

# The Impact of the Recession on Construction Professional Services

## **Executive Summary**

# Executive summary

## The headlines

- The recession in the construction industry has hit the construction professional services (CPS) sector hard. According to a survey of practices by IFF Research 54% of firms had seen decreases in their fee incomes in the 12 months to October 2009.
- The same survey indicated that 46% of CPS firms had made redundancies over the same period and this was backed up by claimant count data from the Office for National Statistics, which saw a 400% rise for construction professionals between November 2007 and November 2009, with architects and quantity surveyors suffering the most proportionally.
- Construction is expected to remain in recession this year, albeit with a much smaller fall in activity than was seen in 2009, before returning to modest growth in 2011.
- Employment of construction professionals (including managers in construction) in the economy as a whole peaked at around 603,000 in 2008 according to Labour Force Survey data. By the end of 2010 this is expected to drop to around 528,000, a decline of over 12%. Architects and managers in construction are predicted to see the largest falls in employment.
- The recovery process will be slow and by 2012 employment is projected to still be nearly 11% below its 2008 peak.
- When tied in with the evidence that there is a significant level of 'underemployment' among construction professionals at present – the IFF Research survey indicated that 27% of firms had resorted to shorter working hours – the prospects for future recruitment do not look good.
- Forty-six per cent of respondents in the IFF Research survey indicated that they had cut back on the recruitment of graduates and newly qualified staff, with Building magazine's graduate survey showing that 61% of respondents did not have permanent, salaried employment.
- With at least one more year of graduate inflow, and possibly two, before employment starts to grow again, this raises the prospect of very significant levels of graduate unemployment going forward and the potential graduates may abandon the industry altogether.
- Furthermore, declines in the value of pension pots may force many who were thinking about retirement into continuing to work, further reducing the possibilities for new entrants.
- Ironically, this could lead to skills shortages in the medium term as retirees finally leave the industry but graduates have gone elsewhere and universities and colleges have cut courses.
- However, there are some positives. Anecdotal evidence suggests that newly qualified professionals are returning to university to upgrade to Masters, MBAs and PhDs, improving their employment prospects in the medium term
- Professional institutions are coming out of the recession with enhanced reputations, with 74% of respondents to the IFF Research survey rating their industry support as satisfactory, good, or very good.
- The aftermath of the recession will also create new opportunities, particularly those driven by the sustainability and carbon economy agenda. We may see the rise of a new 'environmental consultant', helping clients to make informed decisions about what types of renewable technologies would be appropriate for their buildings. Similarly, there will be an increasing need for facilities managers that intimately understand the energy efficient buildings they are managing and can operate them at optimum levels.

This executive summary is based upon more comprehensive research and survey detail in two complementary reports entitled:  
"The Impact of the Recession on Construction Professional Services" :  
A view from an economic perspective – the broad macro-economic context  
A view from the front line – the qualitative and quantitative employer surveys

PDF copies of these documents can be downloaded from [www.cic.org.uk](http://www.cic.org.uk)

# Introduction

# Impact of the Recession on Construction Professional Services

## The project

The project was commissioned by the Construction Industry Council (CIC), through its sector skills council, ConstructionSkills, to look at providing an understanding of how the current recession was impacting on the UK professional services sector.

Broadly the CIC wished to understand the impact of the recession on the UK Professional Services sector, including:

1. How employers have responded to current changes in the economy; and
2. to what extent employers are planning for future growth

### Key areas of interest were:

- The impact of the recession on the size and nature of the workforce, and how this is expected to change in the future (e.g. if smaller now than 12 months ago, by what scale, and which occupations have been cut; have there been other occupations that have increased; has there been a shift to more part time working, more use of contract working etc; what changes are expected for the next 12 months/2-3 years).
- The steps taken to meet the recession, and the impact and perceived effectiveness of the measures being taken by the professional institutions and views on what actions should be taken.
- Any changes (brought about by the recession, but also more generally) in the skills needed by the firm (and sought when recruiting), and their views regarding future skills.
- The extent to which the recession has impacted on recruitment overall, but more specifically of graduates / interns and those just qualifying.
- The current volume of Built Environment graduates, including how many are seeking/ have found employment in the sector, and how many are likely to come through higher education in the medium-term. This might also provide an indication of areas of over-supply.

