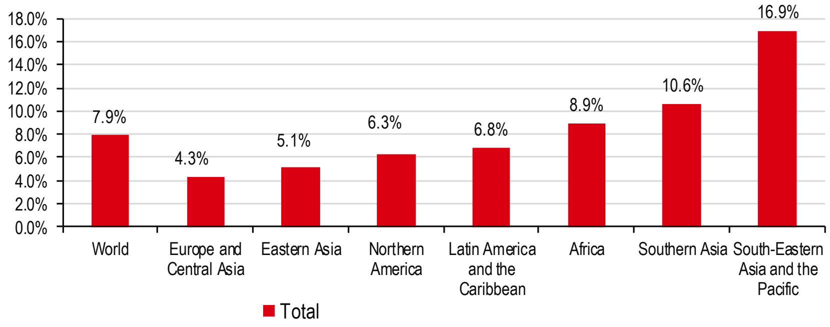
A different working practice

- Work from home is not new; it has been increasing over time
- The trend of WFH has accelerated during the global pandemic…
- …and is likely to continue post COVID-19

Base line: prevalence of work from home pre-COVID-19

Even before the COVID-19 outbreak work from home existed but its prevalence varied by industry and age of worker. The typical worker from home was educated to degree level, reasonably well paid, and probably middle aged (See *WFH statistics by education and demography on page 95*). WFH was a perk, but it was largely used sparingly. Whilst some worked completely remotely, most workers from home were in the office on a flexible basis. The International Labour Organization (ILO) estimates, based on data from 118 countries representing 86% of global employment, 7.9% of the world's workforce worked from home on a permanent basis prior to COVID-19 (about 260 million workers).

Share of home-based workers in total employment by region pre-COVID-19



Source: International Labour Organization 2020

Even before COVID-19, almost all of Europe saw an increase in the number of employees 'sometimes' working from home, with Sweden, Switzerland and Iceland leading the way

In the two decades before COVID-19, WFH had been rising steadily but comprised a modest share of the labour force. According to the US Census, the percentage of workers who worked at least 1 day at home increased to 9.8% in 2010 (from 7.0% in 1997) and the population working exclusively from home increased to 6.6% in 2010 (from 4.8% in 1997). Even before COVID-19, almost all of Europe saw an increase in the number of employees 'sometimes' working from home, with Sweden, Switzerland and Iceland leading the way. Both these countries have demographics that are conducive to higher home-based working. Sweden[1] has a highly skilled and qualified labour force compared to other developed countries around the world and Iceland[2] has an above-average proportion of its population working in IT, finance, and professional services – all sectors that dominate WFH.

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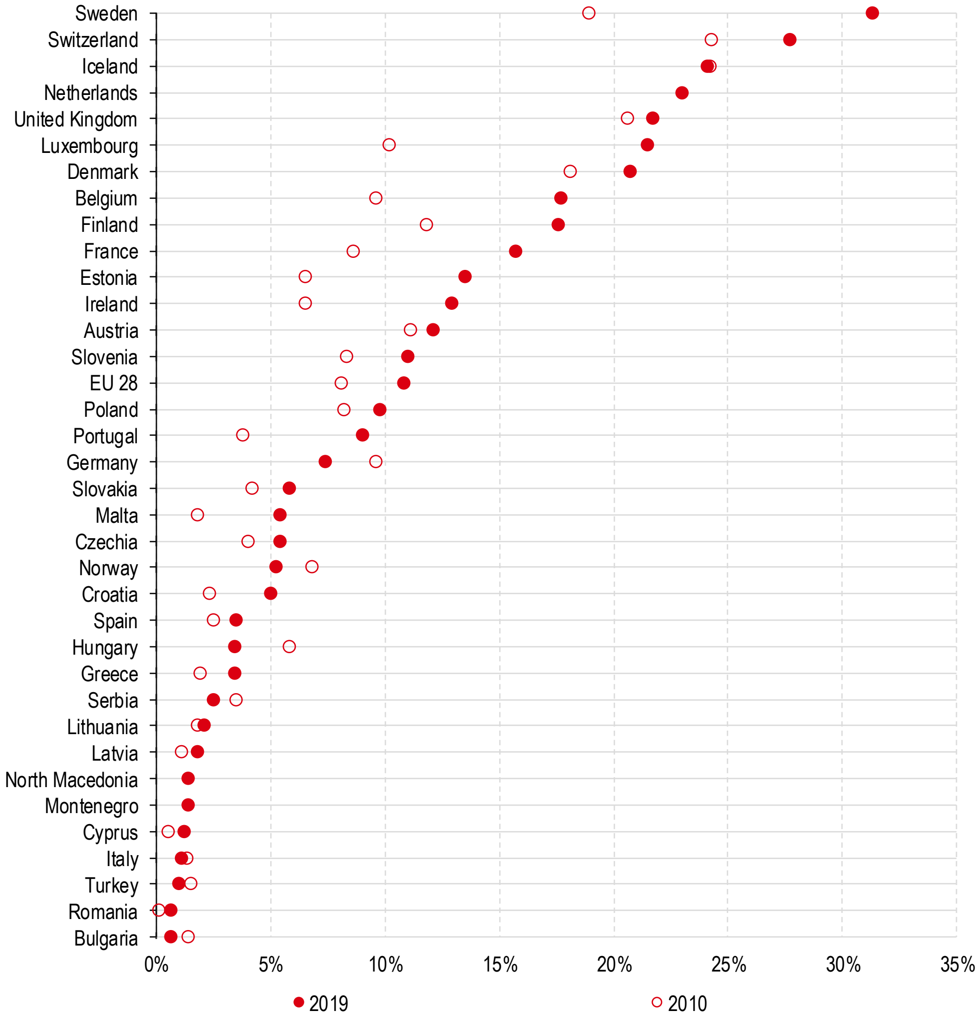
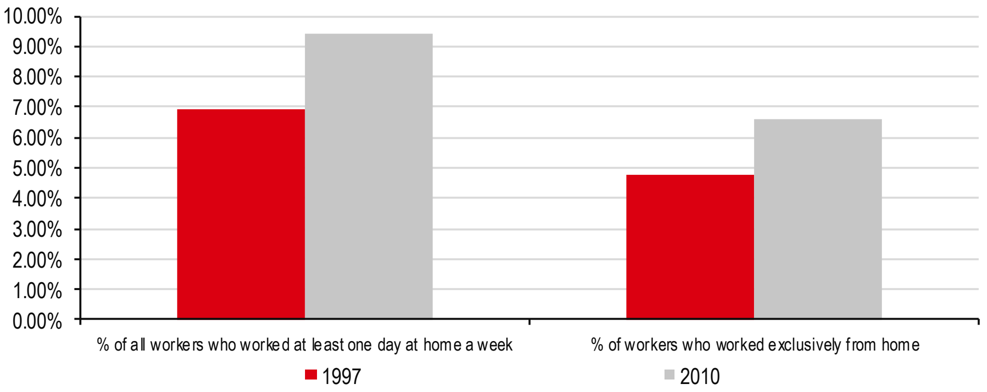
[1] OECD Economic Surveys - Sweden - March 2019
[2] OECD Economic Surveys - Iceland - September 2019.

European workforce 'sometimes' WFH as a % of total employment



Source: Eurostat - Employed persons 'sometimes' working from home as a percentage of the total employment (%) (2010-2019)

Longer term change in work from home (US)



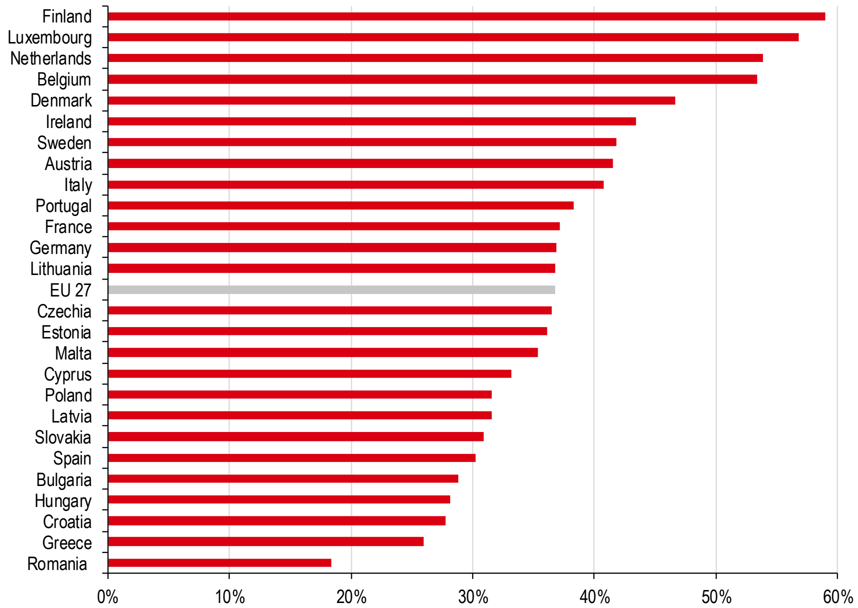
Source: United States Census Bureau - 'Home-Based Workers in the United States: 2010' report (2012)

COVID-19 has accelerated work from home trends

In a matter of weeks, COVID-19 has accelerated a process that had taken a decade

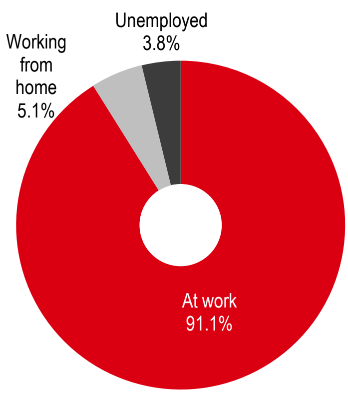
Whilst businesses and workers have been gradually shifting to WFH work over time, COVID-19 has forced the economy to undergo a massive change and has caused a dramatic shift in the global workforce. WFH has become a vital part of the responses that governments and firms have taken in the wake of COVID-19 to keep the economy running, whilst mitigating job losses and at the same time containing a public health crisis. In a matter of weeks, COVID-19 has accelerated a process that had taken a decade. Social distancing practices and lockdown have resulted in huge share of the global population working from home. Pre-COVID-19 figures for people that 'usually' WFH in the UK, EU and US stood at 5.1%, 5.4% and 8.2% respectively. During COVID-19, there figures were 41.0%, 36.8% and 35.2%, respectively.

Proportion of workers who started WFH as a result of COVID-19 by EU country



Source: Eurofound – 'Living, working and COVID-19 First Findings' report (April 2020)

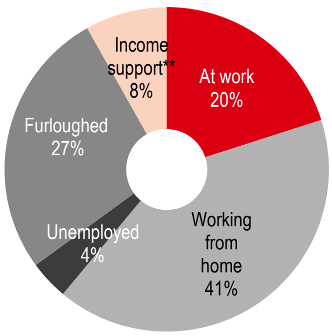
UK Workforce before COVID-19



Source: ONS

* Unemployment rate and work from home data is the average for 2019

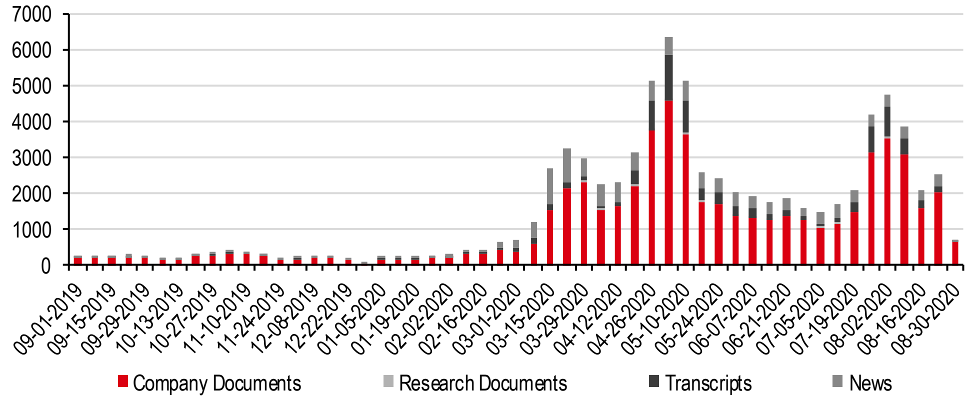
UK Workforce today*



Source: ONS, HMRC

* unemployment rate for Feb-Apr period ** Self-employed on furlough

Mentions of 'Work from Home' pre and during COVID-19



Source: Alphasense (search results from 01/09/20 – 01/09/20)

WFH is likely to continue long past COVID-19

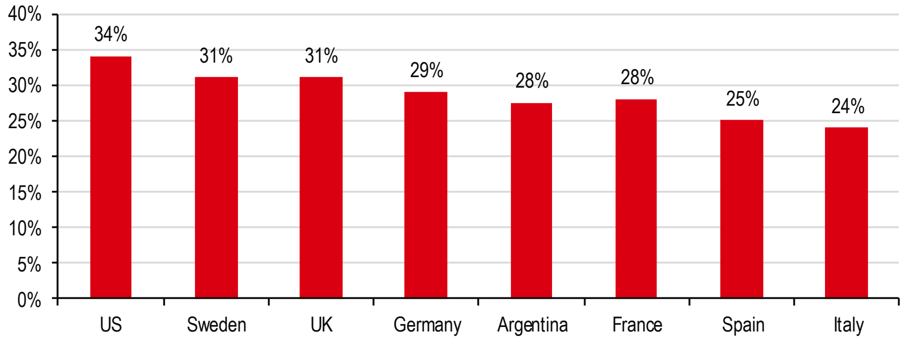
As a result of COVID-19, the share of jobs that could be performed effectively from home has been a positive surprise. Understandably, not all occupations can be done at home, but it is possible for many in the white collar space. COVID-19 has enabled a 'try before you buy' period for WFH, one which would most likely not have been possible without the catalyst of exceptional circumstances. Once the COVID-19 pandemic passes, the rate of people working from home is expected to increase pre-COVID-19 levels. There is an element of personal and corporate preference that comes into play, but overall, indicators suggest that the proportion of employees that sometimes WFH will rise post-COVID-19.

According to NBER, c40% of large and small firms expect that 40% or more of their workers who switched to remote work during the crisis will stay doing remote work after the crisis

According to NBER[3], c40% of large and small firms expect that 40% or more of their workers who switched to remote work during the crisis will stay doing remote work after the crisis. These estimates imply that 16% of American workforce will switch from professional offices to working at home at least two days per week as a result of COVID-19.

