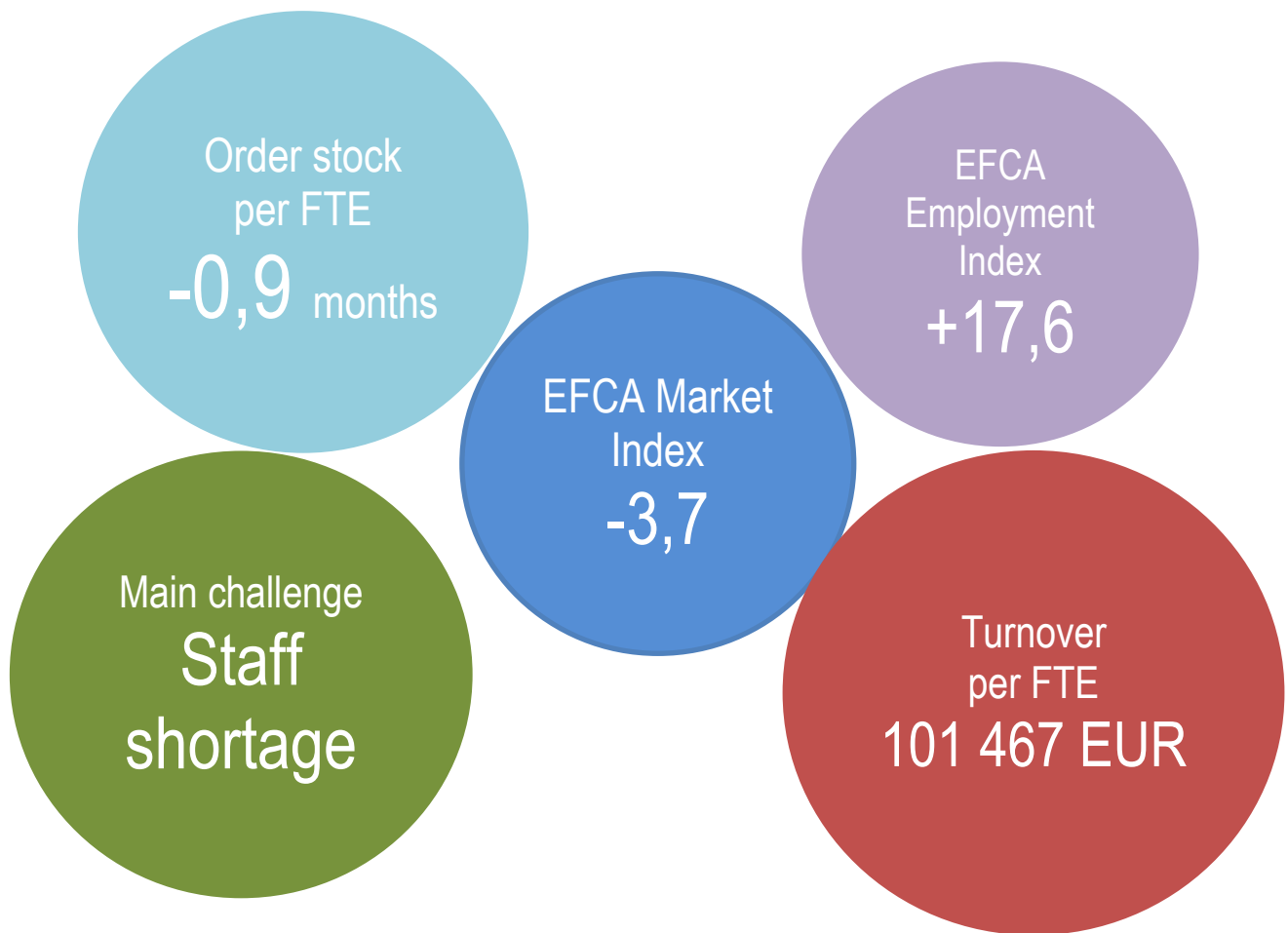




The State of the European Consulting Engineering Sector

BAROMETER spring 2023



Participating Associations, in this survey

Austria, ACA	Finland, SKOL	Italy, OICE	Portugal, APPC	Sweden, FSIC
Belgium, ORI	France, Syntec / Cinov*	Latvia, LIKA	Romania, ARIC	Switzerland, suisse.ing
Bulgaria, BACEA	Germany, VBI	Luxemburg, OAI	Russia, NACEC **	The Netherlands, NLingenieurs
Czech Republic, CACE	Greece, Hellasco	Macedonia, ACEMA	Serbia, ACES	Turkey, ATCEA
Denmark, FRI	Hungary, AHCEA	Norway, RIF	Slovenia, NACES	Ukraine, ICEG
Estonia, EAACEC	Ireland, ACEI	Poland, SIDIR	Spain, TECNIBERIA	United Kingdom, ACE ***

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

** Russia's EFCA observer membership is currently suspended.

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

EFCA Economic Environment Committee

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The Economic Environment Committee has produced this report and analysis based on best available information on the current state of business (April-May 2023) 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 Committee, please contact the EFCA secretariat - efca@efca.be

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Executive summary

The path from the top always goes down

The past year has been remarkably busy for the consultancy and engineering industry in Europe, as shown by the market index which reached an all-time high in the autumn of 2021. Order books are now noticeably reduced but still remain at higher-than-normal levels. There is therefore still a strong state of business in the consultancy and engineering industry in Europe.

The largest challenges for the consultancy and engineering industry in Europe are the shortage of staff, low fees and salary increases. Geopolitics, energy transformation, rising inflation and interest rates are continuing factors contributing to uncertainty - and opportunities – in market developments of the future.

The EFCA Market Index, showing the overall development of the European markets has had a steadily but slowly falling trend for the past two years. The index is however coming down from a peak level in 2021, so this could be described a normalization provided the falling trend does not continue going forward.

