



The State of the European Consulting Engineering Sector

BAROMETER autumn 2019

efca



Representing
FIDIC in Europe

EFCA Barometer Task Group

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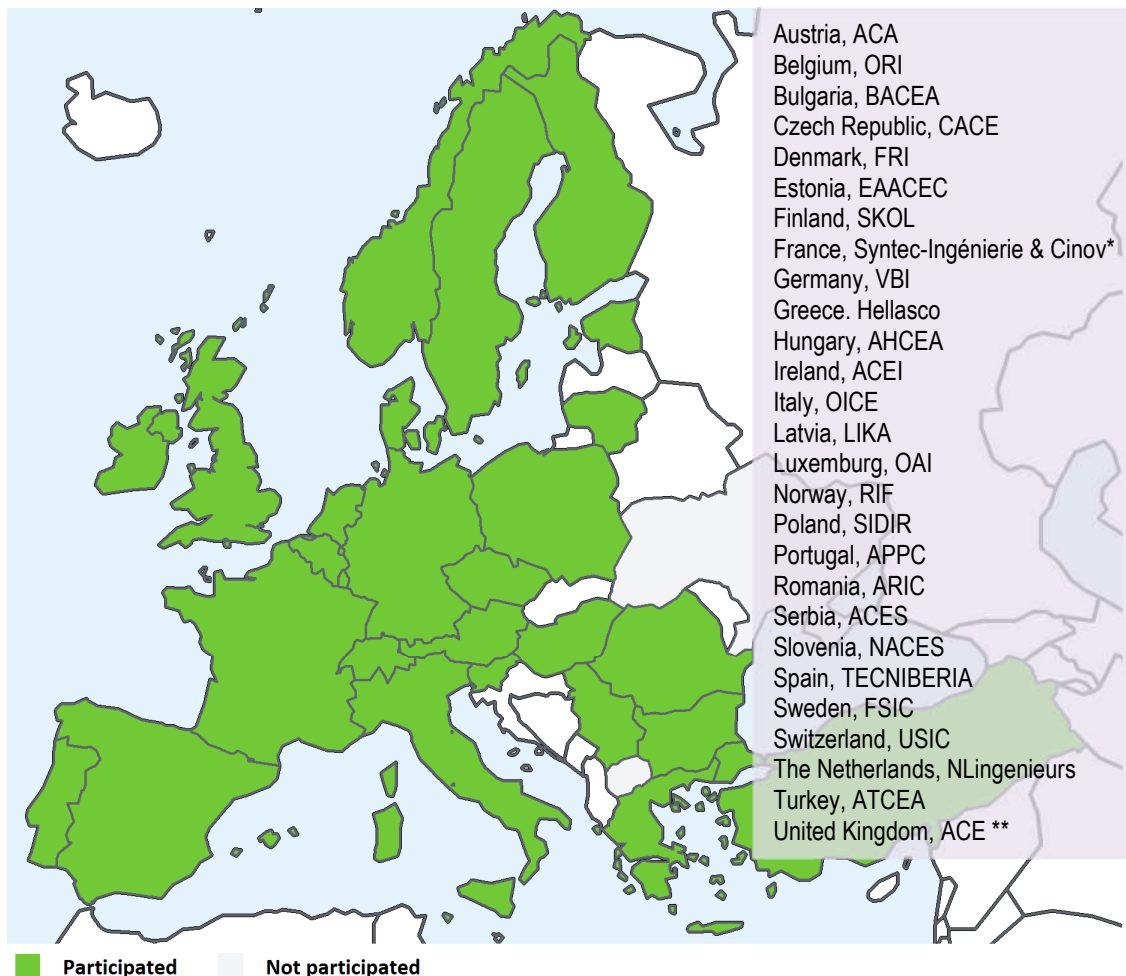
FRI – Foreningen af Rådgivende Ingeniører (Denmark)
Innovationsföretagen – Federation of Swedish Innovation Companies (Sweden)
USIC – Swiss Association of Consulting Engineers (Switzerland)

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 best available information on the current state of business (October 2019) collected through a survey by the member associations of EFCA for their respective countries. For European averages, national figures have been weighted by full time employees on the market of each country according to Eurostat figures. For the latest Eurostat figures see the appendix.

If you want to contact the Task Group, please contact the EFCA secretariat - efca@efca.be

Participating Associations, in this survey



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www.efcanet.org

* France is represented by both Syntec Ingénierie and Cinov. Their replies are aggregated and presented as one.

** United Kingdom (ACE) is a cooperating association.

Executive summary

State of the European consulting engineering sector, autumn 2019

Descent from a market peak – and the challenges are growing

The 2019 autumn survey of the EFCA-Barometer indicates that the previously observed strengthening of European markets for consulting engineering has come to a halt. Despite strong order stock and rising turnover, profitability has decreased in the period observed.

The number of countries which declared weak markets has doubled compared to the previous year. Despite this negative trend, some countries in eastern Europe and Spain appear to have improved their conditions. In particular Turkey struggles with very weak indicators across the scale.

The negative trend has not yet reached out to the level of employment. A majority of countries have declared an increase in staff employment during the last six months but remain ambiguous when determining the development of the coming 6 months.

Order stock has reached a peak of 9.7 months. The majority of countries has neither seen nor is expecting a significant change in order stock for the coming six months.

Also, turnover has been on the rise in most countries observed. But the responses indicate that a cooling off phase is coming closer, since less countries expect the increase to continue over the coming six months.

The negative trend has already impacted the profit ratio. The European average dropped from 7.9 percent in 2017 to 5.6 in 2018, absent data for Germany. The short-term outlook on the development of profit ratio is also more pessimistic than in the previous survey. However, countries are more optimistic regarding the development in 2020.

The main challenges faced by the industry remain low fees, staff shortage and digital transformation. Bureaucracy and salary costs have gained in importance.

The results of the autumn 2019 EFCA Barometer indicate a paradox market where the growth of recent years is coming to a halt, indicating the beginning of a cooling off phase in the market. Thus right now the European consulting engineering companies are experiencing high order stock and continuously rising turnovers, but at the same time they are faced with declining profit ratios. Hence, the industry has difficulties turning demand into profit, a typical challenge when the market is descending from a peak and thus undergoing transformation.

The difficulties are most likely be found in a combination of low fees, high staff costs, investments in digital transformation, rising bureaucratic expenses and a shift towards lower margin projects.

