CONSTRUCTION SURVEY IN THE NINTH DISTRICT

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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.
THE COVID DATA CHALLENGE

- Speed of pandemic = need for real-time information
- Most macro data time-lagged; less COVID-relevant
- How to start filling the gap? More outreach!
  - Regional Outreach: 11 surveys since mid-March; almost 9,000 business responses, 25,000 comments
  - General business survey (July 20-24): 1,100+ responses
  - Construction survey (July 27-31): 636 responses
  - Professional services survey: Currently in the field
REC: A new webinar series from the Minneapolis Fed

- Extension of annual Regional Economic Conditions Conference connecting people & research related to Ninth District economy
- More surveys and more real-time data being gathered
- Webinars help Bank connect with business and community leaders about real-time conditions in the Ninth District
- Enhanced data sharing: Greater value for survey partners and survey participants
A BIG THANK YOU TO PARTNERS

- Too many to list and thank individually
- About 35 partnering construction organizations
  - They deliver Bank survey to members
- Fourth construction survey since start of pandemic, but first survey to be District-wide
- To date, 2,500+ responses; crucial insights for Bank on bellwether sector
CONSTRUCTION SECTOR SURVEY

- Conducted July 27-31, 2020
- Total responses: 636
  - Responses from all Ninth District states, though smaller responses in Dakotas, Montana, U.P/Mich. & north Wis.
  - Each of the four main sectors represented:
    - Residential, Commercial, Industrial, Infrastructure
  - All firm types, from architecture, design, engineering, contractors, materials/supply and more
DISCUSSION OVERVIEW

● Lots of challenges in the sector right now
● Much similarity across states, sectors and firms
● The sector appears in (comparatively) good financial health, but concerns for future work
● 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: CANCELLATIONS & DELAYS
OVERALL TREND: PROJECT DELAYS & CANCELLATIONS

May survey – many firms seeing delays and cancellations

July survey: Continuation of trend

Private projects seeing slightly higher rates of cancels and delays

Compared with May levels, what are you seeing in project delays or cancellations? (% of those affirming work in this category)

- Delays – public projects
- Delays – private projects
- Cancellations – public projects
- Cancellations – private projects

- Rising significantly
- Rising modestly
- No change
- Falling somewhat
- Falling significantly
States seeing generally similar levels of project cancellation

North Dakota’s larger exposure likely stems from downturn in energy exploration and production.
Among the four major construction sectors, everyone getting hit

Infrastructure and heavy construction seeing slightly worse cancellations

![Project Cancellations by Sector]

July cancellations compared with May levels
By sector, for private projects

- **Infrastructure and heavy construction**: Rising significantly, Rising modestly, No change, Falling somewhat, Falling significantly, Don't know/not applicable
- **Nonresidential building**: Rising significantly, Rising modestly, No change, Falling somewhat, Falling significantly, Don't know/not applicable
- **Residential building**: Rising significantly, Rising modestly, No change, Falling somewhat, Falling significantly, Don't know/not applicable
- **Industrial**: Rising significantly, Rising modestly, No change, Falling somewhat, Falling significantly, Don't know/not applicable

*Federal Reserve Bank of Minneapolis*
All types of construction firms negatively affected.

Architect/design seeing the lightest effect.

Note: Development and ancillary construction categories both received <10 responses.
SECOND FOCUS: REQUESTS FOR PROPOSALS
May survey – RFP activity was dropping

July survey: Trend appears to be continuing

Roughly similar trends for private & public projects

Not surprisingly, more competition for remaining projects
RFP levels falling across the Ninth District

Mpls-St. Paul seeing biggest pullback

Luckily, across the board, most are not seeing ‘significant’ drops in RFPs

July RFPs compared with May levels, For private projects, by state

- South Dakota
- Montana
- Greater Minnesota
- North Dakota
- UP/Mich & north. Wis.
- Minneapolis-St. Paul

Legend:
- 0%: Significantly lower
- 25%: Somewhat lower
- 50%: Flat/no change
- 75%: Somewhat higher
- 100%: Significantly higher
- Don’t know
Residential builders a comparative bright spot – lower levels of RFP decline, and higher levels of RFP increase.
July RFPs compared with May levels
For public projects, by industry sector

- Infrastructure and heavy construction
- Nonresidential building
- Residential building
- Industrial

Graph shows the percentage of RFPs by sector, with categories for significantly lower, somewhat lower, flat/no change, somewhat higher, and significantly higher. The data indicates that infrastructure (roads/bridges) is the most relevant category for public sector projects, and RFPs are seeing pullback. However, all areas are seeing pullback among those bidding for public sector work.
Widely similar RFP experience across firm types when you factor out non-responses.

