

Trends

November 2021

A bulletin of
economic developments
in South Australia

The new future of work

How do South Australian businesses make the most of the new normal?



Foreword

Hybrid work is here to stay. So what does the 'new' future of work look like?



Welcome to the latest edition of BankSA's economic bulletin, *Trends*, compiled in conjunction with Deloitte Access Economics.

In this edition, we look at the new future of work in South Australia, and how South Australian businesses are adapting to the 'new normal'.

In 2019, our *Trends* report looked at the future of work in South Australia and the need for businesses to increase technology-based skills in their workforce or be left behind. Two years on, COVID-19 has fast-tracked the adoption of technology by businesses and employees beyond expectation.

This edition of *Trends* examines the resultant global shift in working arrangements, largely enabled by technology, including results from BankSA's New Future of Work survey of consumers and businesses to provide a uniquely South Australian perspective.

It will come as no surprise that South Australia, like the rest of the nation and the world, has been forced to rapidly re-think the concept of the working environment.

Both businesses and employees expect higher levels of flexible and remote work

arrangements to remain than before the pandemic. The data also suggests the ability to offer hybrid work is now seen as a competitive advantage when recruiting.

BankSA's research shows that more than half of all businesses surveyed believe flexible work arrangements have improved productivity; close to three quarters of respondents want some form of work flexibility into the future; and one in five young people are looking to the regions and interstate for hybrid work.

This isn't completely new territory. In fact, Productivity Commission Chair Michael Brennan recently highlighted that 300 years ago, most people worked from home.

It's also worth noting that flexible work was already a growing feature of employment before the pandemic. What the pandemic has done is supercharge this growth, with the general consensus that the COVID-19

work-from-home experiment has been largely positive.

We are also witnessing a cultural shift where the stigma of working from home has weakened and business performance has not been negatively affected by the absence of direct supervision.

There is clearly no 'one size fits all' hybrid work model, not the least because every industry sector has a vastly different way of operating. Professionals, clerical and administrative workers and, to a lesser extent, sales workers, may be able to balance working from home with other work practices. However, trades still need to work on construction sites, community and personal service workers still need to physically assist clients, and machinery operators generally can't take their equipment home with them.

For businesses to fully benefit from a shift to hybrid work, they must also consider the uptake of remote-enabling technology and cyber security principles, renew management strategies to ensure that wellbeing, collaboration and empowerment remain at the forefront, refresh hiring strategies to attract the best talent, and improve connections with customers who are also accustomed to the hybrid experience.

Changing worker behaviour during the pandemic has perhaps been most visible in our CBDs. Visitation in the Adelaide CBD was 8.2 per cent lower in the first quarter of 2021 compared with 2020 and expenditure has dropped 20 per cent. This has significantly affected businesses that rely on foot traffic and visitation – particularly the hospitality, entertainment and retail sectors. Our research reveals that the top three factors that would encourage people to the CBD are cheaper parking, better public transport and longer retail opening hours.

However, despite changing patterns of work, there has not yet been a significant impact on demand for office space. In fact, a Property Council of Australia review of occupancy rates in July this year, shows Adelaide vacancy rates defied expectations and decreased in the first half of 2021. Furthermore, A-Grade vacancies dropped from 13.0% to 11.9% as employers stepped up their value proposition for employees returning to the office.

Our findings also reveal that in adapting to hybrid work, size matters. The bigger the business, the more accepting they are of flexible working arrangements. Results show 68 per cent of larger businesses with more than 20 employees already had at least some employees working remotely pre-pandemic, and this number is expected to climb to 78 per cent going forward. Only 20 per cent of businesses saw no opportunities for hybrid work. This contrasts markedly with smaller businesses where 44 per cent saw no opportunities for work flexibility.

With much focus on the positives of flexibility, we should not lose sight of employee wellbeing. More than one in five businesses surveyed say employees are working longer hours. However, they are happier with the hybrid arrangements, noting an improved work-life balance,

more easily managing family commitments, and saving time and money on the daily commute.

It's also clear that employees still seek the meaningful and regular face-to-face interactions with work colleagues, so the workplace as a hub will remain important. Finding the right balance between the workplace and working from home will be the key for businesses as we plot a path out of the pandemic.

The opportunity for business is also an opportunity for the state. Adelaide was this year ranked as the most liveable city in Australia and third most liveable in the world.¹ With the global portability of work, this makes our state a very attractive place to combine professional and lifestyle outcomes. We should harness these unique opportunities, including growing our economy and population.

So, what will the new normal look like? It's still too early to say with certainty, and trends from countries that are further down the path of re-opening their post-COVID economies suggest some change is likely to stay. A recent survey out of the US shows that employees expect 20 per cent of all workdays will be completed at home, compared with 5 per cent before the pandemic.

Whatever the new future of work looks like, the way we work is changing.



David Firth
State General Manager, Business Banking
BankSA

2019
8%

2020
40%

Employees
working from
home - Productivity
Commission

↓ 8.2%

Adelaide CBD
visitation in Q1 of
2021

> 20%

Young people
considering hybrid
work opportunities
interstate or in other
SA regions



The new future of work

“In a big shift, people adapt.”

- Luci Ellis, Reserve Bank of Australia

“Historically, the concept of working from home should be very familiar. Because 300 years ago, most people worked from home.”

- Michael Brennan, Productivity Commission

“Trust is the glue that binds a team together, drives performance, and enables collaboration and coordination.” - Tsedal Neeley, Harvard Business School

Hybrid work is here to stay. Despite initial disruptions, the COVID-19 work-from-home experiment has been largely positive. Initial concerns over negative productivity impacts have not been realised to date. Many businesses have adapted – and even thrived – in this new normal.

This edition of *Trends* examines the consequences of the global shift in work arrangements, using results from BankSA's New Future of Work survey to provide a

uniquely South Australian perspective. How can South Australian businesses and workers make the most of changing work patterns and environments?

Ensuring South Australian businesses are positioned to thrive going forward isn't just good for individuals – it's crucial for South Australia's future growth.

In short, both businesses and workers expect **higher levels of flexible and remote work arrangements to remain** than before the pandemic. The ability to

offer hybrid work is becoming a **source of competitive advantage** for businesses when searching for talent. However, businesses in **some sectors** are better positioned to adjust to hybrid work than others. **Larger companies** are also better equipped and more easily adaptable, based on the responses of the 300 South Australian businesses surveyed.

Other **key insights** from BankSA's New Future of Work survey include:

- Over half of all businesses surveyed believe flexible work has improved their productivity, but fewer – especially smaller businesses – are convinced on remote working;
- Almost three quarters of South Australian respondents want some form of flexible work in the future;
- Around a fifth of young workers are looking for jobs interstate or in other regions of South Australia because of the availability of hybrid work;
- However, most businesses are not considering changing their hiring practices.

There are **trade-offs to the new model**. Businesses can benefit from **reduced costs of office space**, happier and more engaged workers, and access to a larger pool of talent. However, less time spent together reduces **opportunities for collaboration** and social interaction. The **optimal balance** appears to be two to three days at home with the remainder in the workplace, the function of which will also need to adapt.

To **benefit from this shift**, businesses should consider:

- Incorporating hybrid work into their standard operating model, refraining from a 'one-size-fits-all' approach and instead considering individual roles and their potential to be more flexible;

- Increasing the uptake of remote-enabling technology and cybersecurity principles, particularly for small businesses;
- Renewing management strategies to accommodate a hybrid team, ensuring employee wellbeing, collaboration and empowerment is at the forefront;
- Refreshing hiring strategies to ensure they can attract the best talent from nearby and further afield, enabled by hybrid working;
- Improving how they connect to customers in an environment where many are accustomed to hybrid experiences themselves.

The new normal

Hybrid work means allowing employees to choose **when and where they work**. One component involves having a **flexible working** agreement – allowing workers to start and finish workdays according to their own needs. **Remote work** involves working from a location other than an office or other primary place of business. What has been more typical throughout COVID-19 and looks set to continue is a mixture of these two methods: a hybrid model.

These ideas are not new; **flexible work was already a growing feature of employment before the pandemic**. According to the Australian Bureau of Statistics (ABS), one third of employed people in 2019 had a flexible work

agreement, and this figure had been increasing since 2015.² Recent estimates from the Productivity Commission suggest that the **proportion of employees working from home** increased from around 8 per cent in 2019 to 40 per cent in 2020, and 38 per cent in 2021.³

The picture is broadly similar in South Australia, based on responses to the BankSA New Future of Work survey.

