CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

November 29, 2023

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FEDERAL RESERVE BANK OF MINNEAPOLIS

DISCLAIMER

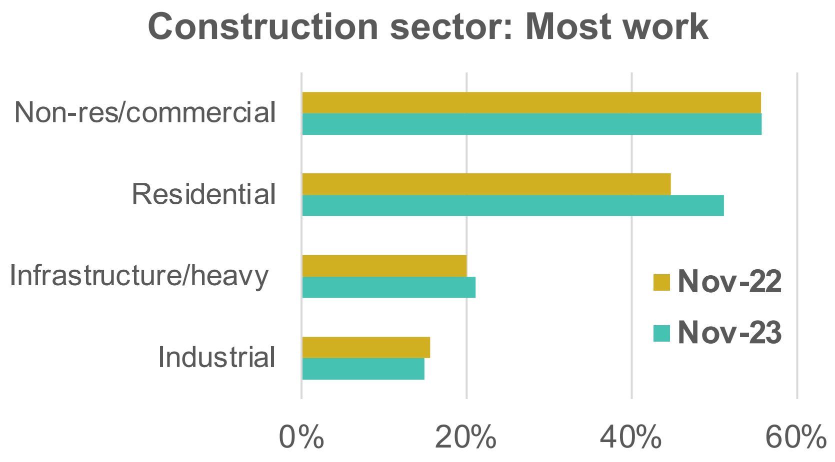
The views expressed here are the presenter's and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

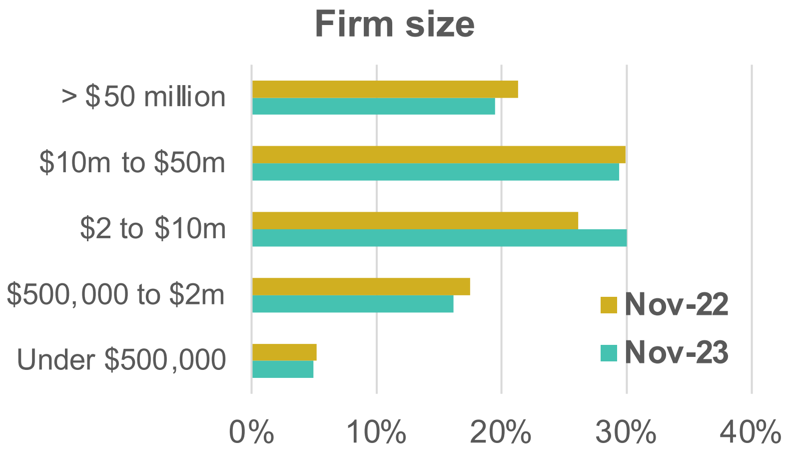
THANK YOU TO PARTNERS (AND RESPONDENTS!)

- Largest construction-focused survey among the 12 Federal Reserve District Banks
- Partner survey: Construction-trade organizations in District states distribute survey to members
- PARTNER THANK YOU! Survey provides Minneapolis Fed, our partners, their members and public with timely insights on current conditions
- Thank you to new partners!
  - Construction Industry Center (South Dakota)
  - Home Builders Association of Billings (Montana)

CONSTRUCTION SURVEY

- Conducted: November 6 to November 15, 2023
- Total responses: 311, better representation across states





- Results are a snapshot: Not a scientifically sampled survey
- *Please interpret results carefully*

SURVEY TAKE-AWAYS

- Negative revenue and profit trends continued
- Residential seeing worst outcomes, by sizeable margin
- Industrial and infrastructure faring better, but also reporting some slowing
- New/future projects declining, backlogs shrinking
- Challenges: Interest rates, high input costs & labor
- Some good news:
  - Supply chain improving; price inflation moderating; labor demand still healthy and labor availability improving
  - Results pretty similar to Nov 2022 survey
- Outlook: Lower revenues expected, but overall sentiment flat, likely with a lot of caution

RECENT REVENUE

&

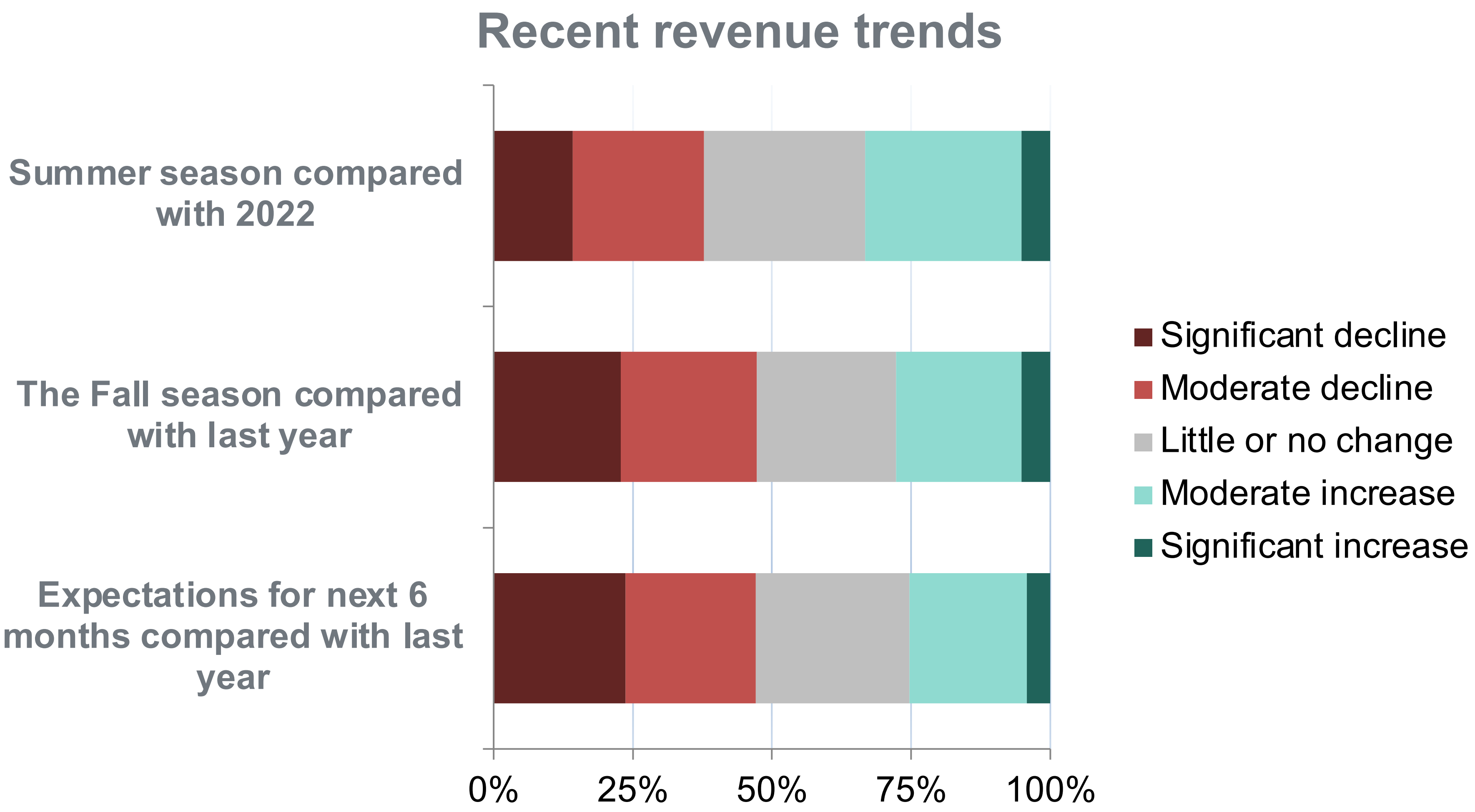
PROFIT TRENDS

RECENT AND FUTURE REVENUE

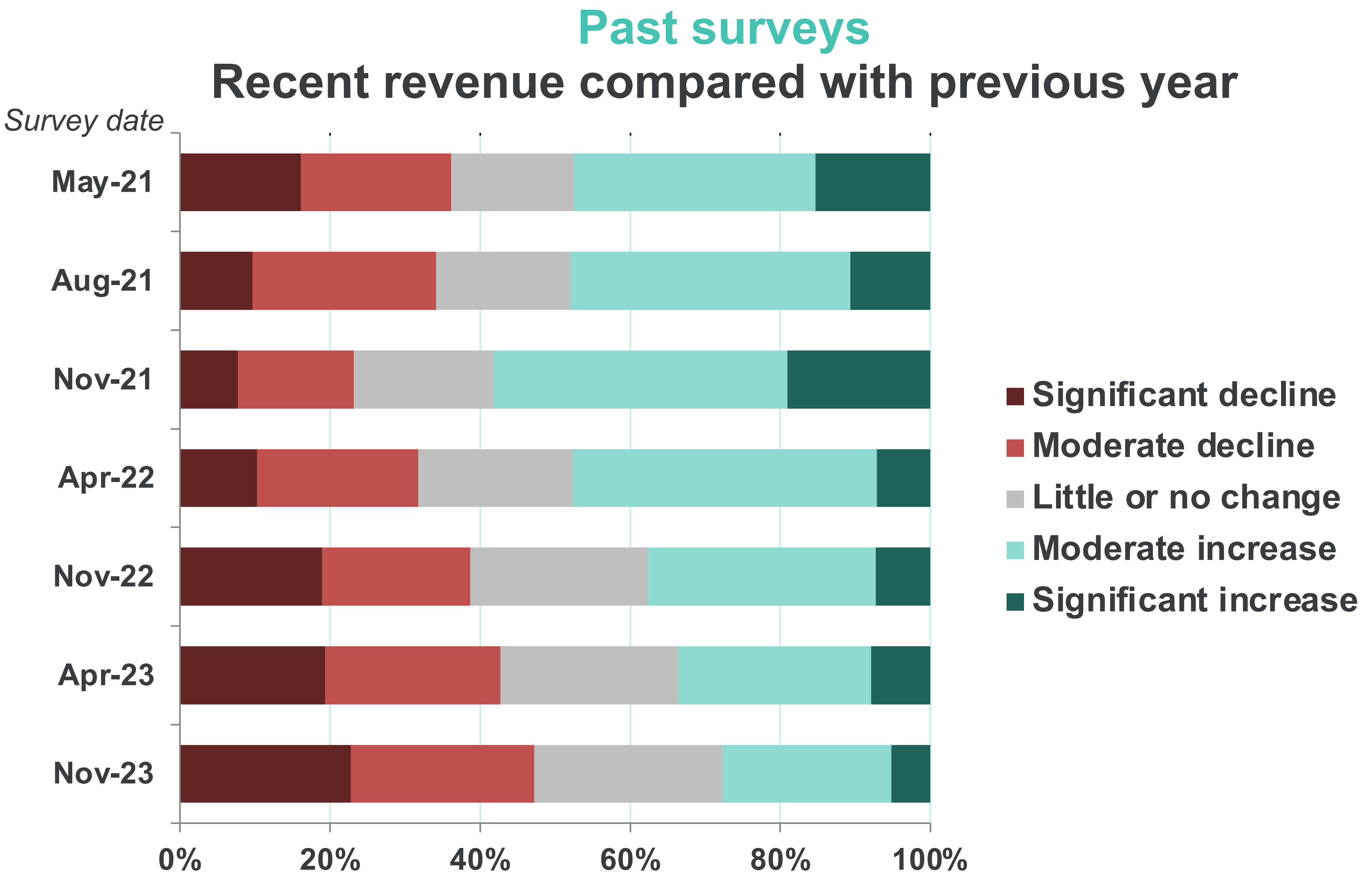
Summer: Flat; also doesn’t account for inflation effects on revenue

