# CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

May 5, 2023

**Ron Wirtz** 

Regional Outreach Director



FEDERAL RESERVE BANK OF MINNEAPOLIS

# DISCLAIMER

The views expressed here are the presenter's and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.





# THANK YOU TO PARTNERS (AND RESPONDENTS!)

- Partner survey: Construction-trade organizations in every District state distribute survey to their membership
- Largest construction-focused survey among the
   12 Federal Reserve District Banks
- THANK YOU survey provides Minneapolis Fed, our partners, and their members with timely insights on current conditions





# **CONSTRUCTION SURVEY**

- Conducted: April 10 to April 21, 2023
- Total responses: 254, with somewhat better representation across the Ninth District
- Results are a snapshot: Not a scientifically sampled survey
  - Residential and commercial: both sectors had about 50% of respondents (non-exclusive)
  - Infrastructure/heavy: 23%
  - Industrial: 16%
  - Distribution by sector and size similar to past surveys
- Please interpret results carefully



### **SURVEY TAKE-AWAYS**

- Revenue trending negative, profits widely lower
  - Trend affecting all sectors, but some more than others
- Cancellations increasing, now more bc of uncertainty
- New/future projects declining, backlogs shrinking
- Inflation, interest rates & labor lead broad pack of challenges
- There is some good news:
  - Supply chain improving; inflation also; labor demand healthy
- Despite some poor indicators, outlook still optimistic



