The Impact of the Recession on Construction Professional Services

Executive Summary
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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.

• 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 the front line – the qualitative and quantitative employer surveys A view from an economic perspective – the broad macro-economic context

PDF copies of these documents can be downloaded from www.cic.org.uk
Introduction

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 oversupply.

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

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.

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2. to what extent employers are planning for future growth including:

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The project was commissioned by the Construction

including:

- 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 oversupply.
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 architects and quantity surveyors have been attempting to hold on to their skilled employees, with 35% of them reporting cuts in skilled employees, compared with 14% from mechanical and electrical engineers.

The recent future

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 had sought advice, guidance or support since the start of the recession, with 30% of firms having made 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 slightly better than our estimation of around 10% between 2008 and 2009, as highlighted in the employment forecasts. 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.

Expieran’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 drew new 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 skills and the context they can be applied in, and the amount of time and capital invested in order to reach charted 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. Expieran’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 to enable 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 of firms (48%) expected that income 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.