CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

Results of biannual Construction Survey

January 12, 2024

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Regional Outreach Director
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.
SURVEY BACKGROUND

- Largest regular, construction-focused survey among the 12 Federal Reserve District Banks
- Partner survey: Construction-trade organizations in District states distribute survey to members
- Partner model provides Minneapolis Fed, our partners, their members, and public with timely insights on current conditions
- Conducted in mid-November, 2023; 300+ responses; most in residential and/or commercial; smaller % in infrastructure and industrial, but tend to be larger ($)
- Results are a snapshot; not a scientifically sampled survey. *Please interpret carefully*
SURVEY TAKE-AWAYS

• Negative revenue and profit trends continued
• Residential seeing worst outcomes, by sizeable margin
• 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; a lot of caution
RECENT REVENUE & PROFIT TRENDS
Revenue trend first slowed in April 2022, and has steadily deteriorated.

Recent-quarter revenue compared with same period previous year:

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

Note: Survey went to biannual in 2022.
COMPANY PROFITS

Recent profits compared with last year

Survey date
- Nov-22
- Apr-23
- Nov-23

Profit levels falling, and not expected to improve much in the short-term

Future profit expectations compared with last year

Survey date
- Nov-22
- Apr-23
- Nov-23

Profit levels falling, and not expected to improve much in the short-term
SECTOR BREAKDOWN
REVENUE TRENDS BY CONSTRUCTION SECTOR

Sectoral performance

Residential & commercial seeing poorest revenue trend

Infrastructure & industrial still positive, but compressing a bit

Summer 2023 revenue compared with 2022

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

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

Fall 2023 revenue compared with 2022

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

- Significant decline
- Moderate decline
- Little or no change
- Moderate increase
- Significant increase
Total value of monthly construction starts
6-month rolling average: MN, MT, ND, SD, WI

Source: Dodge Data & Analytics

Total value of construction starts, year-to-date through November compared with 2022:

- Residential: -23%
- Nonresidential: -2%
- Nonbuilding: +1.1%
HOUSING PERMIT DATA – NINTH DISTRICT

- Bigger slide in single-family since peak
- More dramatic fall-off for multi-family in 2023

**Single-family permits: Ninth District**
Year-to-date through November

**Multi-family permits: Ninth District**
Year-to-date through November

Source: U.S. Census
OTHER ACTIVITY METRICS
New projects out for bid declining, especially private ones; closely mirrors last year’s results.

Public projects: Not necessarily reflective of current federal infrastructure spending (large projects & large firms).
Backlogs shrinking, especially in residential.

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

Survey date:
- Nov-22
- Apr-23
- Nov-23

Backlog of future projects compared with last year:
- Residential
- Non-res/commercial
- Infrastructure/heavy
- Industrial

Significantly lower, Somewhat lower, Similar, Somewhat higher, Significantly higher.
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

RO's Construction Survey, November 2023
CHALLENGES TO OPERATIONS

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Pick TWO: Greatest challenge to current operating capacity

RO’s Construction Survey, November 2023

- Daily attendance of workers
- Wage pressure
- Other
- Govt regs/taxes
- Permitting delays & costs
- Higher interest rates
- Supply chain disruptions
- Material input costs
- Labor availability
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

RO’s Construction Survey, November 2023
Wholesale and retail price inflation moderating, but still high

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

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<th>Survey date</th>
<th>Lower (any amount)</th>
<th>Mostly flat (+/- 1%)</th>
<th>1-5%</th>
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**Retail pricing**
Average price increase to customers, all materials, compared with one year ago

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More than half of firms reported they were hiring, but some downward pressure on labor demand.

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

Overall: Total construction employment not reacting like a sector in crisis.

- Minnesota construction employment at all-time high in November.
LABOR AVAILABILITY

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

Ability to find and hire necessary labor

- Very Difficult
- Moderately difficult
- Slightly difficult
- Not difficult; good labor availability

Nov-21
Nov-22
Nov-23
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

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<th>Very pessimistic</th>
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<th>Neutral/unsure</th>
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<th>Very optimistic</th>
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### Outlook by sector

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

- **Non-res / commercial**
  - Very pessimistic
  - Somewhat pessimistic
  - Neutral/unsure
  - Somewhat optimistic
  - Very optimistic

- **Infrastructure / heavy**
  - Very pessimistic
  - Somewhat pessimistic
  - Neutral/unsure
  - Somewhat optimistic
  - Very optimistic

- **Industrial**
  - Very pessimistic
  - Somewhat pessimistic
  - Neutral/unsure
  - Somewhat optimistic
  - Very optimistic
THANK YOU!

NOW, ON TO OUR PANEL DISCUSSIONS WITH NINTH DISTRICT EXPERTS

FIRST: LABOR MARKETS

PLEASE WELCOME MY COLLEAGUE ERICK GARCIA LUNA!