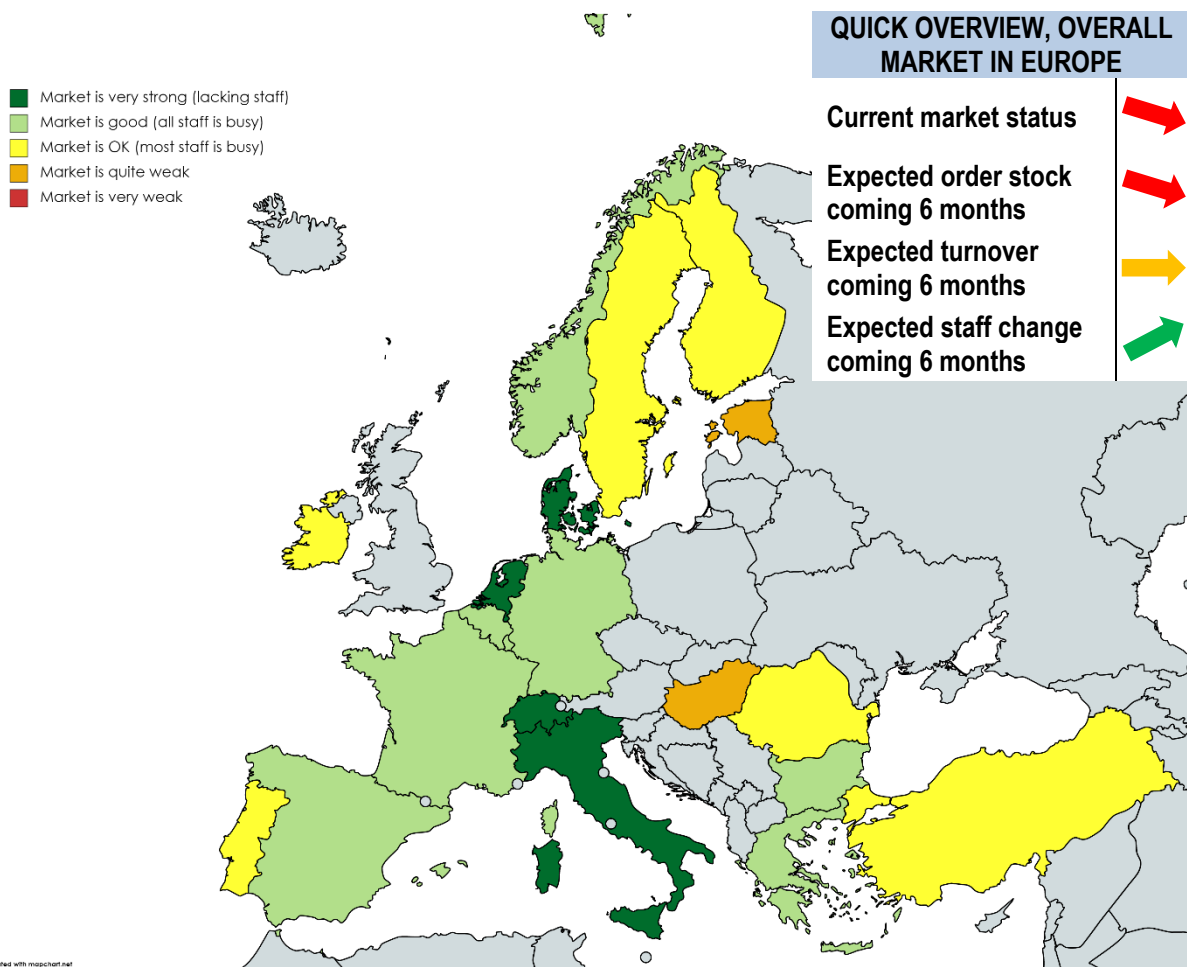
The employment index remains strong with a stable outlook for the coming 6-month period.

Order stock has been reduced in the past 6-12 months but is still at higher-than-average levels.

Profitability has fallen from 7.1% in 2020 to 5.7% in 2021. The average level since 2013 is 6.1%, which means that 2021 was a slightly below average year for the industry.

The survey was conducted in April-May 2022, 20 EFCA member associations have responded (67%).

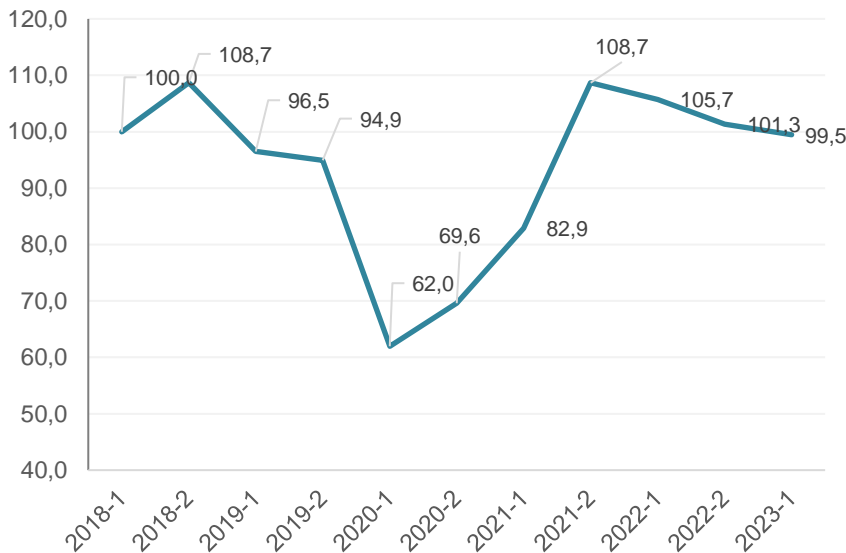
Current state of European Markets. EFCA Survey spring 2023



Market development

EFCA Market Index, spring 2018 – autumn 2022

2018-1 = 100 (see appendix, definitions).

