

# Dealing with Zoom shock: the post-pandemic world of work

## Economic commentary

21 January 2022

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### Key points

- During the weeks before the Omicron variant of Covid-19 arrived in the UK, when there were few restrictions in place, the appetite of people to return to their places of work was lukewarm. Footfall at UK office locations never exceeded 75% of pre-pandemic levels.
- This response, together with recent survey findings, points to a substantial and permanent increase in the proportion of work being done from home. Even when the pandemic is over, workplace footfall is unlikely to rise much above where it was last autumn. This will have implications for transport operators, road usage, the demand for office space, and on retail and hospitality spending in city centres.
- The bargaining power currently being enjoyed by employees, in the context of a very tight labour market, may not endure. Concerns about rising wages and productivity are likely to prompt many employers to increase investment in automation and digitization.

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Until the Omicron variant of Covid-19 arrived in Britain in late November, the UK had enjoyed more than four months with almost no Covid restrictions. In particular, people were no longer advised to work from home. But the response of the workforce could hardly be described as a stampede back into offices. Daily footfall at workplace locations, as tracked by Google's Community Mobility Report, never got above 75% of the January 2020 level, and was often much lower.

It's therefore clear that the Covid pandemic has triggered a "Zoom shock". This neat phrase describes the upheavals that are taking place in the way in which many people work, with the Covid lockdowns demonstrating that many of the jobs that had been done by people sitting at desks, in large city-centre offices, can now be done from their homes or from other remote locations. The post-pandemic employment landscape is therefore shaping up to be markedly different from what went before, with a host of economic ramifications, including as yet unknown consequences for productivity. This represents a reversal in the trend for people to commute into cities – a trend which has been with us for more than 150 years – bringing reduced demand for city-centre office space, and changes in the UK's economic geography as some people opt to live in different places. The next few years will bring a messy process of establishing a new equilibrium between working in offices and working from home (or from other places). It will make a considerable difference whether a few years from now the average office worker is spending 1-2 days at home or 2-3 days.

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## Before the pandemic

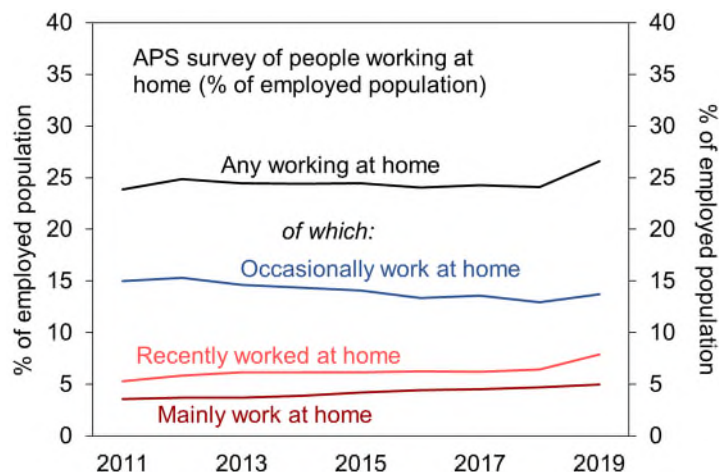
Working from home is not entirely a new thing: before the Industrial Revolution, it was common for the manufacture of handicrafts to be contracted out to homeworkers. But the modern incarnation of “working from home”, for office workers, got going back in the 1980s with the roll-out of the first corporate email systems. But progress was initially slow, held back partly by concerns about IT security, and partly by an ingrained culture in many organisations which assumed that employees will shirk if not closely supervised.

In the UK, the baseline for what has happened during recent years is provided by an annual survey undertaken since 2011 by the Office for National Statistics (ONS), based on responses to the Annual Population Survey (APS). This reported that during 2019, around 8.6 million people, accounting for nearly 27% of the employed population, had done some work at home, albeit that around half had only done so on an occasional basis. Within this figure, 5% of the employed population, amounting to 1.6 million people, said that they worked at home most of the time. This proportion had increased slowly but steadily from 3.6% in 2011.

