BI-ANNUAL ECONOMIC AND CAPACITY SURVEY

July - December 2024

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Summary

The Bi-Annual Economic and Capacity Survey (BECS) for July – December 2024, published by Consulting Engineers South Africa (CESA), provides an in-depth analysis of global and domestic economic trends, industry performance, and challenges within the consulting engineering sector.

Globally, economic growth in 2024 was in line with expectations at 3.2%, with projections increasing slightly to 3.3% for 2025 and 2026, though still below the long-term average. Advanced economies, including the United States, show signs of resilience, while the Eurozone and China face headwinds. Risks such as trade protectionism, inflationary pressures, and geopolitical instability pose significant threats to sustained growth. South Africa's outlook has improved marginally, with GDP growth revised to 1.5% in 2025, supported by hopes of political stability under the Government of National Unity (GNU), a reduction in load shedding, and improved logistics.

Domestically, economic growth remained weak at 0.6% in 2024, with underperformance across key sectors, including agriculture, manufacturing, construction, and trade services. Investment in fixed capital formation fell by 3.7%, with the steepest decline in private sector investment, reflecting a cooling of interest following the 2023 renewable energy surge. The public sector's failure to meet its National Development Plan (NDP) targets remains a major concern, as fiscal constraints and bureaucratic inefficiencies continue to stifle infrastructure spending. Overall business confidence remains below the neutral level of 50, reflecting investor concerns about government policy direction, slow structural reforms, and fiscal uncertainty.

To fast-track Public-Private Partnerships (PPPs), the government introduced amendments to the Public Finance Management Act (PFMA) in early 2025, reducing Treasury approval requirements for projects under R2 billion to streamline processes. This is expected to accelerate smaller-scale infrastructure projects and attract private sector investment. Additionally, state-owned enterprises (SOEs) like Transnet and Eskom are actively seeking private investment to improve freight transport, port operations, and the national electricity grid.

Despite economic constraints, the consulting engineering industry showed modest growth, with fee earnings rising 5.9% year-on-year. However, order books softened in the last six months of 2024, suggesting potential revenue pressures in 2025. Employment in the industry grew by 3.8%, surpassing pre-COVID levels, with strong demand for engineers, particularly from larger firms. Female representation in engineering continues to rise, with black female engineers now making up 32% of female engineers in the sector.

Project postponements and cancellations remain a major industry challenge, driven by budget constraints, community interference, and skills shortages. The public sector was responsible for over 80% of cancellations, with local governments struggling to spend their allocated budgets efficiently. The Urban Development Finance Grant (UDFG) was introduced in 2025 to incentivize metropolitan municipalities to improve governance and financial management, with six metros qualifying for the grant.

Looking ahead, 2025 presents both opportunities and risks for the consulting engineering industry. Increased private sector involvement in infrastructure, the expansion of PPPs, and improved business confidence post-GNU formation provide cautious optimism. However, persistent risks—including political infighting,

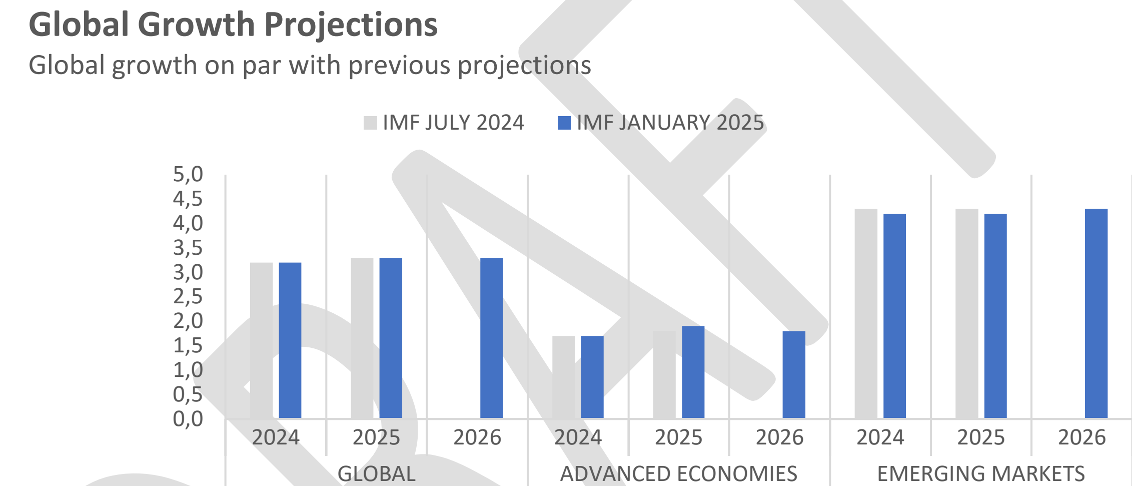
regulatory uncertainty, public sector inefficiencies, and sluggish economic growth—could undermine progress. For sustained recovery, policy consistency, fiscal discipline, and a pro-growth strategy are critical to unlock investment and accelerate infrastructure development.

The United States is anticipated to experience steady expansion, with the IMF upgrading its 2025 growth forecast to 2.7%, citing strong labour markets and increased investment, although the recent escalation in what seems to be becoming a global trade war, is yet to impact economies.

The Eurozone faces subdued prospects, with the World Bank revising its 2025 growth estimate downward to 1%, reflecting challenges such as elevated energy prices and competitiveness concerns. China's growth is expected to decelerate, with projections of

ECONOMIC SUMMARY

INTERNATIONAL ECONOMY



	GLOBAL 2024	GLOBAL 2025	GLOBAL 2026	ADVANCED ECONOMIES 2024	ADVANCED ECONOMIES 2025	ADVANCED ECONOMIES 2026	EMERGING MARKETS 2024	EMERGING MARKETS 2025	EMERGING MARKETS 2026
IMF JULY 2024	3,2	3,3		1,7	1,8		4,3	4,3	
IMF JANUARY 2025	3,2	3,3	3,3	1,7	1,9	1,8	4,2	4,2	4,3

Figure 1: Global Growth Projections (Source: IMF World Economic Outlook July 2024

4.5% in 2025 and some forecasts suggesting a slowdown to 4.0% in 2026, influenced by structural and cyclical challenges, including weak domestic demand and property sector deleveraging.

Global economic growth at 3.2 percent for 2024, was in line with expectations, and revised higher to 3.3 percent for 2025 and 2026, but remains below the long-term average of 3.7 percent between 2000 and 2019. The World Bank forecasts global growth stabilizing at 2.7% during this period.

The growth outlook for advanced economies improved to 1.9 percent, from 1.7 percent in 2024, while emerging markets maintain the current growth rate for 2024 into 2025 at 4.2 percent.

Several risks could impact these projections. The resurgence of protectionist trade policies, particularly potential tariff increases by major economies, poses a threat to global trade dynamics and could hinder growth. Persistent inflationary pressures, despite recent declines, may delay anticipated monetary policy easing by central banks, thereby constraining economic activity. Additionally, geopolitical tensions, elevated debt levels, and the escalating costs associated with climate change present further challenges to the global economic landscape.

Furthermore, the potential for significant swings in economic policy because of elections this year, with possible negative spillovers to the rest of the world, has increased levels of uncertainty.

The IMF revised South Africa's growth projections higher to 1.5 percent for 2025, from 1.2 percent early 2024, hoping that the new Government of National Unity will bring higher levels of political stability, while reduced loadshedding and some logistical improvement, will foster stronger economic growth

Medium to longer term indicators continue to move in a more favourable direction, despite heightened global uncertainty and frictions within the GNU.

1. Investor sentiment is showing a gradual improvement, coming off dismally low levels, with FNB/BER Business Confidence was unchanged at 45 for the 1st quarter of 2025, against an average of 37 for 2024, up from 31 in 2023. While the momentum is slower than hoped for, it does signal a gradual improvement in investor sentiment. Whether the GNU can support investor sentiment to surpass the 50 (or neutral) level remains to be seen as challenges like the Expropriation Act and a postponed Budget may weigh in on how investors perceive the country's outlook and stability.
2. Lower consumer inflation and lower interest rates are expected to stimulate higher levels of household consumption in 2025, along an anticipated recovery in residential investment. The South African Reserve Bank (SARB) projects inflation will average below 4 percent in 2025 (3.9 percent), rising to 4.6 percent in 2026. However, even though inflationary pressures may have subsided in recent months, higher than average increases in administered (government controlled) prices continue to add downside risks to the inflation outlook.
3. Governments commitment to structural reform, albeit at a snail's pace, can address some of the critical supply constraints, but this will require accelerating private sector participation.

