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.

REC webinar series from the Minneapolis Fed

- Extension of annual (January) Regional Economic Conditions Conference connecting people & research on Ninth District economy
- Surveys are connecting Minneapolis Fed to more businesses across the Ninth District
- Webinars help disseminate and discuss what businesses are telling us about current conditions

A BIG THANK YOU TO PARTNERS

- About 40 construction/trade organizations across the Ninth District (and every District state) help get survey to their members
- Always looking for more partners to get our surveys to more construction firms
  - Contact info at end, or drop me a note in chat box

PANDEMIC OUTREACH

- Recent survey just one of several, regular quarterly surveys
  - Construction, hospitality/tourism, general business (2), & agricultural credit
- Today's focus: Construction survey
  - Conducted: February 16-22, 2021
  - Total responses: 503 from Minnesota, Dakotas, Montana, western Wisconsin and Michigan's Upper Peninsula
- Results are a snapshot
  - Not a scientifically sampled survey; interpret carefully

SURVEY TAKE-AWAYS

- Winter is normally slower, but survey suggests recent activity has slowed more than usual
- Rising input costs “are killing us”
- However:
  - Requests for proposals were net-positive for first time since start of pandemic
  - Cancellations & delays improving (though still net-negative)
  - Still hiring despite revenue slowdown
  - Insolvency low, firms generally financially stable

RECENT REVENUE TRENDS

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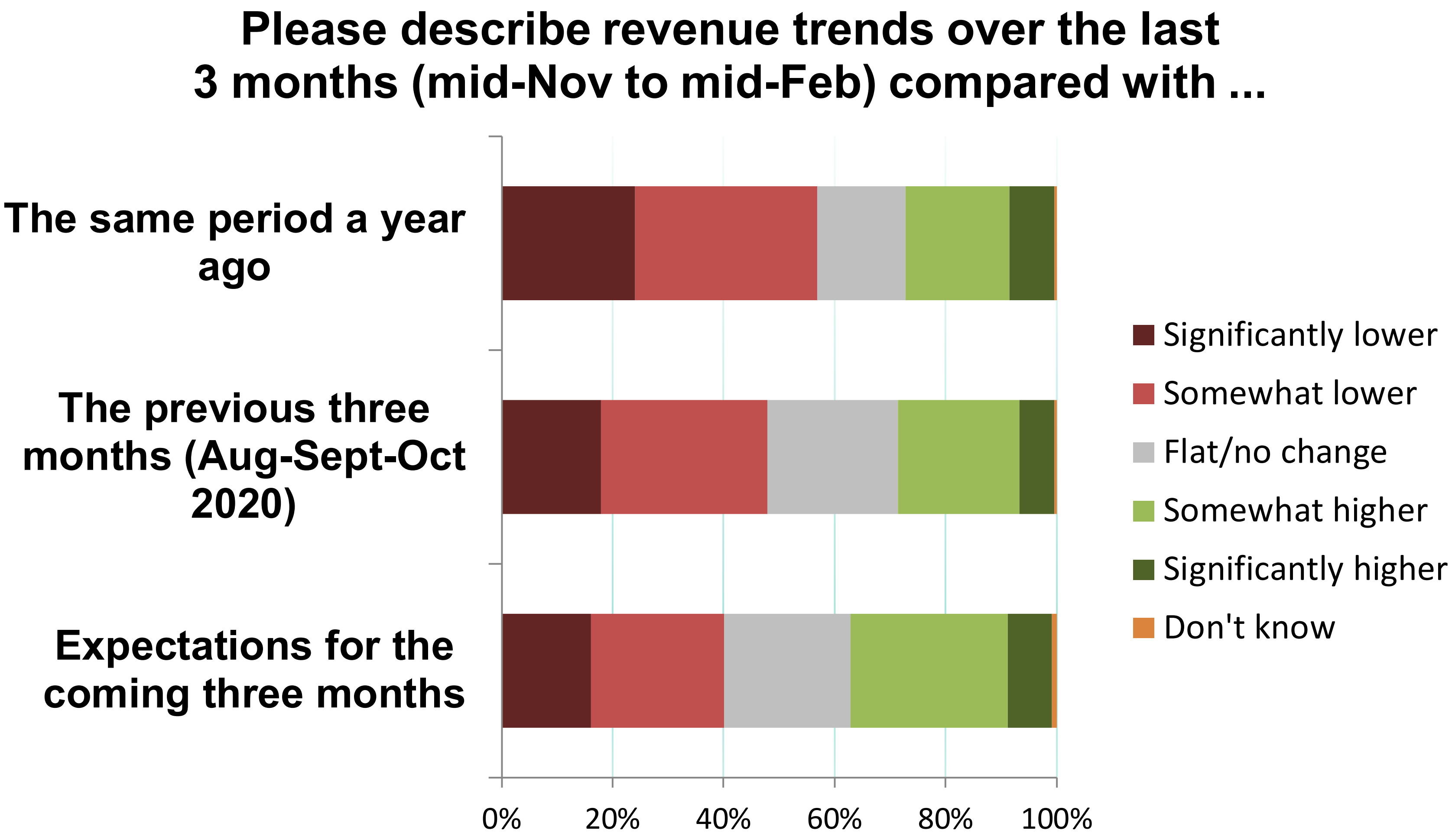
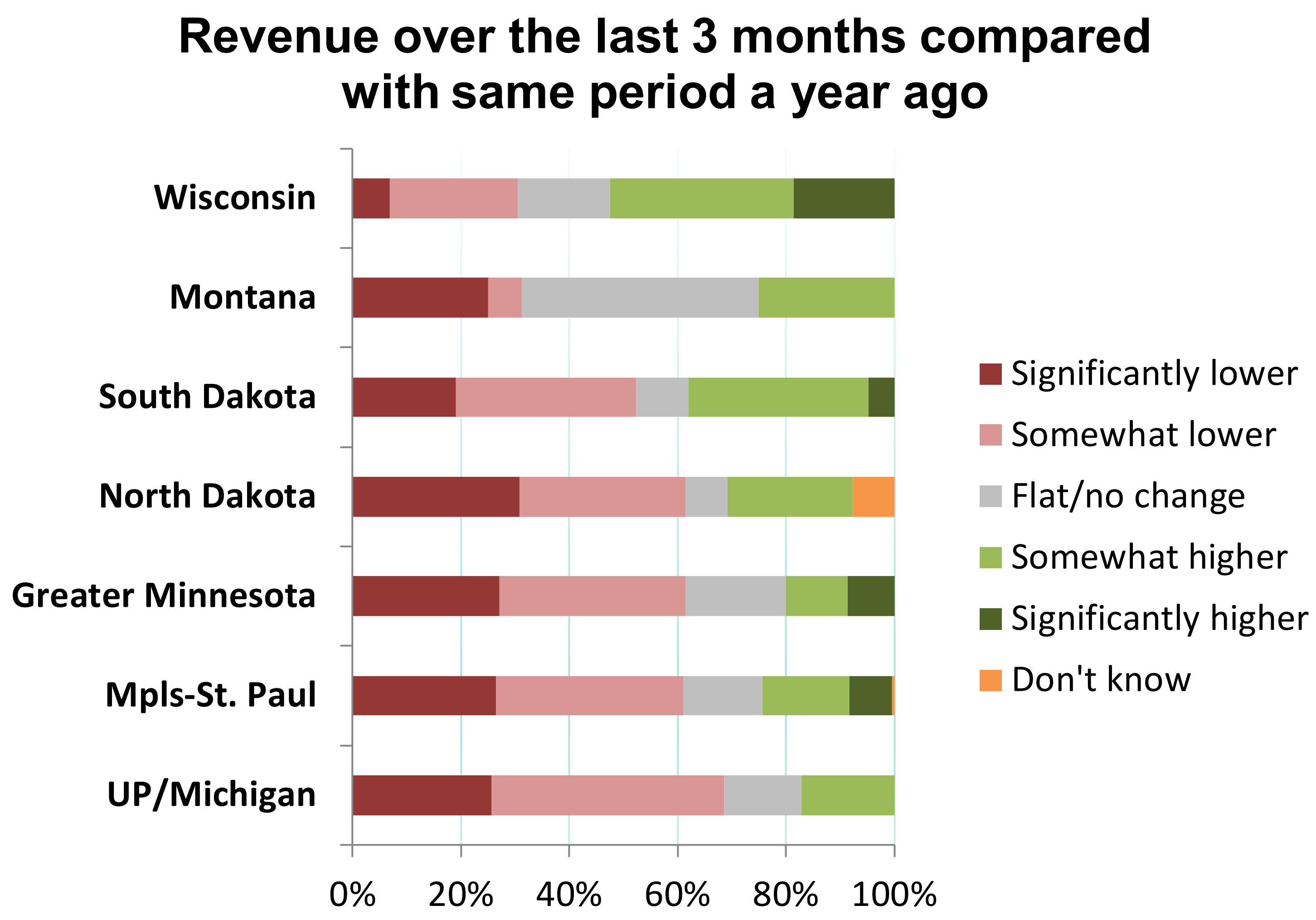
Recent revenue trends quite negative – year-over-year, qtr-o-qtr, & compared w/ October survey

