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Summary results from May construction sector survey

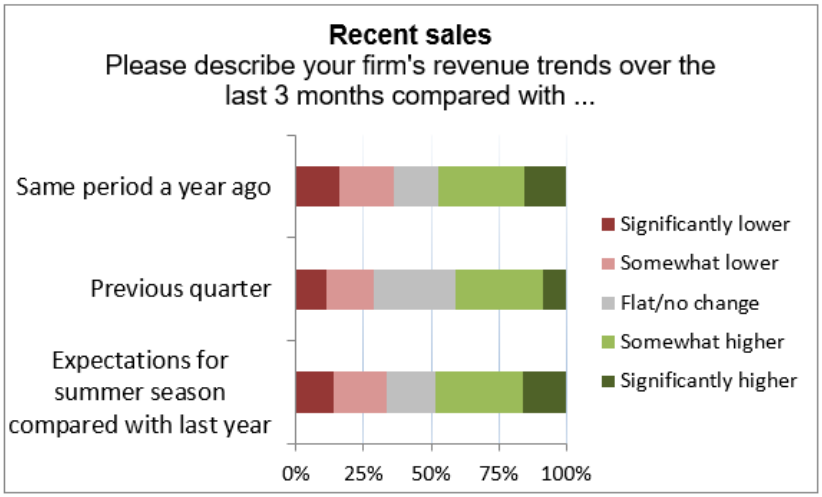
Executed May 18-24, 2021
Response total: 405

Response demographics: Response was slightly lower than for February's survey (507). Responses were solid in Minneapolis-St. Paul (151), Greater Minnesota (76), North Dakota (47), and Wisconsin (98), but soft in Montana, South Dakota, and Michigan's Upper Peninsula. Responses were overrepresented among firms in the residential sector, underrepresented in the industrial and infrastructure sectors, and balanced for the commercial sector. General and other contractors made up almost three-quarters of respondents, with the remainder in development, design, engineering, and supply.

Because of factors related to response balance, readers should exercise appropriate caution interpreting summary results that follow.

Overall conditions appear to be improving, but there are also some mixed signals

Firms overall reported modestly higher revenues over the last three months compared with the same period last year and the previous quarter. Firms reported similar expectations for the coming six months compared with last year. These results are a considerably improvement over February results.



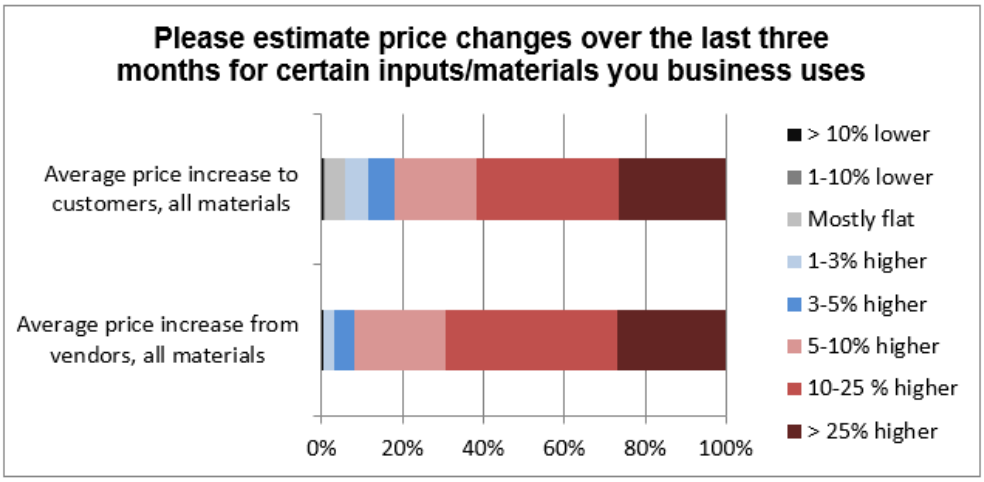
Firms overall also reported a modest increase in the number of new private projects out for bid, though new project activity in the public sector was flat overall. As with previous surveys, firms in residential construction reported moderately better results; sentiment from the other three subsectors were more similar with each other and more mixed overall.

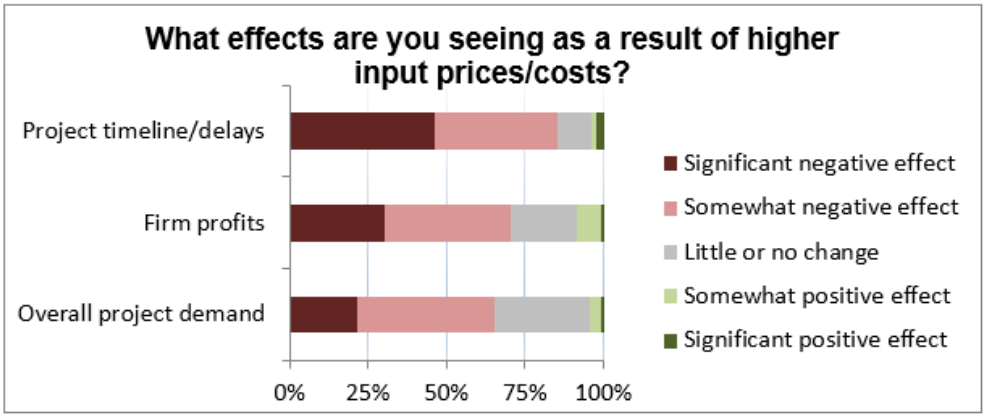
Significant challenges are dampening what otherwise appears to be growing demand

Many firms reported that overall demand appeared quite healthy, but buyers and construction firms were facing major challenges that were negatively impacting both new and existing projects. Firms reported three major culprits throwing cold water on demand and overall activity: Rising costs, supply chain disruptions, and labor availability.

Rapidly rising input costs: The industry is experiencing significant price increases for most materials. Over the past three months, about 70 percent of respondents reported that wholesale material costs rose by 10 percent or more overall. Virtually all wood and steel products have seen major cost increases, but increases were seen across virtually all product areas; firms reported year-over-year increases in the triple digits for some products. Much of those increases were getting passed to clients.

Fast-rising costs were having significant spillover effects: Firms overall reported a net increase in cancellations of private projects compared with February levels (public projects did not see a similar increase). This was particularly the case among firms working in residential housing. Eighty-five percent of respondents said higher costs were leading to project delays and longer completion timelines; 70 percent said they were negatively affecting profits, and 65 percent said they were dampening overall demand.





Supply chain disruptions: The sector has dealt with supply chain issues since the start of the pandemic. But the problem has become more irksome when materials still can't be had—on time—even at much higher prices.

Lack of available labor: The good news is that more than half of firms reported they were hiring in some capacity, and less than 5 percent said they were cutting employees. But three-quarters of firms said availability of workers was either very tight (53 percent) or moderately tight (23 percent), and that share has risen significantly since the February survey. In response, half of respondents said wages for skilled labor grew by 3 percent or more since the start of the pandemic, and wage expectations for the coming 12 months were slightly stronger.

Future expectations are positive: Overall, despite challenges, firms have a net-positive outlook for the next six months; 47 percent are optimistic, while 26 percent are pessimistic. Many firms commented on the effect of higher prices and material availability on their outlook, noting that if prices moderate, forecasts will improve further; but if prices don't calm soon, activity could slow significantly.