The State of the European Consulting Engineering Sector

BAROMETER autumn 2015

efca

Representing FIDIC in Europe

EFCA Barometer Task Group

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State of the consulting engineering sector

The most important trend identified in this latest biannual survey of the European consulting engineering sector is a further stabilisation of markets in southern Europe following several years of decline, and the apparent slowdown in the markets of central and northern Europe.

The sector in general is reflecting the gradual growth of European economies and their investment activity in gross fixed capital formation. The sector is influenced by the budgetary severity of the governments in the European Countries. Public sector has reduced severely their investments. The market for their services is generally stabilising at a low level and, as this had been anticipated, companies are managing to keep a small level of order stock. However, taking on new staff or developing the industry based on a high growth in private and public demand has not yet materialised.

INTRODUCTION

The Barometer Task Group of the European Federation of engineering Consultancy Associations (EFCA) has been conducting biannual surveys since 2012 to provide an overview of the consulting engineering sector in Europe, detailing developments for the latest six months and expected trends for the coming six months.

The Task Group has produced this report and analysis based on information on the current state of business (November 2015) provided by the member associations of EFCA for their respective countries.

Respondents

ACA	Austria
ACEI	Ireland
ACES	Serbia
APPC	Portugal
ATCEA	Turkey
CACE	Czech Republic
FRI	Denmark
HELLASCO	Greece
NLingenieurs	The Netherlands
OAI	Luxemburg
OICE	Italy
ORI	Belgium
RIF	Norway
SKOL	Finland
STD	Sweden
TECNIBERIA	Spain
USIC	Switzerland

SURVEY RESULTS

Turnover

Total turnover

The total 2015 turnover of the consulting engineering companies represented by 17 national associations is €21 billion. France and Germany are not included in the survey.