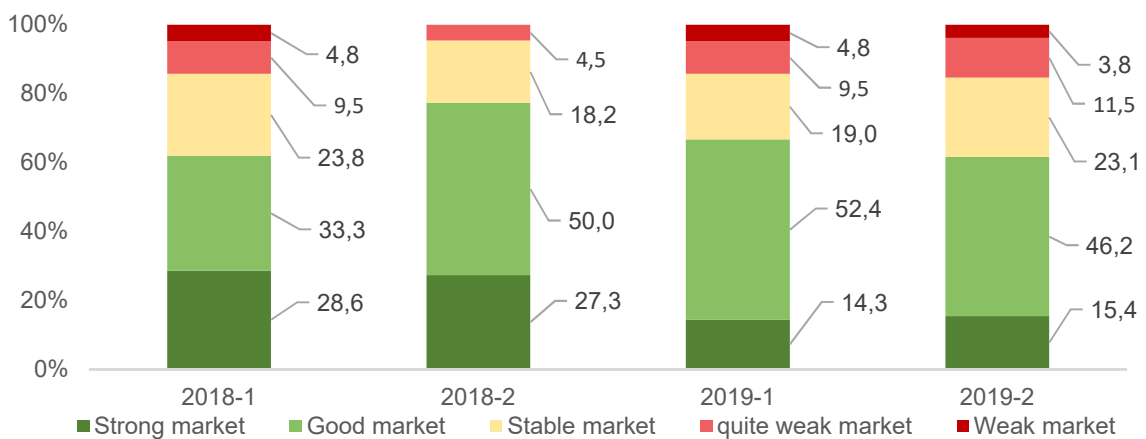


EFCA Barometer Task Group, October 2019

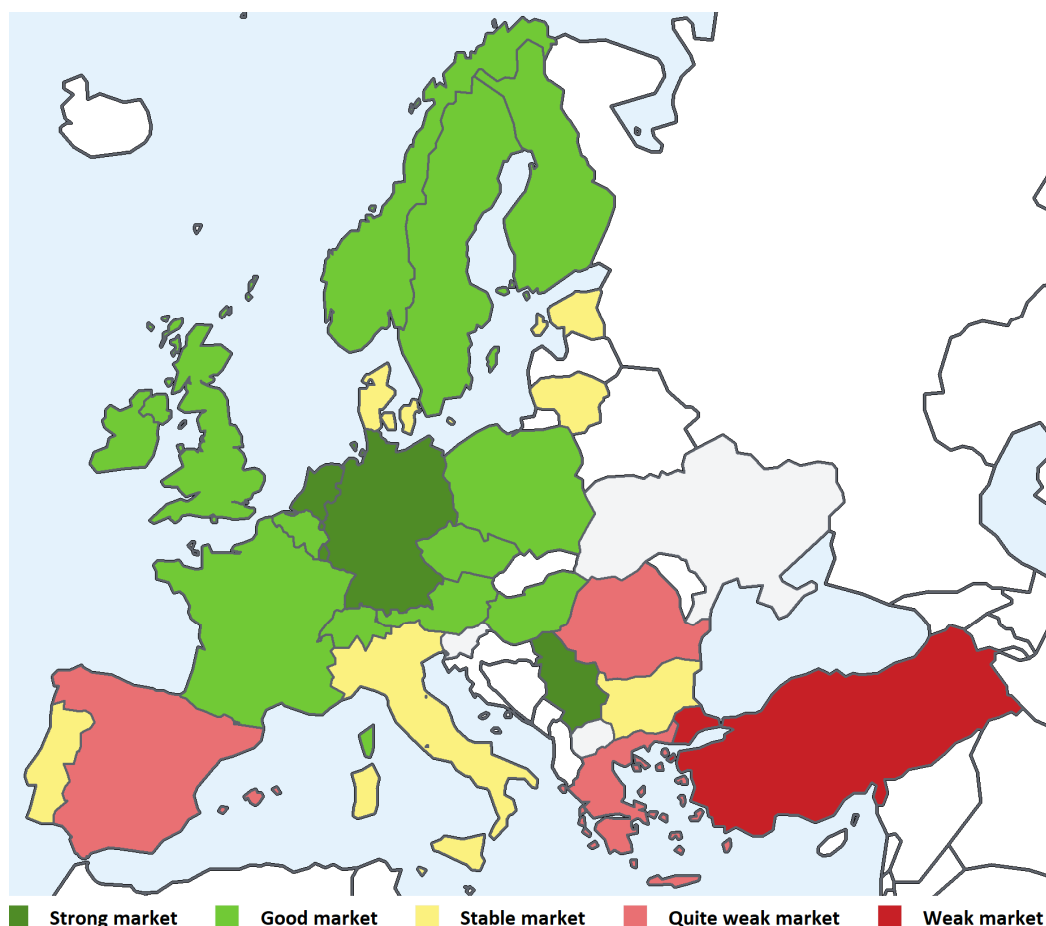
Current state of European markets

To give an overview of the different markets around Europe, EFCA Member Associations were asked to indicate the current state of the national market. The market conditions for 2019 appear less favourable than in 2018. On average, only 15 percent of all responding countries have stated that their market is strong, compared to 28 percent in 2018. The share of weak markets has doubled from an average of 4.7 in 2018 to 10.5 percent in 2019. Romania's market went from stable to quite weak. Sweden and Denmark are also experiencing weaker markets. However, in many countries market conditions appear to have improved, such as Spain, Serbia, Bulgaria and The Netherlands. Markets appear to evolve heterogeneously, but the overall image shows a positive market condition.

Development of European markets. EFCA Survey, 2018-2019



Current state of European markets. EFCA survey, autumn 2019

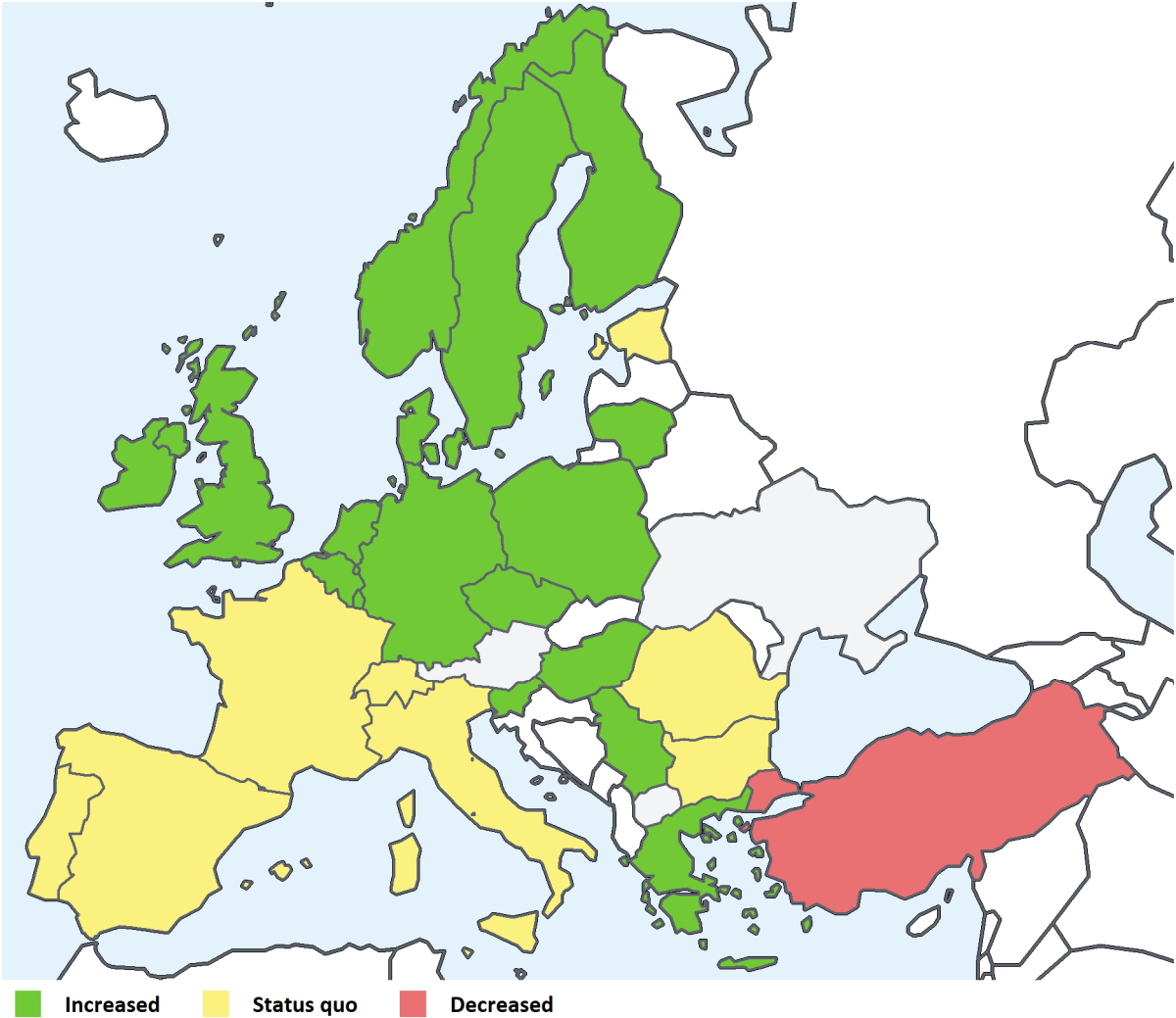


Employment

Actual developments in staffing

The trends in employment vary between the participating countries. The majority of 26 responding countries (17) experienced an increase in staff employment, 8 a stable employment and 1 (Turkey) a decreasing employment trend. Compared to the previous six months, as measured in the spring survey, Finland and Spain hired more staff, while Italy went from an increase to status quo.