It is reasonable to expect these trends to continue, and for hybrid work to settle at higher levels compared to pre-COVID. For one, being forced online led to a **cultural shift** and weakened the stigma that once surrounded working from home. A recent OECD survey of workers and managers revealed a large majority reported positive experiences with remote work.⁴ The pandemic has shown that **business performance need not be negatively affected** by the absence of direct supervision. In short, both individuals and businesses experienced the benefits, and behaviours have stuck.

Of course, these reported successes are off the back of a significant **learning curve**, and often, **investments in technology and training** to facilitate better communication and effective work from somewhere else. Now that these resources are largely in place, it makes sense to use them to their **full potential**.



2 Australian Bureau of Statistics, *Characteristics of Employment, Australia, August 2019* (9 December 2019).

3 Productivity Commission, *Working from home* (Research Paper, September 2021) <<https://www.pc.gov.au/research/completed/working-from-home/working-from-home.pdf>>.

4 OECD, *The role of telework for productivity and well-being during and post-COVID-19* (2020) <<https://issuu.com/oecd.publishing/docs/the-role-of-telework-for-productivity-and-well-bei>>.

Jobs, industries and hybrid work

Jobs vary in their ability to be undertaken remotely. This ability is determined by a **job's key tasks** rather than by industry, depending on the extent to which those tasks:

- Require physical presence;
- Involve interaction with others;
- Require specialised equipment.

Chart 1 shows research undertaken by Deloitte Access Economics which estimated the extent to which certain roles within occupational groups could be performed entirely at home.⁵ At the top of the list are clerical and administrative workers, professionals, and managers. These roles involve a high degree of **computer use, data analysis and client communication**.

On the other hand, machinery operators, labourers and trades workers find it much more difficult to move work online. They need to be **onsite** and require **specialised equipment** to do their work. Caring for others is also a task undertaken in person, and so community and personal service workers are generally unable to work remotely.

CHART 1
PROPORTION OF ROLES THAT COULD BE PERFORMED ENTIRELY AT HOME - %



Source: Deloitte Access Economics

Where occupations that are more 'remote-ready' comprise a large proportion of an **industry's employment**, and where those industries account for a larger **share of the economy**, the new normal is likely to bring about **more significant changes**. This is true at both the state and regional level; for example, regions which are

dominated by industries that require more on-site workers are less likely to be affected. Those that are the opposite – Adelaide's CBD, for example – may see more change.



The pandemic and the Adelaide CBD

Cities have been particularly affected by the impacts of COVID-19. What makes them valuable - their concentration of **people, capital and innovation** - has made the effects of lockdowns particularly acute. Recent work by Deloitte Access Economics examined the effects of the pandemic on the Adelaide city centre.⁶

Visitation in the Adelaide CBD was 8.2 per cent lower in the first quarter of 2021 compared with the same period in 2020. Recovery efforts continue despite ongoing uncertainty surrounding border restrictions and lockdowns.

Areas reliant on footfall from interstate visitors and city workers, such as Hindley St and the Market Precinct, have

seen the biggest declines. These areas have particularly high concentrations of **hospitality, entertainment and retail businesses**. Expenditure in these sectors in 2020 was more than 20 per cent less than the year before. Where residential activity is higher, there has been less volatility.

People are **changing the way they use cities**. The time they spend in the CBD is increasingly seen as **discretionary**. This is motivated by several factors, including:

- The rise of remote working;
- Increased adoption of e-commerce and digital platforms;
- The growing importance of experiences.

To drive recovery and growth, **businesses must create reasons to travel to the CBD** and ensure they have the digital tools available to engage with customers. Experiences are now central to people's decisions about when they visit for work, and what and how they purchase goods.

The top **three factors** that would encourage people to spend more time in the CBD, according to consumers in the BankSA New Future of Work survey, are:

- Cheaper car parking;
- Better public transport access;
- Longer retail opening hours.

In short, access is important – but businesses need to think about what will **keep customers coming back** when they otherwise don't need to for work.

Remote work is also likely to impact **demand for office space**: a recent RBA survey found a quarter of businesses were planning to reduce their floor space by an average 25 per cent.⁷ However, recent capital city vacancy rates have remained resilient. In fact, **vacancies** in the Adelaide CBD over the past six months have **decreased** from 16.0 to 15.7 per cent.⁸ Here, the longer-term outlook is more uncertain as businesses individually reassess their office space needs – the future workplace is evolving, and might not necessarily require less floorspace.

At the state level, **South Australia's economy** is largely dominated by industries with **lower potential for remote work** – including health care and social assistance, education and training, and retail trade. McKinsey, for example, found that only 20 per cent of the time spent working in health could be undertaken remotely without productivity loss, or up to 33 per cent in education, based on United States data.⁹

However, workers in **South Australia's knowledge economy** represent a growing share of employment. These services sectors are those which have seen the largest uptake of remote work – with an

estimated 76 per cent of work able to be performed remotely in the finance and insurance sector effectively, for example.¹⁰

Despite these estimates, it is important for **businesses to consider their workforces individually**. Even businesses in sectors with less theoretical potential for remote work – such as mining or transport, for example – consist of occupations that may be suitable candidates for a hybrid approach. Businesses should refrain from a 'one-size-fits-all' approach, and instead consider offering hybrid working to remain **competitive in a tight labour market**.

Size matters

The trends COVID-19 set in motion worldwide have been well documented. But what was the experience like in South Australia? BankSA's New Future of Work survey asked 300 businesses and 300 consumers about their experiences during the pandemic.

Working remotely was viewed positively and **businesses expect to offer it more often**. A total of 52 per cent of all businesses surveyed never had any employees working remotely prior to the pandemic. Only 43 per cent expect the same post-COVID, indicating a willingness to shift to different working models.

⁶ Deloitte Access Economics, *Post-COVID-City: Driving Economic Recovery and Growth* (commissioned by the Capital City Committee, May 2021) <https://studentaccassoc.com.au/resources/Post-COVID%20City%20-%20Driving%20Economic%20Recovery%20and%20Growth%20-%20Deloitte%20Access%20Economics%20report_May%202021.pdf>.

⁷ RBA, *Statement on Monetary Policy August 2021, Box B: COVID-19 and Commercial Property in Australia* (5 August 2021) <<https://www.rba.gov.au/publications/smp/2021/aug/box-b-covid-19-and-commercial-property-in-australia.html>>.

⁸ Property Council of Australia, *Office Market Report* (5 August 2021) <https://propertycouncil.com.au/Web/Content/Media_Release/SA/2021/Adelaide_CBD_vacancy_rates_buck_expectations.aspx>.

⁹ McKinsey, *What's next for remote work: An analysis of 2,000 tasks, 800 jobs and nine countries* (2020) <<https://www.mckinsey.com/featured-insights/future-of-work/whats-next-for-remote-work-an-analysis-of-2000-tasks-800-jobs-and-nine-countries>>.

¹⁰ *Ibid*.

The survey highlights striking differences between **differently sized firms**. **Smaller businesses** (those with fewer than 20 full-time employees) are more **polarised** with respect to hybrid work. Their work is more likely to be either wholly remote-ready or flexible, or not at all. Further, they are **less likely to change** how they worked because of the pandemic. Very few expect to offer more flexible work hours in the future, though the number of respondents expecting at least some of their employees to work remotely increased by 15 per cent.

Larger businesses with more than 20 full-time employees had **already incorporated greater degrees of hybrid work** into their employment models prior to the pandemic. Around 68 per cent of businesses surveyed had at least some employees working remotely pre-COVID; this is expected to be even higher at 78 per cent going forward. Further, **only a fifth see no opportunities for flexible work**, with the remainder expecting some employees to engage in flexible work hours in the future. This compares to 44 per cent of smaller businesses expecting no employees to work flexibly.

This suggests that **small business leaders need to revisit hybrid working**, which appeals to current and potential employees, and provides potential benefits in the form of new pathways to market and customers. However, underinvestment in automation and the tools that enable high-value work to be performed remotely are limiting these businesses in their adoption of remote working.¹¹

Costs and benefits

Lockdowns aside, there are several key **drivers behind the adoption of hybrid work** by South Australian businesses, and almost all relate to employees. Most importantly, having experienced the benefits of hybrid working, employees now **hope to retain the option** going forward. Businesses must consider changing worker preferences as a part of their value proposition.

