Construction Skills Network

Industry Outlook

5-year Forecast

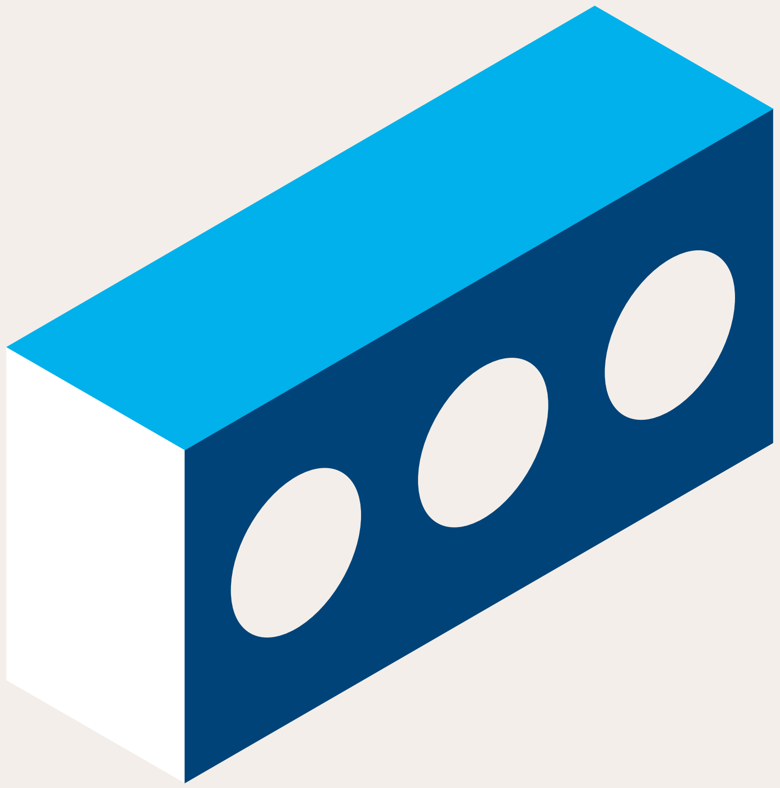
2021-2025

Foreword

This Construction Skills Network forecast comes at a pivotal moment for Britain.

Having started to recover from the first wave of the Covid-19 pandemic, areas of the country are facing new restrictions weeks before we are due to leave the EU.

This summary presents three scenarios about how the economy will recover, and what they mean for construction. All suggest that a recovery will not be as rapid as initially hoped for, but that by working together, we can address the key skill challenges.



Our forecast, produced with Experian, indicates that most sub-sectors of construction are set for a challenging few years ahead, although there are some brighter spots, with infrastructure and housing standing out.

With this picture in mind, we have highlighted the key actions that CITB is taking and looked at how, CITB, industry and government should work together on the key skills challenges to support recovery. These include continuing high levels of support for the next 12 months, sustained investment in skills, and greater certainty on the pipeline of work for economic and social infrastructure.

CITB has a central role in supporting construction employers across Great Britain so that they have the right skills. We need to present the industry as attractive to join, with clear pathways of entry and progression, such as through work experience and with opportunities for continued training, particularly for people of diverse backgrounds; setting standards; and addressing current training gaps and anticipating future needs in areas such as digital and decarbonisation.

This summary does not contain the usual annual recruitment requirement for the sector, as the economic environment is currently too uncertain to produce a reliable figure. We expect to include one in our usual annual report, which will be published in the first quarter of 2021.

Steve Radley
Strategy and Policy Director at CITB

Construction Skills Network summary

The coronavirus pandemic has led to the economy taking a severe hit, with many sectors struggling. In Q2 2020, construction output fell by 36% compared to an overall GDP fall of 20%.

During the summer months when lockdown was eased, the economy enjoyed pent-up demand, which provided some relief for construction when output started to pick up in May followed with strong growth in June (22%) and July (17%), which has then eased slightly in August (3%).

This is also reflected in the Construction Purchasing Managers' Index (PMI), with a record fall in April to a value of 8.2, the lowest value on record, which increased to between 54 and 58 in recent months.