Several downside risks remain:

1. Persistent electricity supply shortages and logistical bottlenecks continue to pose significant challenges to industrial productivity and export performance. The African Development Bank highlights that these infrastructural constraints, coupled with fiscal vulnerabilities arising from state-owned enterprise bailouts, volatile commodity prices, and climate change shocks, present substantial risks to the economic outlook.
2. Growing tensions between the GNU political parties around disagreement around critical policies such as the Expropriation Act, the BELA act and more recently the formulation of the Budget.
3. The high unemployment rate, particularly among the youth, remains a critical concern, potentially exacerbating social inequalities and limiting domestic

demand. The unemployment rate is projected to rise from 32.7% in 2024 to 33.2% in 2025, underscoring the need for more robust job creation strategies.

4. Incapacitated local governments, that are unable to improve service delivery, that is accelerating the infrastructure deficit whilst deterring local investment. Despite stronger focus over the medium term to improve financial efficiency, infrastructure delivery and accountability, no real progress has been made during the last few years.
5. Economic weakening of key trading partners, including EU, China, and Russia for 2025 can lead to lower export revenue, while our main trading partner the US has withdrawn USAID worth billions of rand. Lower export revenue, combined with continued domestic constraints related to weak infrastructure, can hamper South Africa's growth outlook over the medium term.
6. The growing realization that the country is in a position where it will have to raise taxes to support increased expenditure on non-productive sectors of the economy, including the Social Relief Grant and an above inflationary increase in the Public Sector Wage bill. This approach, followed over the past decade or two, is now spiraling out of control, as the country simply can not afford to support the burgeoning unemployed now exceeding 25 million. Rather than raising taxes to finance un-productive expenditure, government must cut expenses in other bloated departments, or expand the revenue base, but this will require a pro-growth policy. This will mean ideological policies like the Expropriation Act and BBBEE may require a review to lessen the current obstacle to the private sector investment that has dampened economic growth to an average of less than 0.5 percent over the last fifteen years.

DOMESTIC ECONOMY

Finance and Electricity supported slightly better economic performance in the 2nd half of 2024

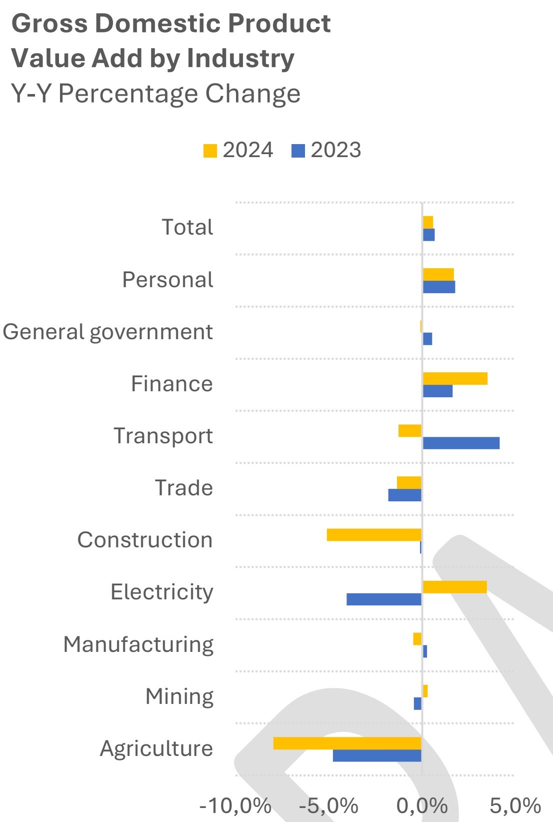


Figure 2: GDP Value add by Economic Sector (Source Stats SA)

Real GDP (measured by production) increased by an average of 0.3 percent in the first half of 2024 and a marginally stronger 0.7 percent in the second half of 2024. Overall economic growth at 0.6 percent remained at dismally low levels on par with 2023.

More than half of the economic sectors underperformed in 2024, including Agriculture (down 8 percent), Manufacturing (down 0.5 percent), Construction (down 5.1 percent), Trade Services (down 1.4 percent), Transport (down 1.3 percent) and General Government (down 0.1 percent). Mining ended flat (0.3 percent), while Electricity and Finance increased by 3.5 percent respectively, the two strongest performing sectors in 2024.

Performance in Gross Fixed Capital Formation (GFCF) disappointed and decreased by 3.7 percent y-y in 2024, following a 3.9 percent increase in 2023. All three clients saw weaker investment levels, with the steepest decline by the Private Sector (down 4.1 percent), followed by a 2.9 percent decline in investment by General Government and a 2.2 percent decline by SOE's. Private sector investment has cooled following the increase during 2023, influenced by the increase in renewable energy investments. This underperformance resulted in the contribution of fixed investment to GDP slowing from an average of 14.8 percent in 2023 to 14.2 percent in 2024 and a 20 year low of 14 percent in the 4th quarter of 2024.

Public sector investment as a percentage of GDP hovered at 4.0 percent, (2023: 4.2 percent) failing dismally to reach the NDP target of 10% by 2030.

Since our last review, the need for increased private sector investment has intensified as the government's funding options have all but dried up. However, there is limited evidence that private sector investment will show a more robust recovery any time soon. This is because government policies are simply not conducive to attracting private investment, and investor sentiment needs to recover to a more sustainable level of at least 50 (neutral) or more. The need, however, for private sector investment in critical economic infrastructure continues to intensify, in areas such as electricity, water, rail and ports, moving beyond just renewable energy. The contribution of private sector investment in construction works (normally dominated by government and SOE's) increased from less than 10 percent in 2000 to an average of 26 percent in 2023. While this was due to the higher levels of investment in renewable energy projects, the Minister of Public Works, Dean Macpherson hopes to expand it to projects at provincial and local government levels too. The GNU are more focused on enhancing private sector involvement, but challenges remain. The South African Government estimates that it will require R3.2 trillion from the private sector to meet its infrastructure needs by 2030.

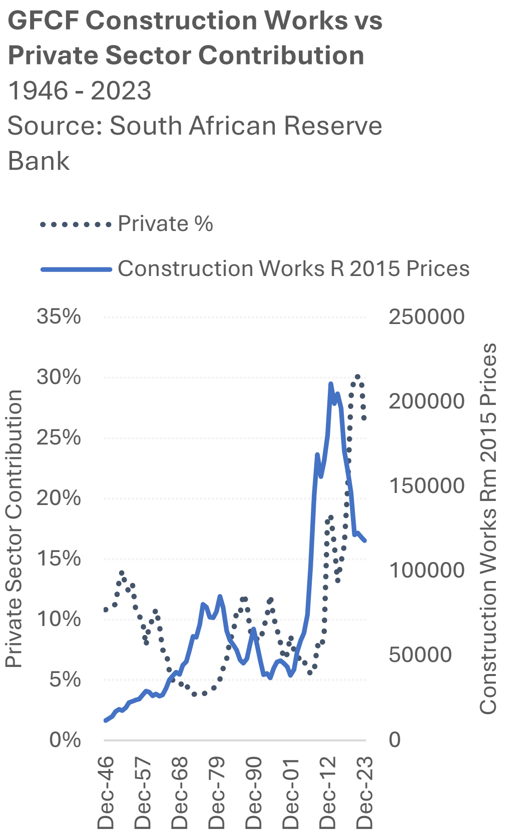


Figure 3: GFCF Construction Works: Private Sector Contribution (Source SARB)

PFMA Amended Regulations to fast-track PPP's.

One of the most significant changes related to PPP's are the amendments to Regulation 16 of the Public Finanance Management Act (PFMA) to streamline and accelerate PPP's, announced in February 2025. One of the biggest changes is that PPP projects under R2 billion no longer require full Treasury approval, which should speed up smaller projects and cut down on red tape.

To help guide and support projects, the PPP Advisory Unit now has a bigger role in assisting government departments through the planning and approval process. At the same time, responsibilities between regulatory and advisory bodies have been better defined to avoid confusion and delays. Government departments are also now allowed to set up specialized units that will focus on managing PPP projects in their respective sectors, ensuring better coordination and oversight.

To improve financial management, new tracking mechanisms have been put in place to monitor government spending and potential risks linked to PPP projects. Additionally, private companies will now have a clearer process to submit unsolicited proposals for projects, which means they can bring forward their own ideas for infrastructure improvements rather than waiting for government tenders.

These changes are meant to attract more private investment, reduce bureaucratic hurdles, and make infrastructure projects more efficient, ultimately helping to improve South Africa's roads, railways, water supply, and other key public services.