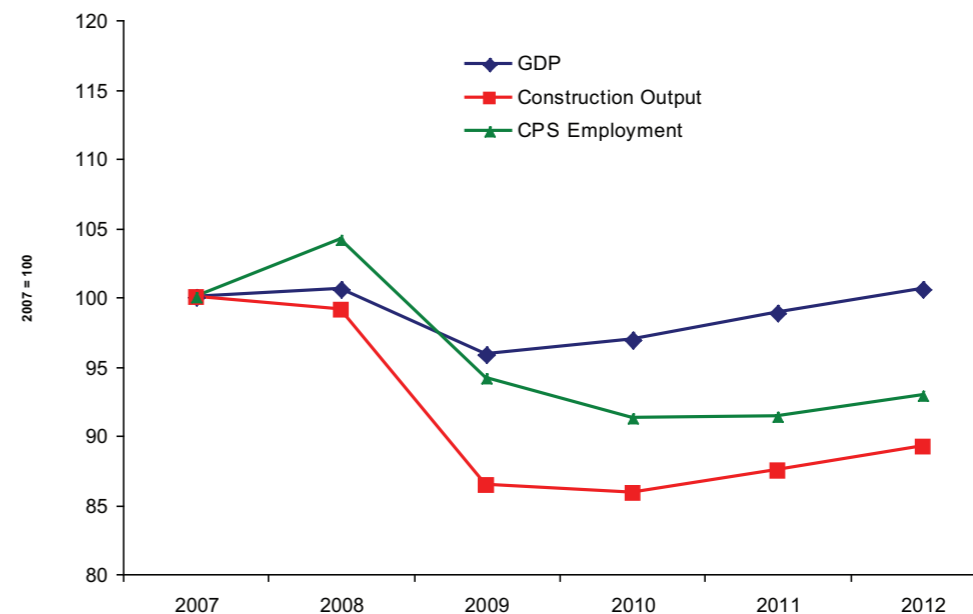
## The Approach

The research was split into two discrete packages. Experian was commissioned to analyse the trends in official data relating to the construction sector and in particular to construction professionals, and combine this with the outputs of the Construction Skills Network employment model to produce a view of the effects of the recession to date and the prospects for construction professionals as the economy starts to move into recovery mode. In addition, Experian was asked to collate responses supplied by professional institutions as to how they were assisting their members in 'recession mitigation'. Finally a brief examination of the longer-term influences on the nature of construction professionals' work was undertaken, drawing on previously published material. The full research is available in a separate report.

In tandem with the Experian research, IFF Research was commissioned to undertake a survey of construction professionals to obtain responses from professional practices as to the effects of the recession on their business and how the downturn was impacting on employment, recruitment and training. IFF undertook 30 in-depth interviews with 30 professional practices in August and September 2009 and the results of these interviews informed a larger telephone survey of 301 firms undertaken in October 2009. The full results of the survey are available in a separate report.

## The overall outlook

Figure 1: Index Measuring GDP, Construction Output and CPS Employment



Source: ONS, Experian, ConstructionSkills.

The above index suggests a broad correlation between GDP and construction output, although the latter shows signs of a lag. As businesses or households begin to experience difficult economic conditions, they scale back on investment in construction. This then has an impact on employment in the industry, with falling profits and workloads prompting companies to reduce their workforce in order to keep their business solvent. However there tends to be a lag between a change in construction output and employment in the industry. The lag is evident in construction professional services (CPS) employment with construction output declining slightly in 2008, while CPS employment continued to grow, according to official data. The downside of this lag is that even as construction activity begins to recover, CPS employment will continue to decline and will probably not start to pick up until 2011. However, the timing of a return to CPS employment growth will depend to a significant extent on particular disciplines' position in the construction process, although all should return to growth by 2012.