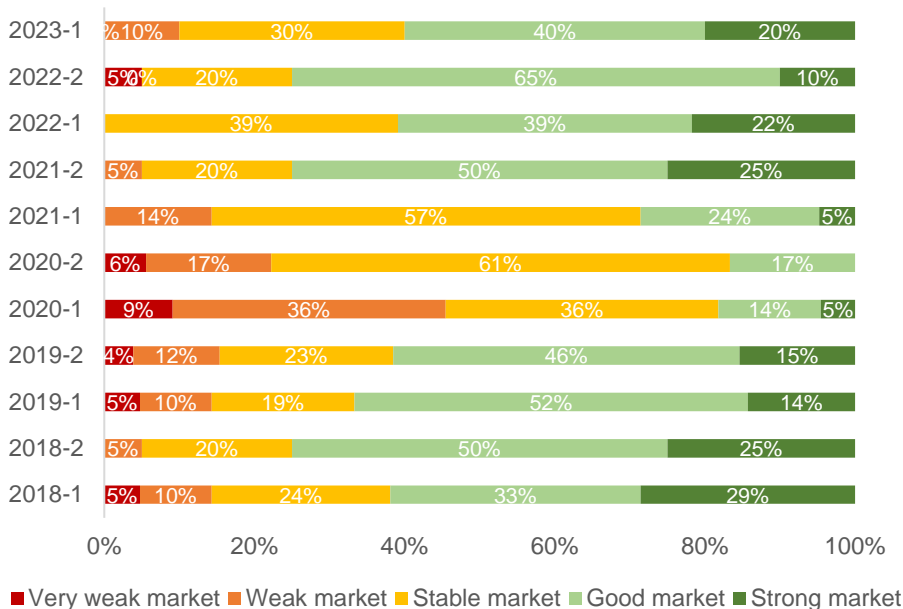


The EFCA Market Index, showing the overall development of the European markets relative to the state in 2018, has had a steadily falling trend for the past two years*.

The index is however coming down from a peak level in 2021, thus could be described as more of a normalization rather than a recession, provided the downwards trend does not continue going forward.

*NOTE: The index for autumn 2022 was erroneous in the previous report.

Market development by category in percent



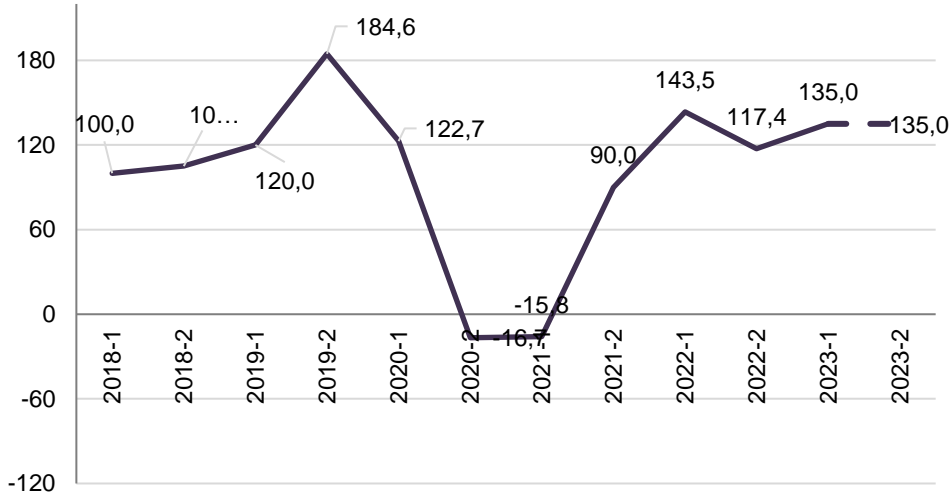
The market has seen a moderate negative development in the past six months, as the percentage of countries reporting good or strong markets has dropped from 75% to 60%.

The percentage of countries reporting weak markets has also doubled from 5% to 10%.

Employment

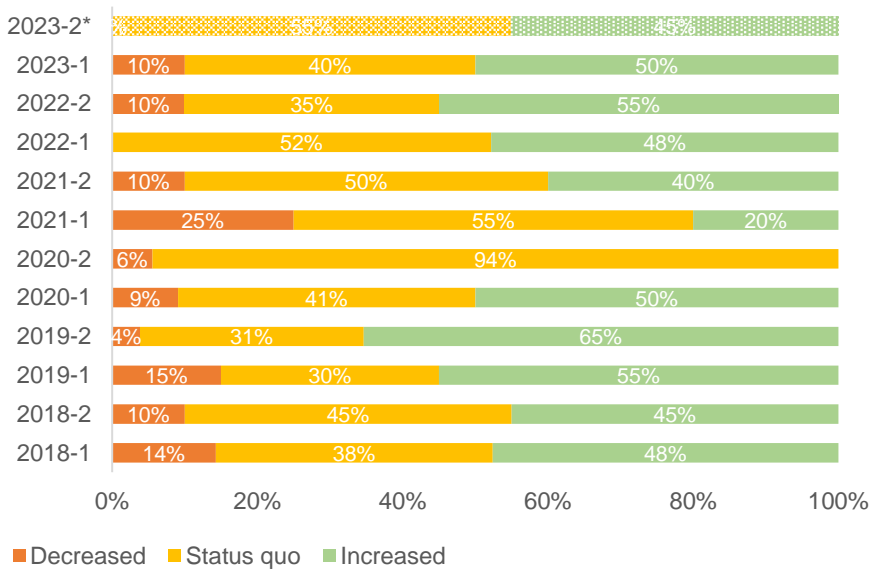
EFCA Employment Index, spring 2018 – spring 2022

2018-1 = 100 (see appendix, definitions).



The employment index remains strong with a stable outlook for the coming 6-month period.

