

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.





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



A large, faint, light teal watermark of an eagle with its wings spread, holding arrows in its talons, and surrounded by stars, is centered in the background. The eagle's head is turned to the left. The entire background is a solid teal color.

RECENT REVENUE TRENDS

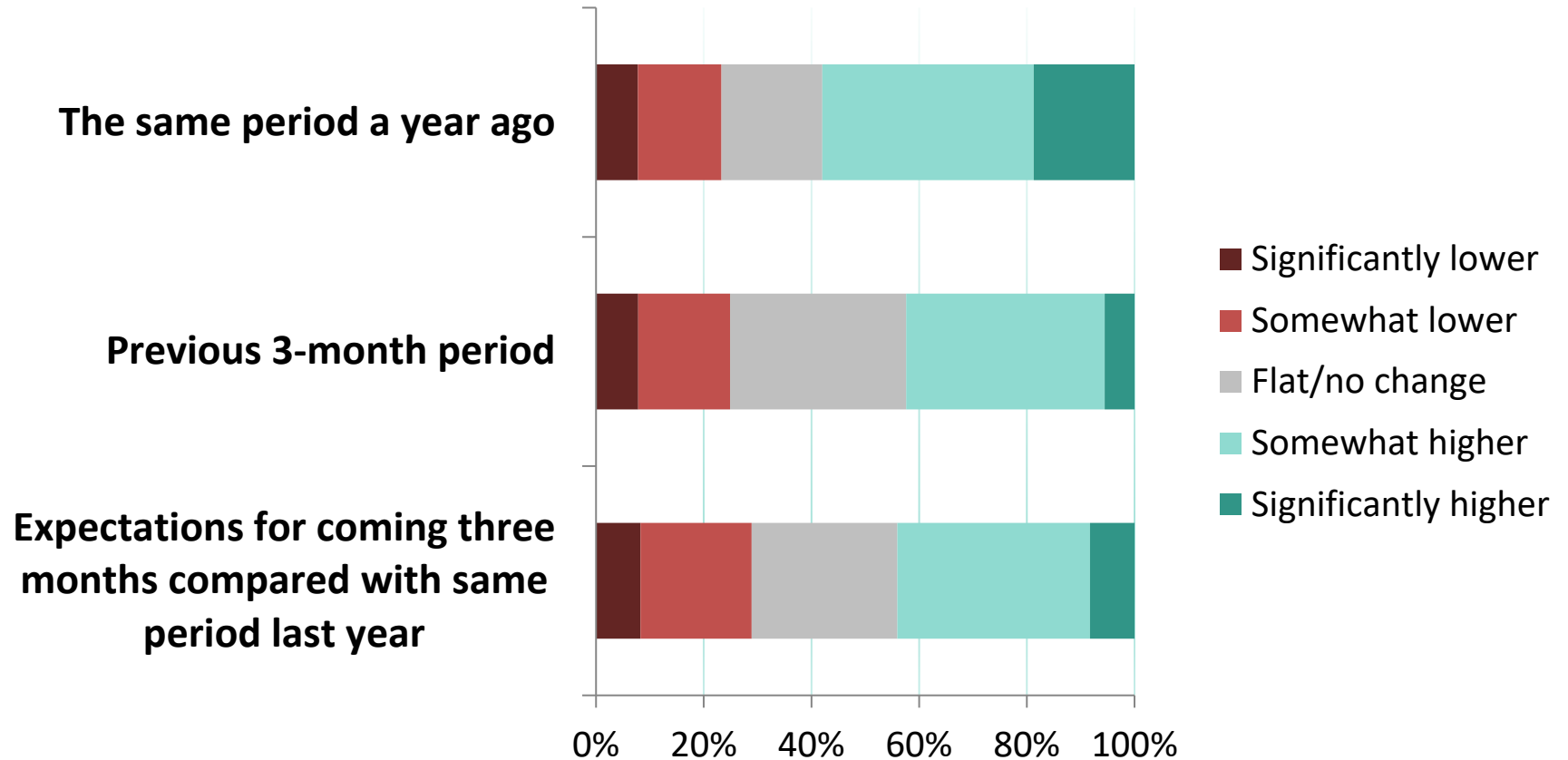
RECENT AND FUTURE REVENUE

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

Recent revenue trends over last 3 months compared with:

