



CITB ANALYSIS AND FORECASTING

**5-year
Outlook**
2021-2025

Construction Skills Network

Labour Market Intelligence Report

**South
East**



Growth of 4.4% per year will mainly be driven by private housing (6.9%) and infrastructure (5.4%) sectors. 16,750 new workers will be required.

The annual recruitment requirement in South East

0.9%

Amount of new workers that are needed between 2020 and 2025

16,750

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 previously paused during previous 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.

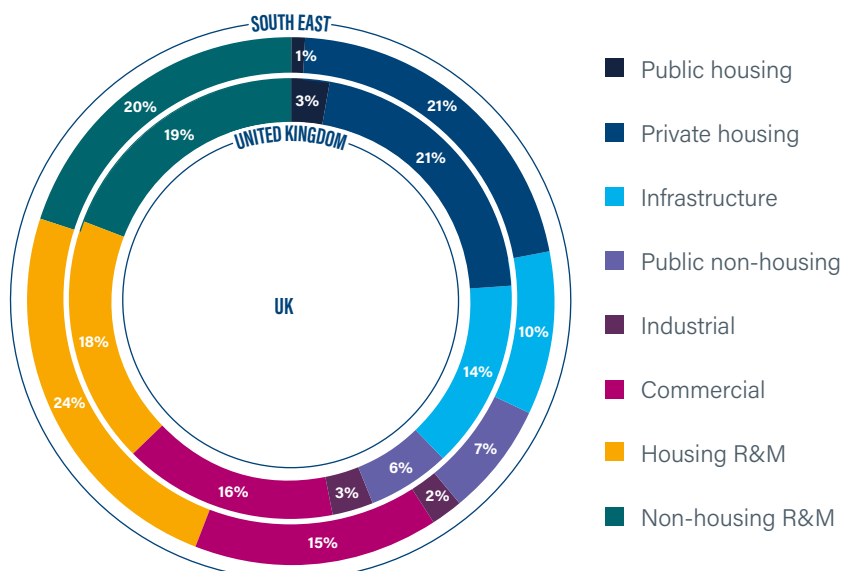
Lastly, there are non-economic challenges for the wider economy and several industries, including construction. These include a potential third wave of Covid-19 infection rates resulting from relaxed social distancing restrictions during summer 2021 and increased international travel that might result 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 construction industry in the South East has a similar variation in structure when compared to the UK view, with R&M sectors having a larger share, whereas infrastructure has a smaller share. However, infrastructure, housing and commercial are all important sources of new work, while repair and maintenance accounts for over two-fifths of all construction work in the South East.

CONSTRUCTION INDUSTRY STRUCTURE 2020, SOUTH EAST VS UK

Source: ONS, Experian

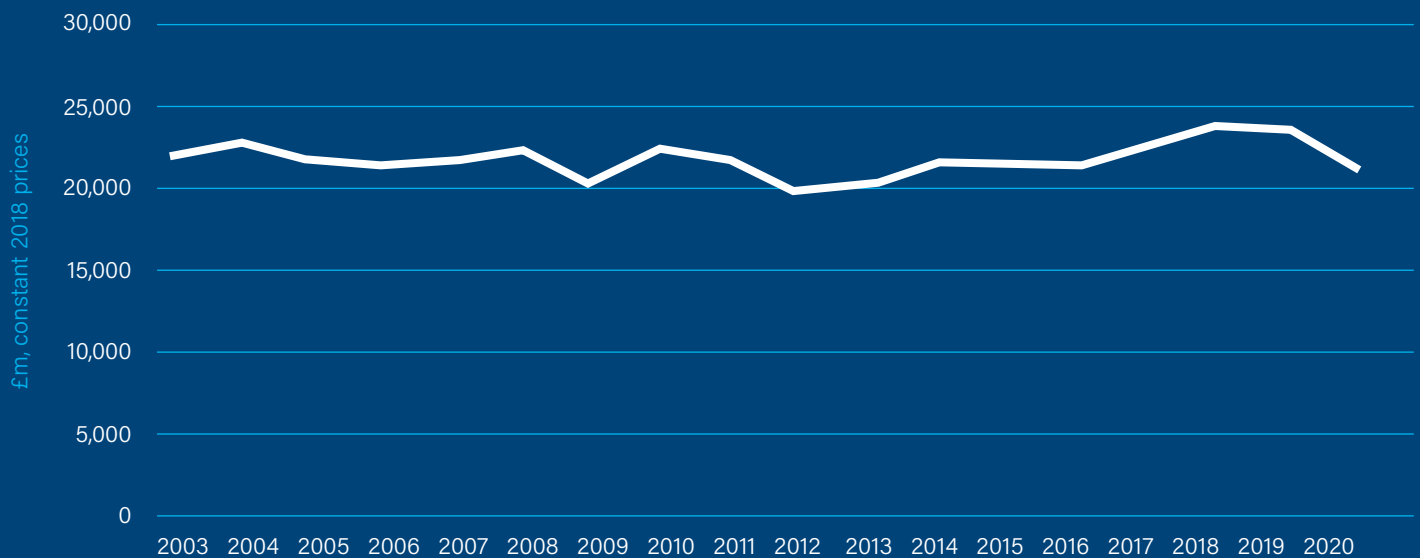


2020 view

2020 has been a challenging year for construction in the South East, with annual output dropping by around 10% when compared to 2019. We expect to see a steady recovery in output from 2021, although this depends on the success in controlling Covid-19.

