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ADVISORY SERVICES DEPARTMENT

Newsletter

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Q2 2022 | Issue 29



ECONOMIC IMPACT OF HYBRID WORK ARRANGEMENTS

The Pandemic Effect

The Covid-19 pandemic has impacted almost every aspect of life and resulted in introspection on both a personal and an organisational level. Normal routines are out the window, replaced by things we never thought would be possible, especially not in our lifetime.

The workplace has evolved, and what began as a short-term response has changed many people's daily commutes. The journey between home and the office has shifted to moving from one room in the house to another. Some adjusting was initially required, but once the teething issues were resolved, the

focus shifted, and people began thinking more about how their work and personal lives integrate. As a result, they were able to settle into a comfortable routine which allowed for a greater work-life balance.

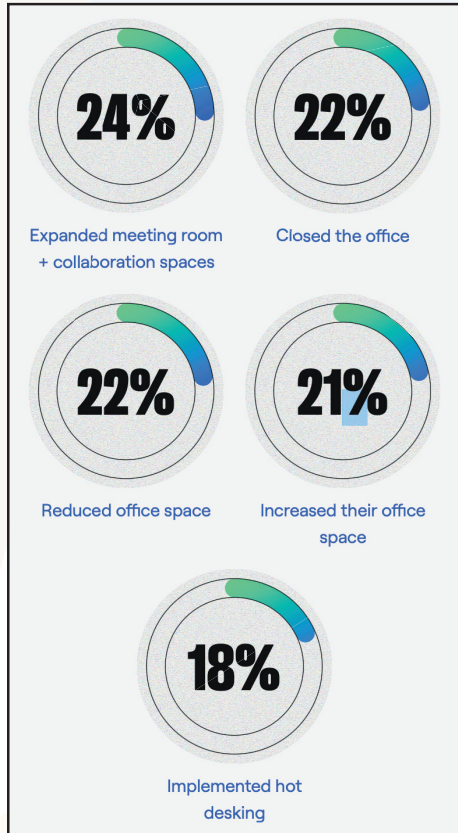
However, with the easing of restrictions, it became essential that companies consider the future of the workplace beyond just the physical location. The most appropriate options for their employees fell into one of the following categories:

- **Fully remote** – all employees are no longer required to come into a physical office and can work full-time from home.
- **Hybrid** – employees can decide where they want to work from, e.g., home, the office, or a mixture of both.
- **Activity-based** – employees' job functions are evaluated, and a determination is made on whether they are required to work onsite or can work remotely. This provides flexibility to staff wherever possible, while still prioritising productivity and collaboration.

Impact on Workers

These changes may have resulted in a different configuration of the current office space.

Figure 1: Change in office space



Source: The State of Remote Work 2021 by Owl Labs and Global Workplace Analytics

According to research conducted by Global Workplace Analytics, experts in helping employers optimise flexible and distributed workplace strategies, there is a 50% probability that companies which adopt a hybrid workplace are poised to save an estimated US\$11,000 annually on each employee who works remotely. Furthermore, employees also benefited from cost savings.

Research conducted by PWC, which summarised some of the key financial implications of current work models, stated that office workers reported their weekly spending to be lower when working from home, compared to their estimates when working in the office. This would include commute expenses (gas, vehicular maintenance, and public transportation).

Impact on Businesses and the Economy

Though beneficial, it was not ideal for all, as some manufacturers of commercial office furniture were not able to easily pivot and sell directly to consumers. The onset of the pandemic greatly impacted these companies. The companies capable of adapting, capitalised on the significant increase in expenditure on home office equipment, as people adapted their homes for remote working. So, instead of companies deciding what furniture their employees would use to work, the decision was more widespread, as each employee could choose the option that aligned with the décor in their home office space. Some companies absorbed the cost and allowed their employees to file for reimbursement or receive a stipend.

This is a clear example that workers, whether remote or physically in the office, contribute to the economy, not only with their labour but also through their expenditure. Central business districts suffered heavily during the lockdown period, as consumer spending declined and economic activity flatlined. The dramatic growth in remote work will impact the demand for office space.

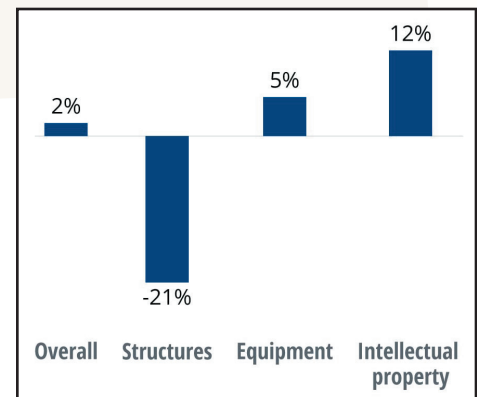
In the United States, several major companies have reduced their corporate office space, e.g. Target, Old Navy and CVS Health, to adapt to the changed work environment. Some companies even initiated strategies for satellite offices to support mobile work practices.