The ILO points to various studies that estimate the potential share of workers who could perform their activities from home. According to these estimates, 34% of US jobs could plausibly be performed from home, 31% for Sweden and the UK, 29% for Germany, 28% for France and Argentina, 25% for Spain and 24% for Italy.

Potential to work from home : % of jobs that '*can be performed from home*'



Source: International Labour Organization 2020
ILO Policy brief: '*Working from Home: Estimating the worldwide potential* ' – April 2020

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[3] Bartik et al (June 2020), NBER working paper series "What jobs are being done at home during the covid-19 crisis? evidence from firm-level surveys"

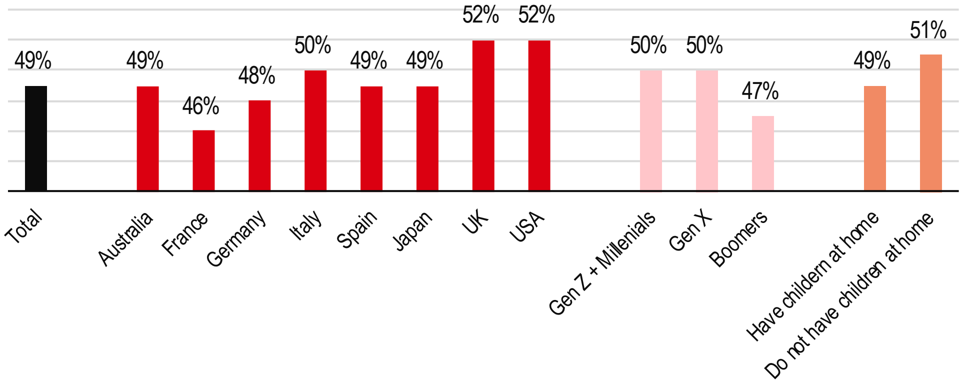
- People are beginning to realise the feasibility of WFH, and are looking for the optimal work-life balance, which comes from the ability to be able to work both remotely and on-site in professions where this hybrid role is possible.
- Investments in telecommuting technology: Working from home was already trending up pre-COVID-19 due to improved technology, remote monitoring and video conferencing. The necessity of quickly going remote means companies have invested and adapted to new technology they have not used before.
- The biggest factor that will drive this trend will be cost-saving benefits of working from home for corporates with reduced real estate expenses in the medium-to-long term. If there is minimal disruption to employees' productivity, with these potential cost savings there is little reason for companies to move back to the traditional working style.
- Even if COVID-19 passes, the fear of a second wave and future pandemics could motivate people to move away from urban centres, avoid crowds and reduce travel on public transport.

In short, COVID-19 has meant that many have now paid the start-up cost for learning how to work from home.

> **Everybody speaks about the end of the 9 to 5, and especially because there is this kind of new universal ideal, which is a 50-50 (50% remote, 50% on-premise)**
>
> **Alain Dehaze – CEO – Adecco**

Many surveys find that WFH will be more of a permanent change that will continue post COVID-19. It is more a question of how much flexibility than if there is one. According to an Adecco survey, workers expect greater flexibility post COVID-19 with a 50/50 split of remote and office time as the universal ideal.

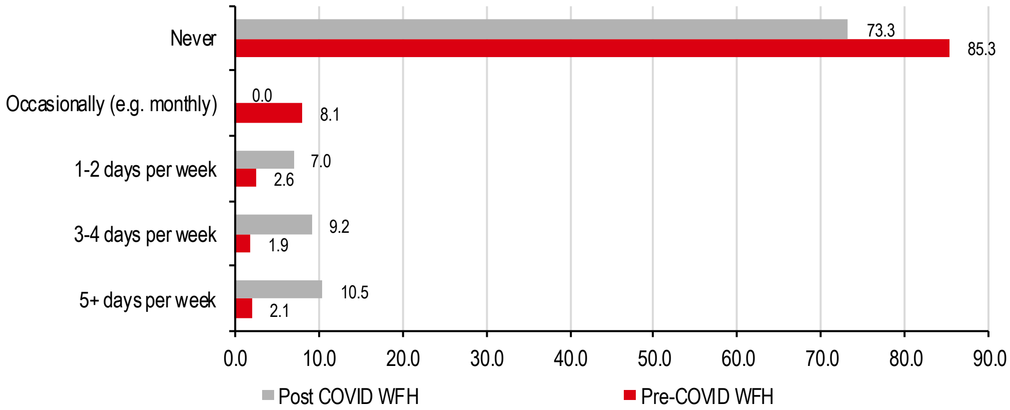
% of workers who want to work remotely after the pandemic



Source: Adecco survey, 'Resetting Normal: defining the new era of work' report (June 2020)

In another survey from the World Bank, more people want to work away from the office for a higher number of days' post COVID-19 than they used to work from home pre-COVID-19.

Post COVID-19, c20% of employees in the US want to work 3+ days per week from c4% pre COVID-19

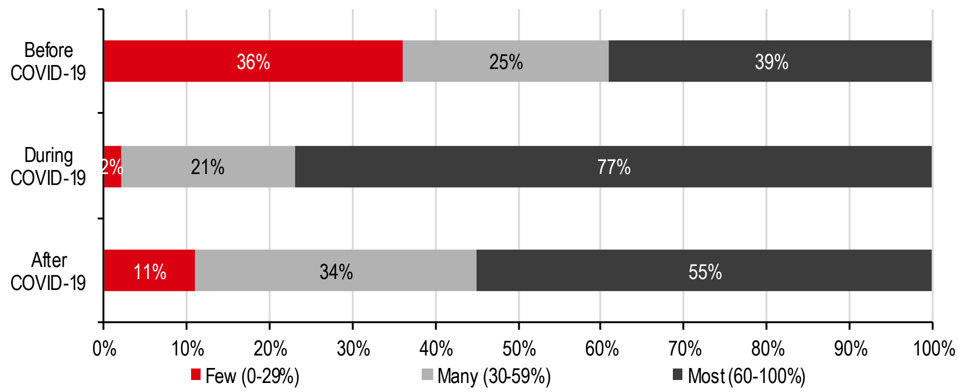


Source: World Bank, 'The Future of Working From Home' survey of US employees (July 2020)

PwC's survey of executives and office workers shows c55% of corporates anticipate that most of their workers will continue to work at least partly from home after COVID-19

PwC's survey of executives and office workers shows c55% of corporates anticipate that most of their workers will continue to work at least partly from home after COVID-19.

What percent of your office employees do you anticipate will work remotely at least one day a week

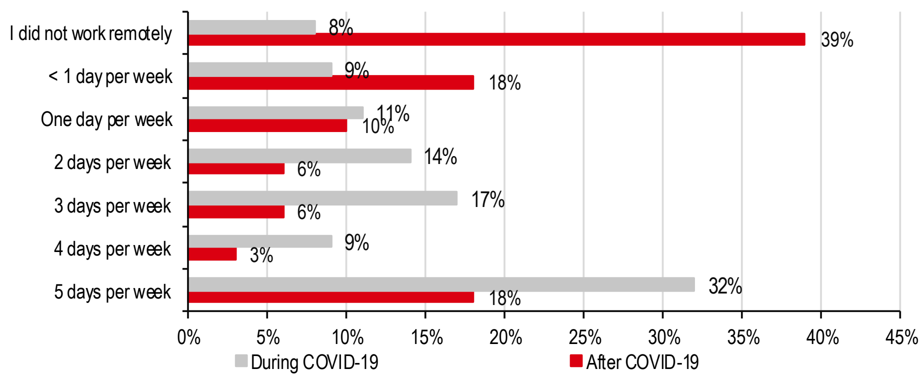


Source: PwC US Remote Work Survey June 25, 2020. Base: 120 US executives. https://www.pwc.com/us/en/library/covid-19/us-remote-work-survey.html

58% want to work from home 3-5 days a week

The survey also shows that most office workers (83%) want to work from home at least one day a week and 58% want to work from home 3-5 days a week during COVID-19.

How often did you work remotely before COVID-19? How often would you like to once COVID-19 is no longer a concern?



Source: PwC US Remote Work Survey June 25, 2020. Base: 120 US executives. https://www.pwc.com/us/en/library/covid-19/us-remote-work-survey.html

There remain unknowns

Surveys suggest what people think will happen. Extrapolations, however popular, may prove incorrect in time, and there are a number of factors that are difficult to isolate:

- How much is a product of noise and media interest in the theme?
- How much of current opinion is coloured by fear of the virus?
- How much will opinion change if social distancing is seen to have detrimental mental health effects in particular groups?
- Will hiring more remote workers help with diversity agendas, or not?
- What will be the legal challenges surrounding pay, working conditions and health and safety?
- How quickly can lease commitments be dropped by corporates?
- Will working hours legislation be enforceable?
- How will the impact of corporate culture be measured or perceived?
- Can strategies be developed for mitigating negative impacts?

Human factors, and what others do will play a key role in whether people WFH. Those who go to the office for the interaction, the culture and the team spirit may go less themselves if half the team isn't there. Going to the office to have Zoom meetings with people who are not there will not last, we suspect. Proximity to the boss may be one factor that drags people into the office more often. If others, more often attending the office, are perceived to be favoured then 'presenteeism' may make a comeback.

Firms that are more helpful with remote set up and home office costs may also find that younger workers are more likely to work from home.

Corporate quotes

Facebook	"We are allowing employees to continue voluntarily working from home until July 2021" "We are going to be the most forward-leaning company on remote work at our scale"
Twitter	"[employees can work] where[ever] they feel most creative and productive…even once offices begin to reopen"
JP Morgan	"Depending on the type of business, you may be working from home one week a month from home, or two days a week from home, or two weeks a month"
Linklater's	"We can deliver high quality work whilst working remotely"
Ford	"For the remainder of this year, white-collar workers have the option to work remotely, in the office or a combination of both"
Schroders	"Rethinking the rulebook on flexibility will ultimately prove a huge shot in the arm for productivity in the long term"
PWC	"Lockdown has done away with presenteeism. It's shown many business leaders that their people can be productive, engaged and happy working from home" Aiming for offices operating at 50% capacity by the end of September, although return to work is voluntary

Source: Company releases

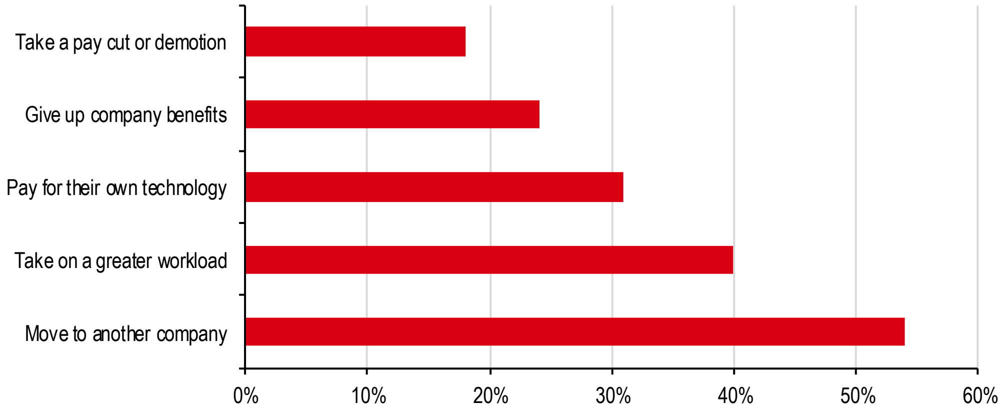
A different labour market

- WFH can break geographical immobility and drive churn rates, particularly in higher-wage older populations
- A wider catchment area would mean a larger candidate pool for agencies and increase in available vacancies for candidates
- Much will depend on how much office time is required but WFH post COVID-19 could cause a structural shift in labour markets, particularly white-collar jobs

Surveys are suggesting that more people would like to work from home, with most preferring 2-3 days a week WFH as a preferred outcome. Recovery from a global pandemic will likely trigger a move towards familiarity and routine, with some industries returning to the normality of a pre-COVID-19 world. However, we believe some white collar jobs will remain exclusively WFH, and where possible sectors will likely adopt a 'sometimes' WFH approach. The degree of change in labour markets will be dictated by the frequency of work from home.

Flexible working has an appeal to employees with more than 50% willing to change jobs if another company offers greater flexibility, and c18% are even willing to take pay cuts for greater flexibility. If that comes to pass because corporates need to do so to attract, and retain, staff, or because office cost reductions prove attractive, or because social distancing is with us for a protracted period of time, then the labour market will change.