Fall: Slowdown becomes more evident

Revenue outlook: More of the same



REVENUE TRENDS, OVER TIME



Revenue trend first slowed in April 2022, and has steadily deteriorated

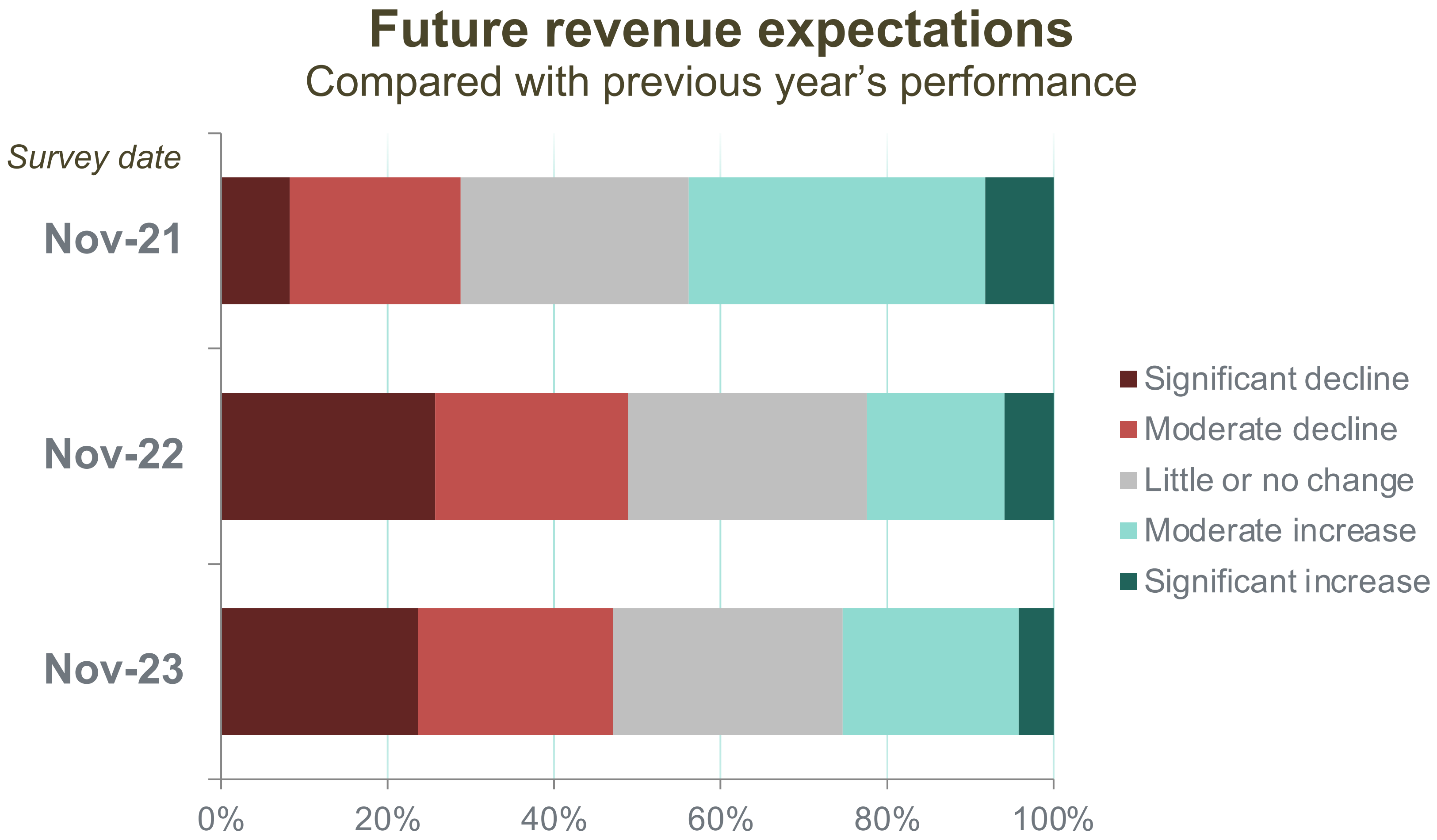
Note: Survey went to bi-annual in 2022

COMPARISON OF FUTURE REVENUE EXPECTATIONS

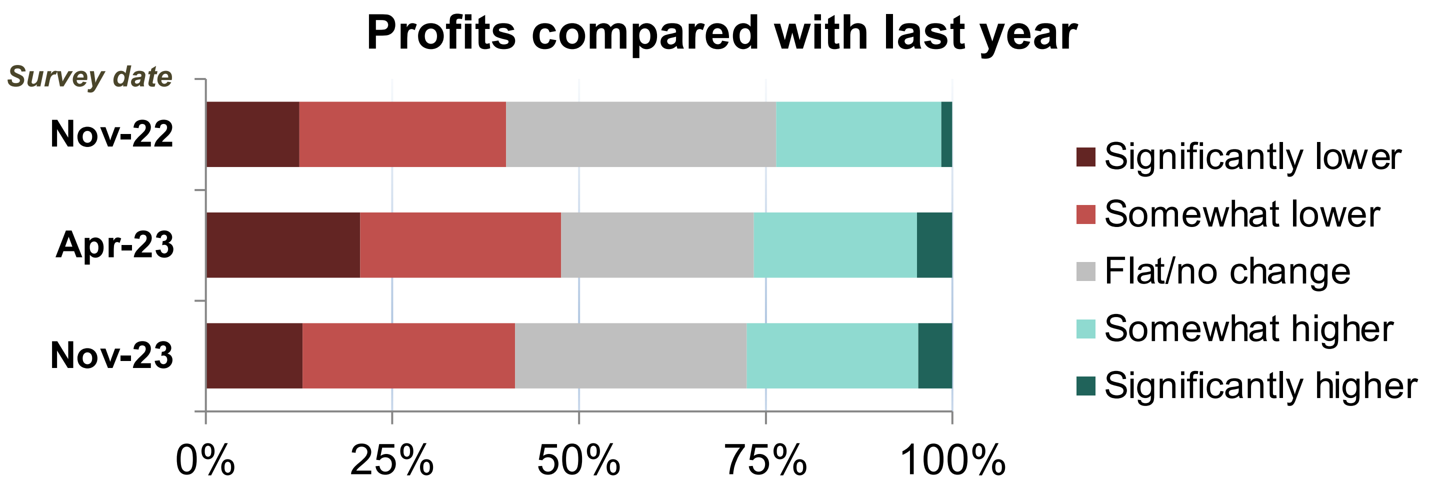
<u>**Half-empty & full**</u>

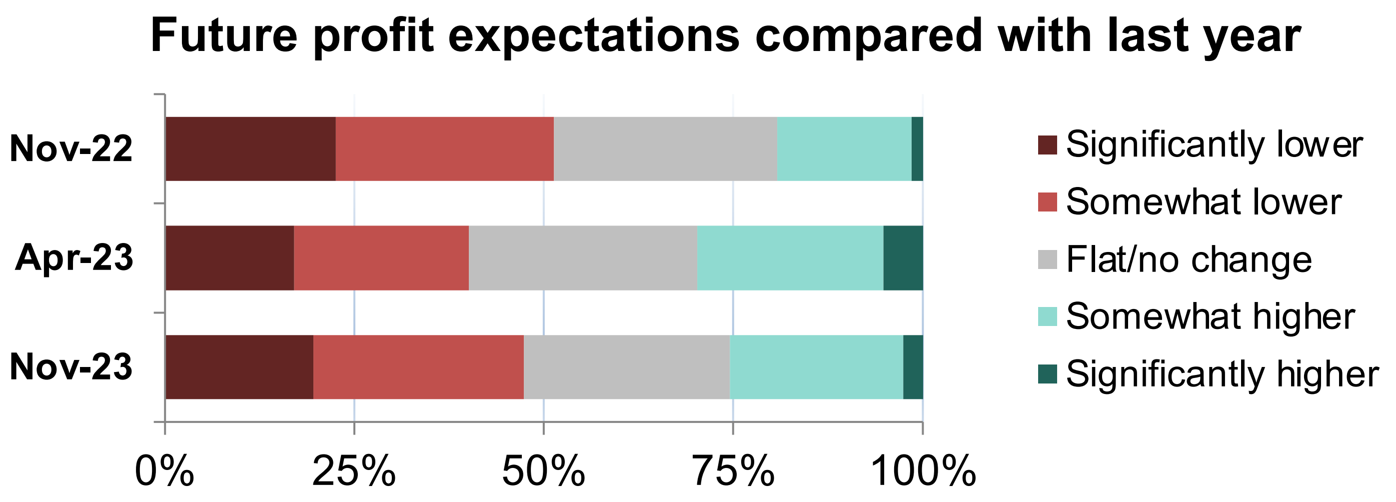
Future revenue expectations lower

But compared with last year's survey, slight improvement



COMPANY PROFITS





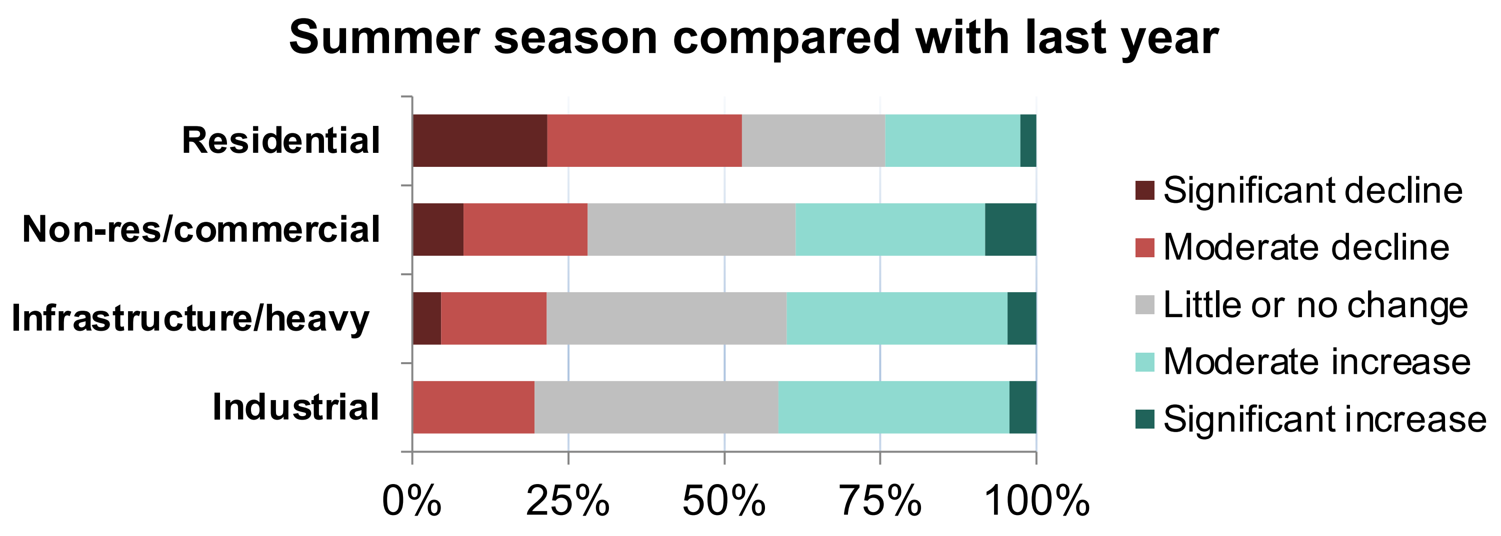
Profit levels negative across the board