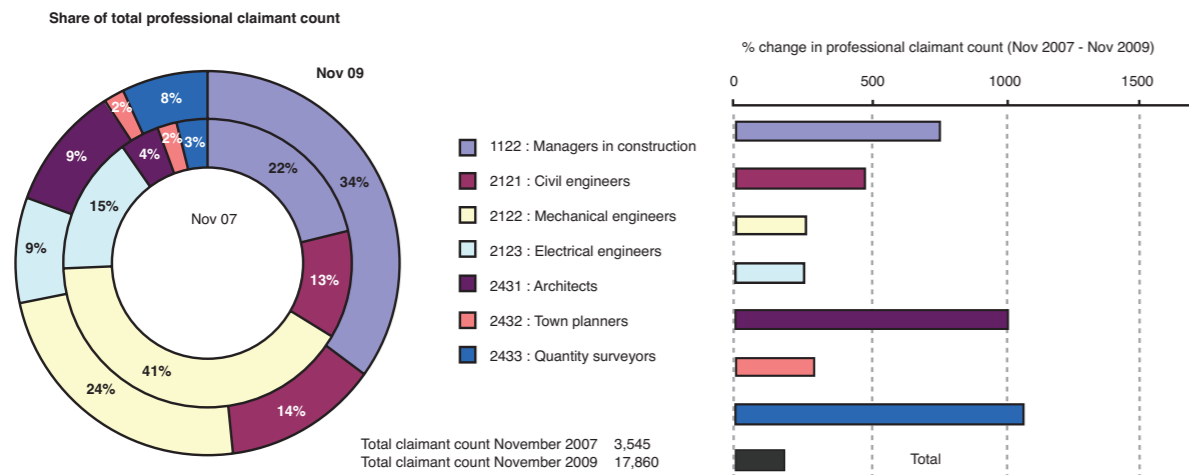
## Employment

Findings from the IFF Research survey indicated that 54% of firms had experienced lower fee incomes in the 12 months to October 2009, when compared with a year earlier. In contrast, only 11% had seen an increase, very much in line with ONS construction output data, which showed at 12% year-on-year decline in real terms in the first three quarters of 2009. The weakest construction

sector over the past two years (2008 and 2009) has been the private housing one and data from the 2005/06 CPS size and structure survey indicated that this sector was very important for professional practices, generating 42% of fee income. The steep falls in output reported in the official statistics have been backed up by results from various state of trade surveys. The Civil Engineering Contractors Association (CECA) has reported their respondents showing falling workloads over the past 12 months. The Royal Institute of British Architects (RIBA) reported similar findings in its April 2009 Future Trends Survey where workloads had fallen by nearly one-third, on an annualised basis.

However some disciplines have fared better than others, as mentioned above. The IFF Research survey revealed that building services engineering firms had fared relatively better on average, with 24% reporting an increase in fee income (although 41% experienced a decline). This is backed up by claimant count figures from the ONS, which shows a smaller percentage increase in mechanical and electrical engineers in the two years to November 2009 than in other professional disciplines. Building services engineering work tends to come towards the end of the construction process thus mechanical and electrical engineering employment was likely to fall off later than other disciplines. Furthermore, a significant proportion of these disciplines work outside of the construction sector, in facilities management and the manufacturing of heating and ventilating equipment, where the drivers of activity may be different.

Figure 2: Claimant count comparisons for professionals



Source: ONS.

However, the implication of the lag between the beginning of the downturn and the effect on some occupations is that the opposite will be true as the economy sees an upturn. Even when new work begins to be commissioned in increasing numbers, it will be some time before that feeds through to disciplines towards the end of the construction process.

Obviously the reverse is true for other disciplines. Figure 2 above shows that the biggest percentage increases in claimant count in the two years to November 2009 have been for architects and quantity surveyors, both of which tend to appear earlier in the construction process than mechanical and electrical engineers.

The IFF Research survey also showed that 46% of CPS firms had already made redundancies due to the challenges presented by the recession. Once again, the claimant count data for the seven construction professional occupations strongly supports this, with the number up from 3,545 in November 2007 to 17,860 in November 2009, an increase of over 400%. However there is some indication in the IFF survey results that practices have been attempting to hold on to their skilled employees, with 35% of them reporting cuts in administrative staff. By retaining as many professionals as possible, firms will thus be in a better position to benefit from the upturn when it arrives. That said, it is inevitable that some firms will have made professionals redundant – according to the IFF research 14% of respondents had made architects redundant and 9% had laid-off project managers, despite the anecdotal evidence of a severe shortage of good project managers in recent years. According to the Construction Skills Network employment forecasts, architects are estimated to have seen a fall in employment by around 12% between 2008 and 2009, while project managers are likely to have seen a decline of almost 10%.

The survey also showed that the total number of staff employed across the professional services sector had decreased by 6% compared with 12 months prior to the interview. This is slightly better than our estimation of around 10% between 2008 and 2009, as highlighted in the employment forecasts.

Anecdotally there has been significant evidence of a high level of 'underemployment' in the industry as employees agree to shorter working weeks and unpaid sabbaticals in an effort to retain jobs. This seems to be backed up by the IFF Research in which 27% of participants indicated that they had resorted to working reduced hours. This number is slightly lower than the 40% reported to be doing the same according to the survey carried out by the Association for Consultancy and Engineering's (ACE) in its 2009 State of Business report. A more flexible labour market has led to an increase in part-time working in the current economic climate. According to the ONS, full-time employment fell by 113,000 to 21.2 million in November 2009 while part-time employment increased by 99,000 to 7.7 million.

