

CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

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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
- **THANK YOU to Partners!**
 - Construction-trade organizations in District states distribute survey to members
 - Provides Minneapolis Fed, our partners, their members and public with timely insights
 - For other trade groups interested in participating, please contact me! (contact info at end)



SURVEY BACKGROUND

Conducted: October 29 to November 18, 2024

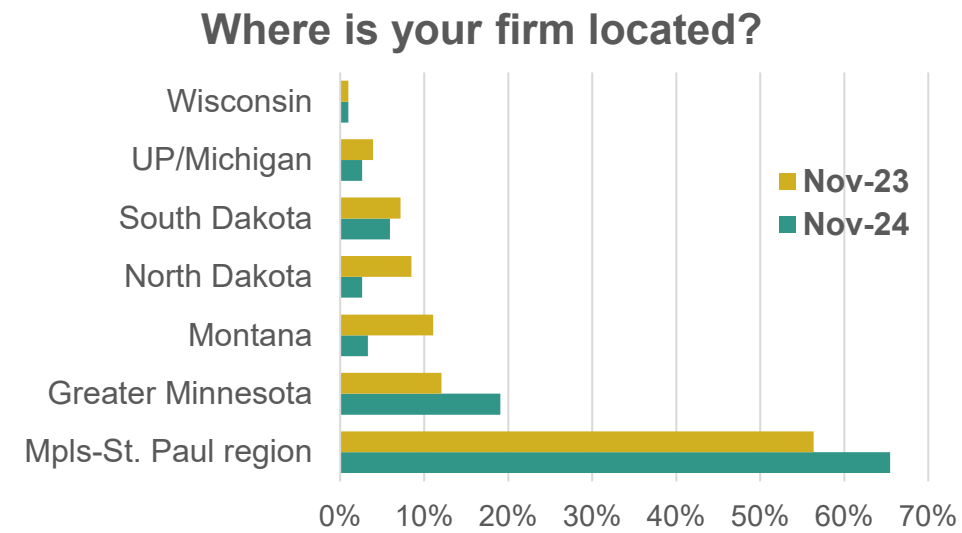
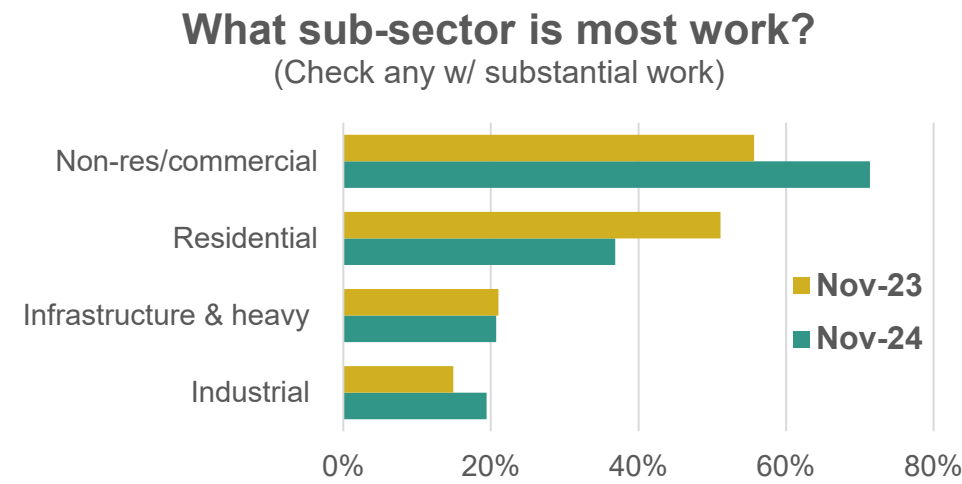
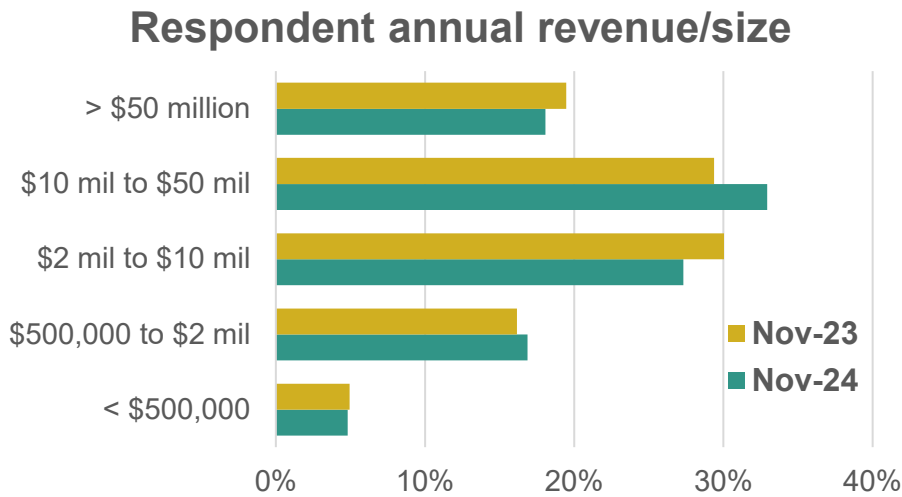
Responses: 306

Compared with Nov. 2023 survey

- Similar response among firms of different size
- Commercial respondents high, residential lower
- Over-weighted in Mpls-St. Paul & Greater MN

Results = snapshot; not scientific sample

Please interpret results carefully





SURVEY TAKE-AWAYS

- Very clear improvement, but hard to say things are “good” yet across the entire sector
- Revenue & profit trends
 - Infrastructure & industrial = much better results
 - Residential & commercial seeing improvement
- New/future projects still contracting, backlogs shrinking
- Labor demand solid, labor availability also better
- Inflation moderating; wage growth flattening, still high
- Outlook: Notably more optimistic





RECENT REVENUE

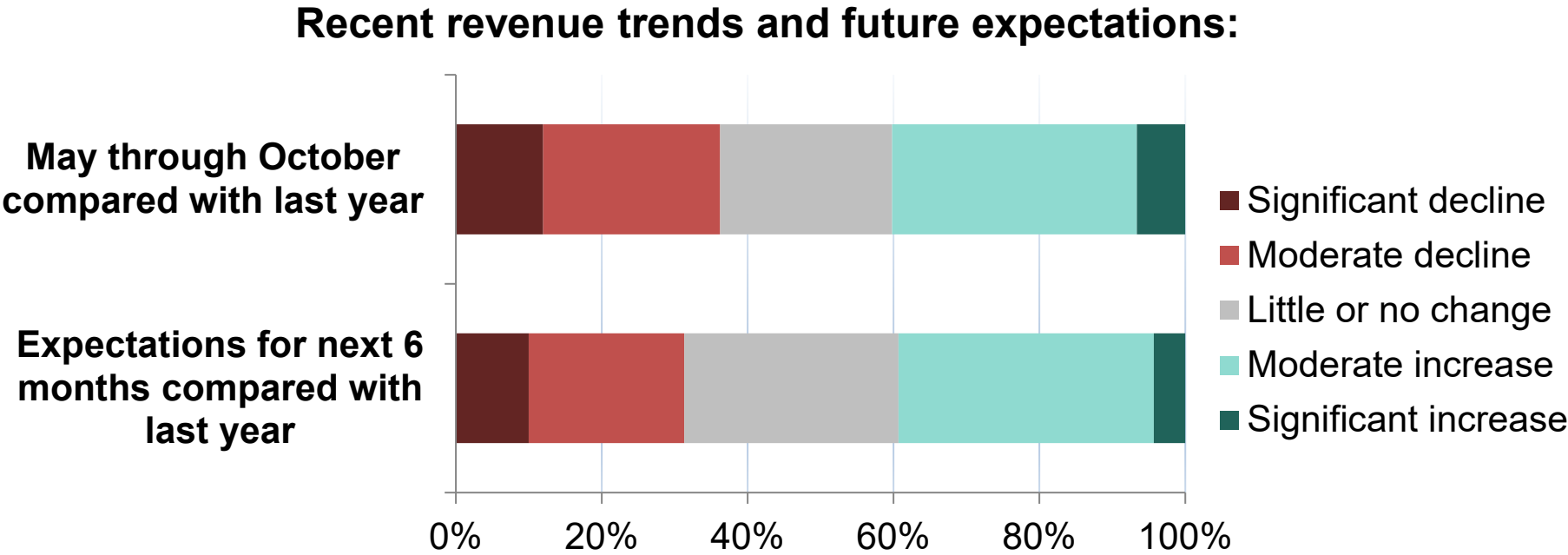
&

PROFIT TRENDS

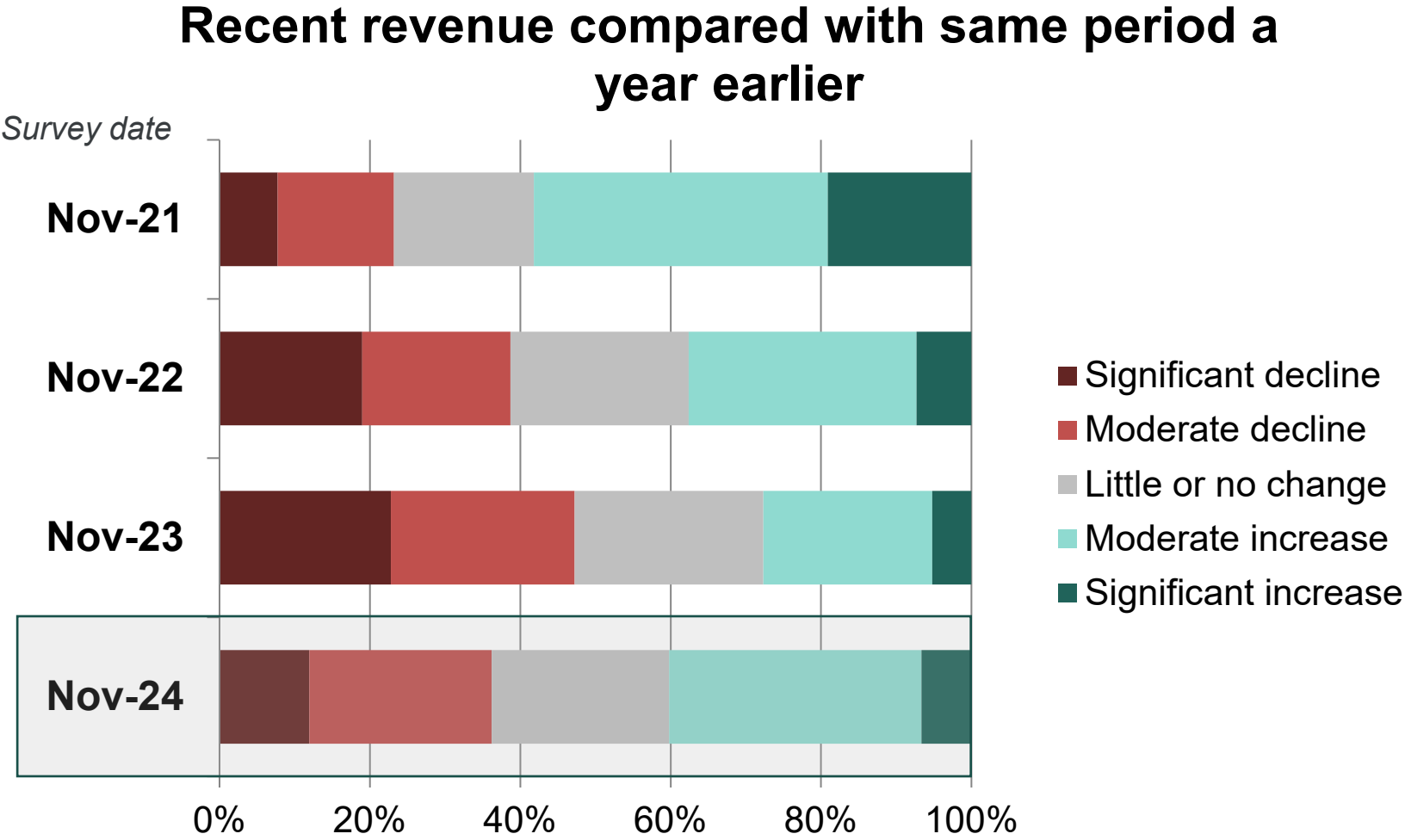
RECENT AND FUTURE REVENUE

Recent: Slightly net-positive! (more seeing revenues increase vs decrease)

