PRESS RELEASE

CHALLENGING CONDITIONS FOR CONSULTING INDUSTRY CONTINUE

The results of Consulting Engineers South Africa’s (CESA) bi-annual Economic and Capacity Survey for the period July to December 2010 just released indicate that conditions in the consulting engineering industry continue to be challenging. Larger firms reported working conditions as mostly satisfactory, coupled with fierce competition. Lack of funding and a review of capital expenditure plans have affected confidence in the consulting industry, but levels of optimism remain surprisingly upbeat.

Investment in gross fixed capital formation continued to contract, down 1,2% y/y in 2010Q3, following a contraction of 8% in 2010Q1 and - 5,8% in 2010Q2. A decline in private sector investment particularly in new housing construction, machinery, equipment and transport contributed to the poor performance in gross fixed investment. An expected sharp decline in non-residential construction will have a negative impact on gross fixed capital formation in 2011. Given the commitment by government to improve capacity, CESA believes that spending on infrastructure such as roads, water and electricity (albeit over the longer term) will continue to support future investment in construction, albeit at much slower growth rates than those experienced in recent years.

Capacity utilisation fell for the fifth consecutive survey, and is currently still below 90% (82,5%), the lowest rate since the June 2002 survey (80,9%). Majority of firms expect capacity utilisation rates to remain static for the first six months of 2011, while 26% expect rates to increase.

Fee Earnings
In real terms, revenue ended flat in the period under review, following a 16,9% and 8% annual decline in the previous two surveys (adjusted for inflation using the CPI). A total of 55% of firms reported higher growth in the first six months, and earnings are expected to increase by 5% in current prices in the first half of 2011. This means the gap between current income and order books is widening, translating into fewer prospects for future earnings. The bulk of fees were earned in Gauteng (34%), followed by 16% in the Western Cape and 12% in KwaZulu Natal. Cross border activity represented 11,6% in Africa and 2,4% internationally. Earnings stabilized in Africa over the last 6 months, but dropped by 4% in terms of the international markets.

Late Payments
Fee earnings outstanding from local government for longer than 90 days, remained at above 16% the highest level since the December 2004 survey. Fees outstanding from provincial governments moderated to 14.7% but payments from the private sector deteriorated to over 65% outstanding for longer than 90 days. This means the consulting industry is hit twice as hard, on the one side, by a contraction in demand and on the other side, a tendency by clients to withhold payments for work already completed. This has serious implications for the industry, already struggling with fewer work opportunities, lower margins and increased competition. Payments from foreign clients also worsened as late payments increased by 8,4% during the same period.

Competition in tendering
The percentage of respondents saying that competition in tendering was very keen to fierce increased to 89,9%, compared to 88% in the June 2010 survey, the highest level since the inception of the survey. Smaller firms operating in specialist fields are more likely to report lower levels of competition. Competition was extremely fierce in Western
Cape, especially for those firms working in local government and the private sector in the disciplines of civil and structural services.

Confidence Levels
Confidence levels did not deteriorate as badly as expected in the first half of 2010. The level of optimism for working conditions in the first six months weakened to a level of 74.6 in the December 2009 survey, but actual working conditions were better than expected and confidence recovered to 87.1. The outlook for the last 6 months of 2010 was also initially poor, but actual conditions were better with confidence levels dropping just marginally to an index value of 86.7 (down 0.5% compared to the first six months of 2010). Confidence levels are expected to remain relatively stable in the next 6 to 12 months averaging between 86 and 87 – considered high if we take into account the current contraction in work in the pipeline and limited work opportunities for the contracting fraternity. It remains to be seen if these firms’ expectations will be met during 2011.

Transformation
Transformation of the industry continues to improve with 30% of owners and decision makers being black. Black people represented between 41% and 45% of the total number of people employed (at all levels), (including African, Coloured and Asian). The contribution of black people in professional appointments (including engineers, architects, quantity surveyors and other) increased marginally to 12.8% from 12.1% in the June survey.

Trying to conform to BBBEE requirements, means demand for black engineers will continue to put pressure on firms, as there are simply not enough black engineers available to fill those positions. There was a 10% increase in black Pr. Eng in the last six months of 2010 compared to the June 2010 survey.

Training and Bursaries
Government’s New Growth Path aims to deliver 30 000 engineers by 2014, a daunting target considering that only 2500 engineers graduate annually from local universities. Of further concern is that 60% of first year entrants do not graduate, while those that do graduate struggle to find employment as they lack the necessary experience. There was a definite stronger focus on training in the last survey, pushing the direct training costs contribution to salaries beyond 1% - the first time since the June 2008 survey. Bursaries are important to improve productivity in the industry as well as to secure employment opportunities. The industry spent between 0.4% and 0.8% of the salary and wage bill on bursaries, with no real significant change reported in the last five years. However, given the role that bursaries play and the shortage of skilled engineers, particularly black and female engineers, firms are not spending enough on black bursaries.

Quality Management System (QMS)
Having a QMS in place is compulsory for all CESA members, who recognize the importance of good efficient quality control. CESA recommends the ISO 9001: 2008 framework as being comprehensive and internationally recognized. A total of 97% of CESA firms reported having a QMS in place, with 92.3% of large firms and some 20% of small firms having also been ISO certified.

For further details please visit www.cesa.co.za.

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