In the logistics sector, Transnet, the state-owned freight transport and logistics company, is implementing institutional reforms to involve private entities. These reforms include restructuring its rail operations, corporatising the Transnet National Ports Authority (TNPA), and divesting non-core assets. The rail reform aims to separate Transnet Freight Rail into distinct entities for operations and infrastructure management, facilitating third-party access to the rail network. Concurrently, the corporatisation of TNPA seeks to enhance regulatory oversight and attract investments to improve port efficiencies.

In the water sector, the City of Cape Town is progressing with plans for a permanent desalination plant, projected to supply 50 to 70 million litres of water daily by 2030. The city has initiated feasibility studies and is exploring PPPs for the plant's construction and operation, aiming to diversify water sources and ensure long-term water security.

Eskom is looking for private investors to fund the R200bn required for the grid expansion, Department of Human Settlement is looking towards the private sector to reduce the housing backlog, while the Department of Public Works in KZN is looking to collaborate with the private sector re-purpose dilapidated government owned buildings.

Business confidence, strained by political uncertainty, weak economic growth, corruption transport, logistical and energy constraints, remained below "investment level" of 50 since 2006. Confidence levels weakened to a dismal average of 32 in 2023 but showed a gradual increase following the May elections and the establishment of the GNU in July. On average, it remains well below par, at 37 for 2024. Higher levels of business confidence are critical to support investment growth, irrespective of the level of interest rates or ease of access to finance. Unless business confidence does not show a more sustained recovery to 50 (neutral) or higher, meaning a further 46 percent increase in satisfaction rates, investment growth will remain muted and perform below potential.

INVESTMENT IN CONSTRUCTION

Investment in the construction industry (according to the Reserve Bank's gross fixed capital formation estimates, including residential, non-residential and construction works) decreased by 6.1 percent y-y in 2024 to R226bn (2015 prices) following a (revised) 3.7 percent contraction in 2023. This marked the 9th consecutive

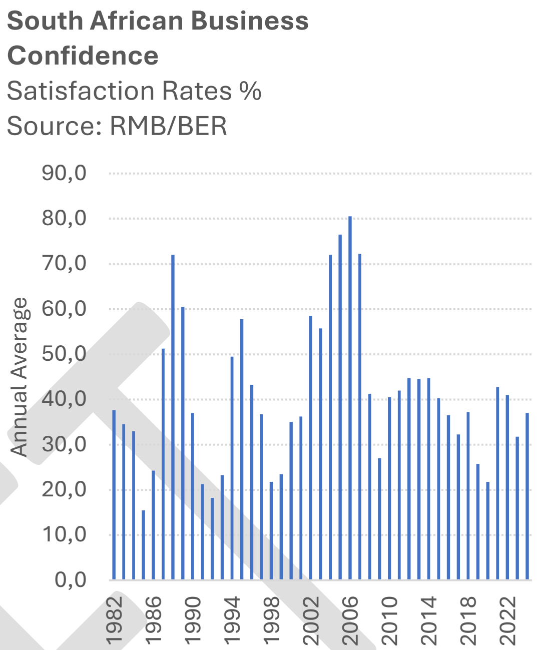


Figure 5: Business Confidence Satisfaction Rate, Annua Average

annual decline in construction investment (since 2016). The construction sector was also one of the worst performing sectors in 2024 despite ongoing debate around the need to increase infrastructure expenditure, and service delivery.

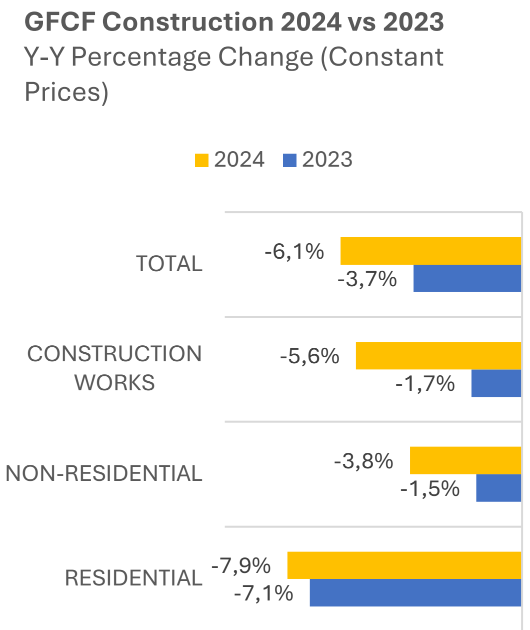


Figure 4: GFCF Construction by Market Segment 2024 vs 2023

The decline in investment in the building sector accelerated during 2024, due to the impact of high interest rates, inflation on consumer affordability, and weak investor sentiment. The decline in residential investment accelerated to a 7.9 percent y-y decline in 2024 (2023: -7.1 percent), and to -3.8 percent in non-residential investment (2023: -1.5 percent). Investment in construction works was also weaker compared to 2023, with a 5.6 percent y-y decline (2023: -1.7 percent).

Details on investment by client for each of the 3 market segments were not available at the time of publication.

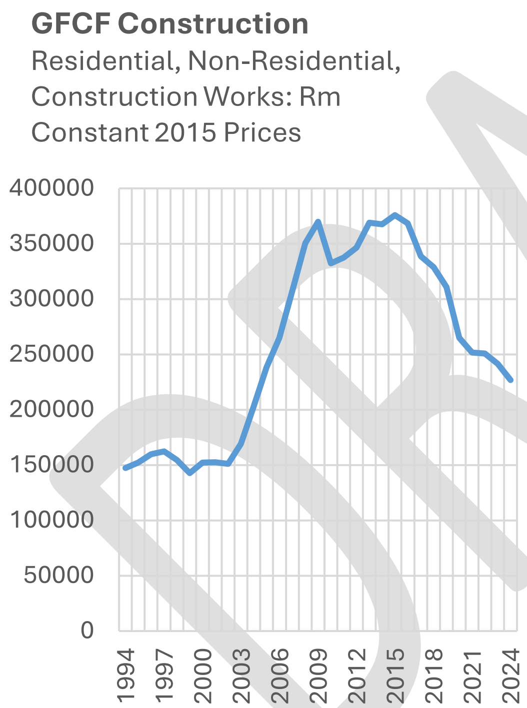


Figure 6: GFCF Total Construction Rm 2015 prices (Source Stats SA / SARB)

No surprises in the residential market with a predictable decline in investment during the last two years, given the sharp contraction in new building approvals during 2023 and 2024. While the outlook remains somewhat depressing there is evidence that the residential market may have reached a lower turning point. Lower interest rates, and a possible two more during 2025, have stimulated demand for residential buildings that saw a moderate 3 percent y-y increase in approvals during the last quarter of 2024. For the year, the value of residential approvals was still down 10.6 percent compared to 2023. However, a continued decline in public sector spending on housing via reduced allocations to the Department of Human Settlement will dampen potential growth prospects.

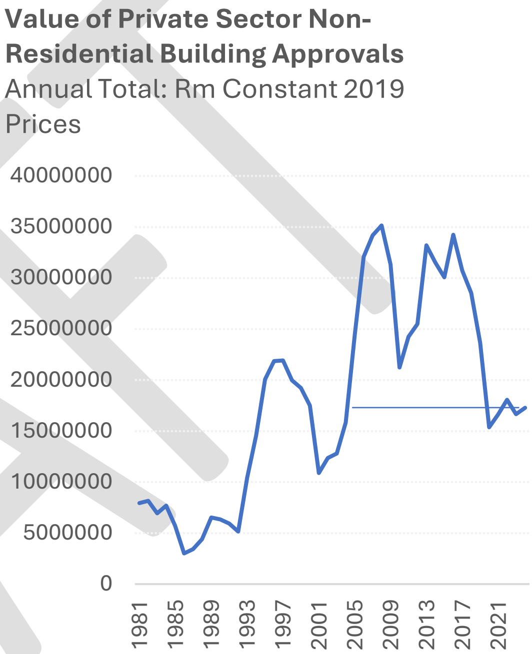


Figure 7: Value of Private Sector Residential Building Approvals Constant 2019 Prices Annual Total (Source Stats SA)

The real value of approvals for private sector non-residential developments increased by 3.7 percent y-y in 2024, following a 7.8 percent decline in 2023. Approvals are at a 20-year low, and coming of a dismally low base, as demand for new office space has plummeted in recent years. As government's infrastructure allocations to social infrastructure (excluding human settlements) offers no real support to suggest higher levels of investment from government, the estimated value of public sector building projects out to tender increased by a nominal 32 percent in the first half of 2024, but slumped by 64 percent post-election, during the second half of 2024. This brings the overall decline to 35 percent in 2024, compared to 2023, or 37 percent in real terms.