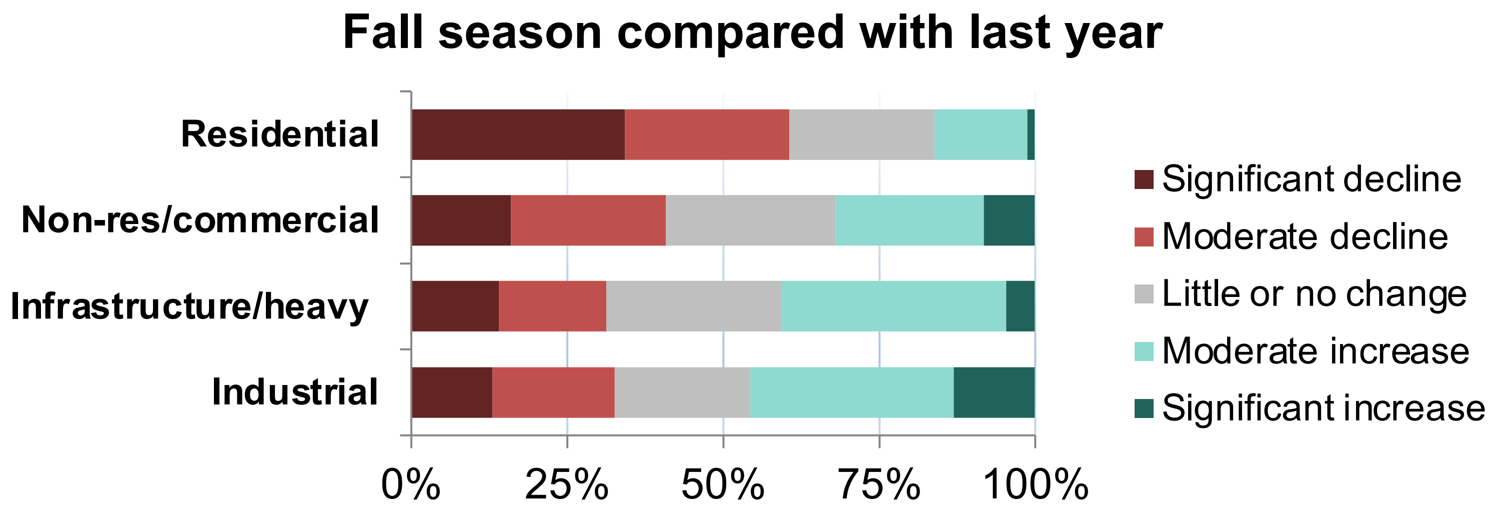
Residential sector seeing much more negative trend

Three other sectors mostly evenly split +/-

SECTOR BREAKDOWN

REVENUE TRENDS BY CONSTRUCTION SECTOR





Sectoral performance

Residential & commercial seeing poorest revenue trend

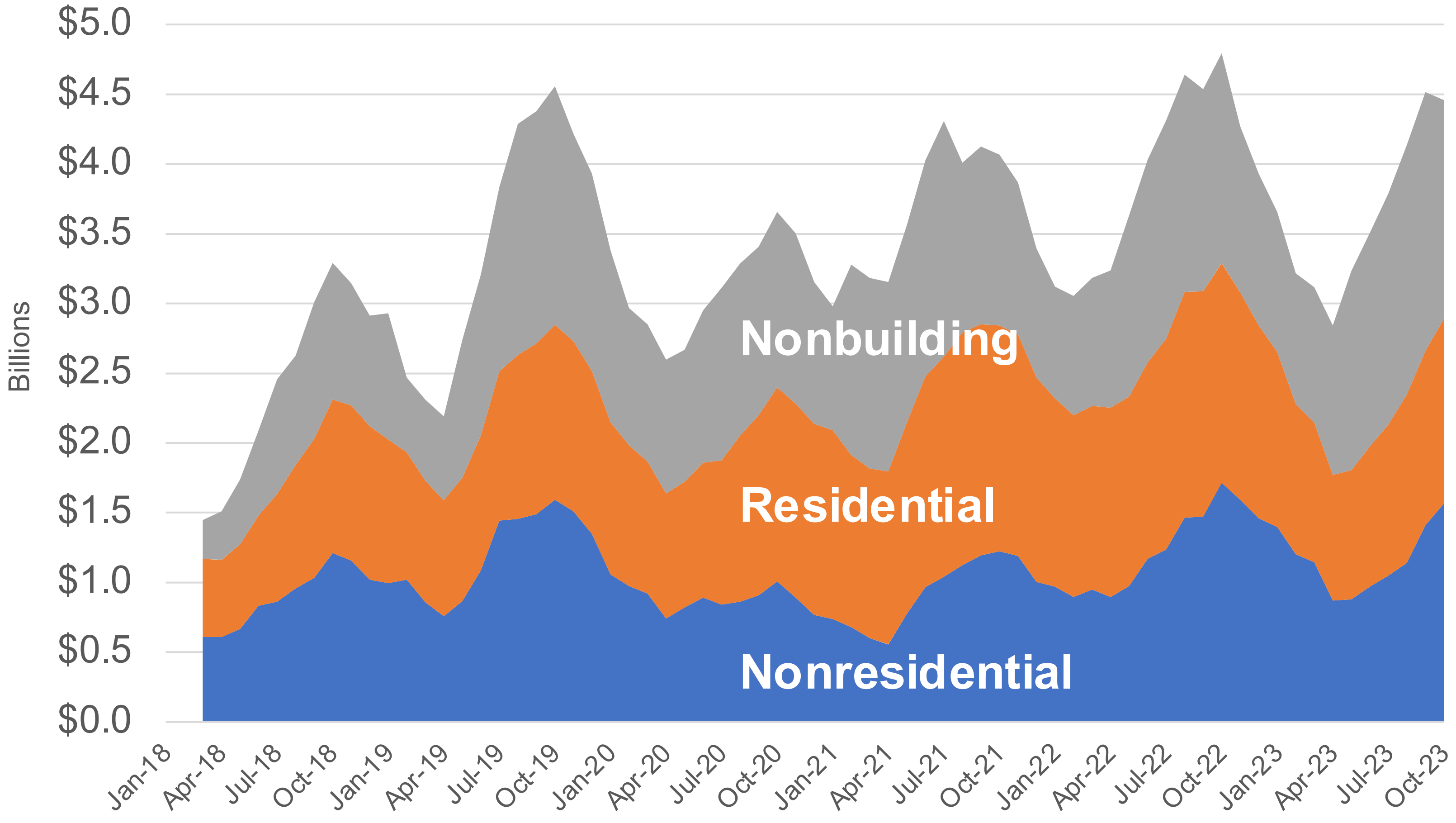
Infrastructure and industrial still seeing positive revenue trend

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

NEW CONSTRUCTION STARTS

Total value of monthly construction starts

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



Total value of construction starts, May through Oct (y-o-y):

