

Consulting industry buoyant but cautious

The results of the bi-annual Consulting Engineers South Africa (CESA) Management Information Survey (MIS) for the period July to December 2008, indicate that the industry continues to grow although it is starting to show a slight leveling off with companies becoming more cautious. It is 'business as usual' for most Consulting Engineering companies apart from those operating in the Mining and Commercial and Industrial Property where the current economic climate has had a definite negative impact. Good news is that international work within Africa is on the increase.

For the first time since 2002 there has been a marked shift in engineering confidence. Confidence levels among consulting engineers have remained above 98% since 2005, showing exceptional levels of satisfaction with current working conditions, despite facing challenges including skills shortages. However, confidence levels deteriorated for 2009, as the index falls from 99,8% to an expected 84,3% in the first half of 2009 and to 75,2% in the last six months of 2009, the lowest level since December 2003.

The survey indicates that nominal fee income increased by 15% in the second half of 2008 compared to the first six months of 2008 or by 61% compared to the same period in 2008. This means that nominal fee income has increased by double digit annual growth rates since December 2004.

The average net profit (before tax) moderated in the last six months, from 19,4% for the first six months of 2008 to 18,4%, while profit margins are expected to moderate further in the first six months of 2009, to an average of between 15% and 16%. Nonetheless, more than a third of the respondents were highly satisfied with the current profit margin. Delayed payments continues to be a problem with fee income outstanding for more than 90 days or more increasing from 11,1% in the previous survey to 13,6% currently totaling R2 321M.

There was a distinct shift in the demand for engineers in this survey with the percentage of respondents looking for engineers falling from 94,5% in the December 2007 survey to 33,2% in the December 2008 survey, the lowest level since the December 1999 survey. Economic uncertainty coupled with rapidly increasing labour costs, means a more cautious approach to employment opportunities. Almost all firms continue to report



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problems with the recruitment of engineers with fewer reporting difficulties with recruiting technicians (including PDI's).

The report shows that the engineering industry continues to operate at close to 100% capacity, which will sooner or later start to impact on the growth potential in the industry and that cannot continue to increase exponentially without a subsequent increase in resources. Capacity levels of technical staff are dangerously close to 100%, but spare capacity has increased from 2% to 5% since the last survey. Most respondents, 79%, expect capacity utilisation to remain static in the next six to 12 months.

Total fee earnings increased in all of the nine provinces, except in the North West province where fee earnings fell by 26% y/y following a 62% annual increase in the June 2008 survey. High capacity provinces gained more prominence contributing a higher 83,2% of total fee earnings, compared to 80% in the December 2007 survey. High capacity provinces include Gauteng, Western Cape, Eastern Cape and KwaZulu Natal.

More than a third of annualised fee earnings were generated in Gauteng (38,9%), followed by 12,9% in Western Cape and 12,3% in KwaZulu Natal. In the latest survey, a higher 12,5% (compared to only 4,5% in the December 2007 survey) of fee earnings were generated in Africa and a 5,2% in the international market

The contribution of local authorities, private sector and state owned enterprises increased notably.

Capital projects from state owned enterprises and smaller to medium size infrastructure projects funded through the municipal infrastructure grant supported earnings from state owned enterprises and local government. The public sector, contributed 61,2% to fee earnings in the last six months of 2008, while the role of the private sector moderated from just over 40% in December 2007 to 38% in December 2008. More emphasis should be placed on the maintenance of infrastructure, where the municipal infrastructure grant can make a significant contribution.

As engineering and technical skills remain a scarce resource the need for training intensifies. Approximately 23% of the firms that responded to the survey spent more than 2,5% of their salary and wage bill on direct training costs. The industry spent approximately R40 million on bursaries according to the December 2008 survey. The engineering industry has already achieved (in fact exceeded) the target set in the Construction Charter, which states that 0,3% of the payroll must be spent on bursary expenditure on black students.

On a very positive note the overall service of CESA and its Directorate continues to be rated highly among member firms with the overall satisfaction rate improving in the December 2008 survey. CESA is challenged by medium and smaller firms that are in dire need of industry representation, as they look to CESA as a watchdog on their behalf to ensure industry standards and integrity is maintained.

In conclusion tougher working conditions are expected during 2009, as confidence levels slipped in the December 2008 survey. The need to address critical issues such as pricing, improved procurement processes and client education will escalate in coming months. The complete MIS report is available on the CESA website at www.cesa.co.za.

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CESA is duly concerned over the lack of emphasis on infrastructure maintenance and in particular that of municipal water and waste water treatment works around the country.