There is some upside as the shift to remote working can redistribute economic activity away from cities, to suburban and rural areas as the target audience of many cafes and restaurants in major cities rely on office workers. The economic impact of remote working in the service industry has been dramatic. In response to the deserted city centres, Pret a Manger, an international sandwich store franchise

based in the United Kingdom, planned to expand beyond the city centres' confines to keep abreast with the shift in working practices.

Business investments were also significantly impacted since the start of the pandemic. An article by Deloitte highlighted the change in structures, equipment, and intellectual property. Figure 2 shows that investment in structures fell whereas equipment and intellectual property investment increased.

Figure 2: Change in investment since the start of the pandemic



Source: Deloitte Insights, BEA, Haver Analytics

Investment in all types of structures fell during the pandemic and remained low. The categories with the largest decline were:

- food and beverage establishments (down 33%)
- multi-merchandise shopping (down 31%)
- office structures (down 20%)

The report also surmises that there is little prospect of an increase in demand for office or retail space in the near future, and construction is responding accordingly.

On the contrary, equipment investments rose 5%, including information-processing equipment. Laptops, for example, experienced growth in Q2 2020, the early stage of the pandemic, as just about every other economic sector was declining. This reflects the trend of companies purchasing the necessary equipment to facilitate or

strengthen the infrastructure required for remote work. At the end of Q3 2021, investment in information processing equipment was up 20%, compared to the pre-pandemic level, even though there was a decline from the previous quarter, which was mainly driven by a drop in computer purchases.

Despite the initial pandemic-caused decline, intellectual property investment experienced the greatest increase in Q3 2021 of 12%, compared to pre-pandemic levels. Figure 3 shows that this was mainly due to the rapid investment in software, which represents the largest category of intellectual property investment. After declining for one quarter (Q2 2020), software investment grew at an average annual rate of 14%, compared to 9% in the four years before the pandemic.

Another contributing factor to the increase was the investment in research and development (R&D) which also increased after the initial pandemic-caused decline. It shifted from an average rate of 5.3% before the pandemic hit in the first half of 2020 to 9.8% thereafter.

Software, along with Research and Development is less likely to have any long-lasting effect from working remotely or in a hybrid environment. It is expected to land on the opposite end of the spectrum, as some experts believe that the need for R&D would grow alongside a greater reliance on software. This belief is formulated through the need for companies to find innovative solutions to improve the efficiency and effectiveness of their existing operations, and new products to serve their customers digitally.

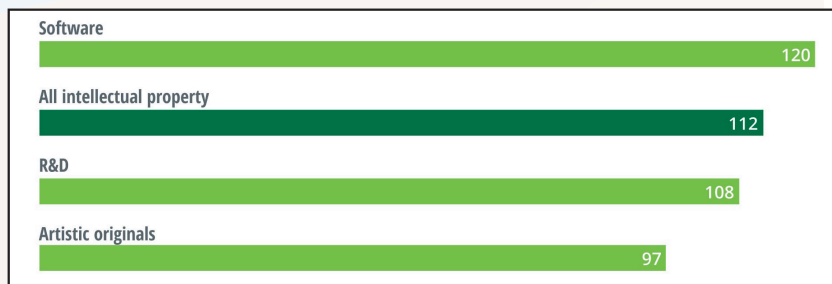
Future Trends

The “Great Resignation” which resulted from the pandemic, clearly points to a permanent shift in workers, as shown in Figure 4. The pandemic’s working arrangements showed that working from home could be equally productive as working from an office while staying

connected and collaborating with colleagues. Given some of the other benefits, workers are hard-pressed to revert to pre-pandemic arrangements.