# RECENT REVENUE

8

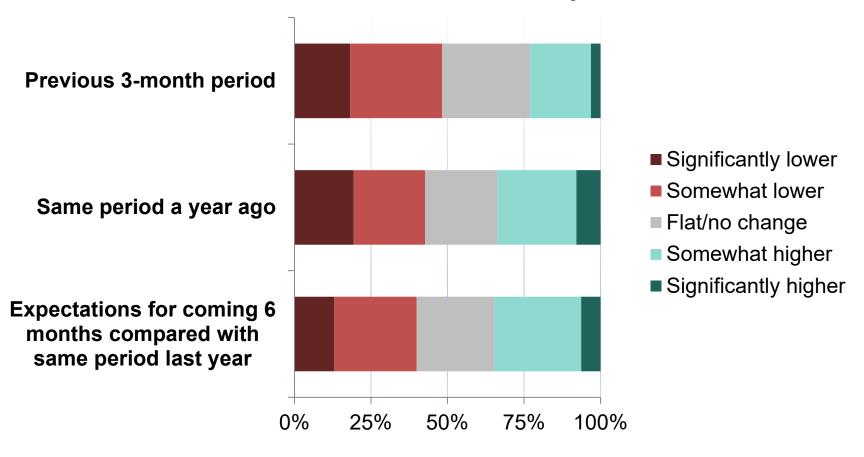
PROFIT TRENDS

# RECENT AND FUTURE REVENUE

### Revenue over last 3 months compared with ...

Year-over-year: Slightly negative overall

Outlook: Also slightly negative but saw decent bounce-back from November survey

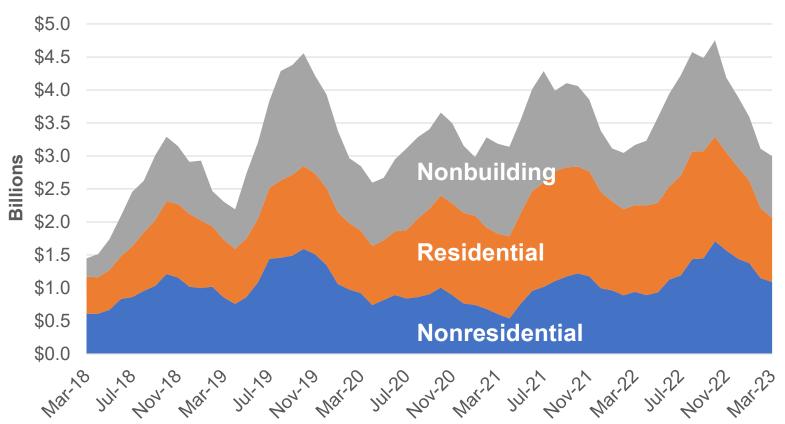




# **NEW CONSTRUCTION STARTS**

### **Total value of monthly construction starts**

6-month rolling average MN, MT, ND, SD, WI



Total construction spending still comparatively high

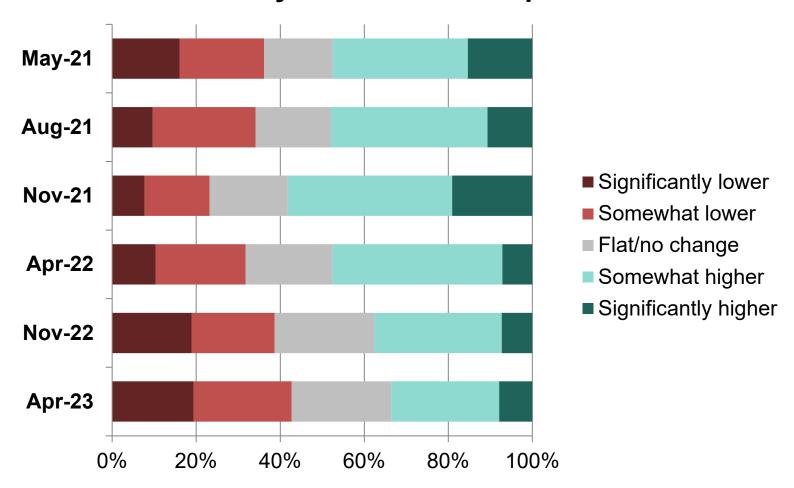
District totals boosted by:

- Inflated costs
- Strong activity in SD and MT (states less represented in survey sample)



# REVENUE TRENDS, OVER TIME

### Year-over-year revenue comparisons



# Repeated cross sections from previous surveys

Slowing first showed up in April 2022 survey, and has continued in with most recent surveys

