

CITB ANALYSIS AND FORECASTING

**5-year
Outlook**
2021-2025

Construction Skills Network

Labour Market Intelligence Report

Wales



WALES

The annual recruitment requirement in Wales of 1.6% per year, means an extra 9,250 workers are needed between the end of 2020 and 2025.

The annual recruitment requirement in Wales

1.6%

Amount of new workers that are needed between 2020 and 2025

9,250

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.

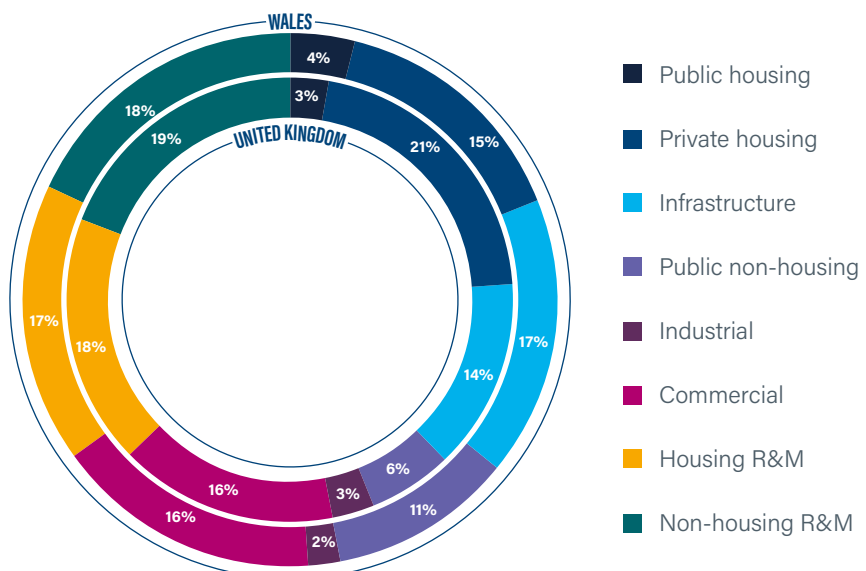
Lastly, there are non-economic challenges for the wider economy and several industries, including construction. These include a potential third wave of Covid-19 infection rates resulting from relaxed social distancing restrictions during summer 2021 and increased international travel that might result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

The construction industry in Wales is close to the structure seen in the UK, with similar levels of R&M, commercial and public housing activity. There is a slight variation in that Wales has stronger public non-housing and infrastructure sectors, whereas private housing is slightly lower, however, the balance between the sectors in Wales can adjust when there are large scale projects or programmes of work. Compared to the UK, the structure in Wales was more balanced across five main sectors.

CONSTRUCTION INDUSTRY STRUCTURE 2020, WALES VS UK

Source: ONS, Experian

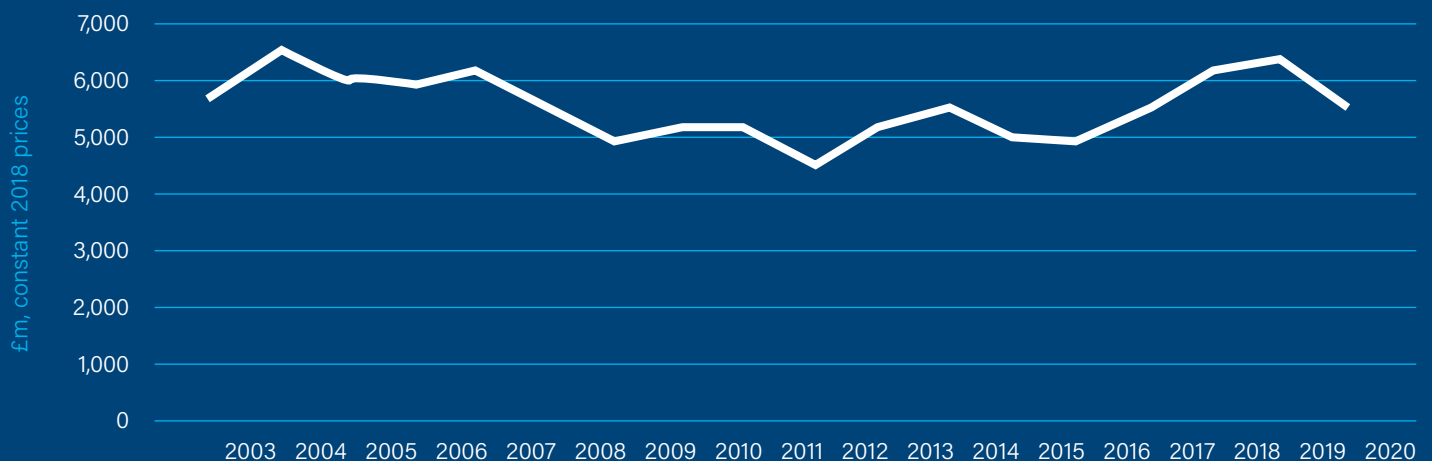


2020 view

2020 has been a challenging year for construction in Wales, with annual output dropping by around 14% when compared to 2019. However, recent economic index data published by the Office for National Statistics points towards a 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 WALES