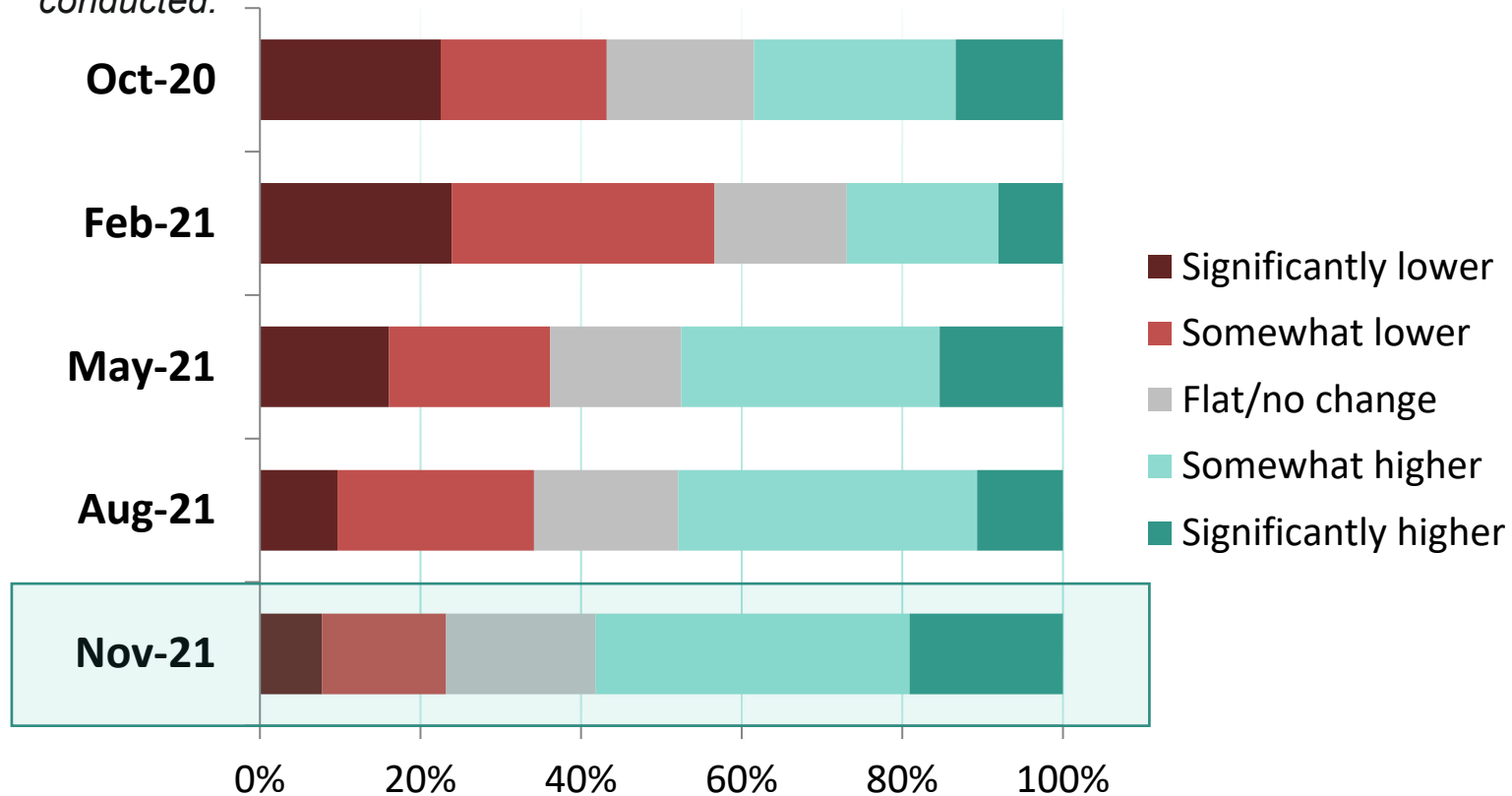


REVENUE TRENDS, OVER TIME



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

Survey conducted:



