

CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

May 21, 2024

Ron Wirtz

Regional Outreach Director



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
- **New partners!**
 - Montana Building Industry Association



SURVEY BACKGROUND

Conducted: April 15 to April 29, 2024

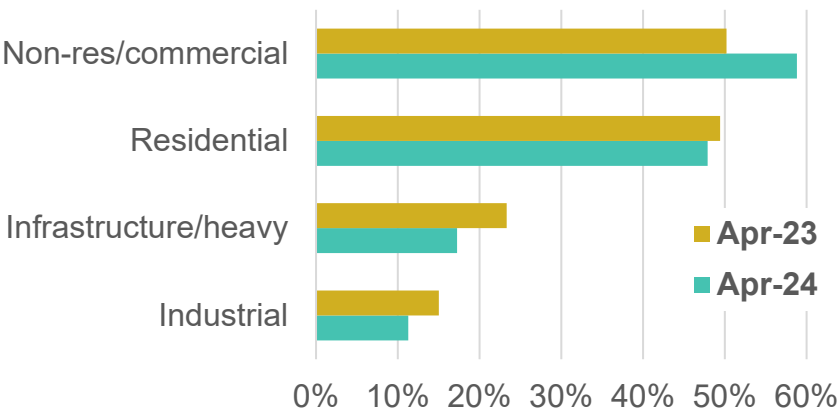
Total responses: 285

- Similar balance by sector and firm size
- Over-weighted in Mpls-St. Paul, under-weighted in Wisconsin

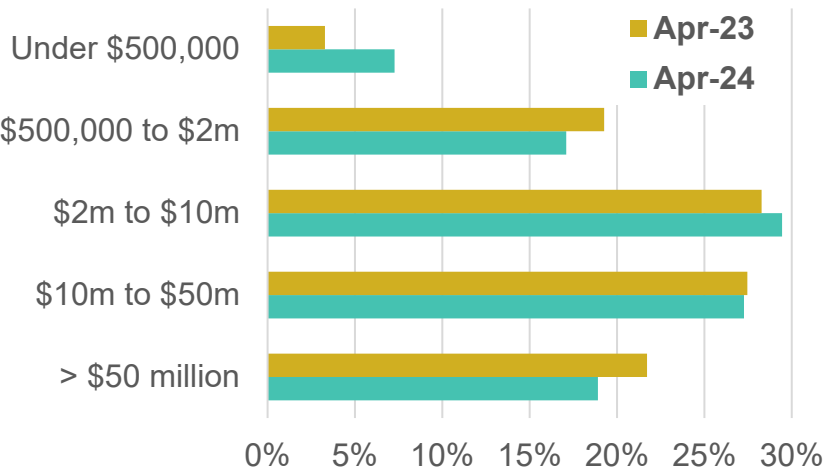
Results = snapshot; not scientific sample

Please interpret results carefully

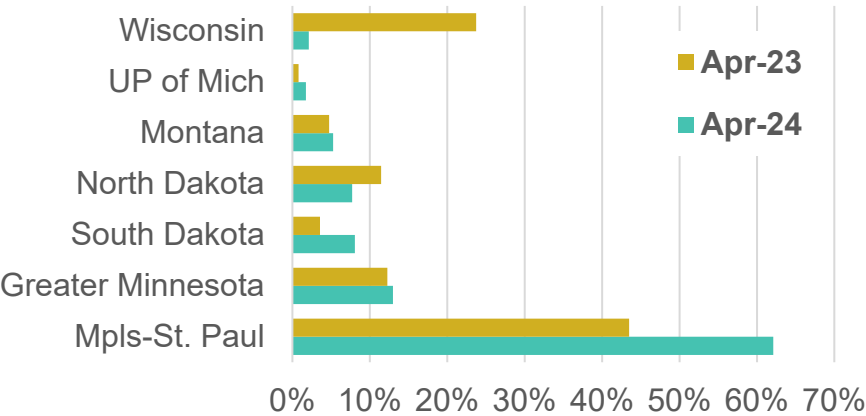
Construction sector: Most work



Respondents by firm size



Where is your firm located?





SURVEY TAKE-AWAYS

- As a single snapshot things aren't great, but compared with previous surveys, signs of modest improvement
- Revenue & profit trends still net-negative, but less so
 - Infrastructure seeing best results
 - Residential & commercial still challenged, but respondents suggest some improvement
 - Industrial saw biggest dip in overall sentiment
- New/future projects still declining, backlogs shrinking
- However, labor demand solid, labor availability also good
- Outlook: Upbeat
 - Not unusual in spring as activity increases, but there are other potential signs of optimism





RECENT REVENUE

&

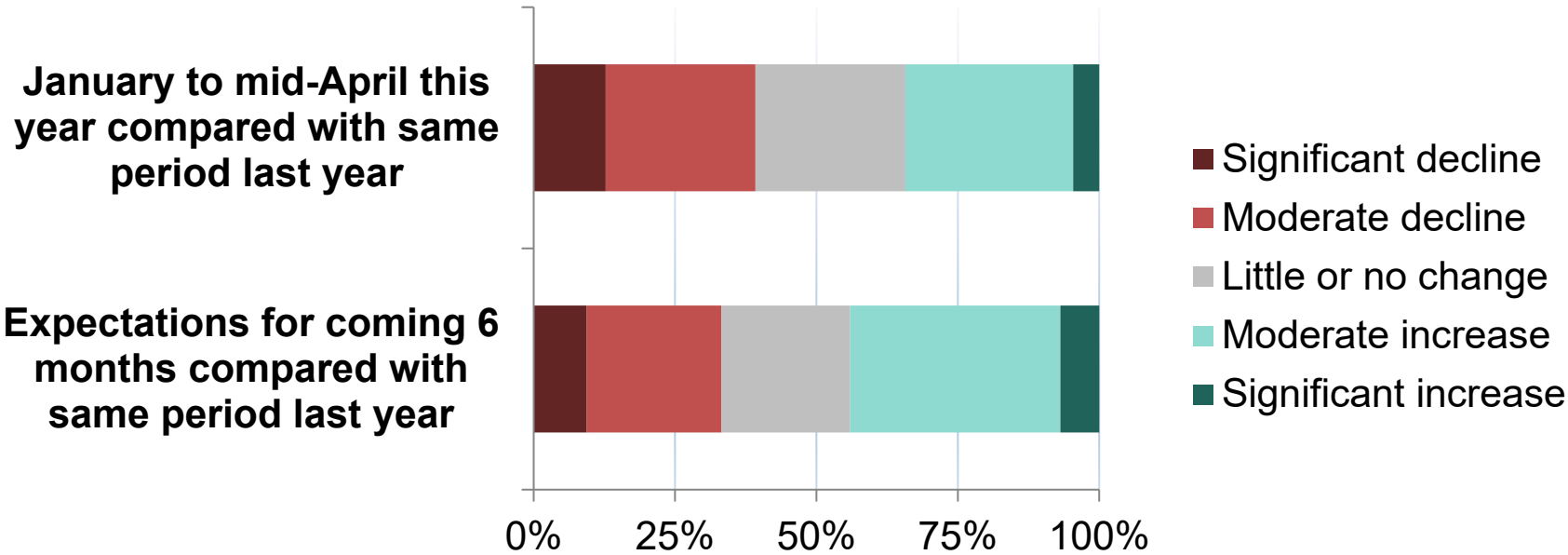
PROFIT TRENDS

RECENT AND FUTURE REVENUE

Recent: Still slightly net-negative (more seeing revenues decline vs increase)

Outlook: More positive

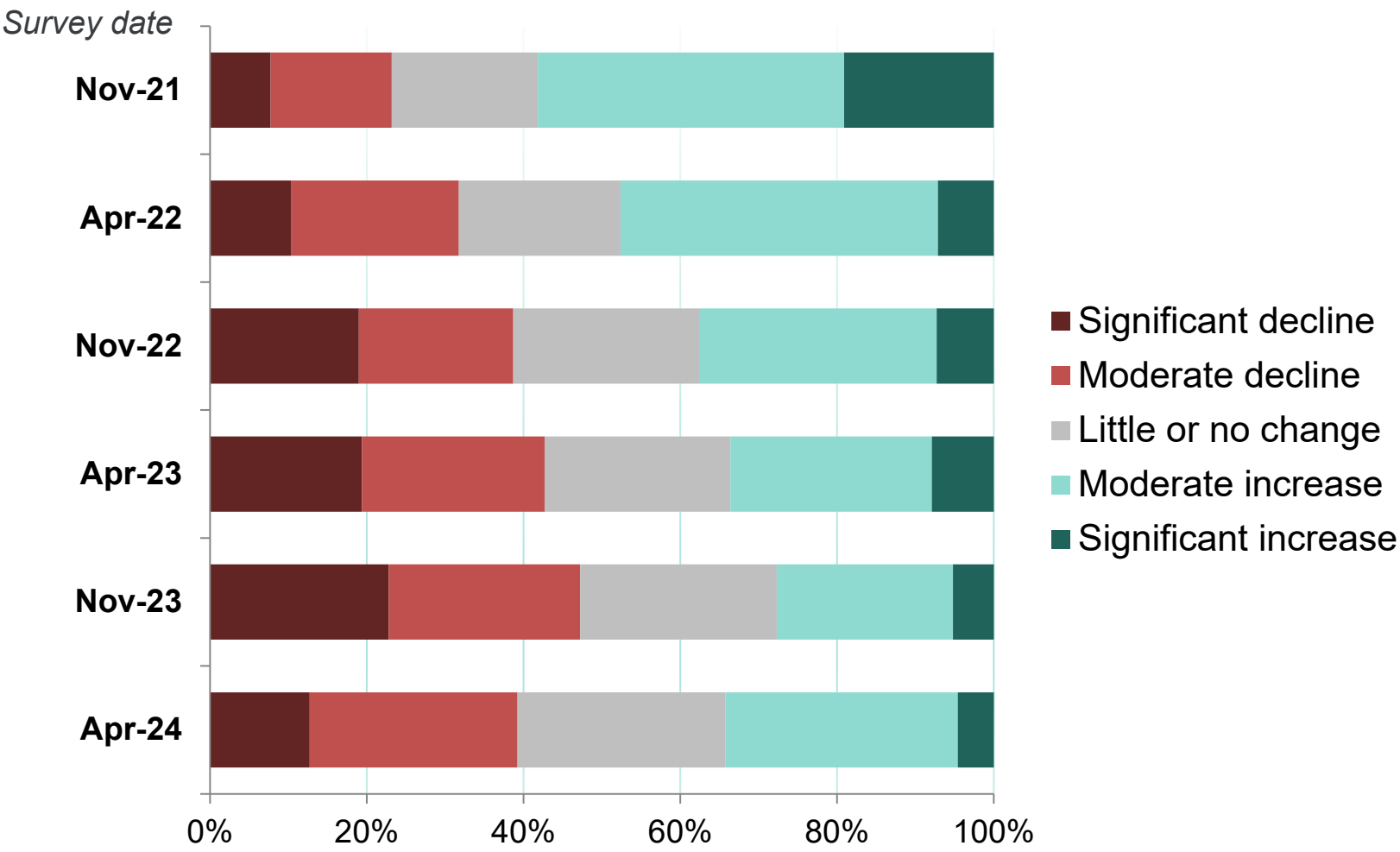
Recent revenue trends and future expectations