While the latest PMI index shows a positive view on future levels of construction activity, companies are facing increased costs, the effects of lockdown have resulted in less than half (49%) of construction companies holding enough cash reserves to last them six months or less and monthly levels of pre-Covid-19 construction output are yet to be reached for most work sectors.

In the 12 months leading up to March 2020, construction output had grown by a steady 1% when compared to the same period a year earlier, with new housing showing strong growth of 5%. Once the national lockdown restrictions came into effect in March 2020, work across all sectors of construction was impacted, some more heavily than others. Total output in August 2020 was 11% down when compared to February, with falls in industrial output of 41%, public repair and maintenance of 20% and commercial of 9%.

Nearly all sectors had lower levels of output in August when compared to February, with infrastructure work the only exception. It exceeded its pre-Covid-19 levels, as well as its output levels from one year ago. As coronavirus continues to impact the economy with local lockdown measures being extended and tightened, there will be uncertainty around the strength of economic recovery in 2020 and into 2021, with risks of increased business insolvencies and redundancies.

Our current thinking is that insolvencies will increase during the second half of 2020 and into 2021, as the temporary relaxation of insolvency laws ends and as some fiscal measures are phased out. However, we expect that any excess business closures stemming from Covid-19 will be more evenly spread between 2020 and 2021, and possibly into 2022, remaining at a persistently higher level, compared to the Great Recession of 2009 where they spiked quickly and sharply before returning to trend.

With output down, it is no surprise that the construction workforce (direct and self-employed) took a hit. Direct employment fell by 1.7% and self-employment by 6.2%[1] between January-March and April-June, reflecting reduced output and weak demand in, with an estimated 11,500 construction workers made redundant between April and August. Construction's use of support measures such as Coronavirus Job Retention Scheme (CJRS) and Self-Employed Income Support Scheme (SEISS) will have helped cushion the impact of Covid-19. In the early months of lockdown 75% of construction employers were using CJRS with over 750,000 employments furloughed, and at the end of August there had been over 690,000 SEISS claims made from self-employed construction workers.

As work has returned, use of the CJRS has dropped, although at the end of July, 22% of construction employers were still using it to furlough 277,000 workers.

The remainder of 2020 remains uncertain with risks around:

- Business and consumer confidence;
- CJRS and SEISS being replaced with the Job Retention Bonus and Job Support Scheme (JSS), although this support has more recently been strengthened; and
- Further, deeper and more widespread local lockdowns and increasing numbers of coronavirus cases.

[1] The percentage difference between direct employment (-1.7%) and self-employment (-6.2%) is partly due to the mechanics of CJRS and SEISS, with the latter having stricter eligibility requirements and therefore greater job losses for the self-employed. Also, the self-employed often have contracts that are less difficult to terminate compared to directly employed.

2020 - Wider economy, construction output and employment.

Of construction employers used CJRS* in early months of lockdown

75%

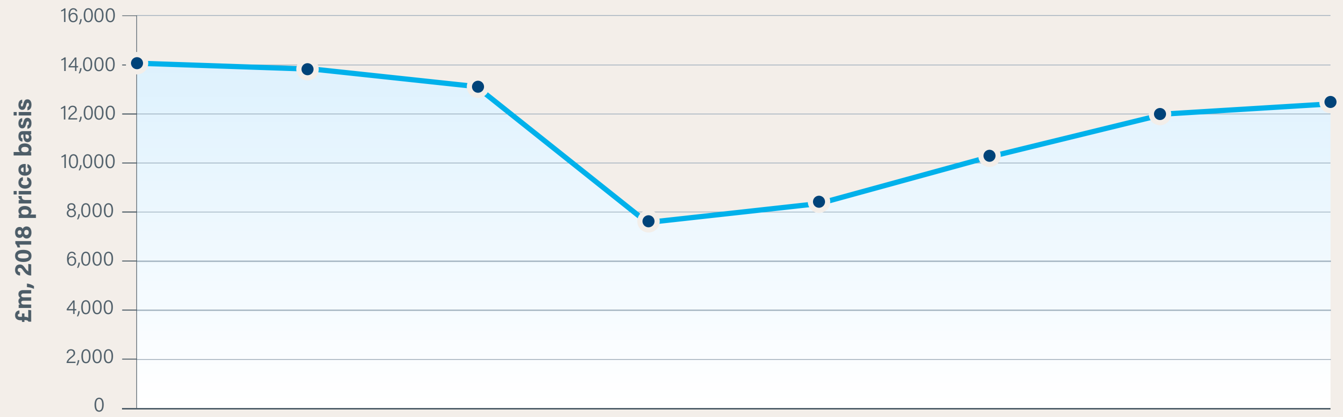
Of construction employers still using CJRS* by end