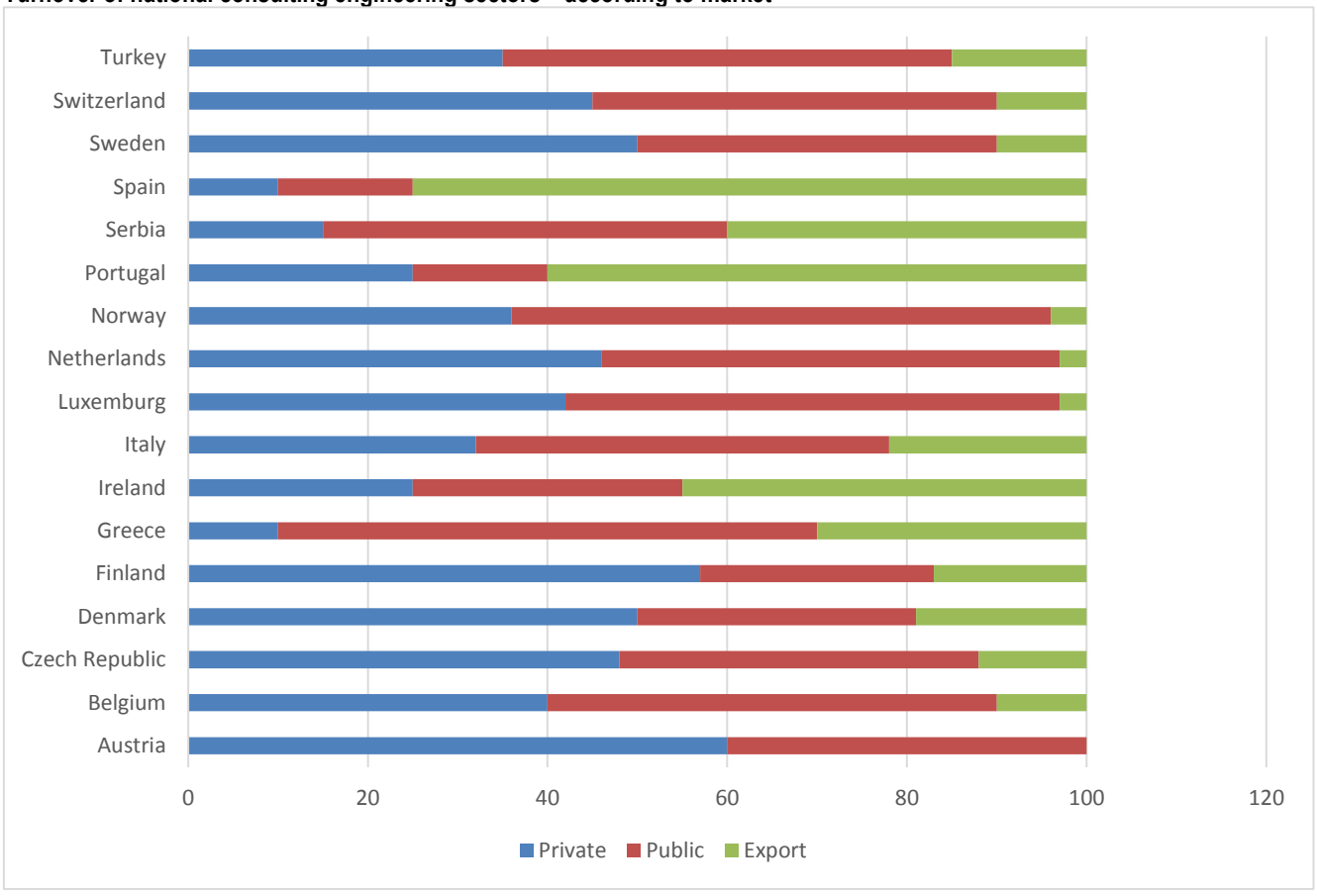
Origin of turnover

On average 39% of turnover for consulting engineers in Europe derives from private sector business. About 36% originates with the public sector, and exports account for 25%. In Portugal, Ireland, Serbia and Spain, exporting services are crucial for domestic firms to maintain their turnover. The consulting engineering firms from these four countries generate between 45 and 75% of total turnover from exports.

In Greece, Italy, Finland and Denmark exporting services also create significant value, generating 17-30% of turnover. For the remaining countries covered by the survey, export of services generate 10% or less of total turnover.

The public market is a significant contributor to turnover within the industry, particularly in Norway, Turkey, Belgium, The Netherlands, Luxembourg and the Czech Republic. It is also important in Ireland, especially when compared with that generated by private domestic projects.

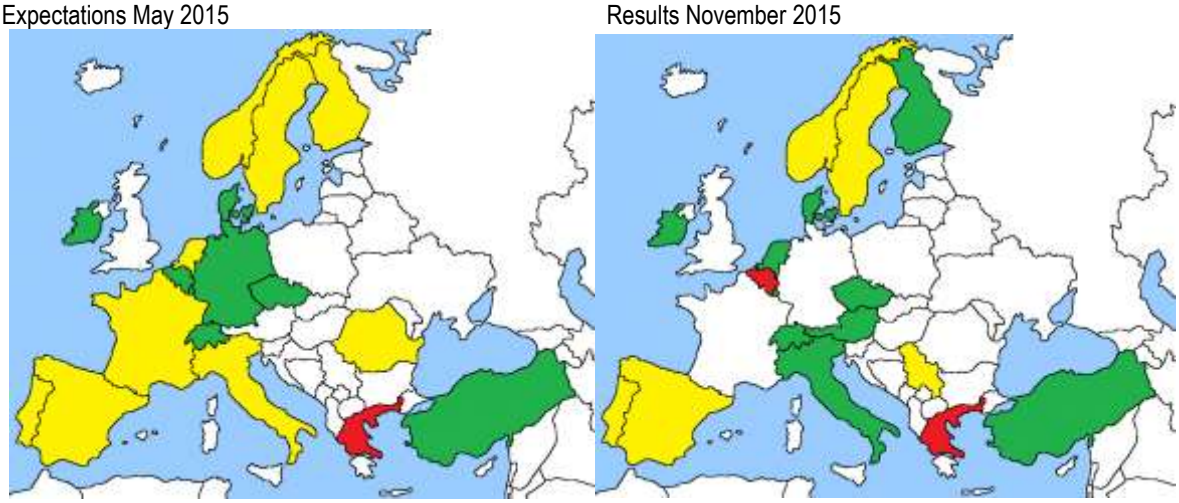
Turnover of national consulting engineering sectors – according to market



Actual developments in turnover

The recent developments in turnover on a European level, show a steadying of the market and a first tendency of revival for the overall market in Europe. This is the result of growth in Ireland, Luxemburg, The Netherlands, Czech Republic, Switzerland, Austria, Italy, Denmark, Turkey and Finland. A status quo in Serbia, Spain, Portugal, Sweden and Norway; and a decline in Greece and Belgium.

Expectations May 2015 | Results November 2015



Turnover: increase ■ (green); stable ■ (yellow); decrease ■ (red).