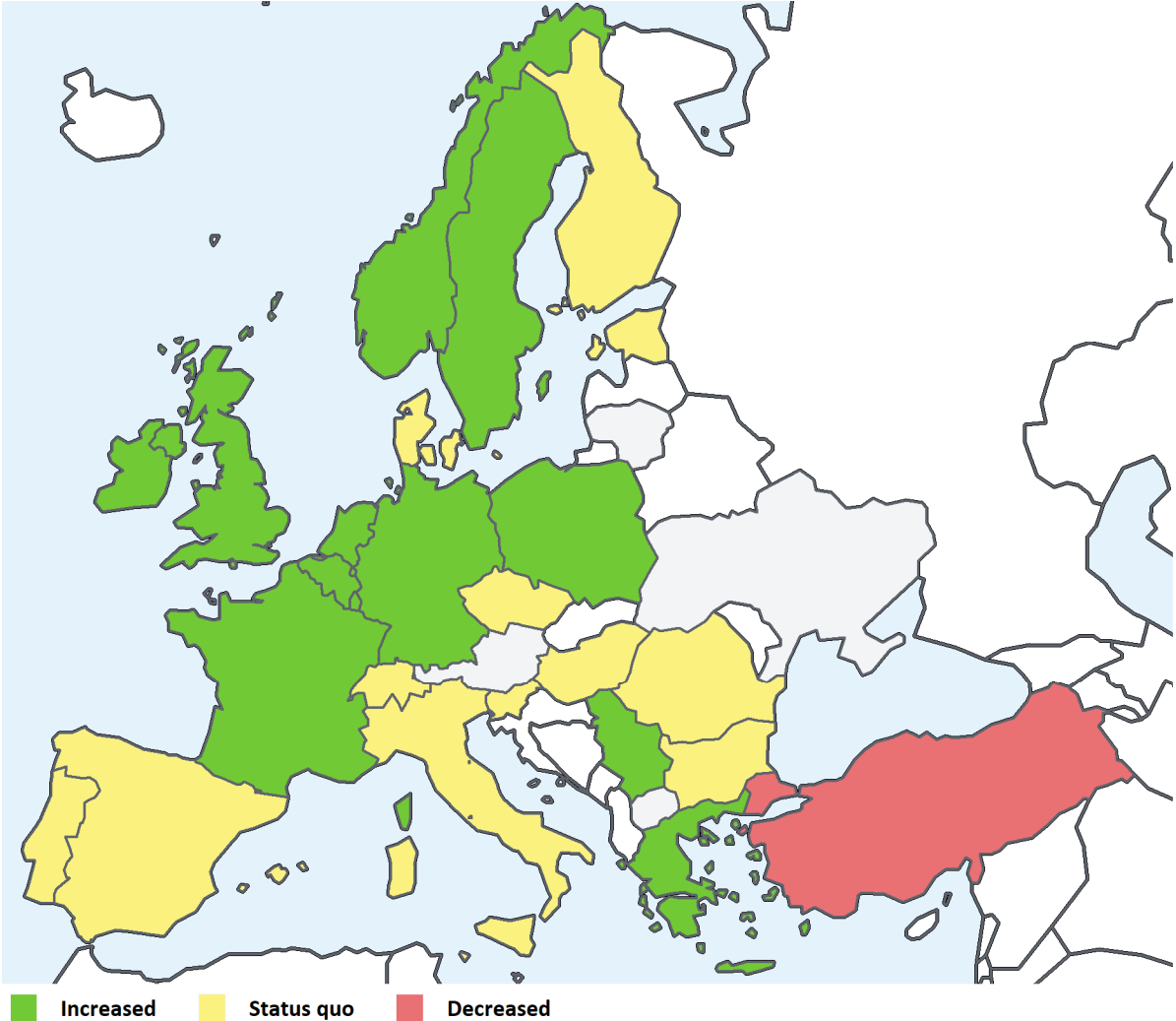
Employment, past six months. EFCA survey, autumn 2019



Expected developments in staffing

In October 2019, 12 out of 25 responding countries are expecting an increase in staff employment, an equal amount expect employment to remain stable, while Turkey expects its current decrease to continue. Hence, the predictions remain mostly the same compared to the last survey across Europe. However, Denmark and Romania now expect a stabilisation while having predicted an increase during the previous survey.