Note: Survey went to bi-annual in 2022



# COMPARISON: 6-MONTH REVENUE EXPECTATIONS

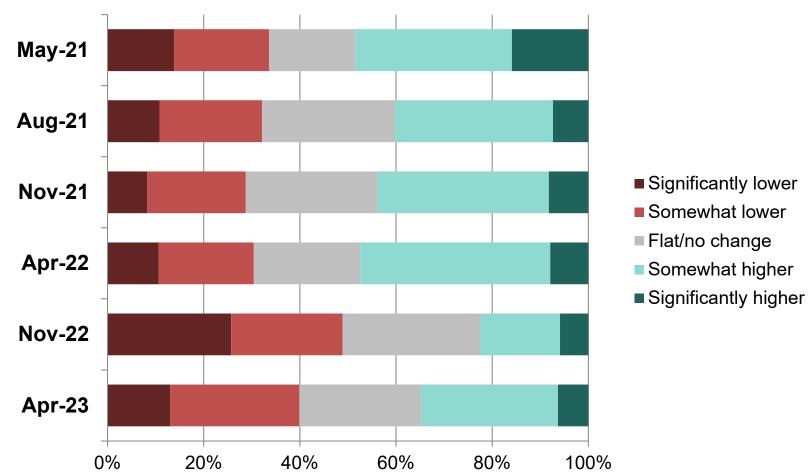
# Half-empty/full

Comparison to April is poorer

Comparison to the previous survey is better

Note: Survey went to bi-annual in 2022

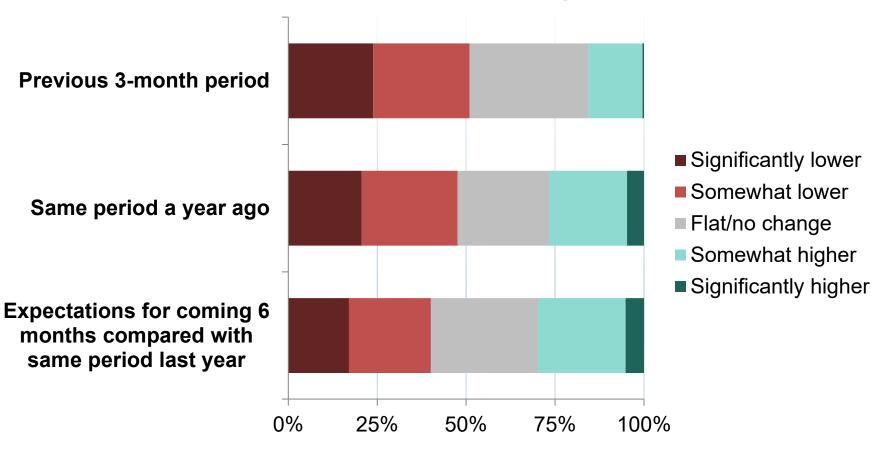
# 6-month outlook comparisons





# **COMPANY PROFITS**

# Profits over last 3 months compared with ...



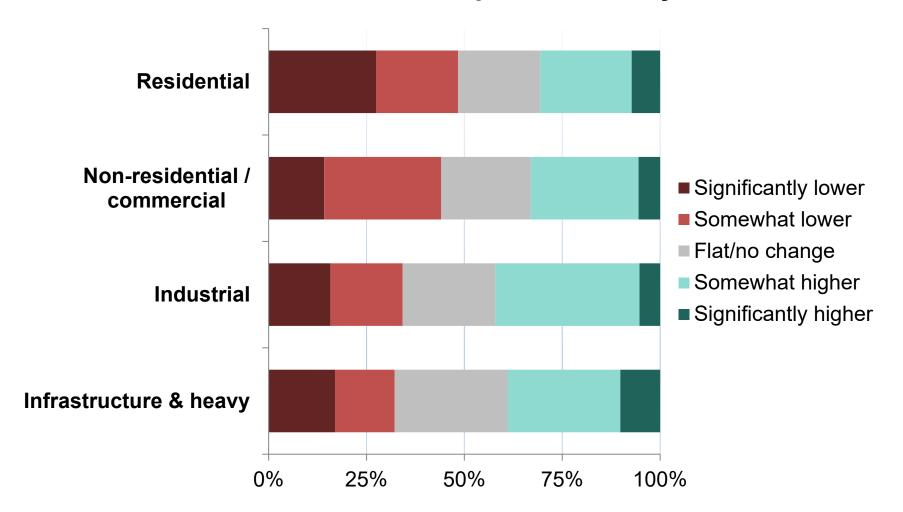
Profit levels negative across the board

But profit outlook not quite as dour as November survey



# REVENUE TRENDS BY CONSTRUCTION SECTOR

# Recent revenue compared w/ last year



### **Sectoral performance**

Residential and commercial seeing poorest revenue trend

Infrastructure and industrial still seeing positive outcomes

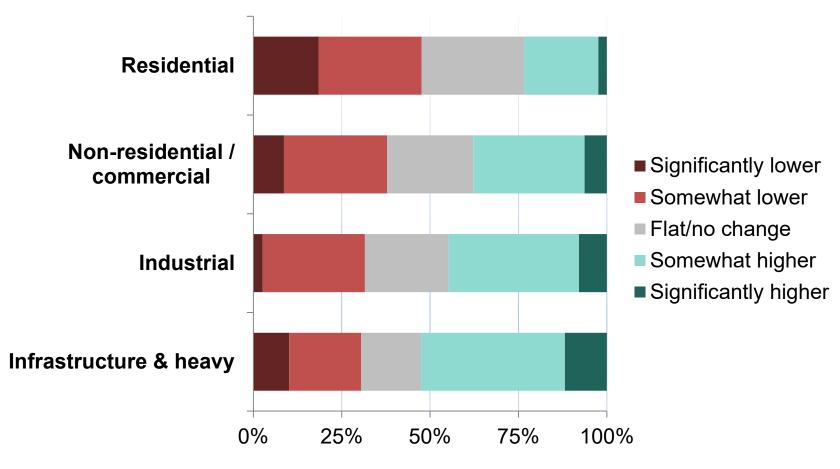
Note: Smaller sample among infrastructure & industrial firms, but they also tend to be bigger



# **FUTURE EXPECTATIONS**

6-month revenue outlook shows more concern for residential, and flatto-good outlook for other sectors

