

INDUSTRY INSIGHTS

Brexit Construction Skills Network Report

The CITB usually publishes its Construction Skills Network Report – a forecast of growth and job creation in the construction industry - annually at the start of the year. However, in light of the UK's vote in favour of leaving the EU in June, we have produced an interim report to reflect how the referendum has changed the outlook for the sector.

WHAT'S HAPPENING IN THE ECONOMY POST-BREXIT VOTE?

It is now expected that overall UK GDP growth is likely to be 1.4% for 2016 with the forecast for the next five years expected to be one percentage point lower than the 2.4% predicted in our January 2016 report.

The UK economy performed well in the first half of the year, recording 0.4% quarter on quarter growth in the first quarter and 0.6% in the second.

Before the referendum, household spending held firm, employment continued to increase, unemployment fell to 4.9% and although on an upward trend, inflation remained low.

After the initial reaction to the referendum, markets seem to have settled and rebounded from immediate declines, but consumer confidence remains fragile. The pound has fallen to its lowest point against the euro in six years, and a 31 year low against the dollar. Economic growth is likely to be slower than predicted and given the weakness of sterling, inflation is likely to be higher than forecast, which will put pressure on the construction industry.

The main impact of the referendum vote is expected to be felt next year, as business investment declines and customer spending weakens due to higher inflation and a less buoyant labour market.

2.0%

**AVERAGE EXPECTED CONSTRUCTION
OUTPUT GROWTH PER ANNUM 2017-2021**

WHAT'S CHANGED FOR CONSTRUCTION?

Construction output:

Construction output for 2017-2021 is now expected to average 2.0% per annum, compared to our original forecast of 2.5% in January. This revised forecast includes Hinkley Point C, which provides a significant boost as, without this major project, the forecast would fall back to 1.2%.

Even including Hinkley, this does represent a clear slowdown, as this is the CSN's slowest five-year forecast growth rate since the recession of 2009 – 2013.

The referendum and resulting uncertainty will have implications for construction. Activity had already started to stagnate in the first half of the year, but it is expected that the second half of 2016 will be worse, with industry facing a period of limited growth and potentially a small contraction of -0.2% over the next two years.

Infrastructure output is expected to contract more sharply than anticipated in 2016 due to a pause in road building and a weak performance in the electricity sub sector for the first time in many years. While major projects are not expected to be cancelled, slippage will affect the five year forecast. New house building and public housing is faring worse than expected, while private housing is holding up. Given

the poor second quarter, when public housing stayed above £1bn in 2013 prices, a significant decline is almost inevitable for the year.

The housing repair and maintenance sector is likely to be adversely affected as a result of limited disposable income within households.

While there is likely to be less investment in the industrial and commercial sectors in the medium term, we expect the referendum vote to have the biggest impact on the private and commercial sectors, which rely on overseas investors in the London market. The capital's office investment cycle had probably peaked by the time of the referendum anyway, but the decline will sharpen the downturn.

With so much political uncertainty, following the decision to leave the European Union, it is unlikely that the economic outlook will improve by the end of the year.

Annual Recruitment Requirement (ARR):

The reduced growth forecast means the number of construction workers required over the next five years is expected to fall by a third, from 46,420 per year in our original forecast to 31,350 in the revised outlook.