Clearly, some types of work are more suited to being done from remote locations than others. It’s no surprise that in 2019 more than 40% of those employed in managerial roles and in professional occupations did some of their work at home. It also follows that the prevalence of home-working is greater in the south of England, with more than 30% of people doing some work at home in London, the South-East, and the South-West. At the other end of the spectrum, the proportion was only a fifth in the North East, in Scotland, and in Northern Ireland.

What’s missing from the ONS data is any indication of how many days people are spending at home or in places of work. It’s the number of days that people travel from home to work that will eventually determine the level of demand for office space, for peak-time public transport, for morning coffees, lunchtime sandwiches and after-work drinks, and for the retailing that serves office districts. Fortunately, there is another data source, in the form of the Work From Home survey conducted during 2021 by the University of Sheffield. The survey enquired into the working habits and expectations of around 2,500 people in England and Wales, with results weighted to match the ONS’s Labour Force Survey. Respondents reported that in 2019 they had worked an average of 0.48 days at home, out of a total working week of 3.92 days. We’ll return to this survey later.

## Pre-Covid trends in home-working among the UK workforce



Source: ONS, 'Homeworking in the UK' dataset, April 2021

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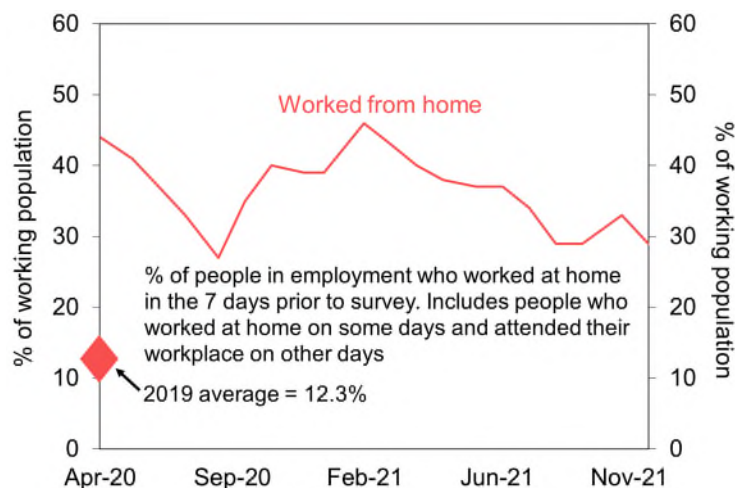
## From first lockdown to the Omicron wave

Early in the Covid-19 pandemic, the ONS added a 'Covid module' to its Opinions and Lifestyle Survey, and has conducted interviews on a weekly or fortnightly basis ever since (though it should be noted that these figures are not directly comparable with the previous annual results from the APS). The proportion of people doing some work at home in the seven days before they were interviewed quadrupled from 12% in 2019 to 49% in early April 2020, at the height of the first lockdown. Given the severity of that lockdown, that figure may appear surprisingly low, although it should be remembered that many people weren't working at all, as businesses closed their premises and put their staff onto the furlough scheme, while the number of people in work always includes some taking leave, whether for holidays, sickness, maternity/paternity, and other reasons.

The proportion of workers doing some work at home then fell sharply as the first lockdowns were lifted, to reach a low-point of 27% at the end of August 2020. This coincided with the lowest number of infections to date, with the ONS's infection survey reporting that only some 2,000 people had the virus in that week. The proportion then climbed back to over 40% towards the end of 2020 and during the first two months of 2021, during the second and third national lockdowns. Although the proportion fell back again in the spring as the economy re-opened, it stabilized from early August at around 30%, a little above the trough of the previous summer, and then varied little until the end of November.