Perhaps surprisingly – at least compared with what might have been expected at the start of the pandemic – businesses report **employee productivity as a driver of hybrid work**. More than half of South Australian businesses surveyed said that **flexible work improved overall productivity**. Interestingly, this was seen across almost all industries, excluding mining. Flexible work can clearly provide benefits across a diverse range of sectors.

The data also suggests **larger firms have an advantage in managing remote work**. It shows 53 per cent of businesses with more than 20 full-time employees said productivity was somewhat or greatly enhanced by remote work. This compares with 28 per cent for smaller businesses. **Smaller enterprises appear more agnostic** when it comes to the productivity benefits, being more likely to find hybrid working led to no change, according to the BankSA New Future of Work survey.

More than a fifth of businesses surveyed say their **employees are working more**

hours compared to pre-COVID. Without the previously obligatory commute, work time has expanded to fill the void. But despite working more hours, **employees are happier with hybrid arrangements**. Improved **work-life balance** is cited as the best aspect of hybrid working. Greater flexibility makes it easier to **manage family commitments**; naturally, this option was particularly popular amongst those aged between 35 and 49. Not having to commute **saves money** on both transport and incidentals purchased at the office. Being given the choice of where and when to work provides a motivating sense of agency. **Mental wellbeing** was rated highly as a benefit, which has flow-on effects for business: supporting the mental health of employees can improve productivity and reduce staff turnover.¹²

However, the benefits of hybrid working do come with some **trade-offs**. Figure 3 shows the biggest factors constraining the wider adoption of hybrid work for businesses and workers.

FIGURE 1
BIGGEST DRIVERS OF HYBRID WORK FOR BUSINESSES



Source: BankSA New Future of Work survey

FIGURE 2
TOP BENEFITS OF HYBRID WORKING FOR WORKERS



Source: BankSA New Future of Work survey

¹¹ Ricoh, *Small business workers fear missing out on the hybrid work opportunity* (May 2021) <<https://www.ricoh-europe.com/news-events/news/small-business-workers-fear-missing-out-on-the-hybrid-work-opportunity/>>.

¹² Black Dog Institute, *Workplace Wellbeing* <<https://www.blackdoginstitute.org.au/resources-support/wellbeing/workplace-wellbeing/>>.

FIGURE 3
TOP DISADVANTAGES OF HYBRID WORKING FOR BUSINESSES (TOP) AND WORKERS (BOTTOM)



Source: BankSA New Future of Work survey

Firstly, for those tasks requiring physical presence or specialised equipment, the uptake of remote work will remain limited. This is recognised by both businesses and workers – although all businesses should consider whether this is because employees are **not enabled to perform their tasks remotely** (due to inadequate technology, for example) or they are **unable to perform the task** (due to its nature). In addition, there may be greater opportunities for flexible work than currently contemplated, even if tasks need to be performed on-site.

Another issue cited frequently by businesses, particularly larger ones, is the difficulty in **promoting their workplace culture**. The primary place of business – whether that be an office, store or factory – is where leaders historically showcased their values, and workers interacted and collaborated. Employees feel a similar way. Recent research published by Mainstreet Insights found that 70 per cent of Australian respondents rated the workplace as a place where people experienced meaningful and regular social connection and community.¹³

For businesses in the BankSA **New Future of Work** survey, **social activities, sales and client meetings** were among the most important activities to be conducted in person. Most important for workers was the **atmosphere and physical environment** of the workplace, as well as the ability to **meet in person**. Younger people especially value the office as a place to have **spontaneous conversations and interactions**.

The ideal model

Hybrid working is **here to stay**. The ABS reports a third of Australians want working from home to continue.¹⁴ In South Australia, 73 per cent of the consumer respondents in the BankSA survey want some form of flexible work going forward.

What might the ideal model look like? With **too little flexibility**, businesses may **fail to capture the productivity benefits** that come from more engaged and happier workers. But **too great a focus on remote work** could come with its own costs, if reduced face-to-face interaction leads to **ineffective communication and less innovation**.

The answer clearly lies between the two extremes.

OECD research indicates a preferred range of **between two and three days of remote work a week** to be most beneficial for productivity. Coordinating schedules so that teams can meet in person on regular days of the week can combat the negative social and knowledge-sharing implications of being out of the office.¹⁵

The new normal is **truly hybrid** – a balance between remote and in-person, flexible and standard. Many therefore expect the future role of the office – or other place of work – to be different. It will become the meeting place for more **innovative tasks**; those needing iterative problem-solving, creativity and teamwork. It will also be crucial for tasks where **connecting in-person** is core to success. To be clear, the office is far from 'dead' – it will be **reimagined** as that place.

Importantly, the new normal will require business leaders to reconsider **how processes translate into outcomes**. Technology will become increasingly important to **complement** human labour. By letting technology take care of what it does best, people are free to do what they do best. Employees that are supported and provided the right tools, through appropriate training and technology, will allow businesses to capture the most benefits.¹⁶

¹³ Mainstreet Insights, *Workplace and the future* (June 2021) <<https://mainstreetinsights.com.au/workplace-and-the-future/>>.

¹⁴ Australian Bureau of Statistics, *Household Impacts of COVID-19 Survey*, June 2021 (14 July 2021).

¹⁵ OECD, *The role of telework for productivity and well-being during and post-COVID-19* (2020) <<https://issuu.com/oecd.publishing/docs/the-role-of-telework-for-productivity-and-well-bei->>.

¹⁶ Deloitte, *Work re-architected* <<https://www2.deloitte.com/nl/nl/pages/human-capital/articles/work-re-architected-humanizing-work.html>>.

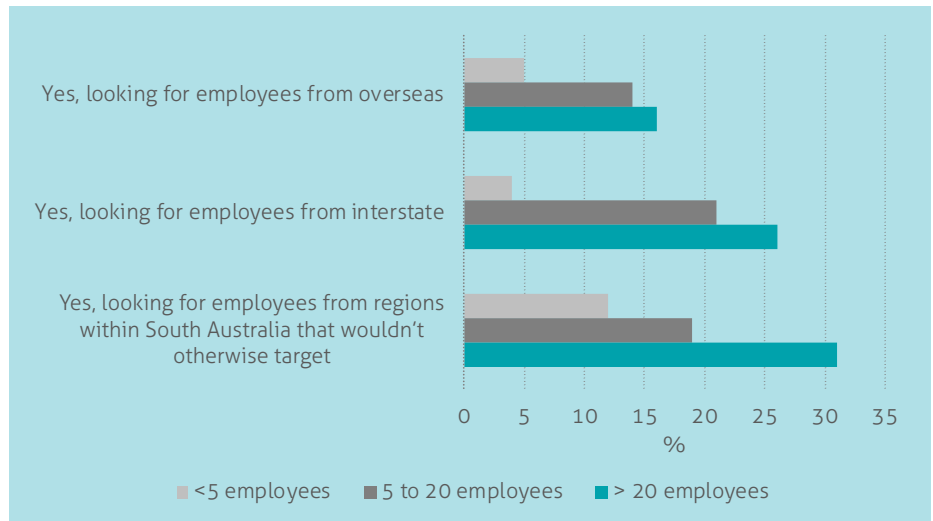
Hiring with hybrid

While most of the discussion thus far has focused on how businesses interact with their current customers and employees, fewer firms are considering their **future talent**. Overall, 68 per cent of employers surveyed in the BankSA **New Future of Work** survey say they are not considering hiring from further afield as a result of hybrid working opportunities. However, as shown in Chart 2, businesses with more than five full-time employees are much **more likely to consider hiring employees from other locations**, compared with smaller businesses.

Chart 3 demonstrates that South Australian workers, and particularly young people, are being influenced by hybrid working trends when looking for a job. Around a fifth of those surveyed aged between 18 and 34 said they were **looking at jobs interstate or in other South Australian regions** because of the availability of hybrid work. It stands to reason that if this is the case in South Australia, it is likely a similar situation exists interstate. **South Australian businesses could be overlooking their best candidates** by not considering the potential of hybrid working.