Appeal to workers : What employees would give for greater location flexibility



Source: Fuze Workforce Futures survey in 'The role of people in the future of work' report

The labour market is likely to remain cyclical but the degree of job switching or 'churn' in the labour market may rise to new highs in a strong economy. Unfilled roles may suddenly be filled by those who could not contemplate a role that far away before. Those who leave roles to fill them will have to be replaced. There may well be a considerable uplift in the level of churn in the labour market. The changes in the labour market that could be driven by increased flexibly are:

- **Breaking geographical immobility**: The reality is, mobility rates are generally low and historically most job switchers change jobs within the same metro area. In the US, only 28.5%[4] of job seekers look for jobs outside their metro area and 21.5%[5] of people moved jobs outside London. This made the pre-COVID-19 labour market fragmented, with limited movements between regions. Work from home can potentially break the regional boundaries and barriers to geographical immobility.
- **Wider catchment area**: Remote working means people may begin to look for jobs further afield. Jobs previously inaccessible due to travel restrictions and/or cost of living for example, are becoming more accessible due to WFH options. If one is now required to travel less frequently to office, say 2-3 times, instead of 5 days a week, people would be willing to travel further and commute for longer. This would mean if a candidate's radius for a job search was previously limited to 15-25 miles from home, it could now increase up to 100 miles if they have to travel less often. In effect for each job, the catchment area may be expanded materially.
- **Larger candidate pool for each vacancy**: Wider catchment area and ability to work from home would in turn mean more jobs available for candidates and more candidates available for each job.
- **Higher churn in older population:** Older working populations, typically with more commitments such as children and families, are historically less likely to move jobs. The data from ONS shows that 22% of the younger workforce (16-24 years) on average change jobs every year versus 5% of those aged 50-64. Lower churn in the older population is due to variety of reasons including fewer jobs in the higher wage segment but one of the reasons for lower churn is also lower mobility. If it is possible to change jobs, but remain working at home, thus reducing the need to relocate, churn in higher wage rate older population could increase.
- **Knowledge workers will lead the way:** Occupations in sectors requiring a physical presence will see the largest return to working on-site, whereas knowledge sectors should retain a large proportion of their workers currently 'sometimes' WFH post-COVID-19. As we emerge on the other side of the pandemic the industries likely to drive the WFH trend are those most 'able to', not those that 'need to' WFH. Sectors such as Finance & Insurance, Professional Services, IT and Communications seem most likely to continue to lead the way.
- **Changing workspaces:** It is difficult to predict what the working world will be like in 2025. What will the new dynamics of working culture be? What will offices be used for - important face-to-face meetings for spurring and developing new ideas only? Will future houses be designed as a blend of home and office? Corporates are discussing future reductions in their office spaces, begging the question: are large offices a thing of the past? If there is a drive towards smaller corporate offices, trends towards work from home will only accelerate. Possible solutions include smaller regional offices and creative hubs closer to where people live, providing the practicality of office space, but reducing the need to use public transport, and corporate office costs.
- **Impact on wage rates – a more mixed impact:** The impact on wage inflation from work from home and reduced geographic disparity could be more mixed and is difficult to quantify. The key moving parts that could potentially drive wages down would be: whether employers adjust wages for city/country weightings to reflect geographic dispersion of wages, wage dispersion of each country and staffers' exposure, if the labour scarcity

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[4] Glassdoor - Metro Movers: Where Are Americans Moving for Jobs, And Is It Worth It? (May 2018)
[5] ONS 'Analysis of job changers and stayers' report (April 2019)

reduces whether the bid premium declines. On the other hand, given that staffers now have a wider candidate pool, this could potentially mean a higher mark-up (gross margin) to find the right candidate, higher churn in high wage older population would also be positive for wages and higher churn in general would mean higher wage rate growth as switchers have higher wage inflation. Then there is impact from regulation and taxation angle which is more difficult to quantify.

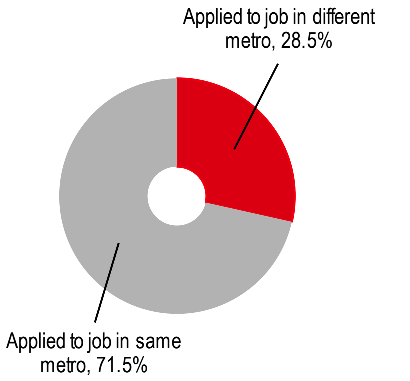
Countries such as Germany where fewer jobs are concentrated in very large cities, such as London, Tokyo or New York, may see less working from home

- **Mind the geographic mix:** The feasibility of home-based work will likely depend on technology infrastructure including broadband and internet access, which is much lower in developing countries. On average, one in five jobs across the world can be performed from home but this masks heterogeneity across countries. In high income countries one of every three jobs can be done at home while in low income countries one of every 26 jobs can be done at home.[6] Other factors may also play a role. Countries such as The UK, Japan and the US where fewer jobs are concentrated in very large cities, such as London, Tokyo or New York, may see less working from home. Much is said of the desire to avoid public transport but larger cities often create longer more uncomfortable commutes, and avoiding the commute, even in a pathogen-free environment, may still be a factor.

Breaking geographical immobility

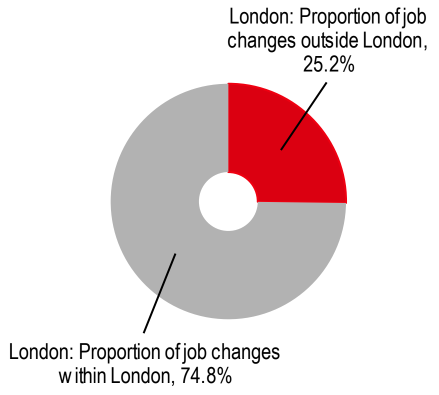
The reality is that most job changers switch jobs within the same region. According to research by Glassdoor, using a sample of more than 668,000 online job applications in the US, 71.5% of job applications were made within a candidate's own metro area, and only 28.5% of job applications applying to a new metro area. A similar study by ONS in the UK showed that most workers changed jobs within the same region (e.g. 74.8% of job changers working in London look for jobs within London and only 25.2% look for jobs outside London) implying that there is a considerable degree of labour immobility between the regions. A key explanatory factor is that moving city, metro or county for work causes considerable disruption for most, especially families that must consider children and schooling.

The data from the US shows most job applicants apply jobs in the same metro



Source: GlassdoorMetro Movers: Where Are Americans Moving for Jobs, And Is It Worth It?.(May 2018)

Most workers changed jobs within the same region in London



Source: ONS
ONS 'Analysis of job changers and stayers' report (April 2019)

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[6] World Bank Group (2020) - Policy Research Working Paper – 'Who on Earth Can Work from Home?'

According to Glassdoor, '*Metro Movers: Where Are Americans Moving for Jobs, And Is It Worth It?*' (2018) below are the factors that drive candidates to move to a different city.

- **Younger workers** are more likely to move. Increasing a person's age by 10 years means an individual is c7% less likely to move.
- **Men** are more 3.3% more likely than women to apply for jobs in another metro. This holds true after accounting for education, age and other influencing factors.

Most workers changed jobs within the same region (UK)

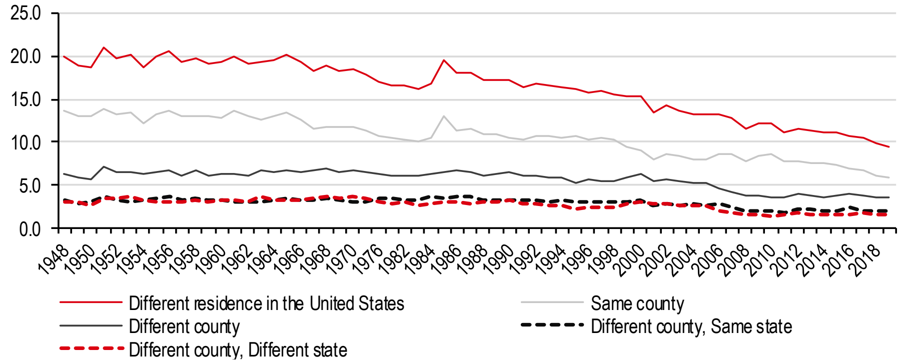
2017	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	South West	East	London	South East	Wales	Scotland	Northern Ireland
	2018											
North East	**82.0**	0.7	2.3	0.4	0.3	0.6	0.6	1.0	0.6	0.0	0.7	0.2
North West	2.8	**83.8**	2.8	2.2	3.2	1.1	1.0	2.1	1.3	4.4	0.7	0.7
Yorkshire and the Humber	3.0	2.4	**80.5**	5.1	0.7	1.0	1.0	1.9	1.3	0.4	0.9	0.3
East Midlands	1.0	1.4	3.9	**74.5**	4.8	1.4	2.4	1.8	1.6	1.4	0.9	0.0
West Midlands	1.2	2.4	2.1	5.0	**77.4**	3.1	1.7	1.7	2.2	2.2	1.2	0.2
South West	1.9	1.5	1.3	1.5	1.9	**81.9**	1.2	1.6	2.6	3.3	0.6	0.5
East	0.4	1.7	2.4	6.0	2.9	2.1	**77.8**	4.2	3.3	1.5	0.8	0.9
London	2.3	1.6	1.9	1.2	3.2	2.2	7.3	**74.8**	8.2	2.1	1.6	0.6
South East	4.3	2.2	1.8	3.1	3.0	5.3	5.4	9.1	**76.7**	1.8	1.0	0.8
Wales	0.0	0.6	0.1	0.4	1.0	0.9	0.5	0.6	1.0	**82.9**	0.2	0.2
Scotland	0.8	1.2	0.7	0.4	1.2	0.4	0.9	0.9	1.0	0.0	**91.3**	0.2
Northern Ireland	0.3	0.5	0.1	0.1	0.4	0.1	0.2	0.2	0.3	0.0	0.0	**95.4**

Source: ONS, HSBC
ONS 'Analysis of job changers and stayers' report (April 2019)

- **Better 'company culture'** encourages candidates to move. When job seekers relocate, they often do so for a specific company. Applicants typically choose a job that offers a unique opportunity and/or is a company with the right cultural fit, rather than choosing a new city first.
- **Movers are educated**. Candidates with a master's degree are about 4.9% more likely to move metros for a job.
- **Salary** is a key driver of why candidates move cities, but only translates into a small statistical effect. Increasing a base salary by USD100,000 suggests that a person becomes 0.41% more likely to move cities for work.

Most office workers live and work within a 'reasonable' commute of the workplace. Some move to accommodate work, but it is a relatively small percentage. According to data from the US Census Bureau, 9.8% of the US population moved in 2018-19. The mover rate has been declining historically and this is the lowest mover rate since the migration tracking data started in 1948. Of this 9.8%, 5.9% moved within the same county, 3.6% to a different country and only 1.5% moved to a different state and different county.

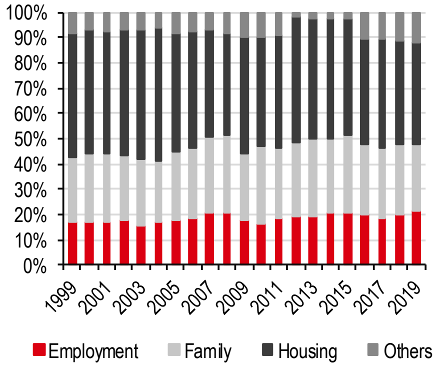
US mover rates have been declining consistently (%)



Source: U.S. Census Bureau

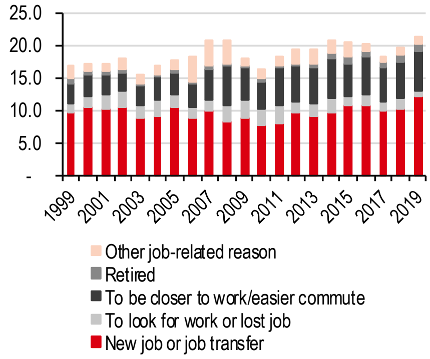
The data shows that the three most important reasons why people move are: 1) housing related 2) family related and 3) employment related (c21% of movers).

Why do people move?



Source: U.S. Census Bureau

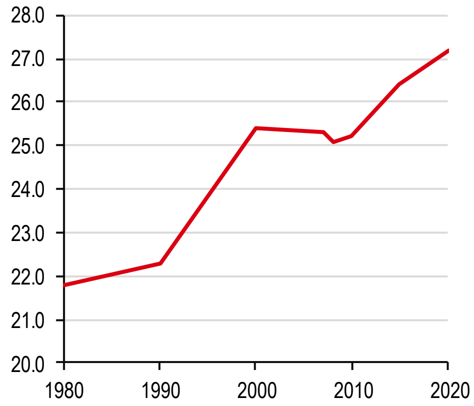
Reasons for employment related moves



Source: U.S. Census Bureau

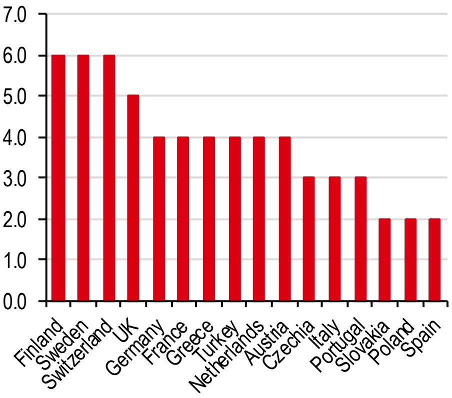
If we further examine the reason for employment-related moves, the two most important reasons why people move are due to 1) a new job or transfer and 2) be closer to work area / easier commute. The data shows that the percentage of people moving to work closer to work areas has been increasing despite the decline in mobility rates due to increase in commuting times. Average commuting times (one-way) in the US increased to over 27 minutes in 2018, from about 22 minutes since early 1980's and about 25 minutes in 2010. This suggests the average American worker spent 225 hours commuting in 2018, up from 208 hours in 2010.

US commuting times (in minutes)



Source: U.S. Census Bureau

Average # of times moving into another flat or house during lifetime in Europe



Source: RE/MAX Europe

The mover rate in European countries is even less. According to a survey conducted by RE/MAX Europe, Europeans on an average moved only four times in their lives, and c25% moved more than six times and 15% moved only once. Those who rent an apartment moved more frequently than those who own, i.e. five times versus three times. There also seems to be a difference between regions - Spanish, Slovak and Polish people only move twice on average; Finnish, Swedish and Swiss people move six times in their lifetimes.

> **We see increased demand as companies upgrade their talent pools without regard to physical location of the candidate.**
>
> **M. Keith Waddell – CEO - Robert Half International**

Lower mover rate and geographical immobility has in effect made the pre-COVID-19 labour market a series of local markets with some limited traffic between them. If people change jobs less due to geographical immobility, the ability to work from home would apply breaks caused by geographic immobility and candidates will be willing to apply for jobs outside their metro area making job markets more fluid, and organisations will be able to access new pools of talent with fewer locational constraints.

> **Those that do (100% remote model) cite cost savings from less office space and the ability to recruit beyond a narrow geographical area, as the main motivators.**
>
> **'Returning To The New World Of Work' - Robert Walters**

Wider catchment area

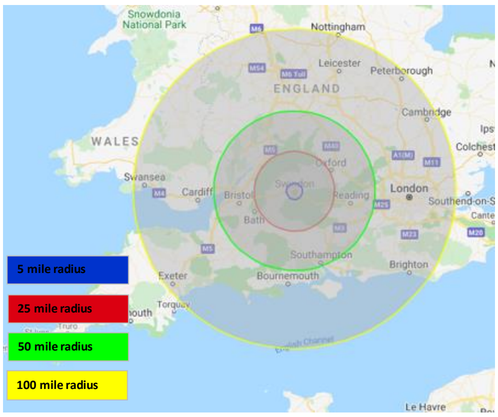
If people are less mobile than in the past, then rising work from home can have important implications for labour markets. WFH can solve '*the spatial mismatch*' i.e. the divergence between where jobs are located and where job seekers live, since the location is no longer a constraint.