In the period from 18-28 November, which was the final iteration of this survey before the "Plan B" measures were imposed to slow the spread of the Omicron variant, the proportion of respondents who'd done some work at home in the preceding seven days stood at 29%. Breaking that figure down, 15% of respondents had also travelled to a place of work, these being the so-called "hybrid" workers. The remaining 14% had exclusively worked at home, this being the lowest proportion reported since the onset of the pandemic. Meanwhile, 56% of respondents said that they'd exclusively travelled to work, which if added to the 15% who'd done so for part of the time, means that 71% of people had been to a place of work at some point in the preceding week. This was the highest figure for this metric since the start of the pandemic, comparing with readings of around 65% in October 2020, just prior to the second lockdown in England. Finally, there were 15% who'd were employed, but had done no work, either at home or in a place of work, these being the aforementioned cohort who were absent from work for one reason or another.

### More people have been (and still are) working from home



Source: ONS, 'Coronavirus and the social impacts on Great Britain' dataset

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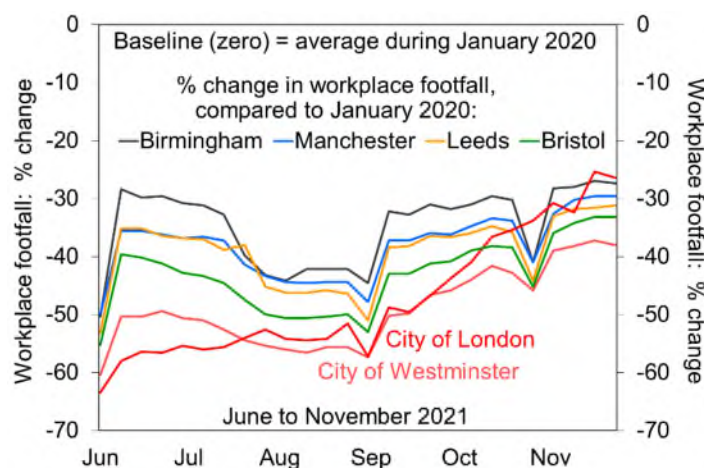
The picture of a partial return to workplaces, after the lifting of restrictions in August 2021, is borne out by the data on footfall collected by tracking the whereabouts of mobile phones. Since the onset of the pandemic, the data in Google's 'Community Mobility Reports' have become a "go-to" source of information for economists and policymakers seeking to track the impact of restrictions on people's behaviour. The Google data is always presented as a percentage change relative to a baseline in January 2020. For most purposes, this is a good basis for comparison, although it doesn't work well when looking at retail footfall in colder countries.

It's apparent from the Google data that, in the weeks after the advice to work at home was rescinded last July, footfall returned much closer to pre-pandemic levels in retail and recreation settings, than it did in workplaces. Over the ten weeks from 20<sup>th</sup> September to 26<sup>th</sup> November (just before the imposition of "Plan B" restrictions), weekday footfall in workplaces averaged only 70% of the January 2020 baseline, with peaks of -27% being reached in the middle of the second and third weeks of November. At retail and leisure venues, by contrast, footfall was down by less than 10% compared to January 2020.

Workplace footfall was especially slow to recover in Greater London, where weekday footfall in the week ending 26 November was still down by -36% from pre-pandemic levels, compared to -42% in the week ending 16 July, just before most restrictions were lifted. The City of London saw a steeper improvement over this period, albeit from a very low starting point, from -56% to -26%. In the City of Westminster (equating roughly to London's West End), the movement over the same period was from -53% to -38%. In other major cities, workplace footfall recovered a little more quickly, and by the week ending 26 November was typically coming in at between -25% and -30% (again, relative to a pre-pandemic baseline in January 2020). A notable exception was Cardiff, where more restrictions were retained and office footfall was still down by -42%.

The Google data also show how travel to workplaces is linked to footfall in retail and leisure, especially in London. Footfall in retail and leisure settings in the City on weekdays during the week ending 26 November was still 52% below the baseline of January 2020; it seems that even if people were returning to offices, they were having fewer lunches with colleagues or clients, they weren't staying on for after-work drinks, and were visiting fewer shops. The same effect was also seen in the West End, where retail footfall in the same week was 30% below baseline, with matters not being helped by the greatly-reduced number of foreign tourists. Across the UK as a whole, however, retail and leisure footfall was down by just 8% from the level in January 2020.

