

CITB ANALYSIS AND FORECASTING

**5-year
Outlook**
2021-2025

Construction Skills Network

Labour Market Intelligence Report

Scotland



The annual recruitment requirement in Scotland of 2.3% per year, means an extra 26,250 new workers are needed between the end of 2020 and 2025.

The annual recruitment requirement in Scotland

2.3%

Amount of new workers that are needed between 2020 and 2025

26,250

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 paused during 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.

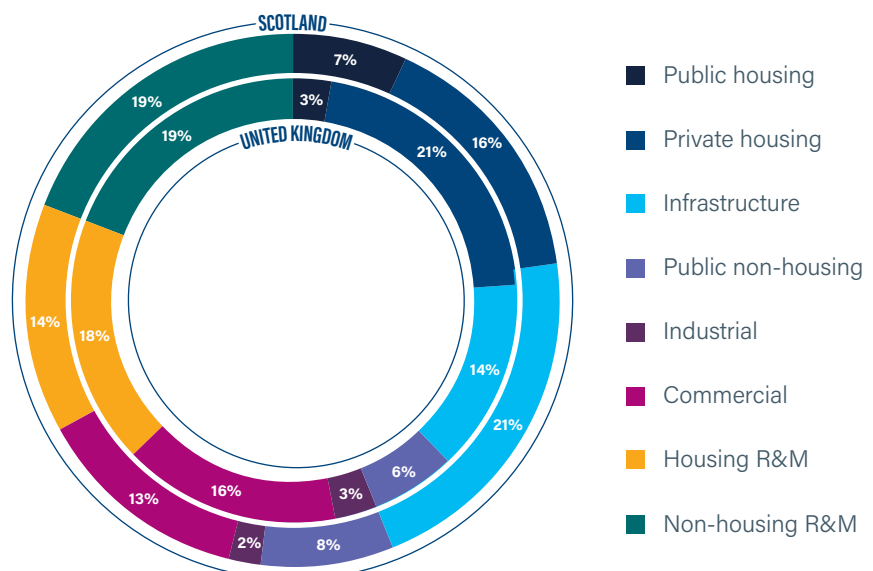
Lastly, there are non-economic challenges for the wider economy and several industries, including construction. These include a potential third wave of Covid-19 infection rates resulting from relaxed social distancing restrictions during summer 2021 and increased international travel that might result 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

Comparing the structure of the construction industry in Scotland to the UK highlights the recent investments that have been made in infrastructure, which accounts for over a fifth of work in Scotland, higher than the UK figure of 14%. Scotland also has a higher level of public housing output, at 7% compared to the UK figure of 3%, although the total housing output from both public and private sector work is comparable to the UK.