> **"On the long-term question about ability to tap a larger pool by going outside local geographies, I'd say, clearly, it will help short and long term. It'll give us the ability to get even more pinpointed skills relative to what clients want and need. And two, it'll allow us to tap into lower cost areas, which will be for the financial benefit of our clients as well, which should also help demand. So we see this shift to remote work, at least on a hybrid basis, as a positive for us and for the industry.**
>
> **M. Keith Waddell – CEO - Robert Half International**

If work from home requires candidates to go to work less often, the catchment area for a job search for a candidate increases. The travel radius will be affected depending on the flexibility. If one is now required to travel less frequently to the office, say 2-3 times, instead of 5 days a week, candidates are likely to take jobs living further away from their place of work, because it is more feasible to make a longer commute. If they only have to travel to the office once a week, perhaps they will be willing to travel further. This would mean if a candidate's radius for a job search was previously limited to 15-25 miles from home, it could now increase up to 100 miles if they have to travel less often. If people can work exclusively from home (i.e. remote working), they could even take on international assignments.

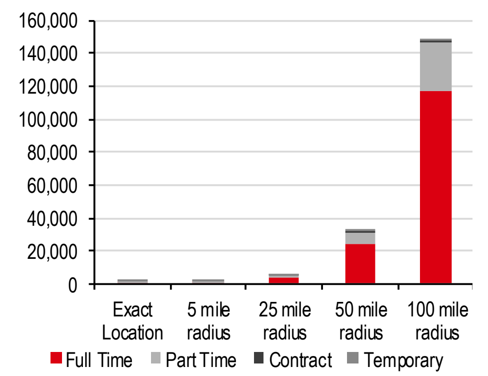
Increasing the catchment area by 50 miles increases the number of jobs by 2-3x in London and New York and if we increase the catchment area by 100 miles it translates into 3-6x more available jobs. Wider catchment area means more jobs available for a candidate. This could drive churn and fill rates, as candidates who previously were not able to apply to jobs due to geographic immobility can apply for those jobs under the new normal.

Increase in catchment area : Swindon (UK)



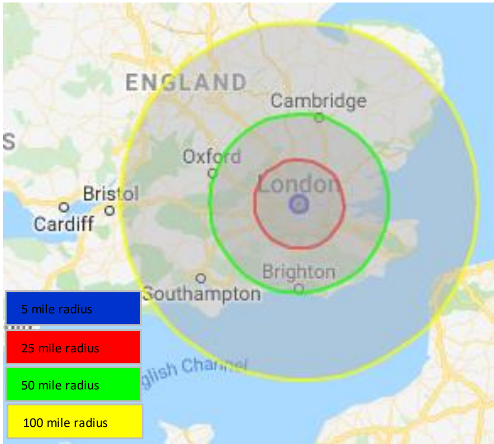
Source: Google maps, HSBC calculations

Swindon (UK): No of jobs available increases 25x when widening the search radius by 50 miles and 117x when by 100 miles



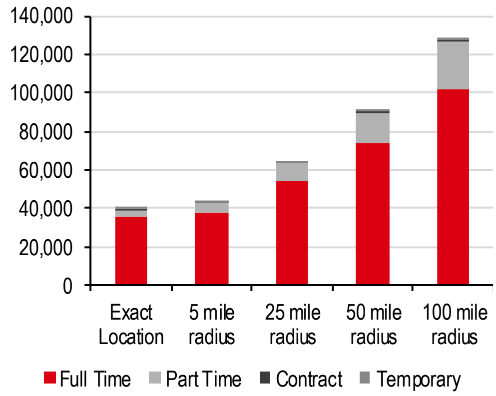
Source: Glassdoor job search – Swindon (September 2020)

Increase in catchment area : London (UK)



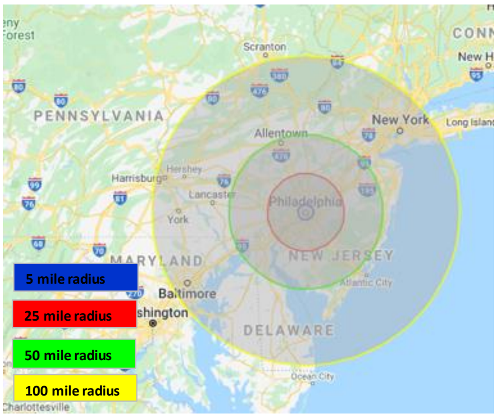
Source: Google maps, HSBC calculations

London (UK): No of jobs available increases 25x when widening the search radius by 50 miles and 117x when by 100 miles



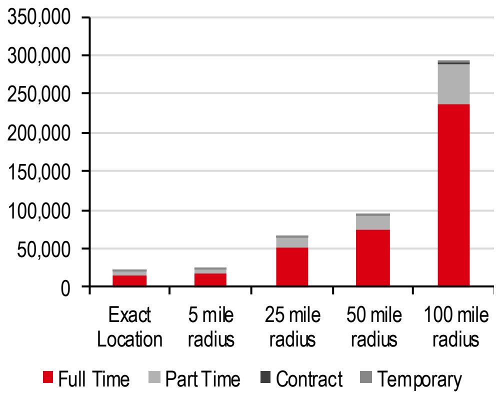
Source: Glassdoor job search – London (September 2020)

Increase in catchment area : Philadelphia (US)



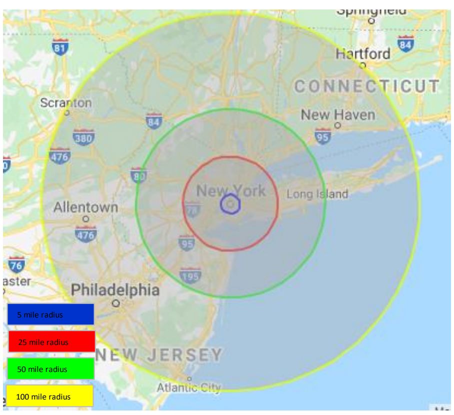
Source: Google maps, HSBC calculations

Philadelphia (US): No of jobs available increases 5x when widening the search radius by 50 miles and 14x when by 100 miles



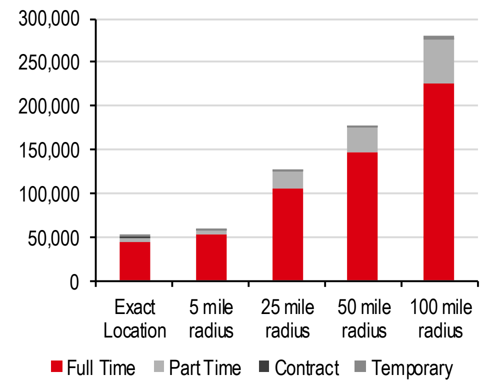
Source: Glassdoor job search – Philadelphia (September 2020))

Increase in catchment area : New York (US)



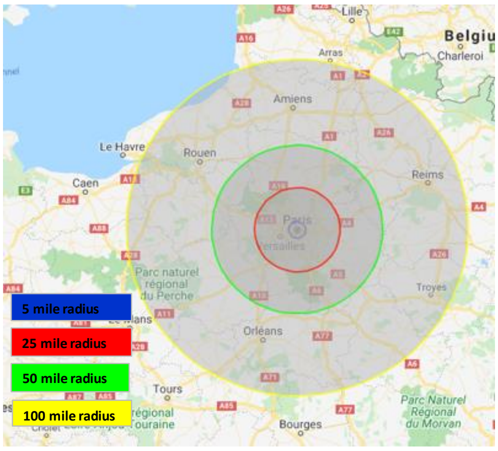
Source: Google maps, HSBC calculations

New York (US): No of jobs available increases 3.5x when widening the search radius by 50 miles and 5.5x when by 100 miles



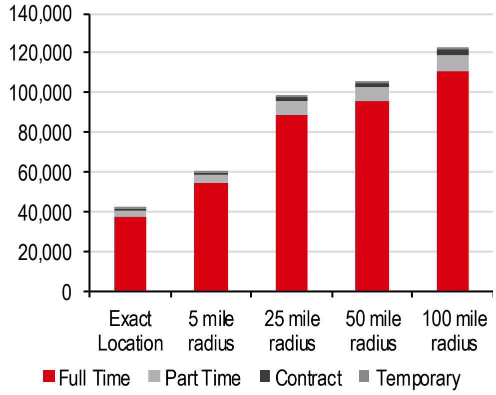
Source: Glassdoor job search – New York (September 2020)

Larger catchment area: Paris (France)



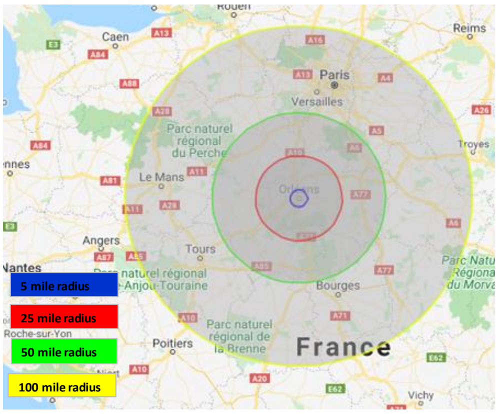
Source: Google maps, HSBC calculations

Paris: No of jobs available increases 2.6x when widening the search radius by 50 miles and 3.0x when by 100 miles



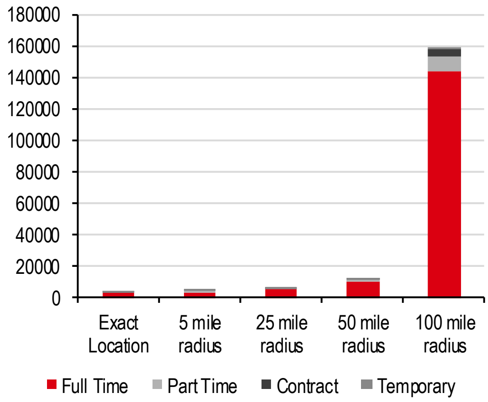
Source: Glassdoor job search

Larger catchment area: Orléans (France)



Source: Google maps, HSBC calculations

No of jobs available increases 4.3x when widening the search radius by 50 miles and 60x when by 100 miles



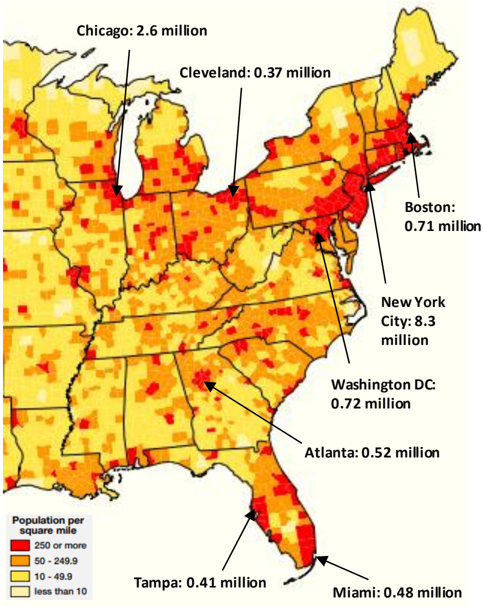
Source: Glassdoor job search – Orléans (September 2020)

If locality becomes irrelevant and candidate pools widen, this increases the staffers' value add as a staffing agency with a deeper talent pool will be in a better position to hire a more suitable candidate than many an in-house HR department of a firm.

The maps below show that the populations of the UK, US and Germany are clustered around the key cities. In the UK this includes London, Birmingham, Leeds and Glasgow, in the US this is New York City, Chicago and Boston, and in Germany this is Berlin, Munich and Hamburg.

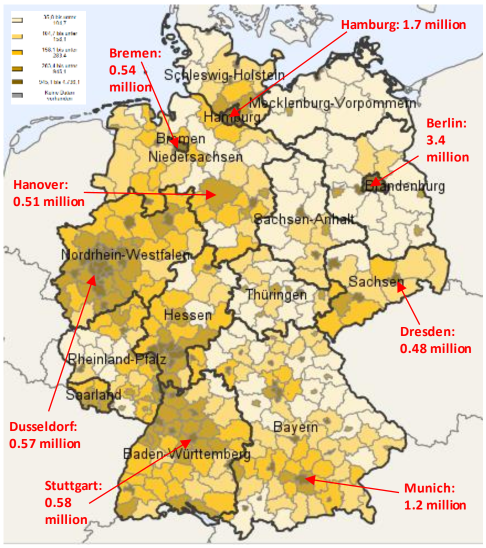
Large cities have high populations, which attract large businesses to access the best talent. If the catchment area of a job increases, then a larger proportion of the population can be accessible for a business. For example, if the catchment area of a job in central London increases, people from the surrounding areas can now practicably apply for jobs in London, especially if it is WFH 2-3 days a week. A possible outcome of combined remote working and a wider catchment area is that populations no longer need to cluster in cities. When location becomes less important, people can live in quieter areas, in towns and villages, and still have the 'big city job'. If there is talent elsewhere beyond the concentrated cities, they can now feasibly be hired for the city jobs as the barriers to geographical immobility and relocation are broken.

Population density (US)



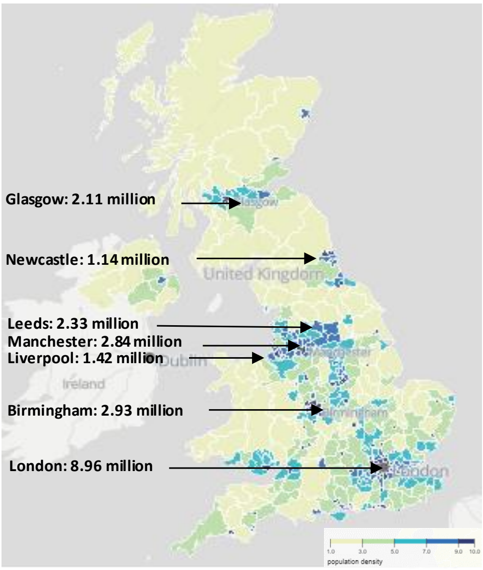
Source: US Census, World Population Review (2020)

Population density (Germany)



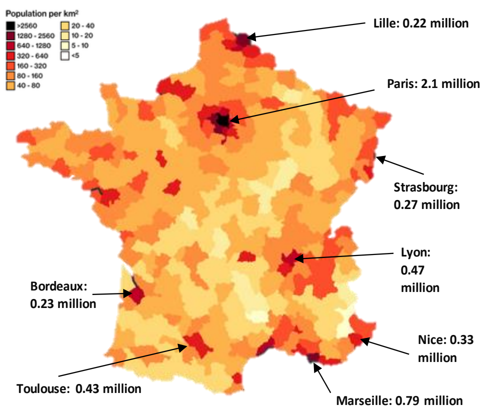
Source: Statistische Ämter des Bundes und der Länder (2020), World Population Review (2020)

Population density (UK)



Source: ONS 'Population estimates for the UK, England and Wales, Scotland and Northern Ireland: mid-2019

Population density (France)



Source: Institut National de la Statistique citypopulation.de

Larger pools of candidates for each vacancy

For the roles that are fully remote or hybrid remote, talent sourcing may become easier, since the pool of available talent could have fewer geographical constraints. This could have a profound effect on the quality of talent an organisation can access and the cost of that talent.