Staff development by category in percent (* = expected)



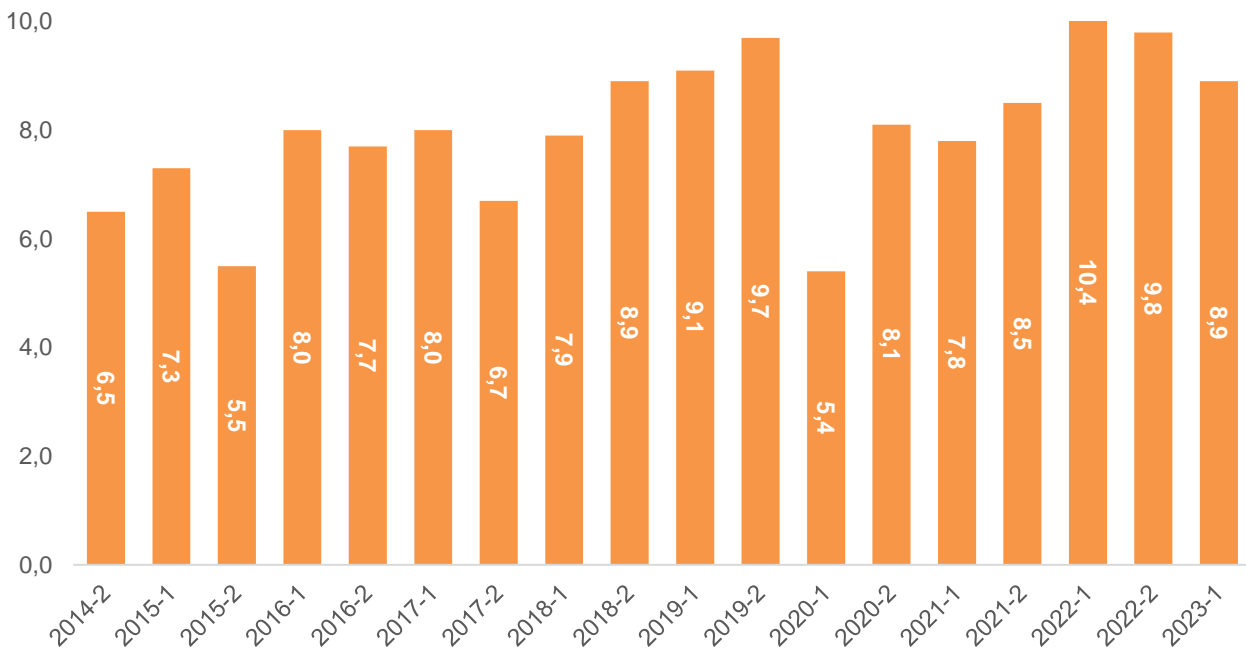
The percentage of MA's reporting increased need for staff is currently at 50%, falling back slightly from 55% six months ago. This trend is expected to continue in the coming six months.

10% of MA's are reporting reduced need for staff. This is a fairly normal level looking back on the last five years.

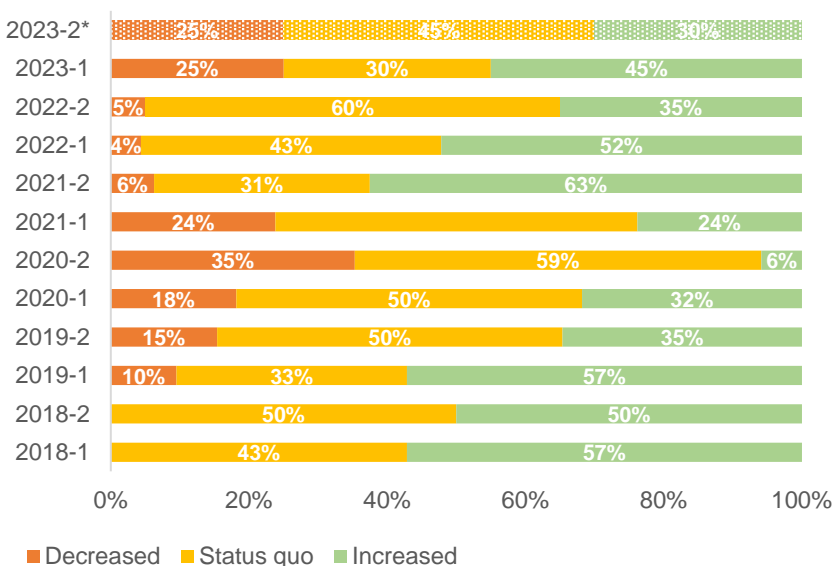
Order stock

Order stock has been reduced in the past 6-12 months but is still higher than average levels since measurements started in 2014. It should also be noted that order stock levels were at an all-time high a year ago. It is therefore still a strong state of business in the consultancy and engineering industry in Europe. There may however be reason for concern if order stock levels continue a declining trend looking forward.

Average order stock in months, European average 2014-2022



Order stock development by category in percent (* = expected)



The development of order stock by country shows a negative trend in that 25% now report decreased stock, which is a notable change from the past 6-18 months, where on average only about 5% reported decreased stock.

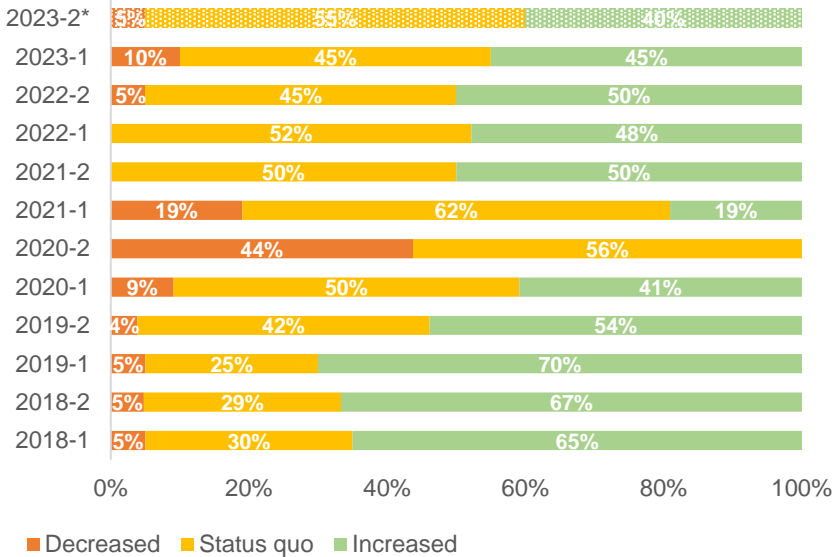
This change was however as expected, looking back on data in the previous report.

The current stock situation is not expected to change significantly in the coming six months.

Turnover

The “across Europe” average turnover per full-time equivalent staff member in this survey was 101.467 Euro which is a slight increase from 6 months ago.