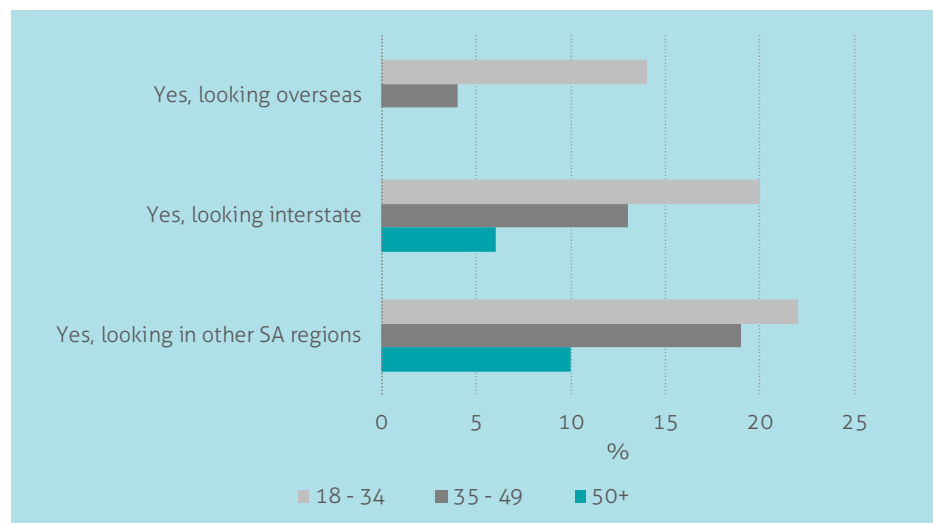
These opportunities are being recognised elsewhere. Work by Deloitte Access Economics in the Illawarra found that access to a broader pool of talent was a big advantage for businesses located in commuting suburbs around Sydney. It can also be an attractive policy to win over potential new recruits.¹⁷

CHART 2
PROPORTION OF BUSINESSES CONSIDERING EMPLOYEES FROM LOCATIONS THEY WOULDN'T NORMALLY CONSIDER, BY BUSINESS SIZE (EMPLOYEES)



Source: BankSA New Future of Work survey

CHART 3
PROPORTION OF WORKERS CONSIDERING JOBS IN LOCATIONS THEY WOULDN'T NORMALLY CONSIDER DUE TO HYBRID WORK OPPORTUNITIES, BY AGE



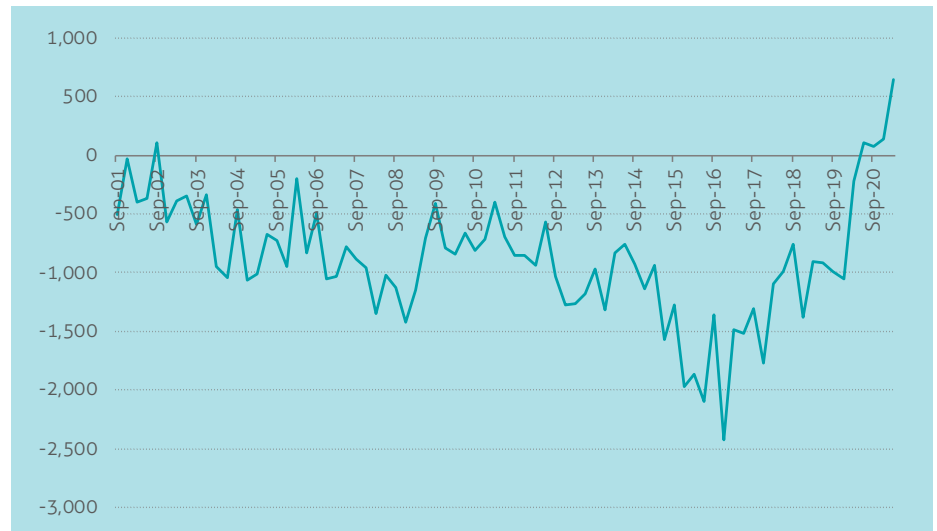
Source: BankSA New Future of Work survey

The road ahead

All this points to a future with **higher levels** of flexible and remote working. But **how much** can we expect? How other countries are performing post-lockdown provides some clues. Recent surveys of more than 30,000 Americans show they expect **20 per cent of all workdays** to be completed at home after the pandemic, compared with 5 per cent pre-COVID. With fewer people going to the workplace, this research found that spending in city centres could be between 5 and 10 per cent below pre-pandemic levels.¹⁸ However, many still consider it's **too early to tell** how workplace trends will settle in the post-pandemic world.

Working from home is also being considered by **policymakers**. In January of this year, Ireland revealed its National Remote Work Strategy. It sets a target of 20 per cent remote work for the public sector, and will develop a code of practice which provides employees the "**right to disconnect**".¹⁹

CHART 4
SOUTH AUSTRALIAN NET INTERSTATE MIGRATION, 2001 - 2021



Source: Australian Bureau of Statistics

Other European countries are making similar moves to formalise remote working arrangements, while considering the **practical and wellbeing aspects** facing both businesses and governments.

Whatever the final number may be, hybrid work has **changed how we work for good**. We now need to ensure we **capture the benefits**.



¹⁸ Jose Maria Barrero, Nicholas Bloom and Steven J Davis, 'Why working from home will stick' (Working Paper No 28731, National Bureau of Economic Research, April 2021) <<https://www.nber.org/papers/w28731>>.

¹⁹ Department of Enterprise, Trade and Employment, Government of Ireland, Making remote work: National remote work strategy (June 2021) <<https://www.gov.ie/en/publication/51f84-making-remote-work-national-remote-work-strategy/>>.

Leveraging hybrid work to grow South Australia's economy and population

The opportunity for business is an **opportunity for the state**. As discussed in previous editions of *Trends*, South Australia needs the right mix of skills to secure its long-term economic growth.

It is vital South Australia **maintains and increases its young and skilled workforce**; something Adelaide has struggled with in the past. South Australia's economy will only be competitive if we have the **skills to succeed in the industries of tomorrow**.

This means we must all focus on attracting and retaining talent – for the sake of both South Australian businesses and the broader economy.

Preferences for hybrid work are particularly strong amongst **young people**. Those aged between 18 and 34 surveyed in the BankSA New Future of Work survey report wanting much higher levels of flexible and remote working than other age brackets. Supporting businesses to offer hybrid work options could help to secure the talent the state needs, both from South Australia and interstate.

Recent statistics show that people are starting to take notice. Adelaide was voted **Australia's most liveable city** and third in the world in the Economist Intelligence Unit's Liveability Index earlier this year.²⁰ **More people are now choosing to move to South Australia** than leaving to live interstate; the state

recently recorded four consecutive quarters of positive net migration. The last time this happened was in 1992.²¹

The question is whether this is a **temporary pandemic effect** or a **lasting shift** as lifestyle preferences change. What should South Australia do now to keep this trend going? A workforce empowered by modern technology and management skills could be one part of the puzzle, but we'll need government and business to work together to ensure South Australia remains a competitive destination for new residents.

How can business make the most of the new normal?

Clearly, there are fundamental **differences between small and large businesses** in their ability to adopt remote work. Aside from the industries in which firms operate, the greater technological and management capacity of larger businesses is clearly a factor. So how can we equip all businesses to capture the benefits of hybrid work?

Firstly, when considering hybrid work, all businesses should **consider their workforces individually**, rather than adopting a 'one-size-fits-all' approach. Even if a role isn't suitable to undertake from home, there may be other options that provide employees more choice – such as flexible start and end times or completing only some tasks remotely.

Depending on the nature of their work, many businesses will need to **incorporate better technology and cybersecurity principles into their operations** to enable remote working. While this will require an upfront cost – which should be considered on an individual basis – it is crucial to reduce risk but also **enhance productivity** in a hybrid environment.

Business leaders will also need to reconsider how they **manage their staff and their operations**. This will involve equipping employees with the right training and skills – particularly those that allow staff to succeed in their roles in an online environment. But the focus must move beyond 'surviving' to 'thriving', meaning that leaders must also carefully **redefine their workplace culture, practices and policies**. The benefits of hybrid work will not materialise without placing **employee wellbeing, collaboration and empowerment** at the forefront.