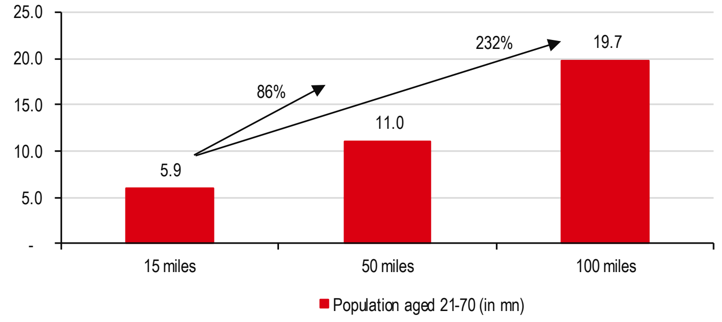
Contracts that stipulate flexible working provide companies with more potential candidates than those that don't, increasing the likelihood of filling a vacancy with an employee of a suitable skillset

Contracts that stipulate flexible working provide companies with more potential candidates than those that don't, increasing the likelihood of filling a vacancy with an employee of a suitable skillset. Remote working will also increase the number of available candidates for each job posting and allow staffers to build a deeper talent pool. A larger pool for hiring workers is likely to help companies access the best and most skilled talent, as locality becomes less relevant. Each role will be a trade-off of proximity, ability and pay. Those workers with highly demanded but scarce skills may be able to benefit from many more opportunities. Those in roles that can easily be filled by those further afield, and do not need to be in the office much, may be at risk.

The pool of workers could also increase by WFH options encouraging older workers and employees on maternity/paternity leave back into the workforce. Also, if there is increased flexibility, then people could also consider a later retirement.

> **There's also still potentially some huge benefits from flexible working yet to be realised. And one of the side benefits of remote work in member is that we can also attract talent from both a wider geographic area, and we can create broader and deeper talent pools for our clients.**
>
> **Alistair Richard Cox – CEO – Hays**

Wider talent pool as the catchment area increases: Working population (aged 21-70) around Greater London, +50 miles away and +100 miles away

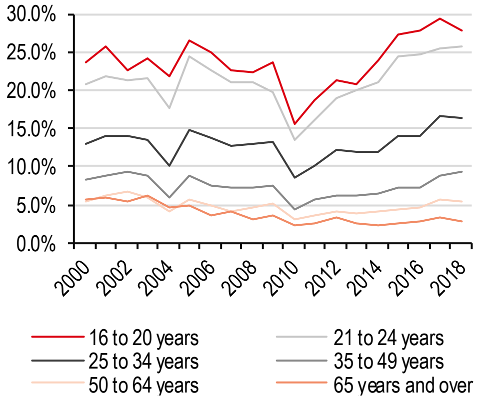


Source: ONS - Persons by single year of age and sex for local authorities in the UK (2019) , HSBC calculations

Driving churn in older population

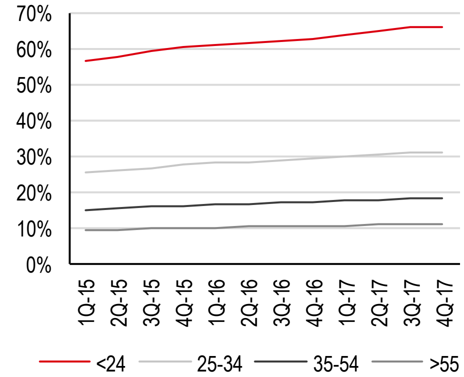
Older working populations, typically with more commitments such as children and families, are historically less likely to move jobs. The data from ONS shows that 22% of the younger workforce (16-24 years) on average change jobs every year versus 5% of those aged 50-64. Lower churn in the older population is due to a variety of reasons, including fewer jobs in the higher wage segment and lower mobility due to family constraints. Reasons why individuals choose to change jobs are personal, and reduced geographical immobility may not be impactful for all. But, for those refraining from a move at least in part due to the difficulty of uprooting a family or because of an impractical commute, WFH may change this materially.

Proportion of workers in each age bracket changing jobs (UK)



Source: ONS 'Proportion of workers in each age bracket changing jobs, 2000 to 2018, UK', HSBC calculations

Churn rate by age bracket (US)



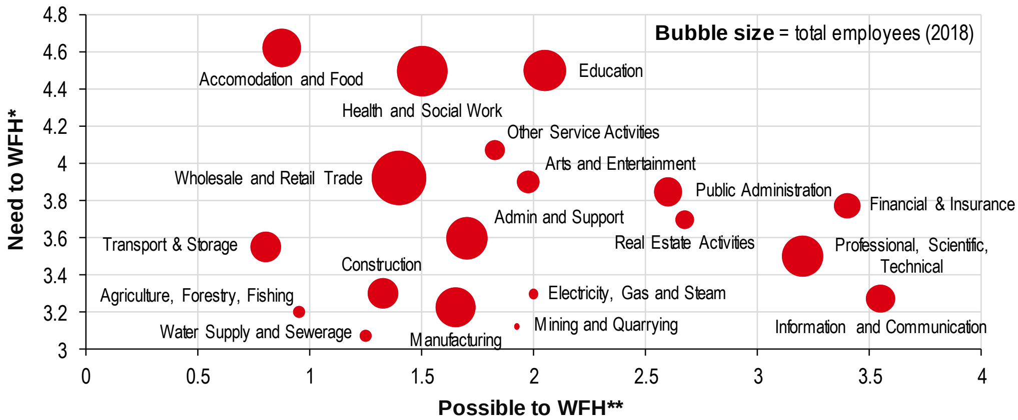
Source: BLS, HSBC calculations

Knowledge workers will lead the way

One of the immediate effects of COVID- 19 has been that many non-essential workers that were previously not working from home started to work from home.

There is a positive correlation between WFH, education and earnings percentile that is we expect to continue post COVID-19. Occupations in sectors requiring a physical presence at work will see largest return to working on-site, whereas knowledge workers should embrace the WFH culture post COVID-19.

'Need' vs 'Ability' to WFH by sector (UK)



Source: ONS (2018), Manpower: Safely back to work in the new normal (2020)

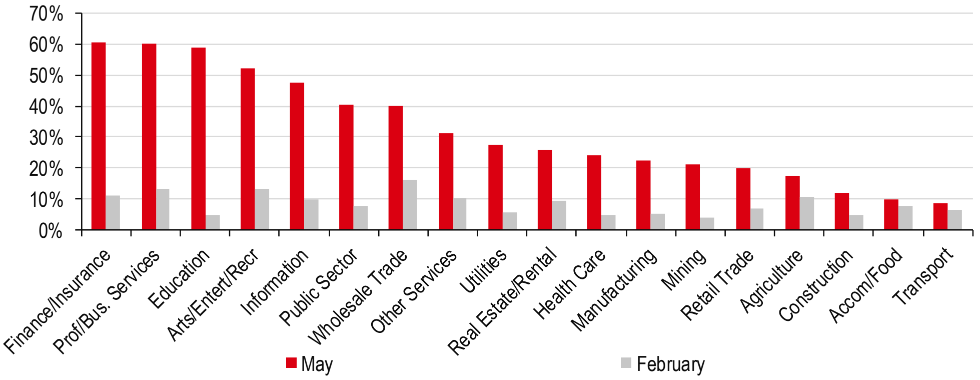
* Need to WFH for social distancing, weighted average rating, based on occupational mix of each sector. Based on whether occupation requires face-to-face interactions with a large number of people or whether normal place of work typically has a high density

** Possible to WFH, weighted average rating, based on occupational mix of each sector.

Prior to COVID-19, there was a distinction between professions that need to WFH (for health and safety reasons) and those that were 'able' to WFH. WFH was a privilege that was granted to those in need. As we emerge on the other side of the pandemic, the 'able' aspect should gain traction and if a worker is able to work from home in a particular occupation or sector this will drive increased flexibility.

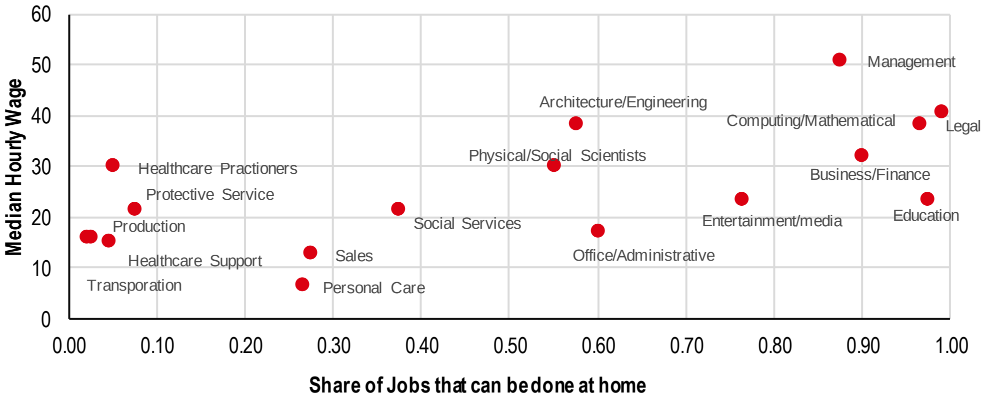
Finance, insurance and professional services were sectors that worked remotely the most pre-COVID-19, and they also remained the sectors where most employees were able to WFH during the pandemic. But what has surprised during the pandemic is that there are many more jobs and roles that could be done from work from home than thought previously. The chart below shows the percentage of employed working from home by sector in May and February. A surprising observation made during the pandemic is that there are more jobs that *could be done* remotely than previously thought. For example, accounting clerks and office assistants. These jobs have a high possibility of WFH in the future and opportunities have been made available from WFH that were not available before. This is particularly relevant for customer-facing and onsite sectors such as retail, healthcare, transport where WFH will be likely driven by support/administrative roles.

Survey: WFH – February vs. May (US - sector)



Source: Federal Reserve Bank of Dallas, a study by Bick, Blandin and Mertens (June 2020) Work from Home After the COVID-19 Outbreak

Share of jobs that can be done at home and median hourly wage (USD)



Source: Study by Dingel and Neiman (June 2020) 'How Many Jobs Can be Done at Home?' for the University of Chicago, Booth School of Business, NBER and CEPR

Changing workspaces

Working-from-home is likely to continue long past COVID-19 and will likely alter labour dynamics and with that will significantly impact commercial real estate. We believe altered working patterns will cause occupants to use their leased spaces less intensively and will reduce the need for real estate going forward. With so many people working from home, companies are discovering that they don't need as much office space; 37% of organisations are discussing the reduction in office space in the future[7], begging the question: are large offices a thing of the past? Companies have a series of options in transitioning their workspaces,

7 Robert Walters (2020) 'Returning to the New World of Work'

including a move towards remote office space, and building smaller creative hubs and business lounges. Flexible office space providers such as IWG and Workspace may have new markets.

We have largely assumed that at some point, as with previous pandemics, the need for social distancing will pass. However, we do not know how long that will take, or if capacity for social distancing will continue to be perceived as a needed contingency. Employers may also be cautious about the liability and potential legal implications if people become ill at work, now or in the future. If social distancing is enforced, either voluntarily or by regulation, there will be changes to workspaces. Offices may be 're-fit', with larger spaces necessary to seat the same number of employees to protect them from COVID-19. A cheaper alternative is to allow more employees to work-from-home rather than expanding office space to suit new regulations. COVID-19 has taught us WFH works well, and is a potentially cheaper option than redesigning office space.

> **"We've started at the early stage thinking through what's the implication for our office footprint and, clearly, over time, we - you - can easily envisage that we may not need the space that we currently have. But that doesn't mean we'll be pulling out of anywhere. We still expect to retain a local presence. It's just that the local physical presence may not need to be as big as it's been in the past**
>
> **Alistair Richard Cox – CEO – Hays plc**

There is also the longer-term question of how the world will look in 2025 when it comes to work. What will the new dynamics of working culture be? What will offices be used for - important face-to-face meetings for spurring and developing new ideas only? Will future houses be designed as a blend of home and office? Corporates are discussing future reductions in their office spaces, begging the question: are large offices a thing of the past? What will be the mix of work from home in the medium-to-long term? Will working from home be more a part-time exercise (i.e. 2 or 3 days' work-from-home)? Will work from home continue to be a privilege granted only to selected few, be it based on seniority, or less-sensitive job profiles?

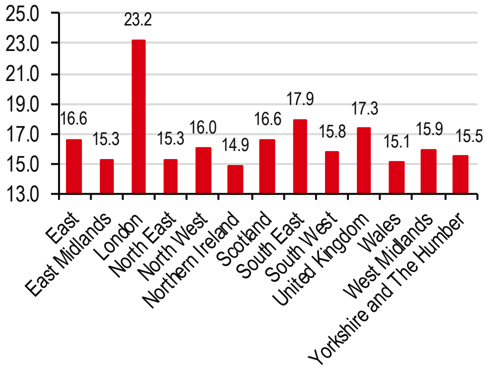
The answers are different for every organisation, and will be based on what talent is needed, which roles are most important, how much collaboration is necessary. Even within a company, the answers could look different across geographies, teams, and functions.

Impact on wage rates

The impact on wage inflation from work from home and reduced geographic disparity could be more mixed and difficult to quantify. The key moving parts include:

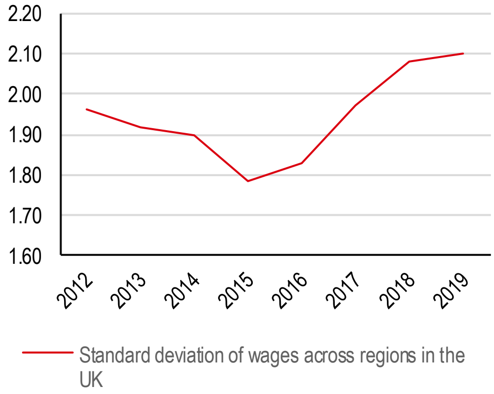
- **Geographic exposure and city weightings.** Will employers adjust wages for city weightings as the cost to access talent beyond major city hubs will be lower? Some countries have higher wage dispersion than others. For example, the UK has higher wage dispersion because of inflated wages in London, France has lower dispersion than the UK, while Germany's is even lower. The overall impact on wages for each staffing company will first depend upon geographic dispersion across each country and the consequent geographic exposure of each staffer.