# Expectations for coming 6 months compared with same period last year

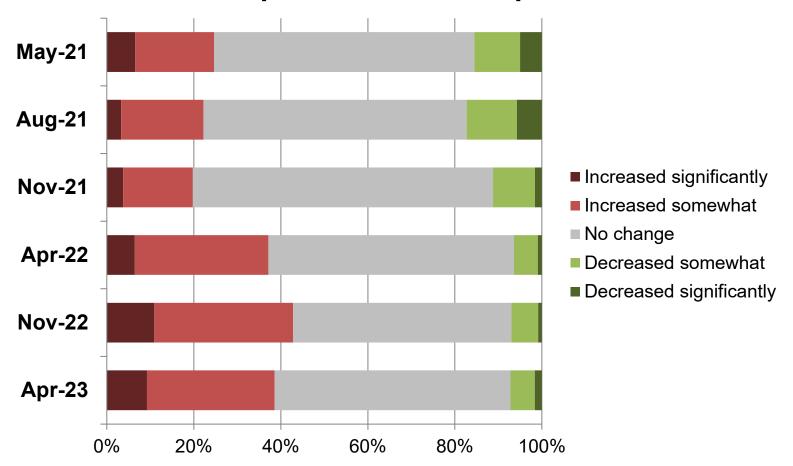




# OTHER ACTIVITY METRICS

# PROJECT CANCELLATIONS

# Recent project cancellations compared with previous 3-month period



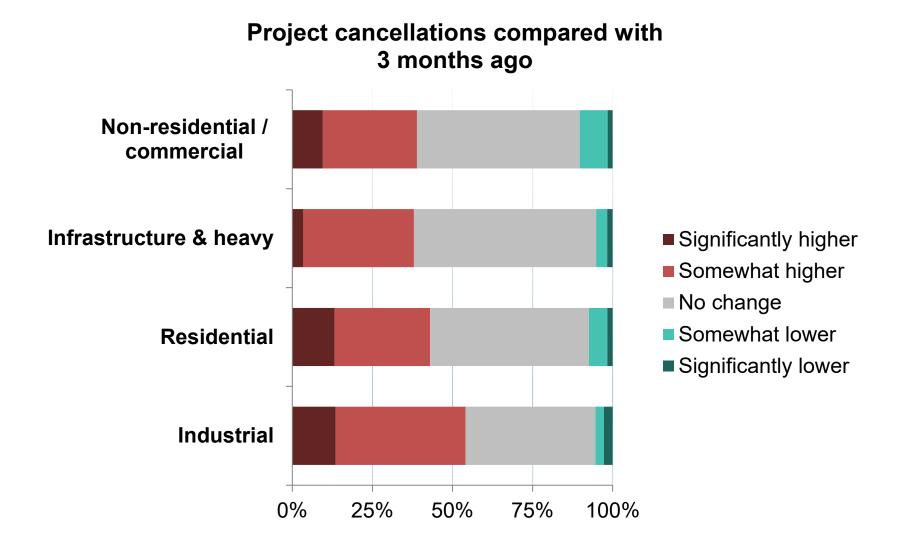
Cancellations and delays continue to run high; little sign of big reversal

# Common reasons (from comments):

- Cost inflation,
- Higher financing costs
- More so in this survey: general uncertainty



# CANCELLATIONS, BY SECTOR



# **Cancellations** rising

In November, residential was seeing the worst trend (by far); industrial saw notable jump in April survey

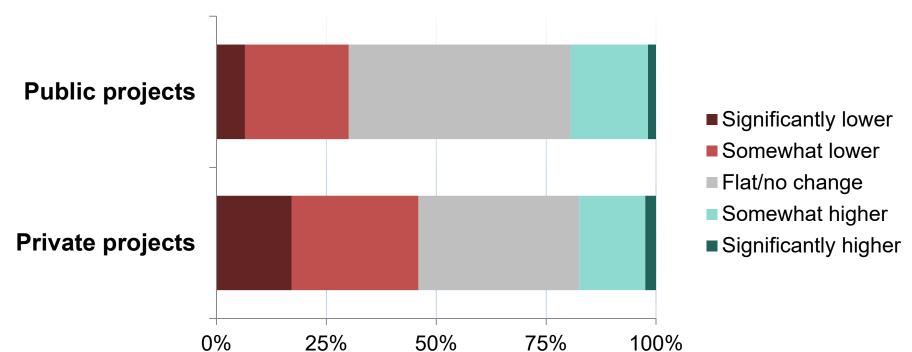
Delays still rampant also



# FUTURE PIPELINE: PROJECTS OUT FOR BID

# NEW PROJECT PROPOSALS SLOWING

# Request for proposal (RFP) activity over last 3 months compared with same period last year



Pipeline for future projects out for bid (aka RFPs) continues to slow, especially for private projects