Outlook: Slightly better (= less negative)



REVENUE TRENDS, OVER TIME

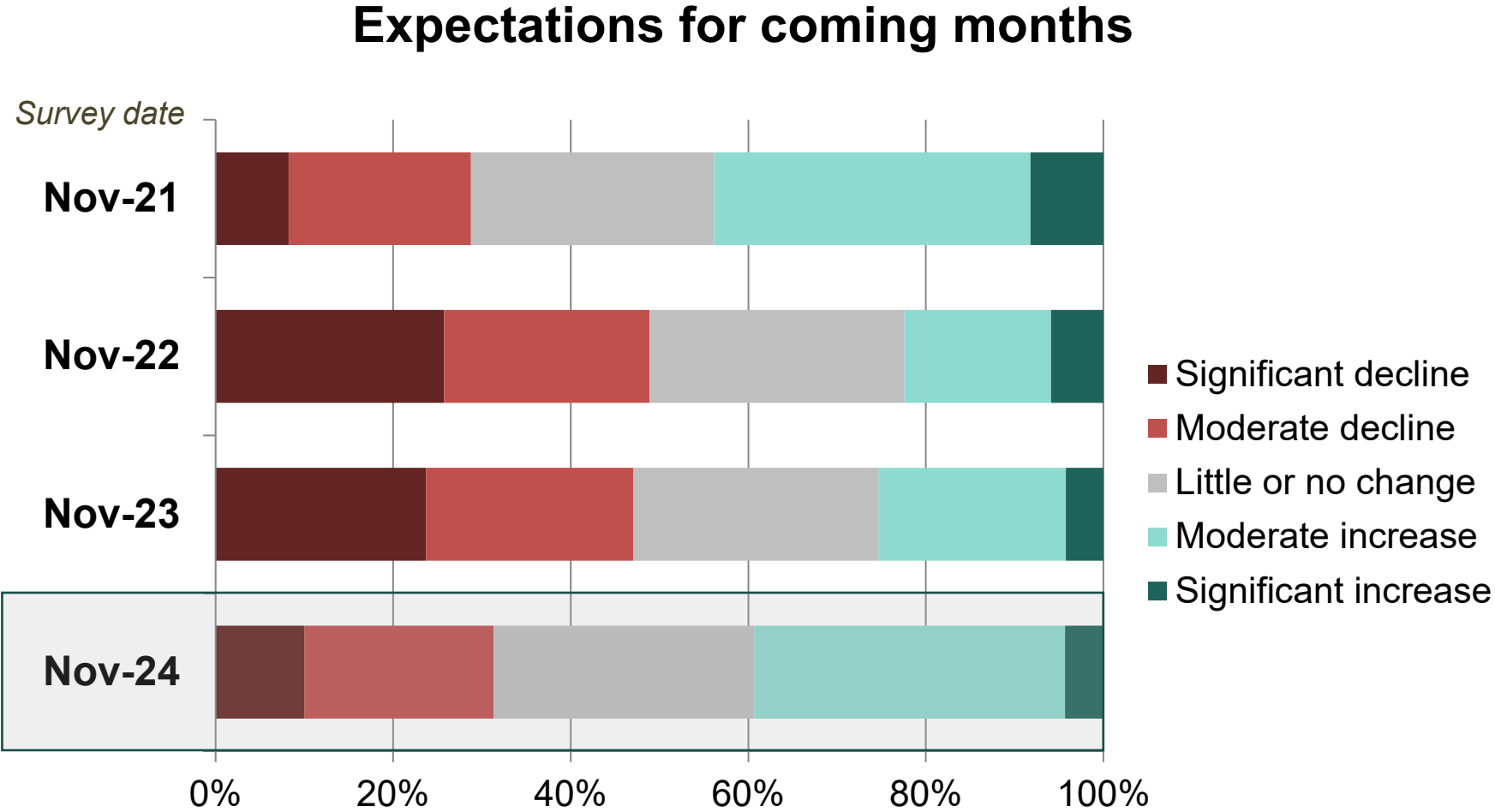


Slightly net-positive overall, but revenue trend improved notably over last year

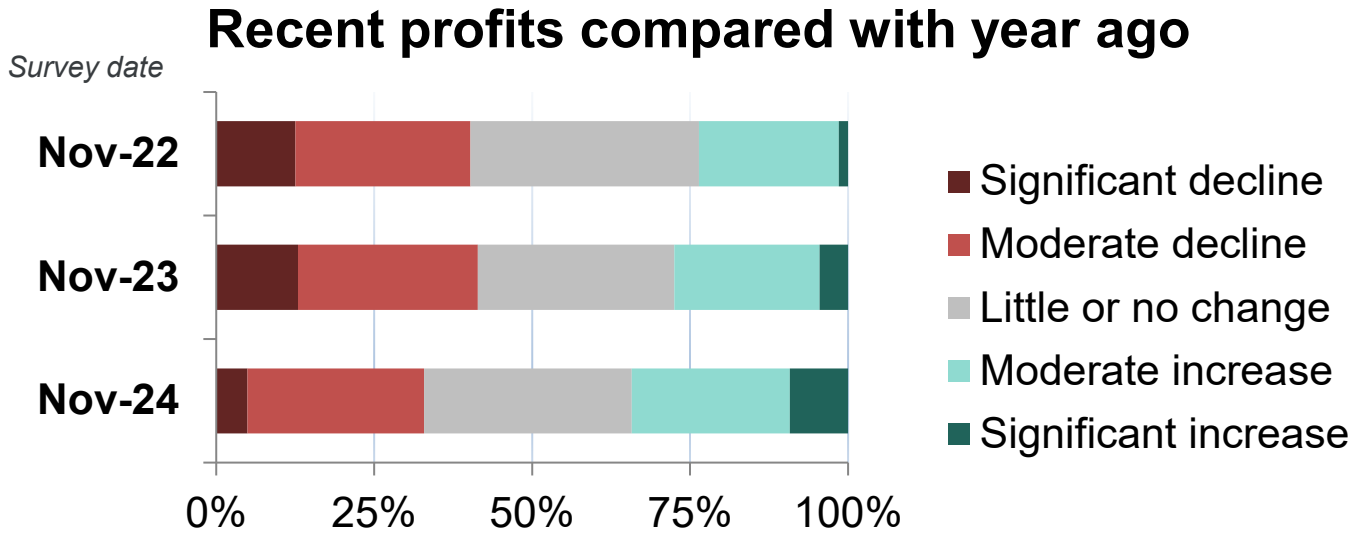
BUT, last year's slowing also improves year-over-year comparisons

COMPARISON OF FUTURE REVENUE EXPECTATIONS

Future revenue expectations have also improved considerably from last year's survey

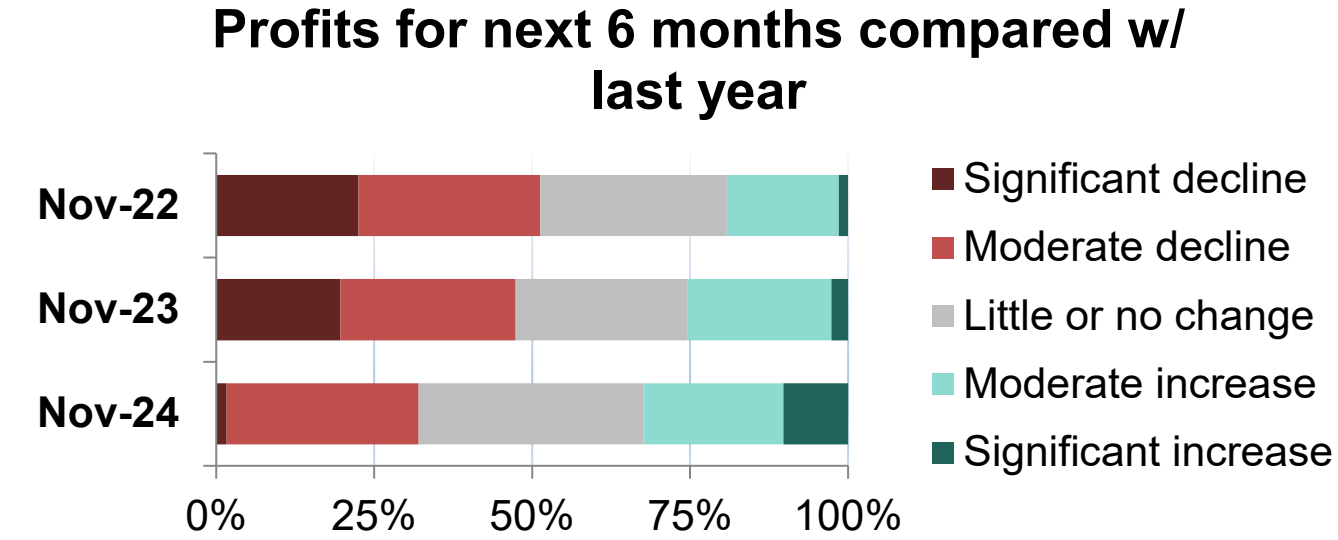


COMPANY PROFITS



Profit trend remains flat overall (same % seeing decline vs increase)