REVENUE TRENDS, OVER TIME



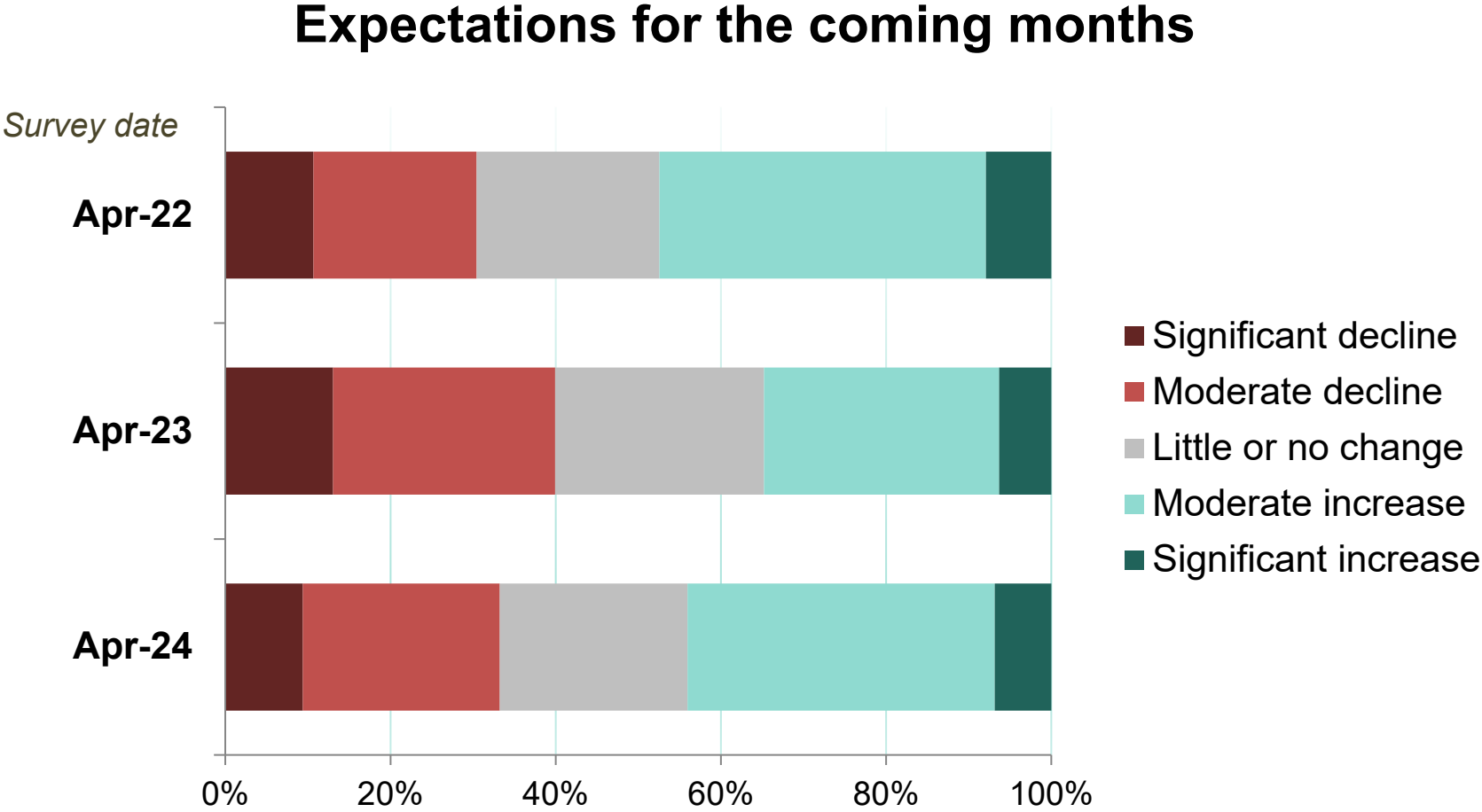
Recent revenue compared with last year



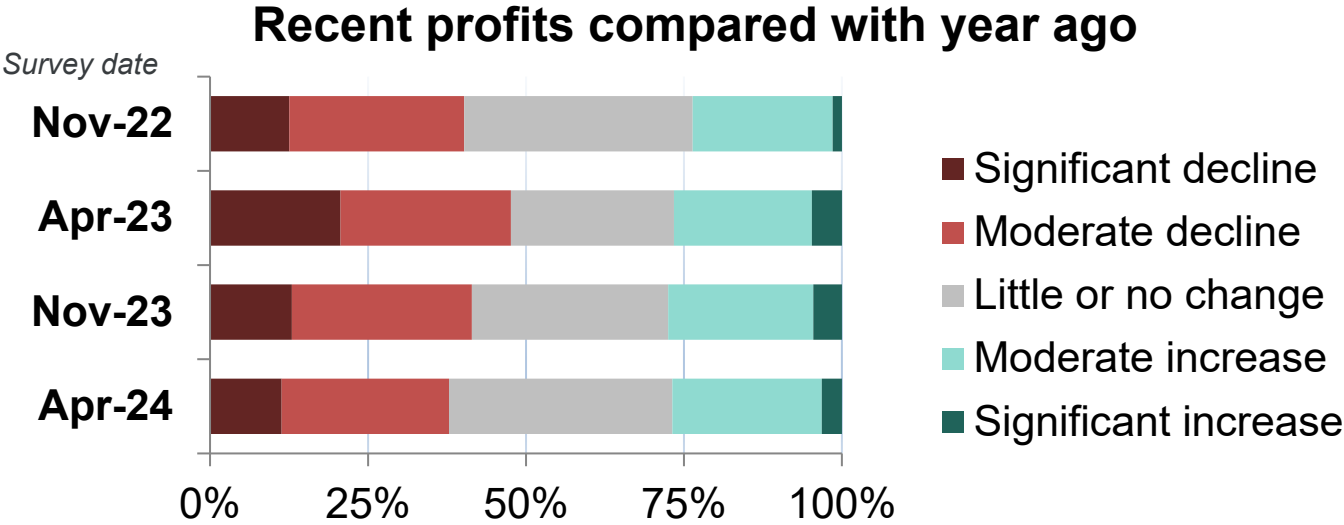
Revenue trend has pivoted from November, but only slight improvement from (more comparable) April 2023 trend

COMPARISON OF FUTURE REVENUE EXPECTATIONS

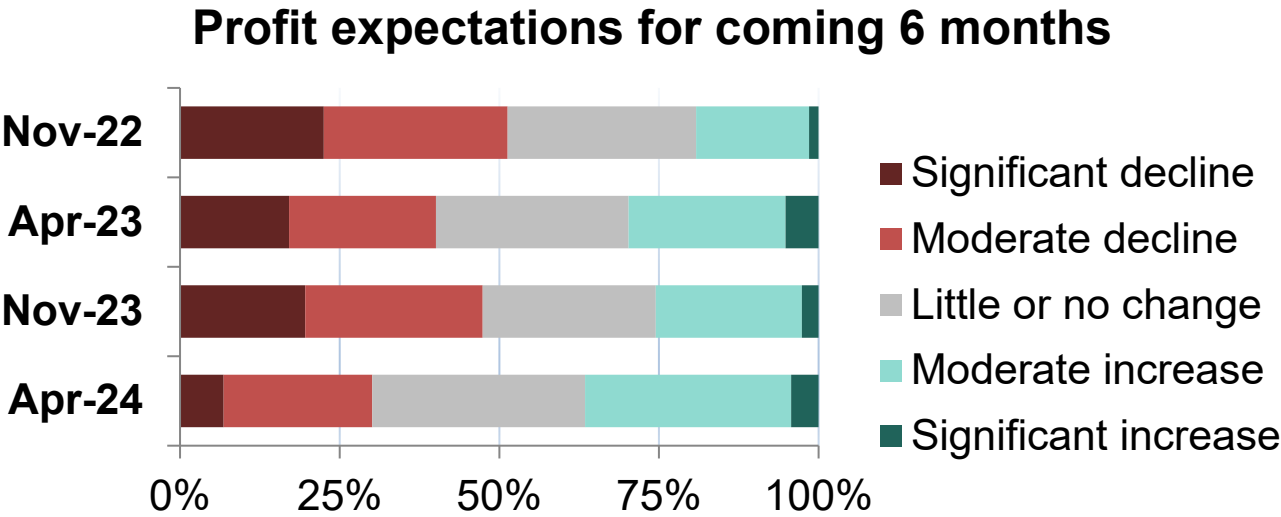
Future revenue expectations have changed from last year's survey



COMPANY PROFITS



Recent profit levels remain negative overall (more seeing decline vs increase)



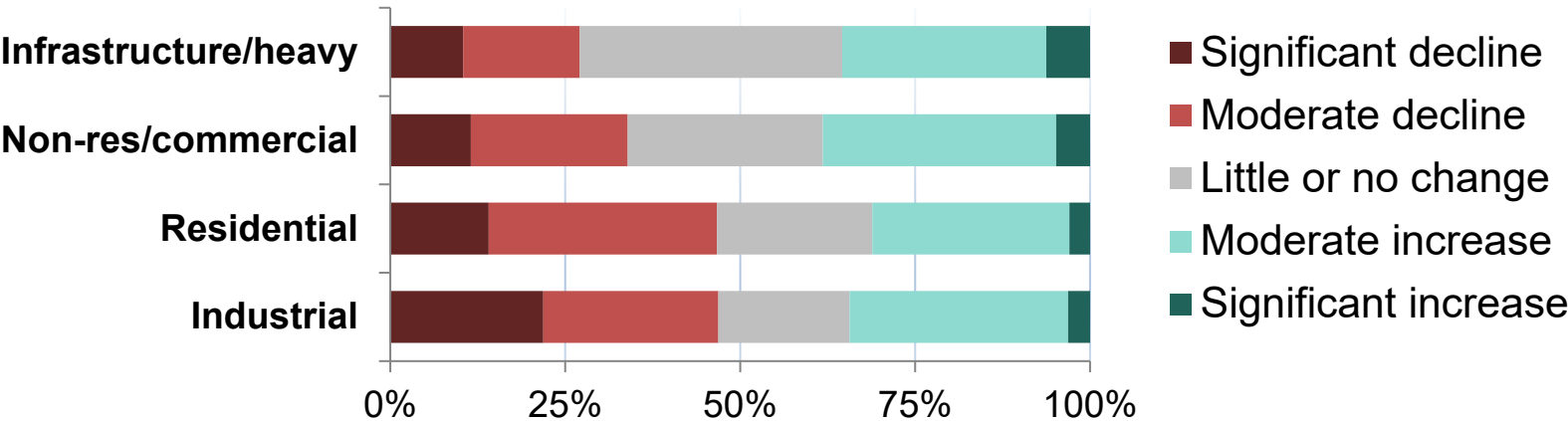
However, trend is improving, for both recent and future profits