But future quarter is close to neutral (that's good!); other indicators suggest a (potential?) bottom



UNPACKING REVENUE TRENDS

REVENUE TRENDS BY STATE

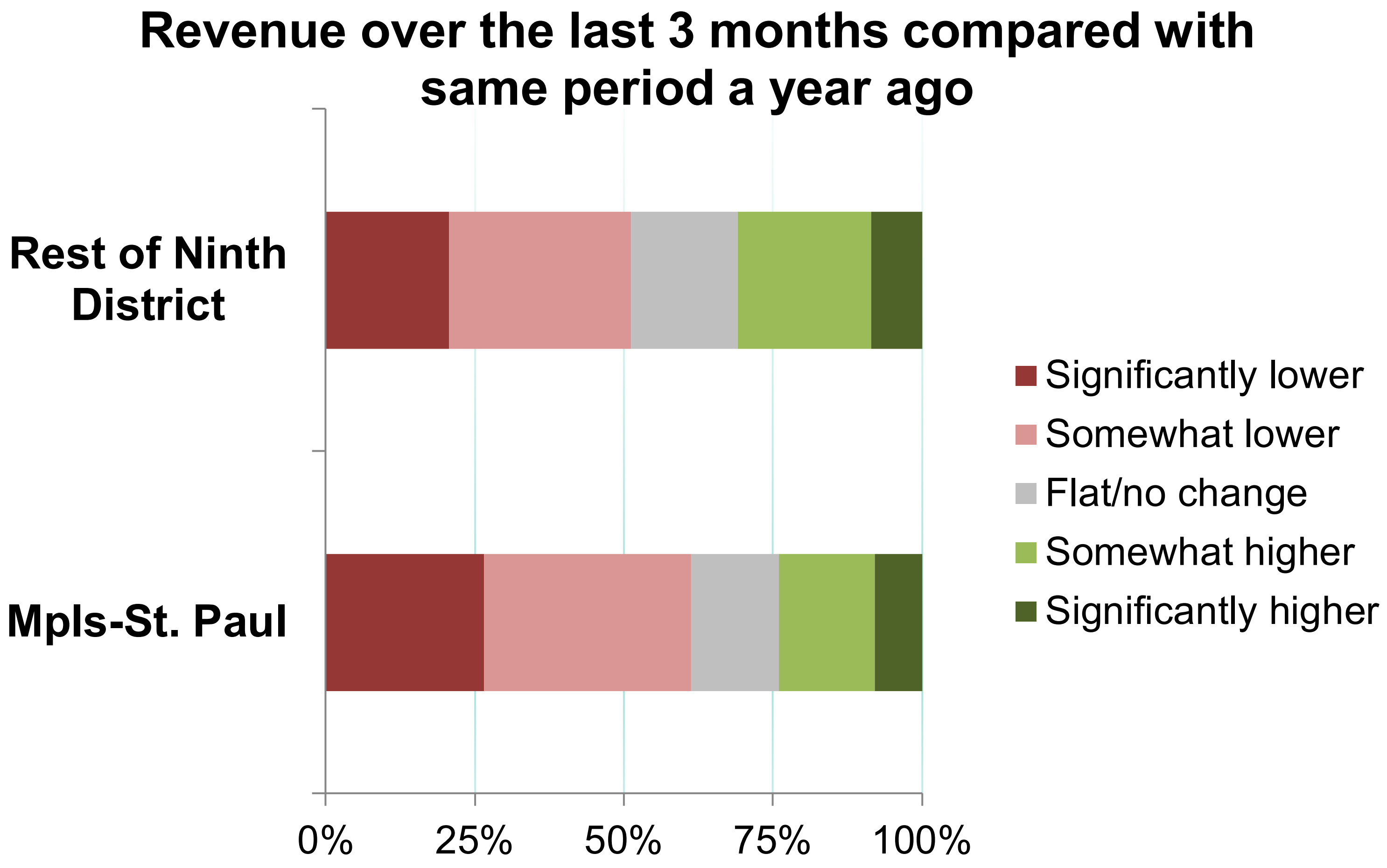


Construction zone: Proceed with caution!

- Minneapolis-St. Paul: More than half of all responses
- 50 combined responses in MT-ND-SD
- Wisconsin: High housing response

State-level results very hard to trust, save for MN

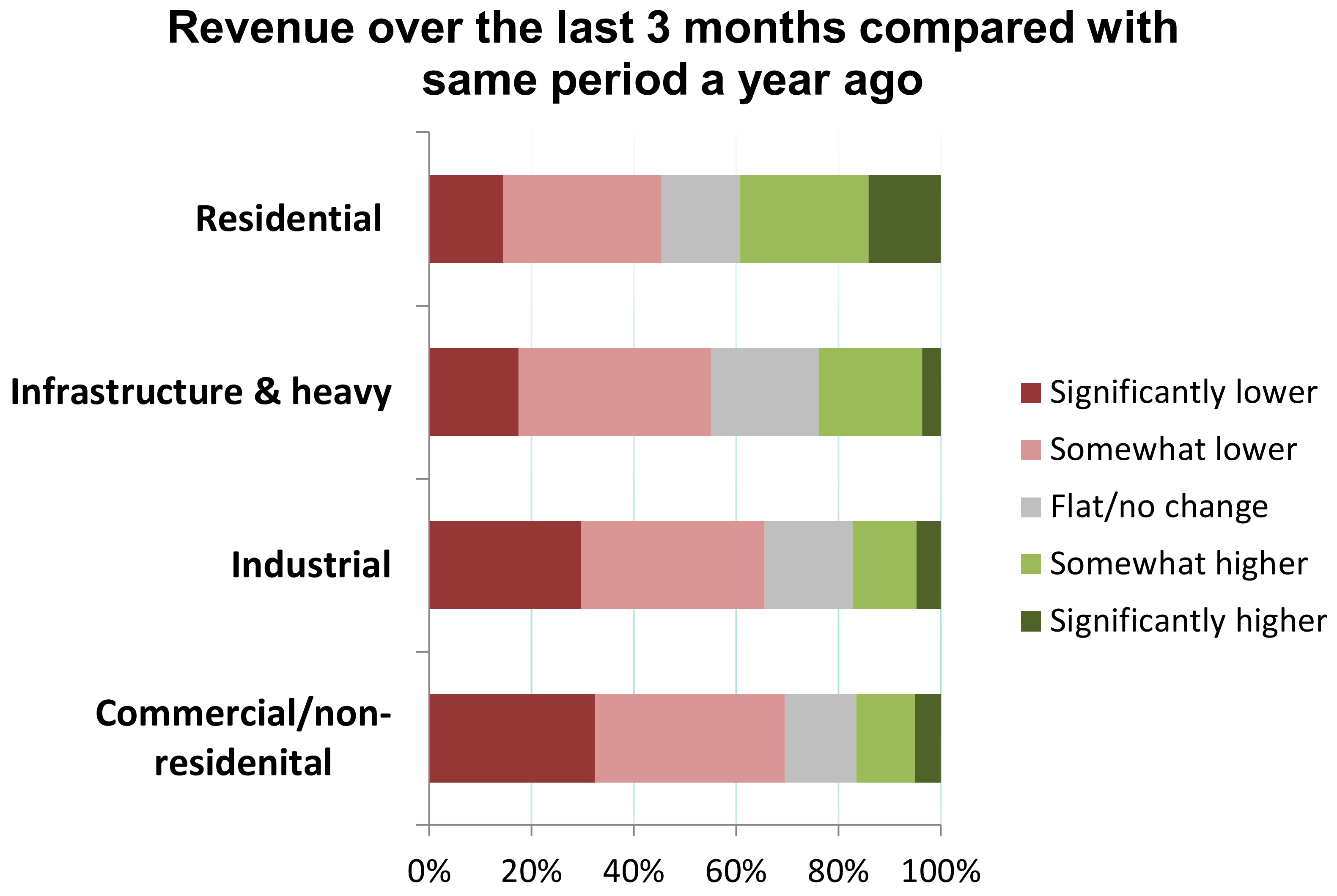
REVENUE TRENDS, CONT.