However, trend is clearly improving

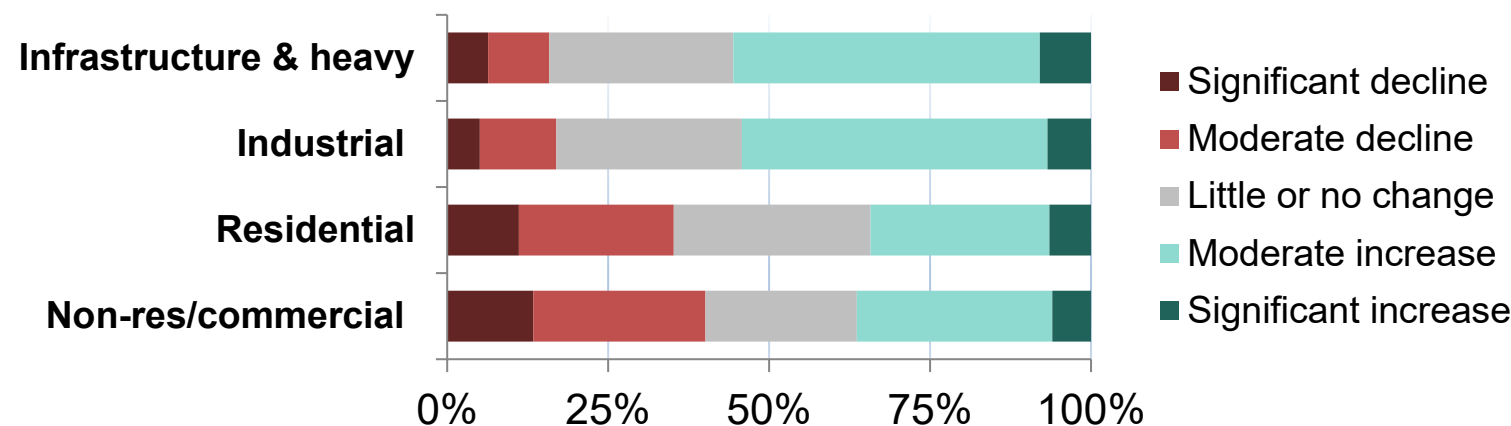




SECTOR BREAKDOWN

REVENUE TRENDS BY CONSTRUCTION SECTOR

Recent revenue compared with last year

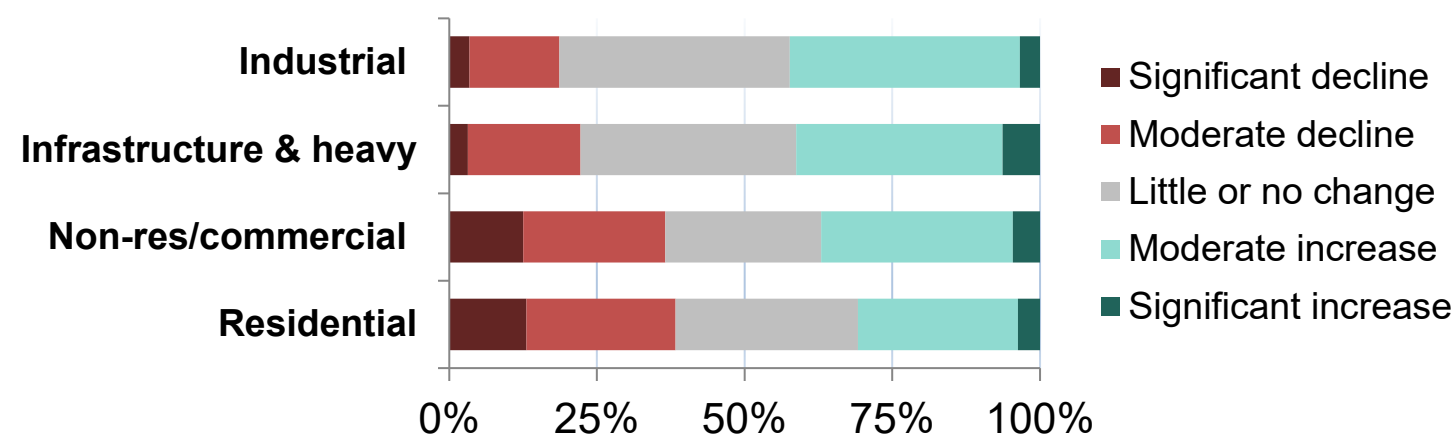


Sectoral performance

Infrastructure & industrial seeing much stronger activity

Residential and commercial trading water, but residential results improved over last year

Revenue expectations for coming 6 months (yoy)

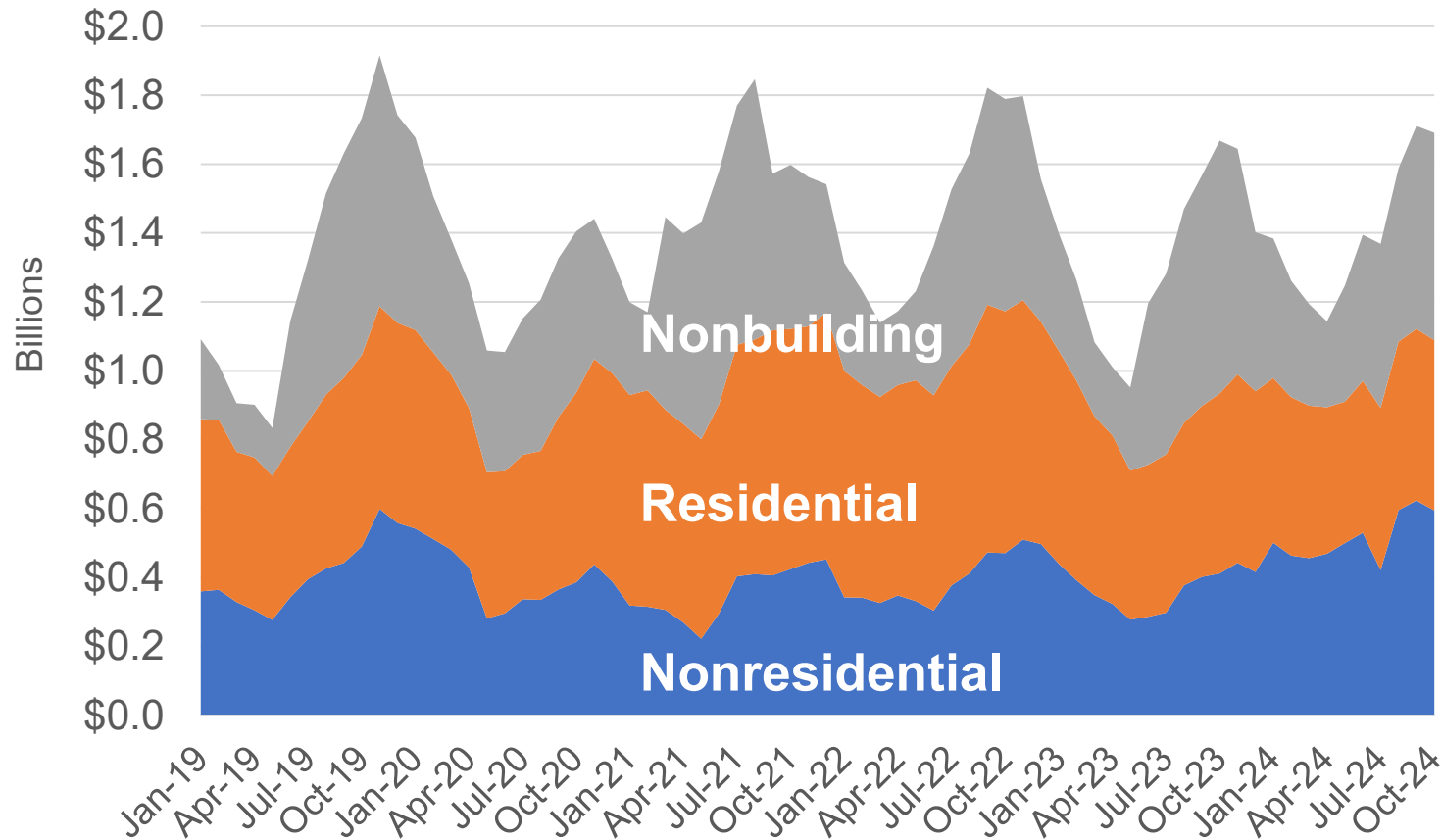


Outlook similar, but more compressed across sub-sectors

NEW CONSTRUCTION STARTS

Value of construction starts: Minnesota

6-month rolling average



Overall activity slightly higher than 2023

Sept-Oct 2024: +2.4% with nonresidential pulling growth (=data centers)

This year (partial):

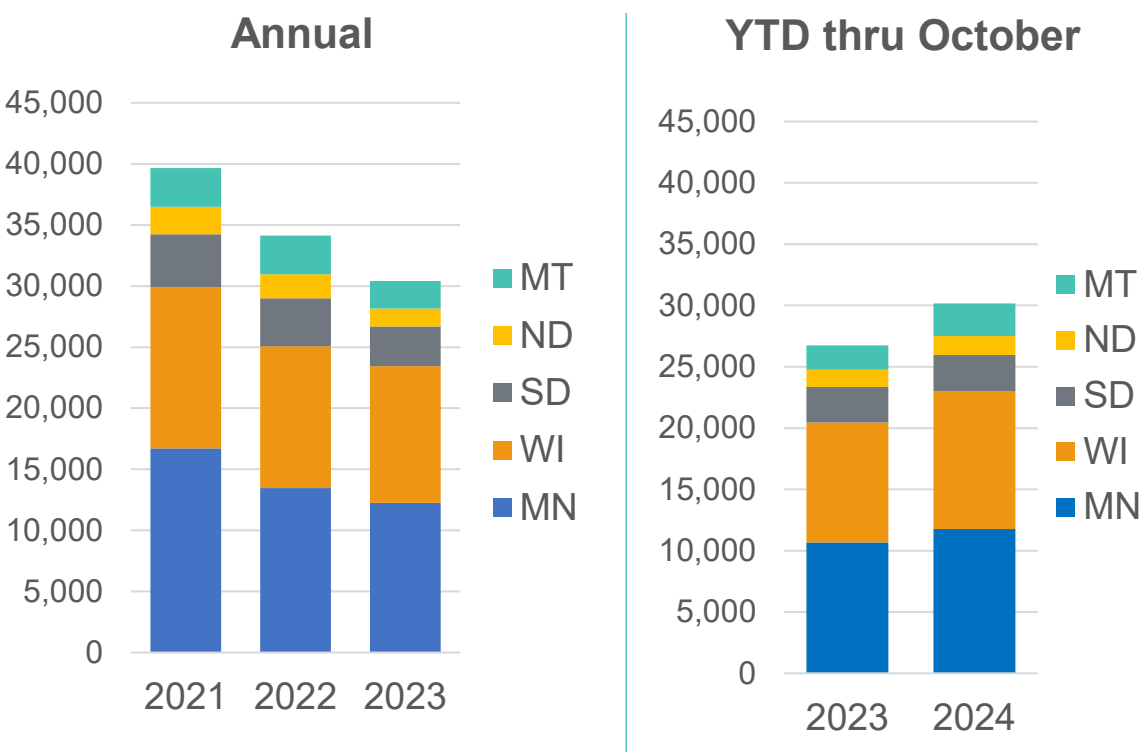
- Amazon in Becker
- AAIM in Blue Earth
- Archer in Faribault
- CloudHQ in Chaska
- Microsoft in Becker
- Meta in Rosemount
- Tract in Farmington