The outlook for civil investment linked to increased allocations towards economic infrastructure development and an accelerating pace of privatisation remains positive and is likely to outperform the building industry in 2025. However, budgetary allocations and implementing construction projects do not always align. The estimated value of civil projects (constant prices) out to tender declined by a nominal 20 percent y-y in 2024, suggesting a potential slowdown in civil construction during the first half of 2025. Unless tender activity picks up, the outlook for the civil industry will turn more negative.

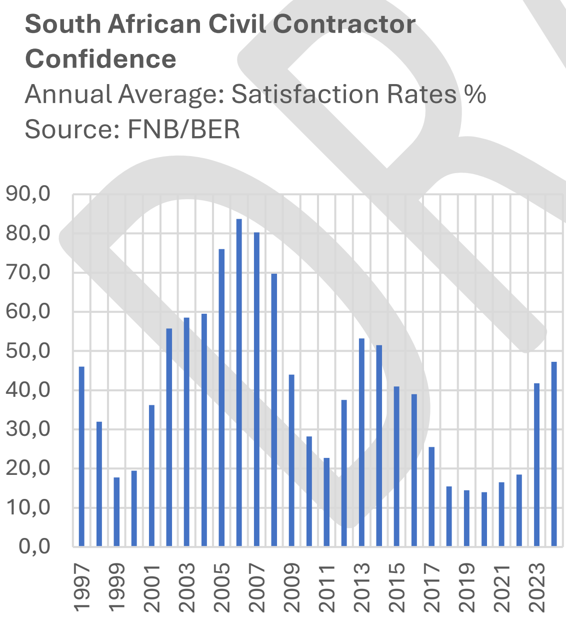


Figure 9: Civil Contractor Confidence Index (Source RMB/BER)

Despite the disappointing performance in GFCF in 2024, confidence in the civil sector, according to **the RMB/BER confidence surveys, civil contractor confidence rebound in 2024, from an average of 41.8 in 2023 to 47 in 2024, suggesting increased activity in the civil sector.**

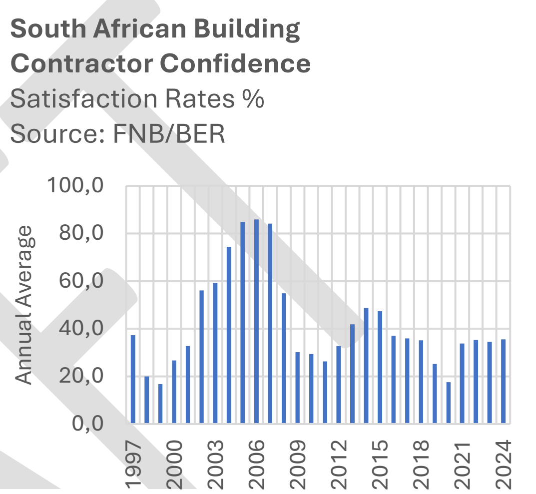


Figure 8: Building Contractor Confidence Index (Source RMB/BER)

Confidence amongst building contractors was relatively unchanged with just a moderate increase from an average of 34.5 in 2023, to 35.5 in 2024. This shows a sector that remains subject to highly depressed conditions, as both the residential and the non-residential sectors are at a two-decade low in terms of approvals**.** Lower lending rates are likely to have a more immediate impact on the DIY market (through consumer retail spending on hardware materials), with the formal market taking longer to react given the lead time from building approvals through to construction that could be 12 to 24 months, pending the size and scope of the project.

SURVEY RESULTS

- The analysis of the questionnaires completed by active firms in the consulting engineering profession provides a proxy for current and expected working conditions for the profession, measured and benchmarked on a regular basis.
- CESA welcomes commentary received from firms and invites all members to actively participate in sending commentary on either the survey or conditions in the workplace thereby increasing the relevance of these reports.
- The survey is re-evaluated on a continuous basis to ensure that the questions asked are pertinent to current conditions in the industry.
- The June 2024 survey introduced a firm size classification according to the Built Environment BBBEE Sector Codes specification, shown below.

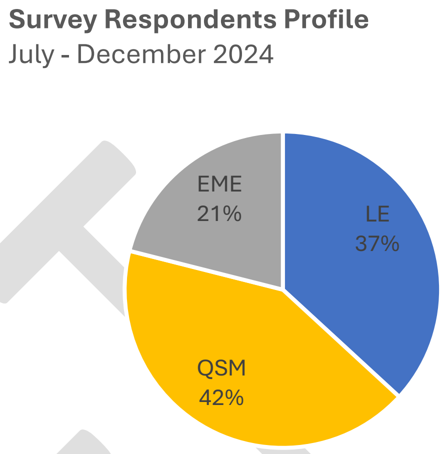


Figure 10: Sample Profile

Table 1: Firm Size Classification

LE	Large Enterprise Turnover >R25m
QSM	Qualifying Small Enterprise Turnover R6m to R25m
EME	Exempt Micro Enterprise Turnover up to R6m

- A total of 38 questionnaires were returned via both an on-line and hard copy system. The sample represents a cumulative fee income of R2.7bn, and 3 999 employees for the period July – December 2024.
- Starting December 2024, due to a decrease in the number of questionnaires received, lowering the sample size, responses are no longer weighted based on employment and are now unweighted.

FEE EARNINGS

Public sector supports growth in fee earnings, along with an improved order book, with stable outlook on profitability.

FEE INCOME (Rbn)
Constant 2023 prices, annualised

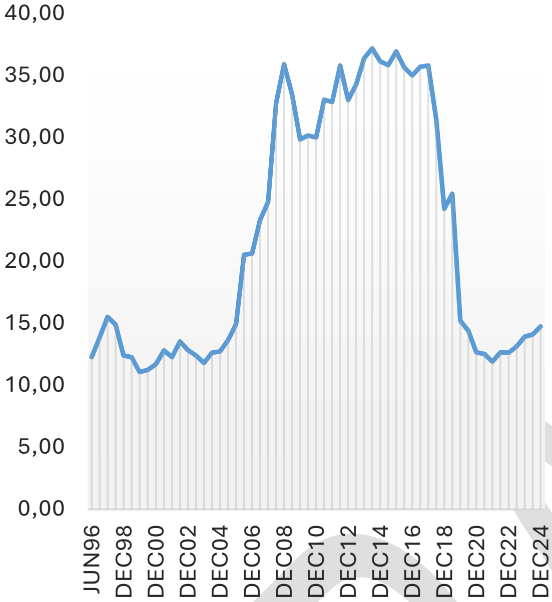


Figure 11: Fee Income

Fee earnings rose by an average of 4.7 percent (constant prices) in the last six months of 2024 compared to the first half of the year, or a 5.9 percent year on year increase compared to the same period in 2023. This marks the 3rd consecutive year of growth in earnings, with a 3.6 percent increase in 2022, 7 percent in 2023 and 6.5 percent in 2024. The industry has expanded by around R2bn in real terms over the three-year period, to R14.4bn in 2024 (2023 prices), 50 percent below the 2017 peak when fee earnings exceeded R30bn per annum.

The near 5 percent increase in the 2nd half of 2024 was largely supported by an increase in earnings from Central Government, SOE's and the Private sector. Earnings from the provincial and local government declined since the first six months of 2024. For the year 2024, earnings from the Public Sector rose 9.6 percent in real terms, with a more moderate 1.9 percent increase from earnings generated by the Private sector. The private sector contributed around 40 percent of earnings in 2024, with the Public Sector at 60 percent. With in the Public Sector SOE's is an important client to the industry, followed by Local and Provincial Governments.

There were no surprises in earnings during the last 6 months of 2024, **but projected earnings for the next six months (Jan – June 2025) are not as positive, with a projected 1.5 percent decline compared to the 2nd half of 2024.** This may be related to anticipated lower levels of investment by the Public Sector.

Following an 8 percent increase in the value of **confirmed appointments** during the first six months of 2024, orderbooks for the larger enterprises moderated in the last six months, resulting in an overall 43 percent decline. Despite the slowdown up to December 2024, the order book value exceeds gross income by around 17 percent. QSM's reported an 8 percent increase since the first six months of 2024, that brings the orderbook to more than 80 percent higher than reported gross income. Despite an increase in the value of Eme's orderbook, up 18 percent, it remains around 19 percent below current gross income. The order book to income ratio (value of confirmed appointments not yet invoiced in relation to gross income) slowed to 1.1 (Dec-24) from 2.1 (Jun-24), meaning the size of the orderbook is on par with current income levels. QSM's lead where the ratio increased to 1.4 from 1.1, suggesting an expanding orderbook. The ratio amongst Larger Enterprises slowed to 1.1, from 2.2, with no change reported in EME's stable at 1.0, suggesting a stable outlook on gross income in the next six months.