Construction zone: Proceed with caution!

Combining non-Twin-Cities respondents suggests modestly less negative experience

REVENUE TRENDS BY CONSTRUCTION SECTOR

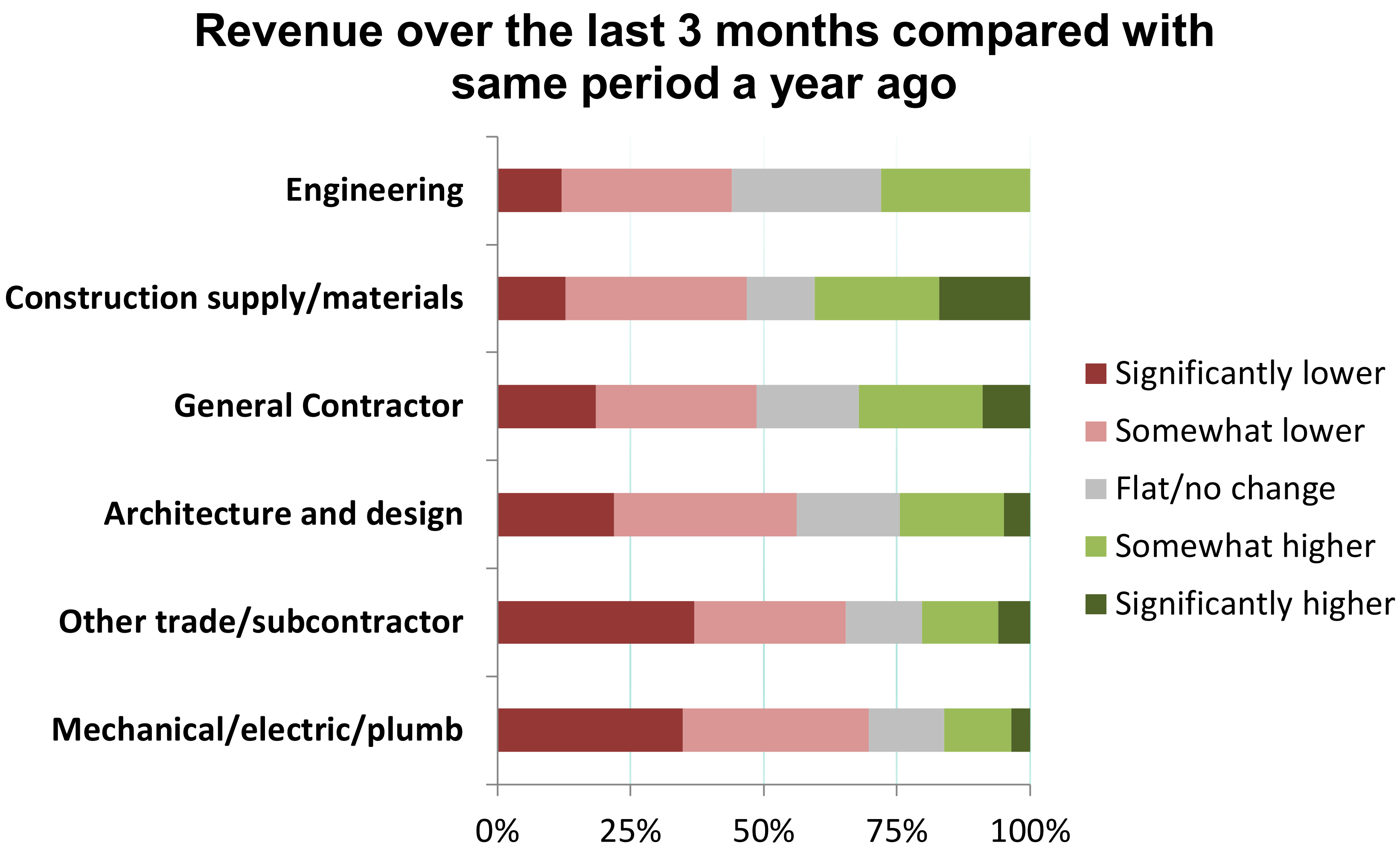


Residential sector *least* negative; commercial sector *most* negative

But y-o-y revenue trend more negative compared with October survey for *all* categories

REVENUE TRENDS BY FIRM TYPE

Same story: Some firm types doing modestly better (or worse), but overall y-o-y revenue trend is lower/worse