Source: ONS



Output forecast 2021 - 2025

The volume of work will grow by an annual average rate of about 4.1% for Wales, 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 Welsh construction output will achieve its pre-Covid-19 levels during 2023.

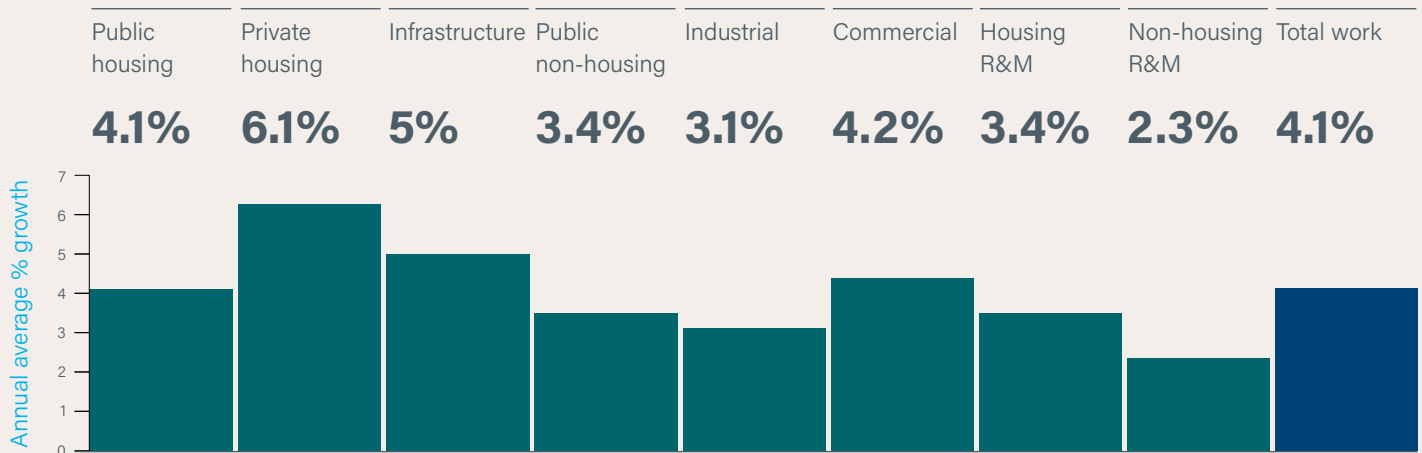
The 6.1% annual average growth forecasted for private housing work from the end of 2020 to the end of 2025, is similar to the UK average, and will be a key sector for Wales. Although infrastructure growth is slightly lower at 5.0%, its slightly higher share of output value means that it will deliver a similar value of growth to private housing, therefore both are important drivers of growth over the next five years.

Wales average growth rate

4.1%

Forecast

FORECAST ANNUAL AVERAGE OUTPUT GROWTH BY SECTOR 2021-2025 WALES



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

CONSTRUCTION OUTPUT - WALES (£ MILLION, 2018 PRICES)

	Actual	Forecast (Annual % change, real terms)					Annual average
	2020	2021	2022	2023	2024	2025	2020-2025
Public Housing	236	10.4%	3.1%	2.5%	2.5%	2.2%	4.1%
Private Housing	806	20%	3.5%	2.3%	3.3%	2.7%	6.1%
Infrastructure	951	9%	5.6%	3.3%	4.3%	3.1%	5%
Public Non-housing	604	8.4%	2.7%	3%	1.9%	1%	3.4%
Industrial	126	6.1%	3.9%	2.2%	2.1%	1.3%	3.1%
Commercial	857	6.8%	4.5%	2.9%	3.9%	2.7%	4.2%
New Work	3,580	10.9%	4.1%	2.8%	3.4%	2.4%	4.7%
Housing R&M	917	10.2%	0.9%	2.2%	2.7%	1.5%	3.4%
Non-housing R&M	991	5.3%	1%	2.1%	1.3%	1.6%	2.3%
Total R&M	1,907	7.7%	0.9%	2.2%	2%	1.6%	2.8%
Total Work	5,487	9.7%	3%	2.6%	2.9%	2.2%	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

Rail and water work will support the infrastructure sector with work on the overhead line electrification commencing in summer 2020 for completion by 2022. Phase 1 will see lines in Cardiff converted to light rail, with phase 2 providing track improvements and new platforms on

the Merthyr, Treherbert, Aberdare and Rhymney lines, with a new station at Crwys Road in Cardiff due to open by end 2022.