22%

CJRS* Coronavirus Job Retention Scheme

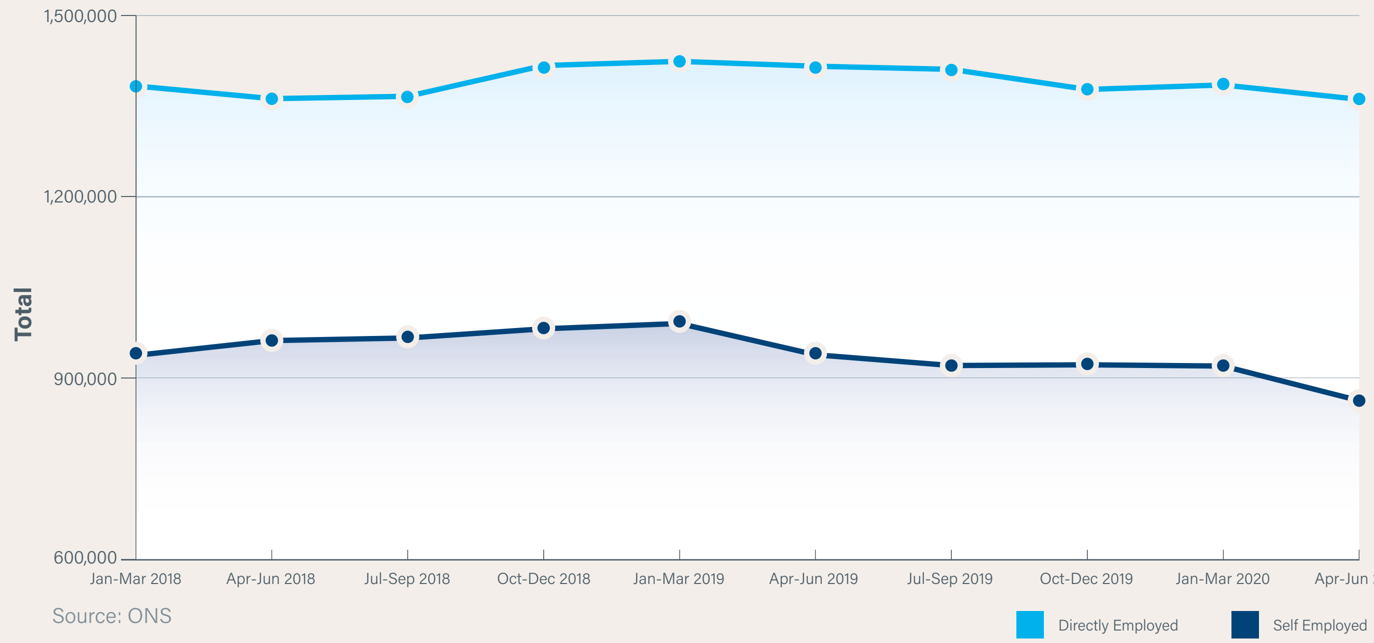
2020 GB Construction Output

January	Feburary	March	April	May	June	July	August
14,153	13,964	13,189	7,761	8,469	10,317	12,087	12,455



Source: ONS, Output in the Construction Industry, seasonally adjusted volume

Construction employment, by type, January 2018 - June 2020, quarterly data



Source: ONS

2021-2025 Outlook

CITB, working in partnership with Experian, has produced three illustrative scenarios based on assumptions about how the UK economy could recover from coronovirus from 2021 to 2025.

1. BASE-CASE

A bounce back in the second half of 2020, though slower in the last three months of the year that continues over the coming years, due to CJRS/SEISS/JSS being successful and resulting in a peak of 10% unemployment. Insolvencies are kept to a minimum and only some long-term scarring to the economy.

2. MID-CASE

Government social distancing measures are stricter and CJRS/SEISS/JSS prove less successful than the above, resulting in a peak of 11% unemployment and a slower recovery. Less investment, poor confidence and cashflow issues resulting in several insolvencies.