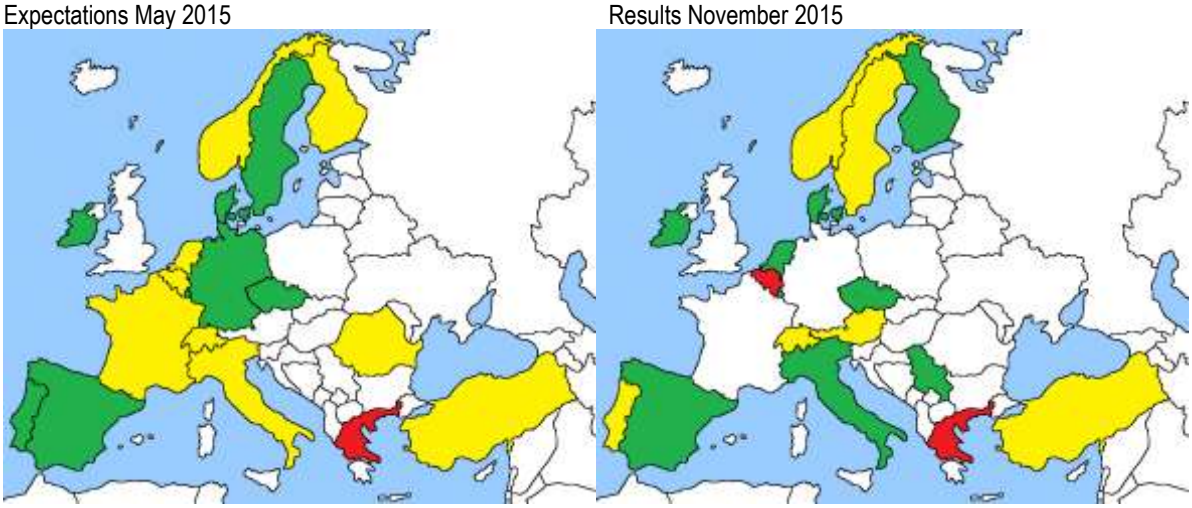
Turnover for consulting engineering sectors – six month trends 2015

Comparing *expectations* in May 2015 (*see below*) with actual developments that took place in the period to November 2015 (*above right*), a majority of the countries fared as expected (Spain, Luxembourg, Ireland, Denmark, Czech Republic, Portugal, Switzerland, Sweden, Norway, Greece and Turkey) it can be seen that only few of the countries fared better than expected (Italy, The Netherlands and Finland), and only Belgium did worse than expected. Serbia and Austria had not responded so we cannot make a comparison.

Expected developments in turnover

In the survey, respondents were asked about the expected development in their turnover for the coming six months. Half of the consulting engineering associations expect the turnover in their country to stabilise and the other half expect it to increase. For the first time since 2012 both countries of the Iberian Peninsula are hopeful. Out of the 17 countries providing data only Greece and Belgium expect turnover to decrease in the six months to May 2016.

Expectations May 2015 | Results November 2015



Turnover: increase ■ (green); stable ■ (yellow); decrease ■ (red).

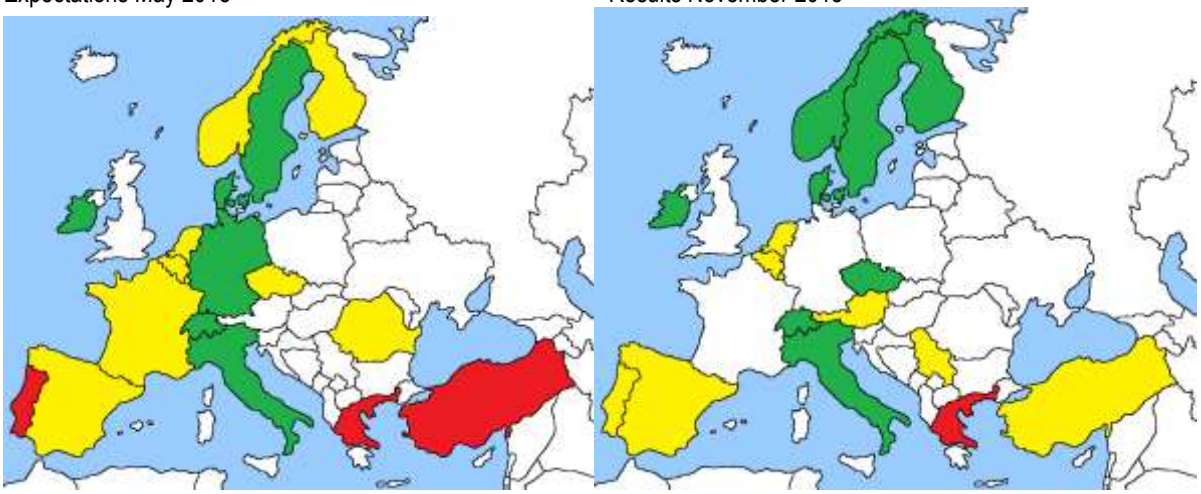
Turnover for consulting engineering sectors – expectations for coming six months

Employment

Actual developments in staffing

The trends in employment vary between the countries studied. The majority of EFCA member associations indicate that the number of staff (measured in 'full time equivalents' (FTE)[1]) in their member firms was slightly increasing over the six months to November 2015. The map (*below right*) indicates where employment has increased, been stable, or has decreased.