CANCELLATIONS & DELAYS

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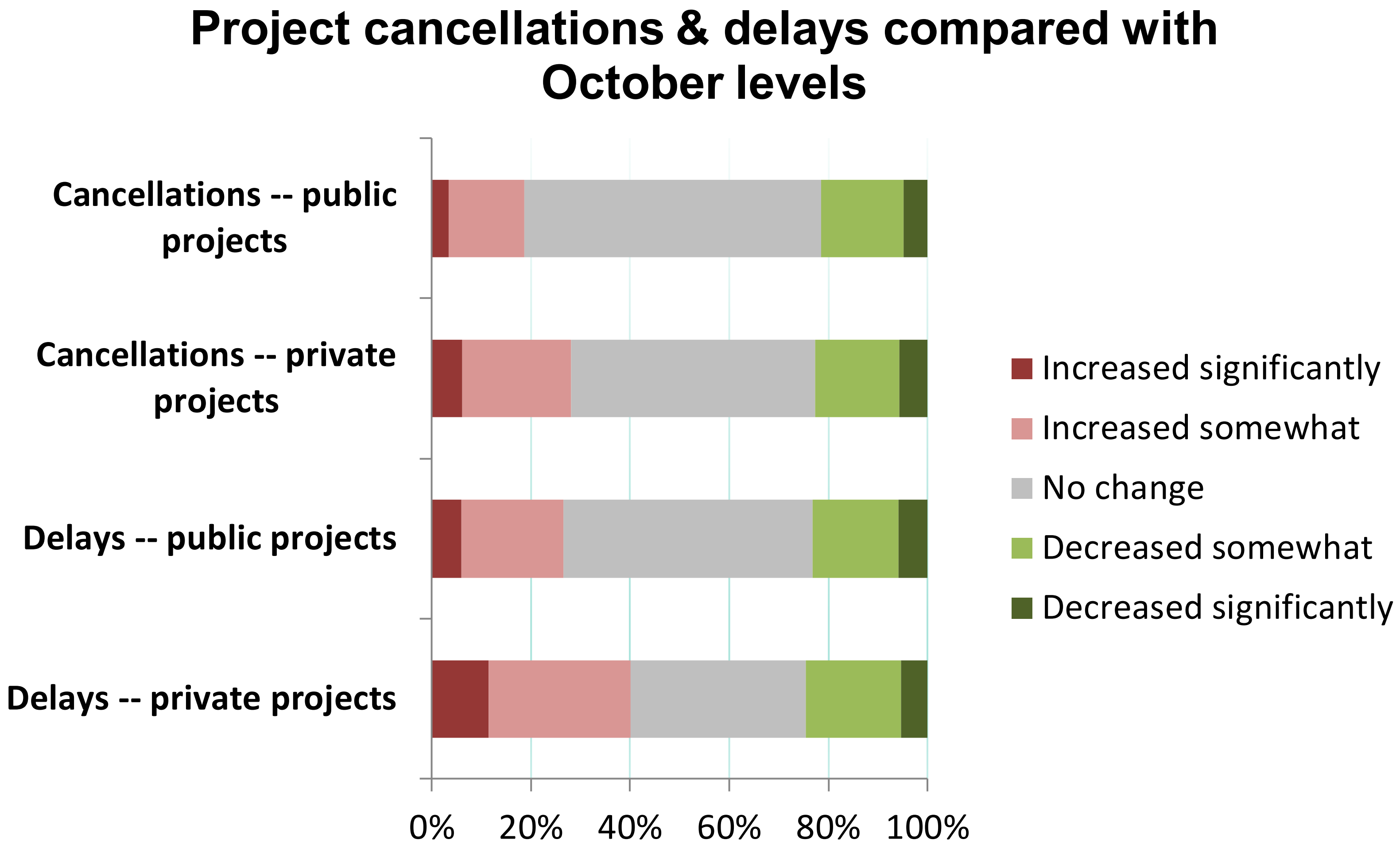
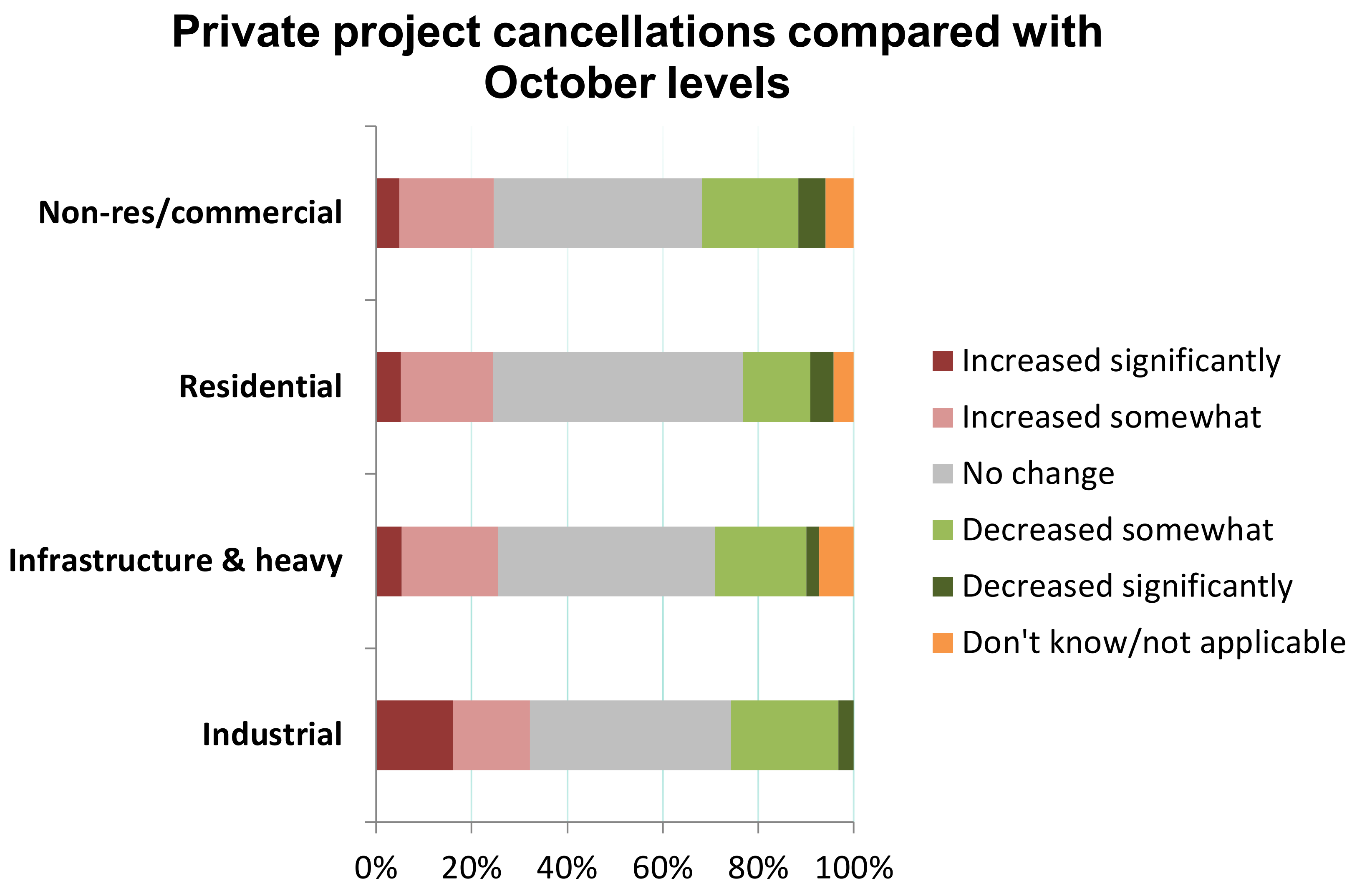
Cancellations and delays continue to affect many projects

Private projects more negatively affected that public projects

But category in general moving toward neutral stance



PROJECT CANCELLATIONS: BY SECTOR



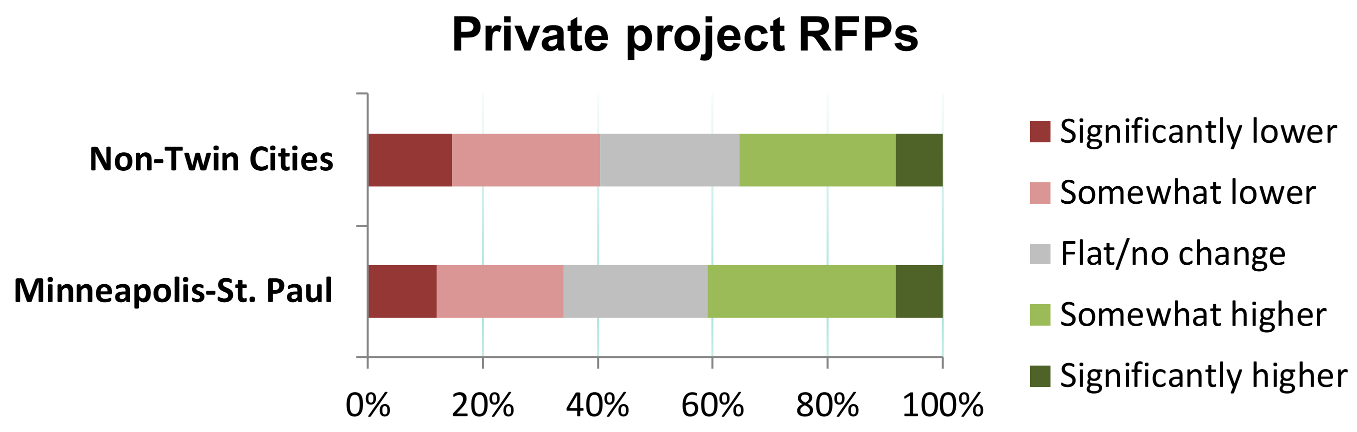
Cancellations still prevalent, but category also climbing toward neutrality, including notable improvement since October survey