CONSTRUCTION OUTPUT 2003 - 2020 SOUTH EAST

Source: ONS



Output forecast 2021 - 2025

The South East is forecasted to grow at an annual average rate of 4.4%, which is on par with the UK forecast. Private housing and infrastructure are expected to have the fastest sector growth and we forecast for this region's construction output to achieve its pre-Covid-19 levels by 2022.

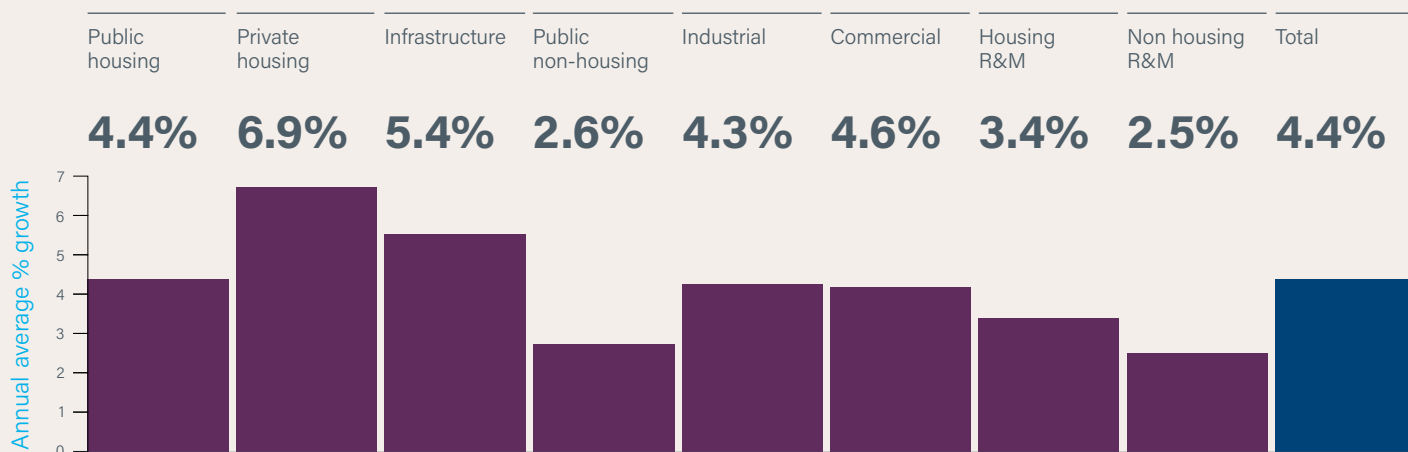
Private housing growth is forecasted at annual average rate of 6.9% and infrastructure at 5.4% from the end of 2020 to the end of 2025, both of which exceed their respective UK averages.

South East average growth rate

4.4%

Forecast

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



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

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

	Actual	Forecast (Annual % change, real terms)					Annual average
	2020	2021	2022	2023	2024	2025	2020-2025
Public Housing	313	9.5%	2.1%	3.5%	3.9%	3.1%	4.4%
Private Housing	4,510	19%	3.5%	4.2%	4.3%	4.6%	6.9%
Infrastructure	2,075	18%	5.6%	6.2%	-1.7%	0.1%	5.4%
Public Non-housing	1,430	6.4%	1.7%	2.1%	1.9%	1%	2.6%
Industrial	549	9%	2.9%	4.2%	3.1%	2.3%	4.3%
Commercial	3,292	5.9%	4.5%	4.7%	4.4%	3.7%	4.6%
New Work	12,168	13.1%	3.9%	4.4%	2.9%	3.1%	5.4%
Housing R&M	5,184	8.1%	1.8%	2%	2.7%	2.5%	3.4%
Non-housing R&M	4,355	4.3%	1%	2.2%	2.4%	2.6%	2.5%
Total R&M	9,538	6.4%	1.5%	2.1%	2.6%	2.6%	3%
Total Work	21,706	10.1%	2.8%	3.5%	2.8%	2.9%	4.4%

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

Infrastructure output is underpinned by a build-up of HS2 work in the near-term and ongoing works on Gatwick Airport's masterplan. The August 2019 Gatwick Airport five-year Capital Investment Programme foresaw total spend of £1.1bn, but only part would be construction related. However, in August 2020 Gatwick announced planned capital expenditure had been reduced by £157m for 2020 and £196m for 2021. Among the projects impacted is the £180m Pier 6 programme. Enabling works were completed and main construction had begun before

being put on hold and it will not restart before 2022.

