

ACE State of Business:

mid-term update on the consultancy and engineering sector. March 2009.

Overview

The economic outlook has weakened markedly since ACE's State of Business 2008 was published last year. Consultancy and engineering firms are still feeling the effects of falling demand and restrictive credit conditions.

In response to tightening economic conditions, public and private sectors are scaling back investment levels. Nearly all of the UK regions have been impacted upon. Construction starts have been weak over the last few months and output values have also fallen. These developments are reflected in weakening business optimism in the sector.

In this document ACE provides the latest feedback on its member's business confidence, forward orders and a five point plan for the government to deliver investment. These will help provide solutions to current challenges.

Business confidence survey

ACE's latest members' survey shows weakening business confidence and reduced forward orders when compared to September's *State of Business 2008*.

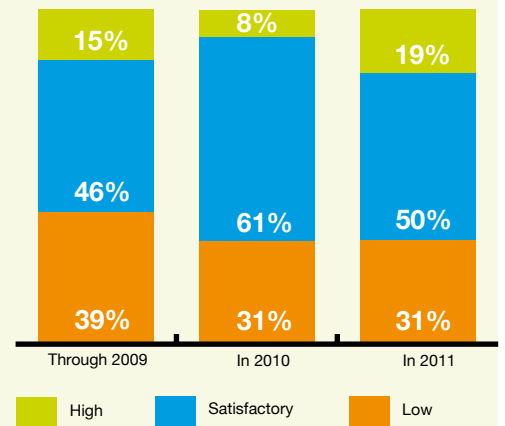
ACE's five point plan

The role of government in delivering construction investment

ACE members believe that government has a key role to play in alleviating the current economic difficulties. ACE and its members would like to see government more active in the following areas:

- Delivery agencies should be more proactive in delivering their capital investment programmes. Capital investment should be focused on transport infrastructure, energy generation and the maintenance of existing assets.
- There needs to be a clear commitment from government to underwriting the financing of capital projects. The recent announcement establishing a Treasury unit to help PFI schemes reach financial close is welcome, but this must translate into action quickly.
- The government should use its influence over the banks to ensure that lending levels on projects do not fall below historical levels. The government will not be able to deliver its investment programme if project funding levels are not maintained.
- The government should place a high priority on generating business and employment opportunities across the low carbon and sustainable engineering sector. This would help give Britain's economy a much-needed competitive edge.
- Planning system reforms should be implemented without undue delay. ACE welcomes the appointment of Sir Michael Pitt as chair of the Infrastructure Planning Commission and looks forward to the swift appointment of high-calibre commissioners to support him. Robust national policy statements should also be delivered and implemented as quickly as possible.

Business confidence rating

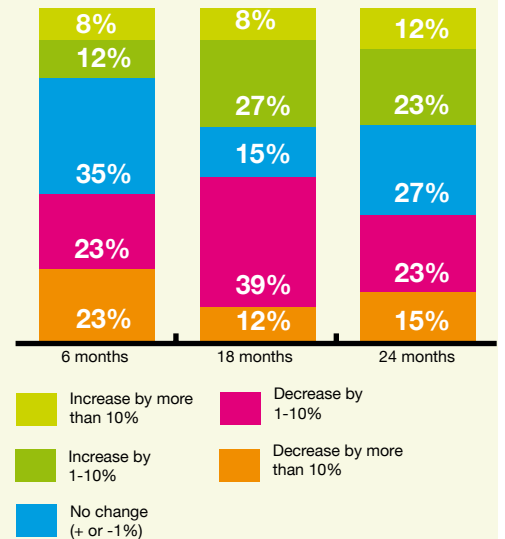


Confidence levels

Business confidence levels have reduced over the past six months as the credit crunch has developed into a broader recession. Only 15 per cent of ACE members surveyed rate their 2009 confidence levels as high and this falls to 8 per cent for 2010.

Nonetheless, more than 60 per cent of firms have indicated a high or satisfactory rating through 2009, which increases to almost 70 per cent during 2010.

Forward order outlook



Forward orders

Forward orders have deteriorated in line with the economic environment. Those firms expecting order book growth over the next 24 months average 30 per cent, compared to over 50 per cent six months ago.

The number of firms that expect their forward orders to decrease over a 24-month period has increased from 26 per cent in September 2008 to almost 40 per cent in March 2009.