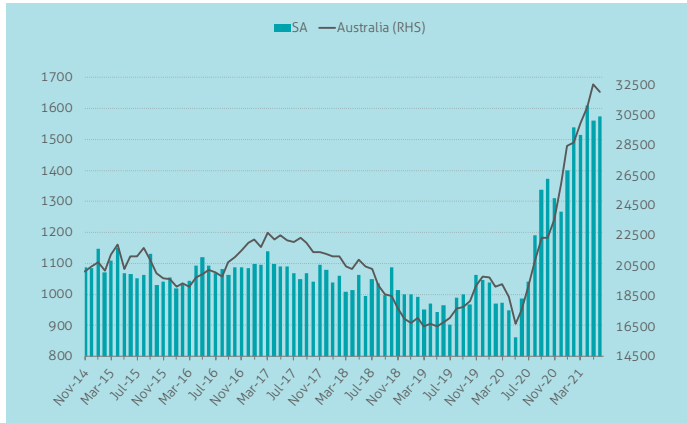
Employee preferences for hybrid work also mean it is likely a factor in the **choice of where to work**.

Businesses that are not flexible may risk being left behind in the quest to find the best talent. In addition, businesses should refresh their hiring strategies to ensure they can **attract the best talent from nearby and further afield**, enabled by hybrid working.

Finally, the benefits of hybrid working are not limited to employees. Businesses should consider whether a hybrid approach may **improve how they connect to customers** – either via online channels, or with employees working remotely in other markets. This reflects an environment where many customers are accustomed to hybrid experiences themselves. The use of digital tools is critical to build awareness of business offerings and experiences. Consumer preferences for online bookings and flexibility are likely to remain after the pandemic. Businesses working to expand these channels will be better positioned for future growth.

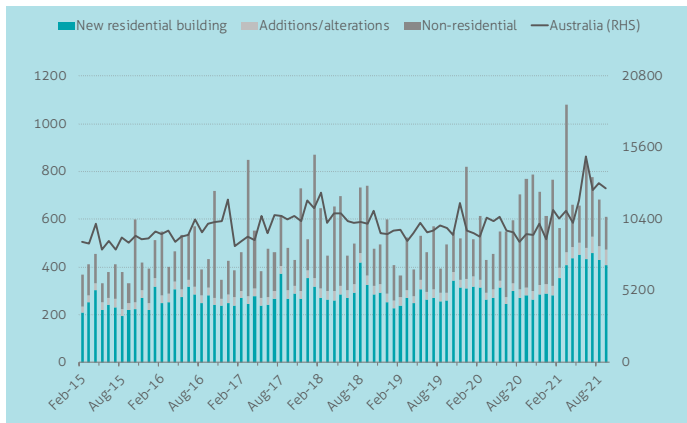
Statistics

CHART 1
HOUSING FINANCE COMMITMENTS – SEASONALLY ADJUSTED (\$M)



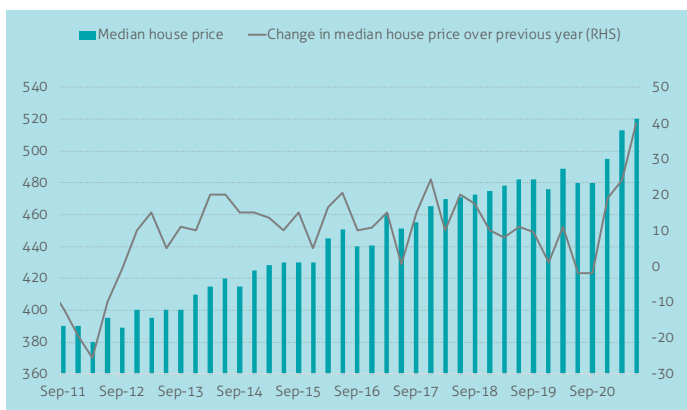
Following a COVID-driven dip in the first half of 2020, housing finance commitments in South Australia have rocketed to record highs. Monthly commitments in the state through the first half of 2021 have been almost 50 per cent higher than the long-term average. A similar boom has occurred nation-wide, although South Australia’s housing finance commitment growth was faster to get going. Record commitments both in South Australia and across the country have been encouraged by the Australian Government’s HomeBuilder scheme and record low interest rates, which came at a time when many households had built up their savings due to pandemic-related uncertainty. These effects will ease in the near future, and combined with the population constraints of international border closures, will likely see a moderation in housing finance commitments.

CHART 2
BUILDING APPROVALS – SEASONALLY ADJUSTED (\$M)



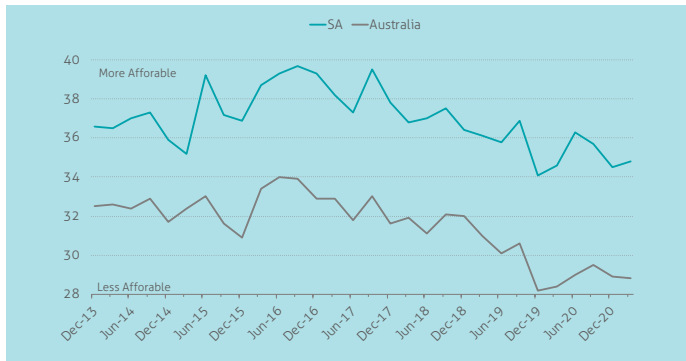
Approvals for new residential buildings in South Australia have grown and remained high through 2021 to date. This reflects the increased housing market demand shown by record high housing finance approvals. Increased demand is also reflected in higher-than-average alterations and additions (i.e. residential renovations). The uplift in the residential housing market was fuelled by the Australian Government’s HomeBuilder scheme which was taken up in far greater numbers than expected due to an accumulation of savings by people who did not lose their jobs during the pandemic-driven 2020 recession. These same boosting factors have not been present in the commercial construction market, and thus non-residential building approvals have not changed much on average. As the impacts of stimulatory policies fade, building approvals will likely contract, especially as a lack of international migration has removed the housing market’s main driver – population growth.

CHART 3
MEDIAN PRICE OF HOUSES SOLD - ADELAIDE (\$'000)



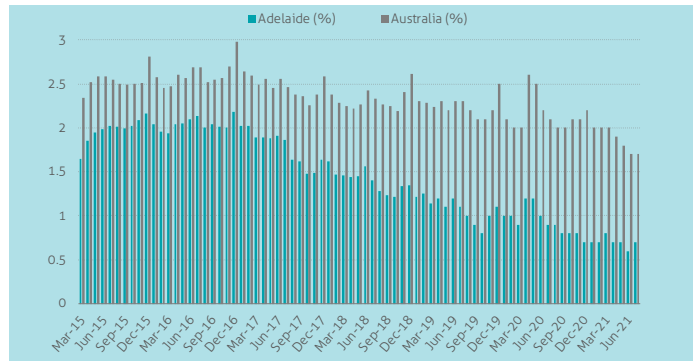
Leading into the pandemic, house prices in Adelaide were buoyant, outperforming most of the national market. The pandemic then put the brake on activity, seeing the median Adelaide house price decline for the first time since 2012 (back when the median house price was just \$380,000). But that break was short lived, with government fiscal support and record low interest rates causing demand to rush back into the market. The median house price in Adelaide rose \$40,000 over the 12 months to June 2021, or 8.3 per cent over the year, the largest increase since 2008. Despite such strong growth in Adelaide, the same trend across the whole country has seen the city’s median house price remain the second most affordable of all the capitals. Therefore, when the house price gains provided by stimulus and accumulated savings start to fade, any moderation in Adelaide house prices is likely to be matched by similar conditions in the rest of the nation.

CHART 4
HOUSING AFFORDABILITY - INDICATOR STATISTIC



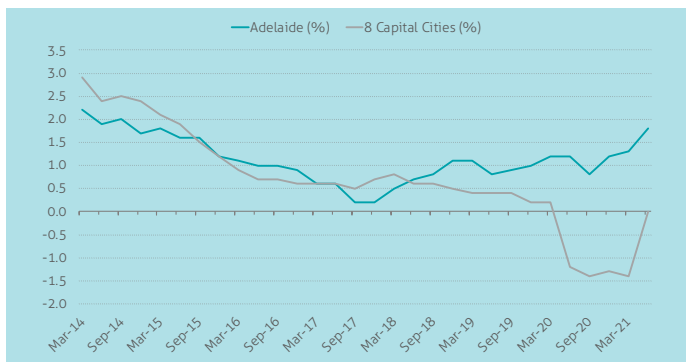
After hitting a record low at the end of 2019, housing affordability in South Australia actually improved during the height of the COVID-19 pandemic (early to mid-2020). This occurred as demand in the housing market fell and interest rates were cut to record lows, decreasing the cost of most home loans. However, from the second half of 2020, a resurgence in housing market demand has driven housing affordability in South Australia back down. Even so, affordability in South Australia still far exceeds that across Australia as a whole. In fact, the gap between affordability in South Australia and the whole country has increased, showing that even though affordability has deteriorated within South Australia, the state is outperforming the nation more so than before the pandemic.