Residential: -16%

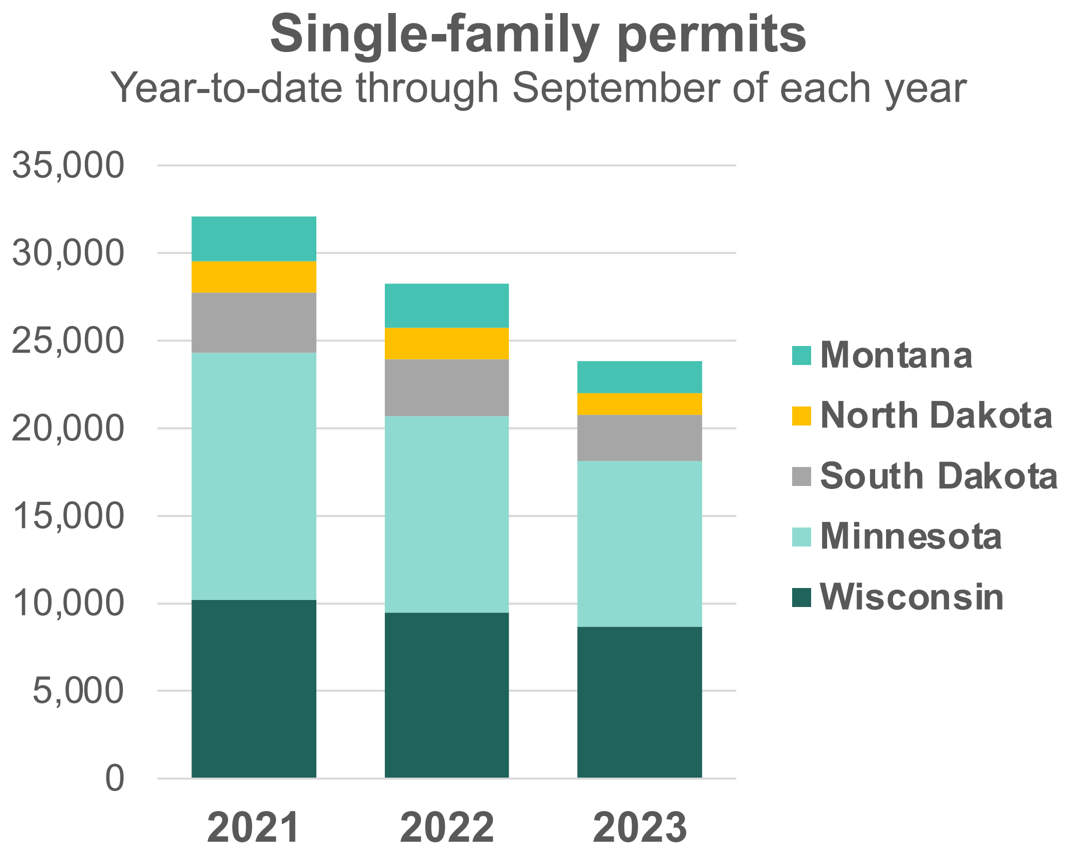
Nonresidential: -8%

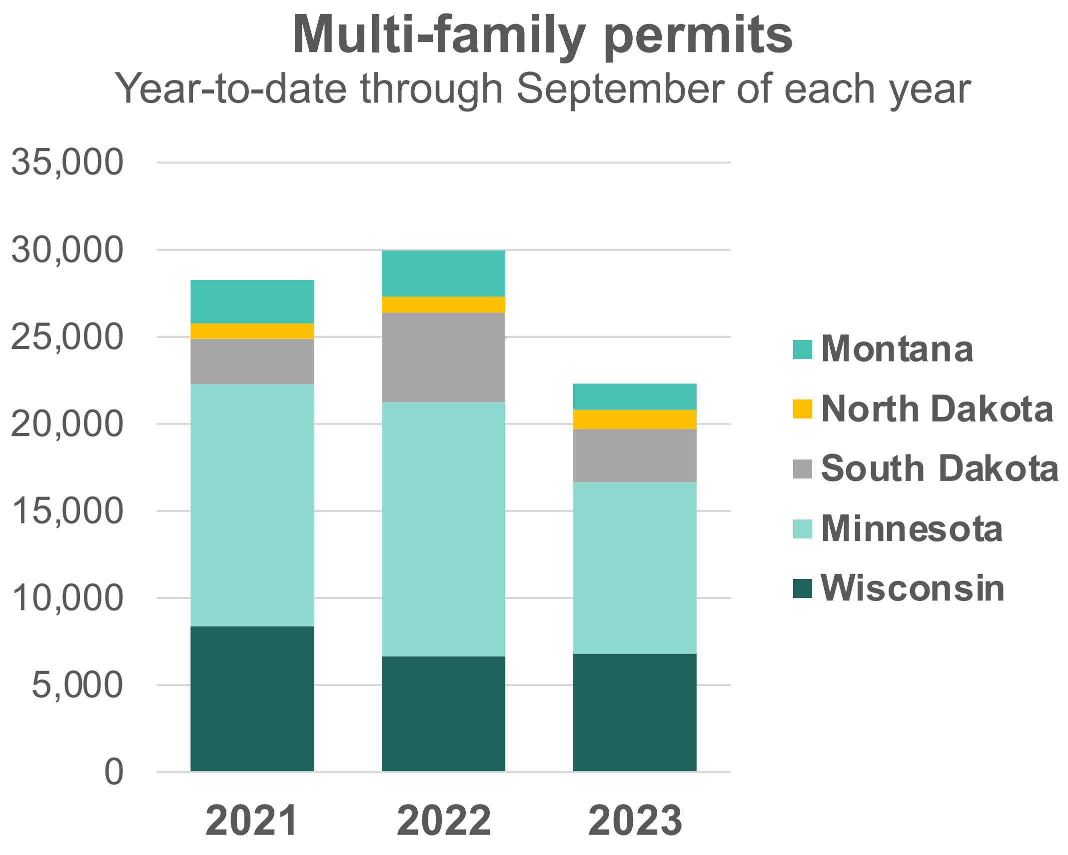
Nonbuilding: +4.1%

Source: Dodge Data & Analytics

HOUSING PERMIT DATA – NINTH DISTRICT

- Housing permits slowed across Ninth District
- Single-family permitting has seen rebound in recent months in some places





Source: U.S. Census

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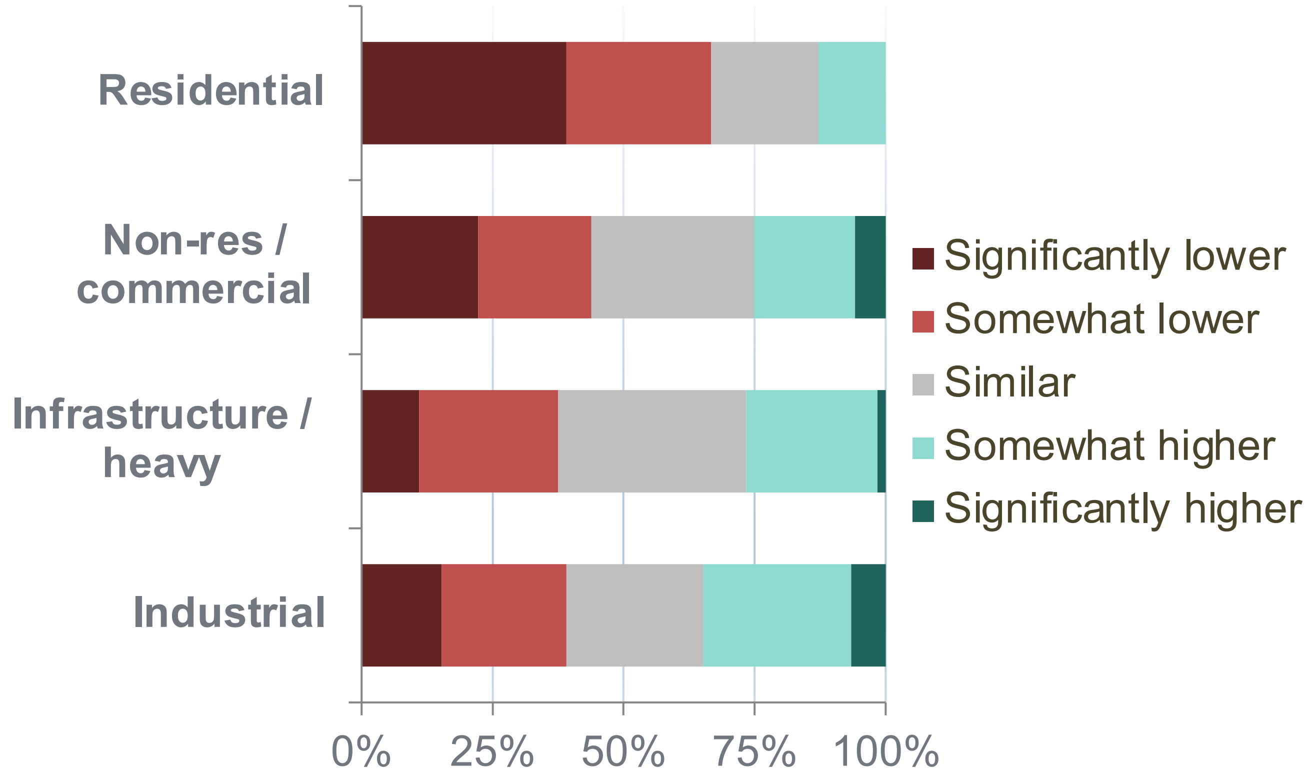
OTHER ACTIVITY METRICS

PROJECT BACKLOGS

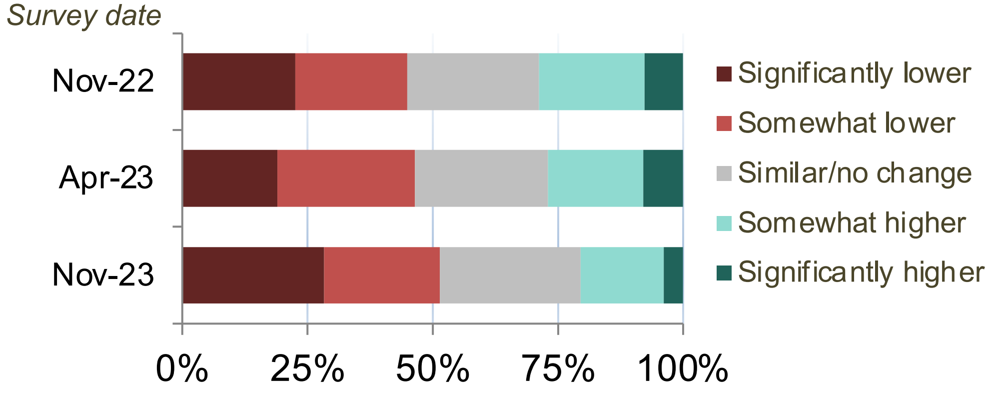
Backlog of future projects compared with last year



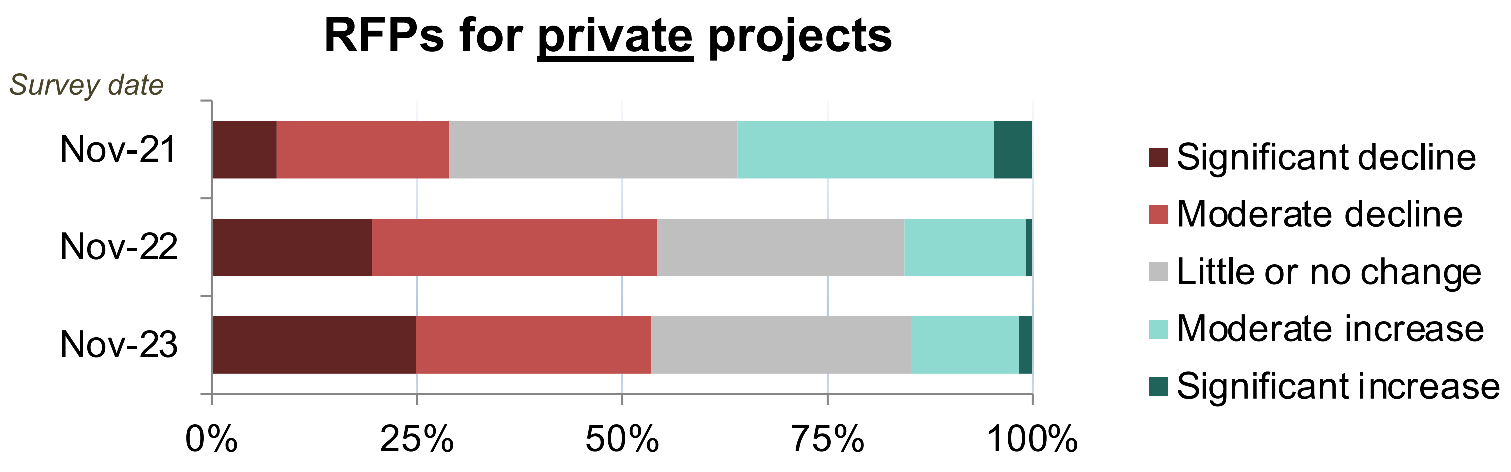
Backlogs shrinking, especially in residential

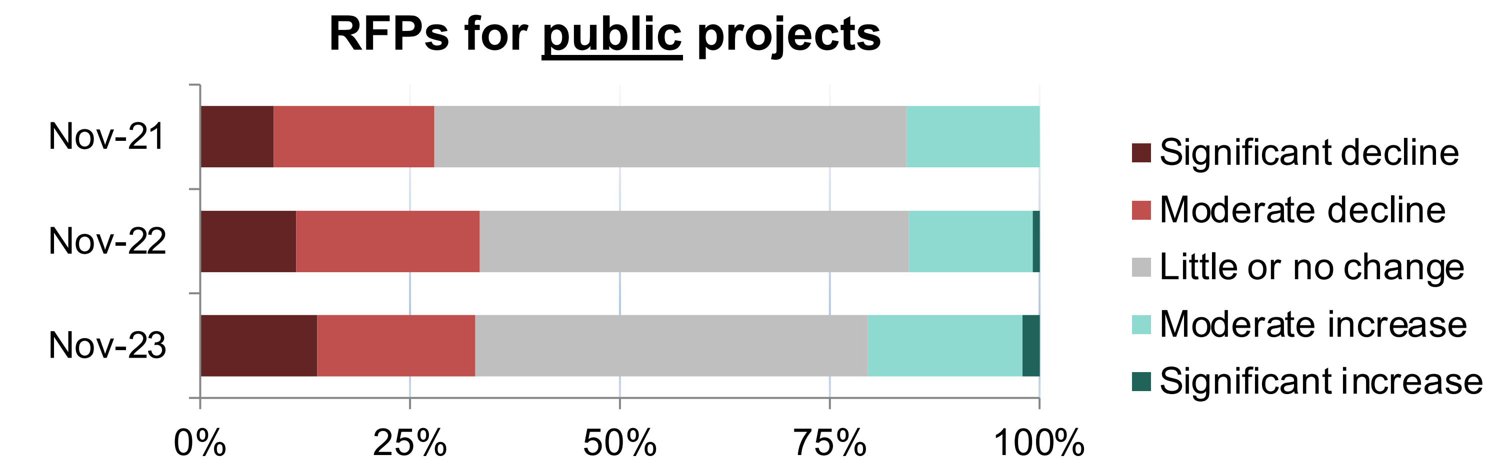
Stems from higher cancels, fewer new projects and pulling work forward