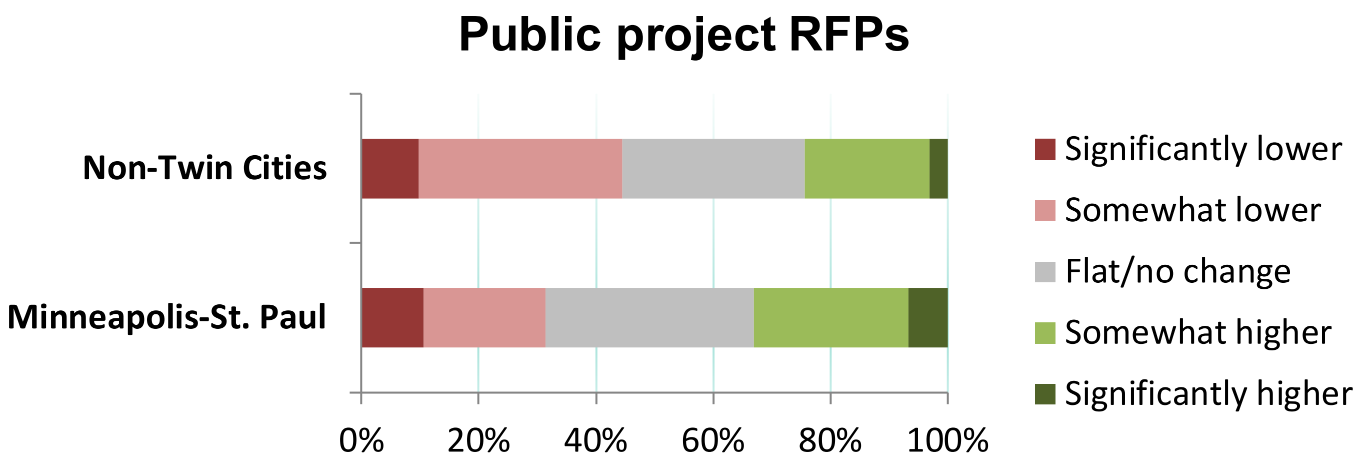
FUTURE PIPELINE:

REQUESTS FOR PROPOSALS

FUTURE ACTIVITY: REQUEST FOR PROPOSALS

Number of RFPS compared with October
(non-null responses only)





<u>Pipeline of future projects</u>:

RFP levels appear to have (potentially) bottomed

RFPs for Mpls-St. Paul firms net-positive for the first time since start of pandemic

Public project RFPs more muted, especially for firms outside of Mpls-St. Paul

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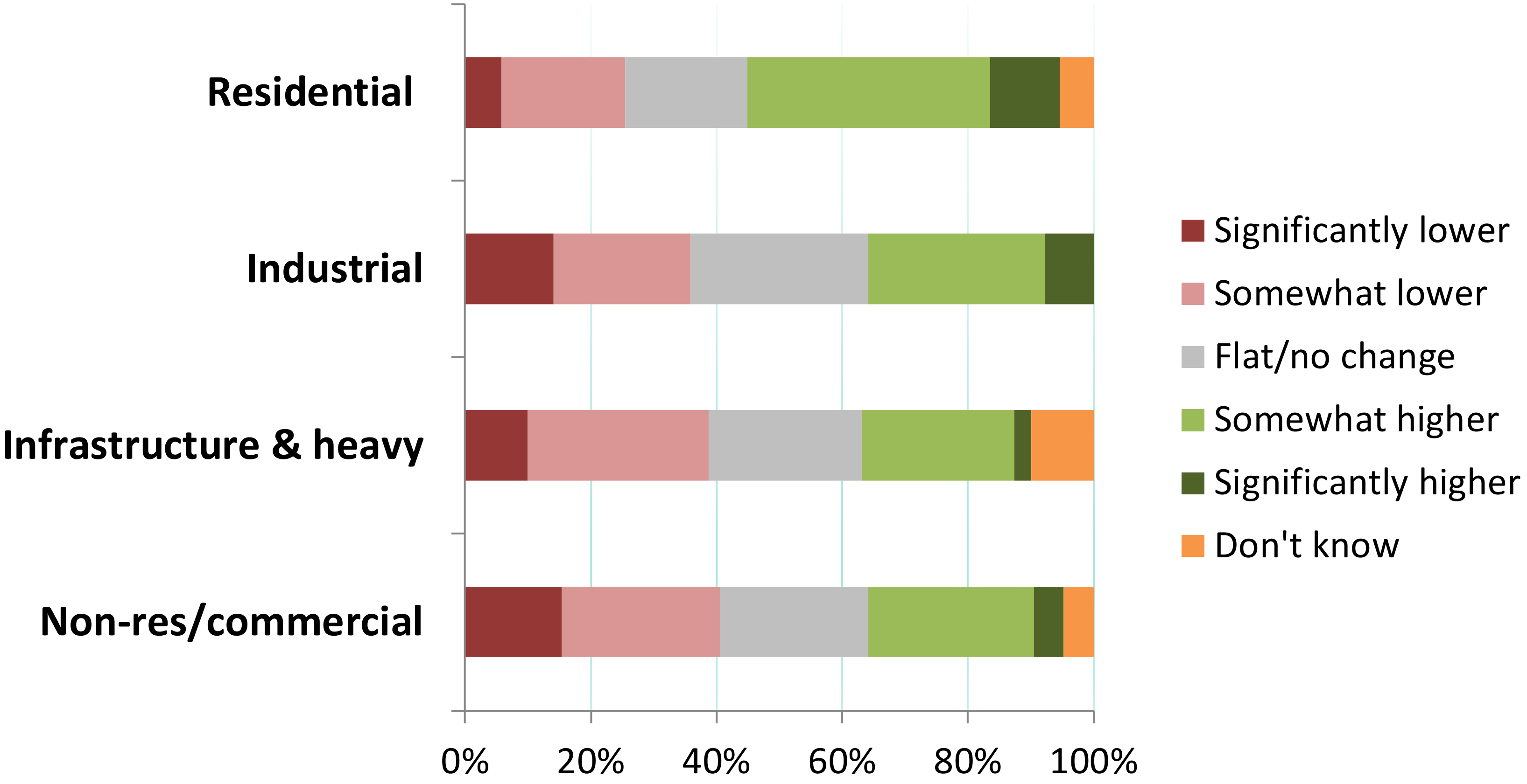
REQUEST FOR PROPOSALS – BY SECTOR

Residential RFPs still head and shoulders above other sectors, but others improved over October survey, and closer to neutral sentiment

