



BUSINESS CONFIDENCE CONTINUES TO GROW!

The results of the bi-annual South African Association of Consulting Engineers' (SAACE) Management Information Survey (MIS) for the period January to June 06, indicates that business confidence continues to grow. Graham Pirie, CEO of SAACE comments, "The outlook continues to look positive for the industry with a phenomenal 40% increase in fee income as well as an increase in profitability, all of this with a relatively small increase in staff levels. Companies are working to capacity, staff levels remain relatively stable but salaries are rising, people are paying more for scarce skills." He cautions that although conditions within the industry remain extremely buoyant, the less than optimistic outlook is a factor of high work loads, skills short-ages and late payments, rather than that of shortage of work. Capacity levels are dangerously close to 100%, although capacity utilisation has gradually increased over recent years, the situation is now reaching critical levels.

Delayed payments by both public sector and private sector clients continue to remain an issue. In addition, private sector company contributions to training are being undermined by the lack of bursaries in the public sector. Pirie states, "As far as training and bursaries are concerned the public sector needs to come to the party, private sector are doing the training and then losing these staff members to the public sector, making them reluctant to continue training programmes."

The annualised quarter on quarter growth rate in the construction sector has since 2001, surpassed overall economic performance. Consequently the contribution of the construction sector to GDP (at market prices) has started to improve from the record lows experienced during 2002. It is currently at

the best level since 1991, after having increased from 5,2% of GDP in the 1st quarter of 2002 to 6,7% in the 1st quarter of 2006. The contribution of the construction industry is likely to increase to between 7,5% and 8% in the next three years, supported by higher investment by government, corporations and the non-residential sector.

Gross fixed capital formation is expected to remain strong, especially in view of the government's plan to pump R372 billion into the economy over the next three years. Preparations for the 2010 Soccer World Cup will also ensure that economic activity is stimulated. Despite the negative impact of a cooling down in the housing market, economic growth is expected to be underpinned by fixed capital formation and firm consumer demand over the medium term. ABSA expects economic growth in 2006 and 2007 to average 4% y/y per annum, with a stricter monetary policy expected into 2007.

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. 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. Firms have reported that work has to be turned down due to lack of available resources. The Construction Industry Charter will assist in

driving the changes necessary to achieve a more representative profile in the industry.

Fees outstanding for longer than 90 days, as a percentage of total turnover, poses a real problem, particularly for smaller firms with limited cash flow available to carry continuous late payments for work already completed, often also having to carry the burden of higher salary and wages. The tendering environment remains difficult and is worsened by irresponsible pricing by some of the firms. Clients are also putting greater emphasis on price, forcing engineers to take a bigger risk in their tendering approach. There is a call from firms to SAACE to revolutionise the seemingly one sided tendering environment.

The growing responsibility placed on local municipalities to manage and implement infrastructure budgets, can be catastrophic for the entire industry (not just the consulting engineering profession) if municipalities do not act with responsibility, transparency and integrity. Already the Department of Provincial and Local Government are withholding restructuring grants from municipalities due to poor spending and delivery.

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

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