SAACE MIS SURVEY REVEALS THAT THE CONSTRUCTION SECTOR IS BUZZING IN LINE WITH BUSINESS CONFIDENCE

The South African Association of Consulting Engineers' (SAACE) bi-annual management information survey (MIS), which is considered a key indicator in the health and performance of the construction sector, has revealed that the sector is picking up in line with business confidence and that the positive economic climate currently being experienced is the most conducive for this industry than has been experienced in the last 20 years.

This is in line with the presentation made by Rudolf Gouws, leading economist, at The Construction Conference in October at Sun City, who said that South Africa's GDP growth had been falling for a very long time, but since this has been picking up the economy is now in a stronger and a more stable growth phase than it has been for a very, very long time.

The survey which is circulated to member firms of the Association showed that on average the larger firms are expressing greater satisfaction with the fee income earned, and despite the difficulties experienced by smaller firms, they too, expect better times ahead, says Graham Pirie, CEO of the Association.

"Smaller firms are slower in their optimism to the favourable working conditions in the construction sector, as they are finding it more difficult to cope with stringent labour and administrative requirements, BEE and the effective deployment of human resources.

"It is for this reason, that much of the efforts of the Association as a pioneer in the changing environment are focused on interpreting changing legislation and developing approaches to the application of these changes in business particularly for the smaller firms, which do not have sufficient resources to handle this themselves."

Says Pirie: "2004's growth projections in fee income for the first six months of 2005 were exceeded. Firms expected earnings to increase by 5% from the last six months of 2004, compared to an actual reported growth rate (nominal) of 7%. In current prices, fee income (annualised) increased from R4 601 M during the last six months of 2004 to R4 923 M.

"Real fee income (adjusted using the consumer price index), rose 5,9% y/y in the first six months of 2005, compared to an increase of 7,8% in the second half of 2004. This on the back of a real quarterly GDP (at market prices) which increased by 4,8% during the second quarter of 2005, following an increase of 3,5% in the first quarter of 2005.

"Continued strong confidence regarding the future of the industry supports the view that fee income is expected to increase during the next 12 months. While the positive outlook is sustained by larger firms, smaller firms are still hoping for an improvement. Real fee income is expected to increase by 2,9% y/y during the last six months of 2005, compared to the same period last year.

"On a promising note, value added growth by the construction industry surpassed GDP growth yet again, and increased at an annualised growth rate 6,2% in the second quarter, following an increase of 5,1% during the first quarter of 2005."

Gouws agreed that the construction sector has now had for the last six years, and including this year in which there will again be rapid growth, the longest continuous period of growth in real value added. He added that construction activity has in fact been running ahead of the growth of the economy.

The MIS reports that the outlook for the economy is favourable despite warnings of possible interest rate hikes during 2006 and current working conditions are seemingly favourable.

Says Gouws: "Just about everybody thinks that times are very good, they are optimistic about the outlook whereas previously they had been in doldrums for a very, very long time. Particularly business people view our political situation as being a pretty positive one.

On the downside, the salary bill as a percentage of total fee income earned, increased further, depicting the strenuous working conditions related to labour and skills issues in the industry. The salary bill accounted for 54% of total fee income earned, the highest since the inception of the survey. The salary and wage bill increased by 12,2% y/y (adjusted for inflation) compared to an increase of 14,2% for the period July – December 2004. For larger firms the salary bill is even higher at an average rate of 56% of gross fee income, says Pirie.

"Outsourcing to external enterprises or individuals (including sub-consultants, joint ventures and contract workers) averaged 15,8% of gross fee income earned during the period under review. Approximately 25% of firms outsourced more than 20% of their fee income. This is largely tied to capacity issues.

"Half of the firms surveyed during the first six months, were operating at full capacity or more, including mostly smaller size firms, while the other 50% were operating at a level of 70% or more. We anticipate that a higher percentage of firms will expect capacity levels to come under even greater pressure during the next 6 to 12 months.

"Capacity utilization on average remained unchanged from the previous six months at 93%, but is nonetheless the highest level since the inception of the survey."

Employment, although probably accompanied by much more strenuous recruitment procedures, also increased in the last six months. Firms reported a 3% increase in employment from last year to 10 468. Compared to the same period last year, employment rose a mere 1,5%.

Says Pirie: "There was a notable increase in the number of part time employment during the last six months. Particularly larger firms increased part time employment. Contract based employment increased by 20%, while growth in full time employment ended flat from last year. The net result is an increase in employment since our last survey of 3%.

"The need for qualified engineers has become critical. As many as 83% of the respondents are looking to increase engineering resources, the highest rate since the inception of the SAACE MIS Survey.

"Interestingly, demand for technicians surpassed the need for technologists. Close to 60% of the respondents want to increase technicians, compared to 44% looking for technologists. The problem to find technical staff is less severe, with only 20% reporting problems, compared to 61% in the previous survey. The real problem remains in finding qualified PDI staff, as all firms reported difficulty in finding engineers, technologists and (to a lesser degree) technicians from a previously disadvantaged background."

Key sub-disciplines include civil and structural, which combined represented 63% of fee income earned during the first six months of 2005. Fee income earned increased in seven of the nine provinces, but fell in terms of both African and International earnings, this says Pirie, can be attributed to the buoyancy in the local market and the increasing amount of work.

Gradually, an increasing percentage of fee income was earned from the local government. As at June 2005, the market share of local government increased to 26,7%, making it the single largest "government" client.

"A significant amount of future infrastructure expenditure will be channelled through the Department of Provincial and Local Government (DPLG), and is projected to increase from R4,4 bn in 2004/05 to R8,3 bn in 2007/08."

Two economic sectors stood out from the rest, namely the transportation and commercial sectors. Both sectors contributed 24,6%, or just under R1 bn each. Services related to water was the third largest economic sector and represented 21,9% of total fee income earned. Gouws has stressed that construction activity is driven by fixed investment.

Disappointingly, delayed payments, representing fee income outstanding for longer than 90 days, rose to 15,8% of total fee income outstanding or R783 M (annualised). An increase in delayed payments by the provincial government departments was mainly to blame for the recent increase.

Says Pirie: "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 utilization of existing capacity. Firms are subjected to rigid procurement policies and while the industry has succeeded in increasing black participation across all employment categories, increasing black participation at both senior management and professional levels are much harder to achieve, due to the unavailability of experienced black professionals in numbers sufficient to cater for the industry's requirements. The unfortunate reality is that, based on current estimates, experienced black professionals will be in short supply for a number of years to come."

Black representation increased to 28,3% of total number of people employed in the industry, and represented 5,9% of the total number of professional engineers, and 22% of other professionals.

Approximately 21% of the people employed in the industry have ownership/equity in some form or another. Of the total number of executive and non-executive directors, black executive directors represented 12,5% and non-executive directors, 27,6%. Overall, as a percentage of total black employment in the industry, 15,3% has ownership/equity in a Pty, CC or Partnership.

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