Private-project RFPs compared with October levels



OTHER METRICS

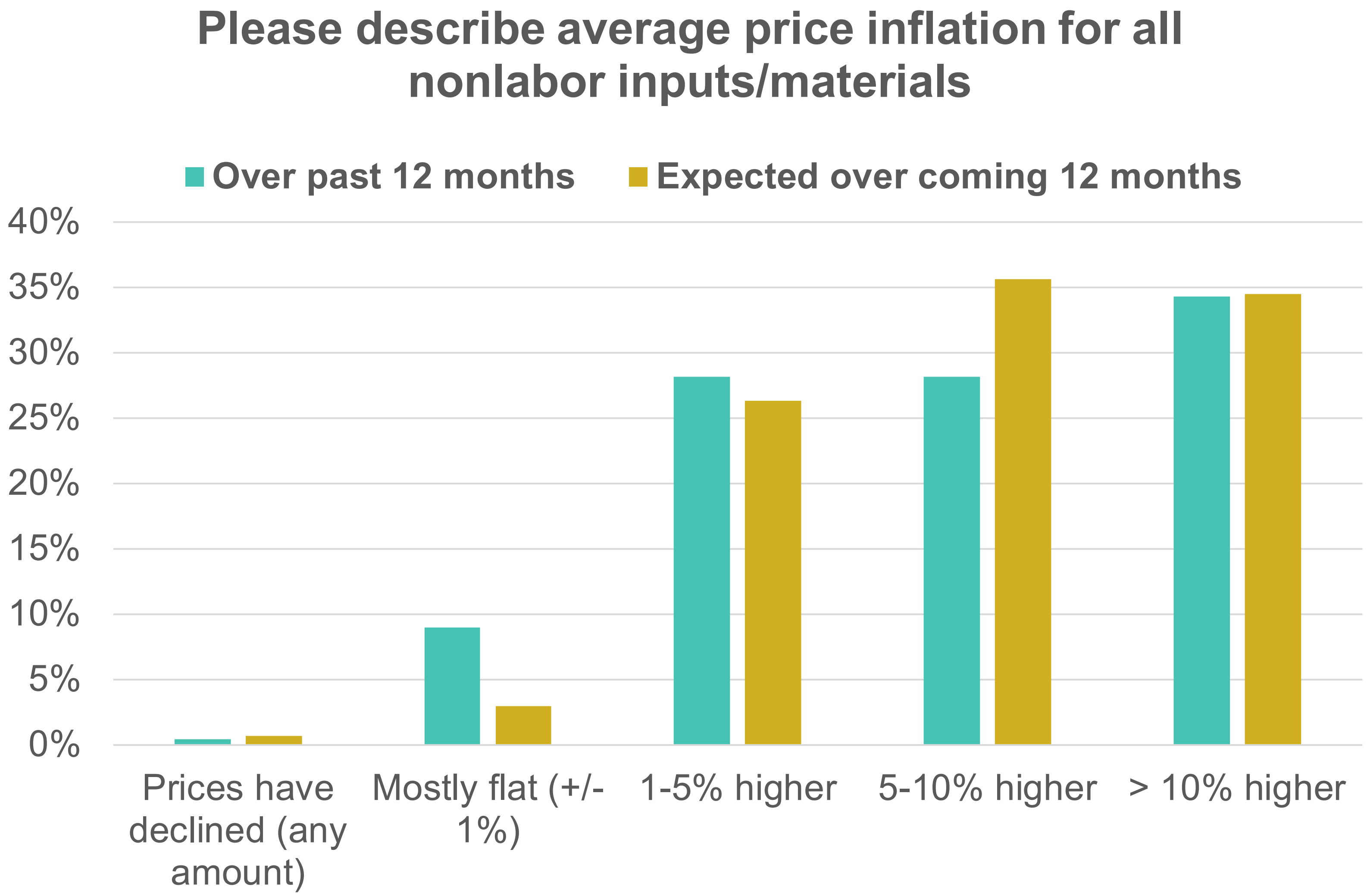
PRICES & INFLATION

Firms have seen big increases in costs

70 percent seeing costs rise > 5 percent

Price pressure has increased since October survey

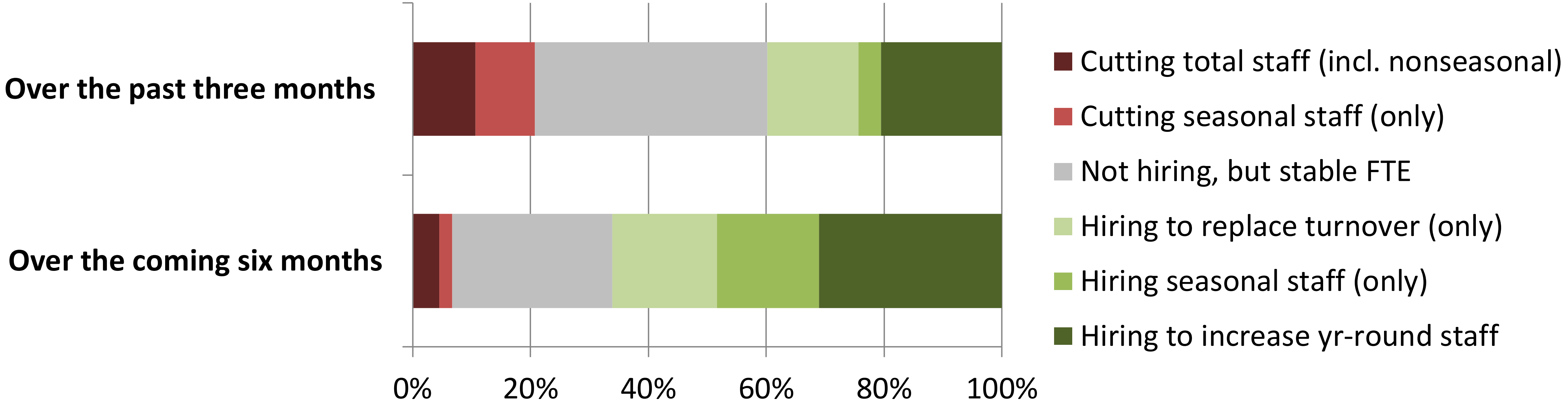
Some acceleration expectation next 12 months



WORKFORCE

- **Despite recent negative revenue trends, firms still hiring**
- **Higher future hiring a signal of spring-summer season, but hopefully a complementary signal to stronger overall activity**