Turnover development by category in percent (* = expected)

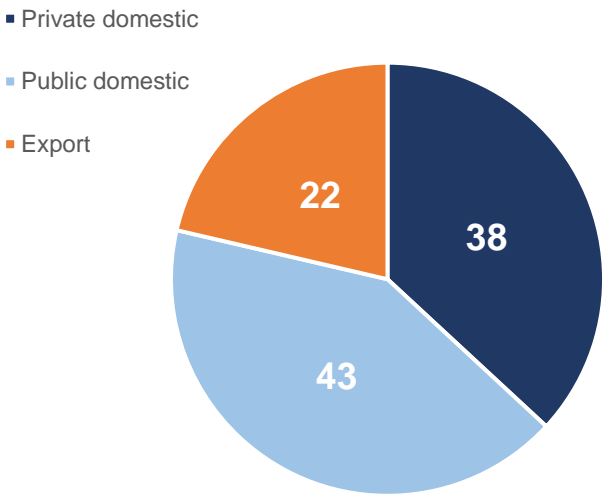


Turnover development is stable or increased for 90% of the participating countries in this survey, indicating that only a few countries have experienced a negative development looking back the past 6-18 months.

The outlook of the coming six months does not indicate significant changes in turnover development.

Turnover distribution remains at similar levels since the last measurement in spring 2022. Private and public domestic services are almost equal in size while exports, though varying significantly from country to country stays at 15-16% on average. Countries with the highest levels of export of engineering services are Spain at 70% and Turkey and Italy at 40%. About half of the participating countries have exports of less than 10%.

Turnover by domestic (private/public) and export activity, European average, spring 2023



Client* turnover distribution, top three participants, spring 2023

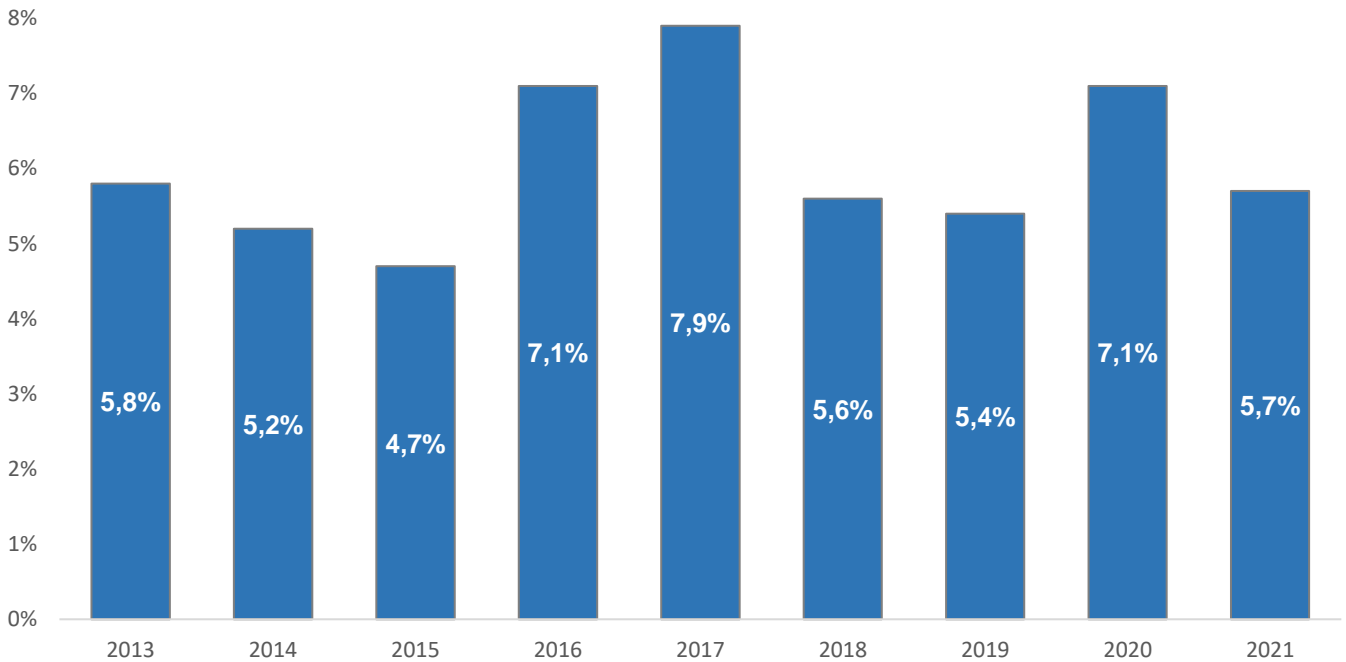
Private domestic	Public domestic	Export
1 Romania (72%)	1 Norway (65%)	1 Spain (70%)
2 Finland (65%)	2 Luxembourg (60%)	2 Turkey (60%)
3 Sweden (55%)	3 Germany (52%)	3 Italy (40%)

*Note: The client of the consultant is registered as a private entity (such as a private EPC contractor) even if the project owner / source of finance is a public entity.

Profitability

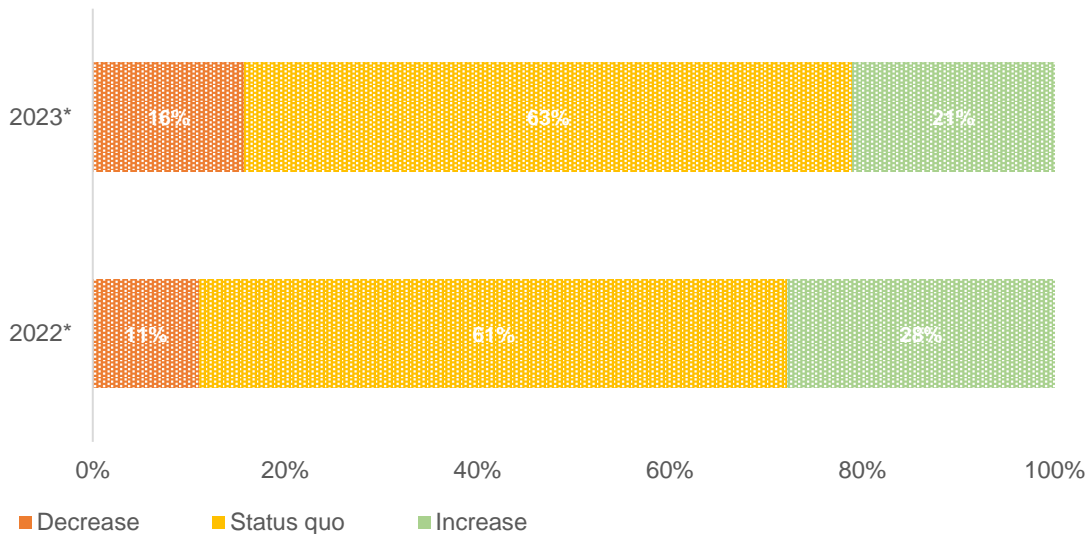
Profitability of European engineering firms has fallen from 7.1% in 2020 to 5.7% in 2021. The average level since 2013 is 6.1%, which means that 2021 was a slightly below average year for the industry.