Hourly pay excluding overtime across regions in the UK (2019, GBP)



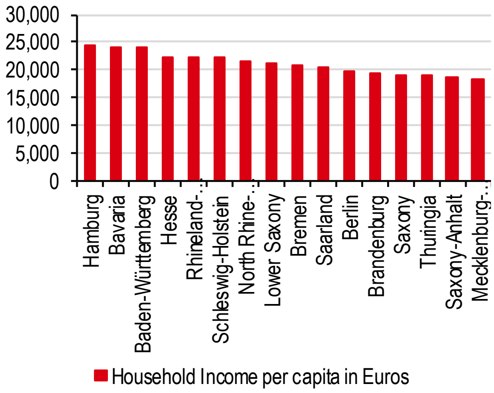
Source: ONS, HSBC calculations

Dispersion of wages across the regions has increased over time



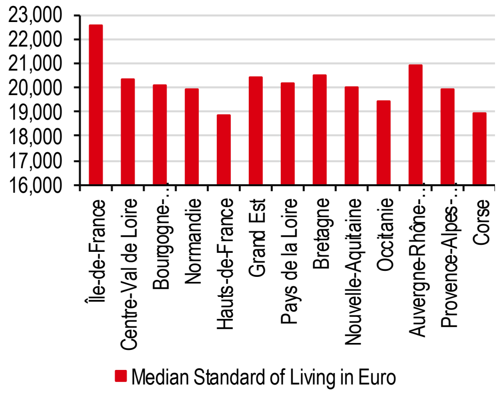
Source: ONS, HSBC calculations

Germany – income per capita (EUR)



Source: Study by Institution for Economic and Social Sciences

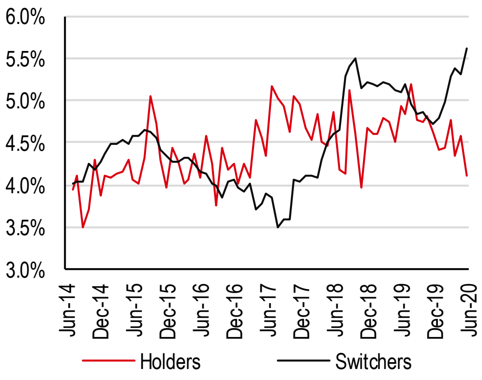
France: median standard of living (EUR)



Source: Institut national de la statistique et des etudes economiques (INSEE) (2014)

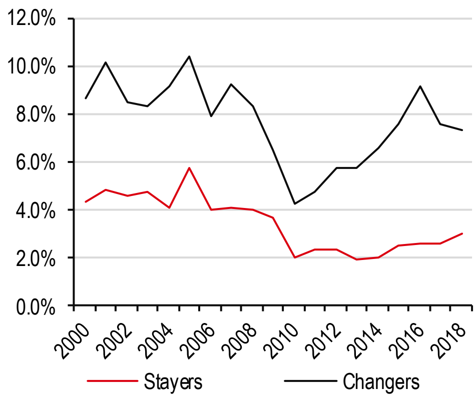
- **Labour scarcity and bid premium**: If the labour scarcity reduces, given we have more candidates to fill each vacancy, what does it do to the bid premium? Does it decline?
- **Higher mark-up?** If locality becomes irrelevant and candidate pools widen, this increases the staffers' value add as a staffing agency with a deeper talent pool will be in a better position to hire a more suitable candidate than an in-house HR department of a firm.
- **Impact of churn on wages?** If churn rates improve, this should in theory drive a higher wage growth rate as a second derivate as candidates switching jobs - even in lower-cost locations – tend to have higher wage rates than jobholders.

Switchers have been experiencing higher wage growth than holders (US)



Source: ADP Workforce Vitality Report

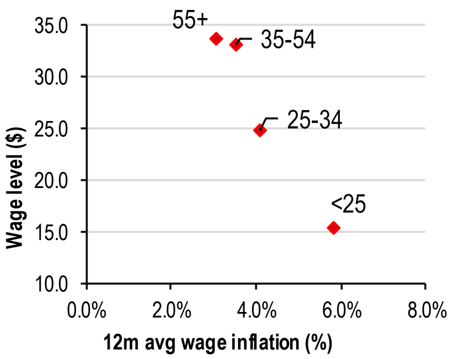
Job changers experience higher pay growth compared with job stayers (UK)



Source: ONS
ONS April 2019 report of 'Analysis of job changers and stayers'

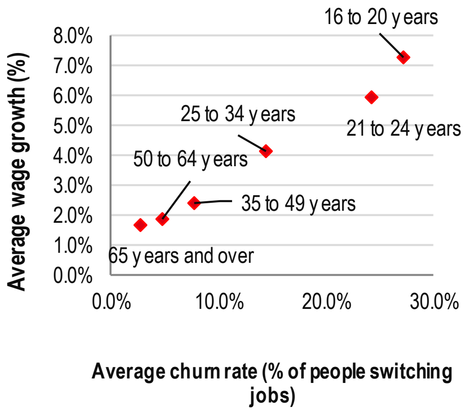
- **Mix impact from job:** If there is more churn in white collar jobs, ceteris paribus, the overall wage rate should increase due to mix effect.
- **Mix impact from older people switching jobs.** Older people have higher absolute wage rates but lower wage growth. If we have higher churn in the older population, the mix impact on the wage rate and mark-up will be higher.

Wage inflation by age (US)



Source: ADP Workforce Vitality Report (June 2020), HSBC

Wage inflation and churn rate by age (UK)



Source: ONS
ONS April 2019 report of 'Analysis of job changers and stayers'

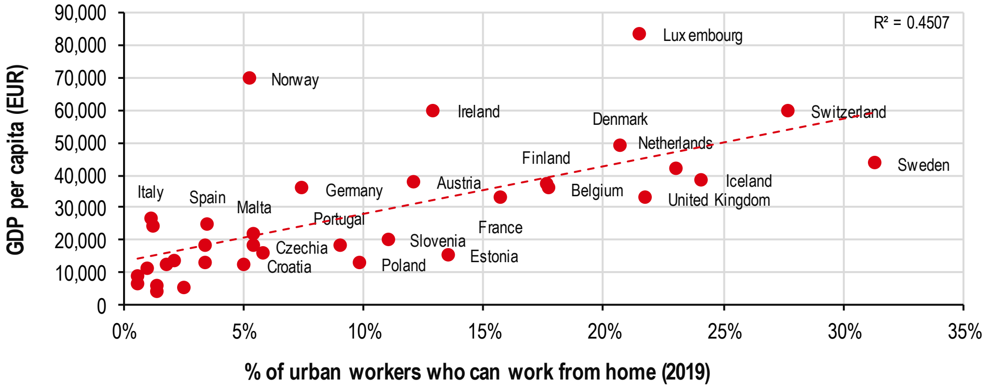
- **Regulation and taxation**. Can some jobs be moved more easily than others to different jurisdiction?

Differences in geographies

In general, there is a positive correlation between GDP per capita and percentage of people who can work from home. The feasibility of home-based work for the vast majority of jobs will be likely to depend on technology infrastructure and internet access which is much lower in developing countries. On average, one in five jobs[8] across the world can be performed from home but this masks heterogeneity across countries. In high income countries one in every three jobs can be done at home while in low income countries one in every 26 jobs can be done at home.

[8] World Bank Group (2020) - Policy Research Working Paper – 'Who on Earth Can Work from Home?'

There is a positive correlation between GDP per capita and ability to WFH



Source: Eurostat 'Real GDP per capita' (2019), Eurostat ' Employed persons 'sometimes' working from home as a percentage of the total employment (%)' (2010-2019)

Key bottlenecks

Scheduling systems

- **Past investment in IT will determine the feasibility and success of WFH**. Some companies will not be able to successfully WFH, as they are not supported by the technology to be able to do so. Investment in platforms such as Zoom and Microsoft Teams is vital, allowing collaboration on projects and co-ordination of schedules. This ensures the productivity and output of teams remains high, and time is used efficiently. Companies behind the trend will face high costs in purchasing the technology needed.
- What happens when workers return to the office, but half the team are WFH? Is this efficient use of commuting and working time? Surely productivity and output will fall. Furthermore, how long will it take for employers to realise and schedule teams to be WFH and onsite at the same time for business operations to continue smoothly?

HR policies

- **Switch to online recruitment processes**. With increased WFH, HR policies and practices will have to adapt, in particular regarding the on-boarding process for new starters. Screening of potential candidates, all applications and final interviews may be conducted online. Potential issues? Notable concerns include data privacy and lack of personal connection with candidates. However, could there be positive implications if the recruitment process is shortened, and time to hire decreases?
- **Potential legal issues over health and safety concerns**. If an employee must WFH in response to an employer request, is the employer liable for employee well-being or working conditions? What (if anything) should the employer have to provide? And what happens if an employee cannot afford to WFH due to increases in monthly bills? Questions have been raised regarding standard operating tools such as laptops and monitors, but also office desks and chairs, and Wi-Fi and electricity bills[9].
- **Salary weightings according to location**. Regional pay rate differentials were evident pre-COVID-19. In London and the South East, employees are paid the highest average weekly pay in the UK, a wage that is notably higher than that paid to employees in the North East and Northern Ireland[10]. This disparity also exists in the US, where median

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9 The Guardian (2020) 'Should your employer pay your bills if you work from home?'
10 House of Commons (2019), 'Average earnings by age and region'

wages of residents in metropolitan areas are higher than in rural areas[11]. With WFH trends likely to increase, we expect an increase in the number of people working in a 'city' job, and being paid a 'city' wage, but living out of town. This stands in favour of employees benefiting from receiving unchanged salaries, but reduced commuting and costs of living. Implications for HR include any demands for changes in wage rates based on location of residence. For example, Facebook has reacted to the increase in WFH of its employees by announcing wage alterations for employees if they choose to WFH, and consequently live in a cheaper area[12]. What could happen to wages in the future if there is a mismatch in the demand and supply of skilled labour?

- **Companies may initially try and save money by cutting wages, but is this sustainable?** Actively paying someone less because of where they choose to live, yet continuing to do the same job as someone who lives in a more expensive area, appears discriminatory. Does this cement low wages for historically cheaper areas? Or does it encourage companies to locate out of cities, to legitimately pay reduced wages?
- **Policy vs reality?** If employee contracts are altered post-COVID-19 to either encourage return to the office or WFH, will this translate into an actual change in behaviour? Will employers be able to monitor how often their employees are WFH? Will wages have to be altered to reflect employee preferences? How enforceable are flexible working contracts?

Real estate investment - existing and changing

- **Concerns about the future of real estate.** If companies don't renew office leases and seek smaller offices intended for minimal use, what will happen to cities, office blocks and real estate prices? Slater and Gordon is one of the first companies to announce their London office lease will not be renewed this coming September (2020)[13]. City centres could struggle in the future, especially with companies relocating outside London to cheaper cities: for example, the BBC's gradual move out of London to Salford, Newcastle and Bristol[14].

Privacy and data security

- **Potential breaches of data privacy**, including overheard confidential conversations and accidental exposure to private information. These are substantial worries as WFH means documents and work devices are being taken and used outside the place of work. Furthermore, due to COVID-19, there are often multiple people working at home within the same household, but from different companies. Are company networks secure enough to operate remotely? What is the cost to a business of a security breach?

Training - learning by endo-osmosis

- **Reduced learning opportunities for junior colleagues**. New starters and younger team members that hugely benefit from onsite working experiences will be at a disadvantage. Less in-person contact time with team members limits knowledge transmission.
- However, there are benefits for global companies, offsite workers, contractors and overseas staff. Anyone previously operating remotely will benefit from the rest of their team transitioning to WFH, with increased interaction leading to more development opportunities. Improved and increased usage of online communication channels supports global business.

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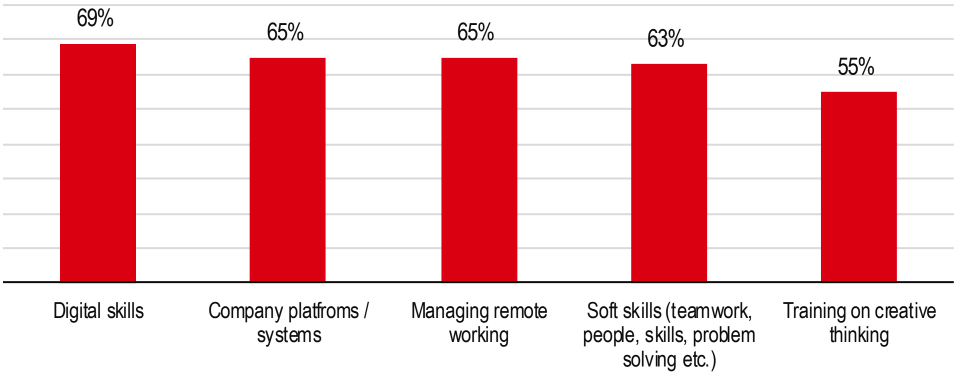
11 Bloomberg (2018), 'Wages Are higher in Urban Areas, But Growing Faster in Rural Ones'
12 Financial Times (2020), 'Will Facebook's salary-by-location move set precedent for tech?'
13 LAW.COM (2020) 'Slater & Gordon to Close London Office, Staff to Work From Home Permanently'
14 BBC (2020), 'BBC boss details more job moves out of London'

Remote learning

Could there be a first-mover advantage for companies that quickly and successfully adapt to online training for employees? A recent survey from Adecco shows that there is a strong appetite for re/upskilling, especially in areas relating to digital and soft skills[15]. Will any segment of the labour market get 'left behind' by the transition to WFH? What if recent graduates lack skills and experience to move up the company ladder due to lost learning opportunities from remote working?