3. WORST-CASE

Strict and widespread lockdown measures continue (but not a total national lockdown) and CJRS/SEISS/JSS proving largely unsuccessful in safeguarding jobs across the economy, resulting in peak unemployment of 14% and uneven recovery, poor confidence and cashflow issues resulting in high and sustained levels of insolvencies.

Under the Base-case, UK GDP would return to pre-Covid-19 levels in 2022, whereas it is likely to be 2025 or later for the Mid-case or Worst-case. We see the Base-case, possibly moderating to a Mid-case, as the most likely outcome for the end of 2020. However, the Worst-case cannot be discounted with the introduction of the tiered COVID Alert Levels.

All scenarios highlight the impact that coronavirus will have in 2020 and emphasise that the recovery trajectory could vary significantly depending upon a range of risks. The connected problem of health and financial crisis make forecasting far more difficult than if only one of these were to occur.

While comparisons with previous recessions might have only limited value, it provides a benchmark to assess the impacts and implications for the economy, the labour market, skills gaps and skills shortages.

For construction there are some clear differences in the impact on output and workforce from Covid-19 when compared to the recession following the 2008/09 financial crisis:

- In 2008/09 there was a peak-to-trough drop in quarterly construction output of 17% that took place across seven quarters, whereas the drop in 2020 was 38% over two quarters.
- 2008/09 mainly impacted the private housing and commercial sectors, while sectors such as infrastructure and public non-housing grew strongly. In 2020 all construction sectors have been heavily affected with declines ranging from 14% to 51%.
- Work has picked up in Q3 2020, particularly infrastructure and housing. However, after 2008/09 it took more than five years for house building to recover output, and the commercial sector is still lower after more than 10 years.
- The 2008/09 financial crisis led to a spike in business closures in 2009. However, we anticipate that the business impact from Covid-19 will be felt over several years with increased closures in 2020, 2021 and possibly into 2022.