SECTOR BREAKDOWN

REVENUE TRENDS BY CONSTRUCTION SECTOR

Recent revenue compared with last year



Sectoral performance

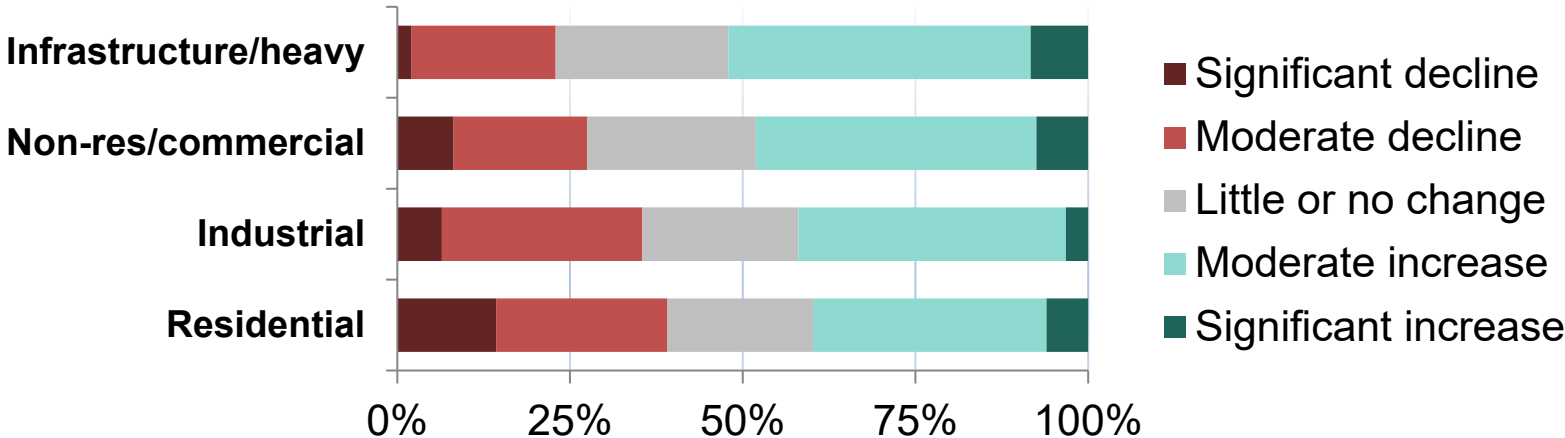
Infrastructure leads

Residential & commercial saw biggest improvement over last year (8-10pps, yoy)

Industrial: biggest decline (>10pps, yoy)

Outlook improved over 2023 for each sector *except* industrial

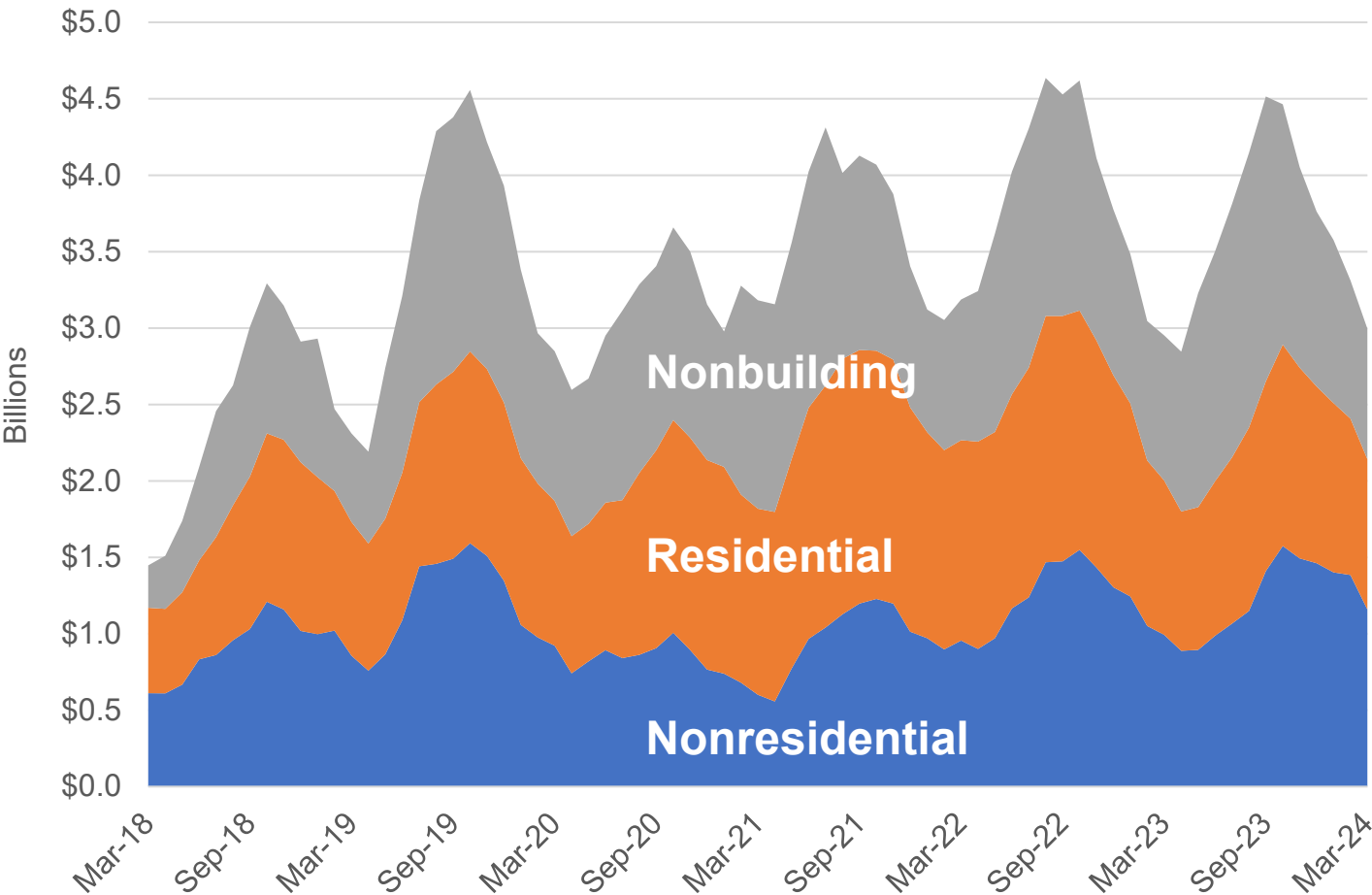
Revenue expectations for coming 6 months (yoy)



NEW CONSTRUCTION STARTS

Total value of monthly construction starts

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



Total value of construction starts:

Q1 2024 vs Q1 2023:

Total: +20%

Residential: +14%

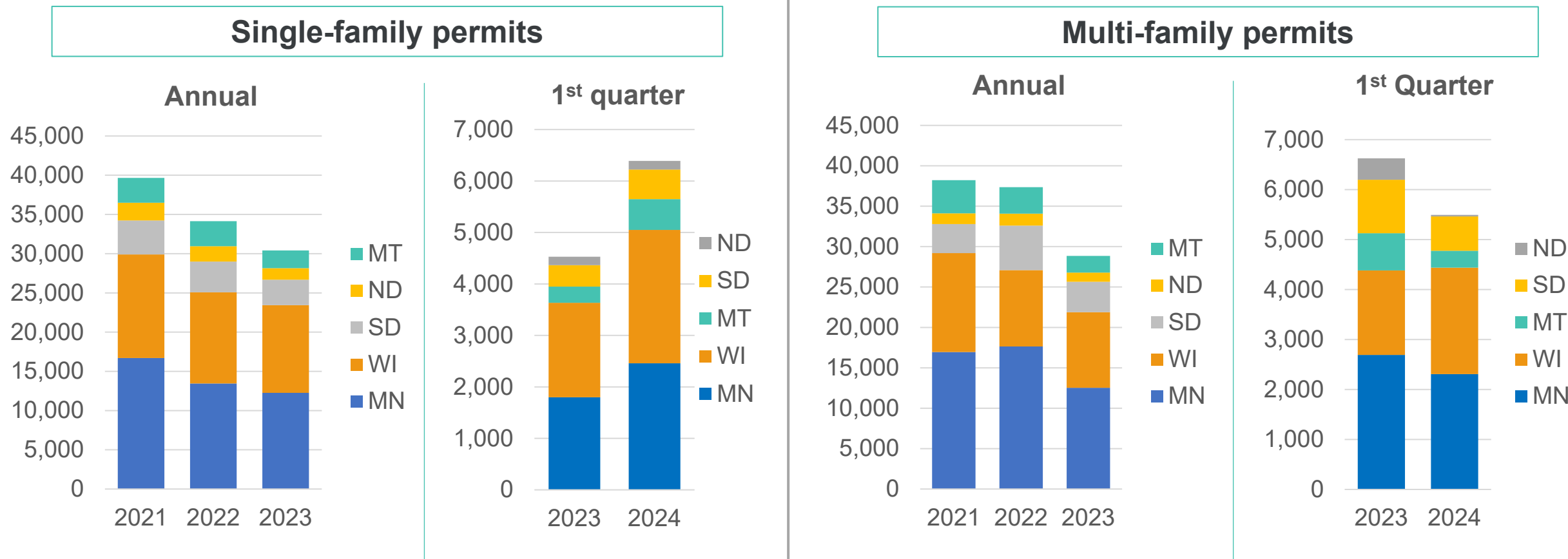
Nonresidential: +30%

Nonbuilding: +17%



HOUSING PERMIT DATA – NINTH DISTRICT

- Housing permits slowed across Ninth District in 2023
- BUT single-family permitting rebounded in Q1; Multi-family, not so much