Employment, coming six months. EFCA survey, autumn 2019

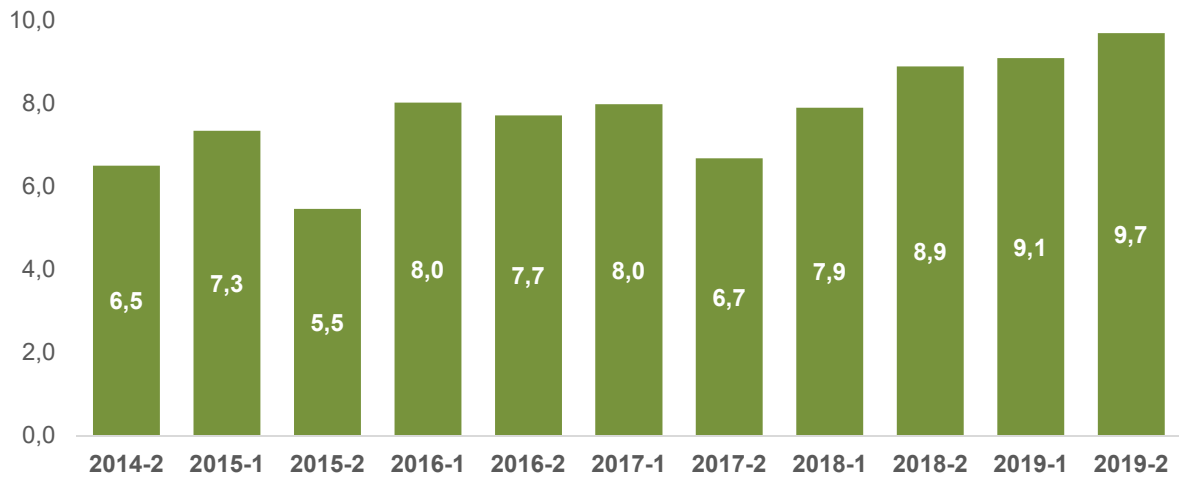


Order stock

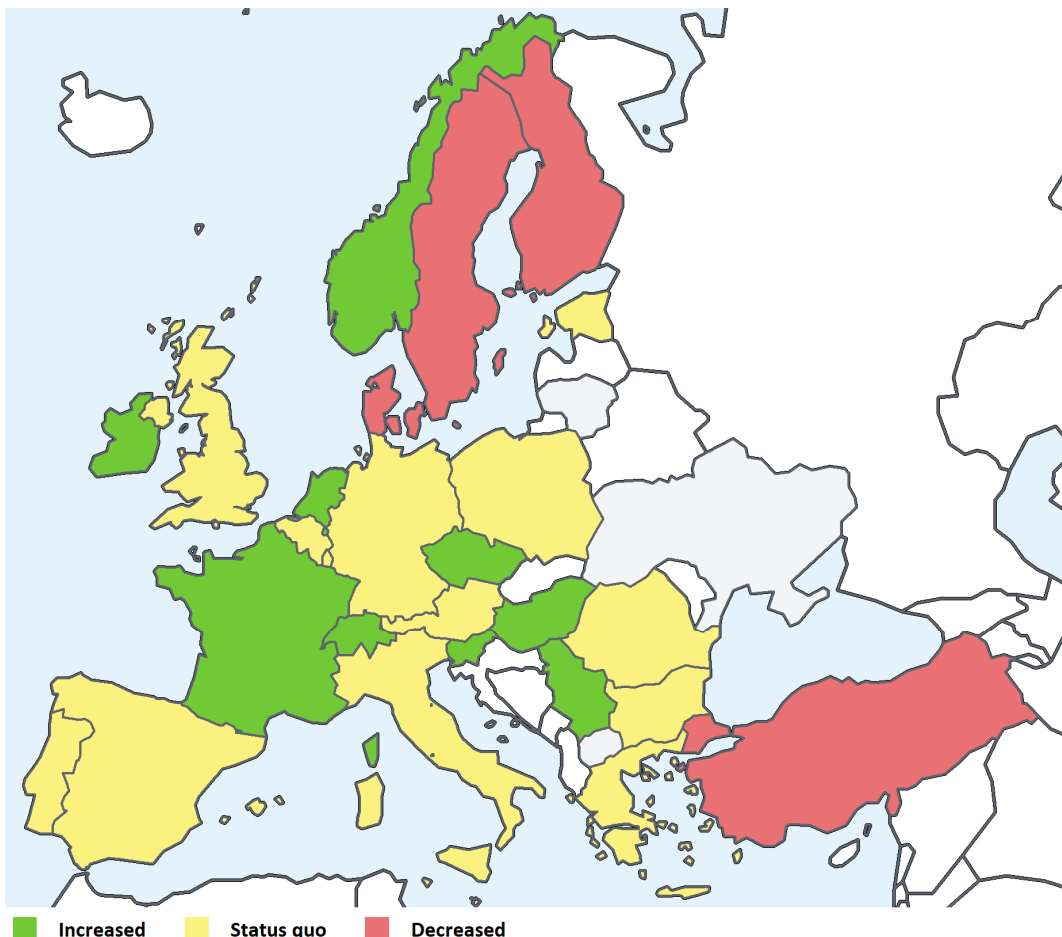
Actual developments in order stock

The current order stock has increased for the fifth time in a row to 9.7 months. The increase may be attributed to Ireland, France, Switzerland, Norway, The Netherlands, Czech Republic, Slovenia, Hungary and Serbia, while most countries (13) experienced unchanged order stock development. Denmark, Sweden, Finland and Turkey observed a decrease in Order stock.

Average order stock in months, European average 2014-2019



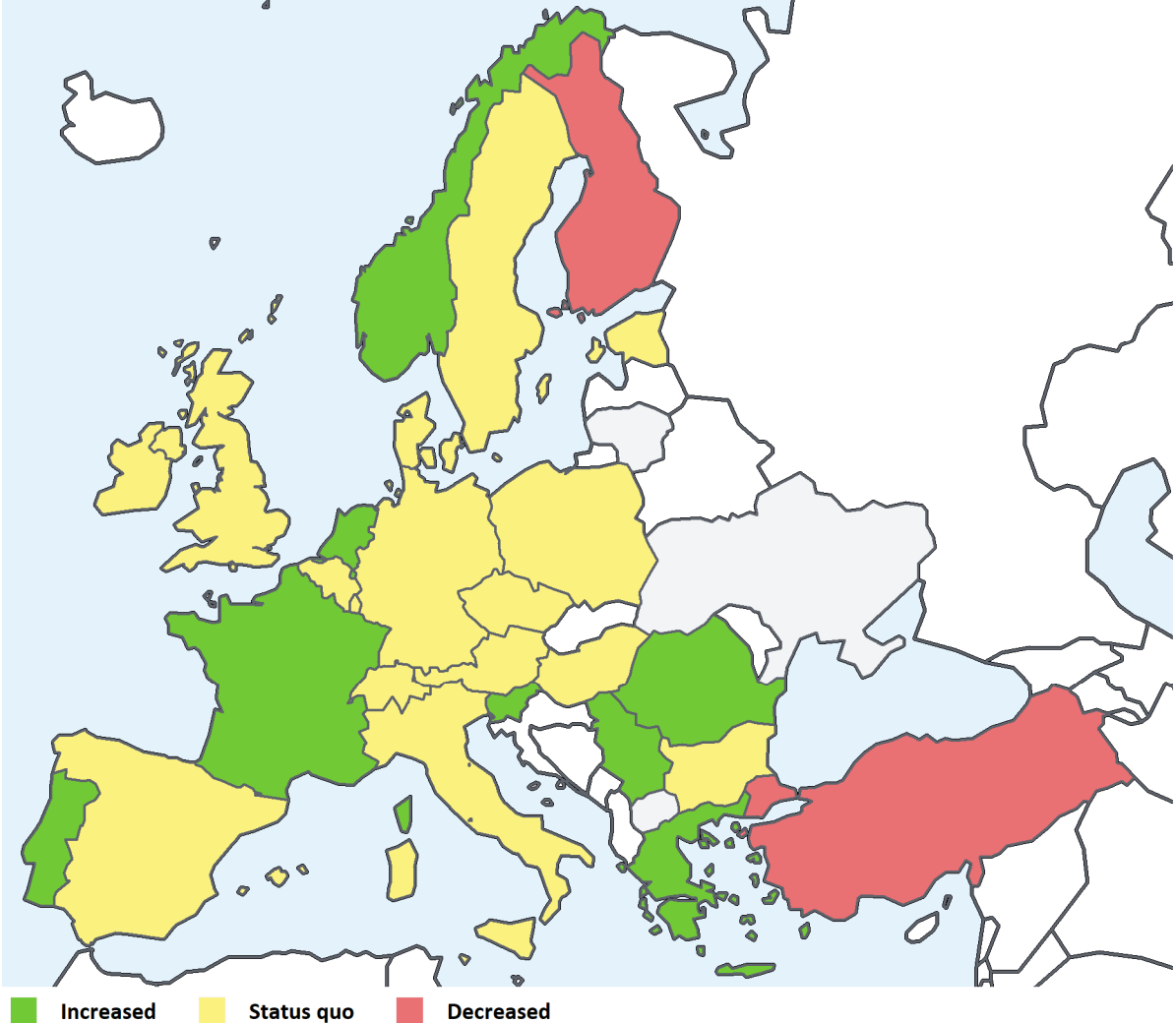
Order stock, past six months. EFCA survey, autumn 2019



Expected developments in order stock

Expectations for order stock are less optimistic. From 26 responding countries, only 8 expect an increase, while a majority (16) see no change for the next 6 months. In the last survey, the ratio between increase and status quo was approximately even. Finland and Turkey have stated that they expect their order stock to decrease.

