CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

December 16, 2022

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Regional Outreach Director
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!)

- Construction/trade organizations across the Ninth District (and every District state) help get survey to their member firms
- Largest construction-focused survey among the 12 Federal Reserve District Banks
- **THANK YOU** – survey provides Minneapolis Fed, our partners, and your members with tremendous insights on current conditions
CONSTRUCTION SURVEY

- Conducted: November 7 to November 18, 2022
- Total responses: 276, mostly from Twin Cities/Minnesota
- Results are a snapshot: Not a scientifically sampled survey
  - Nonresidential/commercial: 55% of respondents work in this sector (non-exclusive)
  - Residential: 45%
  - Infrastructure/heavy: 20%
  - Industrial: 16%
- Please interpret results carefully
SURVEY TAKE-AWAYS

- Revenue trending negative, but not for everyone
- Profits widely lower
- Residential seeing significantly tougher conditions
- Industrial seeing best conditions
- Future concerns: Increase in project cancellations, reduction in backlogs and new projects out for bid
- Challenging conditions, w/ interest rates added to mix
- Outlook has declined, but hasn’t fallen off the table
RECENT REVENUE & PROFIT TRENDS
RECENT AND FUTURE REVENUE

Q-o-Q: Negative, but likely some seasonal effects

Y-o-Y: Flat overall, which is still high; however larger share seeing big decrease

Outlook: Notably less optimistic
NEW CONSTRUCTION STARTS

**General trend:**
total construction spending still high

**District totals**
boosted by higher pricing & very strong activity in SD and MT (which are not well-represented in survey sample)

**Source:** Dodge Data & Analytics
COMPANY PROFITS

Profit levels more negative across the board, and expected to worsen.
REVENUE TRENDS, OVER TIME

Repeated cross sections from previous surveys

Pullback first showed up in April survey, and continued in most recent survey
REVENUE TRENDS BY CONSTRUCTION SECTOR

Revenue over last 3 months compared with last year

- **Residential**
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

- **Non-residential / commercial**
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

- **Infrastructure & heavy**
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

- **Industrial**
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

Year-over-year trend heavily influenced by decline in residential sector

Other three sectors all report increases in y-o-y annual revenues
FUTURE EXPECTATIONS

Short-term revenue outlook shows more concern across the sector, esp. for residential

Outlook for industrial still moderately net-positive
OTHER METRICS OF CURRENT & FUTURE ACTIVITY
PROJECT CANCELLATIONS

Continued uptick in cancellations

Most common reasons (from comments):
Cost inflation, higher financing costs, general uncertainty

Recent project cancellations compared with previous 3-month period

Survey conducted:

May-21
Aug-21
Nov-21
Apr-22
Nov-22

0% 25% 50% 75% 100%

Increased significantly
Increased somewhat
No change
Decreased somewhat
Decreased significantly
CANCELLATIONS AND DELAYS, BY SECTOR

Project cancellations compared with 3 months ago

- **Residential**: Increased somewhat
- **Non-residential / commercial**: Increased significantly
- **Infrastructure & heavy**: Increased somewhat
- **Industrial**: Decreased somewhat

Cancellations rose across all sectors

But residential seeing the worst trend by significant margin
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

RFPs for public projects

- Significantly lower
- Somewhat lower
- Flat/no change
- Somewhat higher
- Significantly higher

RFPs for private projects

New projects out for bid (aka RFPs) shrunk noticeably, especially for private projects
Private RFPs went negative among all construction sectors. Public RFPs went negative after showing some strength earlier this year.

### Private project RFPs compared with last year

<table>
<thead>
<tr>
<th>Sector</th>
<th>Falling significantly</th>
<th>Falling somewhat</th>
<th>Flat/no change</th>
<th>Rising somewhat</th>
<th>Significantly higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>Non-residential/commercial</td>
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<td>25%</td>
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<td>75%</td>
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</tr>
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<td>0%</td>
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<td>75%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Public project RFPs compared with last year

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</table>
Backlogs shrank dramatically in residential, but every sector effected

Likely from higher cancellations, lower RFP levels and pulling work forward
CHALLENGES
**CHALLENGES TO OPERATIONS**

“Big Three” still biggest challenges: Labor, inflation, supply chain
Rising interest rates add another challenge, esp. for residential