Source: U.S. Census

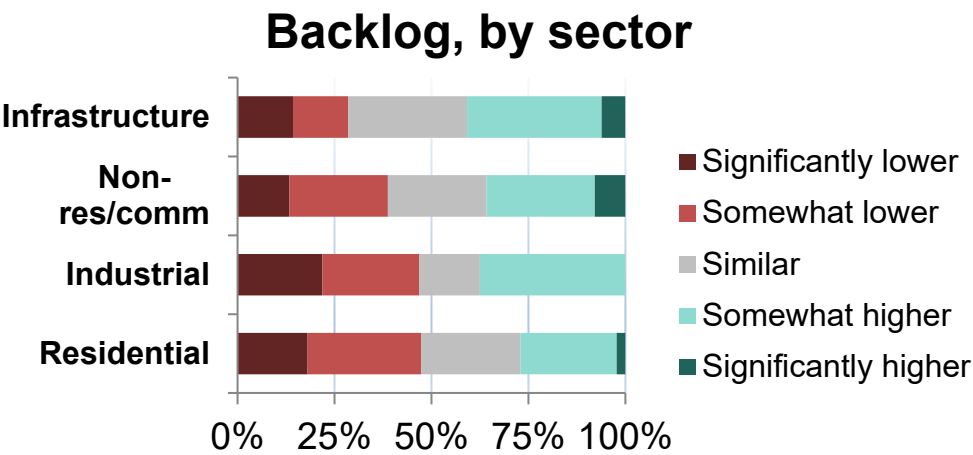


OTHER ACTIVITY METRICS

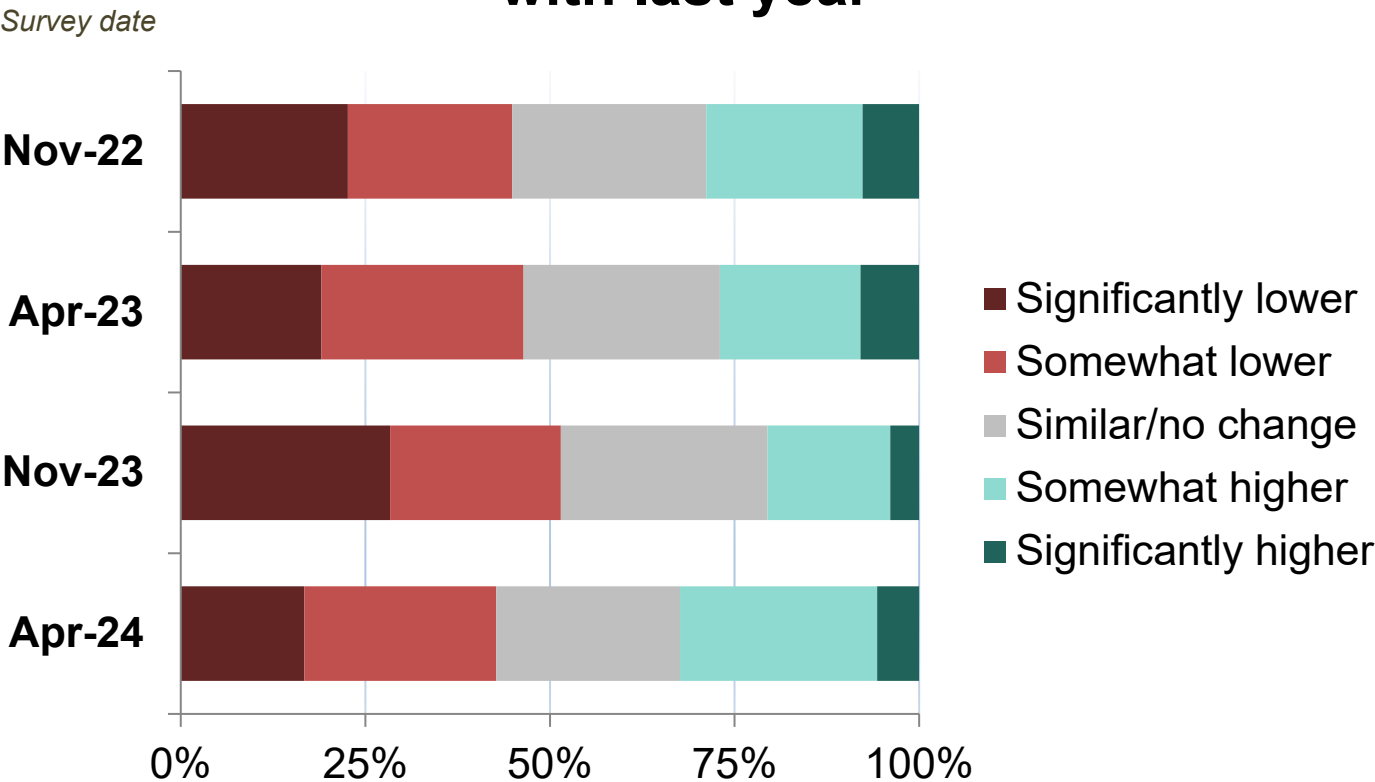
PROJECT BACKLOGS

Backlogs improved marginally, still somber

Residential still quite negative, but improved



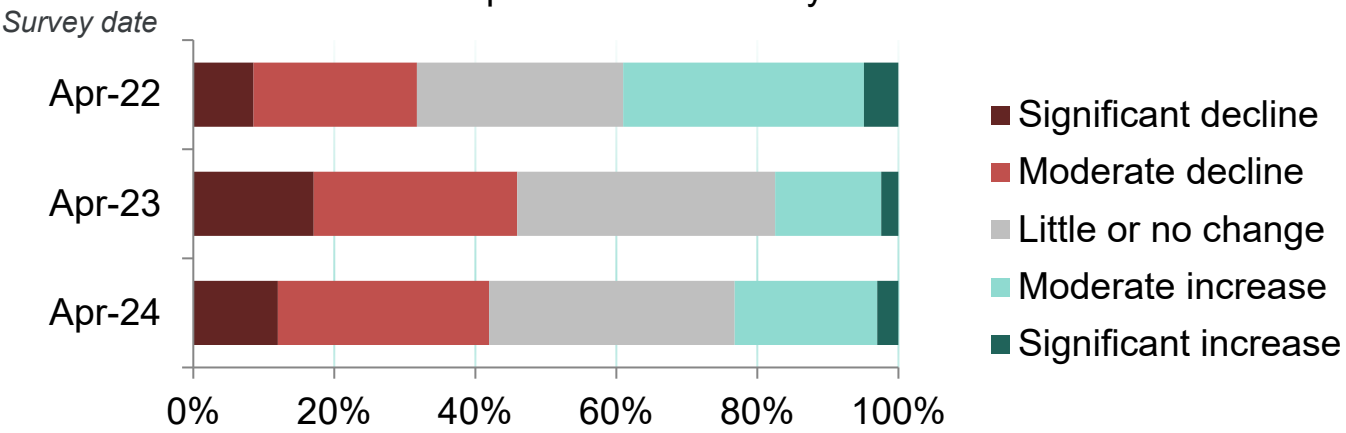
Backlog of future projects compared with last year



REQUEST FOR PROPOSALS (RFPS) – NEW PROJECTS

RFPs for private projects

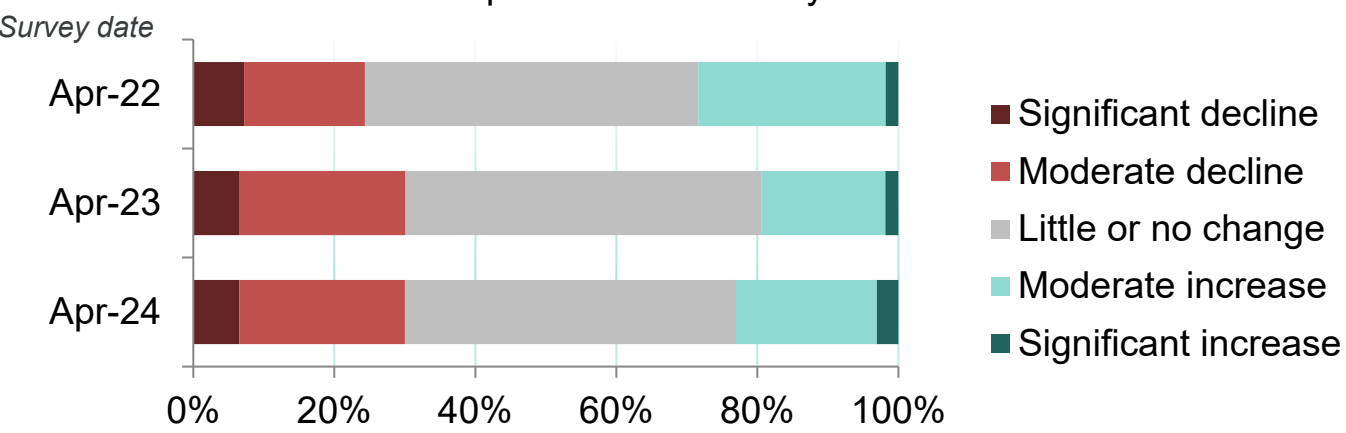
Compared with levels a year earlier



New private projects out for bid improved slightly, but still much poorer than two years ago

RFPs for public projects

Compared with levels a year earlier



Public projects seeing less change; infrastructure firms seeing net growth in RFPs

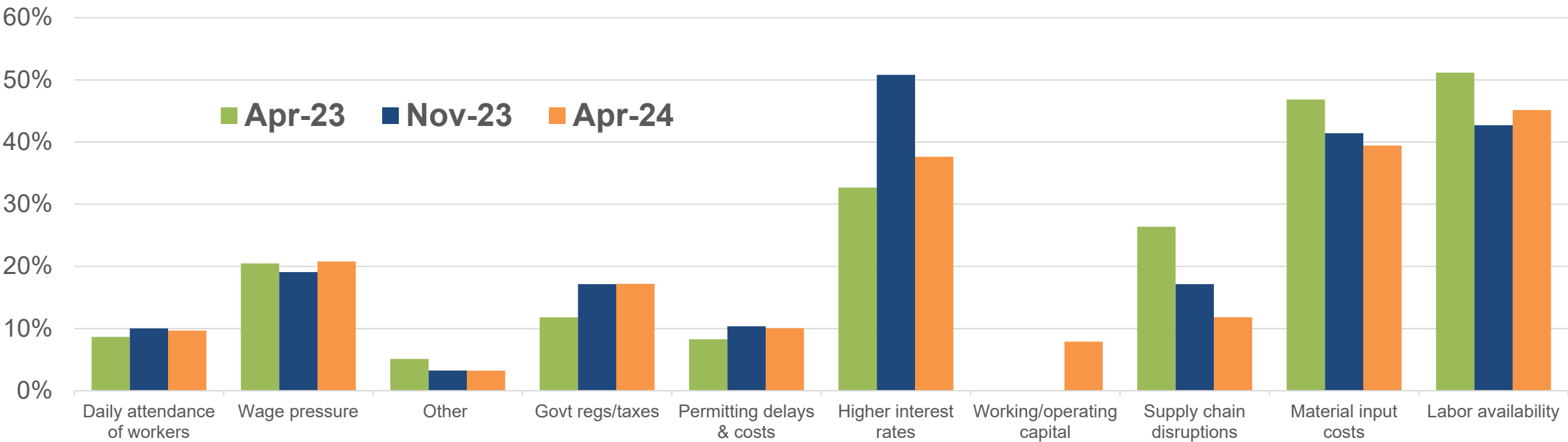


CHALLENGES

CHALLENGES TO OPERATIONS

- Higher interest rates less of a concern (maybe?)
 - Material costs and labor availability remain sticky problems
- Supply chain mostly a non-issue; but wage pressure staying on radar