Order stock, coming six months. EFCA survey, autumn 2019

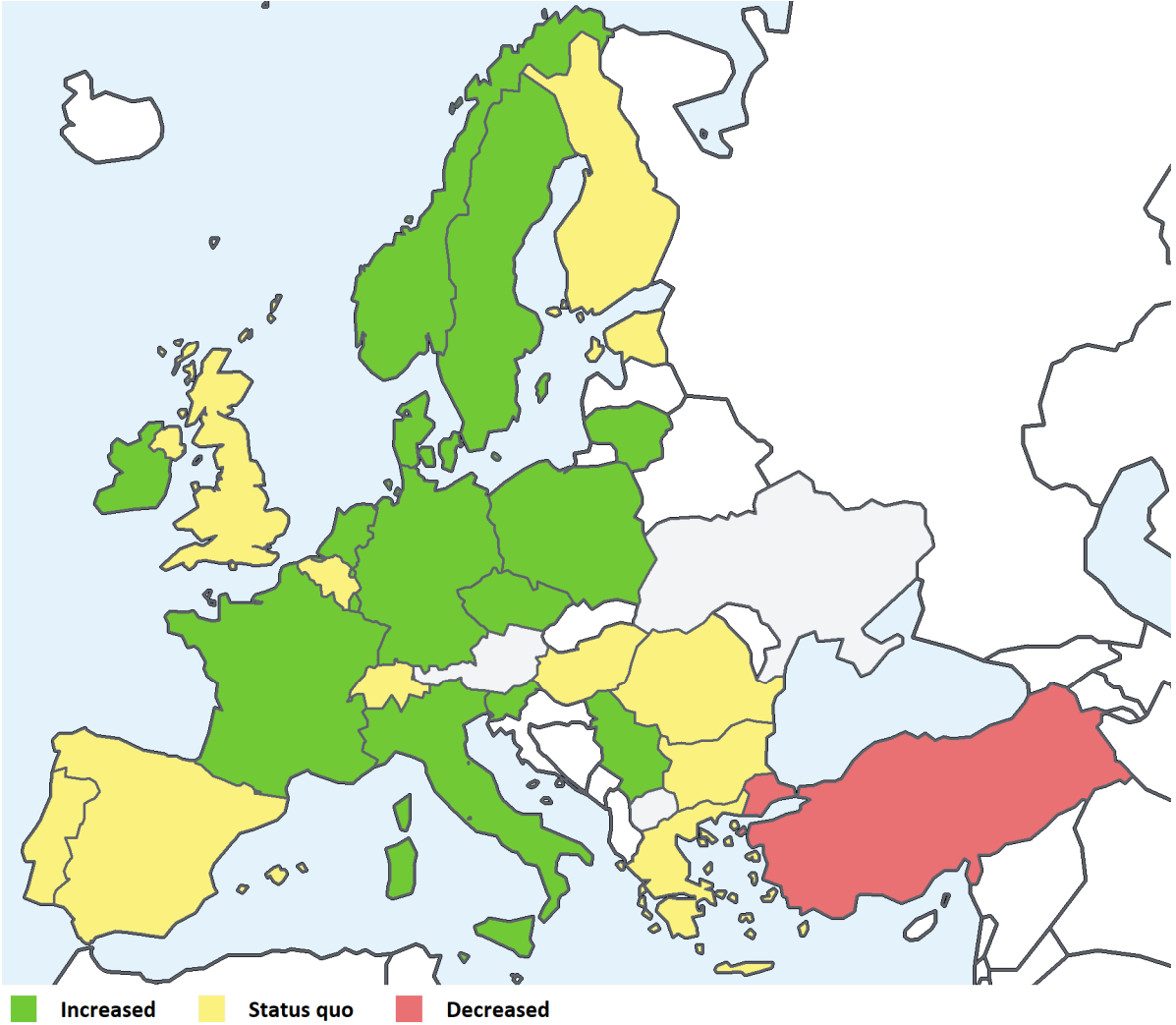


Turnover

Actual developments in turnover

For the past six months, turnovers have continued to be on the rise in most countries. From 26 responding countries, 14 have declared an increase. However, the number of countries with stable turnovers is rising compared to the spring report, indicating a cooling off phase. The situation in Spain appears to have reached a status quo, while conditions in Turkey have worsened.

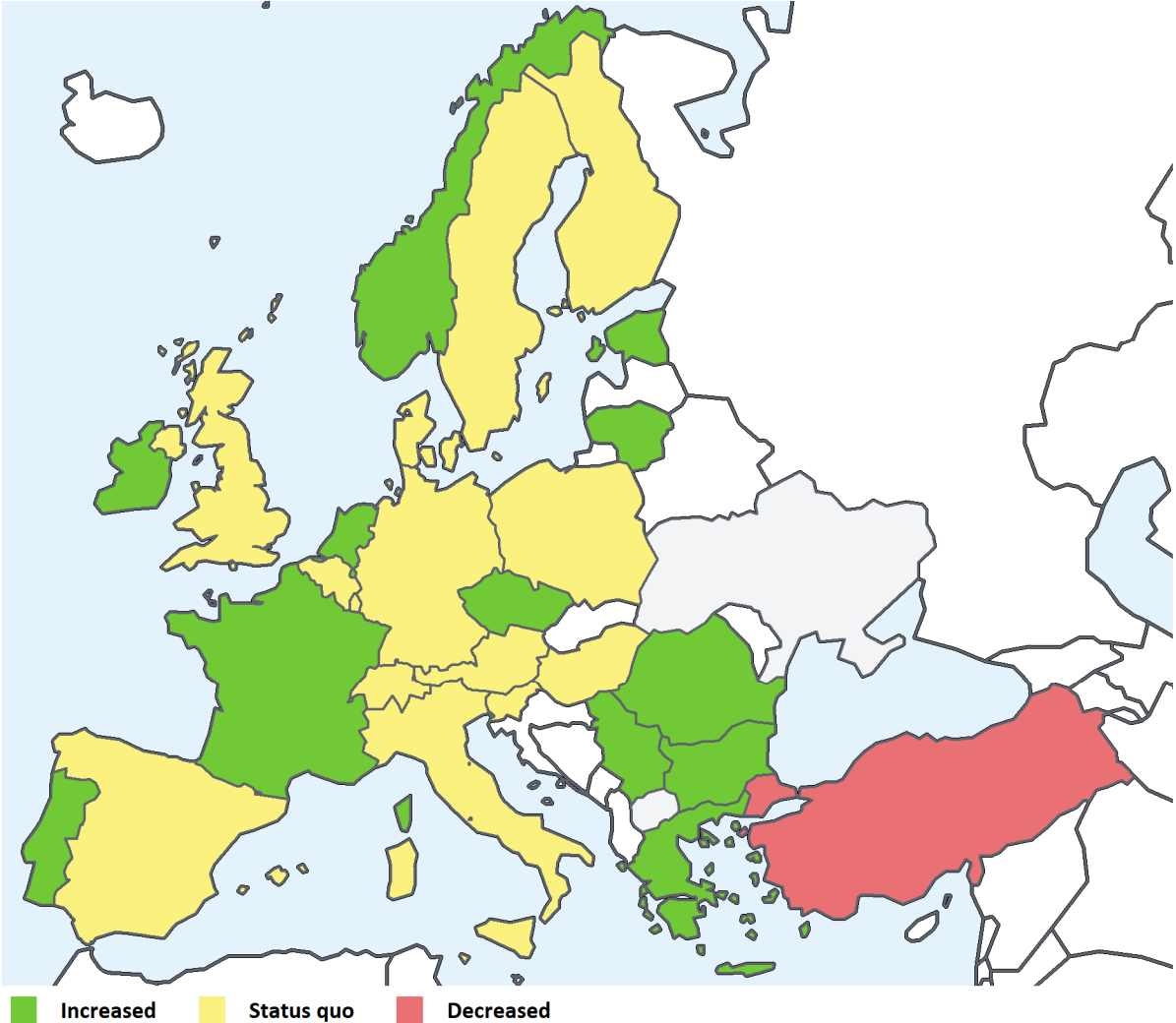
Turnover, past six months. EFCA survey, autumn 2019



Expected developments in turnover

The expected development in turnover for the coming six months is less optimistic. In 14 out of 27 countries, turnover is expected to remain constant, while 12 countries expect turnovers to rise.

