

## **PRESS RELEASE**

### **INFRASTRUCTURE REMAINS A KEY PRIORITY IN STIMULATING ECONOMIC GROWTH**

The results of the bi-annual Consulting Engineers South Africa (CESA) Economic and Capacity Survey for the period July to December 2009 just released indicate that conditions in the consulting engineering industry continue to become more challenging, and as expected weakened considerably during the last 6 months of 2009. Fee income fell by 8% compared to the first six months, or by 16,9% y/y adjusted for inflation (CPI). Most firms expected tighter conditions in 2010, and projected an average 2% drop in earnings during the first 6 months of 2010. Conditions in the last 6 months of 2009 were not as bad as expected, shown by the improvement in confidence levels, as well as a softer than expected decline in earnings.

The industry's ROI (unweighted average) increased from 47,8% to 65,8% with the majority of firms reporting a ROI of between 20% and 100%. Fee earnings outstanding from local government have increased to 16% of total earnings, the highest level since the December 2004 survey when fees outstanding escalated to over 14%. Fees outstanding for provincial government rose to 27%. A sharp increase reported by larger firms in fees outstanding from foreign clients increased the overall rate to 18,5%. 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. Late payments increased dramatically during the second half of 2009, mainly due to a sharp increase reported in foreign clients. Because of the prominence of the local government as a client to the consulting industry, it represents the bulk of late payments from the government sector, estimated at R430 million.

Growth in gross fixed capital formation slowed to 1,2% y/y in the 3rd quarter, from 5,3% in the 2nd quarter and 11,8% in 2008. A decline in private sector investment particularly in new housing construction, machinery, equipment and transport contributed to the poor performance in gross fixed investment. Slower growth in non-residential construction will have a negative impact on gross fixed capital formation in 2010. The contribution of GFCF to GDP averaged between 20% and 22% during the last five quarters, a marked improvement from an average of 17% in 2005. Over the last four years there has been a substantial increase in fixed capital, necessary to support longer term and sustainable economic growth.

#### **Industry Outlook**

Confidence levels deteriorated during the last six months to an index value of 86.0, compared to 96.2 in the first six months. This is the second consecutive survey that showed deterioration in the index, and the first time since 2002 there has been a real notable shift in engineering confidence. Since 2005, confidence levels amongst consulting engineers have consistently remained above 98% showing exceptional levels of satisfaction with current working conditions. The outlook for 2010, based on industry sentiment, is gloomier, as confidence levels continued to deteriorate, averaging 74.6 in the first half of the year, with a mild improvement reported for the second half to an average of 87.0. The depressed outlook in the consulting engineering industry will have a lagged impact on industry turnover, affecting downstream opportunities for suppliers and contractors.

#### **Investment in construction**

For the first time since the late seventies, investment in the civil industry has a higher contribution to GDP compared to the building industry.

Sustained investment in buildings is impossible without supportive investment in civil works, and given the rapid increase in civil investment in recent years, greater investment in buildings is likely to follow once the current financial crunch has filtered through the economy.

### **Human Resources**

There was no real change in employment since the June 2009 survey. Black people represented 45,4% of the total number of people employed up from 43% in the previous survey. The contribution of black people in professional appointments increased to 15,2%, from 13,2% in the preceding survey. Fewer firms are looking to employ engineers. Even though employment has slowed, there haven't been any major retrenchments resulting in significant job losses, as engineers continue to be a critical scarce skill. Trying to conform to BBBEE requirements, means demand for black engineers will continue to put pressure on firms, as there are simply not enough experienced black engineers available to fill those positions. There was an 8% increase in black Pr. Eng between June and December, as well as a 9% increase in administration staff and an 18% increase in draughtsman.

### **Training**

Direct training costs, a measurement of firms contribution to training, increased to 1,02% of the salary and wage bill, up from 0,8% in the two consecutive surveys. This means the industry is spending more money on training. Spending on black bursaries, may have improved marginally to 0,2% in the December 2009 survey but continues to fall slightly short of the targeted 0,3% as per the construction charter.

### **Capacity Utilisation**

Capacity utilization fell for the third consecutive survey, and is currently below 90%, the lowest rate since the June 2002 survey. An increasing number of firms are also expecting utilization rates to fall in the next 6 months. Larger firms remain busy though.

### **Industry challenges**

- The consulting engineering industry is threatened by incapacitated local and provincial governments. As major clients to the industry it is important that these institutions become more effective, more proactive in identifying needs and priorities and more efficient in project implementation and – management.
- Lack of capacity within government, not only threatens the future growth of the consulting engineering industry, but also the economic growth potential of the South African economy, and with it, the future prospects of each and every South African citizen. Investment in critical scarce resources such as water, is after all, a non-negotiable, but continues to fail to be listed on the priority list of many departments.
- The involvement of non CESA members in government tenders and procurement continues to threaten the standard and performance of the industry. Non-CESA members do not seem to comply with the same standards and principles as those firms that are members of CESA. Whether this is linked to complaints of "below cost" tendering during 2009, is not certain, but CESA members should be better informed about engaging in below cost tendering.
- The current tendering and procurement procedures do not acknowledge performance.
- Lack of attention to maintain infrastructure poses a serious problem to the industry. Not only is it much more costly to build new infrastructure, but dilapidated infrastructure hampers economic growth potential. The cost of resurfacing a road after seven years is estimated, at current prices, at R175 000 per kilometre, compared to R3 million per kilometre to rebuild. Less than 6% of the construction price. In many cases infrastructure is left to deteriorate to such a state, that maintenance becomes almost impossible. This simply translates to ineffective spending of tax payer's money.

- As clients grapple to secure funding (including private sector developers and government departments) the issue of non-payment will intensify during 2010.
- A major challenge to the industry is to find a way to standardize the procurement procedures applied by the different government departments. Procurement procedures should be standard for the country, or at least for the specific tier of government.

### **Quality Management System**

A quality management system (QMS) is a control that is implemented at various stages of production process or service delivery stages. A QMS system is important for all firms, big and small. This is the first time that all firms reported to have a QMS in place, compared to an industry average of 84% in the June 2009 survey. Having a QMS in place is now compulsory for all CESA members, who recognize the importance of good efficient quality control. CESA recommends the ISO:9001:2000 frame work, recognizing this framework as being comprehensive and internationally recognized. In addition all firms are now required to adhere to a Business Integrity Management System (BIMS) as a condition of membership that is primarily directed at contributing towards the eradication of corruption in the industry.

### **Directorate**

With a stable record of providing good overall services including those provided by the directorate, CESA faces the challenge to maintain its service level above the satisfactory mark. Adhering to the different needs, which includes catering to the needs of around 20 different disciplines, and with a diverse member base, CESA has accomplished an excellent record thus far and has certainly improved its overall service (including those to medium and smaller firms) since the inception of the quality survey in 2006. Tougher working conditions are expected to continue in 2010, as confidence levels have started to deteriorate. The need to address critical strategic issues such as pricing, improved procurement processes and client education will escalate in coming months to assist members through these tougher periods.

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