% rating the following types of training resources and support as important after the pandemic



Source: Adecco survey, 'Resetting Normal: defining the new era of work'. Survey based on 8,000 respondents. June 2020

15 Adecco 'Resetting Normal: defining the new era of work'

Micro economics of staffers

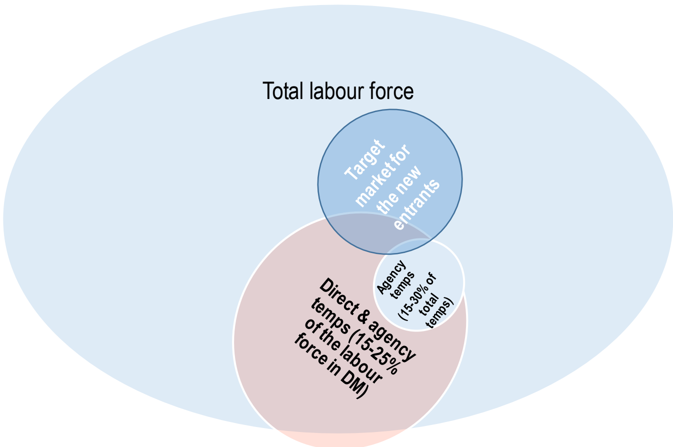
- Staffing revenue growth is a product of gross hiring, how fast these jobs are filled and the value of hires. Higher operational gearing can boost profit growth
- We believe work from home should have positive implications for gross hiring in the form of increased churn and improved productivity (i.e. time to hire); deeper candidate pool should drive gross margins
- Wage dynamics are mixed but unless we need a significant wage rate decline (18% we estimate) to offset the above impact

Burdensome admin or labour scarcity - agency penetration

Based on long-term churn data and agency recruitment volume data, we conclude that <20% of total recruitment goes through the agencies in the perm recruitment markets in the developed world. Likewise, <25% of the temporary agents are procured through agencies

The agency temp/hire market is a small part of the total temping/hiring market. Recruitment agents doing perm placements are a small part of the perm hiring market. Agents are used where finding a good match is difficult, requires some 'selling in' on both sides, or where there is great volume or complexity. Most employing is not carried out through agents such as Randstad, Adecco, or Page Group, even for temporary workers. For as long as we have data, most permanent hires and temps seem to be sourced directly by corporate HR departments. The direct hire market is far bigger than the portion served by agencies. Based on long-term churn data and agency recruitment volume data, we conclude that less than 20% of total recruitment goes through the agencies in the perm recruitment markets in the developed world. Likewise, less than 25% of temporary employees are procured through agencies. The end markets where agencies operate require a greater level of service and often human skills that are difficult to replicate and are necessary for the hiring decision.

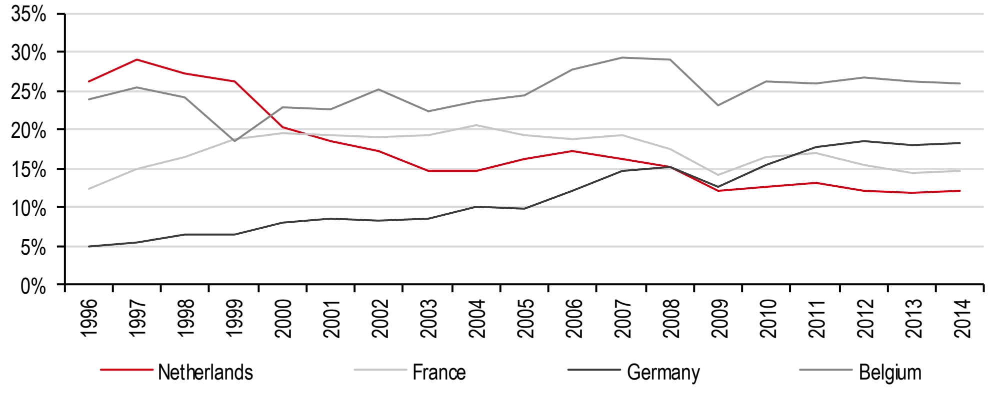
Agent temp penetration



Source: HSBC

This is the reason that there is limited evidence that operational gearing is impaired by the likes of LinkedIn, internet models or new tech. Tech-based solutions have not disintermediated staffers and recruiters. Why? Their end markets are different. New entrants can target markets where they do not need the B2B sales force that they would need to break into traditional staffing markets.

Agency temp penetration



Source: Eurostat, HSBC calculations

What drives staffers' profitability?

Staffing companies are driven by simple drivers: the quantity (new vacancy, churn) and value (wage) of each vacancy defines the scale of the opportunity, with wage largely determining gross margin. The proportion converted into placements and how quickly they are converted into placements (time-to-hire) determines the sales growth and productivity. The number of staff and resource the business has deployed determines the operating margin.

A simple maths for staffers. If incoming vacancies grow at a pedestrian 5%, and temp time to hire falls from 60 days to 55 days, then the volume growth rate of staffers would be 14.5%. If wage rate inflation (and mix to higher wage roles) adds 2.5% to the value of each placement, then the sales growth is 17%. If we see staffers' labour costs grow at the sales growth rate, but other costs grow at the rate of volume expansion, EBITA growth will be, because of leverage, 45%. In practice, staffers are likely to invest in 'growth headcount', and the recovery will not be uniform across geographies. However, staffers' profit growth, in an economic recovery, can be, and frequently has been, stronger than expected.

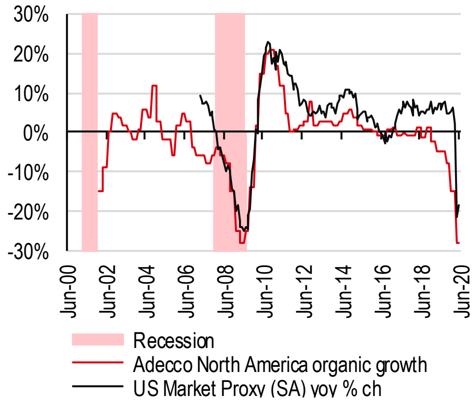
Stylised P&L for staffers

	Base	Comments
Fresh vacancies	20	Staffer growth is a product of 'gross hiring' not 'net hiring'. Churn is important here
Time to hire (days)	60	How fast the jobs are filled, looks unimportant, but isn't.
Vacancies filled	122	Volumes
Value per vacancy	50	Value of hire. Wage growth, wage mix, 'bid premium'
Sales	**6,083**	
Gross margin	**19.0%**	**Mark-up reflect staffer's value add. Gross margins are higher on higher wage segments.**
Gross Profit	1,156	
Staff cost	630	Grows at sales growth, though probably less initially
% of gross profit	54%	
Operating leases	59	Grows at volume growth
% of gross profit	5.1%	
Other costs	155	Grows at volume growth
% of gross profit	13%	
Operating profit	**312**	**Operating profits are geared, both up and down**
Operating margin	**5.1%**	
Conversion rate	**27%**	**Historic range: 15.3% to 27.1%**

Source: HSBC calculations

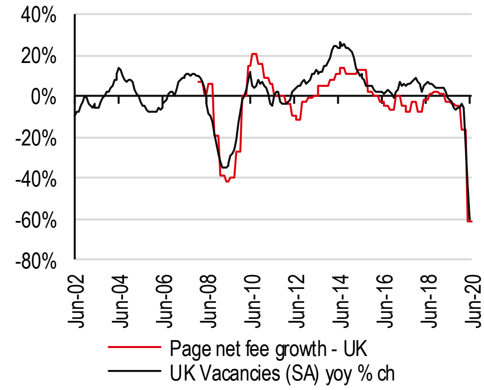
- Staffer **growth is a product of 'gross hiring' not 'net hiring'** so common labour market indicators such as unemployment levels or net jobs created understate the growth. Hires, not net new jobs, is what matters. Staffers do not need rapidly falling unemployment, though this is not a negative. What they need is churn in the labour market. Churn drives gross hires. Although churn has no impact on employment growth since every worker is re-employed into a different business, it has important implication has staffers' volumes. Churn is pro-cyclical and reduces during recession as vacancies remain unfilled during downturns, and employees are more reluctant to quit their jobs during downturns. When hiring returns after a recession, large chunks of the population finding new roles is good for staffers as they place more people, and sales rise over a partially fixed cost base.

Adecco North America organic growth vs. US temps



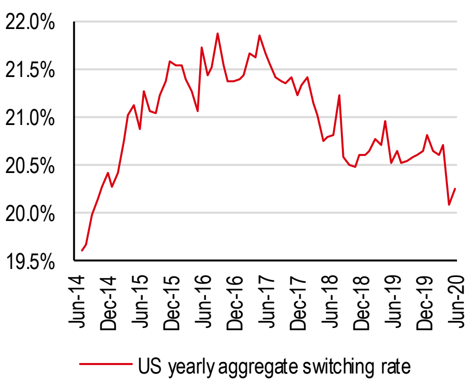
Source: BLS, Company reports, HSBC calculations

Page UK net fee growth vs. UK vacancies



Source: BLS, Company reports, HSBC calculations

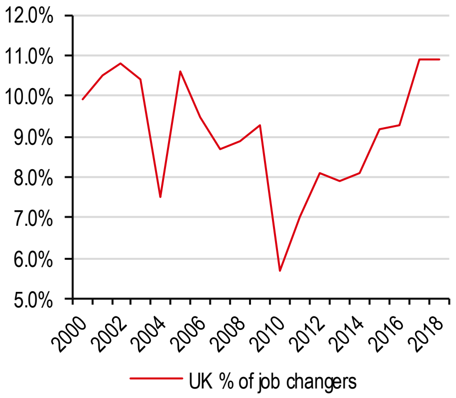
US aggregate switching rate



Source: ADP Workforce Vitality Report

Switching Rate = (Number of workers who switched job)/Total Employment -- aggregated over 12 months

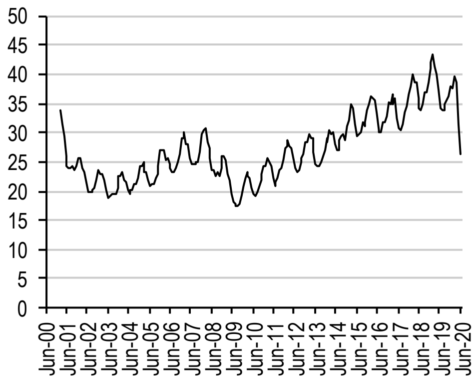
UK job changers



Source: ONS

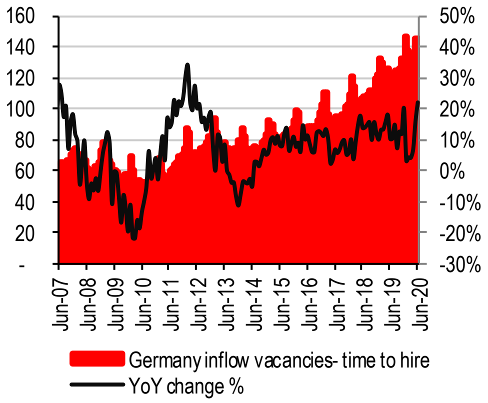
- Staffer growth is affected not just by gross openings of jobs but by **how fast the jobs are filled**. The impact of **time-to-hire** on operating margins is doubly geared as time-to-hire drives both volumes and productivity. As vacancy growth improves and each vacancy gets filled at a reasonable pace, the operational gearing should deliver strong volume growth and operationally geared profit growth.

Time to hire (US) – 3m rolling average (days)



Source: BLS, HSBCe

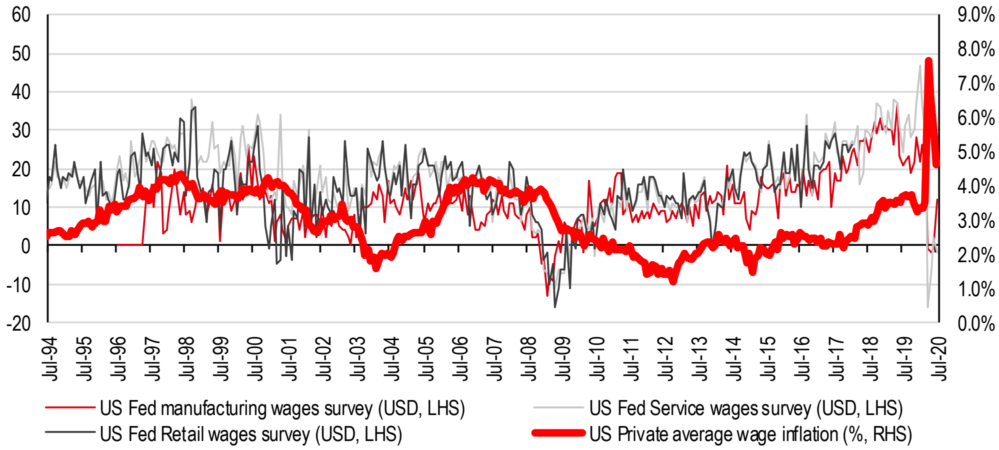
Time to hire (Germany) (days)



Source: BLS, HSBCe

- **The value of hires is important.** The sales of a staffing company are in large part driven by the wages of the temporary workers and permanent staff it places. The sales number is the wages of the temp for hours worked and a mark-up. The perm fee is normally a percentage of the salary of the employee placed. Additionally, any mix shift to higher wage categories may deliver the same effect as general wage rate inflation. Some of the costs are volume related, so if the value is rising faster than the volume then wage inflation should drive faster profit growth due to operational gearing.

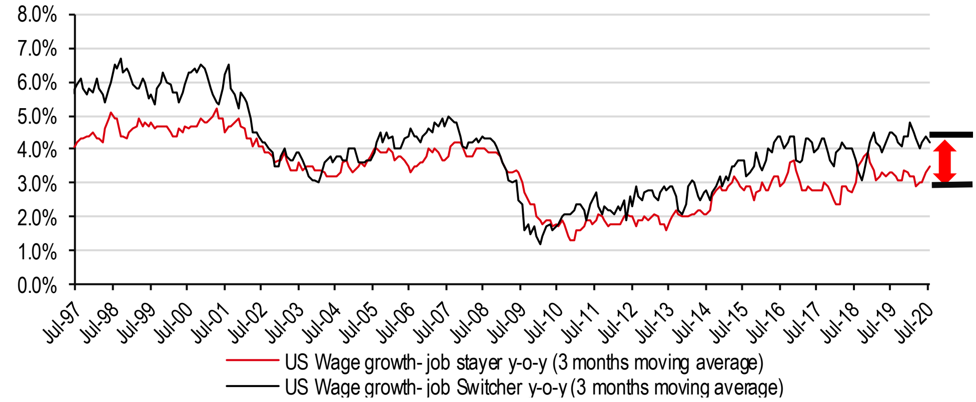
US wage growth - the headline figures lag, but catch up eventually



Source: US Fed Survey

What matters to staffers is the average wage of temps (and mix may effect this) and the 'bid premium' achieved by those switching jobs. Bid premium is an important driver of churn, enabling switchers to grow their overall wages faster.