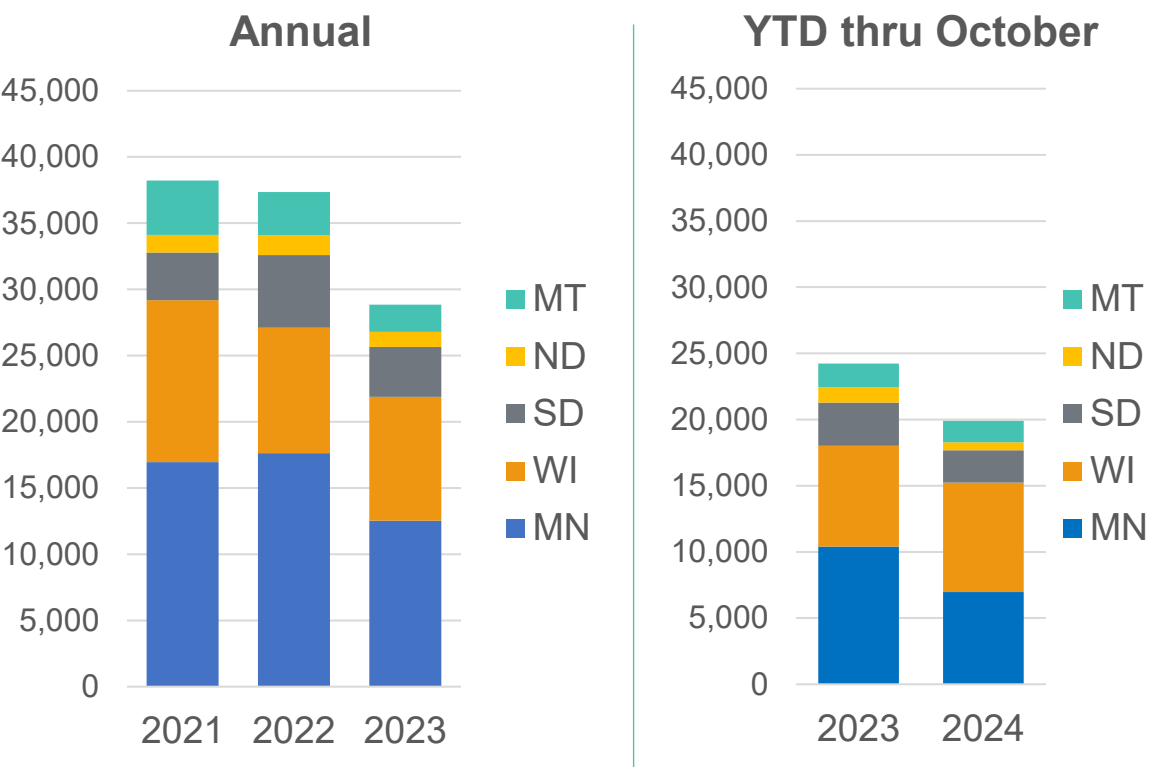
HOUSING PERMIT DATA – NINTH DISTRICT

- Single-family permits rebounding this year
- However, multi-family seeing further decline

Single-family permits



Multi-family permits



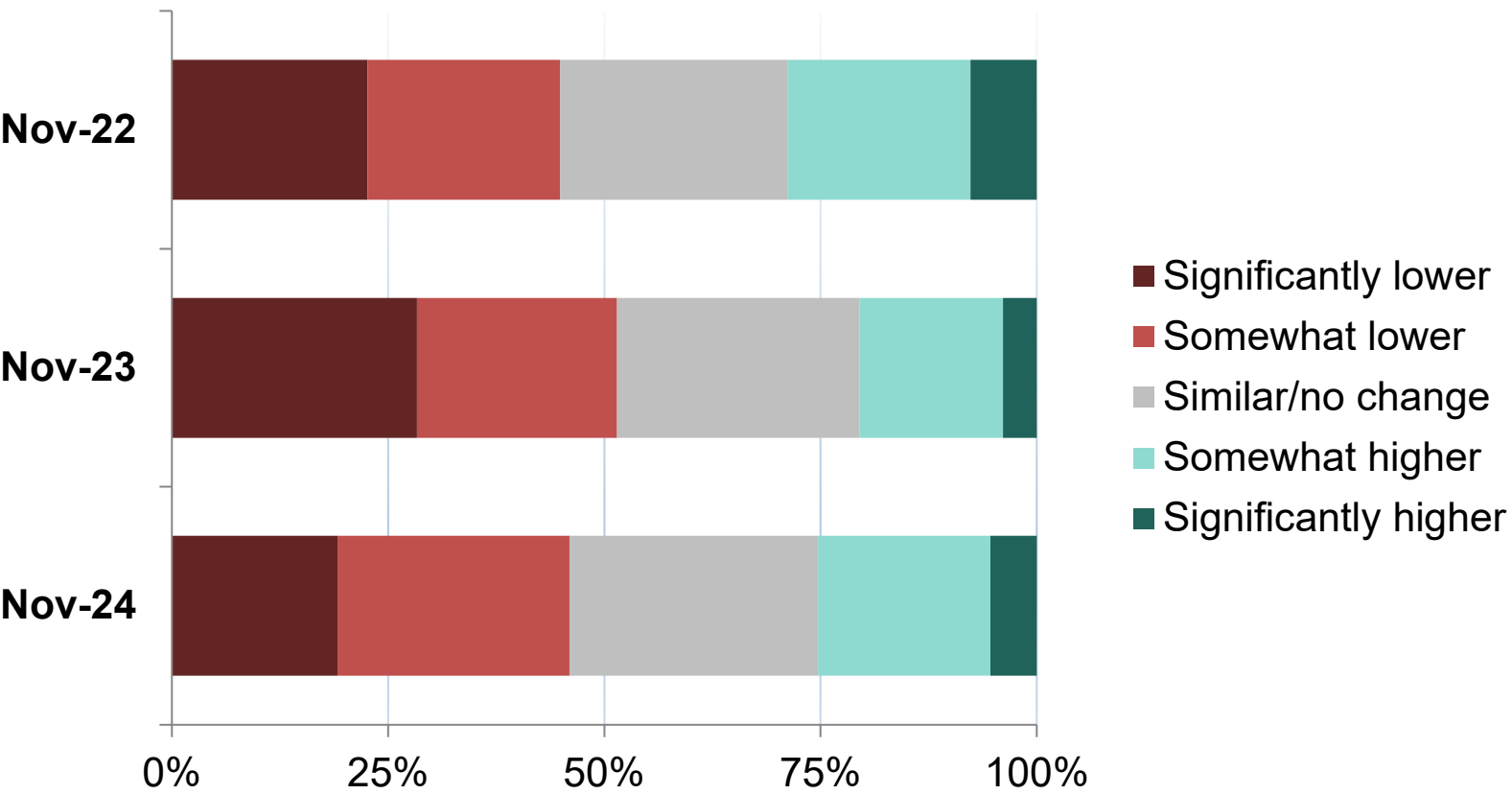
Source: U.S. Census



OTHER ACTIVITY METRICS

PROJECT BACKLOGS

Project backlog compared with last year

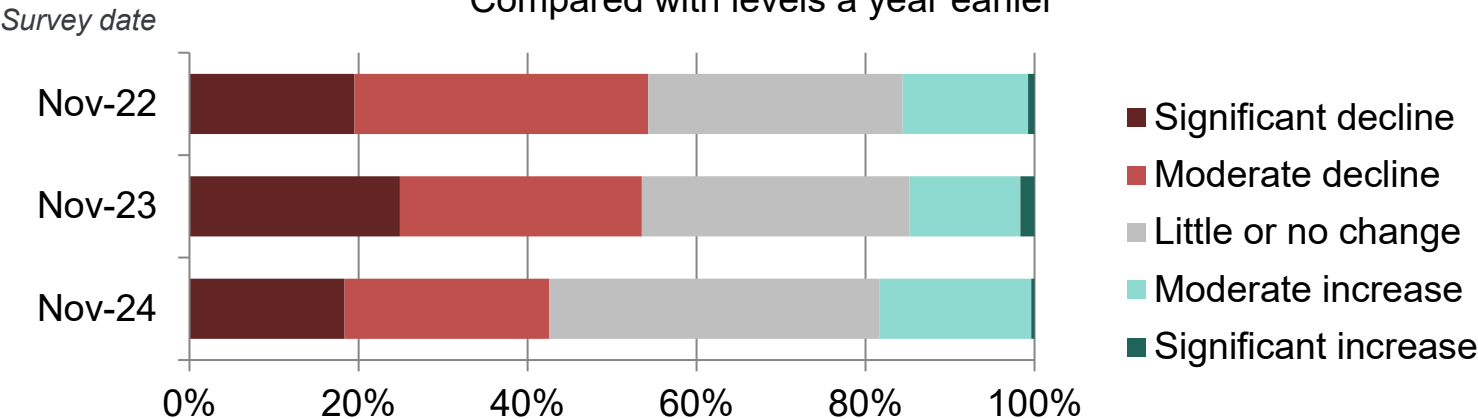


Backlogs still contracting; improved marginally compared with last year, including in residential & commercial