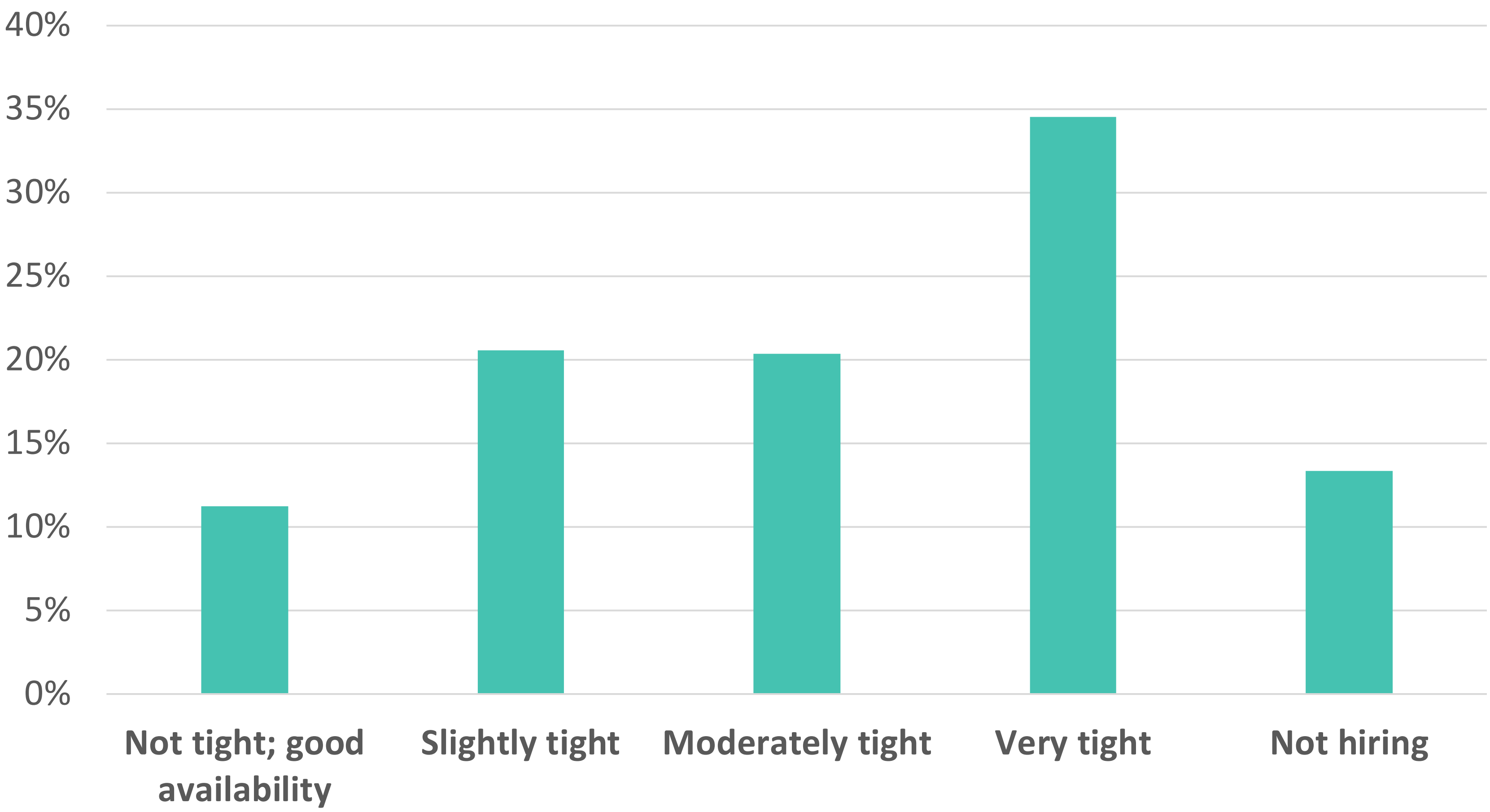
Please describe staffing/hiring demand at your firm



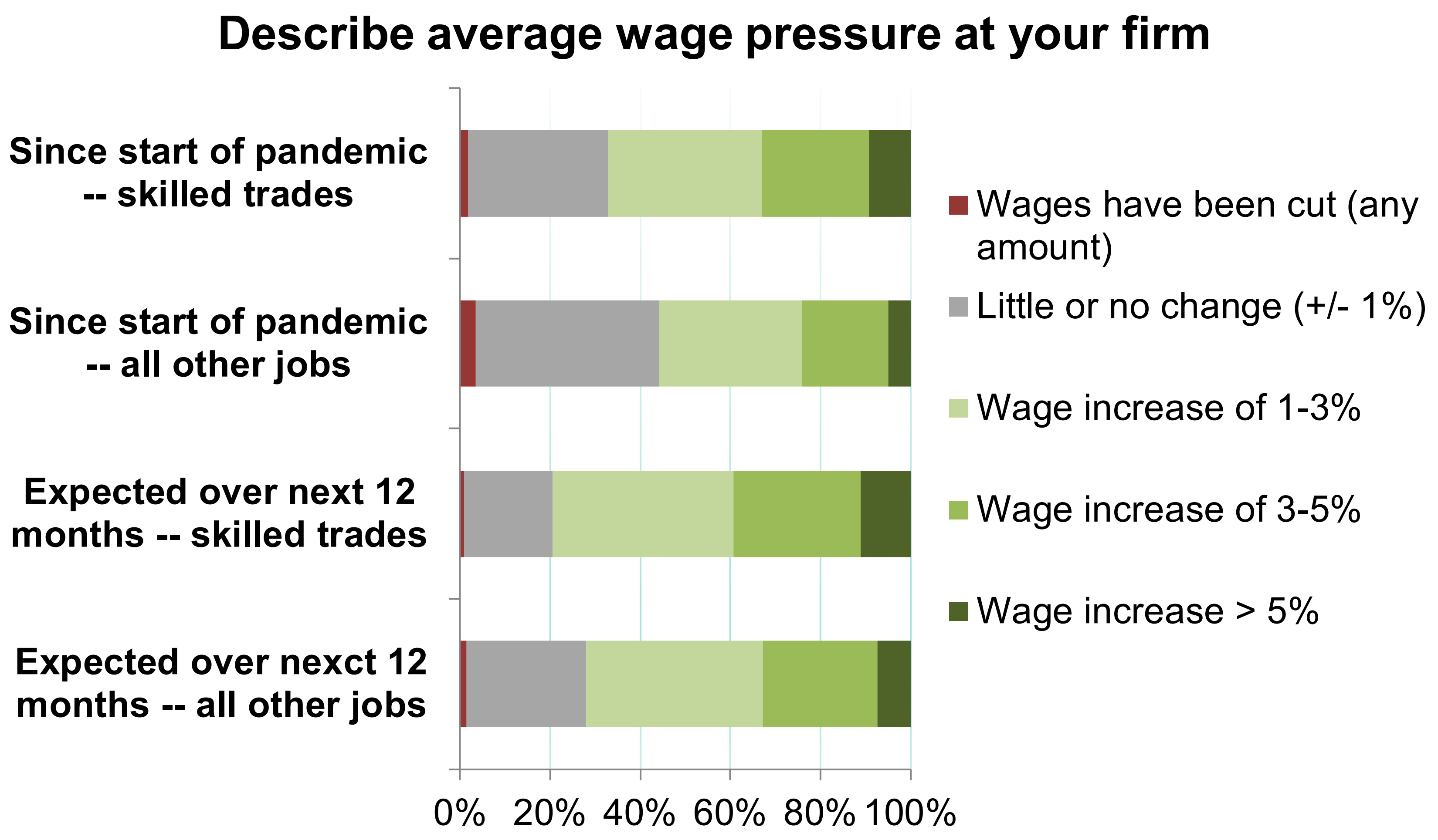
LABOR AVAILABILITY

Construction firms continue to struggle finding workers

How would you describe labor availability?



