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.
THANK YOU TO PARTNERS

(AND RESPONDENTS!)

- Construction/trade organizations across the Ninth District (and every District state) help get survey to member construction firms
- Largest construction-focused survey among the 12 Federal Reserve District Banks
- **A big THANK YOU** to all of our partners, and their members who provide us with valuable insights
CONSTRUCTION SURVEY

- Conducted: November 15-22, 2021
- Total responses: 225, mostly from Minnesota
- Results are a snapshot
  - Not a scientifically sampled survey
  - 50+ percent of respondents work in both residential & commercial sectors
  - About 15% work in both industrial & infrastructure
  - Please interpret results carefully
SURVEY TAKE-AWAYS

- Revenue trends were positive, and generally similar to those reported in July
  - Over course of pandemic, trends look a little more positive
  - Subsector activity continues to even out
- Delays persistent, and worsening
- Challenges remain: supply chain, labor, high costs
  - Wages also rising
- Pipeline of new projects seems to have plateaued at modest growth; firms remained optimistic
RECENT REVENUE TRENDS
Positive revenue growth, especially year-over-year

In comments, some suggest that some revenue growth comes from higher input costs; pandemic comparison period also matters

Outlook moderately upbeat
Revenue trends over the last 3 months compared with the same period a year ago.

Survey conducted:

- Oct-20
- Feb-21
- May-21
- Aug-21
- Nov-21

Revenue trends over time show a steady improvement, with a significant increase in the latest period.

However, the trend also follows higher input costs and favorable comparison periods.

“Repeated cross sections” offer additional insights; interpret cautiously.

Seeing steadily improving revenue trend over time.

However, trend also follows higher input costs, & favorable comparison period.

0% 20% 40% 60% 80% 100%
Industry data also suggests growth trend

But higher costs likely pushing the spending needle

Value of construction starts in Ninth District states
12-month rolling average

Source: Dodge Data & Analytics
REVENUE TRENDS BY CONSTRUCTION SECTOR

Re-balanced: All sectors seeing strong y-o-y revenue trend (not just housing)
SECTORAL TRENDS, CONT. – FALL EXPECTATIONS

Short-term future expectations also moderately positive; infrastructure firms more upbeat than in August survey; industrial firms a little less so.
PROJECT CANCELLATIONS & DELAYS
Delays are big, growing problem. Firms also say cancellations are rising, but the longer trend offers some context.
CANCELLATION & DELAY TRENDS: PANDEMIC

Project cancellations:
- Survey conducted:
  - Oct-20
  - Feb-21
  - May-21
  - Aug-21
  - Nov-21

- Project cancellations:
  - Increased significantly
  - Increased somewhat
  - No change
  - Decreased somewhat
  - Decreased significantly

Project delays:
- Survey conducted:
  - Oct-20
  - Feb-21
  - May-21
  - Aug-21
  - Nov-21

- Project delays:
  - Increased significantly
  - Increased somewhat
  - No change
  - Decreased somewhat
  - Decreased significantly
• Delays hitting all sectors, esp. residential; infrastructure delays dropped
• Residential has highest cancellation rate, but slightly improved over August
FUTURE PIPELINE:
PROJECTS OUT FOR BID
NEW PROJECTS: REQUESTS FOR PROPOSALS

Public projects out for bid still in contraction

Private-project pipeline modestly positive

Longer pandemic trend suggests improvement, but also caution

Source: Minneapolis Fed, preliminary results, Construction Survey, November 2021
PANDEMIC TREND IN NEW PROJECTS:

Despite contraction, public project pipeline improving

Survey conducted:
- Oct-20
- Feb-21
- May-21
- Aug-21
- Nov-21

RFPs for private projects compared with levels 3 months earlier:
- Oct-20: Somewhat lower
- Feb-21: Flat/no change
- May-21: Somewhat higher
- Aug-21: Flat/no change
- Nov-20: Somewhat higher

