



CITB ANALYSIS AND FORECASTING

Construction Skills Network

Labour Market Intelligence Report

5-year
Outlook

2021-2025

**South
West**



The South West's annual recruitment requirement of 2.6% per year, is the strongest across the UK and means an extra 32,000 new workers are needed between the end of 2020 and 2025.

The annual recruitment requirement in South West

2.6%

Amount of new workers that are needed between 2020 and 2025

32,000

Macroeconomic backdrop

The outlook for most of the economy looks much more positive, as confidence rises amid a successful vaccine rollout, declining Covid-19 infection rates and the government continuing to follow its 'roadmap out of lockdown' that involves return to some normality. For instance, YouGov/Centre for Economics and Business Research's Consumer Confidence Index in April 2021 recorded its highest score in almost three years, at 108.5. The index score of above 100 suggests that more consumers are confident than not, and this is being driven by recent business activity in the workplace as the economy gradually reopens. Rising confidence should result in greater prospect for spending and therefore expediting economic recovery from the recession.

Construction is no exception to optimism about the future, with IHS Markit/CIPS' Construction Future Activity Index averaging a score of 73.4 in the first three months of 2021. A score of above 50.0 suggests that the construction industry expects growth over the coming 12 months. Most of this optimism results from

continued resumption of works that were paused during lockdown restrictions and an expected rise in sales, as the economy continues to reopen and lockdown restrictions ease. As construction output keeps recovering in 2021 the industry's confidence should remain positive.

These positive points could reduce the risk of business insolvency in the near-term. Ernst & Young's 2020 Profit Warnings report suggests that most of construction's 33 'profit warnings,' when a publicly listed company reports profits materiality below expectations, came from the commercial sector. Structural changes impacted commercial work during 2020, with reduced demand for office space arising from remote working and an ongoing shift towards online shopping impacting retail space, and these changes pose near-term uncertainty for this sector. The risk for the commercial sector is that its number of insolvencies could rise as government support winds down in 2021.

A swift recovery could present a risk of price pressures for construction and the wider economy. Although inflation is currently low (0.4% in February 2021), we expect inflation to rise to 2% by the end of 2021 as pent-up demand pushes up prices.

Construction has recently faced rising material prices, also driven by:

- Difficulties in obtaining materials during the pandemic
- Import tariffs
- Depressed sterling rates.

While some of these factors could be temporary, ongoing price pressures for construction are likely, especially due to potential supply shortages. The Royal Institute of Chartered Surveyors forecast that construction materials prices will rise by 22% between Q3 2020 and Q3 2025, which could pose some challenges for the industry, e.g., through uncertainty about future profits and costs that in turn impact investment levels.

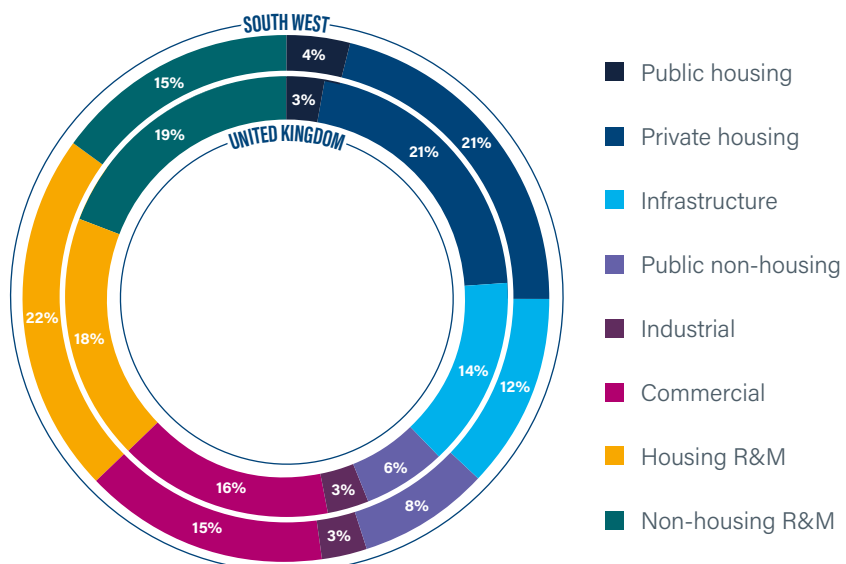
Lastly, there are non-economic challenges for the wider economy and several industries, including construction. These include a potential third wave of Covid-19 infection rates resulting from relaxed social distancing restrictions during summer 2021 and increased international travel that might result in further Covid-19 variants. Such challenges could also lead to additional lockdown measures during autumn 2021 and onwards, which could create a dent in wider economic and construction recovery.