CHART 5
RENTAL ACCOMMODATION VACANCY RATE



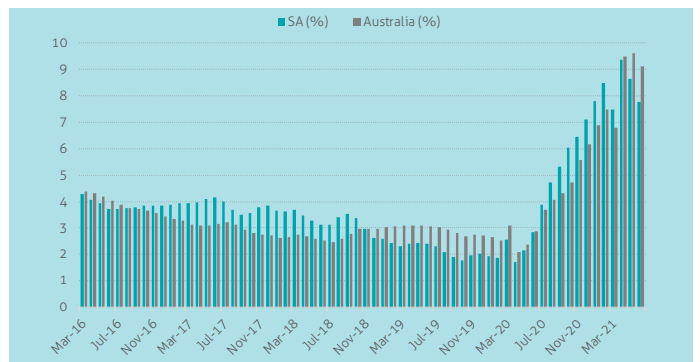
Rental vacancy rates have fluctuated since the pandemic hit – initially causing some much-needed reprieve for renters. In April 2020, the Australian rental vacancy rate jumped to 2.6 per cent as international border closures caused an outflow of people, leading to a demand drop off for rental properties. While a similar story is true for Adelaide, the magnitude is quite different. Adelaide’s vacancy rate has been historically low; leading into the pandemic it was second lowest only to Hobart. This meant that when COVID-19 hit, Adelaide’s vacancy rate didn’t reach the same highs as the rest of Australia. Now that rental demand has largely returned, the Adelaide rental vacancy rate has fallen once again, most recently resting at an almost record low of 0.7 per cent in July 2021.

CHART 6
INDEX OF DWELLING RENTS - % CHANGE ON PREVIOUS YEAR



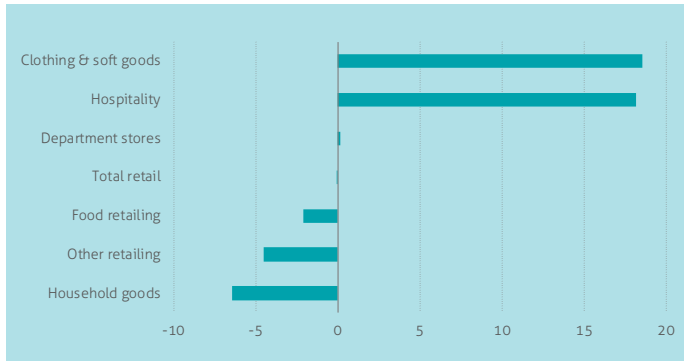
Leading into the COVID-19 pandemic, relatively low availability of rental properties in Adelaide placed upward pressure on the cost of rent. And while a drop off in demand from the onset of the pandemic provided some renter reprieve through the middle of 2020, rents in Adelaide have since increased at a bounding annual rate of 1.8 per cent. Rental price growth isn’t as prevalent across the rest of the country due to a more prolonged drop off in rental demand in the major capital cities – particularly Melbourne, which saw vacancies hit a record high at the end of 2020. It is likely that Adelaide’s strong growth in dwelling rents will moderate in the near future as the impacts of almost no migration set in and take their toll on the rental market.

CHART 7
RETAIL TRADE - % CHANGE OVER PREVIOUS YEAR - SEASONALLY ADJUSTED SERIES



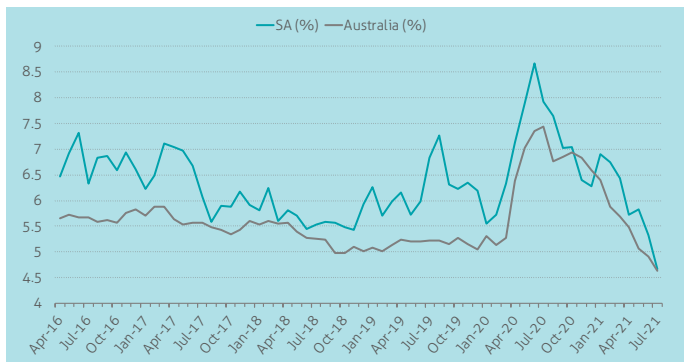
The global pandemic and associated lockdowns have caused many ups and downs for the retail sector. The rate of growth in South Australia’s retail turnover has been on a fairly steady decline from late 2018 to the end of 2019. This saw growth in the state’s retail sector underperform that of Australia as a whole. Then when the pandemic first hit Australia, growth in retail trade bounced around with the declines caused by lockdown restrictions and falls in discretionary spending playing off against increased demand for essentials like groceries. But from May 2020 onwards, retail turnover growth has taken off, fuelled rapidly by online spending particularly by people who kept their jobs during the pandemic and built up their savings. Retail trade growth in South Australia exceeded that in Australia as a whole from mid-2020 into early 2021, but has since eased back below the national average, although still at very high rates relative to recent history.

CHART 8
RETAIL TRADE BY SECTOR - % CHANGE JUNE 2020 TO JUNE 2021 - SEASONALLY ADJUSTED SERIES



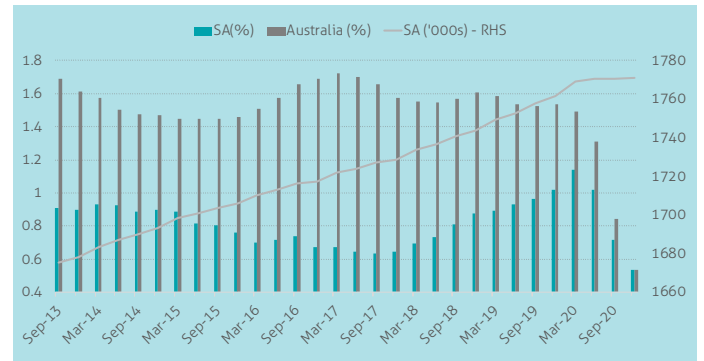
While retail turnover in South Australia has grown rapidly over the past year, this growth has been vastly uneven across different retail sectors. Retail trade for clothing and soft goods, along with hospitality, has bounced back to an extraordinary extent following large declines during the early days of COVID-19. These bounce-backs have been driven by the removal of lockdown restrictions (most of the time), increases in employment and the diversion of discretionary spending that may have otherwise been directed to interstate and international holidays. At the other end of the scale is turnover on retailing of food, household goods and other retailing. However, most of these declines are on the back of large surges in spending in mid-2020, such as the fast growth that occurred in expenditure on household goods by people setting up home offices to enable remote working.

CHART 10
SEASONALLY ADJUSTED UNEMPLOYMENT RATE



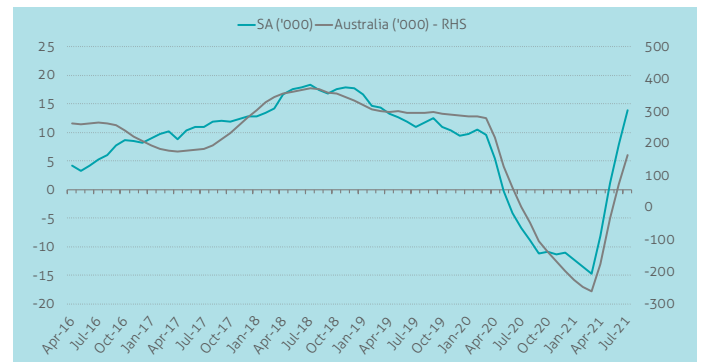
During the COVID-19 jobs recovery, South Australia's unemployment rate has been at the higher end of the country. But currently, the state's unemployment rate is the lowest it has been since 2010 and rests just 0.1 percentage point above the national unemployment rate. To make things even better, South Australia's low unemployment rate is driven by jobs – not workers leaving the workforce. The state's participation rate is currently hovering around 63 per cent and employment growth was 1.2 per cent in July 2021. For a state with historically low labour market participation, this is a promising sign with the potential for longer-term benefits ahead.