WAGES



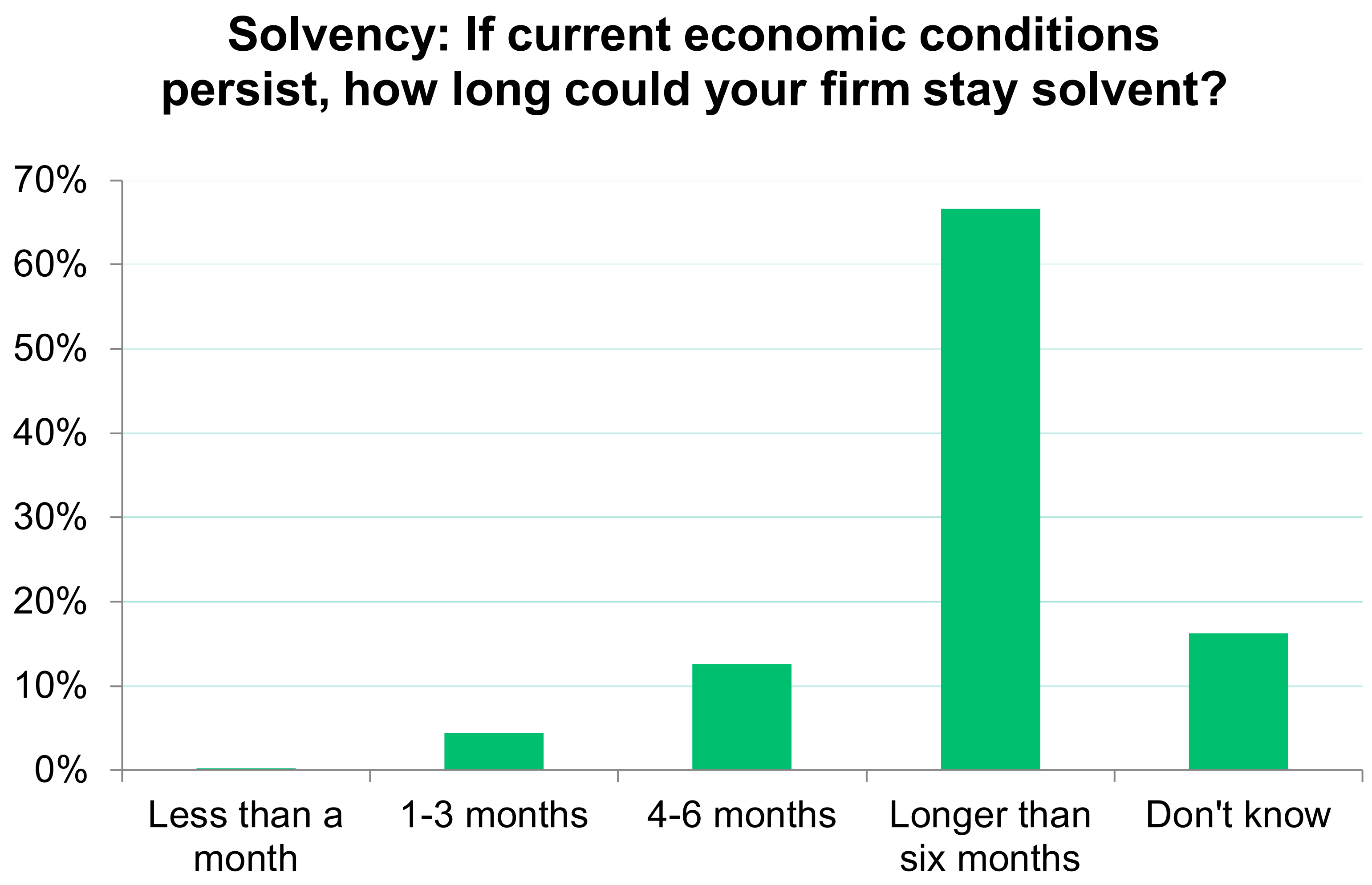
Wage growth much more persistent in construction than other sectors; rose slightly over October survey

Skilled trades = more wage pressure

Wage pressure expected to accelerate over next 12 months

SOLVENCY: STABLE

Despite revenue difficulties, fewer than 5% say they could not last more than 3 months under current conditions



SURVEY WRAP-UP

- Industry conditions are still difficult
  - Recent revenues and activity are down by virtually any comparison
  - Costs have been increasing significantly
- Some evidence of bottom
  - Levels of cancellations and delay improved, but were still net-negative
- Some good news:
  - Requests for proposals were net-positive for first time since start of pandemic
  - Hiring expectations are strong

FUTURE TRACKING OF SECTOR

- Next construction survey in May
- Continued expansion of partners for broader response
- For construction groups interested in participating please contact me (info on next slide…)

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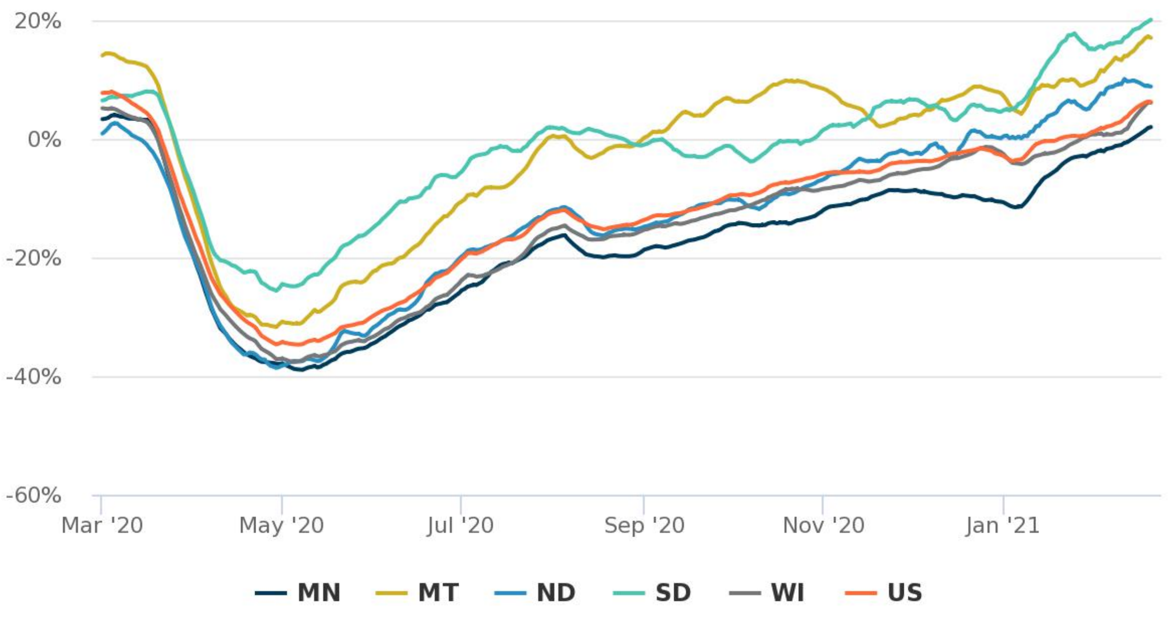
OTHER RESOURCES

COVID-19 and the Ninth District economy: A dashboard

Change in job postings

7-day moving average, YoY



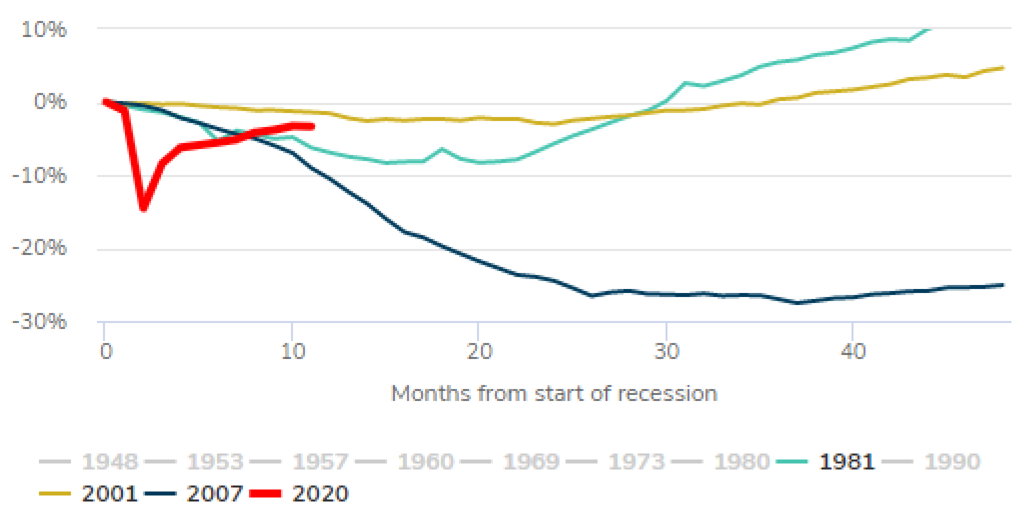
Source: Indeed

Note

The Recession in Perspective

Change in employment by industry

Construction



Source: Bureau of Labor Statistics

www.minneapolisfed.org

THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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