### The return to the workplace was slower in London



Source: Google, Community Mobility Report

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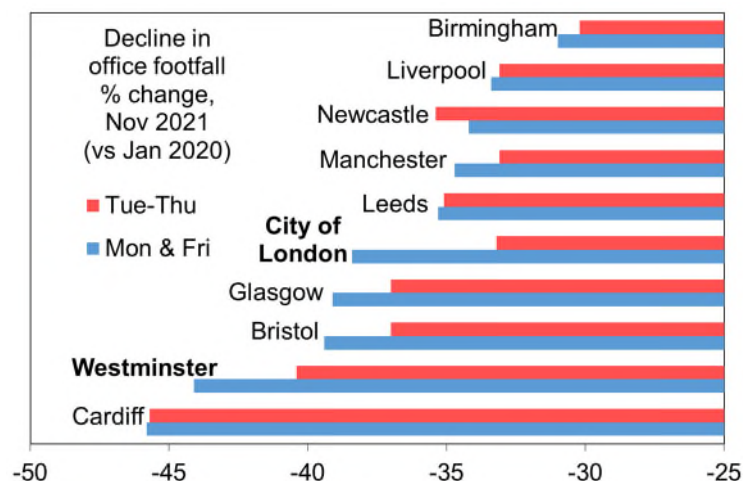
Finally, to return to the University of Sheffield survey<sup>1</sup> that was mentioned earlier: during the period from March to November 2021, respondents who'd worked in the previous week had done an average of 2.64 days at home out of a working week averaging 3.79 days. This represents an increase of more than two days spent working at home compared with 2019, though it should be noted that the survey covers both the re-opening phase from March to July, when people were still being advised to work at home, as well as the subsequent unrestricted period prior to the arrival of Omicron.

## Lengthening the weekend

Well before the pandemic, the drift towards hybrid working had been accompanied by a clear preference among workers to choose Friday as a “work from home” day. One of the hotly-debated topics about the post-pandemic world of work is whether this trend will extend to embrace Mondays, alongside Fridays, as another preferred day for working-from-home. Looking across the UK as a whole, the Google mobility data suggest that there has been only a small shift in this direction, with workplace footfall on Mondays and Fridays between September and November 2021 being between one and two percentage points lower, relative to the January 2020 baseline, than footfall from Tuesdays to Thursdays.

In London, however, there has been a more noticeable shift towards midweek travel, especially in the City. Over the ten weeks to 26<sup>th</sup> November, workplace footfall in the City of London was an average of 5.2 percentage points lower relative to the January 2020 baseline on days adjacent to the weekend than it was from Tuesday to Thursday. This means that the number of people travelling in on Mondays and Fridays has been nearly 8% lower than on mid-week days. One obvious implication, and one that has already been aired by South Western Railways, which serves the busy commuter lines into Waterloo, is that train timetables could be thinned out on Mondays and Fridays compared to other weekdays.

## The shift towards midweek working is more marked in London



Source: Google Community Mobility Report



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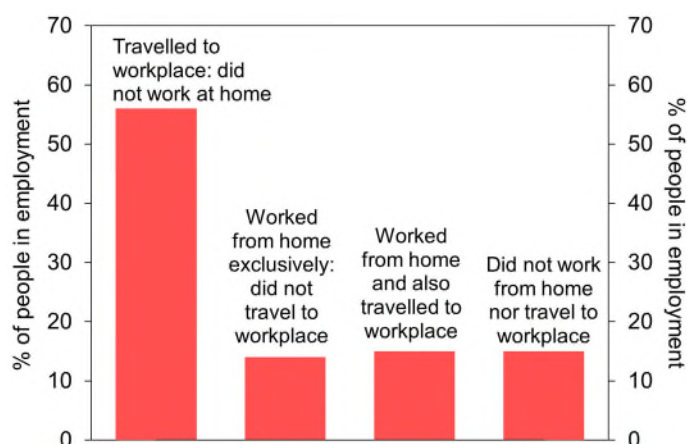
## After the pandemic

Assuming that the Omicron wave soon ebbs and that the Covid-19 pandemic then morphs into an endemic disease which we learn to live with, the question is: where will the equilibrium eventually settle, between working at home and working in workplaces? To what extent was last autumn's lukewarm return to workplaces the result of high levels of Covid infections (the daily reported count rarely fell below 30,000), and the reluctance of many employers to insist that staff return to the office?