REQUEST FOR PROPOSALS (RFPS) – NEW PROJECTS

Requests for Proposal: Private Projects

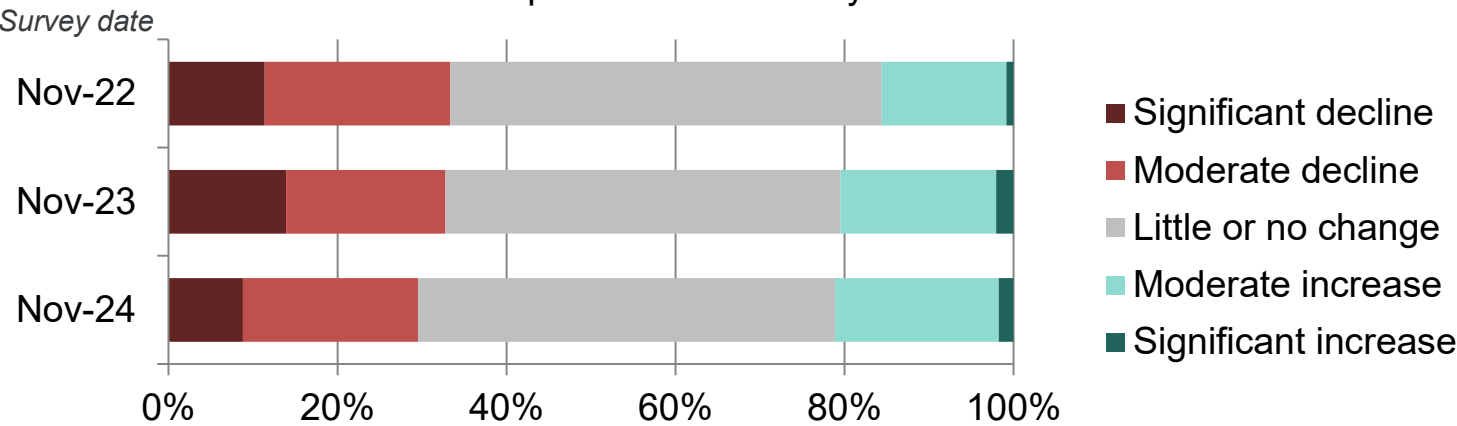
Compared with levels a year earlier



Some modest improvement, but (again) YOY comparisons also lower the bar

Requests for Proposal: Public Projects

Compared with levels a year earlier



No sector saw notably different results

Firms also reported increased bid competition

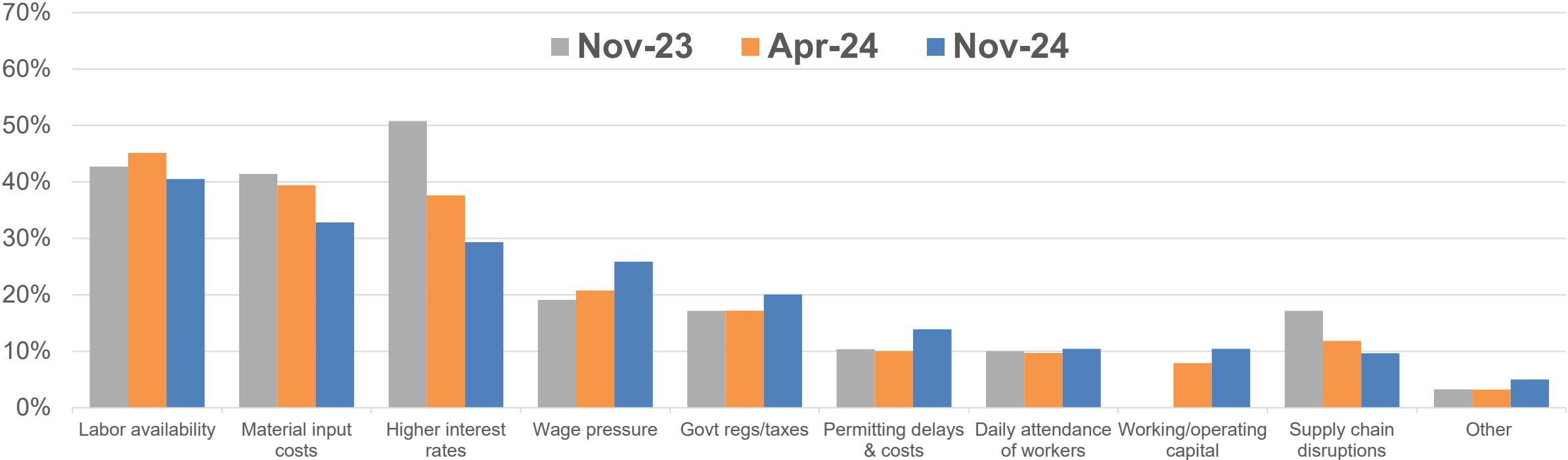


CHALLENGES

CHALLENGES TO OPERATIONS

- “Biggest challenges” are flattening out
- Labor availability and inflation remain biggest concerns
 - Wage pressure saw biggest uptick

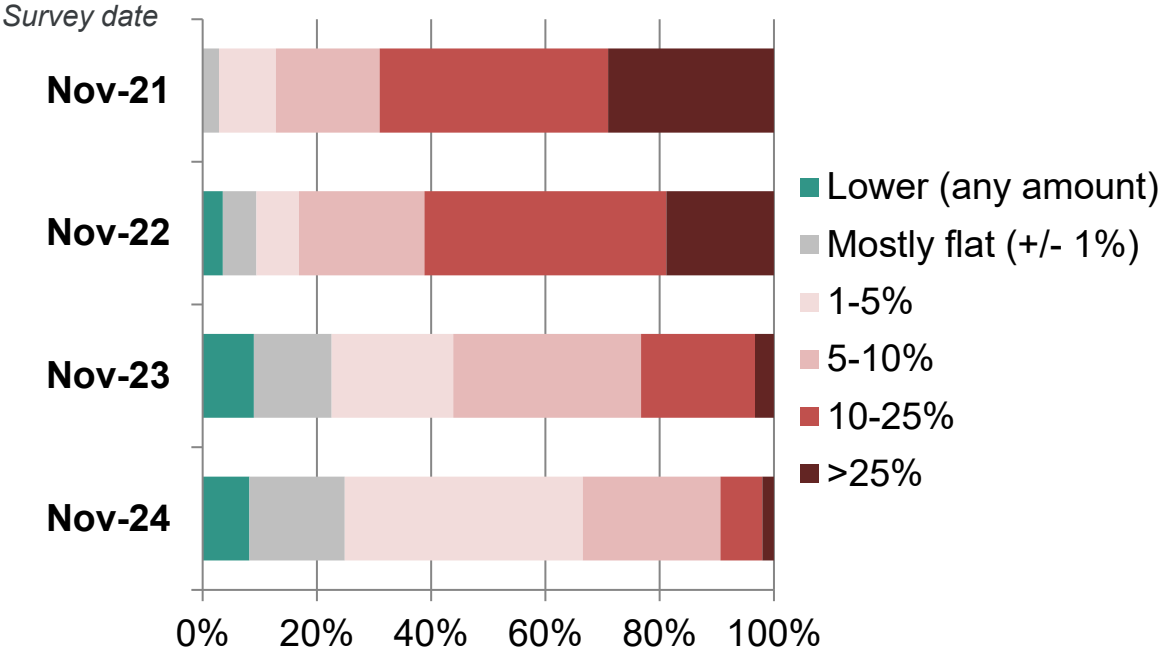
Pick TWO: Greatest challenge to current operating capacity & productivity