## Recruitment

The results from the IFF Research report indicated that 46% of firms had cut back on the recruitment of graduates or newly qualified staff from the level they had initially planned. Furthermore, it was revealed that the number that had been taken on in these positions was around a sixth of the level initially anticipated, leaving the proportion of newly qualified staff to the total workforce at an average firm at 4%, down from around 8% a year earlier. These results are in line with Building magazine's survey of 604 graduates, where 61% of respondents did not have permanent, salaried employment. The worrying result of Building's survey is that 27% of these graduates had begun to look outside of construction for employment, although only 1.5% had considered leaving the industry altogether. However, once employed outside of the industry, perhaps in a post that does not require construction-specific skills, how many will want to come back once conditions improve? Thus this implies that there is a potential for large outflows from the industry in the short to medium term, though it is difficult to imagine how much of this residual will be absorbed into other industries. Other anecdotal evidence suggests that those who have attempted to enter the employment market and failed are returning to full-time education to undertake courses such as Masters, MBAs, PhDs etc in order to improve their job prospects in the medium term.

However on a brighter note, 8% of firms had increased their intake of graduates and newly qualified professionals, although this was thought to be in order to replace more experienced, expensive staff.

Experian's report highlighted several factors which have led to an oversupply of graduates in the current recession. Although reduced workloads for firms have mainly been responsible for the low uptake of graduates during the downturn, structural changes in the economy and government policy in the early part of the last decade to increase university places has also played a part. The situation has further been exacerbated by the popularity of television shows such as 'Grand Designs', which further drew students to university. The effects of these changes can now be seen, with 67% of respondents to the IFF survey believing that there was an oversupply of graduates.

Architects were most often mentioned by employers as being in excess supply, and since it takes around seven years for an architect to become fully qualified, this is as a result of policies put into practice much earlier in the decade. With such a long qualification period it is not surprising that architects are amongst those professions least likely to re-train to another profession, or look outside of construction, due to the specificity of the skills and the context they can be applied in, and the amount of time and capital invested in order to reach chartered status.

## Industry support

The IFF Research survey also revealed that 30% of firms had sought advice, guidance or support since the start of the recession, with professional institutes playing an important part in providing this service. Experian's report shows the various ways in which professional construction institutes have been providing help, such as general advice, seminars and funding (to cope during unemployment, for furthering skills etc). Overall three-quarters of the firms rated the availability and quality of

business advice as either satisfactory (30%), good (36%), or very good (8%), compared against 7% that rated it poor.

Another outcome from the survey was that 81% of professional services firms were members of a professional or industry body, although 13% of firms said the recession has led to them to re-evaluate company or employee membership of these organisations. The level of professional membership was high considering the difficulties which firms have faced during the depth of the worst recession since World War II, indicating that the work of professional institutes was valued by the bulk of their membership, who were appreciative of the steps taken to help them in these recessionary times. Many institutes have introduced concessionary membership rates which are likely to have played an important part in reducing costs for members, whilst continuing to provide a useful service.

## The Future

Around 32% of the firms who were surveyed indicated that they expected their fee income to increase in the year ahead, although 17% suggested this would fall. However the largest proportion (44%) predicted that incomes would stay at around the same level. This is broadly in line with Construction Skills Network output forecasts. A further, much more marginal decline in construction output is projected for this year, but the situation is expected to improve during the course of 2010, and those firms particularly working on preparatory works for projects should start to see some benefit.

The IFF Research survey also showed that 25% of firms felt it was likely that they would have to make further redundancies over the next 12 months, including 3% who have already planned such redundancies. This is not surprising, given the lag between output and employment mentioned earlier. Total employment across construction professionals is expected to decline by around 3% year-on-year in 2010, before growing marginally in 2011 and slightly more strongly in 2012.

Figure 3: Professionals within the whole economy:

Occupation	2007	2008	2009	2010	2011	2012
<b>Architects 2431</b>	54,426	49,846	44,076	41,948	41,418	41,834
annual % change		-8.4	-11.6	-4.8	-1.3	1.0
<b>Civil engineers 2121</b>	79,030	90,904	82,006	79,094	79,261	81,016
annual % change		15.0	-9.8	-3.6	0.2	2.2
<b>Mechanical engineers 2122</b>	82,349	81,472	73,793	71,911	72,452	73,801
annual % change		-1.1	-9.4	-2.6	0.8	1.9
<b>Electrical engineers 2123</b>	53,522	53,541	48,495	47,258	47,613	48,500
annual % change		0.0	-9.4	-2.6	0.8	1.9
<b>Town planners 2432</b>	22,650	23,814	21,569	21,019	21,177	21,572
annual % change		5.1	-9.4	-2.6	0.8	1.9
<b>Managers in construction 1122</b>	251,301	258,970	232,398	223,826	223,355	226,314
annual % change		3.1	-10.3	-3.7	-0.2	1.3
<b>Quantity surveyors 2433</b>	35,904	44,884	43,112	43,353	44,227	45,036
annual % change		25.0	-3.9	0.6	2.0	1.8

Source: Labour Force Survey, Experian, Construction Skills Network.

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