CONSTRUCTION CONDITIONS
IN THE NINTH DISTRICT

November 29, 2023

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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

Recent revenue trends

- Significant decline
- Moderate decline
- Little or no change
- Moderate increase
- Significant increase
REVENUE TRENDS, OVER TIME

Recent revenue compared with previous year

Survey date
- May-21
- Aug-21
- Nov-21
- Apr-22
- Nov-22
- Apr-23
- Nov-23

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

Note: Survey went to bi-annual in 2022
Future revenue expectations lower

But compared with last year’s survey, slight improvement

Survey date
- November 21, 2021
- November 22, 2022
- November 23, 2023

Future revenue expectations
Compared with previous year’s performance

- Significant decline
- Moderate decline
- Little or no change
- Moderate increase
- Significant increase

Half-empty & full
COMPANY PROFITS

Profit levels negative across the board

Residential sector seeing much more negative trend

Three other sectors mostly evenly split +/-
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 permits slowed across Ninth District

Single-family permitting has seen rebound in recent months in some places

Single-family permits
Year-to-date through September of each year

Multi-family permits
Year-to-date through September of each year

Source: U.S. Census
OTHER ACTIVITY METRICS
Backlogs shrinking, especially in residential

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

Backlog of future projects compared with last year

- Residential
- Non-res/commercial
- Infrastructure/heavy
- Industrial

Survey date

- Nov-22
- Apr-23
- Nov-23

Backlog of future 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

Pick TWO: Greatest challenge to current operating capacity and productivity
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.
Wholesale and retail price inflation moderating, but still high

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

- **Survey date**
  - Nov-21
  - Apr-22
  - Nov-22
  - Apr-23
  - Nov-23

- **Average price increase**
  - Lower (any amount)
  - Mostly flat (+/- 1%)
  - 1-5%
  - 5-10%
  - 10-25%
  - >25%

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

- **Survey date**
  - Nov-21
  - Apr-22
  - Nov-22
  - Apr-23
  - Nov-23

- **Average price increase**
  - Lower (any amount)
  - Mostly flat (+/- 1%)
  - 1-5%
  - 5-10%
  - 10-25%
  - >25%
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 not acting like it’s in a slump

**Minnesota employment index**
January 2019 employment = 100

**Construction employment index**
January 2019 employment = 100

Source: Bureau of Labor Statistics
• Unemployment claims a bit higher than 2022
• Not outside normal/pre-pandemic levels for this time of year

Source: U.S. Department of Labor
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

- Over past year
- Expected over coming year

Wage increases (skilled trades, y-o-y)
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**
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](http://minneapolisfed.org)
THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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