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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Apr-23</th>
<th>Apr-24</th>
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<tbody>
<tr>
<td>Non-res/commercial</td>
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<tr>
<td>Residential</td>
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<tr>
<td>Infrastructure/heavy</td>
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<td>Industrial</td>
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Respondents by firm size

<table>
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<tr>
<th>Firm Size</th>
<th>Apr-23</th>
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<tr>
<td>Under $500,000</td>
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<tr>
<td>$500,000 to $2m</td>
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<td>$2m to $10m</td>
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<td>$10m to $50m</td>
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<td>&gt; $50 million</td>
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Where is your firm located?

- Wisconsin
- UP of Mich
- Montana
- North Dakota
- South Dakota
- Greater Minnesota
- Mpls-St. Paul

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<thead>
<tr>
<th>Location</th>
<th>Apr-23</th>
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<tbody>
<tr>
<td>Wisconsin</td>
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<tr>
<td>UP of Mich</td>
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<tr>
<td>Montana</td>
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<td>North Dakota</td>
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<td>South Dakota</td>
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<tr>
<td>Greater Minnesota</td>
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<tr>
<td>Mpls-St. Paul</td>
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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

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**Recent revenue trends and future expectations**

- **January to mid-April this year compared with same period last year**
  - Significant decline
  - Moderate decline
  - Little or no change
  - Moderate increase
  - Significant increase

- **Expectations for coming 6 months compared with same period last year**
  - Significant decline
  - Moderate decline
  - Little or no change
  - Moderate increase
  - Significant increase
Revenue trend has pivoted from November, but only slight improvement from (more comparable) April 2023 trend.
Future revenue expectations have changed from last year’s survey.
Recent profit levels remain negative overall (more seeing decline vs increase)

However, trend is improving, for both recent and future profits
**Revenue Trends by Construction Sector**

**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

**Recent Revenue Compared with Last Year**

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

**Revenue Expectations for Coming 6 Months (yoy)**

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

*Significant decline*, *Moderate decline*, *Little or no change*, *Moderate increase*, *Significant increase*
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%

Source: Dodge Data & Analytics
Housing permits slowed across Ninth District in 2023

**BUT** single-family permitting rebounded in Q1; Multi-family, not so much

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**Single-family permits**

**Multi-family permits**

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

Survey date

Nov-22
Apr-23
Nov-23
Apr-24

Significantly lower
Somewhat lower
Similar/no change
Somewhat higher
Significantly higher
New private projects out for bid improved slightly, but still much much poorer than two years ago

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:

- Supply chain disruptions
- Staff/crew turnover
- Project cancellations
- Project delays
- Labor availability
- Wage increases
- Inflation/Material input costs
- Competition for available projects

- Getting worse
- Staying the same
- Getting better
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

Survey date
Nov-21
Apr-22
Nov-22
Apr-23
Nov-23
Apr-24

- Lower (any amount)
- Mostly flat (+/- 1%)
- 1-5%
- 5-10%
- 10-25%
- >25%
Sector still seeing positive labor demand

3 of 4 were hiring
Labor availability much improved despite moving into busy season.

Good & bad indicator

Ability to find and hire necessary labor

- Very Difficult
- Moderately difficult
- Slightly difficult
- Not difficult

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<tr>
<td>Very Difficult</td>
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Construction employment has continues to rise, with some wiggles in MN & ND
WAGE PRESSURE EASING, ESPECIALLY AT TOP END

FUTURE WAGE EXPECTATIONS RUNNING TIGHT WITH RECENT WAGE GROWTH (SOMewhat unusual)

WAGE INCREASES, SKILLED TRADES (YOY)
WAGE PRESSURE EASING, ESPECIALLY AT TOP END

FUTURE WAGE EXPECTATIONS RUNNING TIGHT WITH RECENT WAGE GROWTH (SOMETHING UNUSUAL)

AVERAGE WAGE INCREASE FOR SKILLED TRADES

November 2023

- Wage pressure easing, especially at top end
- Future wage expectations running tight with recent wage growth (somewhat unusual)

Wage increases, skilled trades (yoy)

- Wages cut:
  - Any amount

- Little or no change (+/- 1%)

- Increase of 1-3%

- Increase of 3-5%

- Increase > 5%

April 2024

- Wage increases, skilled trades (yoy)

- Wages cut:
  - Any amount

- Little or no change (+/- 1%)

- Increase of 1-3%

- Increase of 3-5%

- Increase > 5%
AND FINALLY...

OUTLOOK, PLUS SOME
OUTLOOK: COULD BE WORSE?

- Optimistic overall; virtually unchanged from last year, with exception of industrial, where optimism narrowed significantly
ANYTHING ELSE INTERESTING?
Last year architects led a generally dour group performance; now possibly signaling some growth. Sample size among architects and some other groups small in both surveys, so interpret carefully.
Request for proposals: Same caveats apply, but also a positive sign

Outlook also upbeat

April 2023: RFPs for private projects

- Architecture and design
- Engineering
- Mechanical/electrical/plumbing
- Construction supply/materials
- General Contractor
- Other trade/subcontractor

0% 25% 50% 75% 100%

Significantly lower
Somewhat lower
Flat/no change
Somewhat higher
Significantly higher

April 2024: RFPs for private projects

- Construction supply/materials
- Architecture and design
- Engineering
- Other trade/subcontractor
- General Contractor
- Mechanical/electrical/plumbing

0% 25% 50% 75% 100%

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

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CONNECT VIA LINKEDIN

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