

## Tackling critical business environment

# Consultants navigating choppy economic waters

A shortage of skilled staff, declining fees and the persistent need for salary increases – these are just the headlines from EFCA's latest barometer, *The State of the European Consulting Engineering Sector*. Add in other factors such as geopolitical tension, energy transformation, surging inflation and rapidly-rising interest rates, and you have a recipe for uncertainty that is casting a shadow over the industry's future. In this issue we preview the imminent autumn edition of the EFCA Barometer, with Henrik Garver, Chair of the EFCA Economic Environment Committee (below), delving into the figures to try and make sense of what is happening.



### A year of extremes

The consultancy and engineering industry in Europe has experienced a year of highs and lows that have left their mark. In 2021, we witnessed unprecedented figures, with market indices soaring to record levels.

However, as the seasons changed, so did the dynamics of the industry. Today, order books have slimmed down, although they continue to remain above historical norms, signaling enduring resilience and a reasonable outlook. Some of the economic conditions also create opportunities, particularly for those firms that remain agile and adaptable, staying ahead of emerging trends, in order to obtain first-mover advantage.

### EFCA's own economists

Henrik Garver is the Managing Director of the Danish Association of Consulting Engineers (FRI). He heads up EFCA's Economic Environment Committee, which monitors the evolving market trends within the sector at European level. The committee's primary mission is to provide insight and support to the industry. Working with data gathered

through surveys that were conducted in collaboration with EFCA member associations, this committee releases *The State of the European Consulting Engineering Sector* barometer on a bi-annual basis.

"The last number of years have been a rollercoaster ride for the consultancy and engineering industry. We have successfully navigated the challenges posed by the COVID-19 lockdowns, witnessed remarkable growth, and observed Europe and the EU showing global leadership for the green transition. As a result, the rollercoaster ride has primarily been on an upward trend. Nonetheless, at this moment, as we face multiple geopolitical crises, increasing interest rates and economic challenges in numerous countries, we find ourselves at a critical juncture," says Garver.

### Insights from Spring 2023 Barometer

The last edition of the report highlighted a bustling year for the industry. While the EFCA Market Index, which gauges European market development in

relation to a baseline calculated in 2018, has displayed a gradual decline over the past two years, it is important to note that this drop follows the peak observed in 2021. What we have seen since suggests a potential return to relative normality, provided this trend does not persist.

Amid these shifting dynamics, the employment index stands strong, forecasting stability in the coming half year. Despite a recent decrease in order stocks, they still comfortably exceed historical averages, indicating sustained demand for consultancy and engineering services.

However, the figures for profitability tell a different story. After reaching a high of 7.1% in 2020, profitability dipped somewhat to 5.7% in 2021, slightly below the 2013 to 2021 average of 6.1%. This was somewhat below the industry norm. For 2023, a majority of countries (63%) anticipate stable profit ratios compared to 2022 levels, with 21% now expecting an improvement and 16% foreseeing a decline. The result is therefore a slight overall downturn in profitability.

In both the Spring 2023 and Autumn 2022 editions, the top three challenges for the industry remained staff shortages, low fees coupled with salary increases, and political uncertainty. Notably, political uncertainty and bureaucracy have entered the top five challenges for consultancy and engineering. While digitalisation was a top five challenge previously, it has now dropped down the list. Challenges that appear to have a more minor impact include contractor competition, public competition, access to finance and business integrity.

Public sector competition refers to the competition arising from publicly-owned entities such as universities, publicly-funded research institutes, or similar governmental bureaus and agencies engaged in commercial activities for local communities or regional and/or governments. Business integrity is primarily linked to corrupt practices. Thankfully, late payments have significantly decreased in recent years.

Furthermore, the Spring 2023 report considered the effect of inflation on direct costs and the ability to increase fees. It reveals a correlation, indicating that direct costs and consulting engineering service fees have increased across most European countries, albeit to a lesser extent than inflation.

### Looking to Autumn 2023 barometer

The forthcoming edition of the EFCA Barometer will assess whether the rollercoaster journey will persist on its upward trajectory or suddenly plummet.

"When engaging with engineering firms, the majority demonstrate a keen awareness of the available opportunities and possess the capacity to manage risks in the current market landscape. Nevertheless, it is not without its challenges. Therefore, the years 2024 and 2025 promise to be highly intriguing for those monitoring the European consultancy and engineering industry. That is why I am particularly excited to examine the results of the upcoming EFCA Barometer, which will gauge market trends in the autumn of 2023 and provide insights into the developments expected in 2024," concludes Henrik Garver.

### Shaping a brighter future

While acknowledging the comprehensive analysis provided by the Economic Environment Committee, the EFCA community is not content with simply observing market trends. Instead, armed with such invaluable insight, EFCA actively engages with policymakers and industry stakeholders to shape the industry's future.

Through strategic advocacy and influential partnerships, EFCA is committed to driving positive change, ensuring that the consultancy and engineering sector continues to thrive amidst the evolving challenges and opportunities. ■

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European Engineering Consultancies

“As the world faces multiple geopolitical crises, increasing interest rates, skills shortages and other challenges, engineers find themselves at a critical juncture in trying to drive the sustainability and net zero agenda.”