Structure

The structure of the construction industry in the South West is very similar to the UK view, especially for the new build sectors. Private housing infrastructure and commercial are the main new build sectors and the share of each in the South West is very close to the UK. Only variation is the balance between housing and non-housing repair & maintenance sectors, where the South West has a higher share of housing R&M.

CONSTRUCTION INDUSTRY STRUCTURE 2020, SOUTH WEST VS UK

Source: ONS, Experian

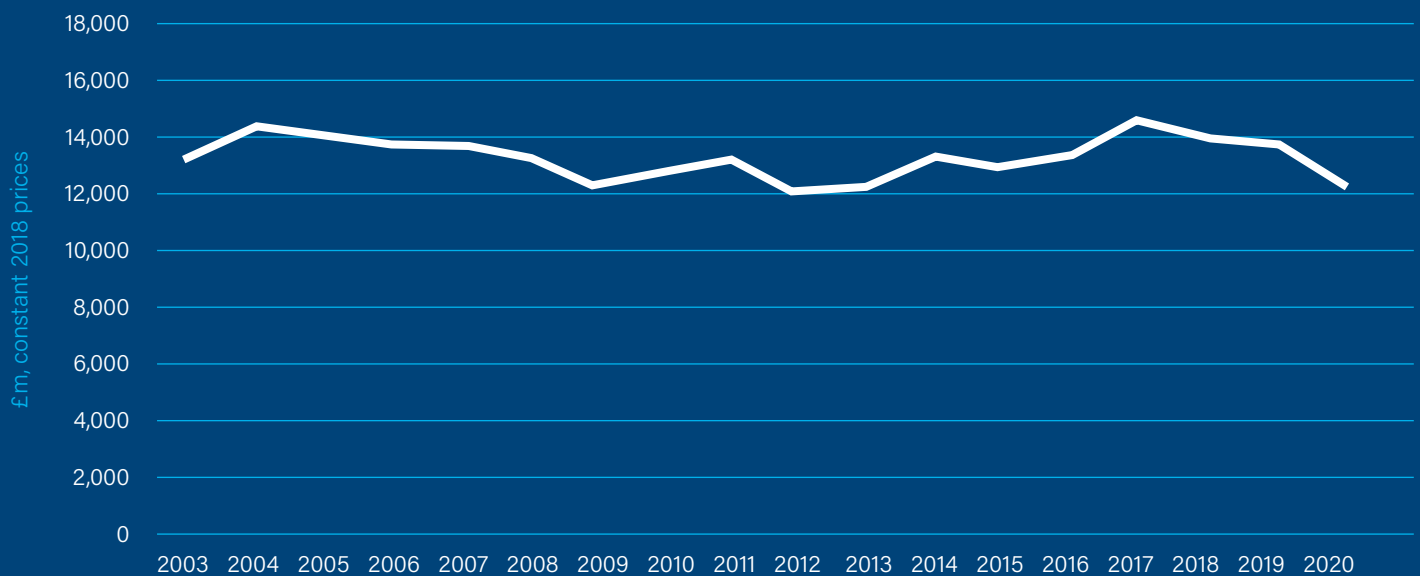


2020 view

2020 has been a challenging year for construction in the South West, with annual output dropping by an estimated 13% when compared to 2019. Recent data published by the Office for National Statistics showed a strong pick-up of construction work in the second half of 2020, and although there has been a slight drop in first month of 2021, we expect output to steadily recovery over the rest of 2021.