Profit ratio (EBITDA). European average, 2013-2021



For 2023 a large majority of countries (63%) expect profit ratios to be stable compared to the expected 2022-level, while 21% expect profit ratios to improve, and 16% expect profit ratios to decline. Compared to the expected 2022-results, there is a slight negative trend in terms of expected profitability.

Expected profitability development by category in percent (* = expected)



Challenges

As in the previous survey in autumn 2022, staff shortage, low fees combined with salary increase are the top three challenges for the industry.

It is worth noting that political uncertainty and bureaucracy have become top-five challenges for the consultancy and engineering industry. Digitalization was a top-five challenge but has now fallen down the list.

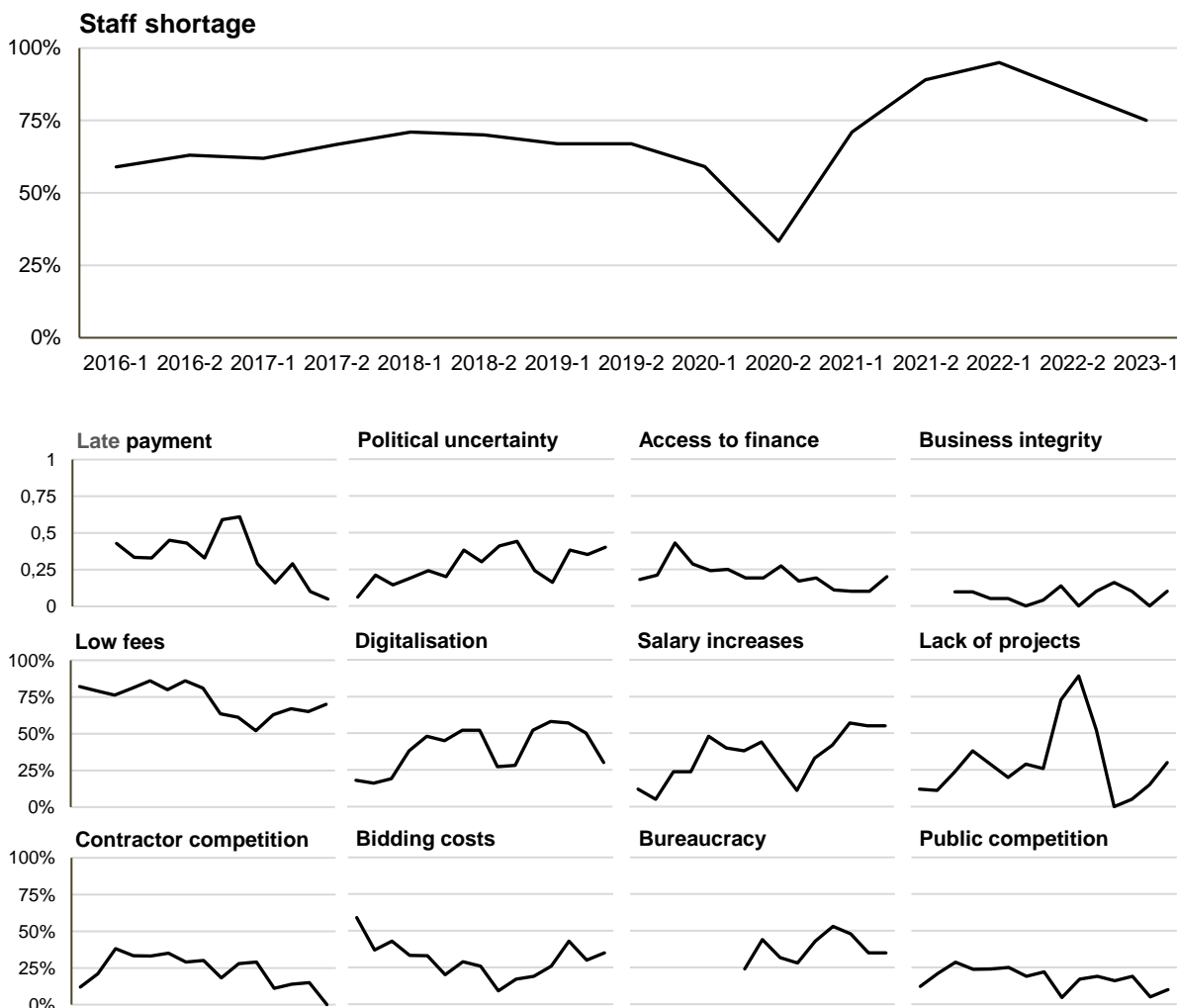
Some challenges that seem to remain minor are contractor competition, public competition, access to finance and business integrity. Late payment has been reduced significantly in previous years.

Top 5 challenges faced by European companies

Challenge	Rank	Change
Staff shortage	1	-
Low fees	2	-
Salary increases	3	-
Political uncertainty	4	+1
Bureaucracy	5	+1

In addition to the list of challenges, the effect of inflation on direct costs as well as on the ability to raise fees was included in the background for the EFCA Barometer spring 2023. And there is a correlation where direct costs as well as the fees for consulting engineering services has increased across most European countries. But also, that this increase is less than inflation.

