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THE SOUTH AFRICAN ASSOCIATION OF CONSULTING ENGINEERS

Forum

INVESTMENT GROWTH IN CONSTRUCTION EXCEEDS ECONOMIC GROWTH!

The results of the bi-annual South African Association of Consulting Engineers' (SAACE) Management Information Survey (MIS) for the period June to December 2006 just released, indicates that investment growth in the construction industry has exceeded economic growth for 19 consecutive quarters. This in the context of the South African economy having sustained 87 months of positive growth, according to an ABSA report. According to the South African Reserve Bank, construction investment growth increased by 14,7% y/y in the third quarter of 2006 compared to 12,6% in the preceding quarter.

Following a rapid increase in fee earnings for consulting engineers during the first six months of 2006, earnings in the second half of 2006, increased more moderately resulting in a nominal annual growth rate of 45,6% compared to an annual increase of 56% in the first half of 2006 compared with the same period in 2005. With a moderate outlook for earnings growth in the first half of 2007, the annual growth rate in fee earnings may moderate to 9,2%, which is still significant given the higher base of earnings accumulated during 2006.

Higher costs related to the cost of employment affected profit margins in the second half of 2006, although more than 50% of respondents expect profit margins to improve, while 26% expect margins to remain static. During the period under review, overall employment increased by 6%, compared to the first six months of 2006. The increase in full time staff was slightly higher compared to the increase in part time staff, but seems to be stabilising at around 17% of total employment based on the employment of part time staff. **Demand for engineers and technologists rose strongly during the first six months of 2006. However, it is still as difficult to find adequate skills,**

irrespective of race, particularly amongst engineers, and technologists. Demand for staff mainly pivots around engineers (with 93,5% of the respondents saying that they are hoping to increase staff), technologists (91,3%) and technicians (80,8%). Whilst the industry is desperately seeking to employ engineers, technologists, technicians and in some cases also administrative staff, this is easier said than done. More than 95% of the firms reported difficulties in finding engineers and technologists, irrespective of whether or not they are from a previously disadvantaged background. In addition to this the cost of labour increased by 52% in the last four years.

On average, spending on bursaries during 2006 (based on an average of the two surveys undertaken during 2006) represented the highest contribution to the salary and wage bill since 2002. The industry spent more than R32 M on bursaries during 2006, up from an estimated R17 M during 2005, and close to R50 M related to direct training costs.

Graham Pirie, CEO of SAACE comments, "It is clear from the report that the greatest immediate concern is a lack of skills in the industry, irrespective of race or gender, amidst a growing utilisation of existing capacity which is reaching crisis point. From the latest results, the situation has clearly deteriorated to critical levels, with 92% of the firms looking for engineering personnel, compared to 76% in the preceding survey."

Work is turned down as there are simply not enough resources to cope with the growing workload. The mounting shortage of engineering skills in the country has improved the position of the engineering profession in terms of the 'value' placed on the consulting engineering profession.

Capacity levels of technical staff are dangerously close to 100%, with a mere 5% spare capacity in the industry as a whole. Anxiously more than 63% of the respondents said that their technical staff are already running at a capacity rate of 100% and more. The engineering industry is running full steam ahead, and the momentum is expected to continue as at least 70% of the respondents expect capacity utilisation to increase further (therefore reaching critical levels) over the next six months.

On a positive note, on average, 19% of total fee income earned during the first six months of 2006, was outsourced to affirmable business enterprises, up from an average of 15,5% during the last two years. This was the strongest rate of increase in outsourcing since June 2003, when 22% of fee income was outsourced. However, during the last six months of 2006, outsourcing moderated to 16,8% of fee earnings, which means on average, 17,2% of fee earnings during the year was outsourced, or just over R1 billion (in constant prices).

The issue of delayed payments, that is when payment has not been received within a period of 90 days, continues. During the first six months of 2006, approximately 12,5% of the fee income was still outstanding after 90 days, rising to 15,5% during the latter half of 2006 which equates to R1,2 billion, a significant amount in an industry which is very sensitive to cash flow.

The full MIS report is available on the SAACE website www.saace.co.za.

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