CONSTRUCTION SURVEY IN THE NINTH DISTRICT

November 13, 2020

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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.
A BIG THANK YOU TO PARTNERS

- About 35 partnering construction organizations across six Ninth District states
  - They deliver Bank survey to members
- Fifth construction survey since start of pandemic; second survey to be District-wide
- To date, close to 3,000+ responses; crucial insights for Bank on bellwether sector
CONSTRUCTION SECTOR SURVEY

- Conducted October 26 to November 2, 2020
- Total responses: 393
  - Responses from all Ninth District states
  - More than half from Minneapolis-St. Paul firms
  - Small response in Montana, the Dakotas, U.P./Mich.
  - Each of the four main sectors represented:
    - Residential, Commercial, Industrial, Infrastructure
  - All firm types sought, from architecture, design, engineering, contractors, materials/supply and more
DISCUSSION OVERVIEW

● Volatility and challenges continues in industry
  • Recent revenue trends are mixed; firms crowding to either side of the revenue see-saw
  • Cancellations & delays still prevalent
● Sector still hiring; but labor availability still tight
● Residential housing seeing best results among sectors
● Notable concerns for future work; many report that pipeline of future projects shrinking
● Sector in decent financial health, at least by comparison to other sectors
OVERVIEW, CONT.

- Survey results are a snapshot
  - Not a scientifically sampled survey
  - Interpret with care

- Pace will be quick; PPT and video will be posted to website and shared with all registered guests
FIRST FOCUS:
REVENUE TRENDS,
CANCELLATIONS & DELAYS
Lots of firms seeing revenue swings (+/-) compared with last year and last quarter; roughly equal shares on both sides of ledger

But future quarter expectations were more downbeat
Construction zone: Proceed with caution!

Minneapolis-St. Paul
- Strong response
- Likely factor in poorer results in commercial sector

Low responses in MT, ND, SD, UP/Mich = hard to trust their results

Wisconsin: Good response, but heavily in residential sector
In general, firm of all types on both sides of the revenue see-saw. Engineering most upbeat, but had < 20 responses.
Poorer revenue trend in commercial sector reflects tougher conditions reported in Mpls-St. Paul.

More seeing growth in residential sector.
Project cancellations and delays affecting many firms

Responses for private projects slightly more negative

Virtually unchanged from July survey
Among the four major construction sectors, everyone seeing cancellations of private projects, even housing...
SECOND FOCUS: REQUESTS FOR PROPOSALS
Future Activity: Request for Proposals

Pipeline of future projects to bid on continues to contract

Roughly similar trends for private & public projects

Levels mostly unchanged from July survey; very slight improvement for private projects

Request for proposals: Future projects out for bid compared with July levels
Residential builders a comparative bright spot – lower levels of RFP decline, and higher levels of RFP increase.

Request for proposals: Private projects out for bid compared with July levels:

- **Industrial**:
  - 0%: Significantly lower
  - 20%: Somewhat lower
  - 40%: Flat/no change
  - 60%: Somewhat higher
  - 80%: Significantly higher
  - 100%: Don't know/not applicable

- **Non-res/commercial**:
  - 0%: Significantly lower
  - 20%: Somewhat lower
  - 40%: Flat/no change
  - 60%: Somewhat higher
  - 80%: Significantly higher
  - 100%: Don't know/not applicable

- **Infrastructure and heavy**:
  - 0%: Significantly lower
  - 20%: Somewhat lower
  - 40%: Flat/no change
  - 60%: Somewhat higher
  - 80%: Significantly higher
  - 100%: Don't know/not applicable

- **Residential building**:
  - 0%: Significantly lower
  - 20%: Somewhat lower
  - 40%: Flat/no change
  - 60%: Somewhat higher
  - 80%: Significantly higher
  - 100%: Don't know/not applicable

*Source: Federal Reserve Bank of Minneapolis*
THIRD FOCUS: OTHER METRICS
More construction firms hiring than cutting.

Hiring/firing gap expected to narrow modestly over the coming six months, likely due to seasonality and factors tied to tighter RFP levels.
News flash (not!)

Construction firms continue to struggle finding workers

How would you describe labor availability?

Among firms reportedly looking for workers

- Not tight; good labor availability
- Slightly tight
- Moderately tight
- Very tight
Wage growth more persistent in construction than other sectors

Skilled trades seeing greater wage pressure

Wage pressure expected to accelerate over next 12 months

Describe average wage pressure at your firm
Firms have seen moderate to strong price inflation, due to supply chain issues and increased demand for some products. Some “regression to the middle” from both sides over the next 6 months.

### Average price inflation for nonlabor inputs/materials

- Since onset of COVID
- Expected over coming 6 months

<table>
<thead>
<tr>
<th>Category</th>
<th>Since onset of COVID</th>
<th>Expected over coming 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall prices have declined</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Mostly flat (+/- 1%)</td>
<td>15%</td>
<td>5-10%</td>
</tr>
<tr>
<td>1-5% higher</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>5-10% higher</td>
<td>20%</td>
<td>&gt; 10%</td>
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<tr>
<td>&gt; 10% higher</td>
<td>30%</td>
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SOLVENCY: CONTINUES TO IMPROVE

Just 2% say they could not last more than three months under current conditions.

Firms appear to be stabilizing as they understand the new competitive landscape.

If current economic conditions persist, how long could your firm stay solvent?

- Less than a month: 0%
- 1-3 months: 0%
- 4-6 months: 10%
- Longer than six months: 70%
- Don't know: 30%
FUTURE TRACKING OF SECTOR

- Next construction survey in early February
- Continued expansion of partners for broader response
- Any construction groups interested in participating should contact me
THANK YOU!

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