Expectations May 2015 | Results November 2015



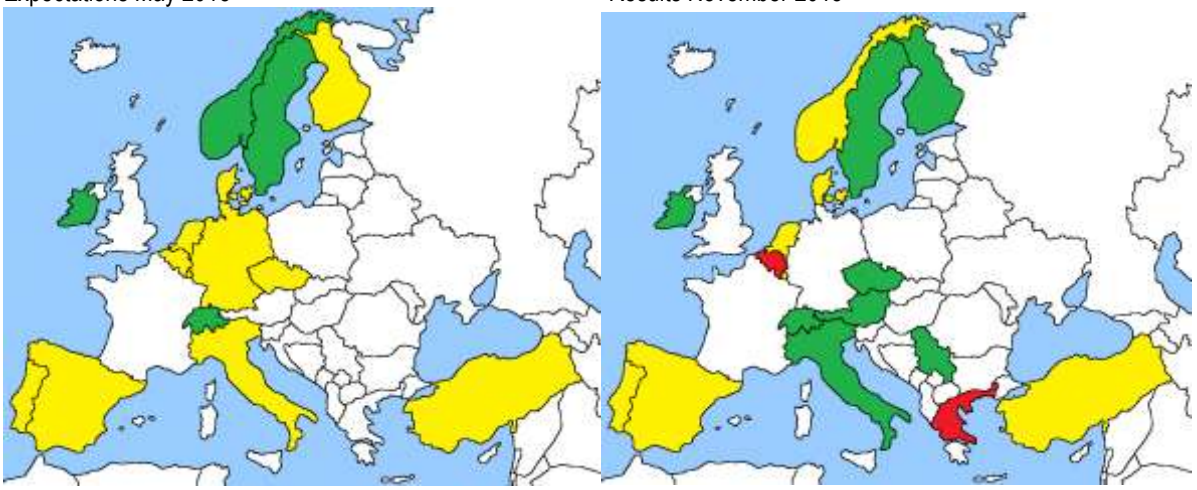
Employment: increase ■ (green); stable ■ (yellow); decrease ■ (red).

Developments in employment for consulting engineering sector – six-month trends 2014

Expected developments in staffing

Looking ahead, more than half of the associations participating in the survey expect employment by their member firms to be increasing over the next six months. This indicates that the industry expects some growth in the next six to twelve months.

Expectations May 2015 | Results November 2015



Employment: increase ■ (green); stable ■ (yellow); decrease ■ (red).

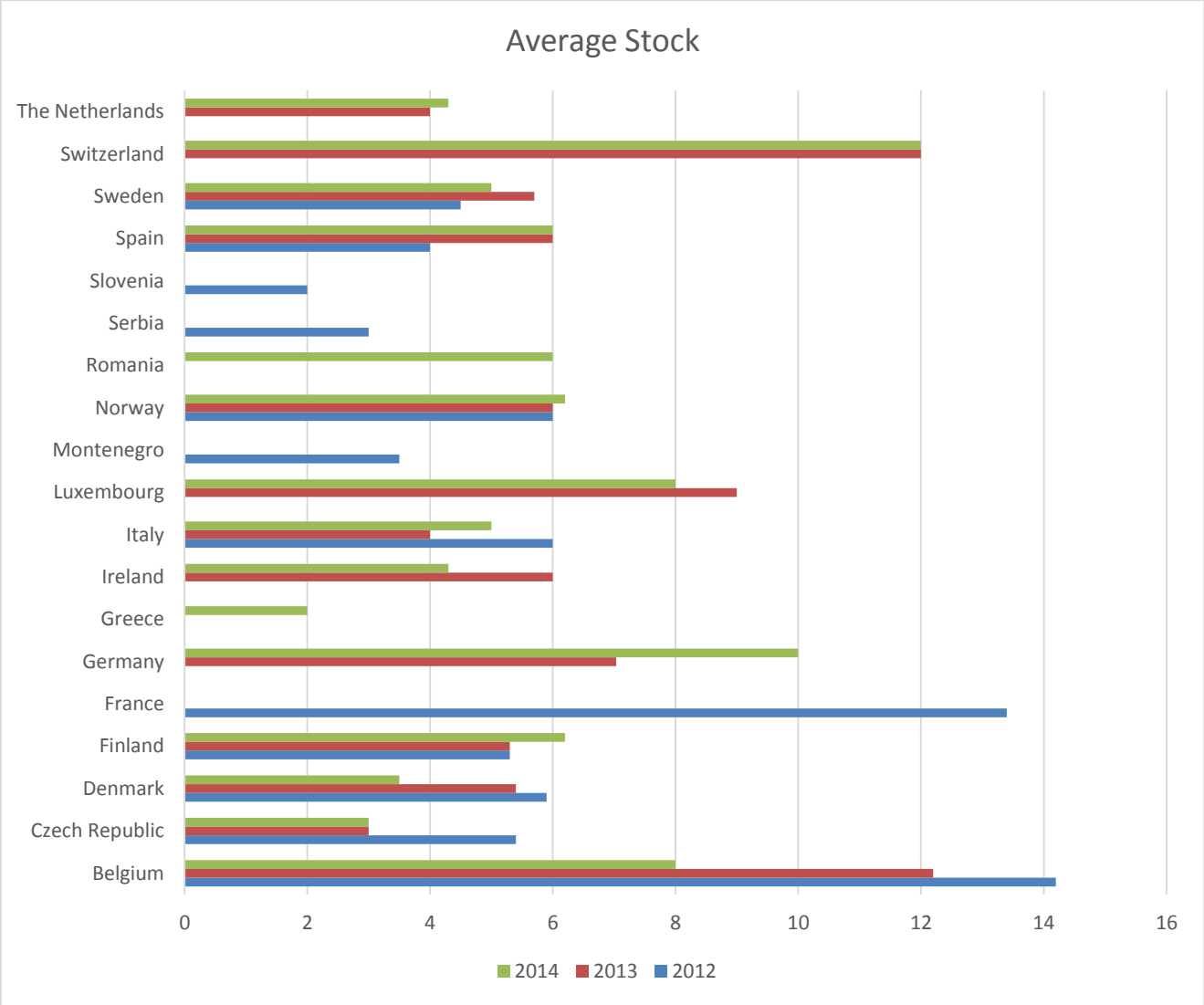
Developments in employment for consulting engineering sector – expectations for the coming six months