Engineering firms experiencing largest pull back.

### July RFPs compared with May levels

For private projects, by firm type:

<table>
<thead>
<tr>
<th>Firm Type</th>
<th>0%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>100%</th>
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<tbody>
<tr>
<td>Construction supply/materials</td>
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<td>Other trade/subcontractor</td>
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<td>Mechanical/electrical/plumbing</td>
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<td>General Contractor</td>
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<tr>
<td>Architecture and design</td>
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</tbody>
</table>

- Significantly lower
- Somewhat lower
- Flat/no change
- Somewhat higher
- Significantly higher
- Don't know

Note: Development and ancillary construction categories both received < 10 responses.
THIRD FOCUS: OTHER RESULTS
Somewhat more firms cut workers than added in July.

Lower RFP levels likely compounding workforce trend into the fall.

### Current and near-term staffing levels

- **July staffing compared with May levels**
  - Significant cuts
  - Modest cuts
  - No effect/no changes
  - Modest increases
  - Significant increases
  - Don't know

- **Expected staffing levels at end of September**
  - Significant cuts
  - Modest cuts
  - No effect/no changes
  - Modest increases
  - Significant increases
  - Don't know
Despite high unemployment, construction firms still struggling to find workers.
Some good news (at least for workers!)

Construction seeing continued, sustained wage growth

What's happening to average wages at your firm?

- Current average wages compared with pre-virus levels
- Additional wage actions expected by the end of 2020

- Wage cuts >10%
- Wage cuts of 1-10%
- No change (+/- 1%)
- Wage increase of 1-5%
- Wage increase > 5%
- Don't know
Firms are seeing fairly strong price inflation, often due to material shortages and other supply chain issues.

What's happening to average prices for nonlabor inputs/materials?

- Since the onset of COVID:
  - Price inflation SLOWER than pre-COVID trend
  - Price inflation SIMILAR to pre-COVID trend
  - Price inflation FASTER than pre-COVID trend

- Expected over the remainder of 2020:
  - Price inflation SLOWER than pre-COVID trend
  - Price inflation SIMILAR to pre-COVID trend
  - Price inflation FASTER than pre-COVID trend
Tiny number in immediate threat of insolvency

1 in 20 firms say they could not last more than three months under current conditions

Seeing steady improvement in solvency … might be from previous respondents dropping out

Solvency: If current economic conditions persist, how long could your firm stay solvent?
MOVING FORWARD: TRACKING COVID

- Continued survey work
- Next construction survey – late October
- More & better real-time measures of economic activity
LOOKING AHEAD: BETTER REAL-TIME DATA

COVID-19 and the Ninth District economy: A dashboard

SafeGraph foot traffic mobility

Sit-down restaurants
YoY Percent, seven-day rolling average

Google Mobility Reports
Retail and recreation
Percent change from baseline, seven-day rolling average

Filter by location type:
- Movie theaters
- Sit-down Restaurants
- Bars
- Malls
- Hotels

Filter by location type:
- Retail & recreation
- Grocery
- Parks
- Transit stations
- Workplaces

Note: Compared to same day and week in 2019
Source: SafeGraph

Note: Compared to median day-value from the 5-week period in Jan 3-Feb 6, 2020
Source: Google Community Reports
PROFESSIONAL SERVICES SURVEY  
SEPTEMBER 23 WEBINAR  
9:00 TO 9:30 AM

• Minneapolis Fed survey, in partnership with MN Dept. of Employment and Economic Development

• Firms from across Ninth District

• Joe Mahon, RO Director

Look to webinar Q&A box for registration link!
THANK YOU!  
QUESTIONS?  
Use “Q&A” function to submit questions to the host
THANK YOU!

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