Higher earnings in the last six months of 2024 were accompanied by higher net profit margins. With margins at a low average of 10.8 percent in the first six months of 2024, margins showed a recovery to 13.7 percent, as QSM's margins in particular averaged over 17 percent, (from less than 11 percent in the previous survey). LE's maintained margins at an average of around 13 percent, but EME's operating at margins below 10 percent, came under pressure as margins slowed to an average of 6.7 percent, from 8 percent.

Given the more depressed order book, majority of respondents expect margins to remain static in the next six months, despite expectations that margins will ease to an average of 11 percent in the first six months of 2025. On average less than 20 percent of respondents expect margins to improve. EME's remain more pessimistic with close to 40 percent expecting further downward pressure on margins in the next 6 months.

Margins remain below the peak of 2007/8, and after a muted recovery in 2023, fell to below the longer-term average of 14.6 percent (2006 – 2019) in the last two surveys.

The ratio of outstanding payment for work already done and invoiced in relation to gross income, remained high but stabilised at 59 percent over the last three surveys. Since 2021 the industry average has remained consistently close to or above 60 percent. In the December 2024 survey, LE's remains hardest hit (61 percent), with QSM's and EME's at an average of 38 percent of reported income as outstanding, compared to 43 percent in the June 2024 survey. While it is not possible to say whether these payments are overdue or late, levels remain high and suggest continued undue financial pressure to receive payments timeously.

SALARY AND WAGE BILL AND EMPLOYMENT

Medium to Smaller enterprises hesitant to increase employment, with slight moderation in difficulties experienced related to finding suitable candidates.

The contribution of the salary and wage bill averaged 63 percent, from an average of between 60 percent and 62 percent over the last two years. Larger firms increased employment by an average of 1.3 percent since the June 2024 survey, resulting in a 16 percent increase in the cumulative salary and wage bill. Other firms (medium to micro) reduced employment by 1.1 percent, along but increased the wage bill by 13.5 percent.

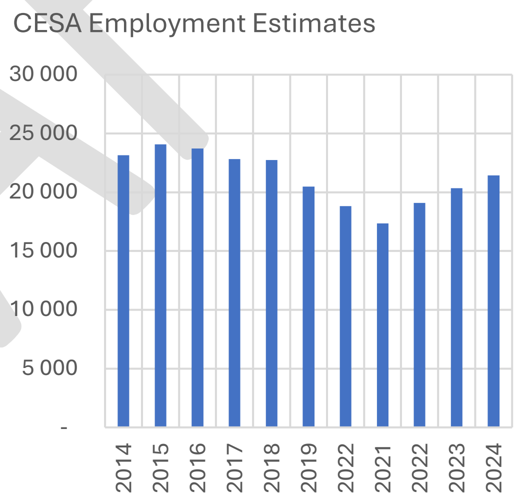


Figure c: Employment Estimates

Employment has gradually increased and surpassed pre-covid (2019) levels in 2024.

Overall employment increased by 3.8 percent y-y in the last six months of 2024, with increases reported across larger and medium size enterprises. Smaller to Micro firms reduced employment, in line with a more depressed outlook on profitability over the next 6 months and a muted orderbook.

This marks the 3rd consecutive year of higher employment in the sector, with an increase of 5.3 percent y-y in 2024, 6.5 percent in 2023 and a 10 percent increase in 2022. This means since 2021 employment increased by over 4 000 additional job opportunities to an estimated 21 424 (average for 2024).

The industry's employment levels, however, remain around 11 percent below the 2015/16 levels, or an estimated 2 600 fewer jobs, despite steady progress.

Demand slows for the appointment of Engineers

Despite the lower order book values in the last six months, and profitability that may come under pressure, an increasing number of firms are looking to increase the appointments of engineers. From the last survey, when (revised) 38 percent of the firms said they are looking to increase Engineering appointments, 48 percent reported the same in the December 2024 survey. The biggest increase comes from Larger Enterprises where 79 percent of the firms are looking to appoint Engineering positions, while only on average 20 percent of the medium to smaller companies reported increased demand. An increasing number of micro enterprises (EME) are looking to appoint Technologist, up from 17 percent (Jun-24) to 38 percent (Dec-24), and is also where the biggest demand is currently.

Majority of Large Enterprises continue to experience difficulties in finding engineering candidates, rising to between 64 percent and 80 percent for Male and Female Engineers, where the biggest demand is also for Engineering appointments. Majority of the Medium to Smaller firms did not report on difficulties with finding suitable Engineering Candidates. However, although majority of the larger firms reported difficulties for Engineering specifically, a slightly lower percentage related to Engineers (Male or Female) from a previously disadvantaged background falling from 69 percent (Male) to 64 percent over the last two surveys and from 77 percent (Female) to 71 percent.

Woman contribution shows a steady increase

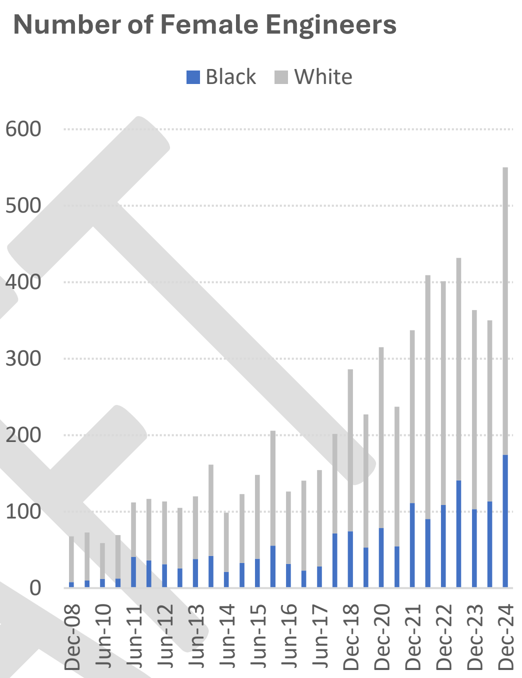


Figure 12: Female engineers

The representation of Female Engineers rose to 15.5 percent of total Engineers, from 12.6 percent in the first six months of 2024, the best level since 2021. Since 2008, the number of female engineers increased from around 50 to over 500 in 2024, with the number of black female engineers, increasing from fewer than 10 to over 170. The contribution by black female engineers increased from around 11 percent in 2008 to 32 percent by December 2024. This shows that black female engineers currently represent around a third of total female engineers as reported by CESA members. Please note that these numbers only reflect CESA estimates and do not include engineers employed by the public sector.

Finding suitable female candidates remains a challenge, with over 70 percent of respondents from Large Enterprises experiencing recruitment difficulties in finding suitable candidates yet it does not seem to be an issue for EME's that are also not looking to increase the appointment of Engineers at this stage.

OUTSOURCING, DISCOUNTING AND COMPETITION

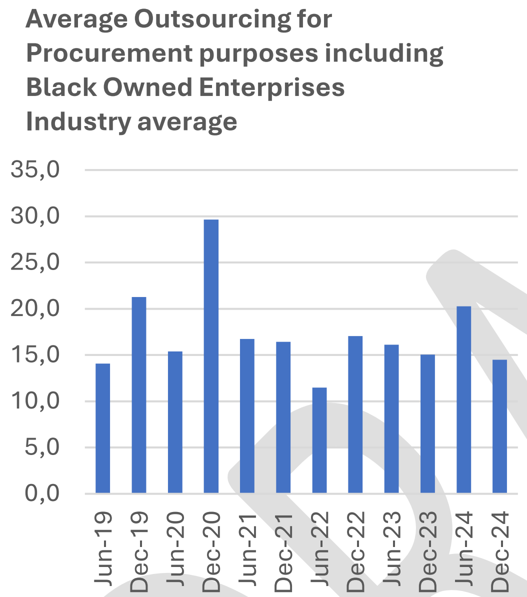


Figure 13: Average Outsourcing for Procurement purposes including Black Owned Enterprises

Outsourcing accelerated during 2024

On average firms **outsourced** a higher percentage (18 percent) to external enterprises in 2024 (2023: 17 percent) and 17.4 percent for procurement purposes including black owned enterprises (2023: 15.6 percent). In rand terms, this equates to between R2bn and R3bn (2023 prices) and compared to 2023 is an increase of 15 percent to external enterprises and a 19 percent increase for procurement purposes.