Bid premium is an important driver of churn, enabling switchers to grow their overall wages faster



Source: BLS, Thomson Reuters DataStream, HSBC Research

Implication from increased WFH on key drivers

- **Impact on churn on volumes.** If the work from home revolution proves as dramatic as many now believe, this may encourage greater churn in the labour market. If one of the reasons for fewer job changes is geographical immobility, work from home can potentially **break the regional boundaries** and barriers to geographical immobility. Remote working means people may begin to look for jobs further afield. Jobs previously inaccessible due to travel restrictions and/or cost of living for example could become more accessible. A **wider catchment area** would mean higher number of jobs for each vacancy and a larger candidate pool for staffers. WFH could also drive a higher **churn in high wage rate older population** who historically are less likely to move jobs. Overall, the labour markets should become more fluid and churn rates should drive volumes once confidence returns to the labour market which should drive gross hires and volume growth for staffers. Larger, more geographically diversified recruitment businesses should stand to benefit more than local players.

In the analysis below, we have assumed a 200bp increase in churn for the older population i.e. >55 years (from 18% to 20%), 200bp increase in churn for population between 25-55 years (from 32% to 34%) with no increase in churn for younger population (i.e. <25 years). This would drive a 5.3% higher volumes for staffers and 0.3% increase in wage rate due to mix effect keeping wage inflation constant.

Impact on volumes and wages due to higher churn

Population by age	% of labour force	Churn	Wage rate (US$)	Switcher's wage inflation	Volumes
<25	13.5%	60.0%	26.4	7.5%	8.1
25-55	64.5%	32.0%	35.2	4.9%	20.6
>55	22.0%	18.0%	35.0	3.3%	4.0
Total	**100.0%**	**32.7%**	**33.0**	**5.3%**	**32.7**

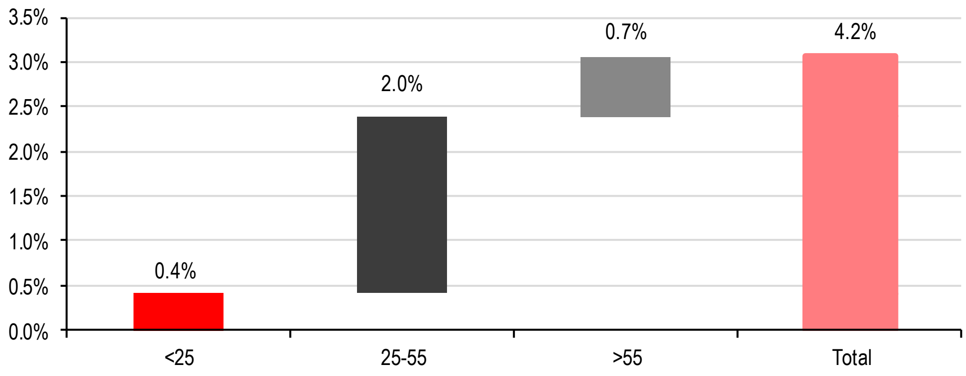
Higher churn ; wages constant

Population by age	% of labour force	Churn	Wage rate ($)	Switcher's wage inflation	Volumes
<25	13.5%	60.0%	26.4	7.5%	8.1
25-55	64.5%	34.0%	35.2	4.9%	21.9
>55	22.0%	20.0%	35.0	3.3%	4.4
Total	**100.0%**	**34.4%**	**33.1**	**5.3%**	**34.4**
Overall impact		***173 bps***	***0.3%***	***-4 bps***	***5.3%***

Source: BLS, ADP Workforce Vitality Report, HSBC estimates

The chart below shows impact of increase in churn for each category and the impact on volumes.

Impact of every 100bp increase in churn on overall volumes



Source: HSBC calculations

- **Time to hire:** There is a potential for time to hire to reduce with technology advancements in hiring. The COVID-19 pandemic has led to the of virtual conferencing interviews. With a home based video conferencing interview, staffers are actually finding it much easier to get hold of candidates who may otherwise be busy in meetings or find it difficult to schedule a face-to-face meetings delaying the hiring process. Reduced time-to-hire due to virtual interviews could have material implications for volumes and productivity (gross profit per consultant). A consultant who could place, say, 400 candidates in 60 days now could place the same number of candidates in 40 days (or 200 more candidates in 60 days).

> **Consultant activity with clients and candidates has remained very strong through the lockdown as we adjust it to this new way of working**
>
> **Alistair Richard Cox - CEO – Hays Plc**

> **It was actually easier to get hold of many clients because they were at home, bored and on the end of a mobile phone than it was when they were in meetings, walking factories or flying somewhere**
>
> **Steve Ingham – CEO – Page group**

> **Companies who were keen not to lose top talent by dragging out the recruitment process were quick to turn to digital solutions, and what's more we saw more hires made remotely than we ever have done**
>
> **Phill Westcott - Director of Walters People London**

> **The number of companies using video interviews to hire staff spiked by 67% in the past four weeks due to concerns over the coronavirus**
>
> **Robert Walters**

Time-to-hire has a geared impact on revenues and operating profit. If time to hire decreases from 60 days to 55 days, sales growth will be 9% higher and operating profit growth 33% higher, we estimate, due to operational gearing.

- **Wage rate and gross margin.** The impact on wage inflation from work from home and reduced geographic disparity could be more mixed and difficult to quantify. If employers adjust wages for city weightings the wages should decline initially although higher churn overall and in particular high wage older population could drive wages upwards. If we see a sectorial structural change in demand patterns in the labour markets, we could see robust demand on relatively high unemployment levels. This would probably increase the need for training but the value associated with finding staff with scarce skills may rise as parts of the economy do materially better than others. With a larger candidate pool, a staffing agency will be in a better position to hire a more suitable candidate than an in-house HR department of a firm. This should help staffers charge a higher mark-up on sales. Geographically well-diversified staffers should be in a better position than local players.

In the table below we have shown sensitivity of staffers' revenues and operating profit growth to time to hire, volumes, wage inflation and gross margin.

Impact of key drivers on sales

T2H	Impact on sales	Volumes	Impact on sales	Wage inflation	Impact on sales	Gross margin	Impact on sales
55	9.1%	0.0%	0.0%	-7.5%	-7.5%	18.0%	0.0%
56	7.1%	2.5%	2.5%	-5.0%	-5.0%	18.5%	0.0%
57	5.3%	5.0%	5.0%	-2.5%	-2.5%	19.0%	0.0%
58	3.4%	7.5%	7.5%	0.0%	0.0%	19.5%	0.0%
59	1.7%	10.0%	10.0%	2.5%	2.5%	20.0%	0.0%
60	0.0%	12.5%	12.5%	5.0%	5.0%	20.5%	0.0%

Impact of key drivers on EBITA/operating profit

T2H	Impact on EBITA	Volumes	Impact on EBITA (no change in consultants / wages)	Wage inflation	Impact on EBITA	Gross margin	Impact on EBITA
55	33.1%	0.0%	0.0%	-7.5%	-12.2%	18.0%	-19.5%
56	26.0%	2.5%	7.5%	-5.0%	-8.1%	18.5%	-9.7%
57	19.2%	5.0%	15.1%	-2.5%	-4.1%	19.0%	0.0%
58	12.6%	7.5%	22.6%	0.0%	0.0%	19.5%	9.7%
59	6.2%	10.0%	30.1%	2.5%	4.1%	20.0%	19.5%
60	0.0%	12.5%	37.7%	5.0%	8.1%	20.5%	29.2%

Source: HSBC calculations

- **Reduction in number of branches:** Staffers have been investing in technology over recent years and have reaped the benefits of IT infrastructure and digital initiatives and have been able to operate almost seamlessly during the pandemic. Work from home will probably further reduce the branch network for staffers as they would need fewer branches to operate. Companies could take a fresh look at how much branch network and office space is required and adjust the existing footprint. This would also involve questioning where offices should be located. Some the questions that need to be answered are: do they need a smaller office in prime location for client meetings and abandon big-city headquarters for suburban campuses? The transformation will require an optimal mix of prime vs. non-prime locations, owned space, standard leases, flexible leases, co-working space, and remote work.

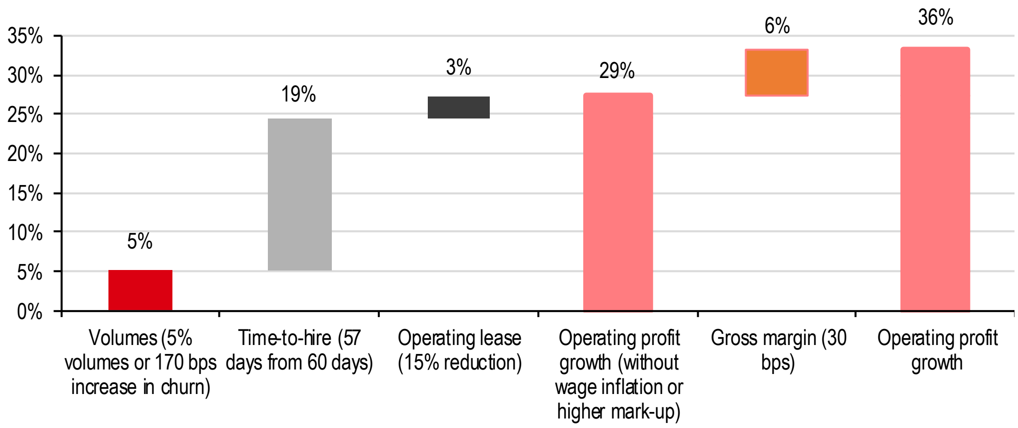
> “ **All of our consultants across the…group were able to work from home, with almost no service interruption**
>
> **Page group**

> **I don't think I'd sign an extension or expansion of a large property lease again. So I think for most businesses now, we know that in the individuals in your business that have proven themselves, got proven skills, they will get greater flexibility, and they are likely to work from home 2 days a week, 3 days a week, whatever the right model is. So I think over time, there will be savings as we work our way through. I would not be surprised to see the actual sheer space that we have per consultant in the business fall by something like 20% over the next 5-odd years.**
>
> **Paul Venables – Hays - Group Finance Director**

In the chart below we have shown the impact to staffers' operating profit growth (% change from base) by flexing key variables.

If we increase volumes by 5% (assuming 200bp increase in churn for 25-55 years and >55 years and no change in churn form <25 years, this translates into 5.3% volume), reduce time to hire to 57 days (from 60 days), and reduce operating lease by 15%, this translates into 29% operating profit growth. An additional 30bp of gross margin, reflecting staffers' value add in the form of higher mark-up, would increase operating profit by another 6% with a 36% increase in operating profit with wages being constant.

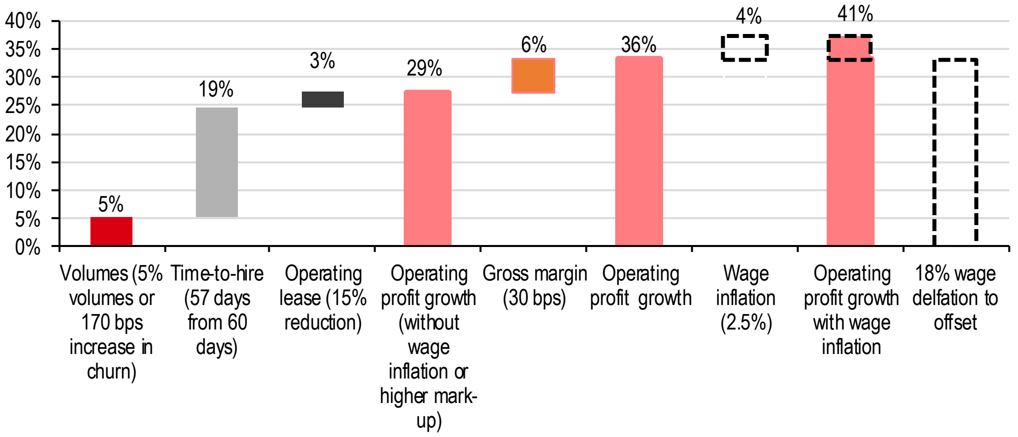
Impact of key drivers on staffers' operating profit growth



Source: HSBC calculations

The impact of wage inflation is much harder. Our reverse computations show that only if the wages decline by 18% due to city weighting would this offset the impact of 5% volume growth, 30bp margin increase, lower time to hire (57 days from 60 days) and lower operating lease.

Bringing wages to the mix



Source: HSBC calculations

Sensitivity analysis: Stylised P&L for a typical staffer

	Base	5% higher volumes, lower T2H (57d from 60d) and lower operating lease	+ 30 bps higher gross profit	Wages in the mix?
Fresh vacancies	20	21	21	21
Growth rate		5%	5%	5%
Time to hire (days)	60	57	57	57
Vacancies filled in a year	122	134	134	134
Volume growth		11%	11%	11%
Value per vacancy	50	50	50	41
Value growth		0%	0%	-18%
Sales	**6,083**	**6,724**	**6,724**	**5,547**
Sales growth		11%	11%	-9%
Gross margin	19.0%	19.0%	19.3%	19.3%
Gross Profit	**1,156**	**1,278**	**1,298**	**1,071**
Gross profit growth		*10.5%*	*12.3%*	*-7.4%*
Salaries & Social Security contributions	630	661	661	545
% of gross profit	*54%*	*52%*	*57%*	*47%*
Operating leases	59	50	50	50
% of gross profit	*5.1%*	*3.9%*	*4.3%*	*4.3%*
Other costs	155	163	163	163
% of gross profit	*13%*	*13%*	*13%*	*15%*
Operating profit	**312**	**404**	**424**	**313**
Operating Profit growth		*29.2%*	*35.7%*	*0.0%*
Operating margin	**5.1%**	**6.0%**	**6.3%**	**5.6%**
Change in operating margins		87	117	50
Conversion rate	**27.0%**	**31.6%**	**32.7%**	**29.2%**
Change in operating margins		457	563	216

Source: HSBC calculations

Disclosure appendix

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