CHART 9
POPULATION TRENDS - % CHANGE ON PREVIOUS YEAR AND LOCAL LEVEL ('000S)



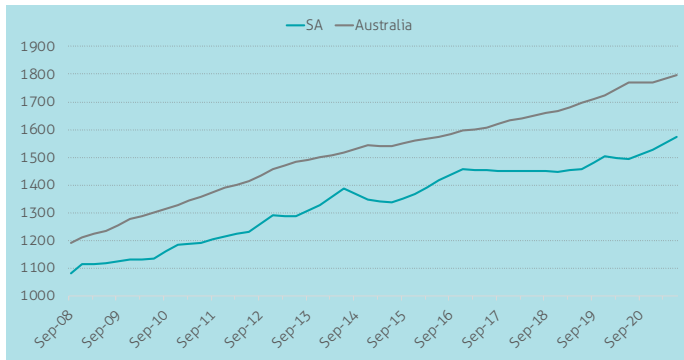
The continued pause in international migration caused by the global pandemic has seen population growth fall across the country in 2020, with South Australia being no exception. This is very unfortunate timing for the state which was finally starting to see a much-needed pick up in population growth through 2018 and 2019. But with international borders shut off until at least next year, population growth is just hanging on by a thread (0.5 per cent year on year). But the news isn't all bad: while it may have taken a pandemic to achieve, South Australia saw a net increase in interstate arrivals for the first time since 2002. Traditionally the state has experienced a 'brain drain' with young professionals moving interstate in search of new opportunities. The upheaval caused by COVID-19, including a mass uplift in remote working, has assisted in the return of some residents to the state.

CHART 11
EMPLOYMENT - NET NUMBER OF NEW JOBS OVER THE PAST YEAR



Unsurprisingly, the number of jobs available in South Australia (and Australia as a whole) fell through 2020 and the early months of 2021, relative to a year prior. Limitations on activity for many businesses, falls in demand for some, and record high uncertainty about the path ahead, led many businesses to contract and hold off any hiring plans. But from May 2021, the number of jobs in South Australia relative to a year earlier returned to positive territory, preceding the same turnaround for the country as a whole by a month. Growth in employment is forecast to continue in South Australia as economic recovery continues. Employment growth will be able to pick up further once both interstate and international borders open up, enabling the return of tourism.

CHART 12
TOTAL AVERAGE WEEKLY EARNINGS (\$) PERSONS IN FULL-TIME EMPLOYMENT



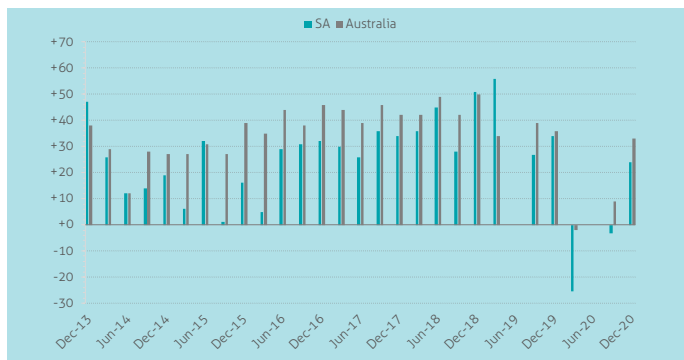
Average earnings in South Australia have finally returned to growth again, following a long period of stagnation between late-2016 and mid-2019. Over the year to June 2021, the average weekly earnings of full-time workers in South Australia grew by 5.5 per cent. This is relatively high for earnings growth and much higher than full-time earnings growth for the whole country over the same period. But South Australia’s relatively strong earnings growth is currently serving as a period of catch up. While recent growth has slightly narrowed the gap between earnings in South Australia and the nation on average, this gap is still more than a third larger than it was a decade ago. That said, current economic and labour market conditions put South Australia in a favourable position to continue to narrow its earnings gap with the rest of the nation.

CHART 13
CONSUMER PRICE INDEX, ALL GROUPS - % CHANGE ON PREVIOUS YEAR



In June 2021, price inflation in South Australia reached its highest rate since 2014. But that doesn’t mean that consumers need to start worrying about goods and services becoming unaffordable. Rather, strong growth in prices over the year to mid-2021 was a result of very weak price growth in 2020 following COVID-19. Despite still large swings, price inflation in South Australia has remained slightly less volatile than across Australia’s eight capital cities on average. Most of the changes in prices in South Australia have been caused by the transport and household equipment categories, both of which fell to a large extent in 2020 but have since surged far past pre-pandemic levels. Household equipment includes home gym equipment as well as home office setups.

CHART 14
SMALL BUSINESS CONFIDENCE - NET BALANCE



The COVID-19 pandemic caused South Australian small businesses to be more pessimistic than optimistic for the first time since the Sensis Business Index began. Pessimism among South Australian small businesses far outweighed that of Australian small businesses on average. This suggests South Australian small businesses may have felt more exposed to the impacts of the pandemic when it first reached Australian shores. As economic activity and employment conditions have improved, so has small business confidence, returning solidly into positive territory both for South Australia and the country as a whole.

CHART 15
SA EMPLOYMENT AND JOB VACANCIES – CHANGE OF THE LAST YEAR - SMOOTHED

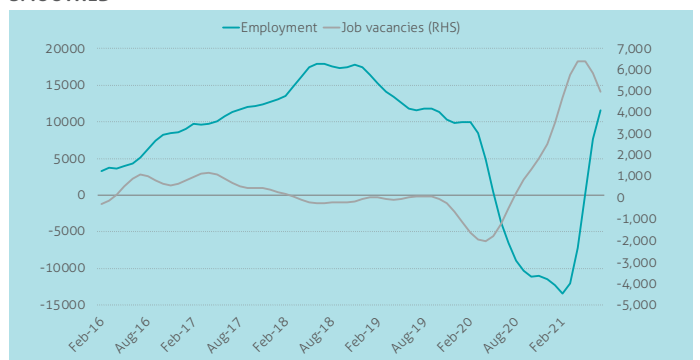
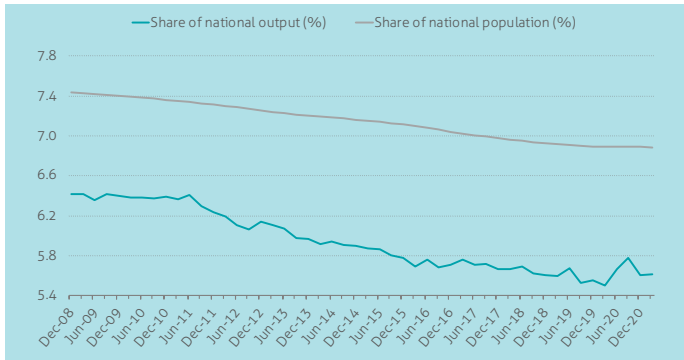


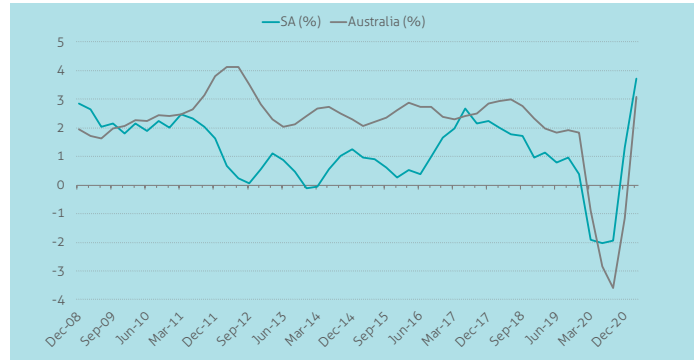
Chart 15 shows the strong inverse relationship that exists between changes in employment and changes in job vacancies. As employment grows, the jobs market tightens and fewer job openings are available. This relationship also operates in the opposite direction, which has been borne out recently in South Australia due to the COVID-19 pandemic. Employment figures in the state began contracting relative to a year earlier in May 2020. Three months later, as worker shortages emerged and economic conditions settled, South Australian job vacancies started to grow again. The change over the year in job vacancies peaked in April and May 2021 at more than 6,400. The strong recovery in South Australia’s jobs market has seen growth in job vacancies moderate, but vacancies still remain far above their levels of a year ago.