CONSTRUCTION INDUSTRY STRUCTURE 2020, SCOTLAND VS UK

Source: ONS, Experian

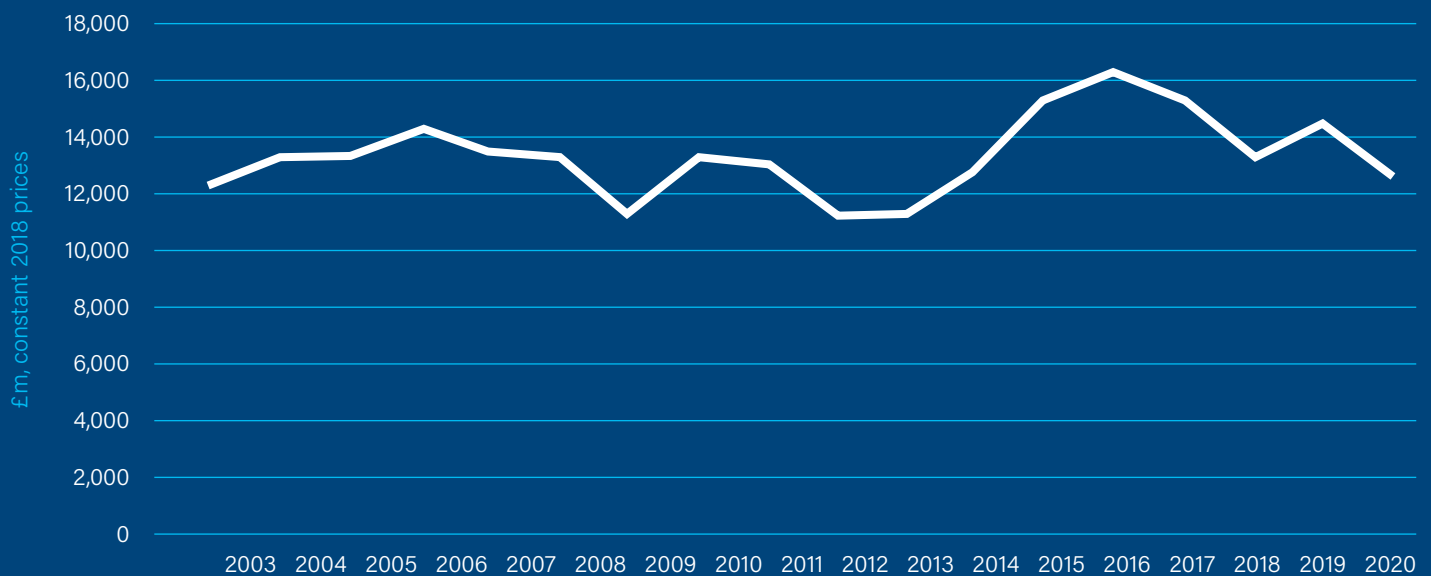


2020 view

2020 has been a challenging year for construction in Scotland, with annual output dropping by around 13% when compared to 2019. However, recent economic index data published by the Scottish Government highlights the strong pick-up of construction work in the second half of 2020, which we expect to develop into a steady recovery of output in 2021.

CONSTRUCTION OUTPUT 2003 - 2020 SCOTLAND

Source: ONS



Output forecast 2021 - 2025

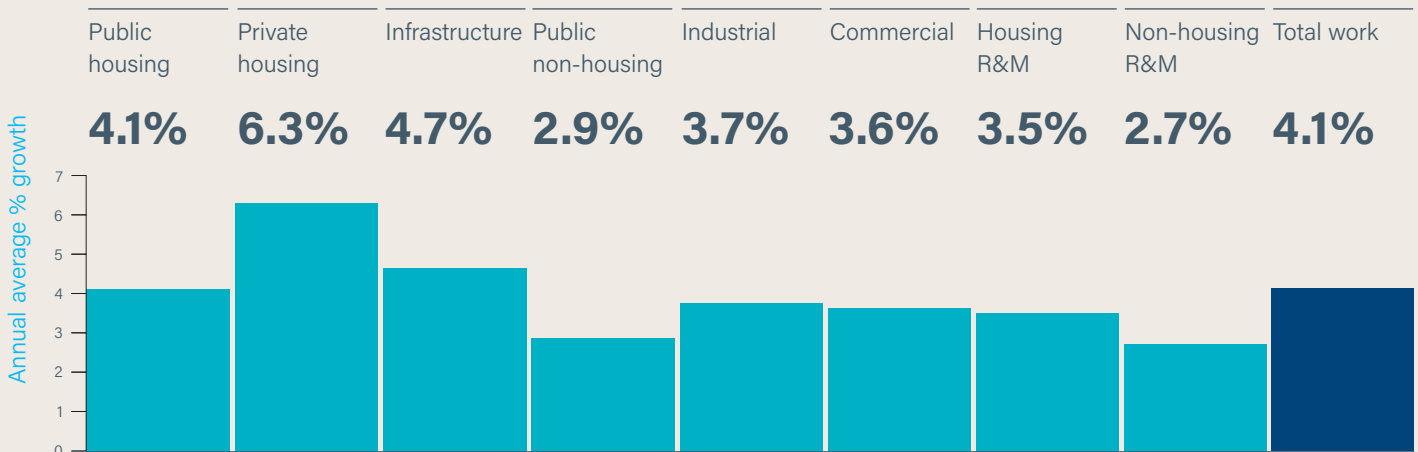
The volume of work will grow by an annual average rate of about 4.1% for Scotland, just slightly below the UK forecast of 4.4%. Private housing and infrastructure sectors are expected to have the fastest growth rates and our estimate is that Scottish construction output will achieve its pre-Covid-19 levels in 2023.

Scotland average growth rate

4.1%

Forecast

FORECAST ANNUAL AVERAGE OUTPUT GROWTH BY SECTOR 2021-2025 SCOTLAND



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

CONSTRUCTION OUTPUT - SCOTLAND (£ MILLION, 2018 PRICES)

	Actual	Forecast (Annual % change, real terms)					Annual average
	2020	2021	2022	2023	2024	2025	2020-2025
Public Housing	862	12.3%	3.1%	1.5%	2.5%	1.2%	4.1%
Private Housing	2,021	22.2%	5.4%	2.3%	1.3%	1.7%	6.3%
Infrastructure	2,699	9%	3.7%	2.3%	5.3%	3.1%	4.7%
Public Non-housing	1,037	8.4%	2.5%	1.1%	1.9%	1%	2.9%
Industrial	208	8%	3.9%	4.2%	2.1%	0.3%	3.7%
Commercial	1,567	4%	3.5%	3.9%	3.9%	2.7%	3.6%
New Work	8,393	11.5%	3.9%	2.4%	3.2%	2.2%	4.6%
Housing R&M	1,801	9.1%	2.3%	3.2%	1.8%	1.3%	3.5%
Non-housing R&M	2,398	5.2%	2%	2.2%	2.4%	1.6%	2.7%
Total R&M	4,199	6.9%	2.1%	2.7%	2.2%	1.5%	3%
Total Work	12,592	9.9%	3.3%	2.5%	2.9%	1.9%	4.1%

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

The 6.3% annual average growth forecasted for private housing work from the end of 2020 to the end of 2025, similar to the UK figure and largely influenced by the sector returning to work in 2021. Although infrastructure growth is slightly lower at 4.7%, its higher share of output value means that it will deliver a similar value of growth to private housing, therefore both are important drivers of growth over the next five years.