Larger enterprises outsourced an above average 24.4 percent in the December 2024 survey (compared to an average of 18 percent), to external enterprises while EME's outsourced on average 21 percent for Transformation purposes (compared to 13.4 percent by Larger Enterprises).

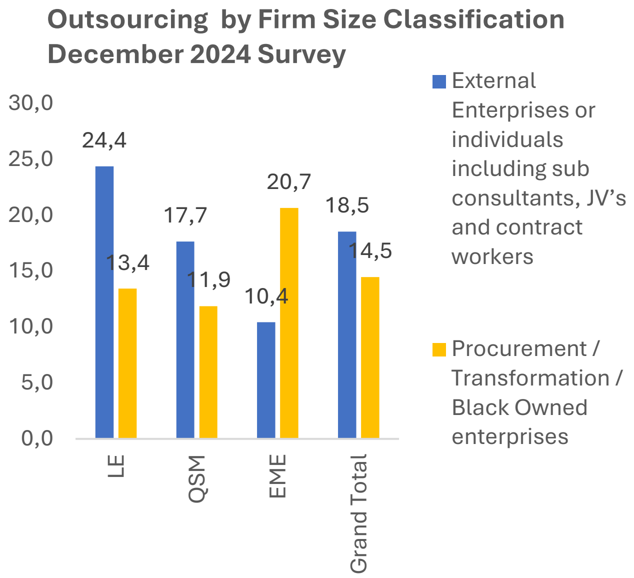


Figure 14: Outsourcing by Firm Size Classification: December 2024 Survey

Exempted Micro Enterprises report on very keen to fierce competition affecting over 90 percent of respondents, offering higher discounted rates

Given the highly competitive environment, many firms continue to report very keen to fierce competition, and after falling to (revised unweighted) average of 57 percent in the June 2024 survey, the average rate increased to 74 percent, supported largely by EME's where over 90 percent of respondents reported very keen to fierce competition (compared to less than a third in the June 2024 survey), well above the industry average, and also higher when compared to 58 percent by LE's and 62 percent by QSM's.

Considering the level of competition experienced by EME's it is no surprise that they also reported on the highest discounting rates, averaging 31 percent, a significant increase from an average of 14 percent in the June 2024 Survey. Larger

Enterprises also increased their average discounting rate from 16.5 percent to 22.9 percent, while the average discount rates by QSM's lowered to 13 percent, from 26 percent (Jun-24).

Less than 1 percent reported low competition levels in 2023, up to an average of 3 percent in the current survey, mainly from QSM firm respondents.

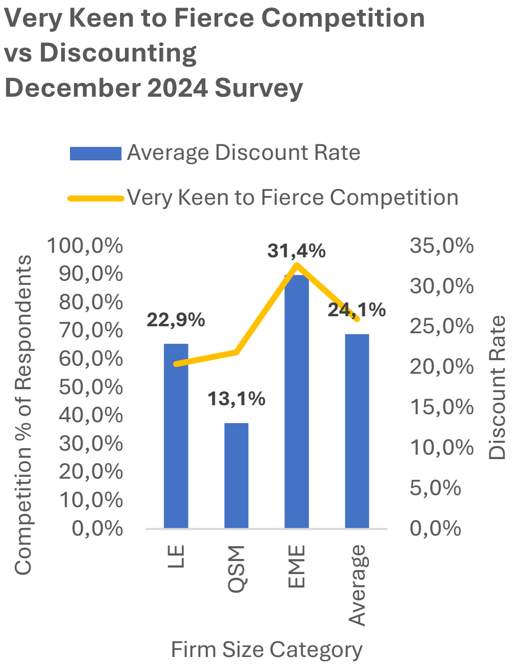


Figure 15: Very Keen to Fierce Competition vs Discounting by Firm Size Category: December 2024 Survey

The industry discounted rate averaged 22 percent in 2024 and 24 percent in 2023.

CAPACITY UTILISATION

Capacity utilisation of technical staff has steadily decreased since 2008 but averaged close to or above 80 percent since mid-2022. After slowing to 73 percent in the first six months, capacity levels increased to 84 percent in the December 2024 survey, with over 40 percent of respondents expecting capacity levels to increase further in the next 6 months. Less than 6 percent of respondents expect lower utilisation levels, with the majority (53 percent) expecting no change.

There was a 50/50 split between Larger Enterprises, of whether capacity utilisation would increase or stay the same, while fewer than a third of QSM's expect further increases. EME's have become more confident that utilisation levels will improve, as reported by 40 percent of respondents, up from only 8 percent in the previous survey.

BREAK-EVEN RATIO

Despite improved conditions, larger firms continue the struggle to reach breakeven ratios. The cumulative break-even ratio (income to break even revenue) weakened to an average of 0.49 (Dec-24) from 0.54 (Jun-24), remaining below 0.6 on average for the past 4 years. Medium to smaller firms is in a better position, although the income to break even ratio for QSM's fell to an average of 1.2, from 2.8 (Jun-24), while EME's fell to below a ratio of 1, averaging 0.8, from 1.3 in the previous survey. This shows a relatively broad base worsening in break-even ratios as the industry remains highly competitive. Conditions continue to be more challenging at the higher end of the market (due to economies of scale) where margins are also lower.

Despite the improvement in recent surveys, supported by a steady real increase in industry earnings, and improved sentiment, the industry continues to operate in a highly challenging environment with an estimated R15bn (or over 100 percent) shortfall in earnings to reach a break-even point, due to the worsening levels reported by LE's in the December 2024 survey.

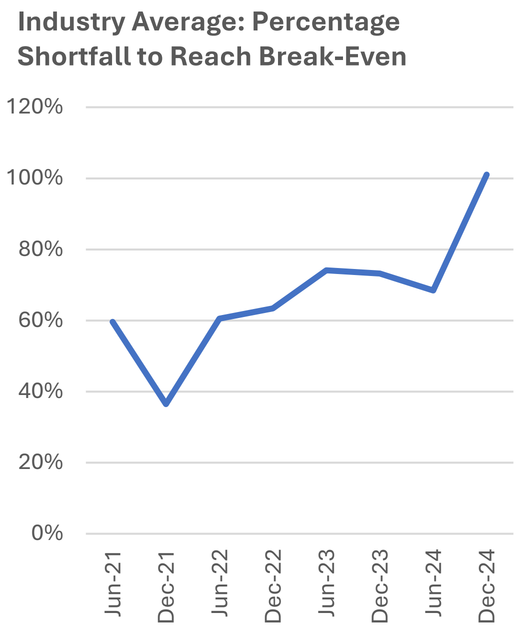


Figure 16: Industry Average: Percentage Shortfall in Earnings to reach Break-Even

PROJECT POSTPONEMENTS AND CANCELLATIONS

Project postponements and cancellations accelerated during 2023 and 2024, with varying reasons, ranging from an uncertain economic environment, budget constraints, community interference, as well as a shortage of skills to plan and execute tenders.

On average fewer respondents (34 percent) reported incidences of tender cancellations during the last six months of 2024, compared to (revised) 47 percent in the June 2024 survey. Fewer incidences of tender cancellations were reported during the December 2024 survey, across all Firm Size Classifications. Larger Enterprises did the report the highest incidences at 34 percent of respondents, but down from 54 percent. 38 percent of QSM's and 25 percent of EME's experienced cancellations, down from 47 percent and 38 percent respectively.

A higher percentage of cancellations originated from within the three spheres of government, representing 67 percent of total cancellations, up from 47 percent. SOE's contributed 15 percent, down from 25 percent, with 19 percent originating from the Private Sector, down from 28 percent. However, including SOE's, the Public Sector accounted for over 80 percent of cancellations, showing the constant delays caused by the Public sector in the postponements and cancellations of a projects. This was one of the three main focus points according to the Minister of Public Works for 2024, namely, to create a safe environment for the construction sector, improve payments and limit project cancellations.

The Survey does not measure the number of cancellations, but costs associated with these cancellations slowed from (revised) 1.7 percent (Jun-24) to an average of 0.4 percent, with lower costs reported by QSM respondents. On average LE's reported an average cost to income rate of 0.3 percent, QSM's 1 percent and EME's slowing from 6.3 percent to 3.3 percent (noting a small sample within the EME firm size category).