Greatest TWO challenges to operating capacity & productivity



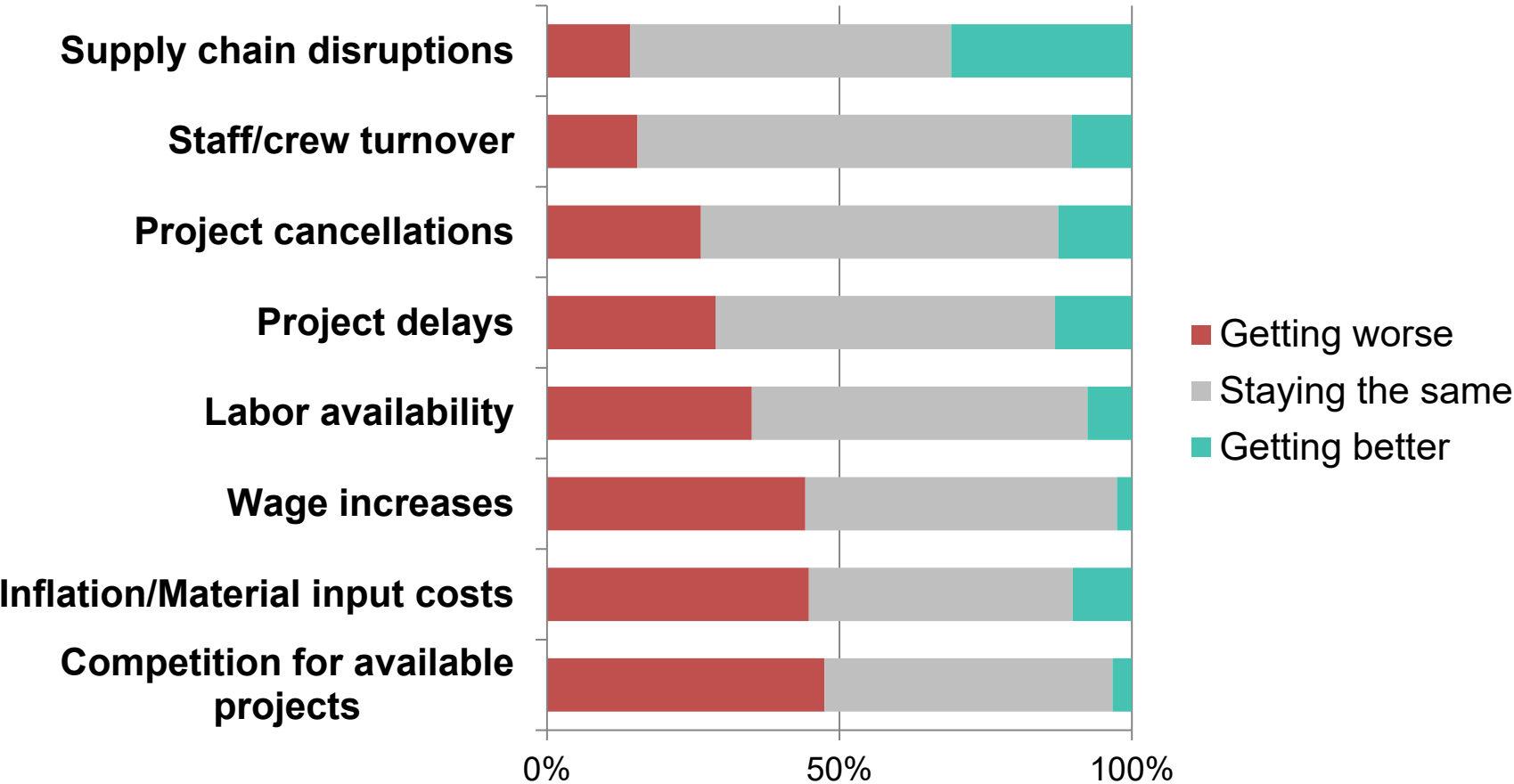
CHALLENGES – GETTING BETTER OR WORSE?