Turnover, coming six months. EFCA survey, autumn 2019

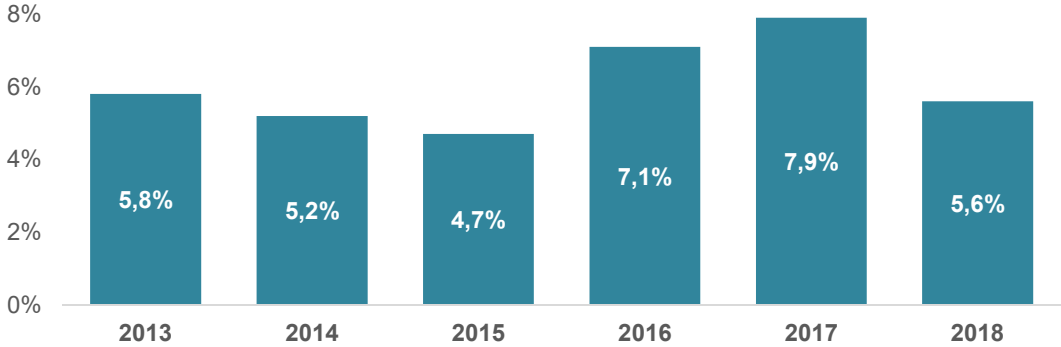


Profitability

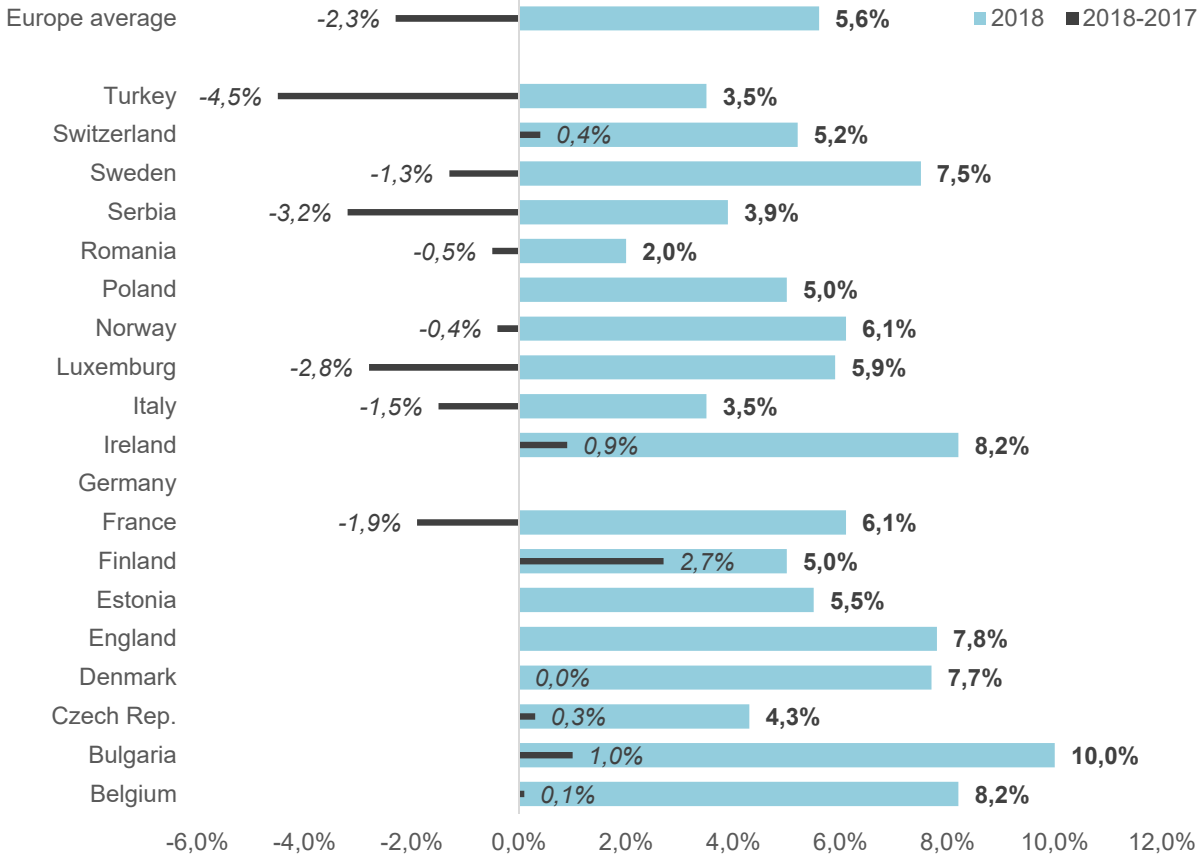
Once a year, EFCA member associations are asked for the average profit ratio in their country based on the results of the previous financial year. The profit ratio is measured as EBITDA, 'earnings before interest, taxes, depreciation, and amortisation'. This is done in the autumn surveys.

The average weighted European profit ratio (EBITDA) in 2018, as reported in October 2019 has declined to 5.6% of total turnover. The European average has dropped by 2.3 percentage points. However, Germany, which reported a high profit ratio in the previous year, has not provided data for the current year. Had the 2018 figure for Germany been the same for 2018 as in 2017, the drop would have been less significant. The majority of responding countries (8) have experienced a negative profitability, 6 have experience a moderate increase. The strongest drop was observed in Turkey from 8 to 3.5 percent, followed by Serbia, Luxembourg and France. Finland has had the largest increase. The highest profit ratios are observed in Bulgaria, Ireland, Belgium and Sweden.

Profit ratio (EBITDA). European average, 2013-2018



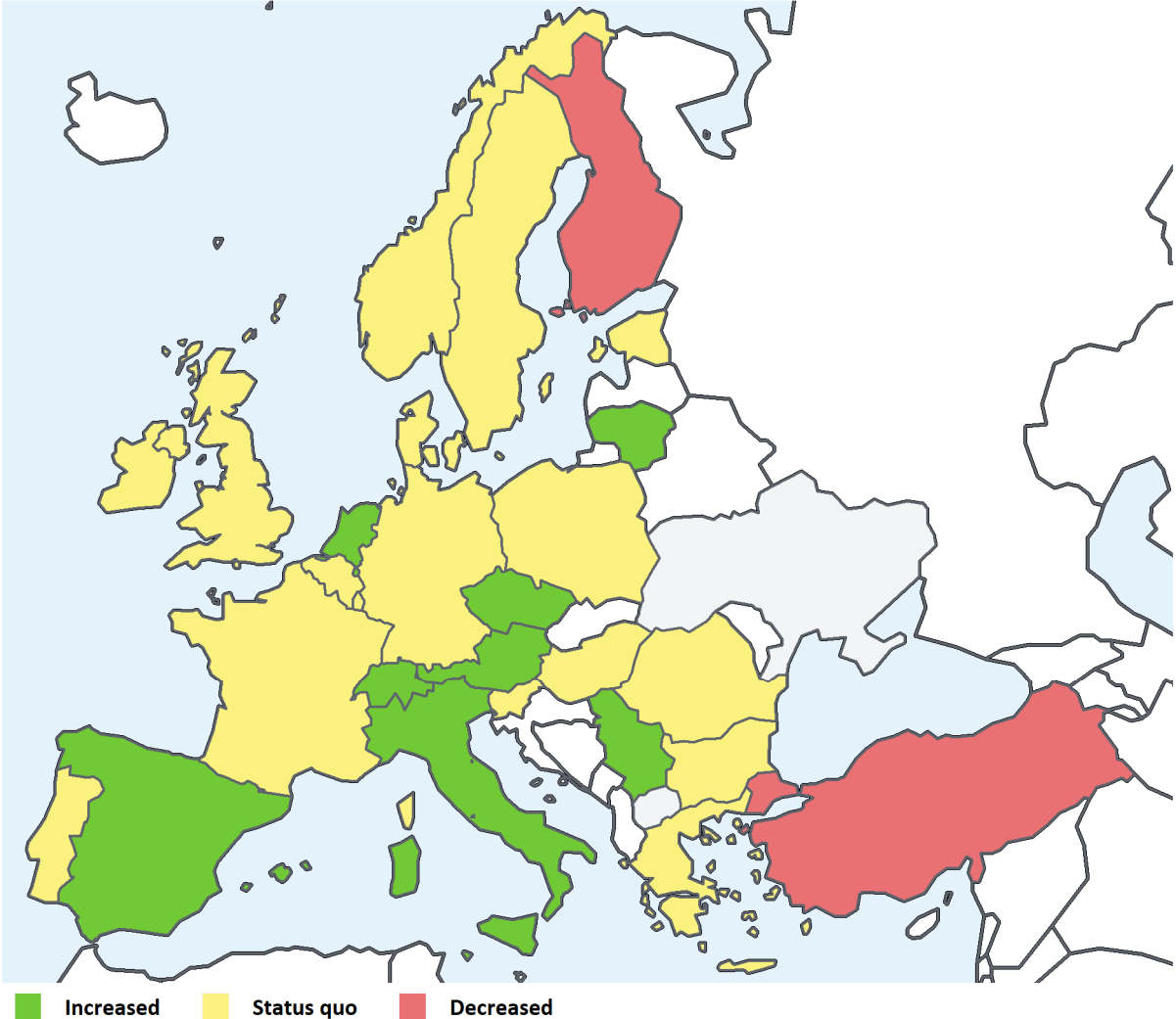
Profit ratio (EBITDA) per country, 2018, and change from previous year



Expected developments in profitability in 2019 compared to 2018

The current lower level of profitability, registered for 2018, is expected to remain unchanged in 2019. A strong majority of 17 countries expect profitability to remain unchanged, compared to the previous year. Finland and Turkey expect profitability to decline while 8 countries expect it to increase, among which is Spain.