CONSTRUCTION OUTPUT 2003 - 2020 SOUTH WEST

Source: ONS



Output forecast 2021 - 2025

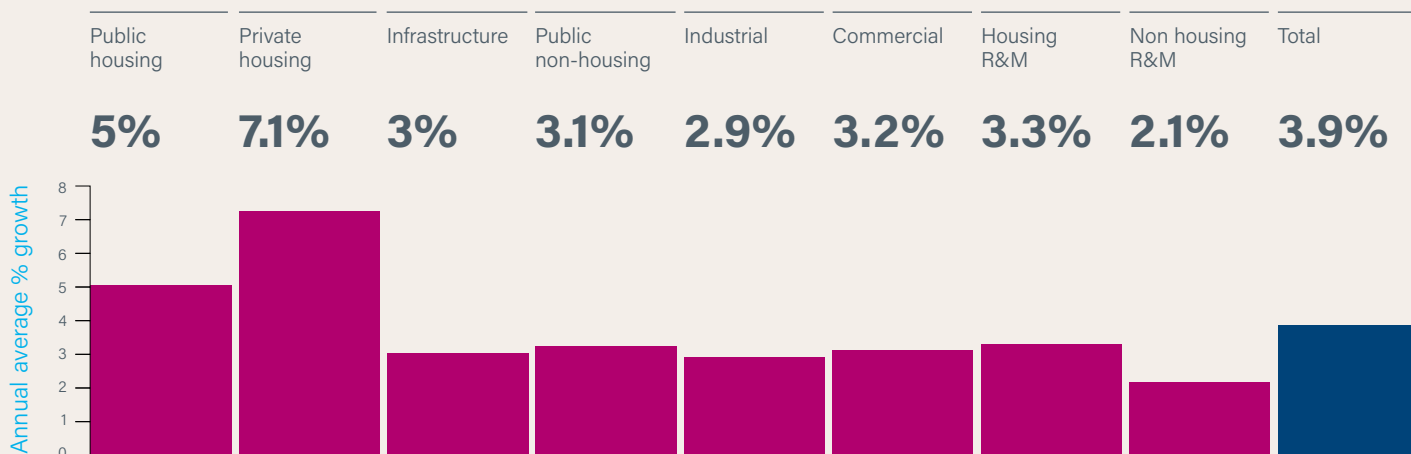
The volume of work will grow by an annual average rate of about 3.9% for the South West, just slightly below the UK forecast of 4.4%. Private housing and public housing sectors are expected to have the fastest growth rates and our estimate is that construction output will achieve its pre-Covid-19 levels in 2022.

South West average growth rate

3.9%

Forecast

FORECAST ANNUAL AVERAGE OUTPUT GROWTH BY SECTOR 2021-2025 SOUTH WEST



Source: CSN, Experian Ref: CSN Explained, Section 4, Note 2

CONSTRUCTION OUTPUT - SOUTH WEST (£ MILLION, 2018 PRICES)

	Actual	Forecast (Annual % change, real terms)					Annual average
	2020	2021	2022	2023	2024	2025	2020-2025
Public Housing	464	12.3%	5%	2.9%	2.9%	2.2%	5%
Private Housing	2,272	23.3%	4.4%	3.2%	3.3%	2.7%	7.1%
Infrastructure	1,267	20%	4.7%	-6.4%	-1.7%	0.1%	3%
Public Non-housing	904	9.4%	1.7%	2.1%	1.6%	1%	3.1%
Industrial	302	5.2%	3.9%	3.2%	2.1%	0.3%	2.9%
Commercial	1,675	5%	3.5%	2.9%	3%	1.7%	3.2%
New Work	6,884	14.9%	3.9%	1.1%	2%	1.7%	4.6%
Housing R&M	2,434	8.1%	1.8%	3.2%	1.8%	1.5%	3.3%
Non-housing R&M	1,701	4.3%	1%	2.2%	1.3%	1.6%	2.1%
Total R&M	4,135	6.5%	1.5%	2.8%	1.6%	1.6%	2.8%
Total Work	11,018	11.7%	3.1%	1.7%	1.9%	1.6%	3.9%

The annual average growth rate is the rate of growth between the end of 2020 and the end of 2025, i.e., five-year period.

Source: CSN, Experian Ref: CSN Explained, Section 4, Note 2

While private housing work will be the main sector for growth over the next five years, infrastructure work, particularly Hinkley Point C, has helped the South West. Work is underway on the concrete pour for the base of the second nuclear reactor, which is due to be completed in June this year, while work on the above-ground element of the first reactor has started. The latest EDF announcement

sees the cost of the project having risen to between £22-23bn overall, with a six-month delay seeing the first electricity generation in June 2026, as opposed to end-2025.

In the industrial sector building materials producer Etex has unveiled ambitious plans for a £140m plasterboard factory at the Royal Portbury Dock in Bristol port,

close to one of its existing plants. Subject to planning approval the plant should be operational by 2022. In March 2020, Bristol City Council proceeded with the second stage of a £250 million residential-led mixed use project which will see the delivery of 1,435 new homes alongside office and retail space.

The level of output growth in the South West means the construction workforce will increase, although the average annual growth rate of 0.7% is just slightly lower than the UK figure of 1.0%. This means that the construction workforce of 244,000 in 2020 will steadily increase to 252,600 by then end of 2025.

