CONSTRUCTION CONDITIONS
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.
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
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

Please describe revenue trends over the last 3 months (mid-Nov to mid-Feb) compared with...

- The same period a year ago
- The previous three months (Aug-Sept-Oct 2020)
- Expectations for the coming three months

0% 20% 40% 60% 80% 100%

- Significantly lower
- Somewhat lower
- Flat/no change
- Somewhat higher
- Significantly higher
- Don’t know
Revenue over the last 3 months compared with same period a year ago

- **Wisconsin**: Mixed responses, significant variation
- **Montana**: Somewhat higher responses
- **South Dakota**: Flat/no change responses dominate
- **North Dakota**: Flat/no change responses dominate
- **Greater Minnesota**: Mixed responses, significant variance
- **Mpls-St. Paul**: Significant lower and somewhat higher responses
- **UP/Michigan**: Mixed responses, significant variance

**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 over the last 3 months compared with same period a year ago:

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

- **Rest of Ninth District**
- **Mpls-St. Paul**
Revenue over the last 3 months compared with same period a year ago

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.

Revenue over the last 3 months compared with same period a year ago

- Engineering
- Construction supply/materials
- General Contractor
- Architecture and design
- Other trade/subcontractor
- Mechanical/electric/plumb

Legend:
- Significantly lower
- Somewhat lower
- Flat/no change
- Somewhat higher
- Significantly higher
CANCELLATIONS & DELAYS
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Cancellations and delays continue to affect many projects

Private projects more negatively affected than public projects

But category in general moving toward neutral stance

Project cancellations & delays compared with October levels

- **Cancellations -- public projects**
  - Increased significantly
  - Increased somewhat
  - No change
  - Decreased somewhat
  - Decreased significantly

- **Cancellations -- private projects**
  - Increased significantly
  - Increased somewhat
  - No change
  - Decreased somewhat
  - Decreased significantly

- **Delays -- public projects**
  - Increased significantly
  - Increased somewhat
  - No change
  - Decreased somewhat
  - Decreased significantly

- **Delays -- private projects**
  - Increased significantly
  - Increased somewhat
  - No change
  - Decreased somewhat
  - Decreased significantly
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

Pipeline of future projects:

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

**Number of RFPS compared with October**

(non-null responses only)

**Private project RFPS**

- Non-Twin Cities
- Minneapolis-St. Paul

**Public project RFPS**

- Non-Twin Cities
- Minneapolis-St. Paul

Significantly lower
Somewhat lower
Flat/no change
Somewhat higher
Significantly higher
Residential RFPs still head and shoulders above other sectors, but others improved over October survey, and closer to neutral sentiment.
OTHER METRICS
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

Please describe average price inflation for all nonlabor inputs/materials

- Prices have declined (any amount)
- Mostly flat (+/- 1%)
- 1-5% higher
- 5-10% higher
- > 10% higher

Over past 12 months

Expected over coming 12 months
• 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

Over the past three months
- Cutting total staff (incl. nonseasonal)
- Cutting seasonal staff (only)
- Not hiring, but stable FTE

Over the coming six months
- Hiring to replace turnover (only)
- Hiring seasonal staff (only)
- Hiring to increase yr-round staff
Construction firms continue to struggle finding workers.
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.
Despite revenue difficulties, fewer than 5% say they could not last more than 3 months under current conditions.

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

- Less than a month: 0%
- 1-3 months: 10%
- 4-6 months: 20%
- Longer than six months: 60%
- Don't know: 10%
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…)
COVID-19 and the Ninth District economy: A dashboard

Change in job postings

7-day moving average, YoY

Source: Indeed

The Recession in Perspective

Change in employment by industry

Note

Source: Bureau of Labor Statistics