Backlog of future projects



REQUEST FOR PROPOSALS (RFPS) – NEW PROJECTS





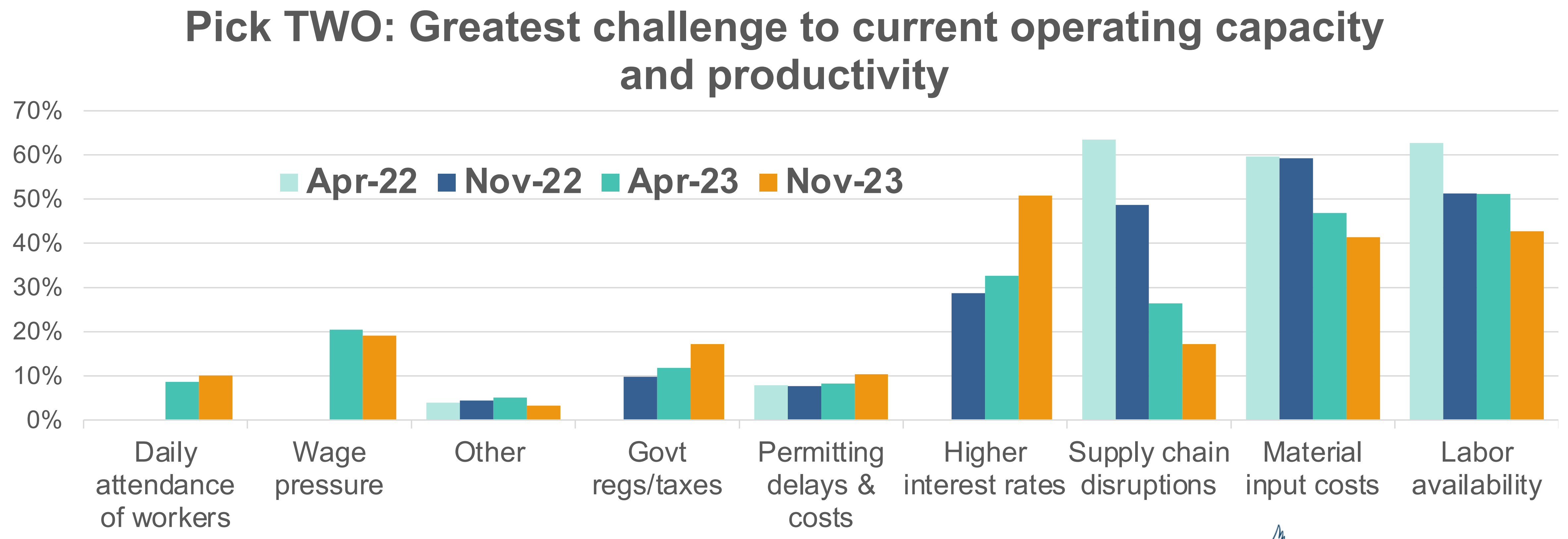
New projects out for bid mostly mirror last year's results

Loss of backlog makes current RFP levels more urgent

CHALLENGES

CHALLENGES TO OPERATIONS

- **Higher interest rates becoming a more obvious problem**
- **Material costs and labor availability remain sticky problems**
- **Supply chain problems have fallen significantly**



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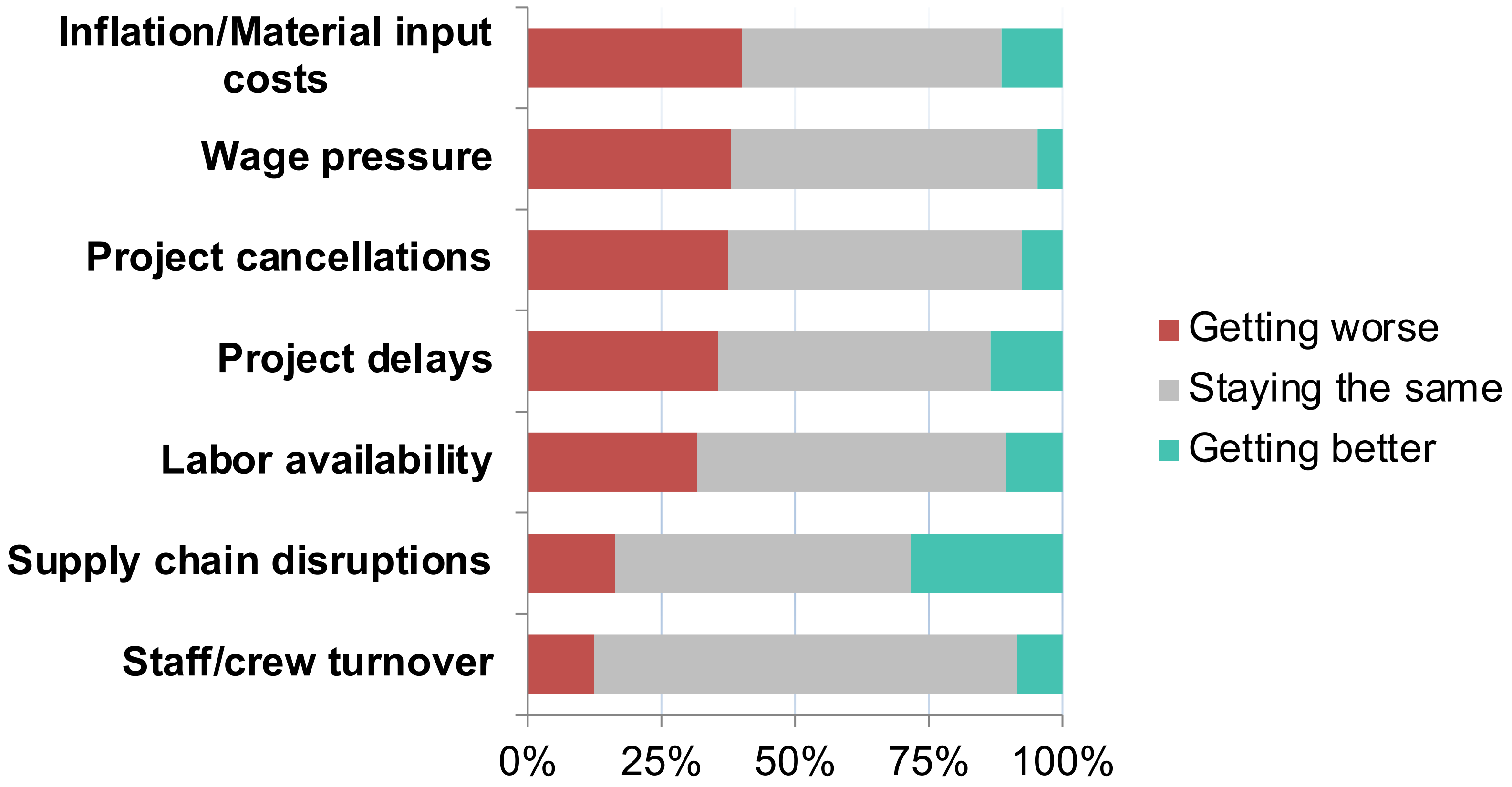
CHALLENGES – GETTING BETTER OR WORSE?

Most challenges do not appear to have peaked, with exception of supply chain disruptions

But other survey results suggest cost inflation & labor are improving modestly

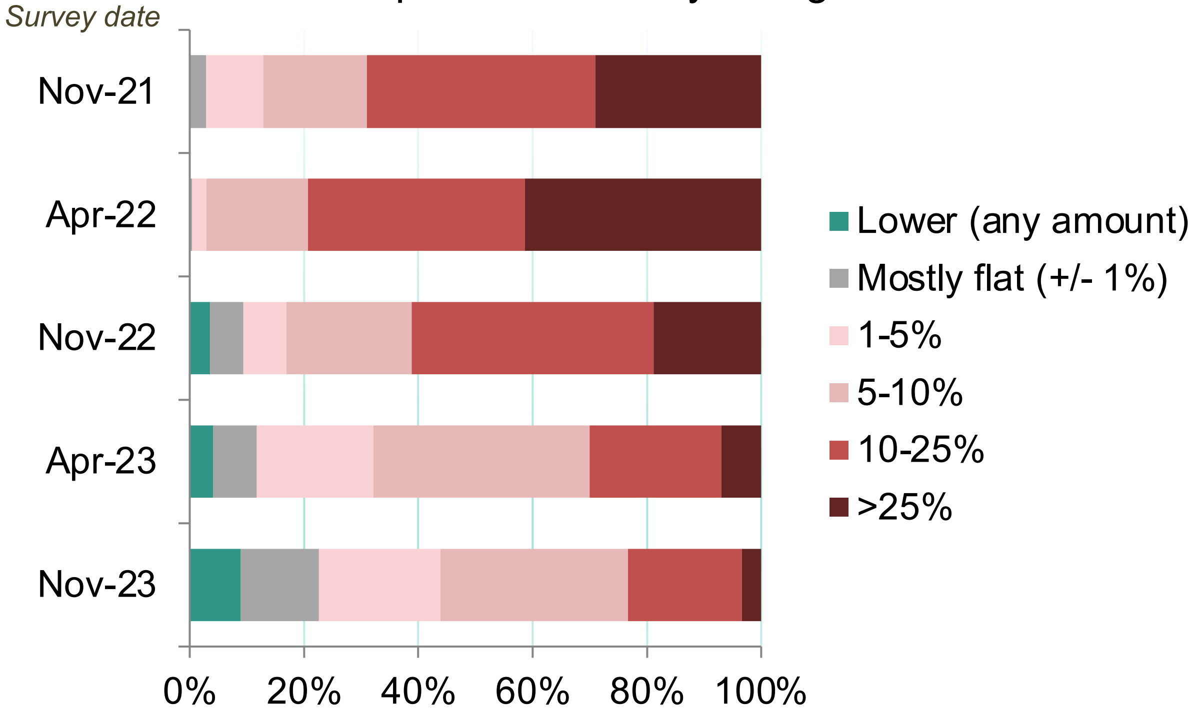
Over the last three months, what is the direction or trajectory of different challenges?