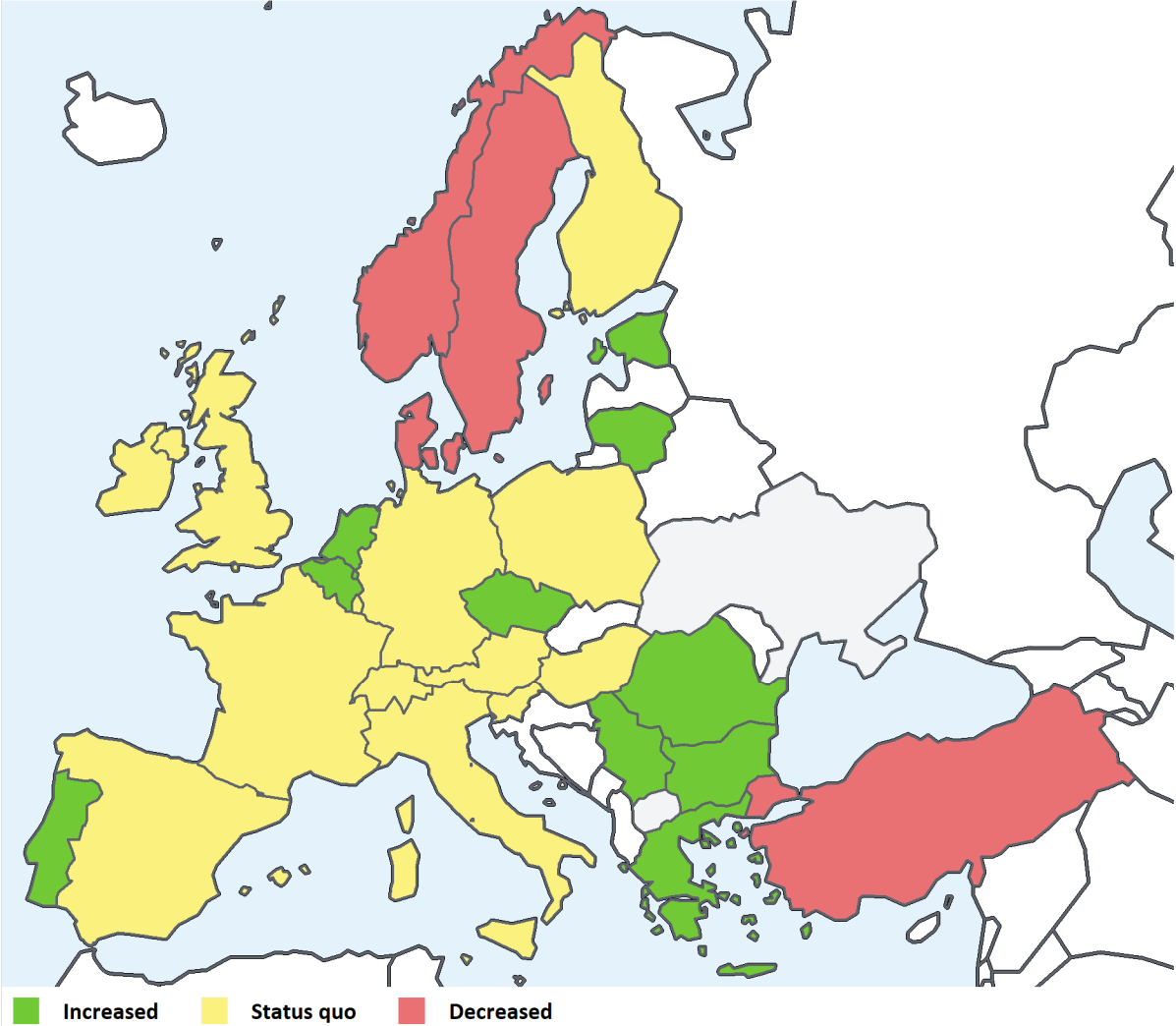
Expected profitability for 2019 compared to 2018. EFCA survey, autumn 2019



Expected developments in profitability in 2020 compared to 2019

Asked about the expected development of profitability in the coming year (2020), the countries which expect no change remain a majority of 13. 10 countries expect profitability to improve, and are thus more optimistic regarding 2020, compared to 2019. However, the northern European countries Denmark, Norway and Sweden all expect a decrease in profitability for 2020, compared to 2019.

Expected profitability for 2020 compared to 2019. EFCA survey, autumn 2019.



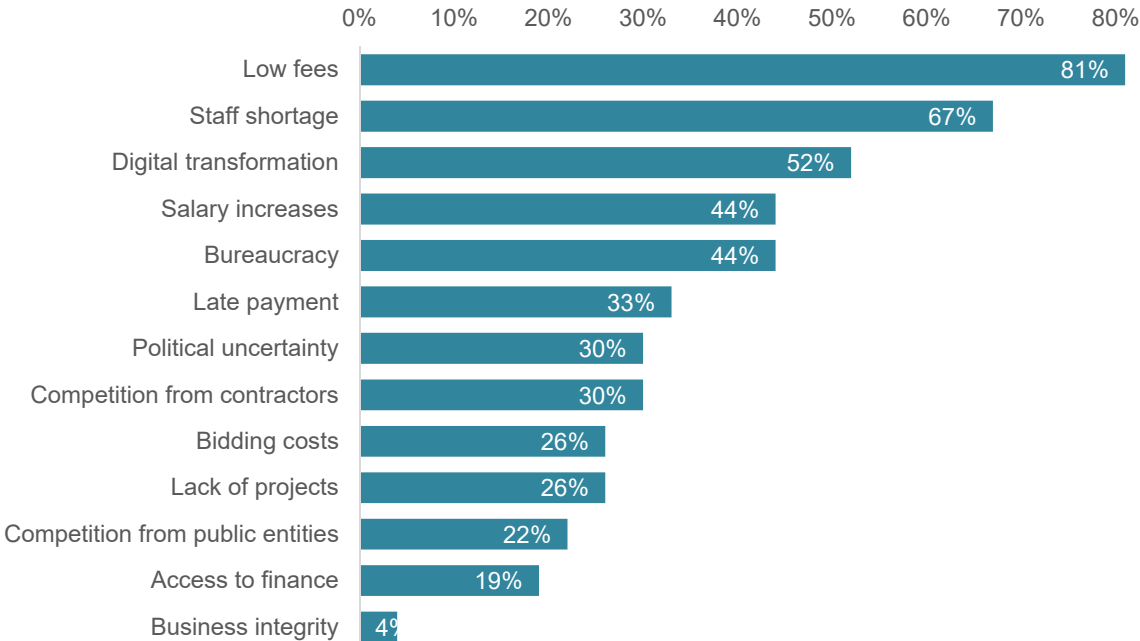
Challenges for the consulting engineering industry in Europe

The participating associations are asked in each survey to select the five main challenges the sector is facing in their respective country, from the options below.