“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

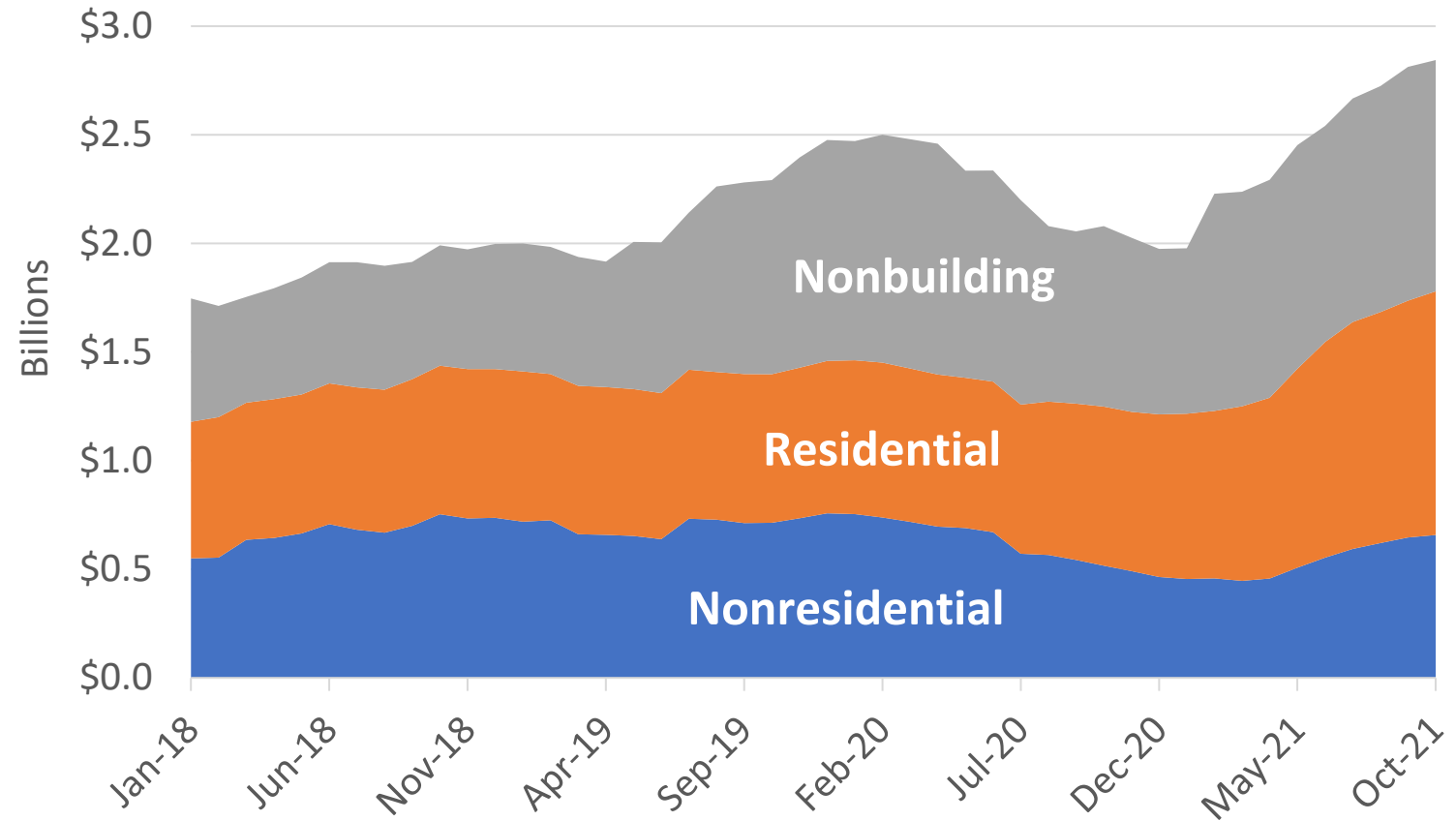


CONSTRUCTION SPENDING