Wholesale and retail price inflation continues to moderate

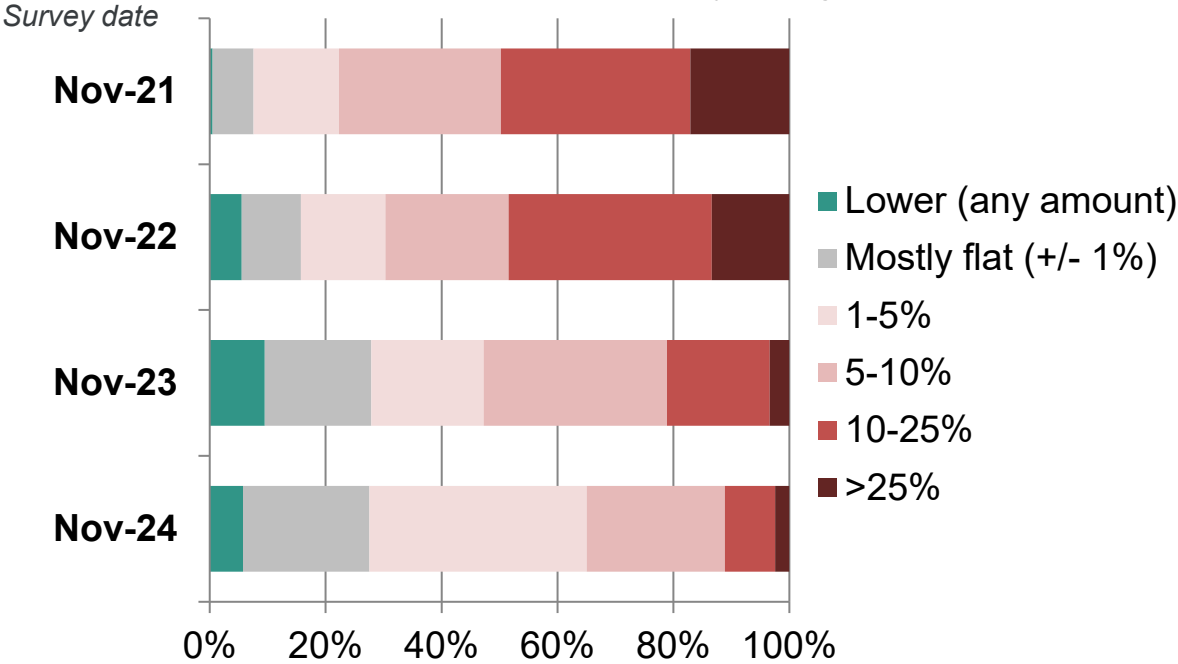
Wholesale pricing

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



Retail pricing

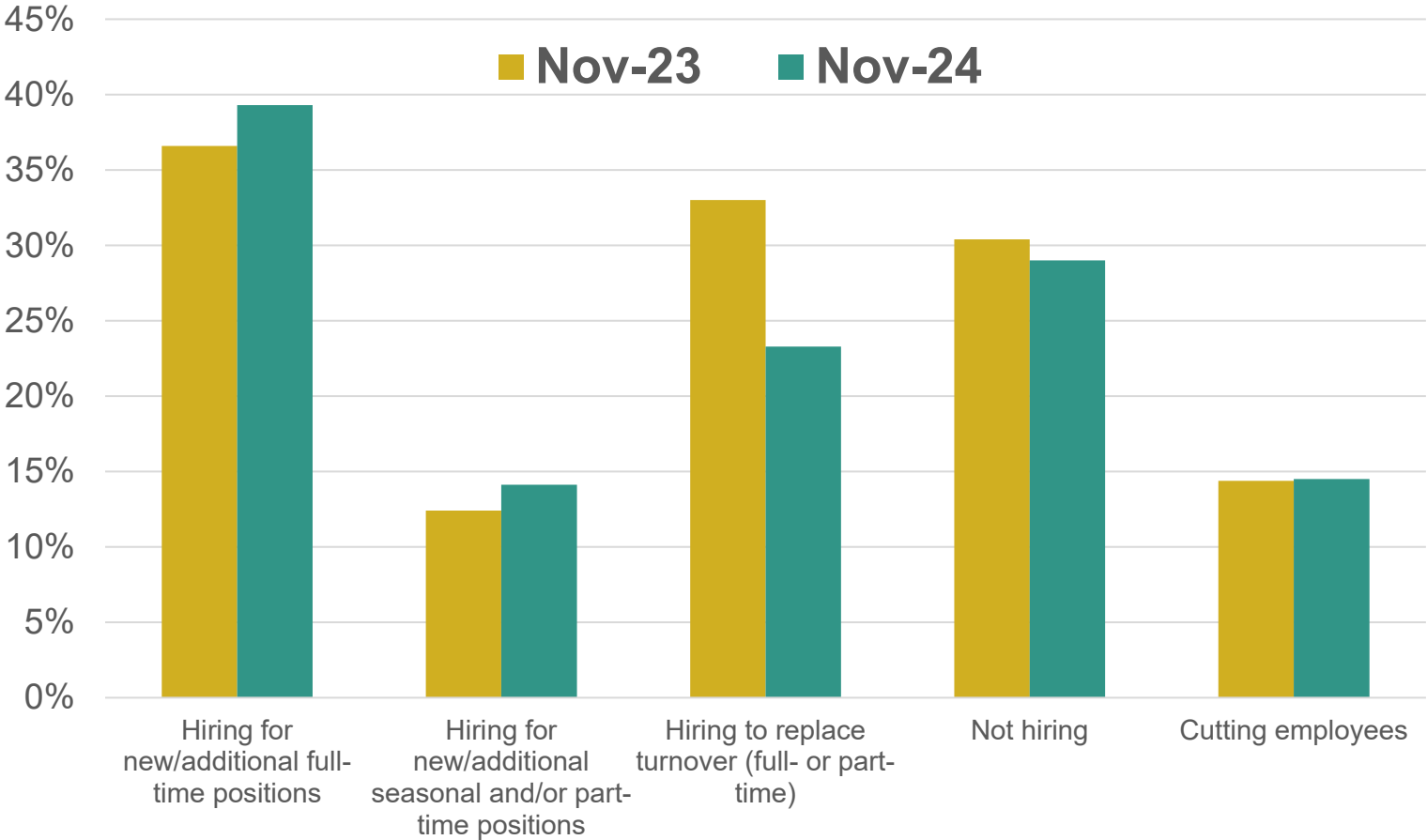
Average price increase to customers, all materials, compared with one year ago