Welsh Water planned to invest a total of £366m in 2020-21, part of a new five-year £2.3bn investment plan to 2025. The £10m

pipe replacement project to improve water quality in the Rhymney Valley is due to complete in mid-2021 and AMP7 covers the first phase of a £91m investment WTW at Merthyr.

The level of output growth in Wales gives an annual average increase of 0.7% in the construction workforce, slightly lower than the UK-wide equivalent at 1.0%. However, Wales isn't showing the workforce reduction between 2019 and 2020 that is being picked up in other areas, hence the slightly lower growth rate. This means that the construction workforce of 114,400 at the end of 2020 is set to increase to 118,600 by the end of 2025.

TOTAL WORKFORCE BY OCCUPATION - WALES	Actual	Estimate	Forecast	
	2020	2021	2022	2025
Senior, executive and business process managers	5,200	5,200	5,200	5,300
Construction Project Managers	1,300	1,300	1,300	1,300
Other construction process managers	7,300	7,300	7,400	7,500
Non-construction professional, technical, IT and other office-based staff	11,100	11,100	11,300	11,500
Construction Trades Supervisors	2,500	2,600	2,600	2,800
Wood trades and interior fit-out	12,000	12,000	12,000	12,300
Bricklayers	6,800	7,100	7,200	7,300
Building envelope specialists	4,300	4,400	4,500	4,700
Painters and decorators	5,700	5,700	5,700	5,700
Plasterers	4,600	4,500	4,500	4,600
Roofers	2,000	2,000	1,900	1,900
Floorers	200	200	200	200
Glaziers	700	700	700	700
Specialist building operatives nec*	4,300	4,100	4,000	3,900
Scaffolders	1,000	1,000	1,000	1,000
Plant operatives	1,900	1,900	2,000	2,100
Plant mechanics/fitters	1,700	1,700	1,700	1,700
Steel erectors/structural fabrication	1,200	1,200	1,200	1,300
Labourers nec*	5,400	5,400	5,600	5,700
Electrical trades and installation	6,700	6,700	6,800	7,100
Plumbing and HVAC Trades	9,900	9,700	9,600	9,600
Logistics	1,000	1,000	1,100	1,100
Civil engineering operatives nec*	1,500	1,500	1,600	1,700
Non construction operatives	1,700	1,700	1,800	1,800
Total (SIC 41-43)	100,000	99,900	100,800	102,700
Civil engineers	2,400	2,400	2,600	2,800
Other construction professionals and technical staff	6,400	6,500	6,600	6,800
Architects	1,600	1,600	1,700	1,800
Surveyors	4,000	4,200	4,300	4,600
Total (SIC 41-43, 71.1, 74.9)	114,400	114,700	116,000	118,600

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 Wales is set to average 1.6% per year, based on 2020 workforce levels, which is the same as the UK figure. This means the construction industry would have to increase current recruitment by 1,850 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:

- Bricklayers (500 per year)
- Electrical trades (350 per year)
- Wood trades and interior fit out (250 per year).

However, there would also be pressure on logistics roles, civil engineering operatives, architects and steel erectors 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 - WALES

	ARR	ARR as % of 2020 workforce
Senior, executive and business process managers	100	1.9%
Construction Project Managers	-	-
Other construction process managers	-	-
Non-construction professional, technical, IT and other office-based staff	-	-
Construction Trades Supervisors	-	-
Wood trades and interior fit-out	250	2.3%
Bricklayers	500	7.6%
Building envelope specialists	150	3.3%
Painters and decorators	<50	-
Plasterers	-	-
Roofers	<50	-
Floorers	-	-
Glaziers	-	-
Specialist building operatives nec*	-	-
Scaffolders	-	-
Plant operatives	-	-
Plant mechanics/fitters	-	-
Steel erectors/structural fabrication	50	5.1%
Labourers nec*	100	1.5%
Electrical trades and installation	350	4.9%
Plumbing and HVAC Trades	-	-
Logistics	50	5.8%
Civil engineering operatives nec*	100	5.3%
Total (SIC 41-43)	1,650	
Civil engineers	100	4.9%
Other construction professionals and technical staff	-	-
Architects	100	5.1%
Surveyors	<50	-
Total (SIC 41-43, 71.1, 74.9)	1,850	1.6%

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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