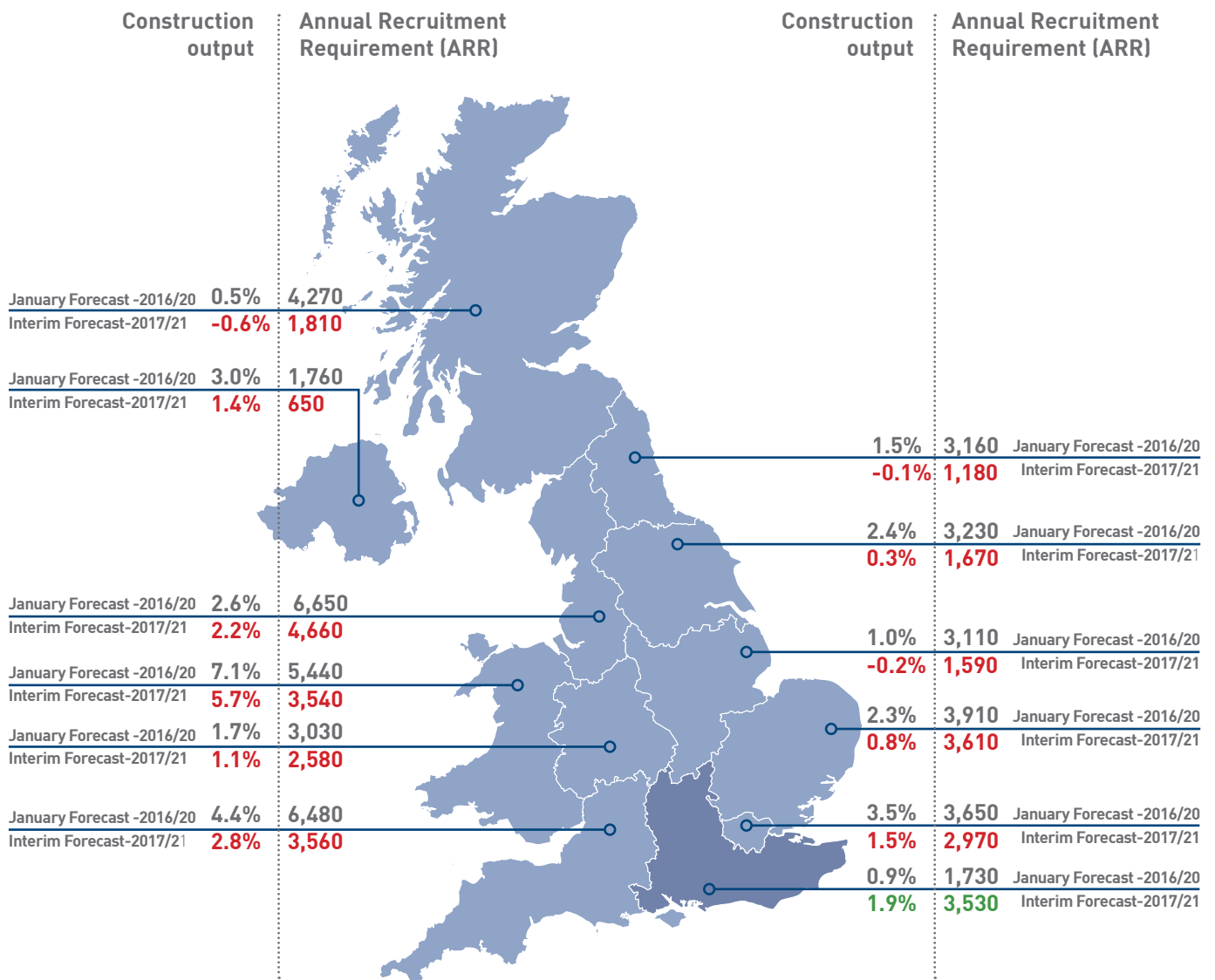
Despite a weaker construction output forecast for this year, construction employment has been stronger than expected in the first half of the year but will weaken in the second half.

Over the next five years, the industry will need an additional 157,000 people – with wood trades and interior fit out, electrical trades and installation, and other construction professional and technical staff making up the bulk of the demand.

WHAT'S THE PICTURE IN THE NATIONS AND ENGLISH REGIONS?

In our January forecast, increased growth was expected across England and Wales, with only Scotland showing a fall in construction output.