LABOR DEMAND

Labor demand over the last month

Check all that apply



Sector still seeing positive labor demand

Majority are hiring

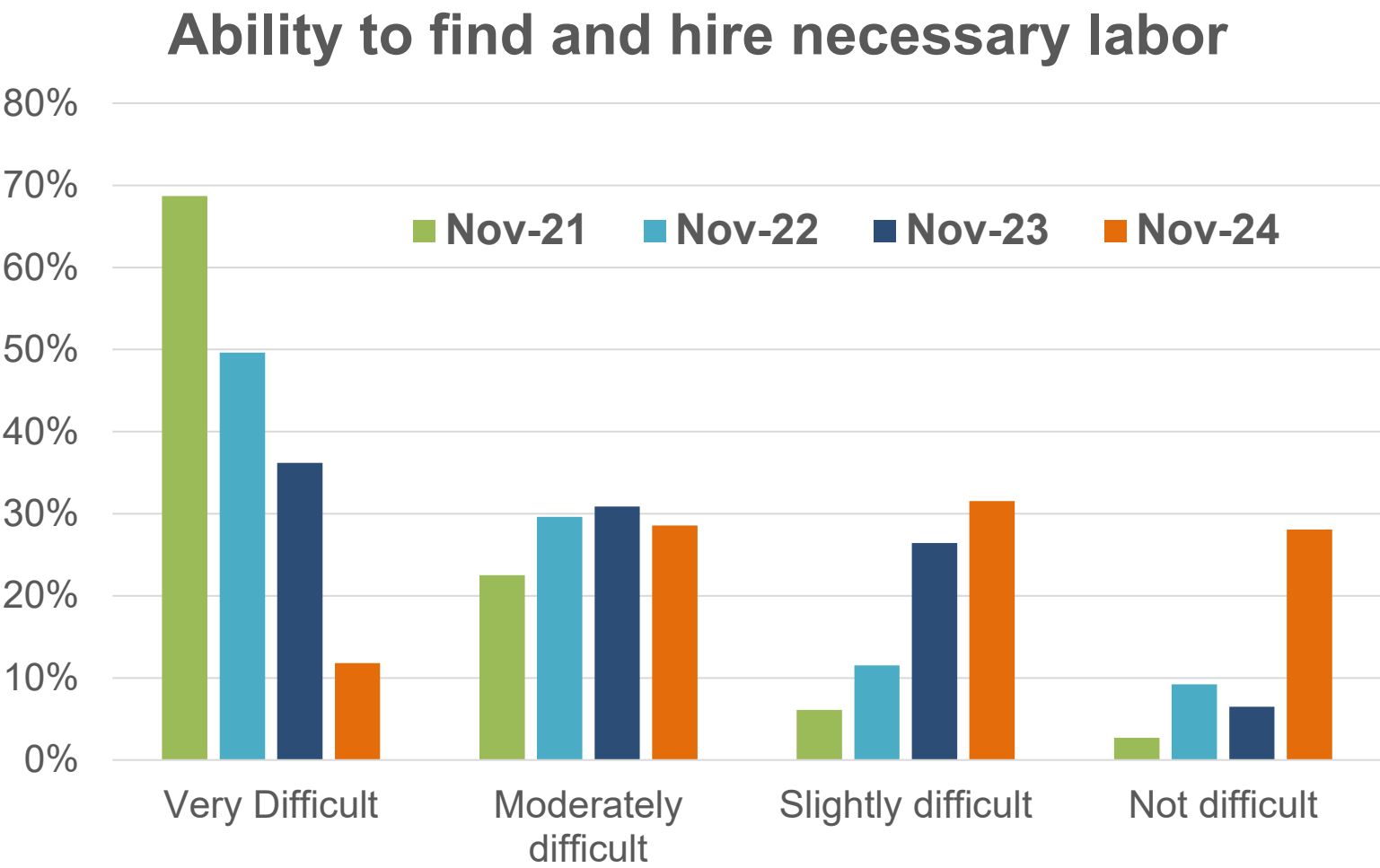
Turnover less of an issue than year ago



LABOR AVAILABILITY

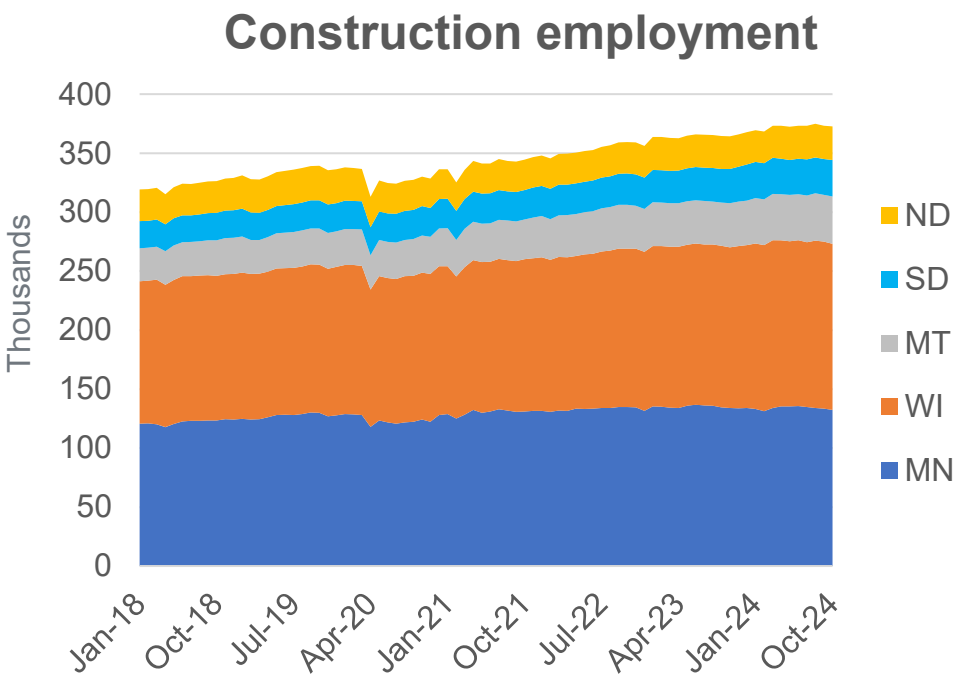
Labor availability
much improved

That's both a
good & bad
indicator

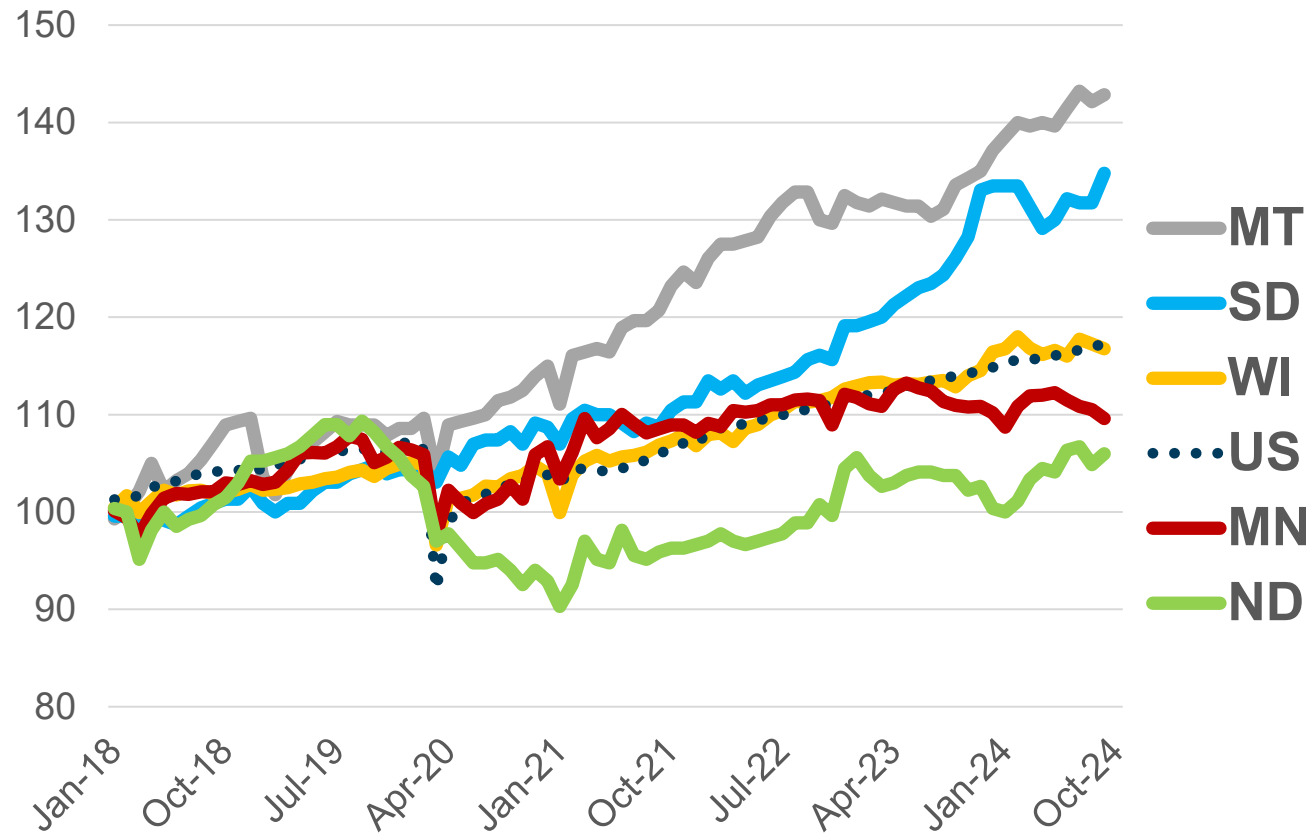


CONSTRUCTION EMPLOYMENT

Construction employment continues to rise, though more slowly in MN & ND



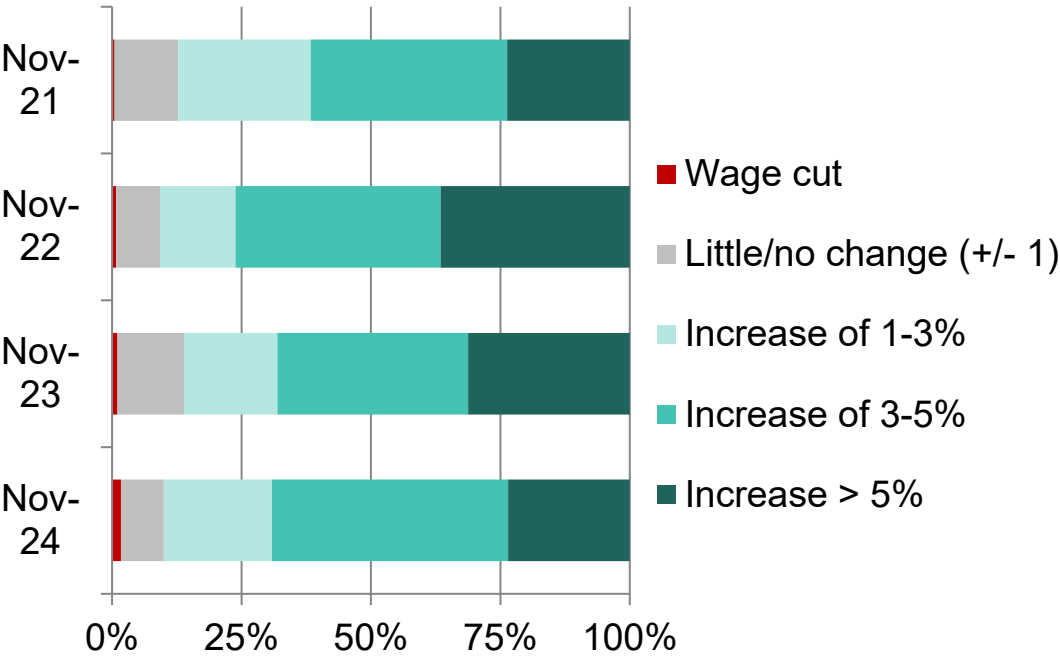
Construction employment index
January 2018 employment = 100



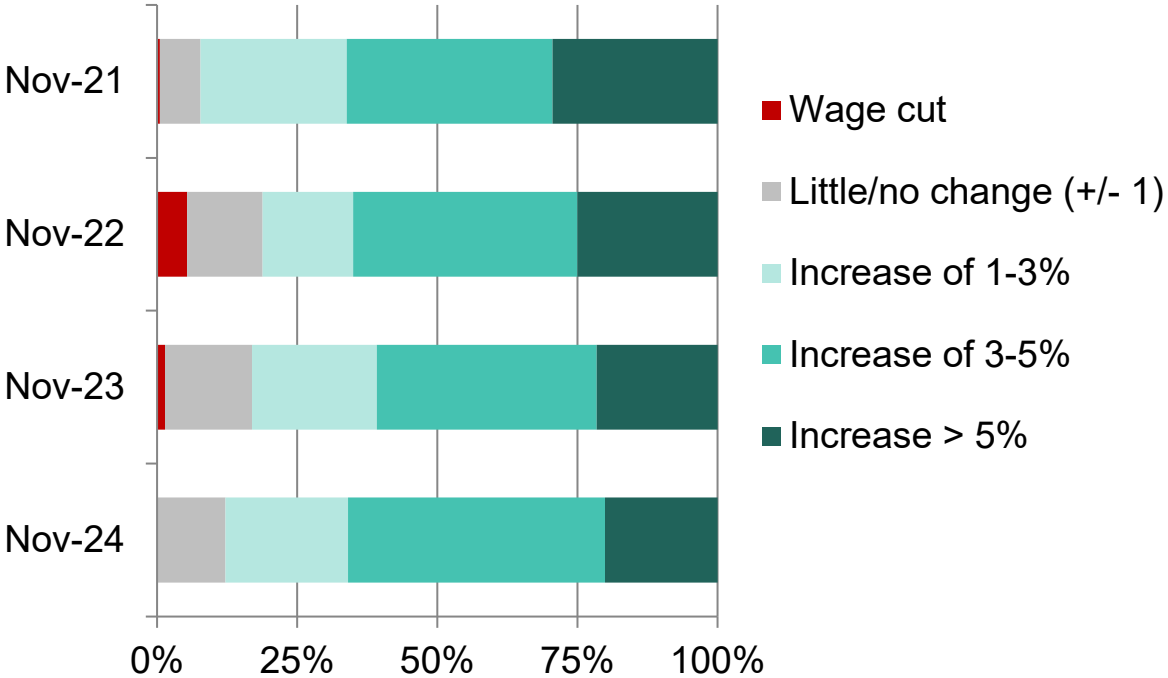
WAGES FOR SKILLED TRADES

Wage pressure easing at higher end, otherwise holding

Wage increase over the past year for skilled trades



Expected wage increase over coming 12 months for skilled trades

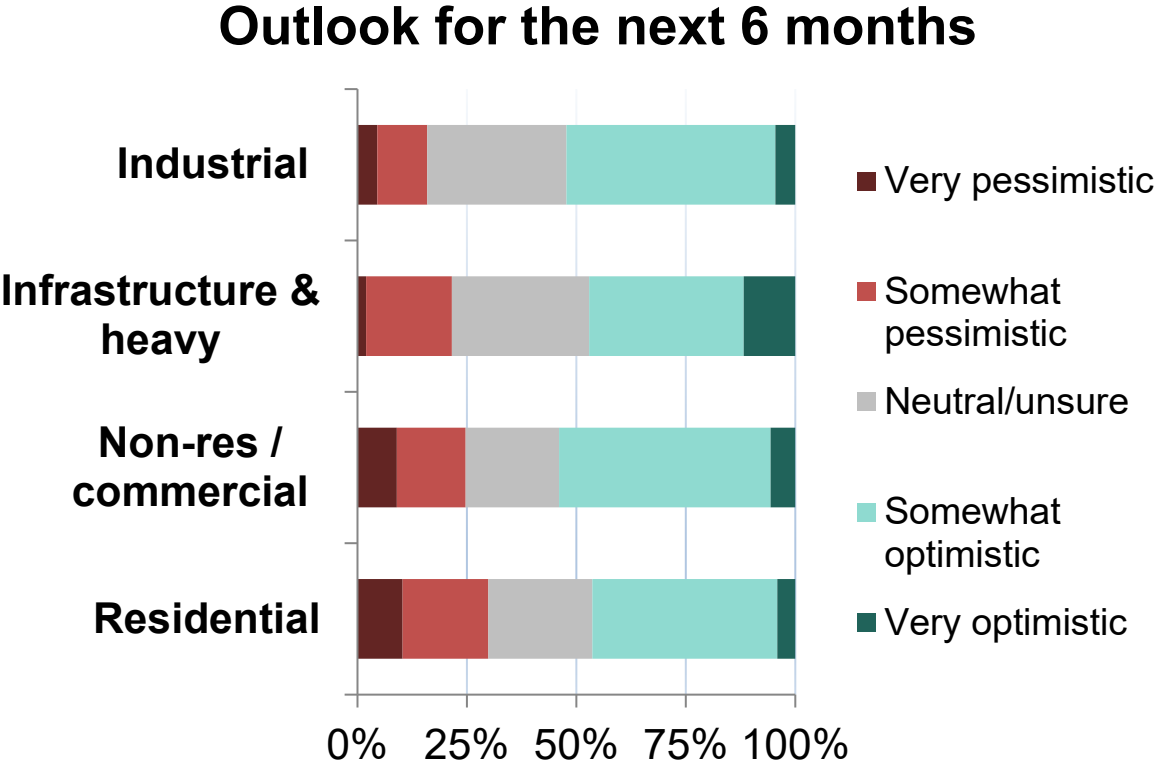
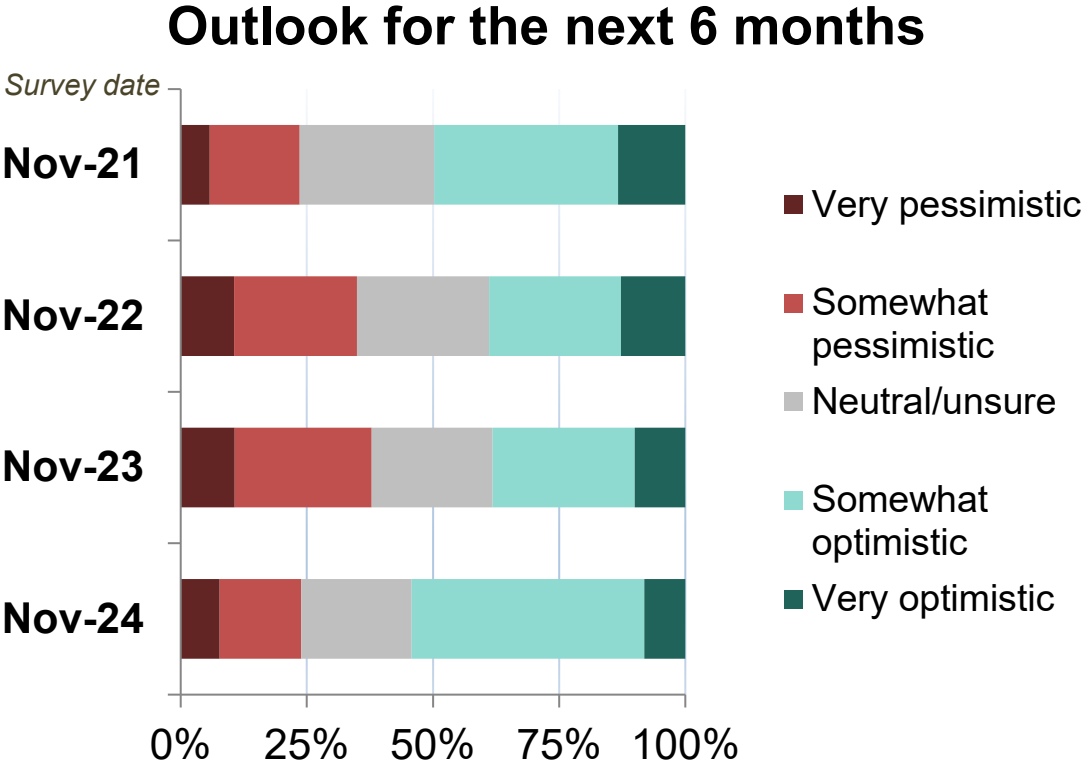




AND FINALLY...
OUTLOOK, PLUS SOME

OUTLOOK: COULD BE WORSE?