Main challenges faced by European companies across time, 2016-2023



Country Overview (spring 2023)

Austria, ACA

Market			
Staff			
Order stock			
Turnover			
Domestic/Public/Export			
Profit ratio (EBITDA)			

Belgium, ORI

Market		Good	
Staff		↗	→
Order stock	8,0	↗	→
Turnover		↗	→
Domestic/Public/Export			
Profit ratio (EBITDA)	4,6	↗	→

Bulgaria, BACEA

Market		Good	
Staff		→	→
Order stock	5,0	↗	↗
Turnover		→	→
Domestic/Public/Export	50	40	10
Profit ratio (EBITDA)	6,3	→	→

Czech Republic, CACE

Market			
Staff			
Order stock			
Turnover			
Domestic/Public/Export			
Profit ratio (EBITDA)			

Denmark, FRI

Market		Strong	
Staff		↗	↗
Order stock	6,4	↗	↗
Turnover		↗	↗
Domestic/Public/Export	46	37	17
Profit ratio (EBITDA)	7,8	↘	↗

Estonia, EAACEC

Market		Weak	
Staff		→	→
Order stock	6,0	→	→
Turnover		↘	↗
Domestic/Public/Export	49	45	6
Profit ratio (EBITDA)	6,1	→	↘

Finland, SKOL

Market		OK	
Staff		↗	→
Order stock	7,5	↘	↘
Turnover		→	→
Domestic/Public/Export	65	27	8
Profit ratio (EBITDA)	9,6	↘	↘

France, Syntec / Cinov*

Market		Good	
Staff		↗	↗
Order stock	10,0	↗	→
Turnover		↗	↗
Domestic/Public/Export	30	40	30
Profit ratio (EBITDA)	4,0	→	→

Germany, VBI

Market		Good	
Staff		↗	↗
Order stock	10,5	↘	→
Turnover		→	→
Domestic/Public/Export	44	52	4
Profit ratio (EBITDA)	N/A		

Greece, Hellasco

Market		Good	
Staff		↗	↗
Order stock	4,1	↗	↗
Turnover		↗	↗
Domestic/Public/Export	40	44	16
Profit ratio (EBITDA)	9,0	→	→

Hungary, AHCEA

Market		Weak	
Staff		↘	→
Order stock	8,0	↘	→
Turnover		↘	↘
Domestic/Public/Export	N/A	N/A	N/A
Profit ratio (EBITDA)	N/A	↘	↘

Ireland, ACEI

Market		OK	
Staff		→	→
Order stock	8,5	→	→
Turnover		→	→
Domestic/Public/Export	50	40	10
Profit ratio (EBITDA)	8,0	↗	→

Italy, OICE

Market		Strong	
Staff		↗	↗
Order stock	N/A	↗	↗
Turnover		↗	↗
Domestic/Public/Export	25	35	40
Profit ratio (EBITDA)	N/A	↗	↗

Latvia, LIKA

Market			
Staff			
Order stock			
Turnover			
Domestic/Public/Export			
Profit ratio (EBITDA)			

Luxemburg, OAI

Market		Good	
Staff		↗	→
Order stock	12,0	→	↘
Turnover		→	→
Domestic/Public/Export	38	60	2
Profit ratio (EBITDA)	4,0	→	→

Macedonia, ACEMA

Market			
Staff			
Order stock			
Turnover			
Domestic/Public/Export			
Profit ratio (EBITDA)			

Norway, RIF

Market		Good	
Staff		→	→
Order stock	2,5	↘	↘
Turnover		→	→
Domestic/Public/Export	33	65	2
Profit ratio (EBITDA)	7,8	→	↘

Poland, SIDIR

Market			
Staff			
Order stock			
Turnover			
Domestic/Public/Export			
Profit ratio (EBITDA)			

Portugal, APPC				Romania, ARIC				Russia, NACEC **			
Market		OK		Market		OK		Market			
Staff		↗	→	Staff		→	↗	Staff			
Order stock	N/A	↗	→	Order stock	10,0	→	→	Order stock			
Turnover		↗	→	Turnover		→	→	Turnover			
Domestic/Public/Export	N/A	N/A	N/A	Domestic/Public/Export	72	28	0	Domestic/Public/Export			
Profit ratio (EBITDA)	N/A			Profit ratio (EBITDA)	20,0	→	→	Profit ratio (EBITDA)			
Serbia, ACES				Slovenia, NACES				Spain, TECNIBERIA			
Market				Market				Market		Good	
Staff				Staff				Staff		→	↗
Order stock				Order stock				Order stock		↗	↗
Turnover				Turnover				Turnover		↗	↗
Domestic/Public/Export				Domestic/Public/Export				Domestic/Public/Export	10	20	70
Profit ratio (EBITDA)				Profit ratio (EBITDA)				Profit ratio (EBITDA)	0,5	↗	↗
Sweden, FSIC				Switzerland, suisse.ing				The Netherlands, NIngenieurs			
Market		OK		Market		Strong		Market		Strong	
Staff		↗	→	Staff		→	↗	Staff		↘	↗
Order stock	5,5	→	↘	Order stock	N/A	↗	↗	Order stock	6,5	↘	↘
Turnover		→	→	Turnover		↗	↗	Turnover		↗	→
Domestic/Public/Export	55	40	5	Domestic/Public/Export	N/A	N/A	N/A	Domestic/Public/Export	N/A	N/A	N/A
Profit ratio (EBITDA)	7,0	→	→	Profit ratio (EBITDA)	5,0	→	→	Profit ratio (EBITDA)	6,5	→	→
Turkey, ATCEA				Ukraine, ICEG				United Kingdom, ACE ***			
Market		OK		Market				Market			
Staff		→	→	Staff				Staff			
Order stock	5,0	→	→	Order stock				Order stock			
Turnover		→	↗	Turnover				Turnover			
Domestic/Public/Export	10	30	60	Domestic/Public/Export				Domestic/Public/Export			
Profit ratio (EBITDA)	N/A	→	→	Profit ratio (EBITDA)				Profit ratio (EBITDA)			

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

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Appendix

The appendix carries information from the European Commission, which is of interest for the consulting engineering industry, when reviewing market trends as well as the Eurostat figures that are used for calculating European averages in the EFCA Barometer.