With slower activity,
more firms seeing
greater competition

Many challenges do
not appear to have
peaked, save for
supply chain
disruptions

But elsewhere,
some evidence that
some challenges
are improving

General trajectory for different challenges

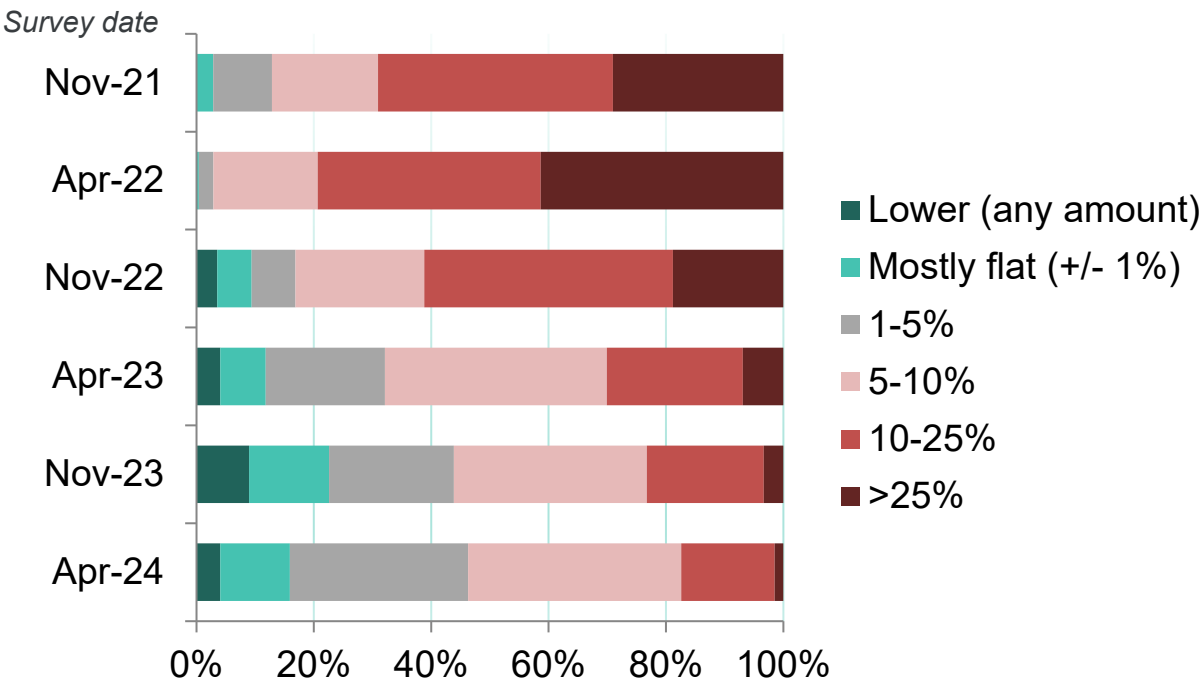


PRICES

Wholesale and (esp) retail price inflation continues to moderate

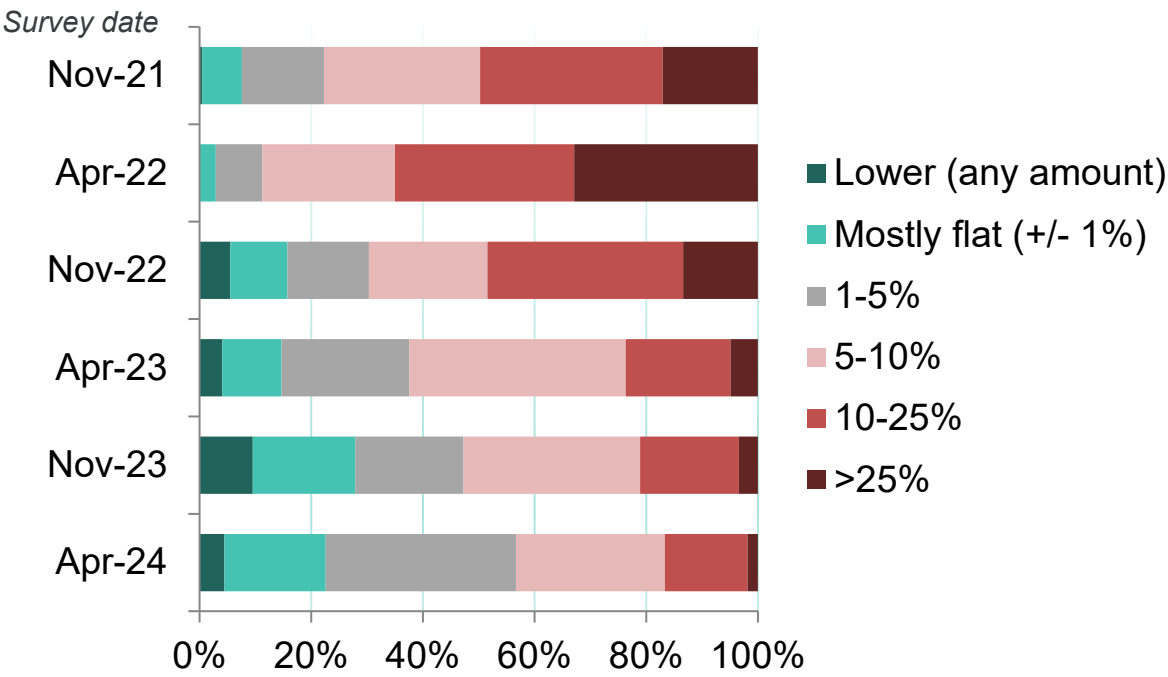
Wholesale pricing

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



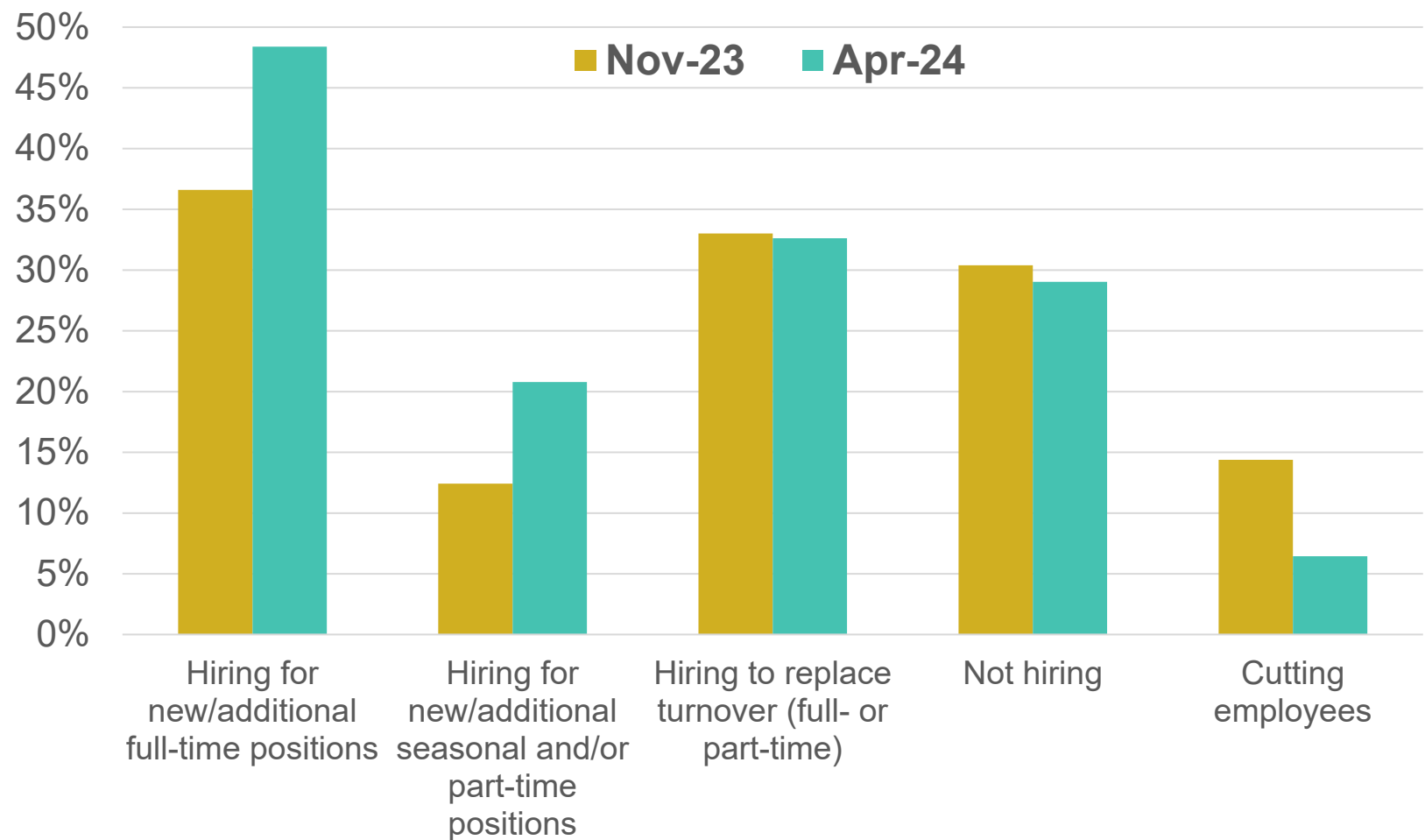
Retail pricing

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



LABOR DEMAND

Labor demand over the last month



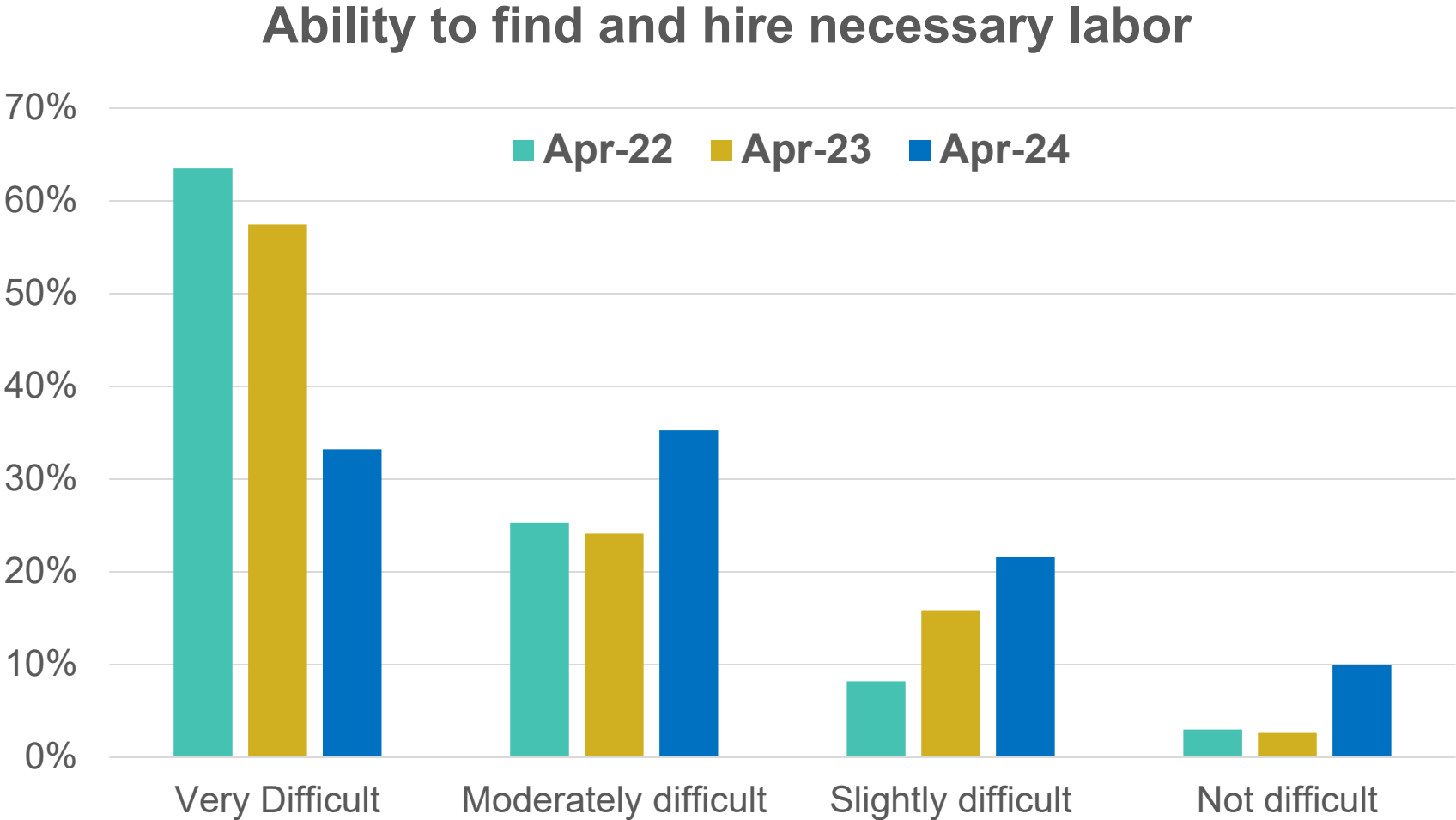
Sector still seeing positive labor demand

3 of 4 were hiring

LABOR AVAILABILITY

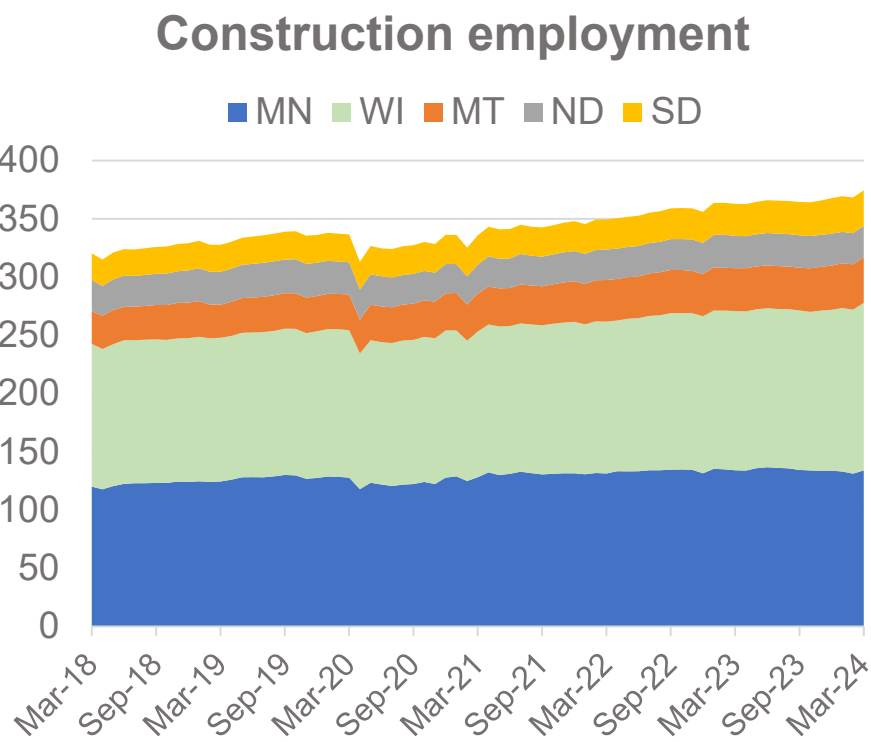
Labor availability
much improved
despite moving
into busy season

Good & bad
indicator

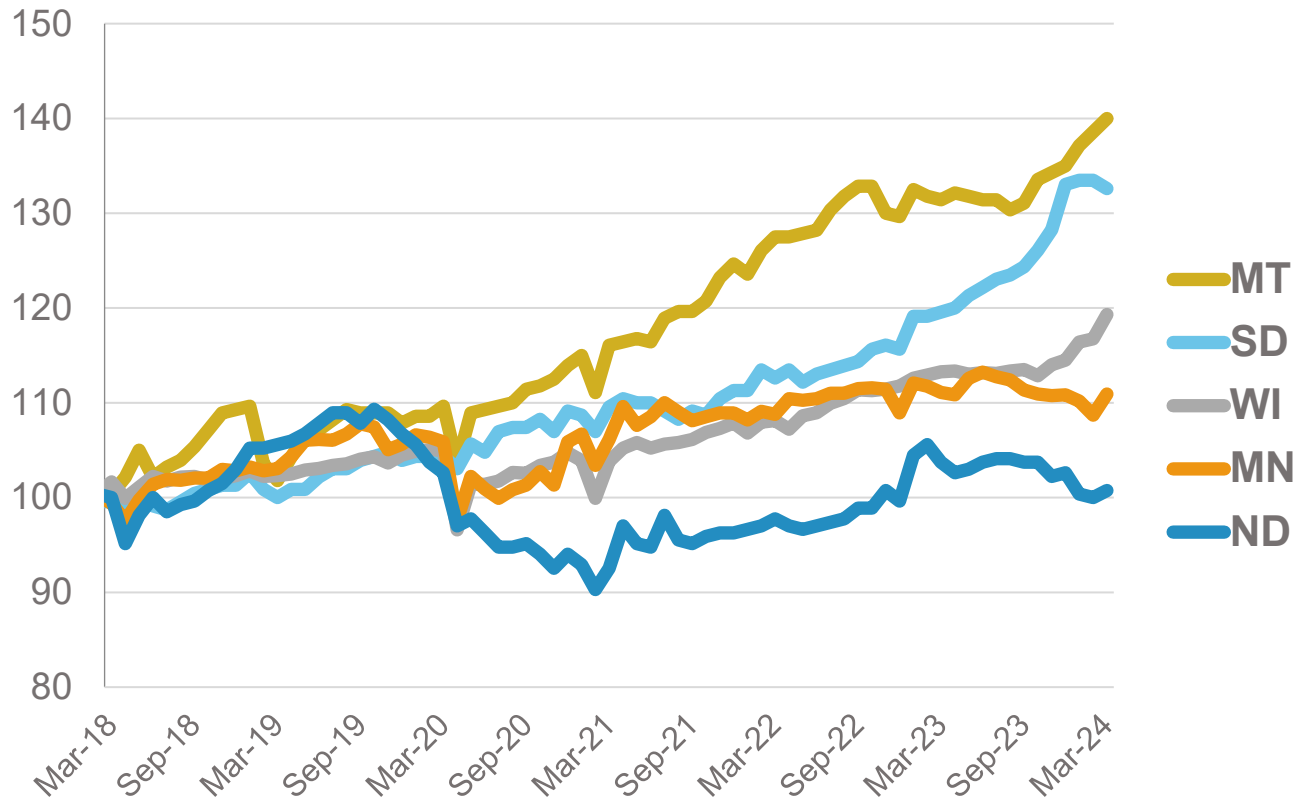


CONSTRUCTION EMPLOYMENT

Construction employment has continues to rise, with some wiggles in MN & ND



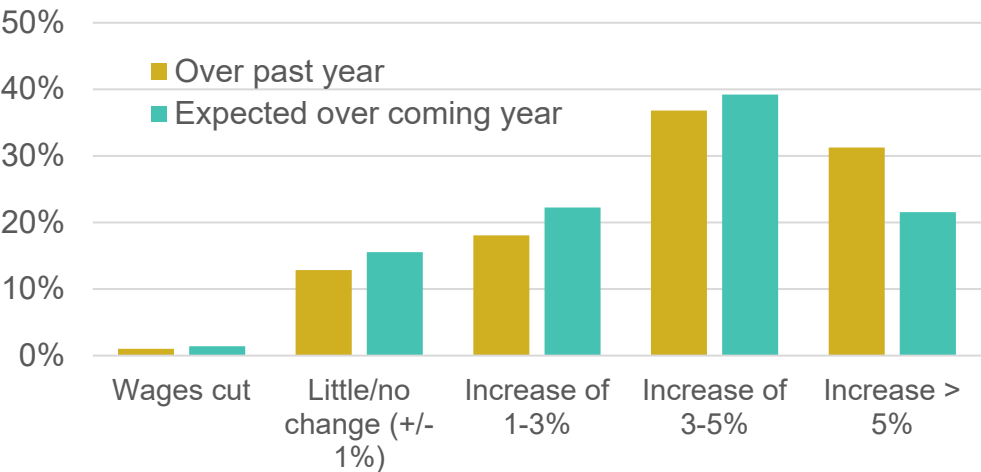
Construction employment index
January 2018 jobs = 100