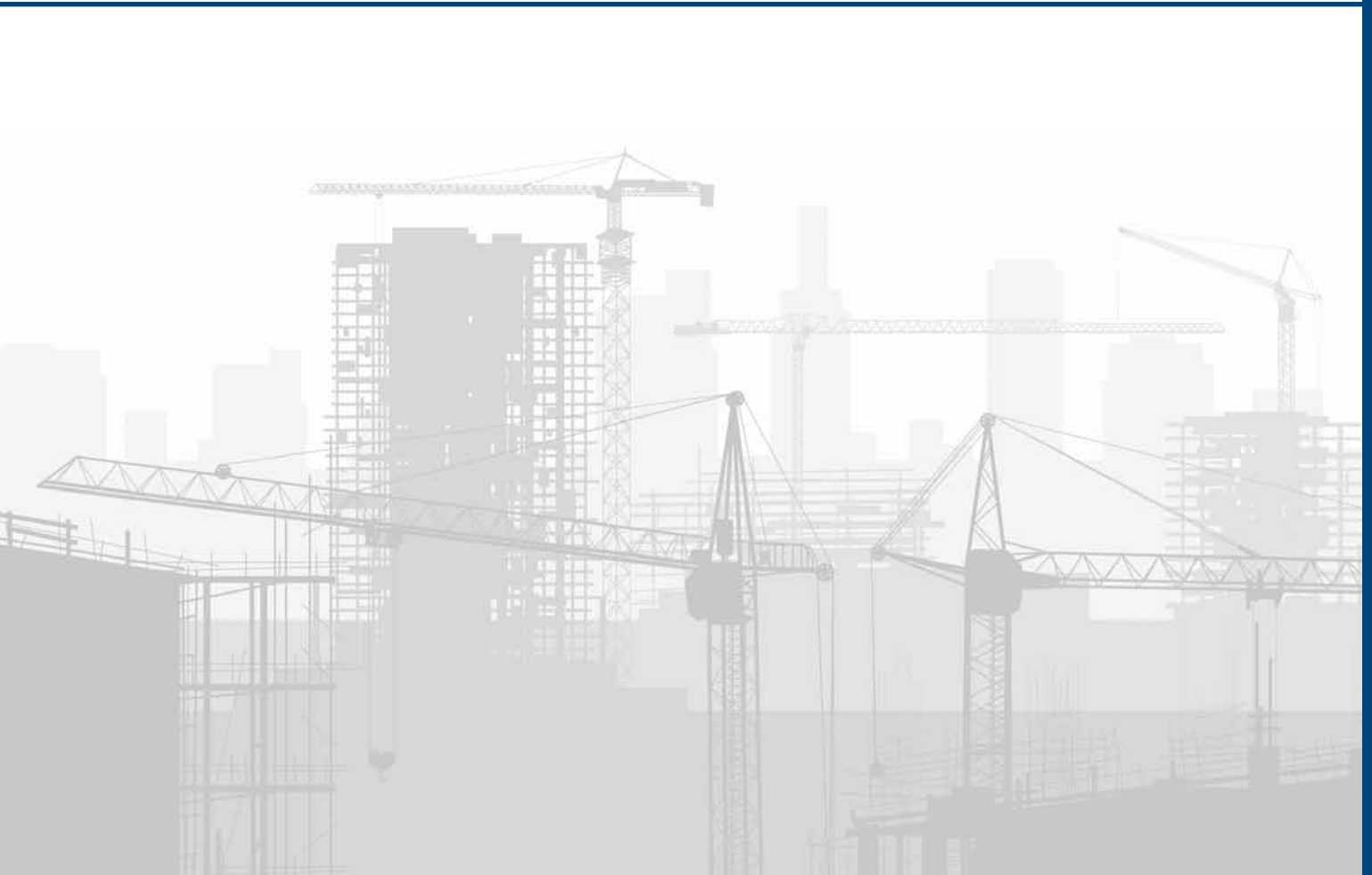
The interim forecast for 2017-2021 now shows that, with the exception of the South East, construction output growth is now expected to be slower across the country despite commitments in infrastructure.



WHAT'S NEXT?

The Chancellor's Autumn Statement on 23 November should provide a clearer picture of how the Government plans to boost the economy and deal with the insecurity caused by the Brexit decision. Hopefully, these plans will include a commitment to maintain the level and pace of investment in infrastructure and avoid any delays to major projects, as well as setting out measures to support construction in the next five years. We also expect the forthcoming Industrial Strategy to play a role.

In early 2017, CITB will publish a full Construction Skills Network report on the detailed construction forecasts for 2017-2021.



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CITB is a partner in ConstructionSkills, the Sector Skills Council for the UK construction industry.