The Work From Home survey asked people, among other things, how many days they expect to work from home in 2022 (and thereafter), based on plans communicated to them by their employers. If respondents' expectations are correct, then about a third of work will be done from home, representing an increase of around 20 percentage points, or about one day of a 5-day working week, compared with 2019. This is in line with similar studies from the United States. To put it another way, respondents anticipate that the proportion of their time spent in the workplace will decline from seven-eighths to about two-thirds. This equates to a reduction of nearly a quarter, implying that footfall in workplaces will be just over three-quarters of what it was before the pandemic. Linking back to the Google mobility data discussed above, the obvious conclusion is that if respondents' expectations are anything like correct, then workplace footfall in the post-pandemic 'new normal' will be only slightly higher than in the autumn of 2021, settling at between -20% and -25% compared with the January 2020 baseline.

Another finding from the same survey is that the people who expect the biggest increase in time spent working remotely, are the people working in occupations where home-working was already more prevalent before the Covid pandemic. People employed in financial, business and professional services, as well as those working in media, design and IT, are all expecting to spend around half their time working at home from 2022. This has important implications for economic geography, given that activity in these sectors is concentrated in and around London and other large cities. People employed in management, financial, and business services, for instance, expect to work at home for two more days per week than before the pandemic. The upshot is that respondents employed in the City of London and Westminster anticipate working an extra one and a half days a week at home. This suggests that in some places, workplace footfall, as measured by Google, could struggle to get above -35% compared with January 2020.

## About half of people who worked at home (18-28 Nov 2021) also attended their workplace



Source: ONS, 'Coronavirus and the social impacts on Great Britain', survey for 18-28 November 2021

Note: Reasons for neither working from home nor travelling to work in the past seven days include temporary closure of workplace, holiday or sick leave, maternity or paternity leave or caring responsibilities.

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It should be stressed that these are findings from one survey, with only small sample sizes for local geographies; and expectations might not turn out to be accurate. Nonetheless, it shows a clear direction of travel, and suggests that the fitful return to workplaces last autumn should not necessarily be discounted as an 'outlier' for what can be expected in the next few years.

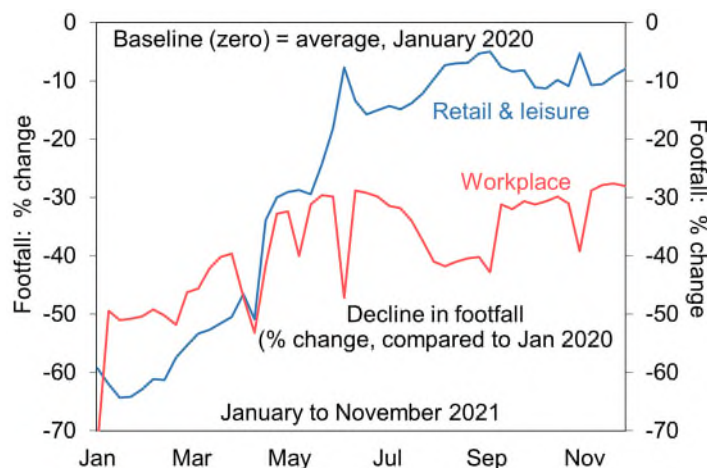
Changes in the geographic pattern of home-working will have important implications for retail and hospitality spending. In London, and in other major city-centres, the reduction in spending will reflect not only the lower footfall in office districts, but also the propensity of those commuters to spend more money, compared to other respondents, when they travel into their workplace. The Work From Home survey asked people about their weekly spending while at work in 2019: those who travelled into central London said that they spent an average of £51 a week, twice as much as those who worked in smaller towns and cities. The researchers at the University of Sheffield estimate that, as a result of changing work patterns, some £3 billion of retail and hospitality spending will shift, with half this amount being lost from central London. Although this represents only about 1.5% of total spending across the country, it implies a reduction in expenditure on local services in the City of London and Canary Wharf of more than 30%, while increasing spending by around 50% in some suburban neighbourhoods.

