

## Summary: McKinsey Global Institute - The postpandemic economy and the future of work after COVID-19

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### Background

This independent report is the first of three to be published by the McKinsey Global Institute (MGI) to examine the post-pandemic economy, specifically; the future of work, consumer behaviour, and the potential for a broad recovery led by enhanced productivity and innovation. This first publication examines the long-term impacts of COVID-19 on work across 2000 work activities used in 800 occupations throughout 10 different work arenas. Eight different economies with diverse labour landscapes and characteristics are examined, namely: China, France, Germany, India, Japan, Spain, the United Kingdom, and the United States, which combined, account for almost half the global population and 62% of GDP. It also attempts to identify the lasting impact of the pandemic on labour demand, the mix of occupations and workforce skills required, as well as the implications for business leaders, policy makers and workers.

### Summary

Prior to the pandemic, the largest disruptions to work mainly involved new technologies and growing trade links. This report highlights that COVID has elevated the importance of two additional factors; **physical proximity and level of human interactions** across different occupations and workplaces. The pandemic's short and long-term impact is concentrated largely in four work arenas that are marked by high levels of proximity: **leisure and travel venues** (including restaurants and hotels), employing more than 60 million in the eight countries; on-site customer interaction including **retail and hospitality** (150 million); **computer-based office work** (300 million); **production and warehousing** (more than 350 million). These arenas account for about 70% of the workforce in the six advanced economies examined compared to approximately 60% in China and 40% in India.

The report identifies three trends, accelerated by COVID-19, that could persist to varying degrees after the pandemic:

- **The continuation of hybrid remote work and virtual meetings:** The capacity for remote work, largely supported by the rapid deployment of digital solutions, stands at four to five times pre-pandemic levels. MGI findings indicate that 20 to 25% of workers in advanced economies and about 10% in emerging economies could work from home three to five days a week, mainly in the computer-based office arena without losing effectiveness. This is a striking difference to most other work arenas where findings suggested that as little as 5 to 10% of work could be done remotely. It has also been recognised that whilst some of the work in other sectors can be carried remotely, it is nevertheless more effective in person. When developing long-term hybrid remote working strategies, employers will have to consider factors such as how to best keep employees connected and to maintain a cohesive culture, especially for those working in teams.
- Another impact of the trend towards increased virtual meetings and the subsequent reduction (estimated at 20%) in levels of business travel, is the detrimental impact likely to be experienced by large urban centres. As demand for specific services falls, it is predicted that the following sectors would be the most impacted: transportation (most notably commercial aerospace), retail, retail estate, hospitality and food service. Con-

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versely, smaller cities, that were declining before the pandemic, may benefit from revitalised local growth as workers, incentivised by the opening of satellite offices, city-led programmes, lower costs of living and neighbourhood density, decide to relocate. Local government leaders should therefore consider the value proposition of their location.

- **The growth in share of e-commerce, digital interactions, digital transactions and the “delivery economy”**, which was two to five times faster in 2020 than before the pandemic, is disrupting jobs in travel and leisure and hastening the decline of low-wage jobs such as, cashiers in brick-and-mortar stores and restaurants. Conversely this trend is increasing jobs in distribution centres and last-mile delivery. The report shows growing evidence that many of these new behaviours will persist, even if at somewhat lower levels than the peak.
- **Increased investment and accelerated adoption of automation and AI:** Data collated from a survey of 800 senior executives in July 2020 reflects a widespread impetus to invest in automation and AI in arenas marked with higher physical proximity, such as in indoor production or customer interaction arenas or offices with high workplace density. Investment in digital solutions can also facilitate increased production capacity of manufacturing plants, warehouses and logistics. Share prices of global industrial robotics and AI companies subsequently rose much faster than the overall market in 2020.

It is assumed that economies will return to full employment based on the size of their workforce by 2030. However, the report suggests that **workforce transitions** will be considerable due to displacement related to automation, digitisation, other trends accelerated by the pandemic. This is in addition to various other macro trends that will spur job growth, such as: rising incomes as GDP recovers, ageing populations, increased infrastructure investment, rising education levels, climate change and the transition to renewable energy, and the marketisation of unpaid work. In contrast to pre-pandemic times, where net job losses were concentrated in middle-wage occupations in manufacturing as automation took over routine tasks, by 2030 we should expect a decline in the share of employment in low-wage job categories, especially in the customer service sector.

Workers without a college degree, women, ethnic minorities, young people and individuals not born in the European Union are likely to be most affected, due in part to the growing gap in skills requirements. More than 100 million workers in the eight countries featured in the report may need to switch occupations by 2030, representing a 12% increase from before the virus overall and as much as 25% more in advanced economies. High-wage occupations in healthcare and the STEM professions by contrast, will continue to expand. A similar positive trend can also be expected in warehousing and the transportation sector due to the growth of e-commerce.

The agility and creativity of **policy makers and businesses** demonstrated during the crisis to find effective and collaborative responses to facilitating workforce transitions will need to continue. Companies are presented with a new opportunity to reimagine how and where work is done; streamlined processes, increased efficiency and enhanced operational flexibility could lead to higher productivity growth and the creation of career paths with upward mobility for workers. Studies have found that retraining existing employees with proven track records is typically far more cost-effective than hiring new people. The emphasis when recruiting is therefore likely to shift from that of whole jobs and academic degrees towards retraining and lifelong learning with an emphasis on skills and experience required for in-demand tasks. Policy makers might also consider giving greater consideration to diversity and inclusion to counter the regressive impact of COVID-19, to prioritising equitable access to digital infrastructure as well as new ways of enabling occupational mobility and equipping workers facing job transitions.

In response to the **boom in E-commerce and digital transactions** notably in telemedicine, online banking, and streaming entertainment, the share of independent workers in the gig economy is rapidly growing. Data from countries already experiencing a degree of recovery, suggests that whilst some reversion to brick-and-mortar consumption is to be expected, usage of digital channels will nevertheless remain higher than pre-pandemic levels. As such, it is likely that more innovation will be required to revamp labour market policies to secure benefits for gig workers. This segment currently has no clear career pathway to increase their skills and thereby income and also experience varying degrees of entitlement to social security benefits.

The report also envisages that licensing and certification requirements for many occupations will be reviewed. On the one hand, licensing ensures that professionals have the requisite skills and training and protects consumers, however it can also limit competition and occupational mobility.

The impact of the pandemic on work with high physical proximity delivered a major shock to the workforce, and will continue to influence its shape and direction in the years to come. Jobs that once helped offset labour displacement are among those most affected by the long-term repercussions of COVID-19, and workers will face unprecedented transitions requiring wholly new skills to advance into the more highly paid jobs being created. Businesses and policy makers have a role to play in rethinking retraining and finding new ways to help workers develop the skills they will need.

For more information and further reading, find the complete report in PDF format [here](#).