[1] No. of staff/employees is defined as FTE, where the total number of hours worked by the staff in a company is divided by the equivalent of a full year's work load. Example: four half-time employees are counted as two employees.

Market

Average order stock[2]

By November 2015, the average amount of work consulting engineers had 'in stock' in Europe (the 'order stock') was 6.23 months' worth.



* *No data received from Bulgaria, France, Italy, Montenegro, Poland, Portugal*

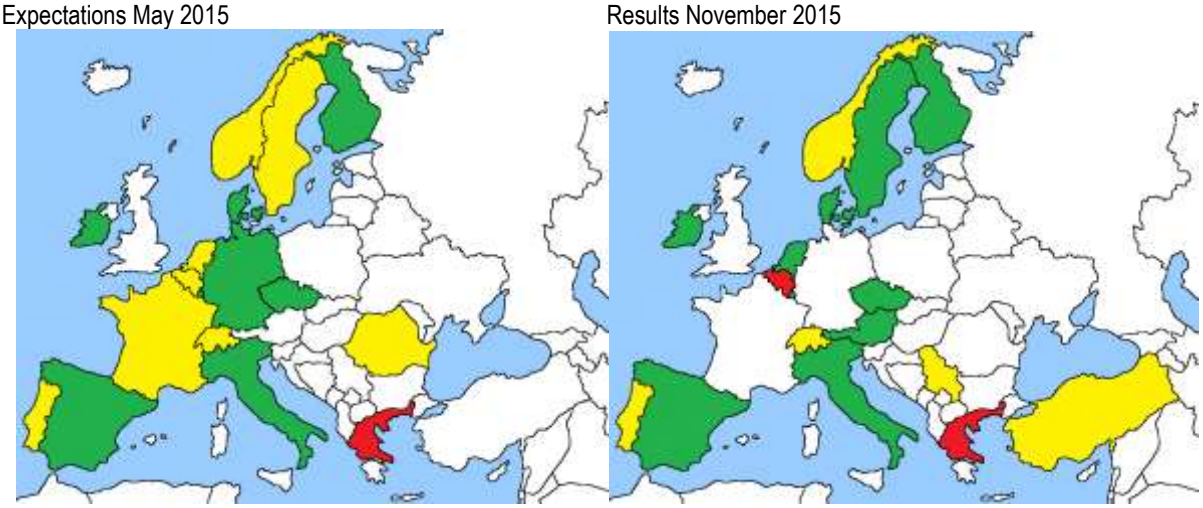
Average order stock held by consulting engineering firms, 2012-2014 – by country

[2] *Order stock can be defined as 'the total work that a firm has agreed to do in the future'. Example: The order stock is €1 million and the firm has 20 employees. The average annual turnover/employee is €100,000 and the current order stock/employee is €1 million/20 = €50,000/employee. The current order stock therefore represents €50,000/100,000 = 0.5 * 1 year = 6 months' work for the firm.*

Development in order stock

On the whole, the average order stock for consulting engineering firms in Europe has been stable over the past six months. For The Netherlands and Sweden there was even an increasing volume of orders. Only for Greece and Belgium has the order stock been declining.