Industry data also suggests growth trend

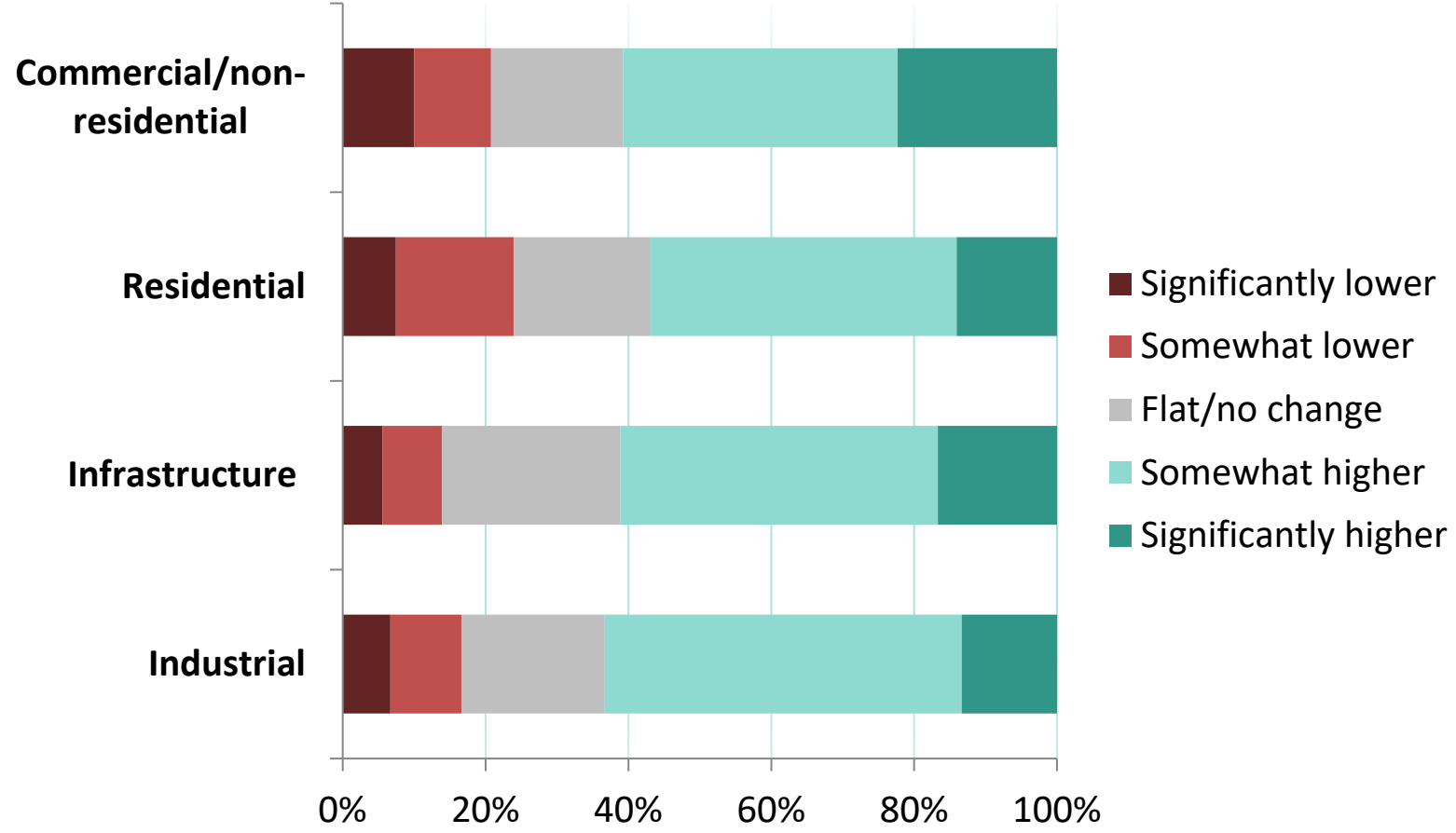
But higher costs likely pushing the spending needle