TOTAL WORKFORCE BY OCCUPATION - SOUTH WEST

	Actual	Estimate	Forecast	
	2020	2021	2022	2025
Senior, executive and business process managers	17,300	17,100	17,100	17,300
Construction Project Managers	3,700	3,600	3,600	3,700
Other construction process managers	15,400	15,300	15,300	15,600
Non-construction professional, technical, IT and other office-based staff	33,000	33,600	34,100	34,100
Construction Trades Supervisors	3,900	4,000	4,100	4,300
Wood trades and interior fit-out	31,300	31,200	31,300	32,100
Bricklayers	8,400	8,900	9,100	9,500
Building envelope specialists	12,500	12,900	13,200	14,000
Painters and decorators	9,200	9,100	9,100	9,300
Plasterers	5,000	4,900	5,000	5,100
Roofers	5,100	5,000	5,000	5,000
Floorers	1,100	1,100	1,100	1,100
Glaziers	2,500	2,500	2,500	2,500
Specialist building operatives nec*	4,400	4,200	4,100	4,000
Scaffolders	4,000	3,800	3,700	3,700
Plant operatives	3,900	4,200	4,500	3,900
Plant mechanics/fitters	2,700	2,700	2,700	2,700
Steel erectors/structural fabrication	2,700	2,900	3,100	2,700
Labourers nec*	5,900	6,100	6,300	6,300
Electrical trades and installation	19,100	19,000	19,200	20,000
Plumbing and HVAC Trades	20,600	20,200	20,100	20,100
Logistics	1,100	1,100	1,200	1,200
Civil engineering operatives nec*	2,500	2,700	2,900	2,500
Non construction operatives	2,000	2,000	2,100	2,100
Total (SIC 41-43)	217,200	218,200	220,200	222,600
Civil engineers	2,800	3,000	3,300	2,900
Other construction professionals and technical staff	16,400	17,000	17,300	17,900
Architects	2,100	2,300	2,400	2,600
Surveyors	5,500	5,900	6,100	6,600
Total (SIC 41-43, 71.1, 74.9)	244,000	246,400	249,200	252,600

Source: ONS, CSN, Experian Reference: CSN Explained, Section 4, Notes 5 and 6

* Not elsewhere classified

Annual Recruitment Requirement (ARR)

Annual recruitment requirement in the South West is set to average 2.6% per year, based on 2020 workforce levels, well above the UK figure of 1.6% and the strongest regional rate in the forecast. This means the construction industry will have to increase current recruitment by 6,400 new workers each year to have the workforce to deliver expected work between the end of 2020 and 2025.

The following occupations have some of the strongest recruitment requirement levels:

- Wood trades and interior fit out (1,550 per year)
- Electrical trades and installation (750 per year)
- Non-construction professional, technical, IT, and other office-based staff (750 per year).

However, there would also be pressure on labourers, plant operatives, surveyors and other construction professional and technical staff, where demand is high compared to their workforce level. For occupations that have no value, recent levels of recruitment will be able to meet future demand if they are maintained.

ANNUAL RECRUITMENT REQUIREMENT BY OCCUPATION - SOUTH WEST

	ARR	ARR as % of 2020 workforce
Senior, executive and business process managers	-	-
Construction Project Managers	-	-
Other construction process managers	350	2.3%
Non-construction professional, technical, IT and other office-based staff	750	2.3%
Construction Trades Supervisors	100	2.8%
Wood trades and interior fit-out	1,550	5.0%
Bricklayers	100	1.2%
Building envelope specialists	200	1.5%
Painters and decorators	-	-
Plasterers	-	-
Roofers	250	4.5%
Floorers	-	-
Glaziers	<50	-
Specialist building operatives nec*	-	-
Scaffolders	-	-
Plant operatives	250	5.8%
Plant mechanics/fitters	-	-
Steel erectors/structural fabrication	<50	-
Labourers nec*	350	6.3%
Electrical trades and installation	750	4%
Plumbing and HVAC Trades	250	1.2%
Logistics	<50	-
Civil engineering operatives nec*	50	2.8%
Total (SIC 41-43)	5,000	
Civil engineers	-	-
Other construction professionals and technical staff	1,050	6.3%
Architects	50	3.3%
Surveyors	300	5.8%
Total (SIC 41-43, 71.1, 74.9)	6,400	2.6%

Source: ONS, CSN, Experian Reference: CSN Explained, Section 4, Notes 5 and 6

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Note: values may not sum to totals due to rounding.



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