Expectations May 2015 | Results November 2015



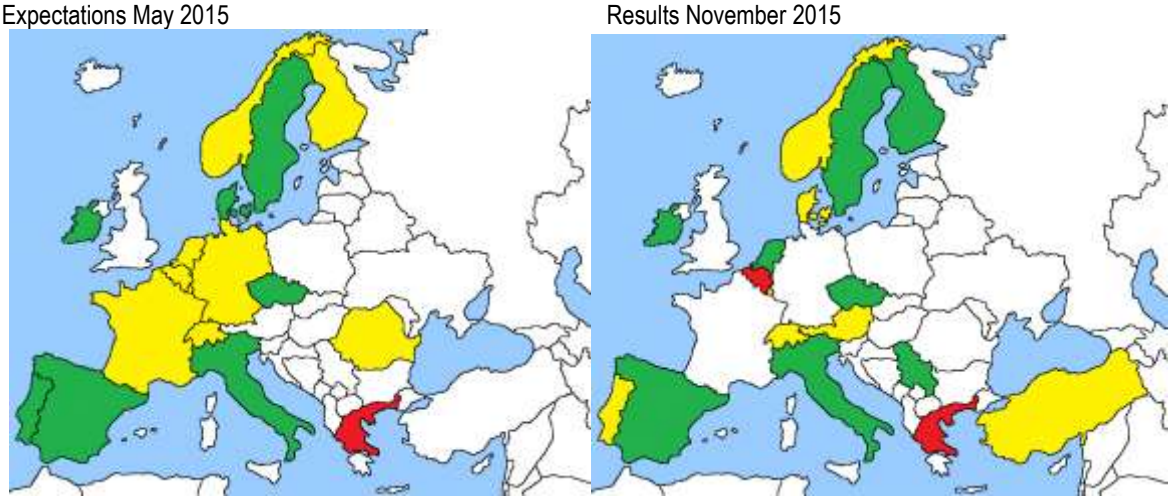
Order stock increase ■ (green); stable ■ (yellow); decrease ■ (red)

Average order stock – May and November 2015

Expected developments in order stock

Half of the associations that responded to the survey expect the order stock of their member firms to increase while the other half expect it to remain stable, over the six months to November 2016. Only Greece and Belgium expect it to decrease.

Expectations May 2015 | Results November 2015

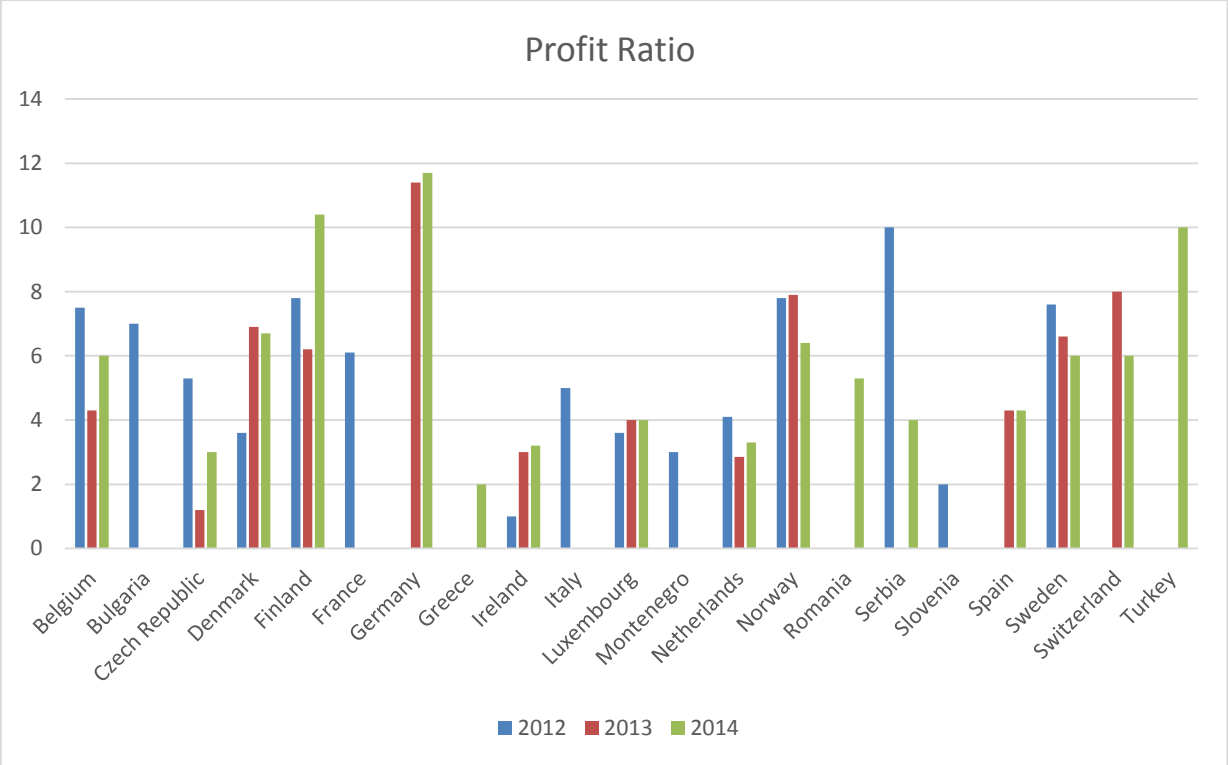


Order stocks: increase ■ (green); stable ■ (yellow); decrease ■ (red).