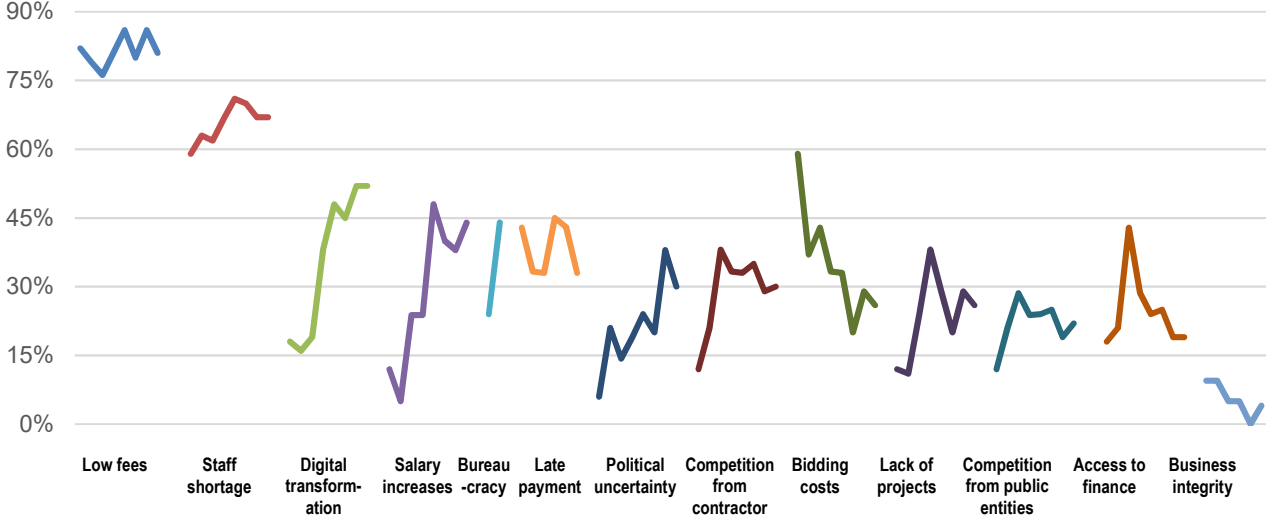
- Access to finance
- Bidding costs
- Business integrity
- Competition from contractors
- Competition from public entities
- Digital transformation (including impact of BIM)
- Lack of projects
- Late payment
- Low fees
- Political uncertainty
- Qualified staff shortage
- Salary increases
- Bureaucratic constraints

The results in this survey are in line with previous surveys; low fees remain the main challenge that the industry is facing, followed by staff shortages, and the challenges of digital transformation. Salary increases and obstacles of bureaucracy – a category newly introduced in the last survey – are both perceived as more important challenges, compared to the previous survey. Late payments, political uncertainty, bidding costs and lack of projects are becoming slightly less important as an issue while competition from both contractors and public entities as well as business integrity have marginally increased.

Main challenges faced by companies at European level, autumn 2019



Main challenges faced by European companies across time, 2016-2019 (spring and autumn)



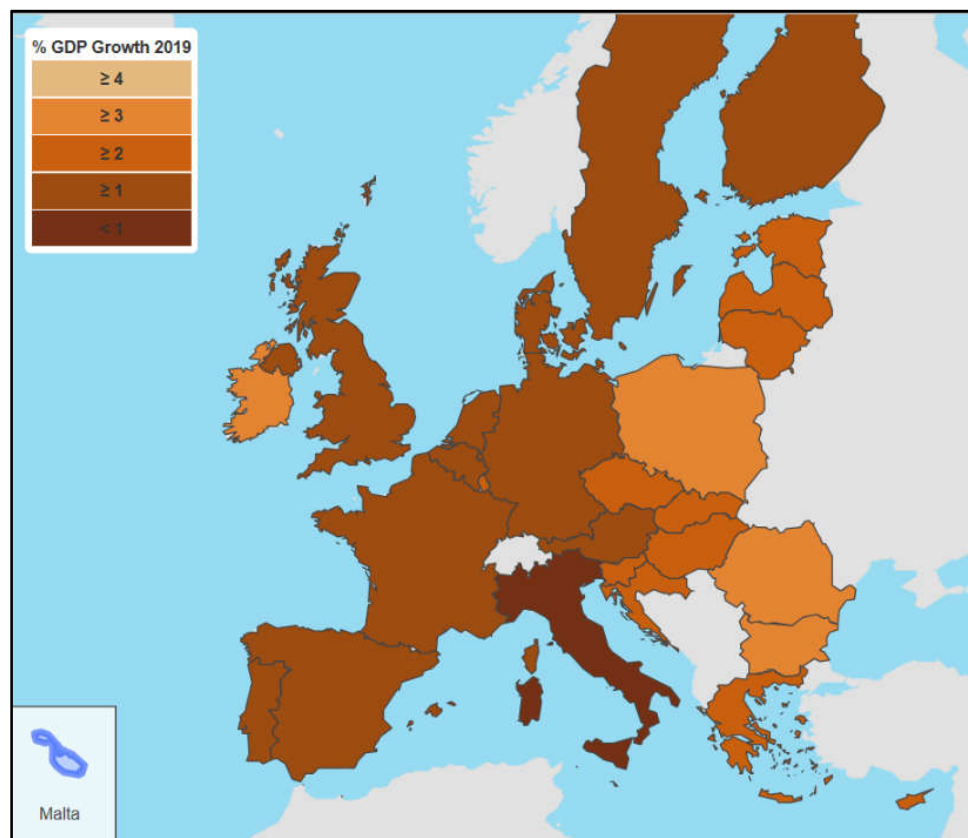
Appendix

The appendix carries information from the European Commission, of interest to the consulting engineering industry, when reviewing market trends. The most relevant information is the Autumn 2019 Economic Forecast published by the European Commission on November 7th 2019.

The “Growth Map 2019”, as made by the European Commission, illustrates that the European economy is expected to grow for the seventh year in a row in 2019 and with continuing growth expected for 2020. But the growth is challenged, and compared to previous forecasts by the European Commission, the expected growth for 2019 and 2020 has been downgraded.

Key messages from the European Commission on the Autumn 2019 forecast are:

- Growth to depend on domestically oriented sectors: Persisting trade tensions between the US and China and high levels of policy uncertainty, especially with respect to trade, have dampened investment, manufacturing and international trade. With global GDP growth set to remain weak, growth in Europe will depend on the strength of domestically-oriented sectors.
- Public debt levels to fall for a fifth year in a row; deficits to rise slightly: Europe's public finances are set to continue benefitting from the very low interest rates due on outstanding debt. Despite lower GDP growth, the euro area's aggregate public debt-to-GDP ratio is forecast to continue declining for the fifth year in a row to 86.4% this year. The same factors hold true for the EU, where the public debt-to-GDP ratio is forecast to fall to 80.6% this year.
- Risks to the outlook remain mainly to the downside: A number of risks could lead to lower growth than forecast. A further increase in uncertainty or a rise in trade and geopolitical tensions could dampen growth, as would a sharper-than-expected slowdown in China. Closer to home, risks include a disorderly Brexit and the possibility that weakness in the manufacturing sector could have a bigger spillover effect on domestically-oriented sectors.



Source : https://ec.europa.eu/info/sites/info/files/economy-finance/ip115_en_0.pdf

Eurostat-figures

For calculations of European averages the figures for each country are weighted by the FTE-numbers provided by Eurostat. The Eurostat figures may not always correspond exactly with the actual numbers of employees in each country, since they are based on NACE industry codes that can sometime inflate or deflate the size of the market depending on how accurately companies are coded. But they give an idea of the comparative size of each national market and they are consistent.

Employees in FTE (Full Time Equivalent units)

Employees in full time equivalent units	2016
Austria	38 552
Belgium	30 916
Bosnia and Herzegovina	7 858
Bulgaria	14 091
Croatia	20 560
Cyprus	2 173
Czechia	50 082
Denmark	39 433
Estonia	5 312
Finland	38 297
France	304 987
Germany	514 541
Greece	27 167
Hungary	33 493
Iceland	2 220
Ireland	24 223
Italy	66 606
Latvia	6 938
Lithuania	10 677
Luxembourg	6 085
Malta	2 069
Netherlands	92 980
North Macedonia	5 358
Norway	40 479
Poland	66 256
Portugal	30 442
Romania	60 175
Serbia *	25 000
Slovakia	16 371
Slovenia *	9 000
Spain	175 763
Sweden	90 809
Switzerland	89 806
Turkey *	75 000
United Kingdom	486 398

* Figures are not available from Eurostat and have therefore been estimated.

Definitions

EFCA	European Federation of engineering Consultancy Associations – the sole 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 year's workload. <i>Example:</i> 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 workload of the current order stock represent for the whole firm? <i>Example calculation:</i> 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