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



REVENUE TRENDS BY CONSTRUCTION SECTOR

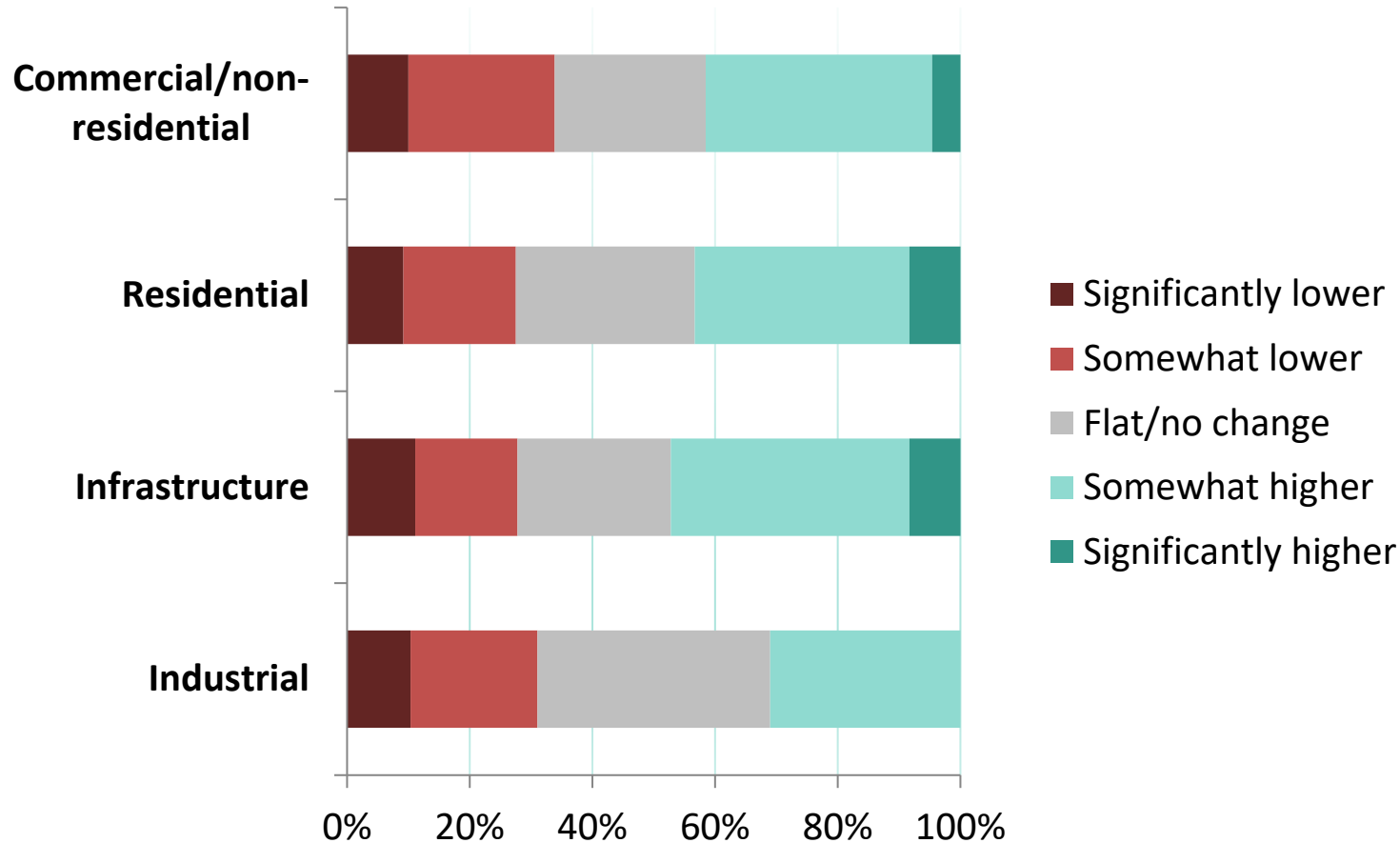
Revenue trends over the last 3 months compared with same period a year ago