- Much more optimistic compared with last year
 - Optimistic across the board
- Commercial expecting a pretty big rebound

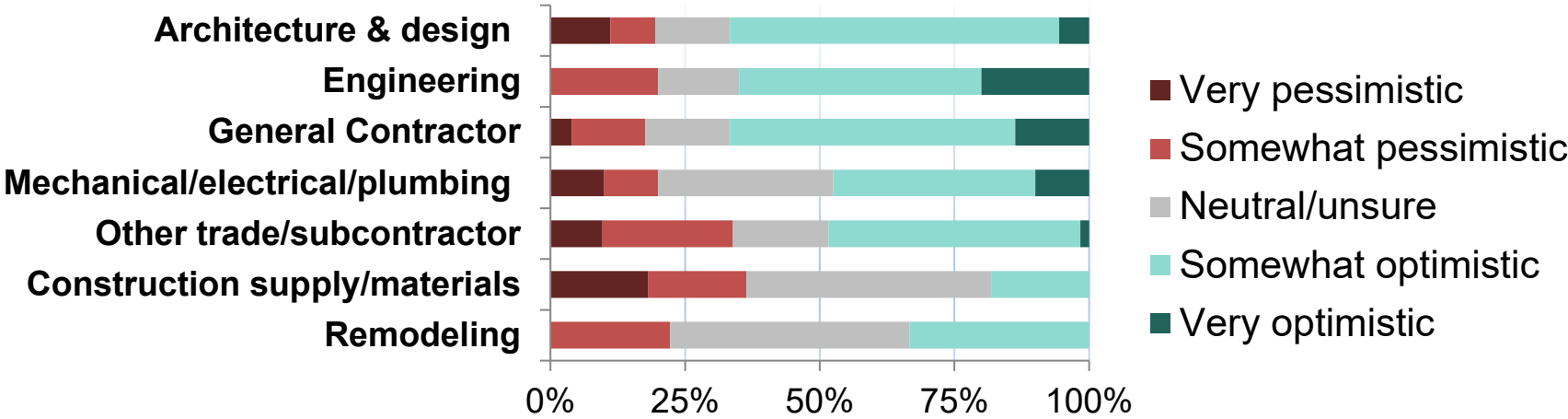




ANYTHING ELSE INTERESTING?

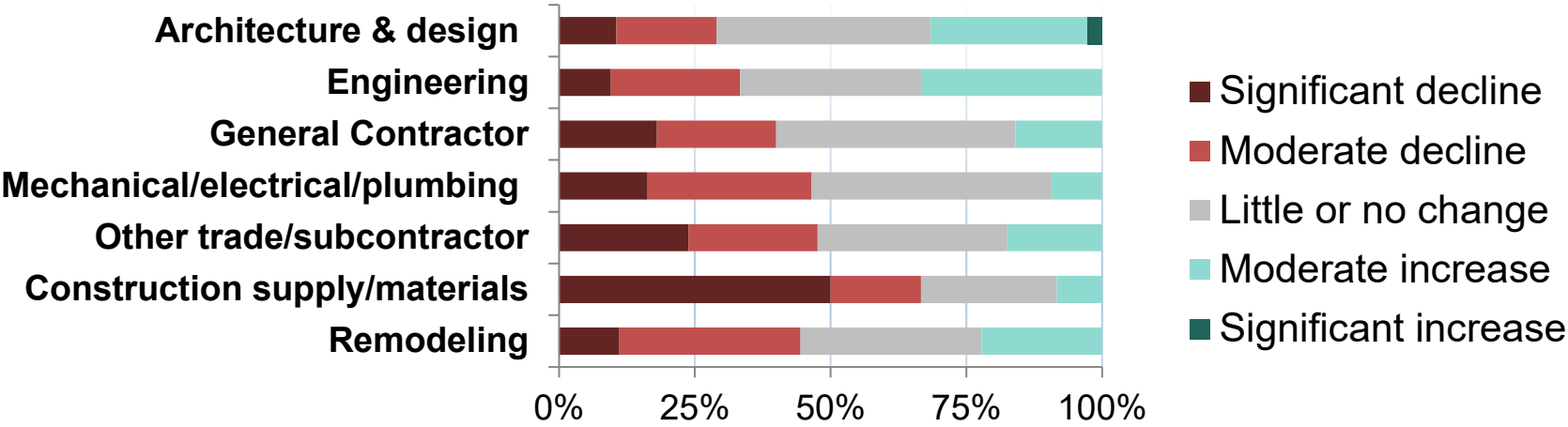
FRONT END OF PROJECT PIPELINE

Outlook for the next six months



Similar to the April '24 survey, sentiment was generally more upbeat among those in the front end of construction; and 'less negative' for RFPs

RFPs for private projects

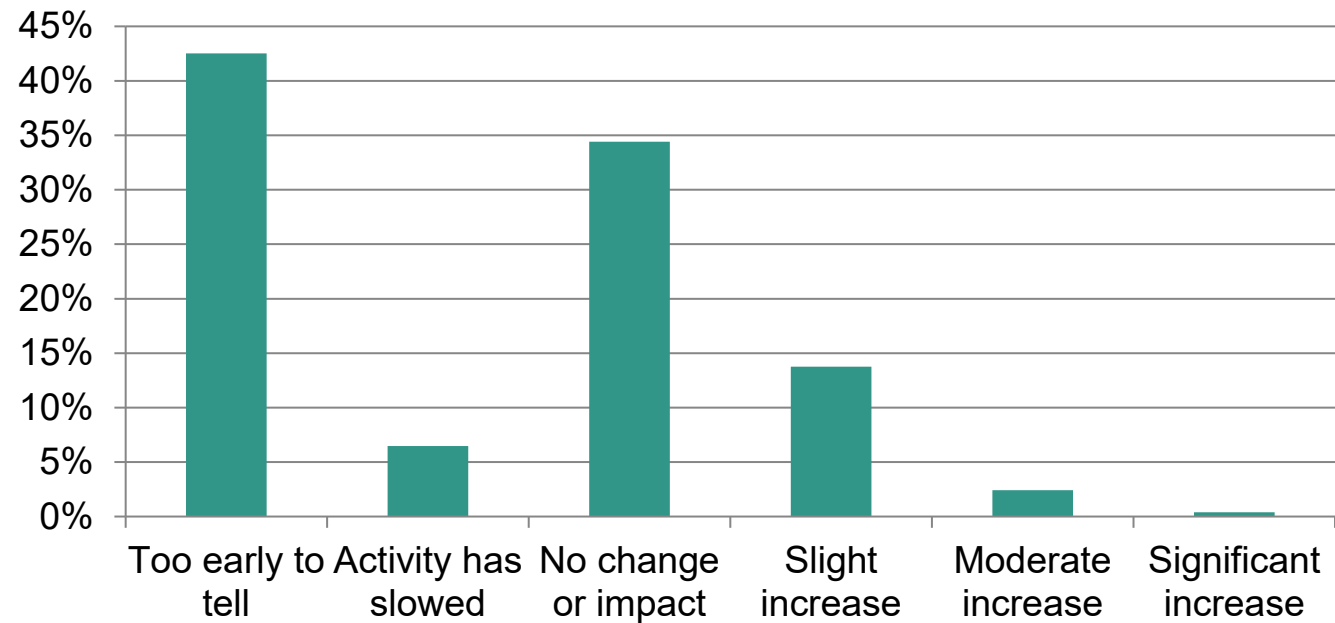


Sample size among architects & engineers was modest, *so interpret carefully*

INTEREST RATE IMPACT?

- Survey was out *before* second rate cut on Nov. 7 (25bps)
- Small signs of life, but too early to tell

What effect, if any, have you seen in activity since Fed cut rates by 50 bps in September?






SURVEY WRAP-UP

- Overall, solid improvement compared with Nov '23
- YOY comparisons = a moving target = caution
- Revenue & profit trends not great, but getting better
 - Infrastructure & industrial doing well
 - Residential and commercial still recovering, but seeing modest improvement
- Future activity giving mixed signals
 - RFPs & project backlogs still shrinking
 - Hiring still healthy
- Inflation & wage pressure still present, but better
- Outlook solidly optimistic
- **Good luck to all firms in 2025!**





**BEFORE Q&A, A REQUEST
WE NEED YOUR INSIGHTS!**

No one “likes” surveys

But our surveys help you (and lots of others)!

Be a regular contact for the Minneapolis Fed!

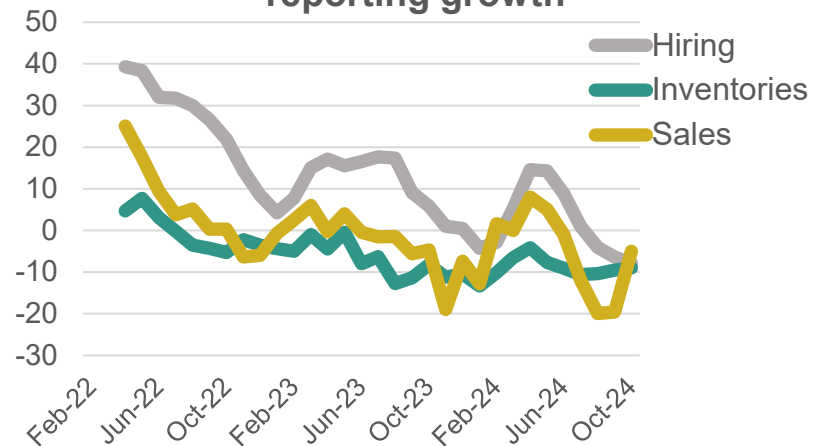
Monthly Business Pulse Survey

2-minute commitment, 3-4 times a year

Regional Economic Indicators

minneapolisfed.org

Net share of business contacts
reporting growth



FEDERAL RESERVE BANK OF MINNEAPOLIS



THANK YOU!
QUESTIONS?
SUBMIT QUESTIONS VIA CHAT BOX

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@MINNEAPOLISFED

CONNECT VIA LINKEDIN

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