It's also worth noting that those who were self-employed, and therefore in a better position to determine their own work location, expressed a preference for working at home for 50% of the time. Although this sample was just a few hundred, it may offer a hint as to how workers would choose to organize their time if it was entirely up to them.

## The new landscape

For individual workers or employees, fashioning a new relationship with work offers a once-in-a-generation opportunity to achieve a more satisfying balance between the competing claims (on their time and energy) of work, childcare, and family life. The 'work/life balance' has been a vexed issue for the past 50 years, ever since it became common for women to continue working after having children, with matters not being helped by the increasing cost of childcare, and the sense of obligation felt (by men and women) to deal with emails that arrive at ungodly hours. An obvious attraction of home-working is the potential to greatly reduce the time and money spent on commuting, particularly into London, where rising house prices have forced many people to live ever-greater distances from their place of work.

## Shopping and leisure have been more attractive than going back to the office



Source: Google Community Mobility Report

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As for the UK's economic geography, a change in working patterns will bring challenges for the country's major cities, especially for central London, which have benefited over recent decades from the rising footfall of office workers. The money that was once spent on lunchtime sandwiches, and on after-work drinks and meals, will mostly still be spent: but it will be spent in different places and maybe at different times of the day and week. Suburban dormitory towns, which used to empty in the mornings and re-fill in the evenings as people commuted into major cities, might be rejuvenated by home-workers as they buy coffees and lunches, go to gyms, walk their dogs, and use some of the time that they once spent commuting to become more active in their communities. Other towns, which have been blighted since the hollowing-out of traditional industries in the 1980s, could also enjoy a new lease of life, as people who no longer need to live close to their employer's offices opt to move back to where they were brought up, or simply to trade a cramped city-centre apartment for a house with a garden.

For businesses, the challenge will be to achieve a successful balance between saving money (and boosting their ESG credentials) while sustaining productivity and looking after the wellbeing of employees. Finance directors up and down the land will doubtless be salivating at the prospect of slimming down their expensive portfolios of real estate. And, if employees come into the office less often, or if they walk or cycle to local work hubs, then firms will be able to claim a meaningful reduction in their CO2 footprint. Yet many businesses harbour a deeply-ingrained suspicion of "working from home", with some die-hard managers still preferring to have their teams where they can see them. There is plenty in the academic literature about the impact of working at home on productivity, but no conclusive results. In any case, it will take several years before people and organisations work out how best to manage home-working: how to reduce the time spent on calls, how to sustain collaboration and corporate culture, and how to develop new knowledge and skills. Certain office-based activities are not well suited to home-working: trading in financial instruments, for example, where the onerous compliance requirements and the need for super-fast data connections mean that operations will continue to be office-based. More generally, a shift to remote working risks undermining the powerful agglomeration effects which are known to be so important in many service industries. These effects explain why London is one of the world's major financial centres, and why the 'Silicon Valley' area south of San Francisco remains the globe's pre-eminent hub for hi-tech innovation.

For the time being, employees appear to have the upper hand in determining the extent to which they can work remotely. This is true in many advanced economies, but especially in the UK where labour market conditions have become very tight. Employers are finding that "working from home" is increasingly featuring in their discussions with prospective employees, and studies report a big rise in the number of job advertisements which offer the ability to work flexibly. But employees shouldn't take their new-found bargaining power for granted: the combination of tight labour supply, rising wages, and concerns about productivity will inevitably induce employers to put more effort into automating and digitizing more of their processes.

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