Unemployment at peak if **Base-case**

10%

Unemployment at peak if **Mid-case**

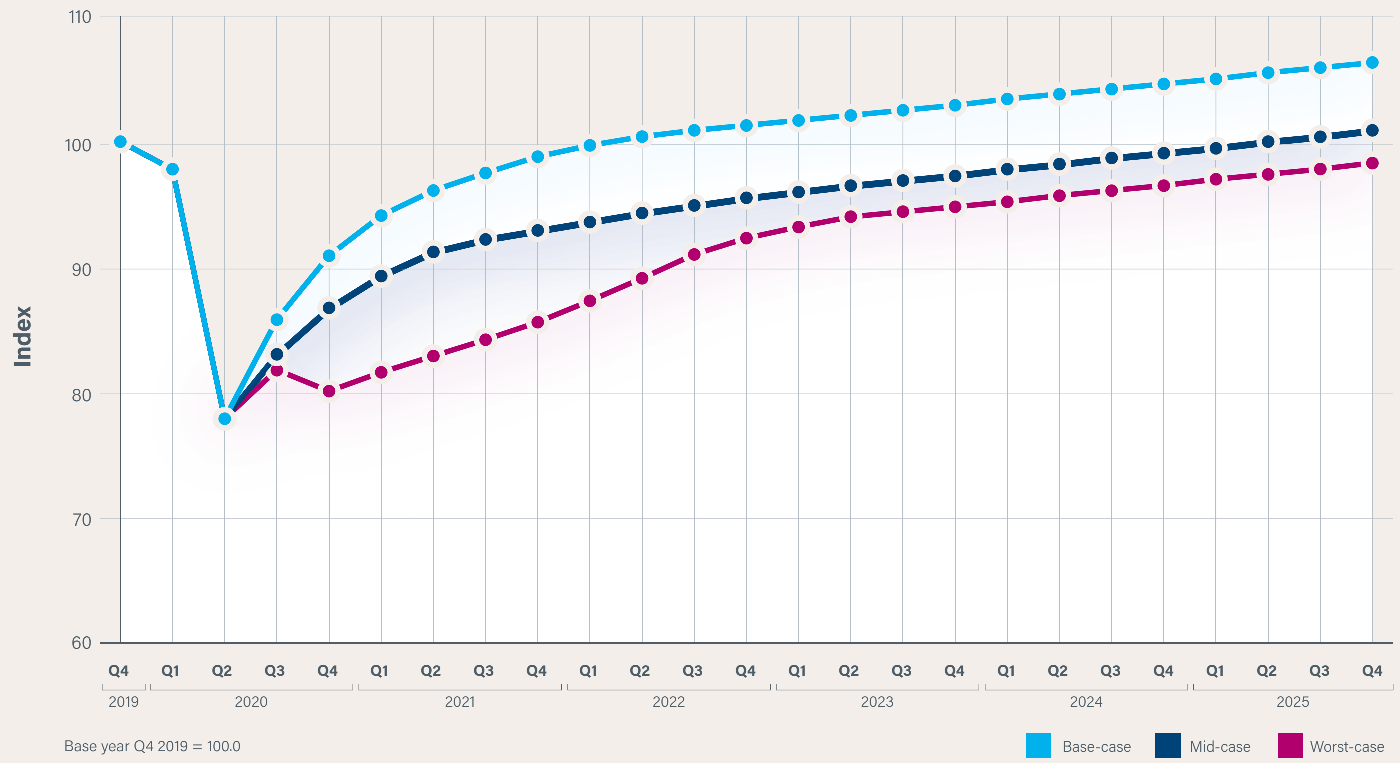
11%

Unemployment at peak if **Worst-case**

14%

Construction output and construction employment.

Economic recovery scenarios, GDP Index, 2019 Q4 to 2025 Q4



Source: CSN, Experian.

The table below outlines the headline impact that each scenario would have on construction output and workforce.

	2020		2025	
	Output	Workforce	Output	Workforce
Base-case	£130.1bn	2,436,000	£168.9bn	2,717,000
Mid-case	£128.3bn	2,405,000	£164.3bn	2,663,000
Worst-case	£124.9bn	2,350,000	£162.6bn	2,632,000

For reference, 2019 figures for output and workforce were: **Output:** £166.5bn (2016 price basis) **Workforce:** 2,722,000

2021-2025 Outlook

Looking in more detail at the Base-case and the annual average growth rates for output over the five-year forecast, Public housing (8.2%), Private housing (7.8%) and Infrastructure (5.5%) sectors are expected to grow strongly and be key drivers for recovery.

Infrastructure work has been the area of construction that has held up best in recent months, and the Government is keen to ensure that its National Infrastructure Pipeline supports both the national recovery and the 'levelling up' agenda. Likewise, the ambition across all nations to deliver against future housing targets, while also delivering a built environment that supports net zero carbon emissions, are two factors that will also drive future growth.

Growth is fairly evenly spread across all nations and regions, with both private and public housing being key sectors along with infrastructure work in most areas. The UK's average growth rate between 2021-2025 is 5.4%, with England at 5.5%, Scotland at 4.5%, Northern Ireland at 5.2% and Wales at 4.8%.

THE ECONOMIC FORECASTS MEAN THAT IN THE SHORT TERM, 2021-2022, THE CONSTRUCTION SECTOR IS LIKELY TO SEE:

- Limited recruitment of new entrants with the rise in unemployment expected to peak in 2020.
- A drop in new apprenticeship starts for the 2020/21 academic year. August to November is the time of year when most learners would typically start their construction apprenticeship. However, research undertaken by CITB indicates that employers have had to re-think their plans in response to coronavirus.
- Employers trying to retain workers where government support mechanisms (both direct and indirect) and workloads allow.
- A growth in infrastructure work resulting in an increased demand for skilled workers.

IN THE MEDIUM TERM, 2023-2025, AS THE SECTOR RECOVERS:

- Recruitment of new entrants from training and career changers will become more important, particularly due to growing competition with other sectors for talent.
- Apprenticeships starts will pick up as confidence in recovery grows, and a vaccine or better workplace controls both encourage and enable a return to higher levels of work-based learning.
- Employers increase demand for training in response to new ways of working, the adoption of new technologies, and the changing nature of jobs and skill requirements in the post-pandemic world.