RFPs for public projects compared with levels 3 months earlier:
- Oct-20: Significantly lower
- Feb-21: Somewhat lower
- May-21: Flat/no change
- Aug-21: Somewhat higher
- Nov-20: Somewhat higher
PROJECTS OUT FOR BID – BY SECTOR

Fairly level market across sectors; none seeing more than modest growth

RFPs for private projects compared with August levels

- Residential
- Commercial/non-residential
- Infrastructure
- Industrial

RFPs for public projects compared with August levels

- Residential
- Commercial/non-residential
- Infrastructure
- Industrial
CHALLENGES REMAIN
CHALLENGES TO OPERATIONS

• Three BIG challenges: Supply chain (esp), lack of labor, high costs
• Covid less a direct concern, but rising and very much in the background

Pick TWO: Greatest challenge to current operating capacity and productivity

Source: Minneapolis Fed, preliminary results, Construction Survey, November 2021
Product shortages abound for most materials, along with products not listed here (and volunteered by respondents … e.g., paint, lighting).
Labor Availability: The Less-Good News

Share of firms saying labor conditions are “very tight” risen substantially

February survey: 35%

Possibly near a market ceiling
The good news: Labor tightness comes in part from lots of firms looking for workers. Almost half looking to add net staff over coming 6 months.
Dual signals

- Strong labor demand a sign that revenue trends not all inflation-based
- Also a sign that labor availability a growing problem

Hiring Demand Over the Past Three Months

- Oct-20
- Feb-21
- May-21
- Aug-21
- Nov-21

Survey conducted:
- Hiring to increase total headcount
- Hiring to replace turnover (only)
- Not hiring; stable staff levels
- Cutting staff

FEDERAL RESERVE BANK OF MINNEAPOLIS
Labor availability tight across all sectors

Labor tightness eased slightly in residential from August survey, possible related to seasonality; commercial worsened slightly
More firms giving raises, and bigger raises, over time

Almost 2/3 of firms gave raises of 3% or more

Source: Minneapolis Fed, preliminary results, General Business Survey, October 2021
Material costs high, and mostly holding

**Vendor prices:** 70% seeing increases over 10% (often much more)

**Customer prices:** more of wholesale increase passed to final customer, and trends to be a higher share than other sectors

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**Price changes for nonlabor inputs**

- **Vendor (wholesale):**
  - Lower (any amount): 10%
  - Mostly flat (+/- 1%): 20%
  - 1-5%: 30%
  - 5-10%: 10%
  - 10-25%: 10%
  - >25%: 10%

- **Final customer (retail):**
  - Lower (any amount): 10%
  - Mostly flat (+/- 1%): 20%
  - 1-5%: 30%
  - 5-10%: 10%
  - 10-25%: 10%
  - >25%: 10%

Compared with 3 months ago

Compared with 1 year ago
Supply chain disruptions, higher prices are:

- Increasing delays
- Hurting profits
- Dampening demand

What effects, if any, are you seeing as a result of price increases and/or supply chain disruptions:
OUTLOOK: OPTIMISM PREVAILS

Despite challenges, and modest pipeline of new projects, firms a bit more optimistic.

What is the outlook for the next six months?

<table>
<thead>
<tr>
<th>Outlook for the next six months</th>
<th>By subsector</th>
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<tbody>
<tr>
<td>Residential</td>
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<tr>
<td>Commercial/non-residential</td>
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<tr>
<td>Infrastructure</td>
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<td>Industrial</td>
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[Bar charts showing outlook distribution by subsector]
SURVEY WRAP-UP

• Revenue trends positive, both short & longer-term
  • Higher costs may be driving some of this trend
• Stability despite big challenges, heavy delays
• Underlying demand seems to be healthy overall
  • If challenges of supply chains and prices get addressed, industry seems poised for solid growth
  • Future projects pipeline (RFPs) sending some mixed signals, but other signals (RFPs over time, labor demand, wage growth) point to good demand
  • Covid/Delta/Omicron a huge variable
• Firms still optimistic overall; federal infrastructure bill an eventual boost to demand
THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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