No major differences among sectors

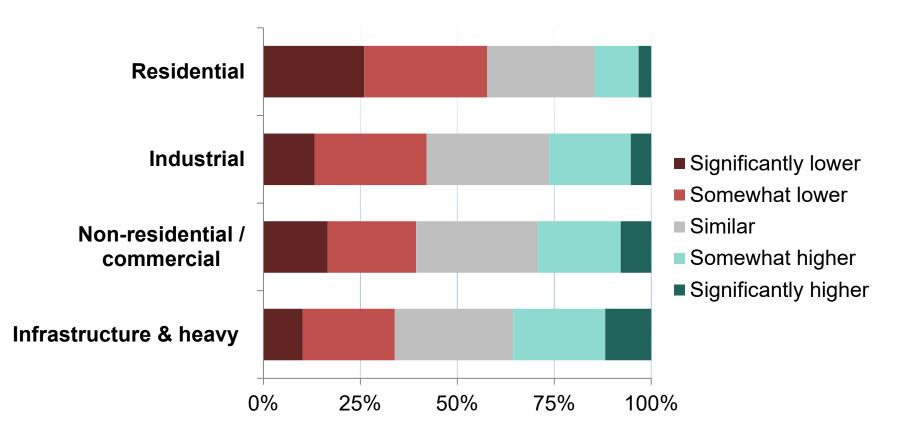


# PROJECT BACKLOGS

# Backlog of future projects and other work compared with last year

Backlogs continue to shrink, esp. in residential

Result of higher cancellations, fewer new projects and pulling work forward



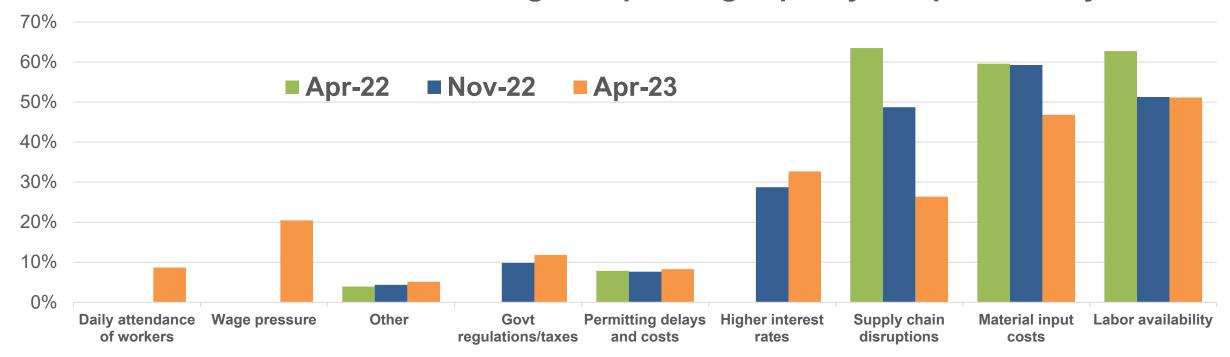


# CHALLENGES

### CHALLENGES TO OPERATIONS

- "Big three" challenges turning into "big two plus lots of other things"
  - Supply chain down considerably
  - Wages and attendance offer more insights to labor issues

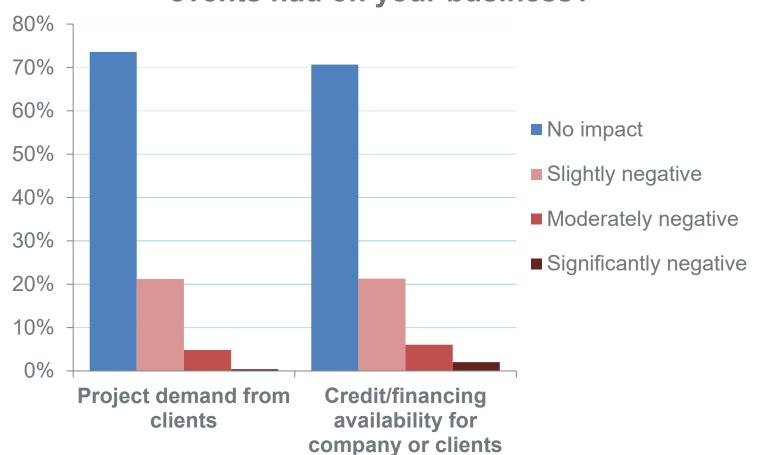
Pick TWO: Greatest challenge to operating capacity and productivity