Wholesale and retail price inflation moderating, but still high

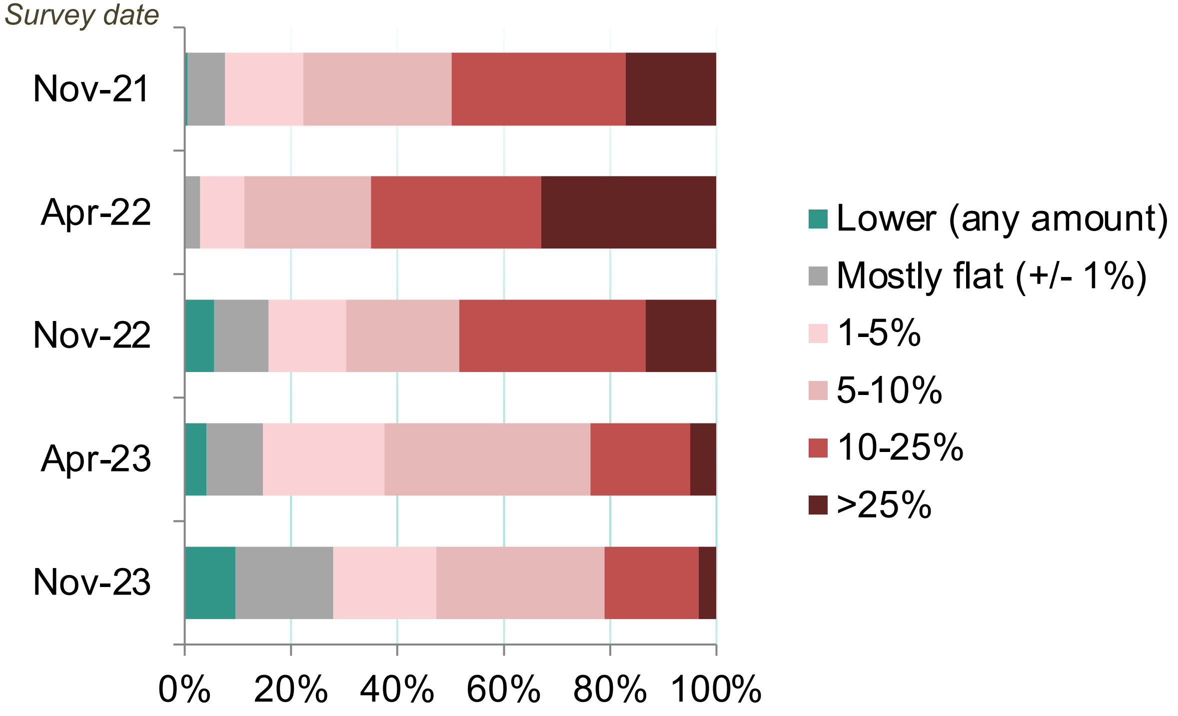
Wholesale pricing

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

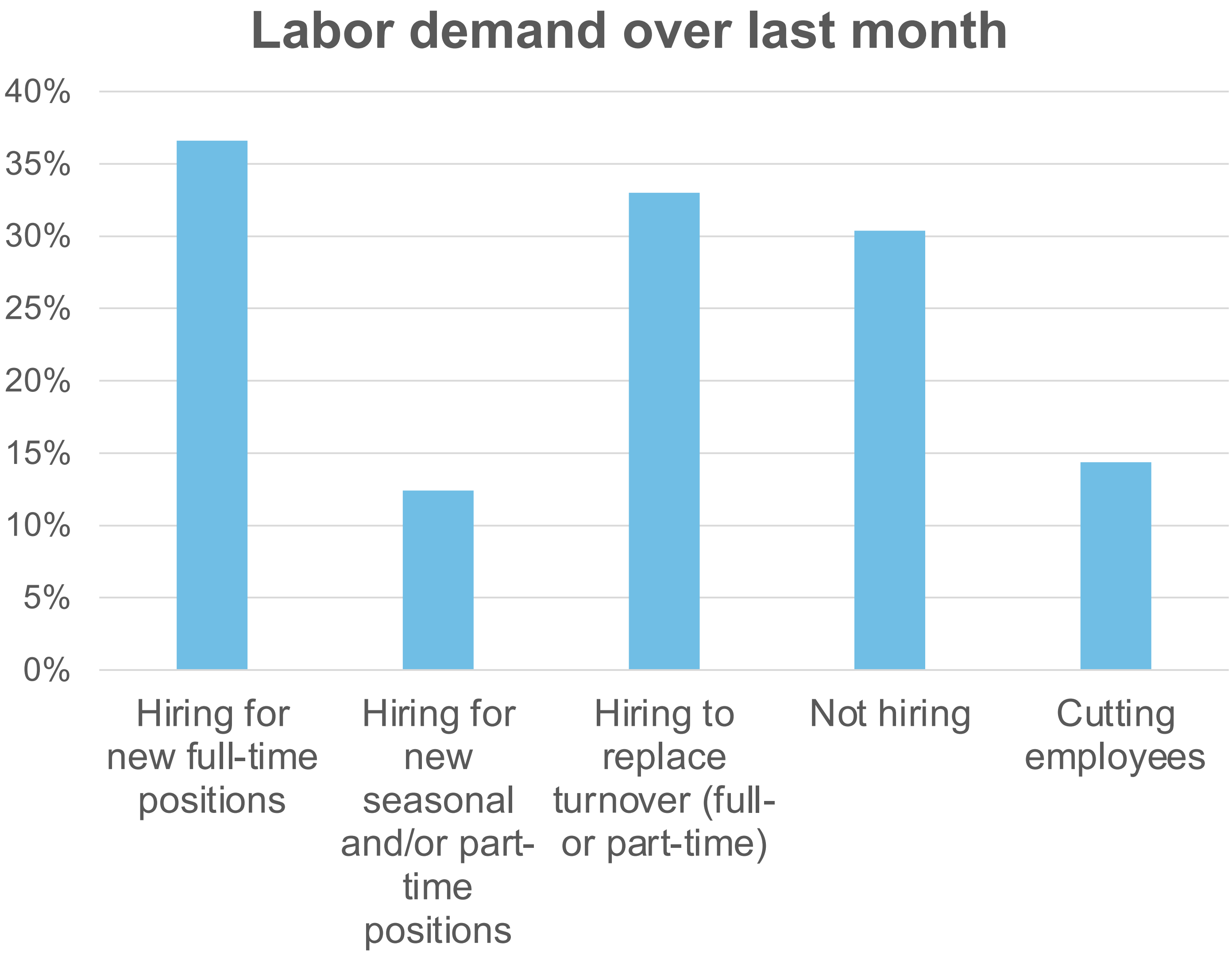


Retail pricing

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



LABOR DEMAND



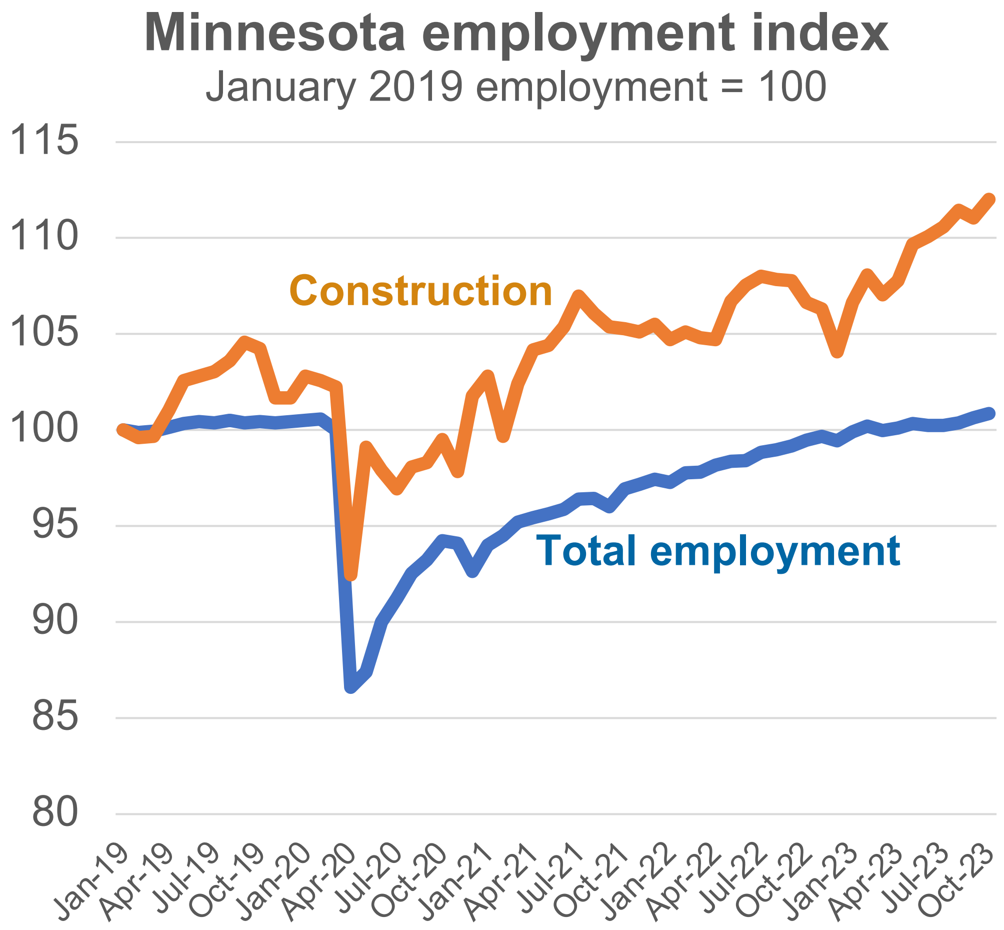
Sector still seeing net positive labor demand: More than half of firms reported they were hiring

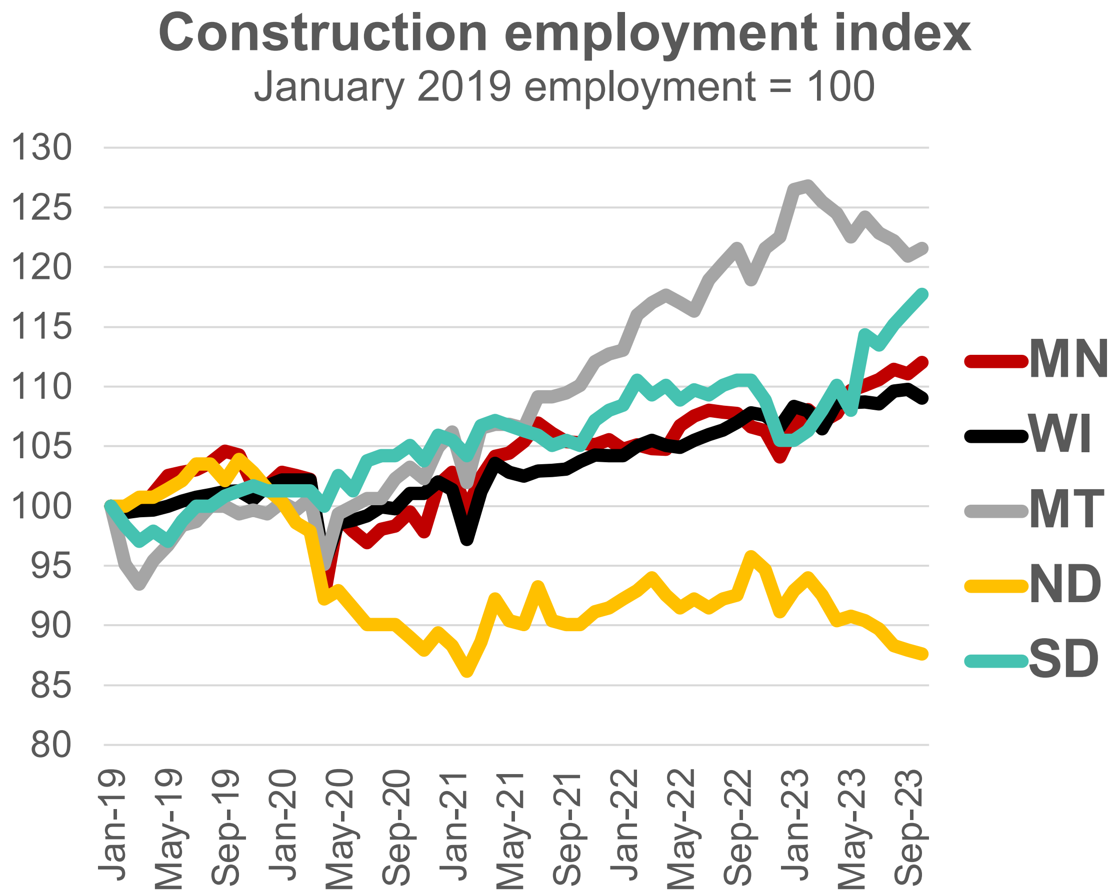
Sector difficulties having some downward pressure on labor demand