Infrastructure activity was beginning to ramp up again, with some big wind farm schemes, such as those in the Firth of Forth, ongoing or in the pipeline; the start of the Edinburgh Tram extension; and a £3.6bn capital expenditure programme by Scottish Water. The Moray Firth project has seen the first 100 turbines installed in January 2021 for Moray East, and is expected to be fully operational in 2022, providing enough power for close to a 1m homes.

Councils in the north of Scotland are seeking reassurance from the Scottish government of its commitment to the programme for the remaining 10 sections to dual the A9 from Perth to Inverness, initially planned at a total cost of £3bn. Although there is plenty of work left in this scheme, it seems likely that work will extend beyond the 2025 deadline for completion. will be met.

The level of output growth in Scotland gives an annual average increase of 1.4% in the construction workforce, stronger than the UK-wide equivalent at 1.0%. This means that the construction workforce of just over 226,100 at the end of 2020 is set to increase to nearly 241,800 by the end of 2025.

TOTAL WORKFORCE BY OCCUPATION - SCOTLAND	Actual	Estimate	Forecast	
	2020	2021	2022	2025
Senior, executive and business process managers	13,900	14,200	14,200	14,300
Construction Project Managers	3,700	3,800	3,800	3,900
Other construction process managers	17,300	17,800	17,800	18,100
Non-construction professional, technical, IT and other office-based staff	31,200	32,400	33,000	33,300
Construction Trades Supervisors	4,300	4,500	4,700	4,900
Wood trades and interior fit-out	22,600	23,200	23,400	23,800
Bricklayers	5,600	6,100	6,300	6,200
Building envelope specialists	3,800	4,100	4,200	4,300
Painters and decorators	7,300	7,500	7,500	7,600
Plasterers	3,400	3,500	3,500	3,600
Roofers	4,200	4,300	4,300	4,200
Floorers	2,800	2,900	2,900	2,900
Glaziers	2,100	2,100	2,100	2,100
Specialist building operatives nec*	3,700	3,700	3,700	3,600
Scaffolders	2,600	2,600	2,600	2,600
Plant operatives	4,100	4,100	4,300	4,500
Plant mechanics/fitters	4,000	4,100	4,100	4,100
Steel erectors/structural fabrication	2,400	2,400	2,500	2,700
Labourers nec*	11,300	11,800	12,200	12,300
Electrical trades and installation	19,800	20,500	20,800	21,500
Plumbing and HVAC Trades	11,400	11,600	11,600	11,500
Logistics	2,200	2,300	2,300	2,300
Civil engineering operatives nec*	2,800	2,800	3,000	3,100
Non construction operatives	3,400	3,600	3,700	3,800
Total (SIC 41-43)	189,800	195,800	198,400	200,900
Civil engineers	6,000	6,000	6,400	6,800
Other construction professionals and technical staff	20,600	22,000	22,400	22,600
Architects	3,200	3,600	3,700	3,800
Surveyors	6,600	7,300	7,600	7,700
Total (SIC 41-43, 71.1, 74.9)	226,100	234,700	238,400	241,800

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

* Not elsewhere classified

Annual Recruitment Requirement (ARR)

The annual recruitment requirement in Scotland is set to average 2.3% per year, based on 2020 workforce levels, which is higher than the UK figure of 1.6%. This means the construction industry would have to increase current recruitment by 5,250 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:

- Other construction professionals and technical staff (850 per year)
- Construction process managers (850 per year)
- Electrical trades (800 per year).

However, there would also be pressure on civil engineers, architects, labourers and logistics staff 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 - SCOTLAND

	ARR	ARR as % of 2020 workforce
Senior, executive and business process managers	-	-
Construction Project Managers	-	-
Other construction process managers	850	5.0%
Non-construction professional, technical, IT and other office-based staff	450	1.4%
Construction Trades Supervisors	-	-
Wood trades and interior fit-out	150	0.8%
Bricklayers	-	-
Building envelope specialists	100	2.1%
Painters and decorators	-	-
Plasterers	<50	-
Roofers	150	3.8%
Floorers	50	1.8%
Glaziers	50	2.9%
Specialist building operatives nec*	<50	-
Scaffolders	50	2.7%
Plant operatives	-	-
Plant mechanics/fitters	-	-
Steel erectors/structural fabrication	50	2.1%
Labourers nec*	650	5.7%
Electrical trades and installation	800	4.0%
Plumbing and HVAC Trades	-	-
Logistics	100	5.5%
Civil engineering operatives nec*	-	-
Total (SIC 41-43)	3,500	
Civil engineers	350	5.9%
Other construction professionals and technical staff	900	4.3%
Architects	200	5.9%
Surveyors	350	5.2%
Total (SIC 41-43, 71.1, 74.9)	5,250	2.3%

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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