SOE's contributed 48 percent of total costs reported where there may be fewer projects but at higher values, by comparison to other clients. Local Governments contributed the highest share in government, at 25 percent.

The fiscal impact of cancellation costs on the industry is estimated at between R60 million and R70 million, that is an average 0.4 percent of an estimated nominal annualised earnings of R15.5bn.

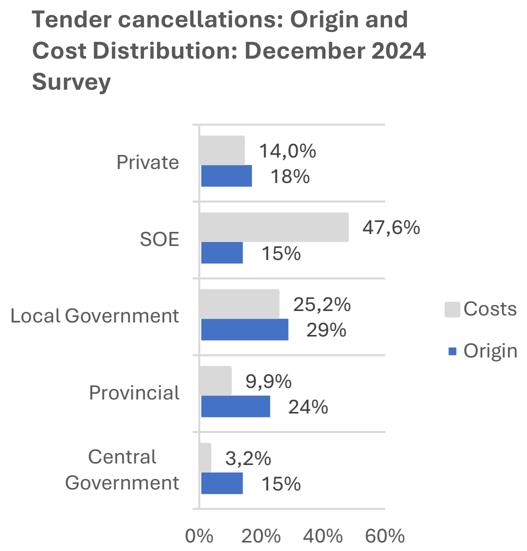


Figure 17: Tender Cancellations: Origin and Cost Distribution: December 2024 Survey

According to a study by Industry Insight on cancellations, project cancellations fell by 9 percent in the last six months of 2024, compared to the first six months, but this was 125 percent higher compared to the same period in 2023. The number of civil projects cancelled however increased by 14 percent since the first six months of 2024, with a 13 percent increase in water related projects, 50 percent increase in Bridge projects and a near 200 percent increase in power related projects.

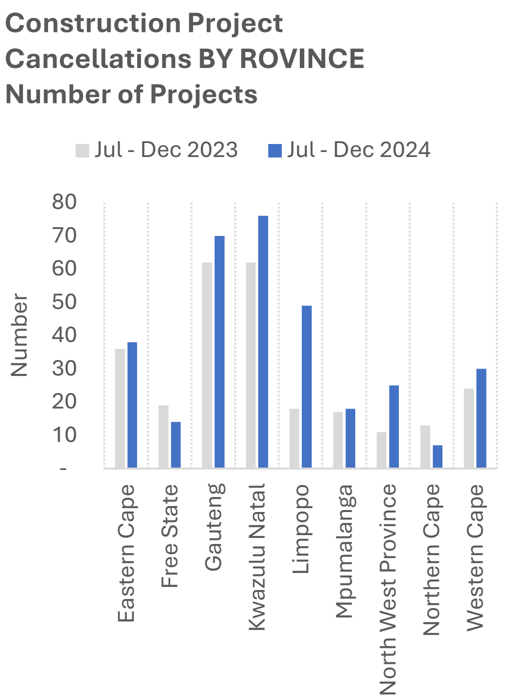


Figure 18: Construction Project Cancellations by Province

The **cancellation rate** for the civil industry (number of cancellations as a percentage of civil tenders issued during the same period) averaged 20 percent in the last six months, ranging from 8 percent in the Free State to 43 percent in Limpopo. This is a slight increase from an average of 16 percent in the first six months, as the decline in cancellations was accompanied by a larger decline in tender activity, post-election.

Civil Tender activity fell by 10 since the first six months of 2024, or 18 percent y-y compared to the same period in 2023, with over 900 projects released out to tender during the last six months of 2024, compared to over 1000 in the first six months. Since the first six months of 2024, tender activity fell by five of the nine provinces, including Eastern Cape, Gauteng, Limpopo, Northern Cape and Western Cape. Mpumalanga ended flat, while activity increased in Kwazulu Natal, Free State and North West Province.

ECONOMIC SECTOR

Higher earnings generated in the Water and Transportation Sectors

The contribution of the water sector increased to 20.3 percent in the December 2024 survey, from an average of 19 percent in June 2024 and 17 percent in 2023. Earnings generated in the Water Sector increased by an estimated 10 percent since the first six months of 2024, and was a notable increase of 48 percent compared to the same period in 2023. This sector is one of the largest sectors for earnings generated by QSM's and the second largest for LE's and EME's.

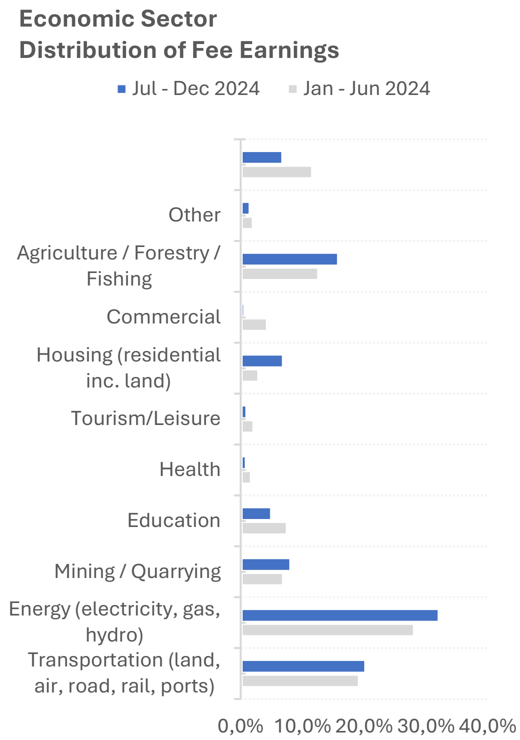


Figure 20: Fee income distribution by Economic Sector: Percentage

The contribution of earnings generated in the Transport sector increased to 32 percent, from an average of 28 percent in 2023, and was one of the highest levels since 2018.

This means earnings in the Transport sector jumped by an estimated 20 percent since the first six months and 11 percent compared to the same period in 2023. The Transportation sector contribute around a third of total LE earnings, and 29 percent of QSM's in the December 2024 survey, but only 5 percent for the EME's where that generated a larger portion of earnings within the commercial sector. However, this does not mean these two sectors are in a robust recovery, but rather potentially reaching a lower turning point.

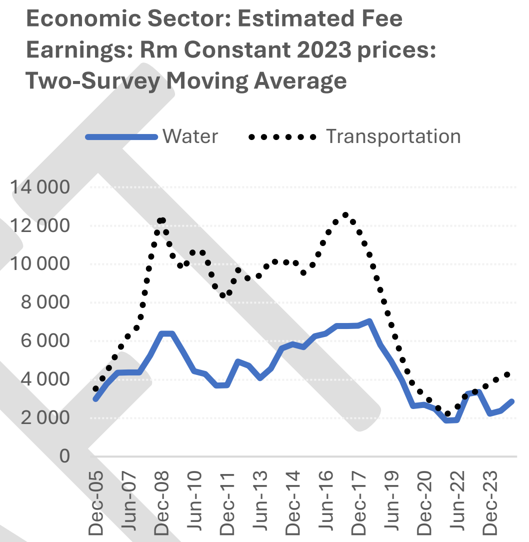


Figure 19: Estimate Fee Earnings Constant 2023 Prices: Water and Transportation: 2-Survey Moving Average

The contribution by the Energy Sector, showed a moderate increase to 8 percent, from a 7 percent average in 2023, that pushed earnings to over R1.2bn by the last six months of 2024, a 23 percent increase since the previous survey.

Tourism and Leisure is another sector where there was a higher contribution, that doubled from an average of 3 percent in 2023 to 7 percent in the current survey, resulting in earnings rising to just over R1bn.

Earnings generated in the Commercial Sector, increased to 15.9 percent, from an average of 14 percent, the highest rate since 2021, increased by 31 percent since the first six months, to R2.3bn.

Earnings generated declined in five of the eleven sectors, namely mining, education, health, housing and agriculture.