# **BANKING ENVIRONMENT**

# What impact, if any, have recent banking events had on your business?



Roughly 75 percent said banking events have had no impact

But that leaves 1 in 4 that perceive *some* negative impact

Adds to the pile of challenges



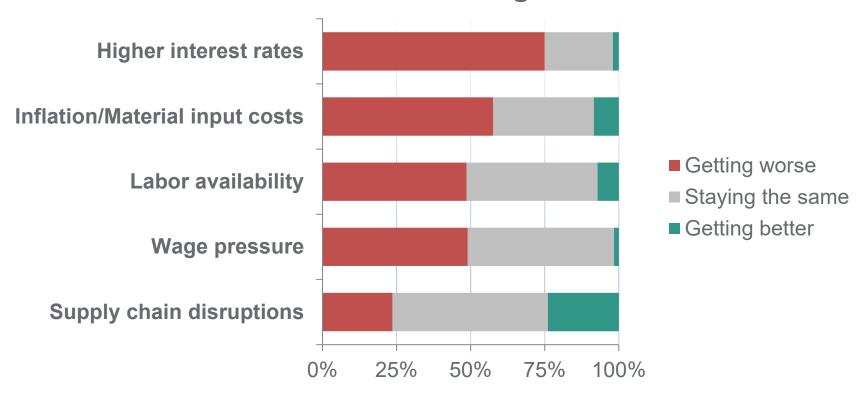
# CHALLENGES - GETTING BETTER OR WORSE?