ANNUAL AVERAGE GROWTH OVER FIVE YEAR FORECAST

Public Housing	Private Housing	Infrastructure
8.2%	7.8%	5.6%

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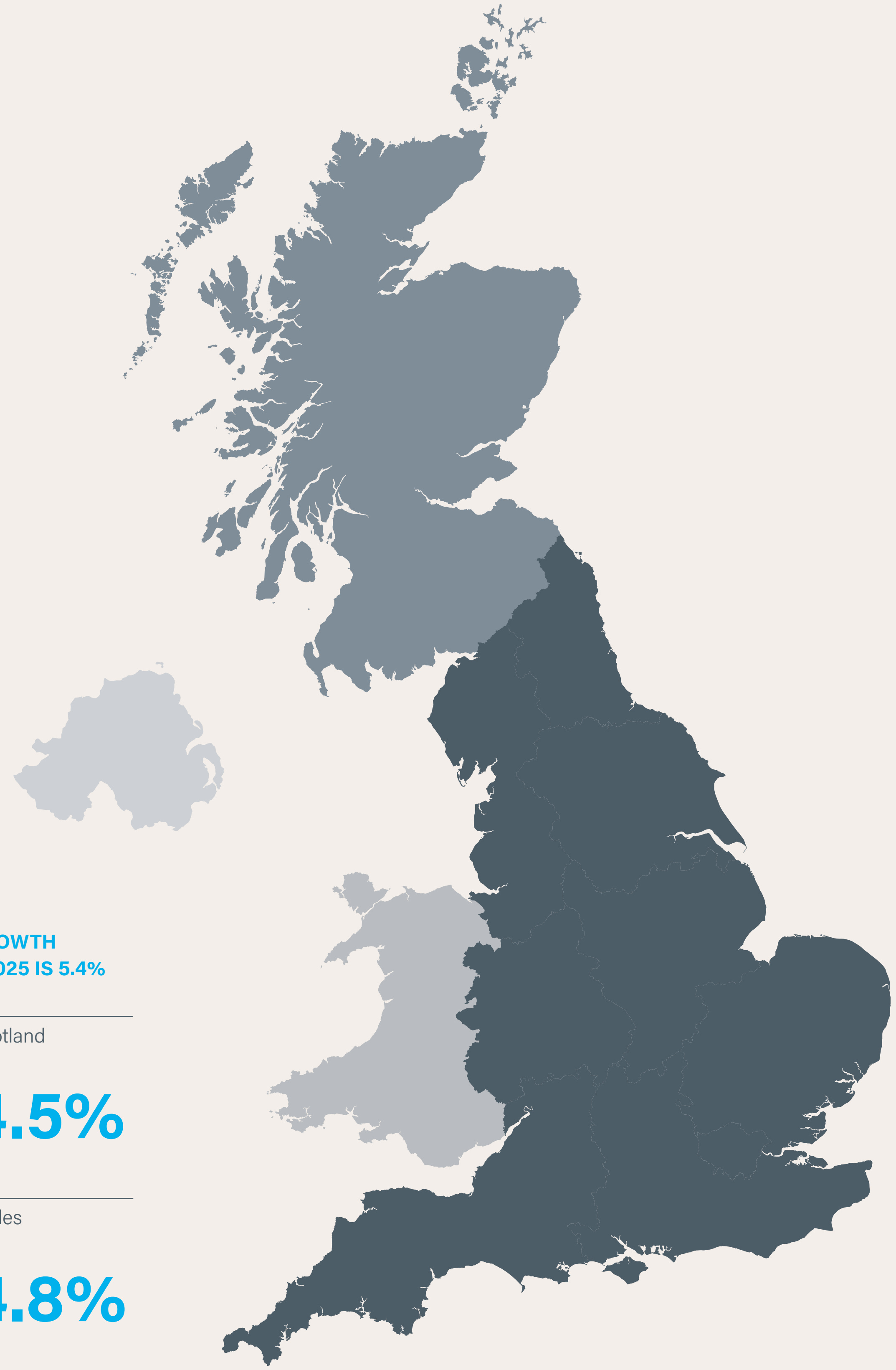

THE UK'S AVERAGE GROWTH RATE BETWEEN 2021-2025 IS 5.4%

England	Scotland
5.5%	4.5%

Northern Ireland	Wales
5.2%	4.8%

CITB's commitment to recovery

As a core sector of the economy, construction can help support wider economic recovery, especially if it can modernise and improve productivity.