Expected trends in order stock – May and November 2015

Profit

Once a year, EFCA member associations are asked for the average profit ratio in their country, based on the results of the previous financial year. Profit ratio is measured as EBITDA, 'earnings before interest, taxes, depreciation, and amortisation'. On average, the European profit ratio in 2015 was 5.6% of total turnover. When Germany, with the strongest ratio figures, is excluded, the European average was 5.2%, down from 5.8% in 2013 and from 5.4% in 2012.



** No data received from Bulgaria, France, Italy, Montenegro, Poland, and Portugal*

Profit ratio for 20 European countries, 2012-2013-2014

For the countries that responded to the survey there is an overall trend of slight increase in the development of the profit margin. However, comparisons between the 2013 and 2014 figures show a fall in margins for Denmark, Serbia, Switzerland, Sweden and Norway.

Insufficient data prevents the analysis of profit margins for other European markets.

Developments during 2015 and 2016

Surveys conducted by EFCA (the European Engineering Consultancy Sector) among its member organisations during the year give the impression of an industry on the road to recovery. In the latest survey (conducted in September 2015) for the EFCA Barometer report, the signals were distinctly positive and optimistic. Participating countries were the Czech Republic, Denmark, Finland, Austria, Ireland, Italy Luxemburg, The Netherlands, Switzerland, Turkey, Norway, France, Portugal, Serbia, Spain, Sweden and Greece.

Ten out of seventeen countries reported that their order intake had increased over the past six months. These countries were Austria, the Czech Republic, Denmark, Finland, Ireland, Italy, Luxemburg, The Netherlands, Spain and Sweden.
For six countries the order intake remained unchanged. Only Greece stated that the situation had deteriorated.

Eight out of seventeen countries expected their incoming orders to increase over the next six-month period. These countries were the Czech Republic, Finland, Ireland, Italy, The Netherlands, Serbia, Spain and Sweden. Greece anticipated a continued deterioration.
Six of the seventeen countries felt that their profit margins had improved during 2015, namely the Czech Republic, Ireland, Italy, The Netherlands, Serbia and Sweden. Greece anticipated a deterioration. For 2016, eight of the seventeen countries believed in an improved level of profitability. These countries were the Czech Republic, Finland, Ireland, Italy, The Netherlands, Portugal, Serbia and Sweden. Once again, Greece was the only pessimistic country.

The conclusion of the survey is that order levels are improving all over Europe. With the improvement in the order situation the level of profitability is expected to increase, both during the current year as well as next year. Greece, however, is expected to face continued difficulties and is the exception to the rule in this survey.

CONCLUSIONS

This survey of the European national associations of consulting engineers shows that the market for their members' services is stabilising, albeit at a low level of activity. In most markets such a development was anticipated which meant the industry has managed to keep a steady level of order stock and remain profitable. However, any intake of new staff and development of the industry based on high growth in private and public demand has not happened.

The most significant trend emerging from the survey is the stabilisation of markets in southern Europe after several years of decline while those in central and northern Europe appear to be slowing down.

In conclusion, activity in the consulting engineering industry in Europe appears to be following the general growth trend of European economies (*see* Eurostat growth figures, below) and the activity also seems to be aligned with the general investment activity in gross fixed capital formation (*see* figures from the European Central Bank, *below*).

Real GDP growth, 2004–14 (% change compared with the previous year; average 2004–15) YB15