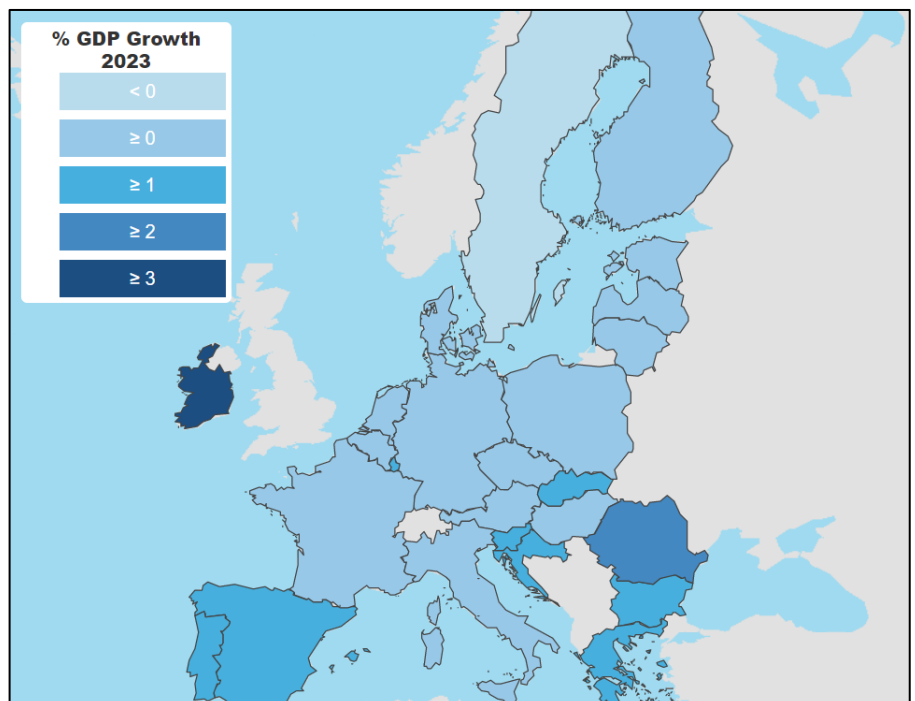
Economic Forecast

The EU economy entered 2023 on a better footing than projected in autumn. The Winter interim Forecast of the European Commission lifts the growth outlook for 2023 to 0.8% in the EU and 0.9% in the euro area. Both areas are now set to narrowly avoid the technical recession that was anticipated for the turn of the year. The forecast also slightly lowers the projections for inflation for both 2023 and 2024. Headline inflation in the EU is forecast to fall from 9.2% in 2022 to 6.4% in 2023 and 2.8% in 2024. In the euro area, it is projected to decelerate from 8.4% in 2022 to 5.6% in 2023 and to 2.5% in 2024.

Following robust expansion in the first half of 2022, growth momentum abated in the third quarter and despite exceptional adverse shocks, the EU economy avoided a contraction in the fourth quarter. Since autumn, the EU economy has seen a number of positive developments. Energy prices have declined significantly. Labour markets have also continued to perform strongly, with the unemployment rate in the EU remaining at its all-time low of 6.1% in December. Confidence is improving and January surveys suggest that economic activity is also set to avoid a contraction in the first quarter of 2023. Yet the EU economy remains beset with challenges and uncertainties. Consumers and businesses continue to face high energy costs and core inflation remains high. Monetary tightening is therefore set to continue, exerting a drag on investment. Weakness in consumption is set to persist in the near term as inflation keeps outpacing nominal wage growth. Finally, the external environment is expected to continue providing little support. Also, this forecast hinges on the assumption that Russia's aggression of Ukraine will not escalate but will continue throughout the forecast horizon.

The (interim) Winter 2023 Economic Forecast is part of the Economic Forecast publication cycle of the European Commission. The next forecast will be the Spring 2023 Economic Forecast, scheduled to be published in May, after the completion of this EFCA Barometer.

The Map and the developments described by the European Commission are very much reflecting the trends measured by the EFCA Barometer, including a reflection on the high level of uncertainty. Risks to the forecast for economic activity and inflation are heavily dependent on the evolution of the war in Ukraine, and especially on its continued impact on energy markets.



Source: https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/winter-2023-economic-forecast-eu-economy-set-avoid-recession-headwinds-persist_en

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	2017
Austria	40,146
Belgium	31,110
Bulgaria	14,182
Croatia	21,196
Czech Republic	51,497
Denmark	41,008
Estonia	5,745
Finland	38,753
France	308,495
Germany (until 1990 former territory of the FRG)	565,113
Greece	15,377
Hungary	34,674
Ireland	25,348
Italy	63,158
Latvia	7,904
Lithuania	10,785
Luxembourg	6,412
Netherlands	96,500
North Macedonia	5,642
Norway	40,566
Poland	67,759
Portugal	32,267
Romania	63,230
Russia *	400,000
Serbia *	25,000
Slovakia	17,277
Slovenia *	9,000
Spain	175,888
Sweden	97,937
Switzerland	93,302
Turkey *	50,000
Ukraine *	50,000
United Kingdom	442,472

* 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

EFCA Index: The indexes (EFCA Market Index and EFCA Employment Index) introduced to the survey in spring 2020, take the initial measurements (baseline: spring 2018) and transform them to 100 index points. Measurements from consecutive surveys are then transformed accordingly, in order to present the change in index points and/or percentage points compared to the baseline. For the Spring 2020 Barometer report, the reported changes are the changes in index points.

ECB: European Central Bank

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. *Example:* four half-time employees are counted as two employees according to the FTE-definition.

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? *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: $€50,000/€100,000 = 0.5 * 12 \text{ (months)} = 6 \text{ months}$

Profit ratio/margin: Turnover divided by profit, measured as EBITDA (earnings before interest, taxes, depreciation, and amortization)

RRF: The European Recovery and Resilience Fund

Turnover: Total revenues/sales



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European Federation of Engineering Consultancy Associations

EFCA is representing FIDIC in Europe