OUTLOOK

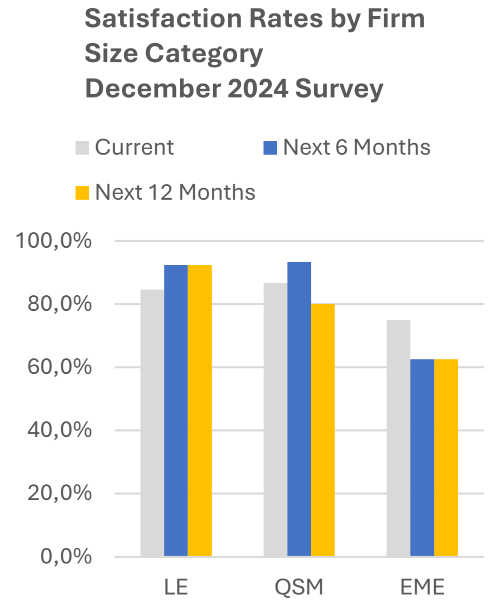
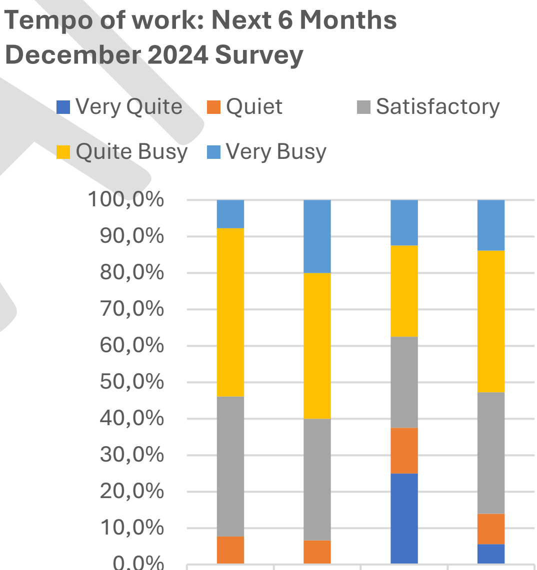


Figure 21: Satisfaction Rates by Firm Size Category

Higher expectations were not entirely met for the last six months of 2024, although satisfaction rates remained above 80 percent. Large Enterprises confidence levels eased from close to 100 percent reported in the June 2024 survey for the last six months, to an average of 84.6 percent, but maintain a rather bullish outlook for the next six to twelve months. QSM's are also feeling more optimistic, with confidence levels remaining above 80 percent for the current survey and the first six months of 2025, but showing a moderate slowdown towards the end of 2025. Although 75 percent of EME respondents reported satisfactory levels for the last six months there are some concerns that the current tempo will not be sustained over the next 12 months, with satisfactory levels falling to 60 percent.

The unweighted industry average satisfactory rate increased to 83 percent (Dec-24) from 80.4 percent, with rates increasing to 86 percent for the first six months of 2025, despite some concerns around the reduced orderbook values and an expected modest decline of around 1 percent in earnings.

Expectations improved in the December 2024 survey in terms of how busy firms expect to be, from "busy" to satisfactory, that may hint to underlying challenges that could impact confidence in the sector. From fewer than 10 percent, 14 percent of firms reported "Very busy" conditions in the last six months of 2024, rising to 17 percent that expect very busy conditions in the last six months of 2025. LE's don't share the same optimism but close to 40 percent of EME's are expecting very busy conditions towards the end of 2025. While conditions have certainly showed an improvement over recent surveys, majority of firms are still experiencing more satisfactory rather than very busy working conditions.



	LE	QSM	EME	
Very Busy	7,7%	20,0%	12,5%	13,9%
Quite Busy	46,2%	40,0%	25,0%	38,9%
Satisfactory	38,5%	33,3%	25,0%	33,3%
Quiet	7,7%	6,7%	12,5%	8,3%
Very Quite	0,0%	0,0%	25,0%	5,6%

Figure 22

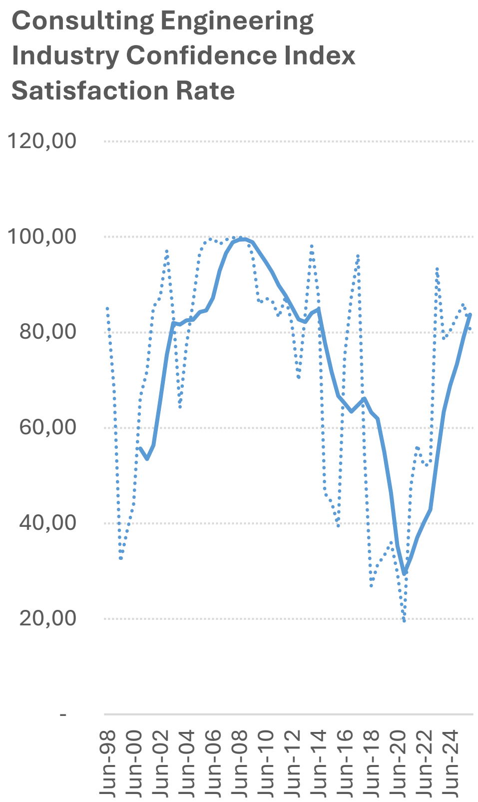


Figure 23: CESA Confidence Index

Although the focus in terms of construction investment remains firmly within economic infrastructure investment, including renewable energy, roads, and water infrastructure, the dire need to increase investment in social infrastructure was highlighted following the May 2024 Elections and the establishment of the Government of National Unity (GNU). Enhancing private sector participation remains a critical catalyst for success, and while inroads are being made in this regard, attracting private investment in social infrastructure is more complex, given the fragmented nature of these type of project developments mainly across provincial and local governments. The private sector has already surpassed anticipated investment levels in the renewable energy sector, although this has had little direct impact on the consulting engineering industry, the spinoff to the domestic economy remains positive with no incidences of loadshedding in the first six months of 2024. Multibillion-rand projects remain in the pipeline, with high-economic project announcements reaching an estimated R667bn up to December 2024 (including the R120bn Gautrain expansion and the R70bn related to projects announced as part of the Infrastructure Fund), compared to R444bn in 2023.

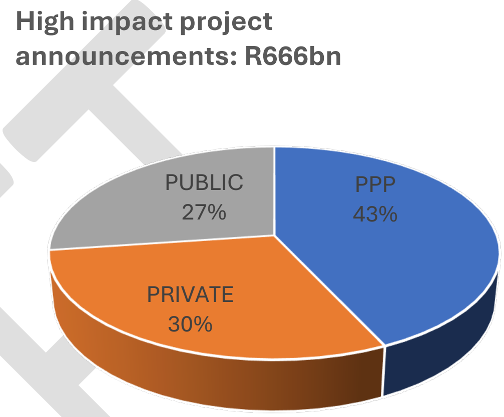


Figure 24: High Impact Project Announcements by Client Type 2024

PPP projects contributed 43 percent, with the private sector at 30 percent and public sector projects at 27 percent.

Amended PPP Regulations offer opportunities of growth, but this will depend on the uptake by the private sector.

Despite the Minister of Public Works, Dean Macpherson, that the country will turn into a construction site, the industry is far from it, rather showing some recovery, or turning point, at dismally low levels. The 2025 Budget, finally delivered in March 2025 included over R1 trillion in infrastructure spending, but the construction impact is estimated at around 64 percent, as either budgets are not spent, or it relates to infrastructure including machinery and equipment not relevant to the construction industry. The focus remained on economic infrastructure, and while allocations to Energy and Transportation were increased over the next three years, surprisingly, given the dismal state of the country's water infrastructure, infrastructure allocations to the Department of Water & Sanitation was cut by R4,6 billion. Infrastructure allocations over the next three years include R402 billion for road infrastructure, including R100bn of investments by SANRA (although it is important to note that allocations were reduced for the 2025/26 financial year). R219bn is projected to be spent on energy infrastructure and R156bn on water.

Infrastructure allocations to local government were reduced by R12bn, as municipalities have struggle over the years to spend allocated budgets, largely due to mismanagement, corruption, poor planning and skills shortages. The 2025 Budget also included "performance based" access to conditional grants to metropolitan municipalities, that will be linked to institutional, governance and financial reforms to improve services. Six of the eight metro's have reportedly met the minimum requirements to participate in the financial performance incentive grant, the **Urban Development Finance Grant (UFDG)** that consolidates previous funding such as the Urban Settlements Development Grant. The six metros are Johannesburg, Cape Town, eThekwini, Tshwane, Ekurhuleni and Nelson Mandela Bay. Unfortunately, the Budget did not elaborate on budget allocations towards the UDFG, but the Urban Settlements Development Grant was allocated R28bn in the 2025 Budget.

Survey results continue to reflect a challenging but cautiously more optimistic Consulting Engineering industry. While financial performance and profitability show some positive trends, firms face challenges such as project cancellations and fierce competition.

The improved outlook by consulting engineering firms in South Africa over recent surveys, nonetheless, casts a more positive outlook, as it suggests increased activity in terms of infrastructure design and planning. The challenge is to follow through on these projects with a sustainable pipeline for consulting engineers to not only maintain and increase job creation opportunities in the sector, but also to support, while improving and expanding the country's critical economic infrastructure to enhance and support real, sustained economic growth.

Consulting Engineers South Africa

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