Share of firms cutting workers doubled from last year's survey (7% to 14%)

CONSTRUCTION EMPLOYMENT

Construction employment not acting like it’s in a slump

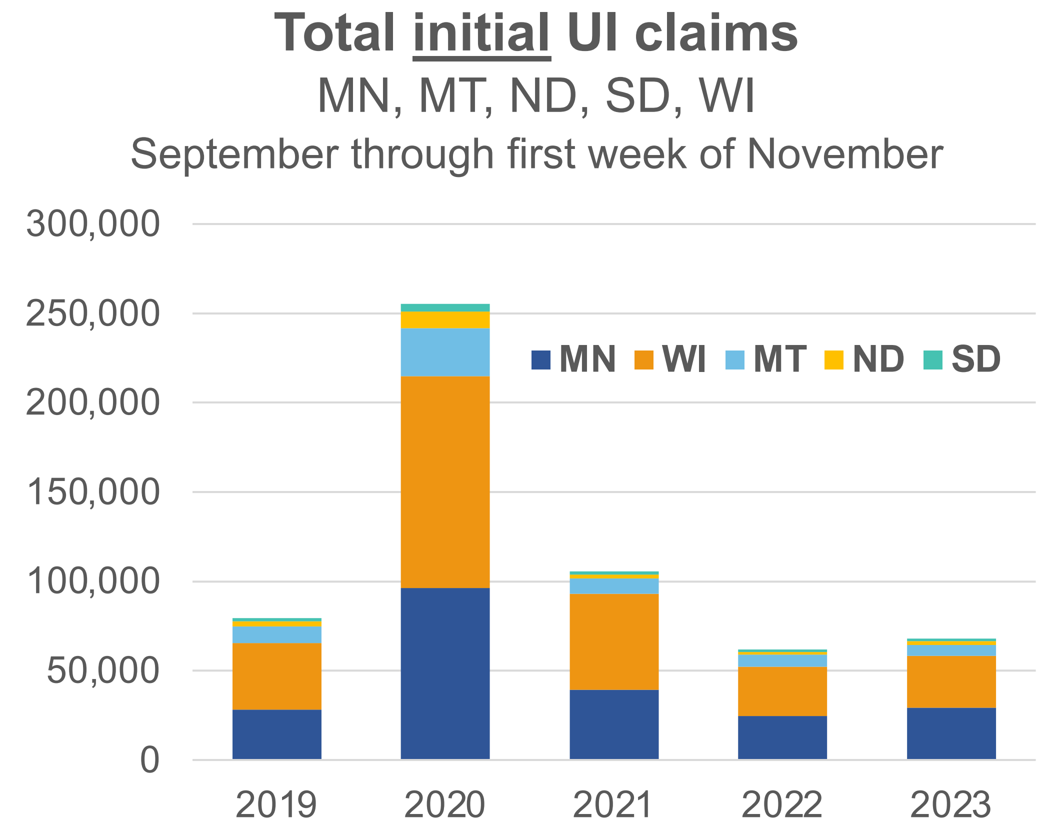


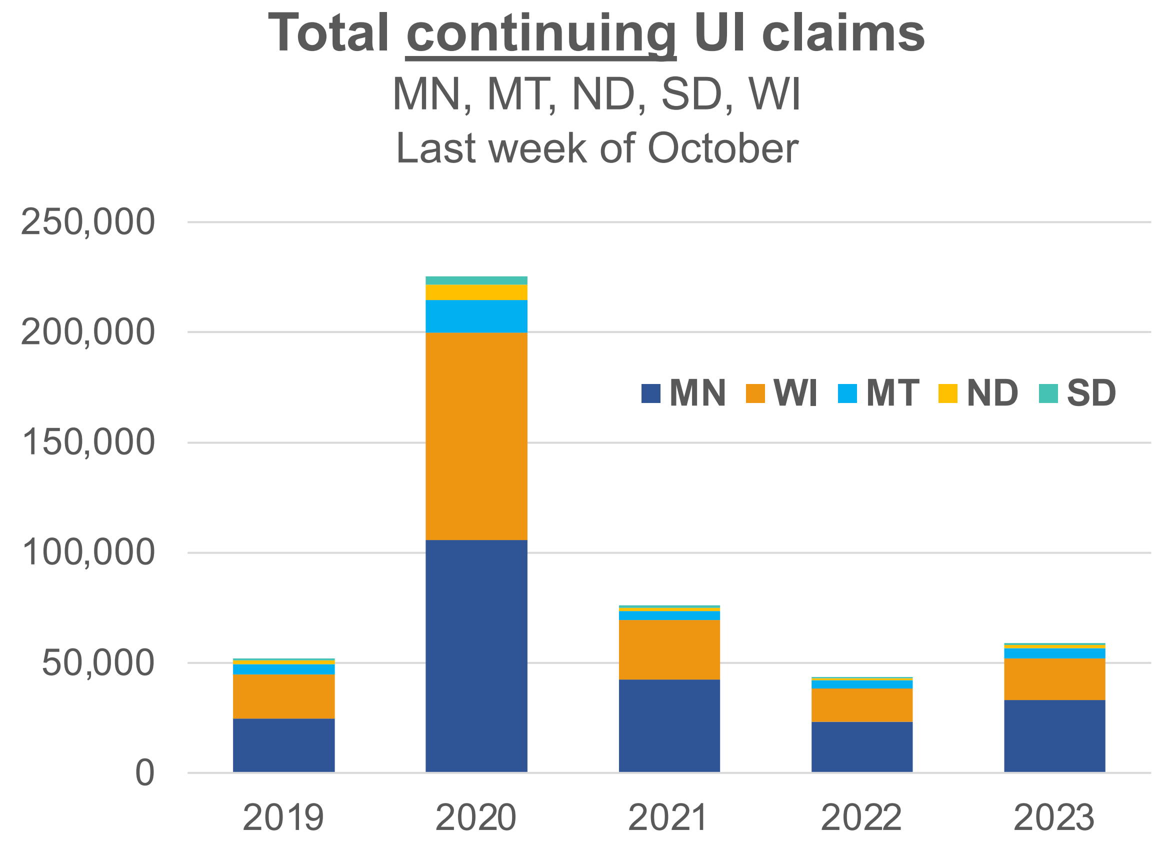


Source: Bureau of Labor Statistics

UNEMPLOYMENT INSURANCE CLAIMS IN CONSTRUCTION

- **Unemployment claims a bit higher than 2022**
- **Not outside normal/pre-pandemic levels for this time of year**

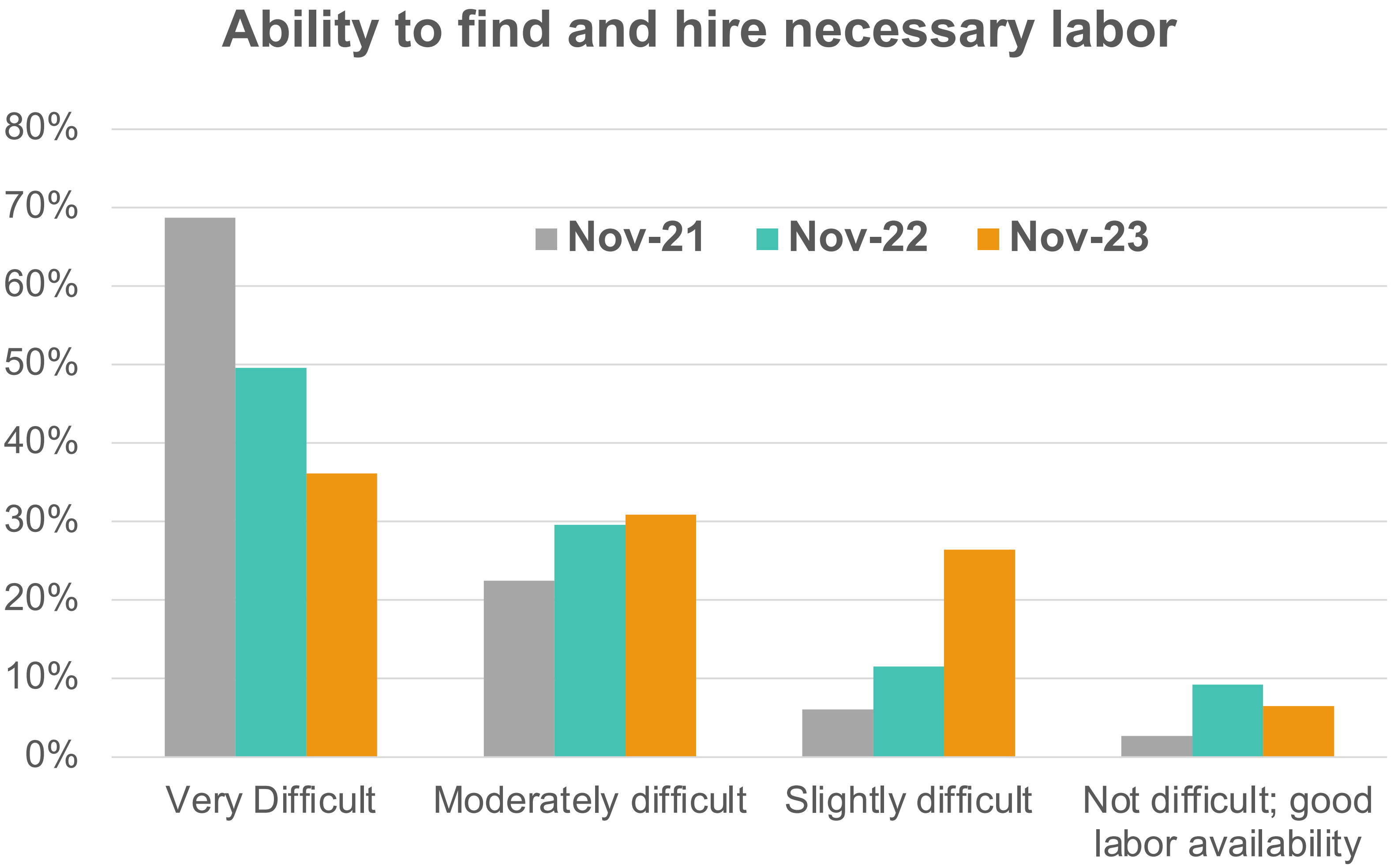




Source: U.S. Department of Labor

LABOR AVAILABILITY

Some slowing in overall hiring has helped the job-matching process for those still looking for labor