The Manydown development in Basingstoke was granted planning permission in July 2020 and will see Basingstoke and Deane Borough Council and Hampshire County Council enter into a partnership with Urban&Civic and Wellcome Trust to deliver the proposed £1.2bn development. The programme will deliver up to a thousand homes by 2023 and twice that number by the end of the decade.

Furthermore, plans have been submitted for the £3.5bn London Resort, an amusement park to be built on a brownfield former industrial site. The new theme park which is set to be the largest entertainment park in Europe will cover 535 acres equivalent of 136 Wembley stadiums. If approved, construction work is set to begin in 2022 and the park could be opened in 2024.

The level of output growth in the South East gives an annual average increase of 1.3% in the construction workforce, which exceeds the UK-wide equivalent at 1.0%. This means that the estimated workforce of 373,400 at the end of 2020 is set to increase to 398,900 by the end of 2025, which exceeds its 2019 levels by 3.6%.

TOTAL WORKFORCE BY OCCUPATION - SOUTH EAST

	Actual	Estimate	Forecast	
	2020	2021	2022	2025
Senior, executive and business process managers	29,400	29,800	29,800	30,300
Construction Project Managers	8,600	8,700	8,700	8,900
Other construction process managers	27,200	27,700	27,800	28,600
Non-construction professional, technical, IT and other office-based staff	60,500	62,200	62,900	64,200
Construction Trades Supervisors	5,100	5,300	5,400	5,700
Wood trades and interior fit-out	32,100	32,600	32,800	33,800
Bricklayers	8,000	8,500	8,600	9,100
Building envelope specialists	15,400	16,000	16,200	17,200
Painters and decorators	16,000	16,100	16,100	16,400
Plasterers	5,100	5,100	5,100	5,300
Roofers	8,300	8,300	8,300	8,200
Floorers	3,700	3,700	3,700	3,700
Glaziers	3,300	3,300	3,300	3,200
Specialist building operatives nec*	6,200	6,100	6,000	5,900
Scaffolders	2,600	2,500	2,500	2,400
Plant operatives	4,300	4,600	5,000	4,800
Plant mechanics/fitters	5,300	5,400	5,500	5,600
Steel erectors/structural fabrication	2,200	2,400	2,600	2,600
Labourers nec*	20,600	21,300	21,700	22,400
Electrical trades and installation	20,700	21,200	21,400	22,400
Plumbing and HVAC Trades	23,600	23,600	23,500	23,500
Logistics	3,500	3,600	3,600	3,700
Civil engineering operatives nec*	1,700	1,900	2,000	2,000
Non construction operatives	2,800	2,900	3,000	3,100
Total (SIC 41-43)	316,000	322,600	325,300	333,000
Civil engineers	6,300	6,800	7,400	7,300
Other construction professionals and technical staff	37,700	39,400	39,900	42,400
Architects	4,800	5,200	5,300	5,900
Surveyors	8,600	9,200	9,400	10,400
Total (SIC 41-43, 71.1, 74.9)	373,400	383,100	387,200	398,900

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

* Not elsewhere classified

Annual Recruitment Requirement (ARR)

The South East is below the UK on the level of annual average recruitment requirement based on 2020 workforce levels, at 0.9% per year. This means the South East construction industry would have to increase current recruitment by 3,350 new workers each year to deliver the expected work between the end periods of 2020 and 2025.

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

- Non-construction professional, technical, IT, and other office-based staff (1,150 per year)
- Labourers nec (450 per year)
- Wood trades and interior fit-out (350 per year).

However, there would also be some pressure on plant operatives and civil engineers where demand is high compared to their workforce level. For occupations that have no value, indication is that recent levels of recruitment will be able to meet future need if they are maintained.

ANNUAL RECRUITMENT REQUIREMENT BY OCCUPATION - SOUTH EAST

	ARR	ARR as % of 2020 workforce
Senior, executive and business process managers	-	-
Construction Project Managers	50	0.7%
Other construction process managers	-	-
Non-construction professional, technical, IT and other office-based staff	1,150	1.9%
Construction Trades Supervisors	100	2%
Wood trades and interior fit-out	350	1.2%
Bricklayers	150	1.9%
Building envelope specialists	100	0.7%
Painters and decorators	<50	-
Plasterers	<50	-
Roofers	<50	-
Floorers	<50	-
Glaziers	-	-
Specialist building operatives nec*	<50	-
Scaffolders	50	2.4%
Plant operatives	100	2.8%
Plant mechanics/fitters	<50	-
Steel erectors/structural fabrication	<50	-
Labourers nec*	450	2.2%
Electrical trades and installation	100	0.4%
Plumbing and HVAC Trades	300	1.3%
Logistics	<50	-
Civil engineering operatives nec*	<50	-
Total (SIC 41-43)	2,950	
Civil engineers	150	2.7%
Other construction professionals and technical staff	100	0.2%
Architects	100	1.9%
Surveyors	50	0.8%
Total (SIC 41-43, 71.1, 74.9)	3,350	0.9%

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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