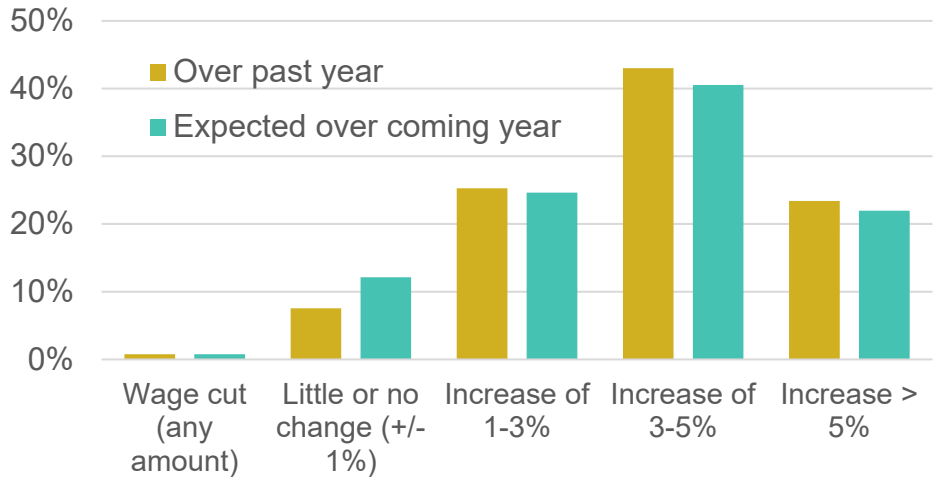
WAGES FOR SKILLED TRADES

Average wage increase for skilled trades

November 2023



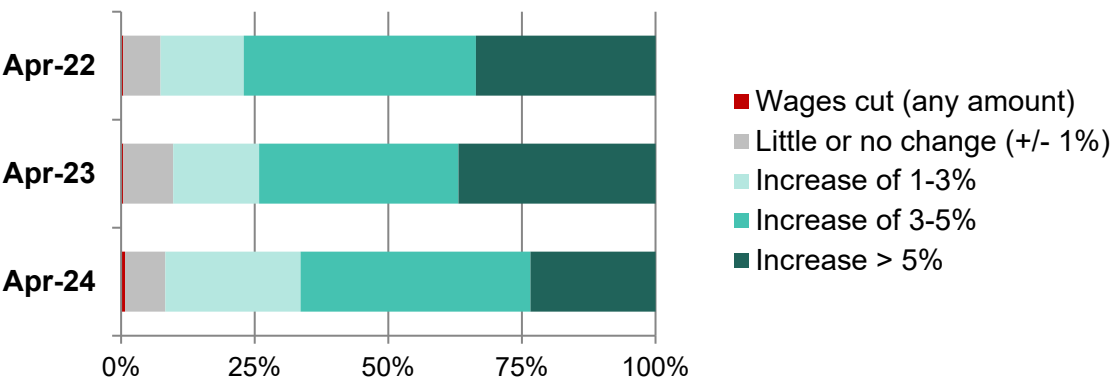
April 2024



Wage pressure easing, especially at top end

Future wage expectations running tight with recent wage growth (somewhat unusual)

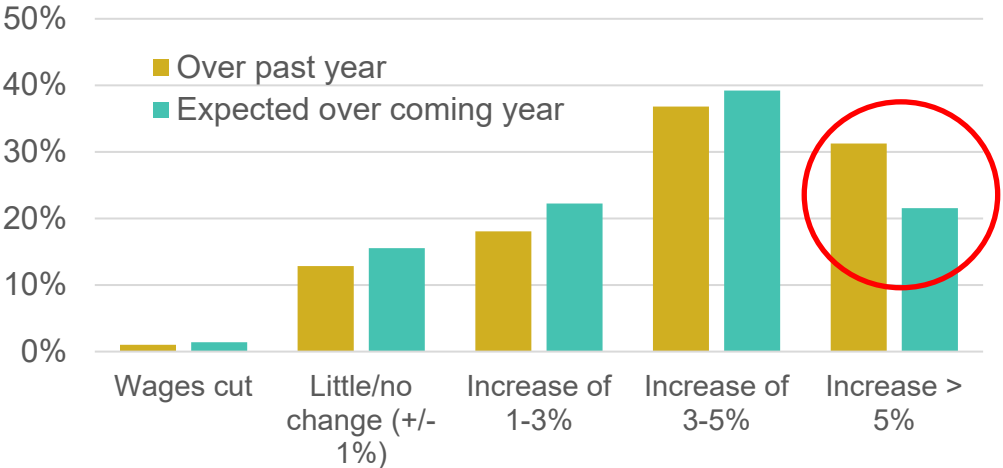
Wage increases, skilled trades (yoy)



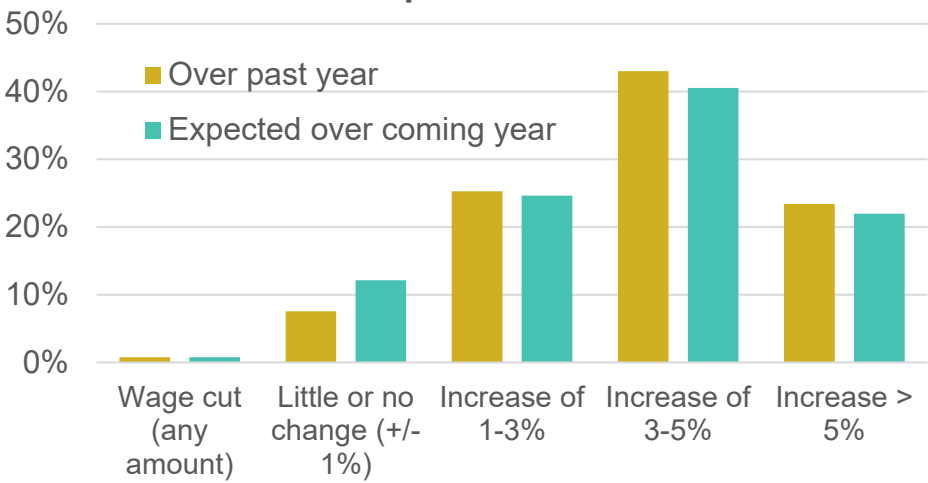
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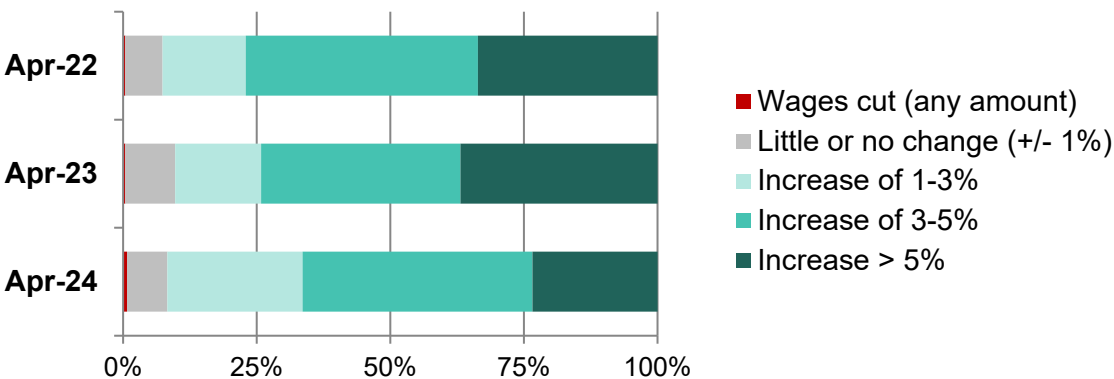
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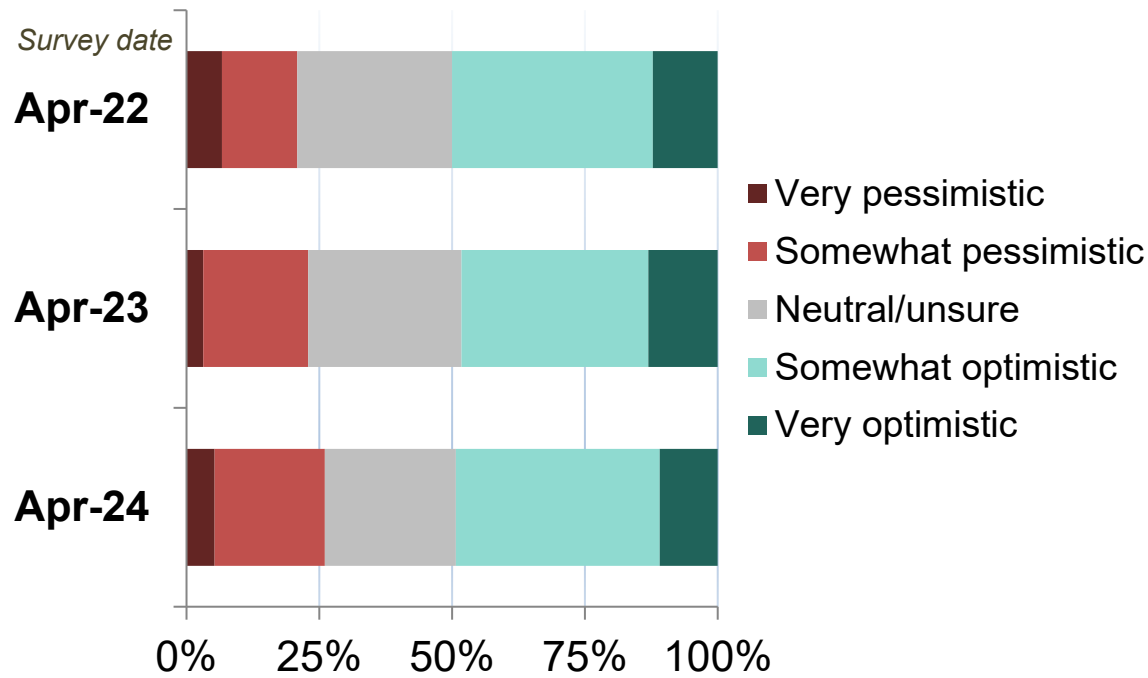


AND FINALLY...
OUTLOOK, PLUS SOME

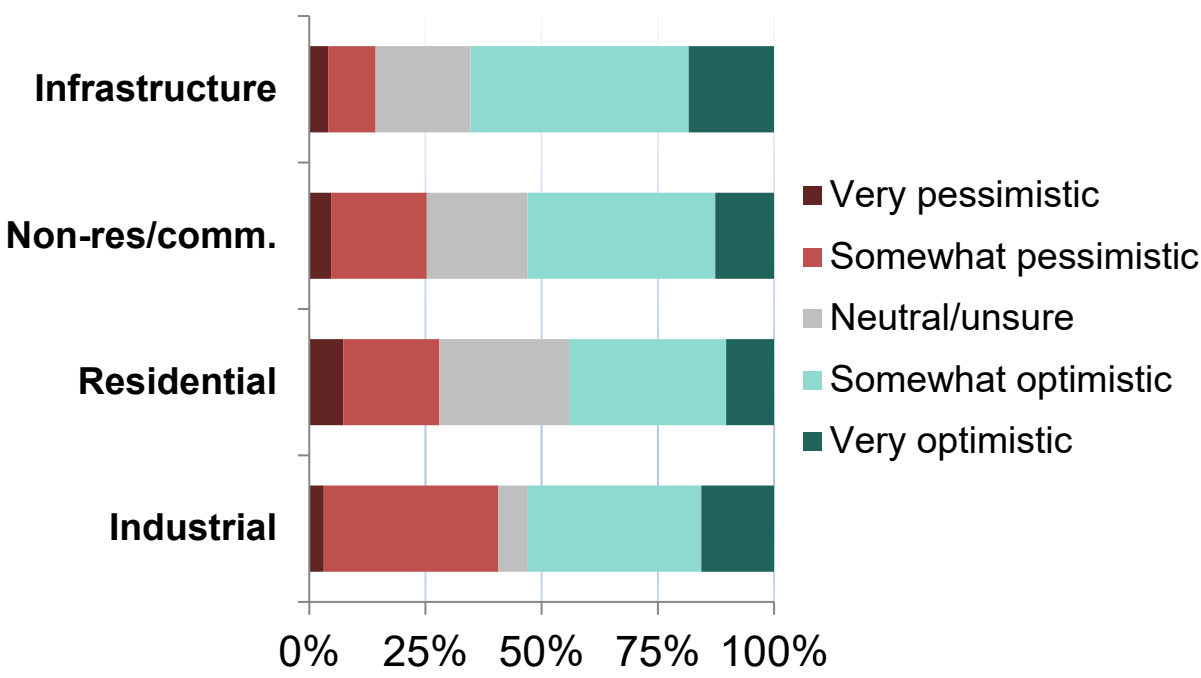
OUTLOOK: COULD BE WORSE?