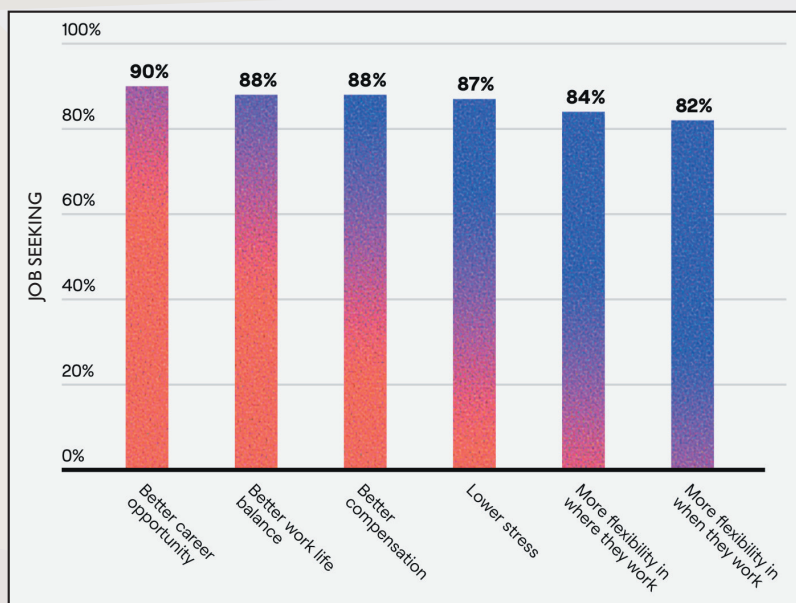
For the foreseeable future, hybrid and remote working arrangements will continue, as the pandemic shone a spotlight on matters that workers

Figure 3: Investment in intellectual property by type in Q3 2021 compared to Q4 2019’s level of 100



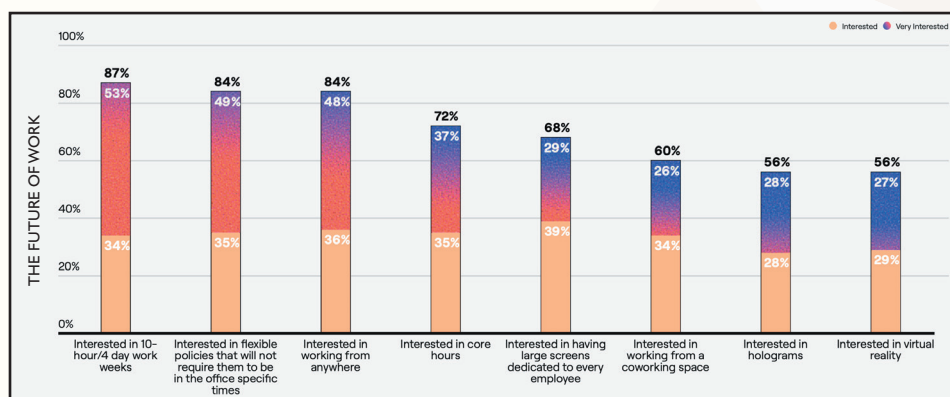
Source: Deloitte Insights, BEA, Haver Analytics

Figure 4: Of the people who changed jobs during the pandemic or who are actively seeking a new opportunity, they are now looking for:



Source: The State of Remote Work 2021 by Owl Labs and Global Workplace Analytics

Figure 5: Top future working trends



Source: The State of Remote Work 2021 by Owl Labs and Global Workplace Analytics

Investment Check List



The pandemic has proven that sudden changes can throw our world upside down and impact most, if not all aspects of our lives. One of the greatest lessons that people have realised is you are your greatest asset and must be treated as such. So, just as individuals have their investment portfolio, which helps them to reach financial stability and achieve their goals, it is essential to have the same approach to you and your career path. The following can be used as a guide:

1. Identify your needs and goals

First, identify your wants, so you can chart the course to get there. Similar to your investment portfolio,

your goals are unique to you and can range from climbing the corporate ladder to entrepreneurship, or perhaps a specific amount of work-life balance.

2. Do a periodic review

Just as your investment portfolio is reviewed regularly to ensure that you are comfortable with the assets and their performance, the same should be done in your personal life.

3. Make alterations in line with your life stage needs

You are not required to maintain your initial goals, or those previously amended. Should your circumstances change or the market shift, it is essential that you

make the necessary amendments that are best suited to you and your current situation.

4. Do your research

The approach you would take to purchasing an investment, which includes researching its performance etc., is the same attitude you should adopt in all other aspects of your life, especially the big decisions.

5. Seek help if necessary

Just as there are Financial Advisors to help guide you to your ideal investment portfolio, there are many other experts out there willing to assist you along your journey.

Mail: Mrs. Linda Wilson-Mano
Assistant Vice President
Advisory Services Department
3rd Floor, UTC Financial Centre
82 Independence Square
Port of Spain

Tel: 624-8648 Ext. 3013

Email: yourwealthmanager@ttutc.com

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