Inflation and interest rate effects very persistent and negative

Some counter evidence that input costs/inflation is improving

Supply chain showing real evidence of improvement

# Current trajectory or direction for certain challenges



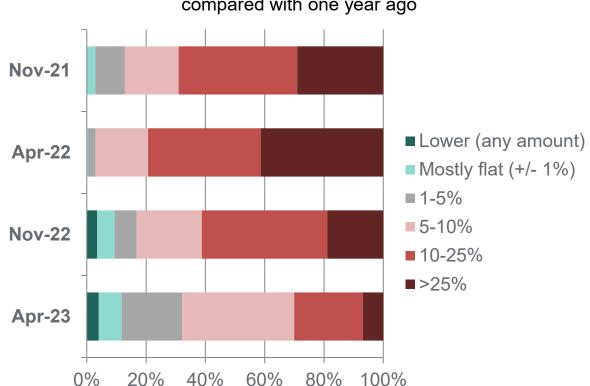


# CHALLENGE: RISING PRICES

### Wholesale and retail price inflation definitely trending down, but still high

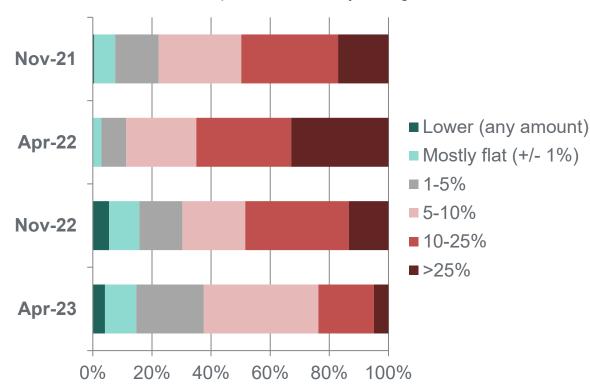
### Wholesale pricing

Average price increase from vendors, all materials, compared with one year ago



### **Retail pricing**

Average price increase to customers, all materials, compared with one year ago

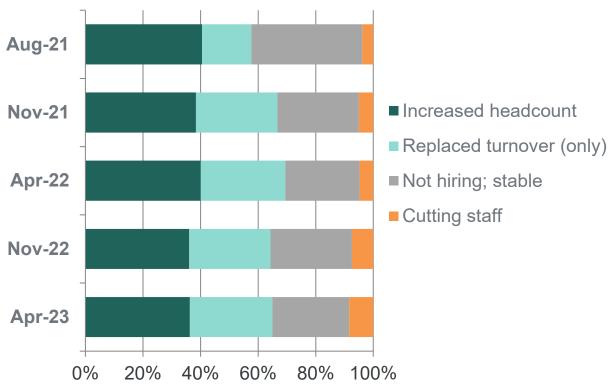




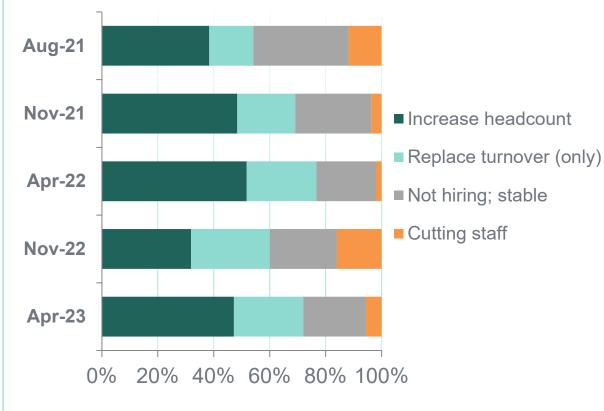
# LABOR DEMAND STILL VERY HEALTHY

- Sector's difficulties <u>not</u> flowing through to hiring demand
- Some demand driven by persistent inability to find labor for open positions





### **Expected hiring demand next six months**

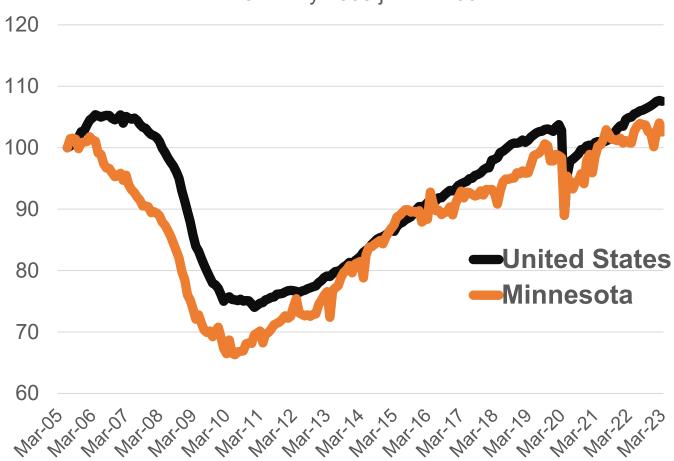




# HISTORICAL CONSTRUCTION EMPLOYMENT

### **Total construction employment index**

January 2005 jobs = 100



Even slow or flat construction employment looks waaay different than the recent past