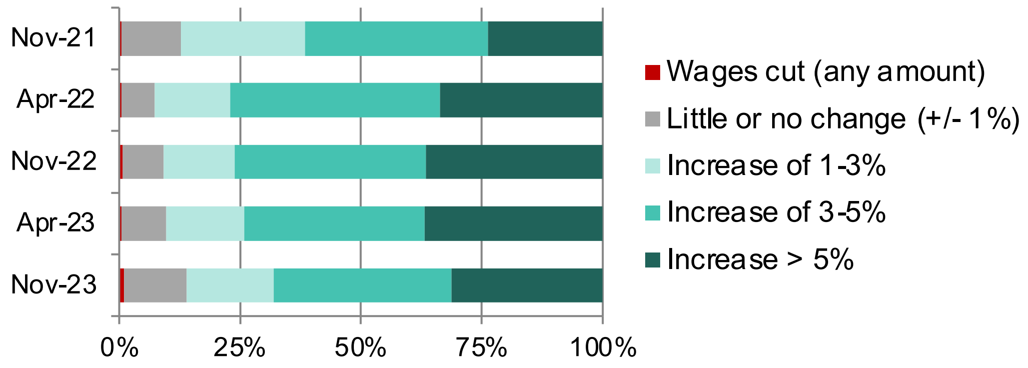


WAGES FOR SKILLED TRADES

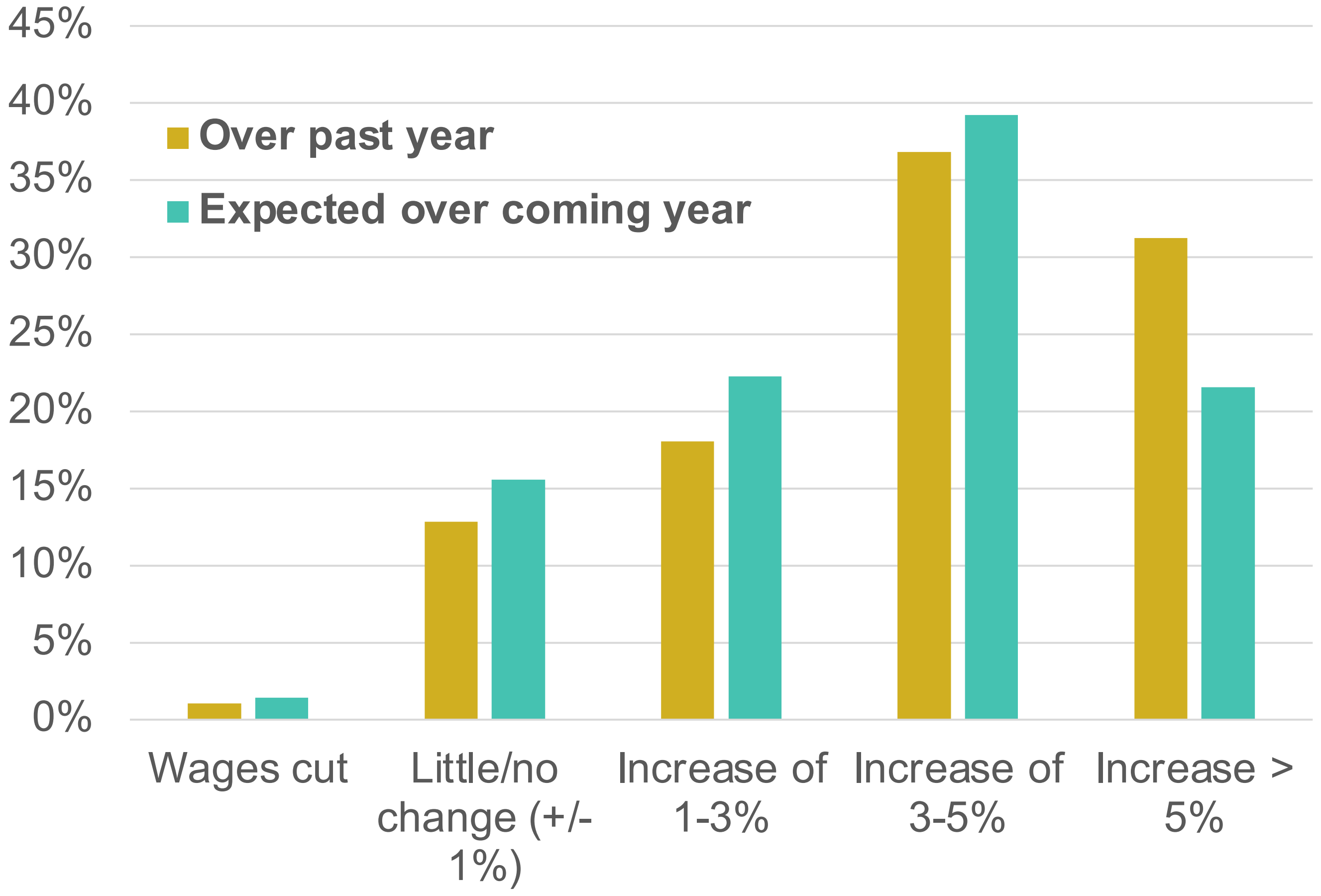
Wage pressure easing, but only slightly

Dip in future wage expectations might be justified, or wishful thinking

Wage increases (skilled trades, y-o-y)



Average wage increase for skilled trades



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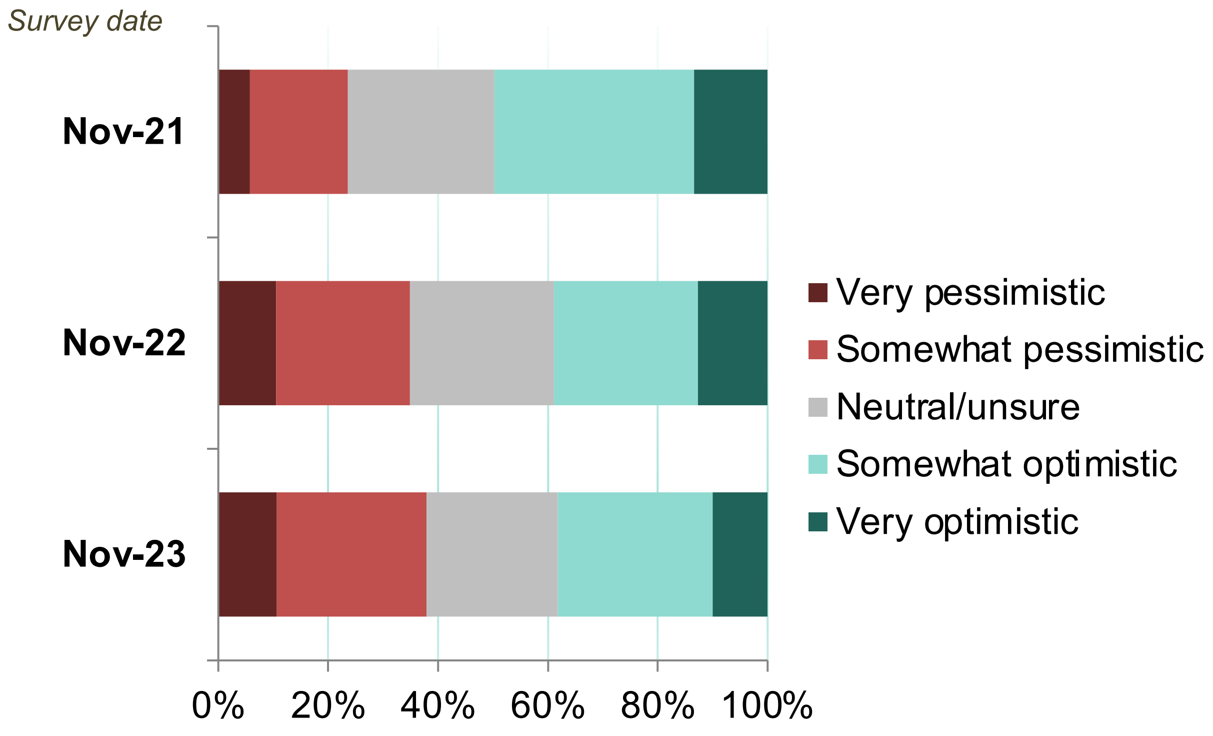
AND FINALLY…OUTLOOK

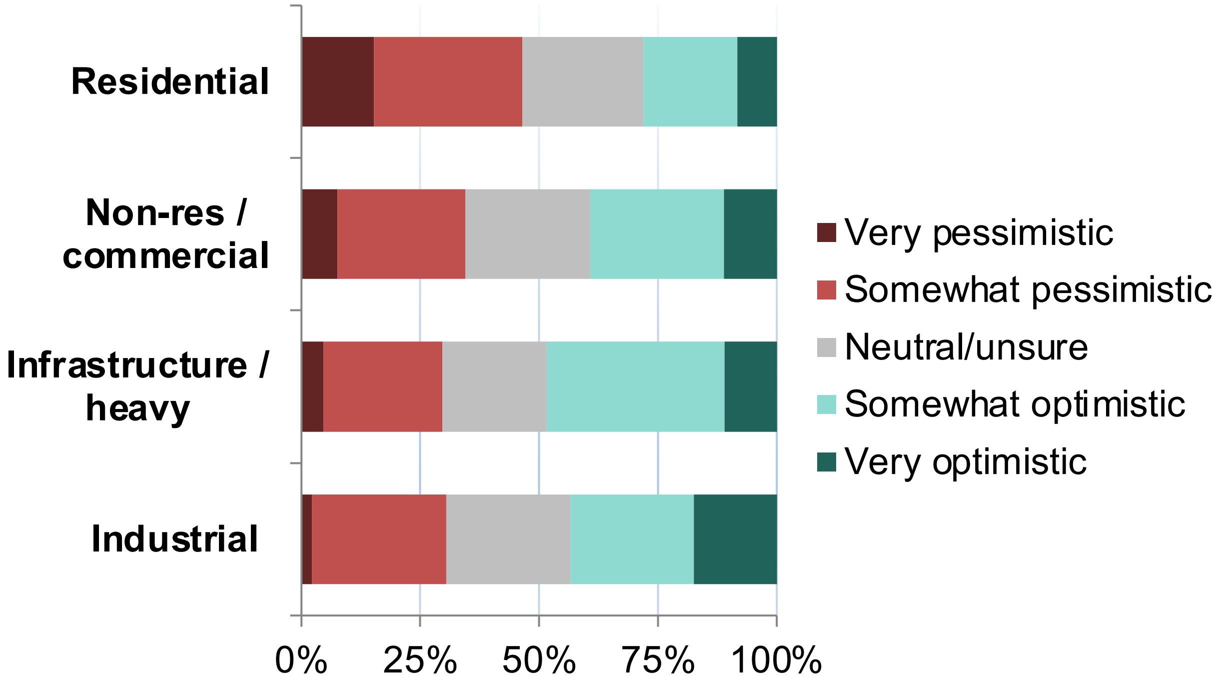
OUTLOOK: COULD BE WORSE?

- **Flat overall; outlook virtually unchanged from last year**
- **Residential sector much more dour in outlook**

Outlook for next six months



Outlook by sector



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SURVEY WRAP-UP

- Revenue and profits trending negative
- Affecting all sectors, but residential and commercial seeing the worst effects
- Future activity showing further softness:
  - Project backlogs shrinking
  - Decline in new projects, and esp. private projects
- Higher interest rates having a clear impact
- Cost inflation still problematic; wage growth persistent
- A few improvements: Labor, pricing & supply chain
- Outlook = flat; cautious, at best

UPCOMING EVENTS

Regional Economic Conditions Conference

- Friday, January 12, 9am (virtual)
- Discussion of current economic and labor market conditions with experts from every Ninth District state
- Keynote: David Mortenson, Chair of Mortenson Construction
  Fireside chat with Minneapolis Fed President Neel Kashkari
- Registration link in chat box
- minneapolisfed.org

THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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