- Optimistic overall; virtually unchanged from last year, with exception of industrial, where optimism narrowed significantly

Outlook for the next 6 months?



Outlook for the next 6 months?

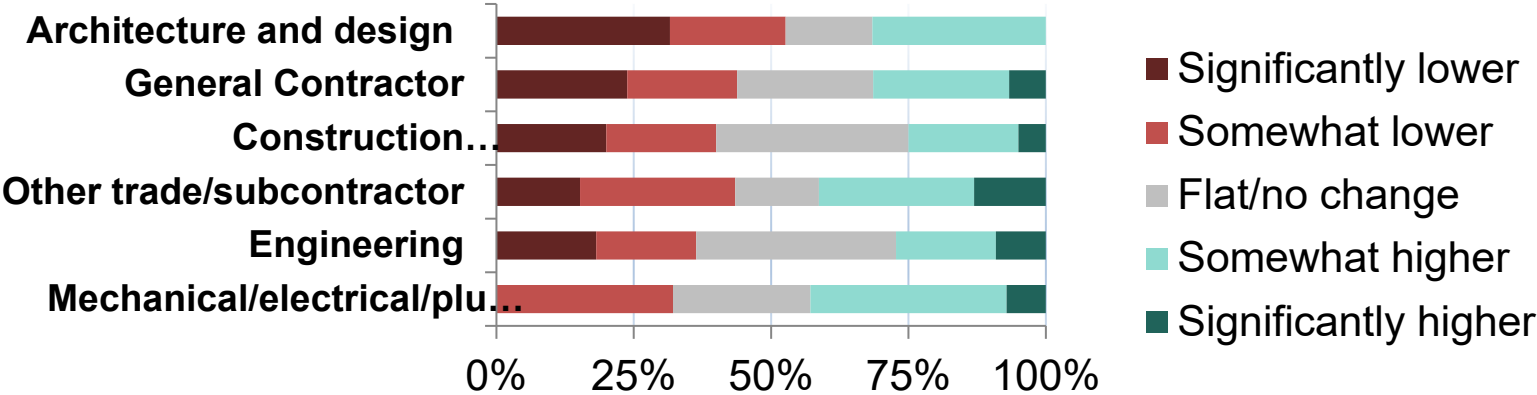




ANYTHING ELSE INTERESTING?

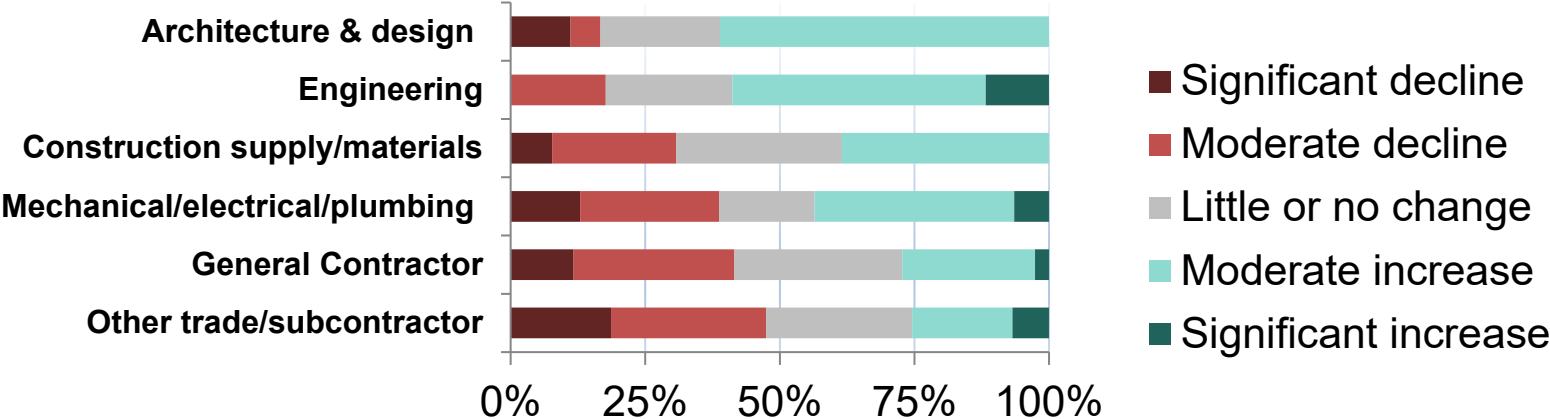
FRONT END OF PROJECT PIPELINE

Spring 2023: Recent revenues compared with last year



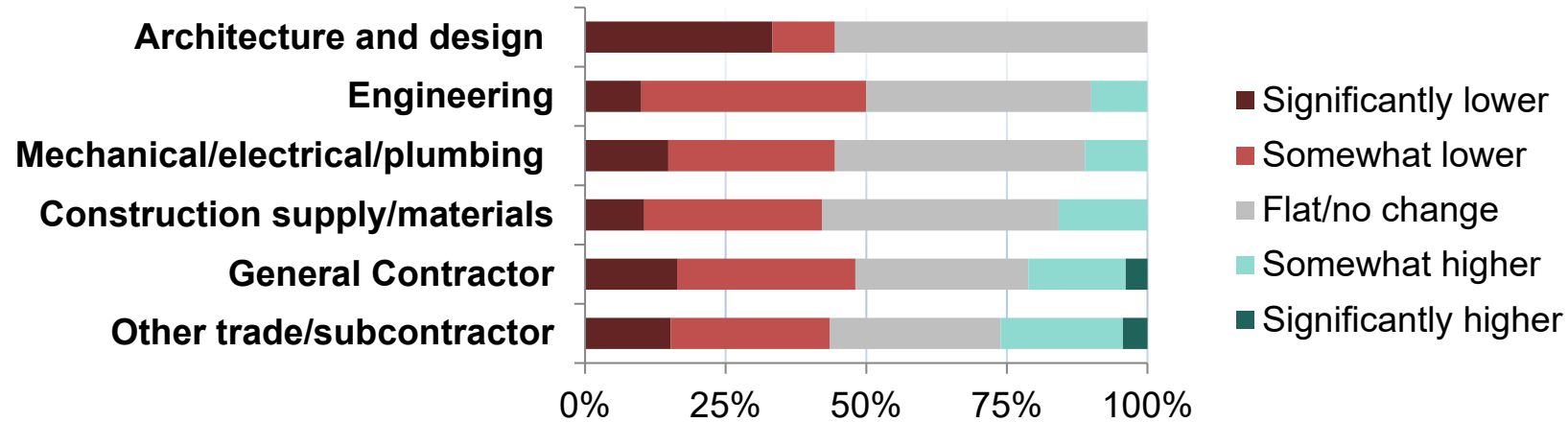
Last year architects led a generally dour group performance; now *possibly* signaling some growth

Spring 2024: Recent revenue compared with last year



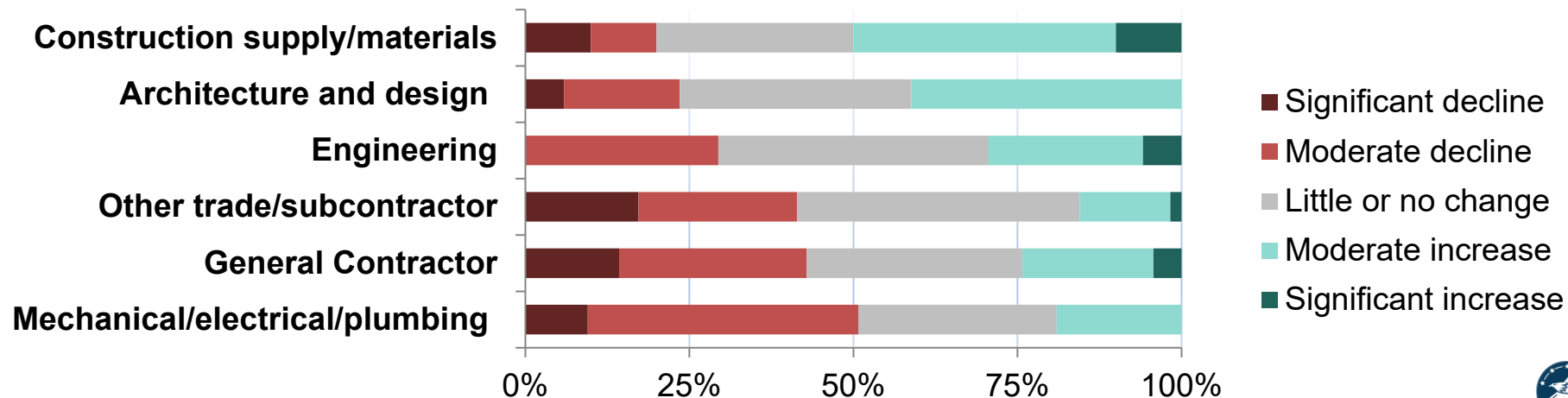
Sample size among architects and some other groups small in both surveys, *so interpret carefully*

April 2023: RFPs for private projects



Request for proposals:
Same caveats apply, but also a positive sign

April 2024: RFPs for private projects



Outlook also upbeat



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SURVEY WRAP-UP

- Revenue and profits still net-negative, but less so
 - Infrastructure doing the best
 - Residential and commercial seeing modest improvement but still seeing challenges
 - Industrial saw biggest pull back
- Future activity giving mixed signals
 - RFPs & project backlogs still shrinking
 - But hiring still healthy
 - Inflation and wage pressure still present, but improved
- Outlook optimistic overall; other signs offer modest hope





THANK YOU!
QUESTIONS?
SUBMIT QUESTIONS VIA CHAT BOX

TWITTER: @RONWIRTZ

@MINNEAPOLISFED

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RON.WIRTZ@MPLS.FRB.ORG