Historically, construction has been slow to modernise. However, there are increasing signs of greater commitment and collaboration on this between industry and government since the pandemic hit.

This will require progress in attracting, developing and retaining a more skilled workforce. This means making construction a career of choice; creating the conditions to improve retention of skilled workers; and upskilling, reskilling and cross-skilling the workforce to work effectively and safely.

TO SUPPORT THE CONSTRUCTION SECTOR IN ACHIEVING THIS, CITB WILL:

— Help to better understand the skills supply and demand needs around issues such as net zero and modernisation.

— Present the sector as being attractive and inclusive to new recruits, with work experience opportunities and routes to join.

— Demonstrate that it can act on behalf of industry to set standards, define competence and signpost to suitable training, using its unique role to achieve this in a complex industry. This includes working with industry to identify the competence and training standards required to make progress in areas such as digitalisation, net zero emissions and responding to the new safety requirements in working practises post-Grenfell.

— Address gaps in training provision, and positively influence training behaviour through investment, ensuring it meets employer needs and demonstrates benefits. Funding will target the areas of greatest need and protect "niche" skills.

Government support for industry

How government can work with industry to support the recovery

Without large-scale sustained investment to support skills over the next 12 months the industry could lose a generation of talent due to rising unemployment and reduced apprenticeship provision. Continued government support over this period is crucial for the construction industry's recovery and to avoid our worst-case scenario.

Success in delivering government's infrastructure and housing projects in response to Covid-19, and as the EU transition period ends, will have a large impact on what the construction industry's recovery and its employment levels look like.

EXISTING GOVERNMENT SUPPORT HAS INCLUDED:

— The launch of the Construction Job Retention Scheme and the Self-Employment Income Support Scheme.

— Offering a £2,000 employer apprenticeship incentive until January 2021.

— Funding and policy support for expanded Traineeships, a skills development programme that includes work placements.

— The launch of the Kickstart scheme, a £2 billion fund to create high-quality six-month work placements.

— The launch of the Construction Talent Retention Scheme.

— The announcement of a Lifetime Skills Guarantee.

— Scottish and Welsh governments have also introduced a range of employment and skills incentives to keep people in work and training.

For each apprentice taken on by an employer

£2,000

Kickstart scheme to create high-quality work placements

£2bn

Four recommendations for Government

The crisis also presents the opportunity to reshape the construction skills pipeline, so that it is better equipped to meet construction employers' future skills needs.

The construction industry needs to attract a wider range of talented people through a variety of pathways that reflect different learner journeys. The industry also needs the right training in place to drive modernisation and meet net zero ambitions. CITB has been working closely with Government and industry to equip employers with the support they need to recover and create new recruitment and training opportunities. Here are CITB's four recommendations for Government to help construction build back better.

The following recommendations will be essential in delivering the Construction Leadership Council's Roadmap to Recovery:

1. Make construction a priority sector

Build on the success of the Department for Education's Construction Skills Fund, administered by CITB, to create a network of onsite construction hubs on the largest infrastructure and housing projects across the country. Government can do this by making construction a priority sector within the new National Skills Fund. This will ensure that we are bringing in talent to the industry and providing opportunities for people to upskill to access sustainable jobs.

2. Reform the Apprenticeship Levy

Provide additional employer flexibility by recognising prior learning for an apprenticeship and allowing large employers to spend surplus Apprenticeship Levy funds in bulk. This will be vital to ensure the apprenticeship programme can rapidly respond to industry's skills needs as it moves into the recovery phase.

3. Help get more college students into construction jobs

Government can do this by creating new pathways from Further Education into industry. We want to see a new Traineeship for construction launched in early 2021, based on current work being undertaken by Government, CITB, the Association of Colleges and British Association of Construction Heads. The forthcoming FE White Paper can shape local training provision to meet future employer skills needs and drive growth.

4. Provide certainty on infrastructure pipeline

Industry needs certainty on the pipeline of infrastructure work. Government can do this by publishing its National Infrastructure Strategy that will ensure industry has a clear long-term pipeline of work to level up the country and meet net zero targets. CITB will work with government and industry to plan out the skills needed to deliver on these ambitions and reduce skills gaps.

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