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average 2004–14
EU-28	2.5	2.0	3.4	3.1	0.5	-4.4	2.1	1.7	-0.5	0.0	1.3	0.9
Euro area (EA-19)	2.2	1.7	3.3	3.1	0.5	-4.5	2.0	1.6	-0.8	-0.4	0.9	0.7
Belgium	3.4	1.9	2.6	3.0	1.0	-2.6	2.5	1.6	0.1	0.3	1.1	1.1
Bulgaria	6.6	6.0	6.5	6.9	5.8	-5.0	0.7	2.0	0.5	1.1	1.7	2.5
Czech Republic	4.9	6.4	6.9	5.5	2.7	-4.8	2.3	2.0	-0.8	-0.7	2.0	2.1
Denmark	2.6	2.4	3.8	0.8	-0.7	-5.1	1.6	1.2	-0.7	-0.5	1.1	0.4
Germany	1.2	0.7	3.7	3.3	1.1	-5.6	4.1	3.6	0.4	0.1	1.6	1.3
Estonia	6.5	9.5	10.4	7.9	-5.3	-14.7	2.5	8.3	4.7	1.6	2.1	2.4
Ireland	4.6	5.7	5.5	4.9	-2.6	-6.4	-0.3	2.8	-0.3	0.2	4.8	1.4
Greece	5.0	0.9	5.8	3.5	-0.4	-4.4	-5.4	-8.9	-6.6	-3.9	0.8	-2.0
Spain	3.2	3.7	4.2	3.8	1.1	-3.6	0.0	-0.6	-2.1	-1.2	1.4	0.6
France	2.8	1.6	2.4	2.4	0.2	-2.9	2.0	2.1	0.3	0.3	0.4	0.9
Croatia	4.1	4.2	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-0.9	-0.4	0.3
Italy	1.6	0.9	2.0	1.5	-1.0	-5.5	1.7	0.6	-2.8	-1.7	-0.4	-0.5
Cyprus	4.4	3.9	4.5	4.9	3.6	-2.0	1.4	0.3	-2.4	-5.4	-2.3	0.6
Latvia	8.9	10.2	11.6	9.8	-3.2	-14.2	-2.9	5.0	4.8	4.2	2.4	2.5
Lithuania (*)	:	:	7.4	11.1	2.8	-14.8	1.6	6.1	3.8	3.3	2.9	2.4
Luxembourg (*)	4.9	4.1	4.9	6.5	0.5	-5.3	5.1	2.6	-0.2	2.0	:	2.2
Hungary	4.8	4.3	4.0	0.5	0.9	-6.6	0.8	1.8	-1.5	1.5	3.6	0.9
Malta	0.4	3.8	1.8	4.0	3.3	-2.5	3.5	2.3	2.5	2.7	3.5	2.5
Netherlands	1.9	2.3	3.8	4.2	2.1	-3.3	1.1	1.7	-1.6	-0.7	0.9	1.0
Austria	2.7	2.1	3.4	3.6	1.5	-3.8	1.9	3.1	0.9	0.2	0.3	1.3
Poland	5.1	3.5	6.2	7.2	3.9	2.6	3.7	4.8	1.8	1.7	3.4	3.9
Portugal	1.8	0.8	1.6	2.5	0.2	-3.0	1.9	-1.8	-4.0	-1.6	0.9	-0.3
Romania	8.4	4.2	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.4	2.8	2.7
Slovenia	4.4	4.0	5.7	6.9	3.3	-7.8	1.2	0.6	-2.6	-1.0	2.6	1.2
Slovakia	5.2	6.5	8.3	10.7	5.4	-5.3	4.8	2.7	1.6	1.4	2.4	3.8
Finland	3.9	2.8	4.1	5.2	0.7	-8.3	3.0	2.6	-1.4	-1.3	-0.1	0.7
Sweden	4.3	2.8	4.7	3.4	-0.6	-5.2	6.0	2.7	-0.3	1.3	2.1	1.7
United Kingdom	2.5	2.8	3.0	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	2.8	1.2
Iceland	8.2	6.0	4.2	9.7	1.2	-5.1	-3.1	2.4	1.3	3.6	1.9	2.1
Norway	4.0	2.6	2.4	2.9	0.4	-1.6	0.6	1.0	2.7	0.7	2.2	1.4
Switzerland (*)	2.8	3.0	4.0	4.1	2.3	-2.1	3.0	1.8	1.1	1.9	:	2.1
FYR of Macedonia	:	:	:	:	:	:	:	:	:	:	:	:
Albania	:	:	:	:	:	3.4	3.7	2.5	1.6	:	:	:
Serbia	9.0	5.5	4.9	5.9	5.4	-3.1	0.6	1.4	-1.0	2.6	-1.8	2.0
United States	3.8	3.3	2.7	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.4	1.6

(*) Average 2005–14 instead of 2004–14.
(*) Average 2004–13 instead of 2004–14.
Source: Eurostat (online data code: nama_10_gdp)

Appendix – definitions

EFCA	European Federation of engineering Consultancy Associations – the association for the engineering consultancy industry in Europe
ECB	European Central Bank
Turnover	Total revenues/sales
Profit ratio/margin	Turnover divided by profit, measured as EBITDA (earnings before interest, taxes, depreciation and amortization)
FTE	Full time equivalent. Number of staff/employees is defined as FTE, where the total number of hours worked by the staff in a company is divided by the equivalent of a full years work load. *Example*: four half-time employees are counted as two employees according FTE
Order stock	The total work/assignments that the firm has agreed to do in the future
Order stock in months	Order stock defined by what it represents in time for the firm. How much time, how many months, does the work load of the current order stock represent for the whole firm? *Example calculation:* The order stock is €1 million. The firm has 20 employees. The average yearly (12 months) turnover/employee is €100,000. The current order stock/employee is: €1 million/20 = €50,000/employee. Order stock defined in months is: €50,000/€100,000 = 0.5 * 12 (months) = 6 months