CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

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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 & PROFIT TRENDS
RECENT AND FUTURE REVENUE

Year-over-year: Slightly negative overall

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

Revenue over last 3 months compared with ...
Total construction spending still comparatively high

District totals boosted by:

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

Source: Dodge Data & Analytics
REVENUE TRENDS, OVER TIME

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

Repeated cross sections from previous 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
COMPANY PROFITS

Profits over last 3 months compared with ...

- Previous 3-month period
- Same period a year ago
- Expectations for coming 6 months compared with same period last year

Profit levels negative across the board
But profit outlook not quite as dour as November survey
REVENUE TRENDS BY CONSTRUCTION SECTOR

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
6-month revenue outlook shows more concern for residential, and flat-to-good outlook for other sectors.
OTHER ACTIVITY METRICS
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 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

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

No major differences among sectors.

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

- **Public projects**:
  - Significantly lower: 0%
  - Somewhat lower: 25%
  - Flat/no change: 50%
  - Somewhat higher: 25%
  - Significantly higher: 0%

- **Private projects**:
  - Significantly lower: 0%
  - Somewhat lower: 25%
  - Flat/no change: 50%
  - Somewhat higher: 25%
  - Significantly higher: 0%
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

[Graph showing various challenges and their percentages over different timelines]
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:

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

Options: Getting worse, Staying the same, Getting better
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 *not* flowing through to hiring demand
- Some demand driven by persistent *inability* to find labor for open positions

Hiring demand over past three months

- **Aug-21**: Increased headcount 40%, Replaced turnover (only) 20%, Not hiring; stable 40%
- **Nov-21**: Increased headcount 30%, Replaced turnover (only) 30%, Not hiring; stable 40%
- **Apr-22**: Increased headcount 30%, Replaced turnover (only) 30%, Not hiring; stable 40%
- **Nov-22**: Increased headcount 30%, Replaced turnover (only) 30%, Not hiring; stable 40%
- **Apr-23**: Increased headcount 30%, Replaced turnover (only) 30%, Not hiring; stable 40%

Expected hiring demand next six months

- **Aug-21**: Increase headcount 40%, Replace turnover (only) 20%, Not hiring; stable 40%
- **Nov-21**: Increase headcount 30%, Replace turnover (only) 30%, Not hiring; stable 40%
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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

- Very tight
- Moderately tight
- Slightly tight
- Not tight; good labor availability

<table>
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<tr>
<th>Month</th>
<th>Very tight</th>
<th>Moderately tight</th>
<th>Slightly tight</th>
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<td>62%</td>
<td>30%</td>
<td>10%</td>
<td>8%</td>
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Wages pressure still strong overall

Some pullback on future wage expectations

Hard to know whether justified on activity basis, or just wishful thinking
OUTLOOK: OPTIMISM PREVAILS

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
SURVEY WRAP-UP

• 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
UPCOMING WEBINARS ON CURRENT CONDITIONS

● Ag Credit with Joe Mahon
  • May 19, 9am
  • minneapolislisd.org

● Hospitality & Tourism (survey in field next week)
  • Webinar: June 22, 9am (tentative)
THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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