CHART 16
SHARE OF NATIONAL OUTPUT AND POPULATION – SOUTH AUSTRALIA



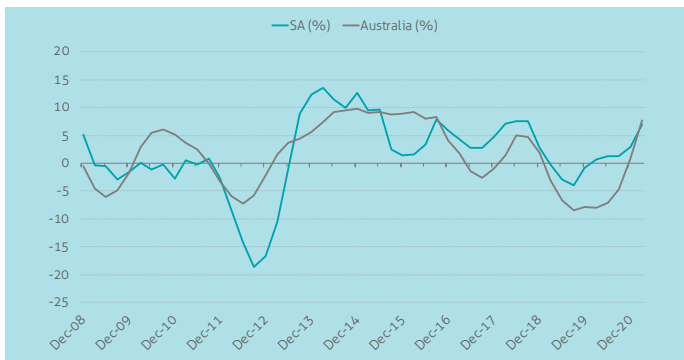
As other parts of Australia outpace South Australia in their growth, the state’s share of both output and population has historically trended down at a slow but steady pace. But South Australia’s declining share of the nation has been interrupted by the pandemic. The state’s population share has remained about constant for the past year, and its share of national economic activity is actually slightly above pre-pandemic rates. This reflects South Australia’s relative success in keeping COVID-19 under control and subsequently speeding up the state’s economic recovery.

CHART 17
OUTPUT - ROLLING AVERAGE - % CHANGE ON PREVIOUS YEAR



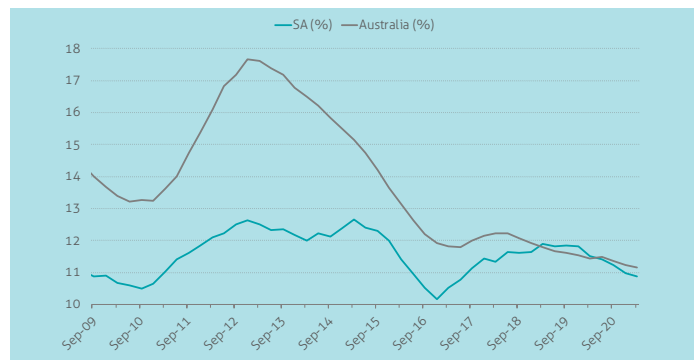
Along with the rest of Australia, South Australia’s economy entered recession in 2020. But the state’s relative success in containing the COVID-19 pandemic saw its economy suffer slightly less than Australia overall. South Australia’s economic recovery has also been faster and stronger than that of the rest of Australia on average. Largely driven by interstate migration gains and surges in household spending, South Australia’s economy was able to return to its pre-pandemic size well before the close of 2020. For Australia overall, this achievement didn’t come until 2021 was underway. South Australia will likely continue to experience the positive impacts of its economic growth bounce-back for a little while longer. However, growth is expected to moderate once the sugar rush of rebounding from a recession subsides, particularly while international borders remain closed, limiting growth in some sectors.

CHART 18
DWELLING INVESTMENT – ROLLING AVERAGE - % CHANGE ON PREVIOUS YEAR



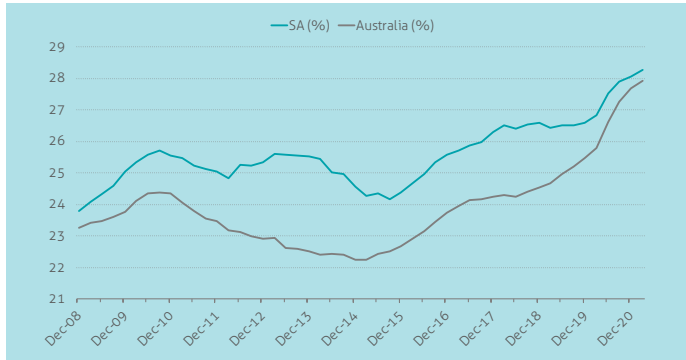
Throughout 2019, dwelling investment in South Australia followed the national trend of decline. This put the state’s dwelling investment in a precarious position when COVID-19 hit. However, South Australia’s ability to keep the virus spread under control, combined with Government stimulus measures and record low interest rates, saw the state’s dwelling investment grow right through 2020 (relative to a year prior). The state’s dwelling investment growth has further accelerated into the first half of 2021.

CHART 19
BUSINESS INVESTMENT - % OF OUTPUT



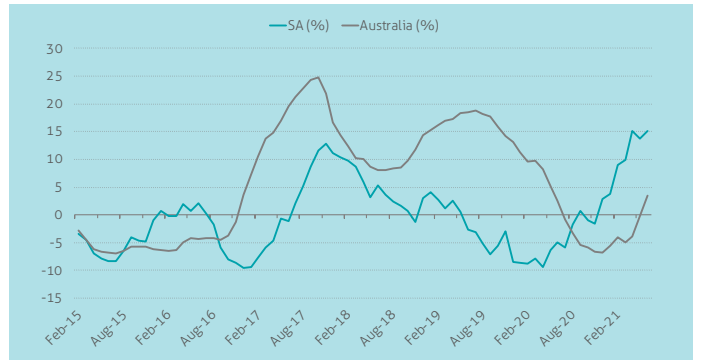
When the economic recoveries of both South Australia and the nation were well underway, businesses had been much slower to return to spending than households. This had caused business investment to decline as a share of total economic activity. In South Australia, business investment’s share of the economy fell from 11.8 per cent at the end of 2019 to 10.8 per cent in early 2021. Caution has persisted among many businesses due to continued uncertainty. Interstate and particularly international border closures have also limited the growth potential and subsequently investment activities of many businesses. While business investment is expected to pick up through the remainder of 2021, growth will likely remain limited until the pandemic is much more controlled, and borders are able to open once more.

CHART 20
PUBLIC SECTOR OUTPUT - % OF TOTAL CONSUMPTION AND INVESTMENT



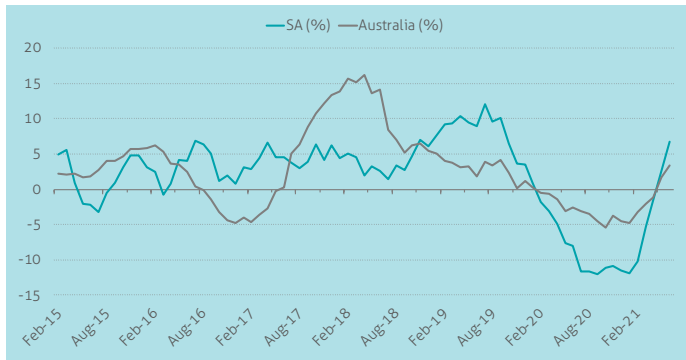
Times of crisis often call for government intervention and the COVID-19 pandemic has certainly highlighted the need for the public sector. After a period of relatively strong growth, South Australia’s public sector remained about constant as a share of the state’s consumption and investment through 2018 and 2019 at 26.5 per cent. But once COVID-19 reached Australian shores and the economic toll became evident, governments across the country sprung into action. Mass stimulus packages designed to keep businesses and households afloat have seen South Australia’s public sector activity expand to more than 28 per cent of all consumption and investment. There was also a strong increase in the public sector’s share of spending across all of Australia, but the higher starting point in South Australia has seen its public sector remain a larger share of all spending than for the country on average.

CHART 21
MERCHANDISE EXPORTS - % CHANGE ON PREVIOUS YEAR



South Australia’s merchandise exports had already been in decline since May 2019 when the COVID-19 pandemic hit. This was largely driven by the state’s exposure to manufacturing. As the pandemic took hold, South Australia’s merchandise exports started heading in the opposite direction to the rest of the country, being back to positive growth by the end of 2020. Growth in South Australia’s merchandise exports has gained steam through 2021, fuelled by increased demand for various rural products and raw materials. This growth in South Australia has preceded that occurring in national merchandise exports by a full six months.

CHART 22
MERCHANDISE IMPORTS - % CHANGE ON PREVIOUS YEAR



South Australia’s imports have taken a vastly different path to exports over the past two years. The state’s merchandise imports had entered a relatively mild decline at the start of 2020. This decline quickly accelerated as the pandemic took hold and import demand from consumers as well as South Australian businesses fell quickly. Merchandise imports into South Australia declined at more than twice the rate of Australia on average. While such a strong contraction in imports typically reflects economic weakness, the state’s overall economic position has remained robust. Merchandise imports into South Australia are now growing quickly, compensating for some of 2020’s declines.

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Trends November 2021

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