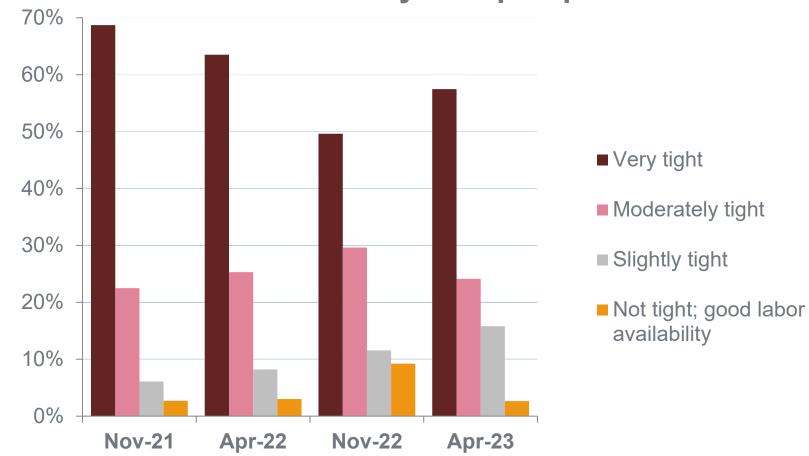


# LABOR AVAILABILITY

Modest uptick in labor tightness, likely due to seasonality

Slightly lower than 2022 levels

# Worker availability for open positions





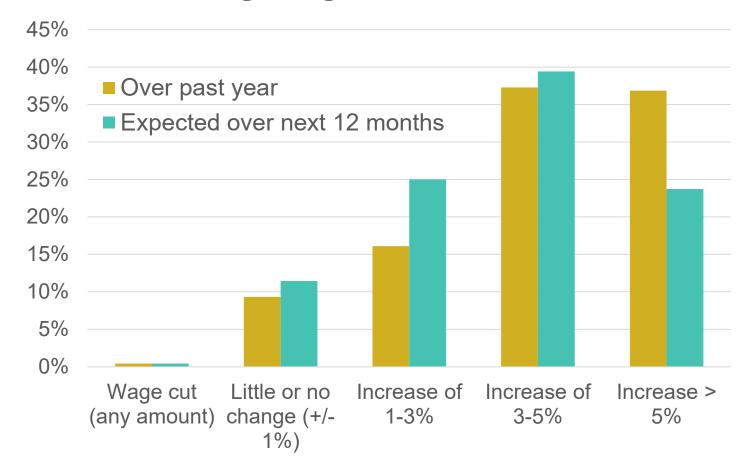
# WAGES FOR SKILLED TRADES

# Wages pressure still strong overall

Some pullback on future wage expectations

Hard to know whether justified on activity basis, or just wishful thinking

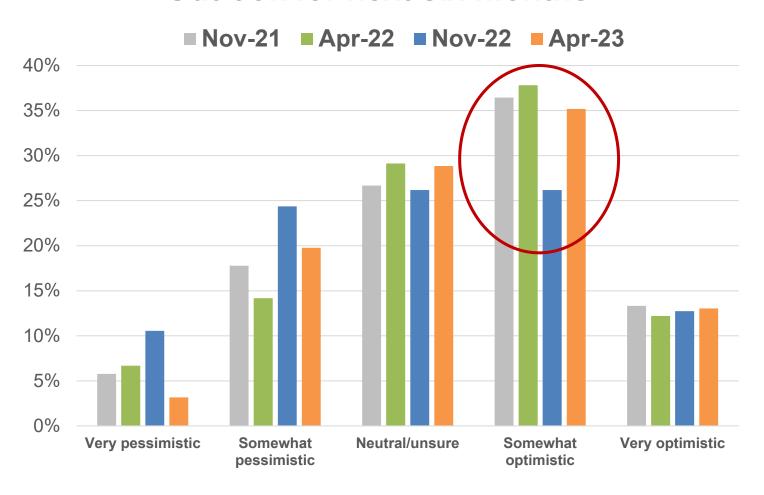
# Average wage increase for skilled trades





# **OUTLOOK: OPTIMISM PREVAILS**

### Outlook for next six months



- Despite persistent challenges, overall outlook is optimistic
- Might be seasonal effect, as most firms get busier in spring/summer





### **HOW TO EXPLAIN CONTRAST?**

- Really can't with any certainty; construction sector is too broad & complex for easy generalizations
- Sector was challenged before pandemic, and doubly so during; as such it is battle-tested
- Comment from survey partner (MN Builders Exchange)
- Labor shortage maybe has had a silver lining
- Prevented sector from expanding too fast, and getting over-extended into areas that would eventually contract
- Some (many?) cancellations not permanent; that might be tomorrow's demand





- Revenue trending negative, and across sectors
- Future activity looks tough:
  - Increase in project cancellations
  - Reduction in new projects out for bid
  - Smaller backlogs
- Many challenges persist, esp. related to pricing & labor
- But some fundamental strengths persist
  - Labor demand, pricing and supply chain easing
- Outlook still optimistic overall





- Ag Credit with Joe Mahon
  - May 19, 9am
  - minneapolisfed.org



- Hospitality & Tourism (survey in field next week)
  - Webinar: June 22, 9am (tentative)



# THANK YOU! QUESTIONS? SUBMIT QUESTIONS VIA CHAT BOX

TWITTER: @RONWIRTZ

@MINNEAPOLISFED

CONNECT VIA LINKEDIN

RON.WIRTZ@MPLS.FRB.ORG