Pick TWO: Greatest challenge to current operations

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Nov-21</th>
<th>Apr-22</th>
<th>Nov-22</th>
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</thead>
<tbody>
<tr>
<td>Child care</td>
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<tr>
<td>Other</td>
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<tr>
<td>Other government regulations and/or taxes</td>
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<tr>
<td>Project or operations financing</td>
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<tr>
<td>Permitting delays and costs</td>
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<tr>
<td>COVID-related issues</td>
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<tr>
<td>Higher interest rates</td>
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<tr>
<td>Material input costs</td>
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<td></td>
<td></td>
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<tr>
<td>Labor availability</td>
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<td></td>
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<tr>
<td>Supply chain disruptions</td>
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</table>

Graph showing percentage for each challenge over different time periods.
CHALLENGE: RISING PRICES

Wholesale and retail prices downshifted, but still high

Wholesale prices from vendors compared with a year ago

- Nov-21
- Apr-22
- Nov-22

Retail prices to customers compared with a year ago

- Nov-21
- Apr-22
- Nov-22
Problems not easing of late

Labor availability and supply chains are closest to easing

Over the last 6-8 weeks, what is the trajectory or direction for certain challenges?

- Labor availability
- Supply chain disruptions
- Inflation/Material input costs
- Higher interest rates

0% 25% 50% 75% 100%

- Getting worse
- Staying the same
- Getting better
LABOR FORCE: STRONG DEMAND CONTINUES

Persistent hiring good signal; industrial strong; residential weaker but still hiring

Some labor demand likely driven by persistent inability to find labor for open positions

Hiring Demand Over the Past Three Months

- Hiring to increase total headcount
- Hiring to replace turnover (only)
- Not hiring; stable staff levels
- Cutting staff
Clear pullback in expected future hiring

Could be a seasonal effect, but the same signal was not present in November 2021
CHALLENGE #3: LABOR AVAILABILITY

Modest, continued improvement in labor availability, likely due to softening conditions.

But labor conditions still very tight.
Wages high, but maybe softening a bit

Wage increase strong, but pullback on future wage expectations

Reversal from April survey

Average wage increase for skilled trades

- Over the past year
- Expected over coming 12 months

April ’22 survey: Average wage increases for skilled trades

- Last 12 months
- Coming 12 months

Wage cut (any amount)  Little or no change (+/- 1%)  Increase of 1-3%  Increase of 3-5%  Increase > 5%

0% 10% 20% 30% 40% 50%

FEDERAL RESERVE BANK OF MINNEAPOLIS
OUTLOOK: OPTIMISM PREVAILS

Outlook fell; but despite persistent challenges, overall outlook still (net) flat/mixed
Heavily influenced by falling residential outlook

Outlook for next six months

- Nov-21
- Apr-22
- Nov-22

Outlook for the next six months

- Residential
  - Very pessimistic
  - Somewhat pessimistic
  - Neutral/unsure
  - Somewhat optimistic
  - Very optimistic

- Infrastructure & heavy
- Non-residential / commercial
- Industrial

0% 25% 50% 75% 100%
SURVEY WRAP-UP

• Revenue trending negative, but not for everyone
• Profits widely lower
• Residential seeing significantly tougher conditions
• Industrial seeing best conditions
• Future concerns: Increase in project cancellations, reduction in backlogs and new projects out for bid
• Challenging conditions, w/ interest rates added to mix
• Outlook has fallen, but maybe not as much as expected given the circumstances
MINNEAPOLIS FED SURVEYS

- Monthly Business Pulse Survey
- Quarterly: Ag Credit, Hospitality & Tourism
- Bi-annual: General Business and Construction
- Annual: Manufacturing, Professional Services, and Child Care Providers (MN only)
- Worker Experience: New area with much potential for insights to labor force participation
- More info online: minneapolisfed.org
- Contact: ron.wirtz@mpls.frb.org
LOOKING FOR MORE ENGAGEMENT

- Minneapolis Fed always looking for new partners to help us gauge current conditions
- Partners receive more detailed response data than covered today
- Also available to discuss findings directly with (new?) construction groups, boards of directors and others interested in how construction companies are faring in current economy
THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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