Re-balanced: All sectors seeing strong y-o-y revenue trend (not just housing)


SECTORAL TRENDS, CONT. – FALL EXPECTATIONS

Expectations for coming three months compared with same period last year



Short-term future expectations also moderately positive; infrastructure firms more upbeat than in August survey; industrial firms a little less so

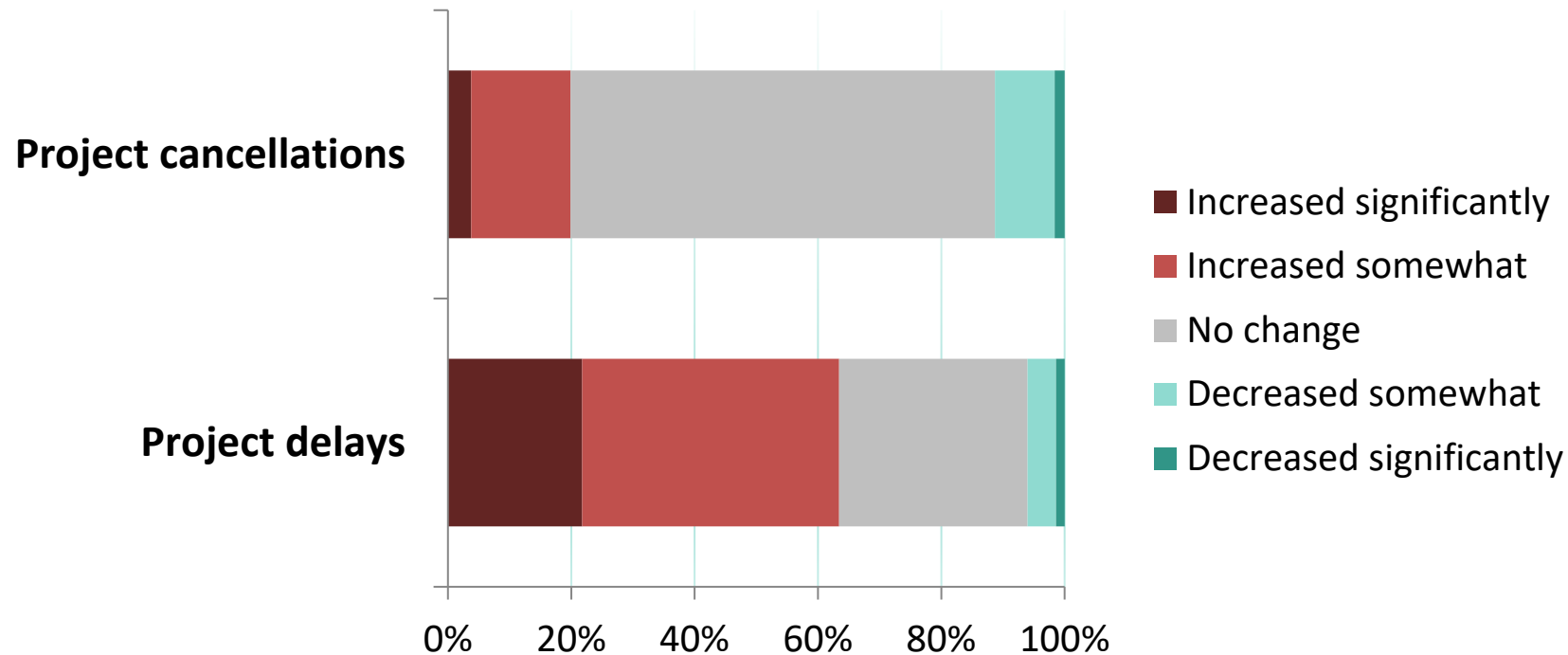




**PROJECT
CANCELLATIONS & DELAYS**

PROJECT CANCELLATIONS & DELAYS

Current project cancellations and delays compared with August levels



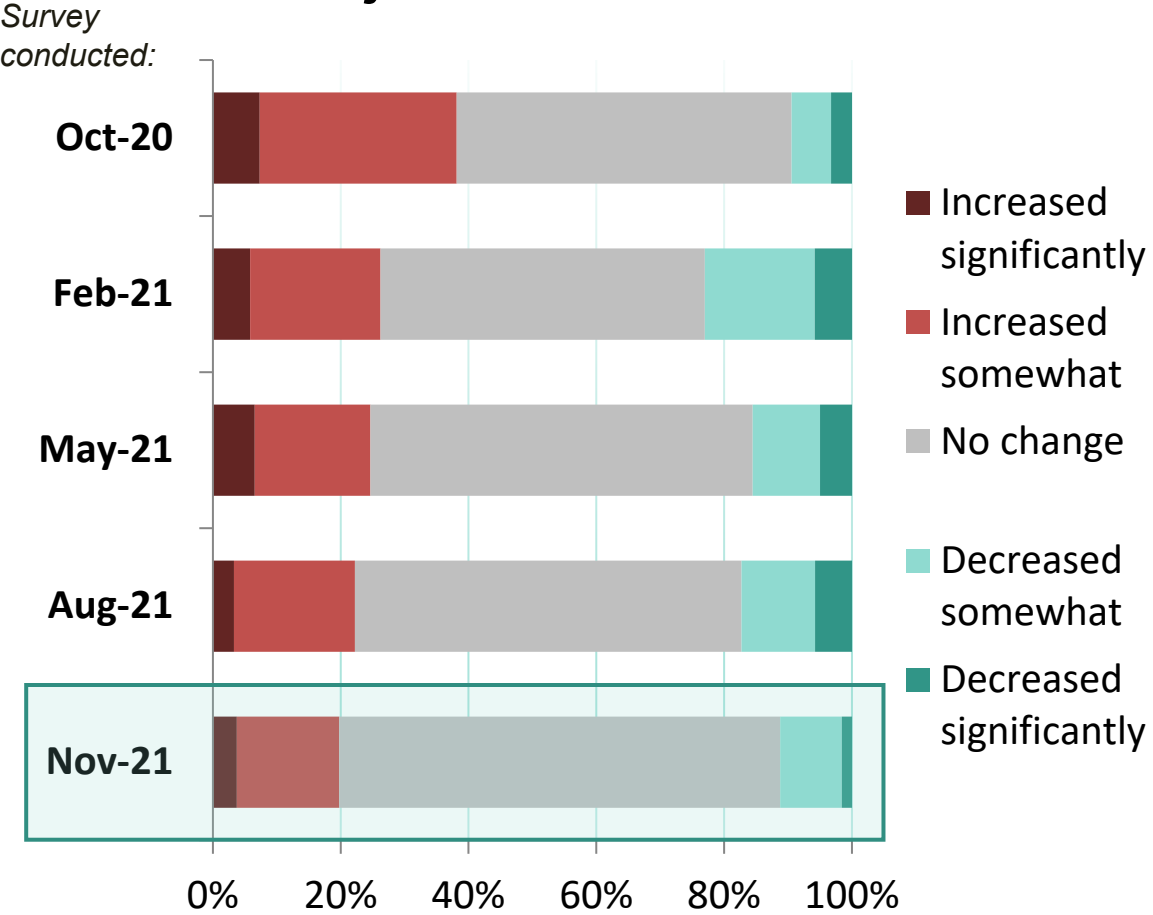
Delays are big, growing problem

Firms also say cancellations are rising, but the longer trend offers some context

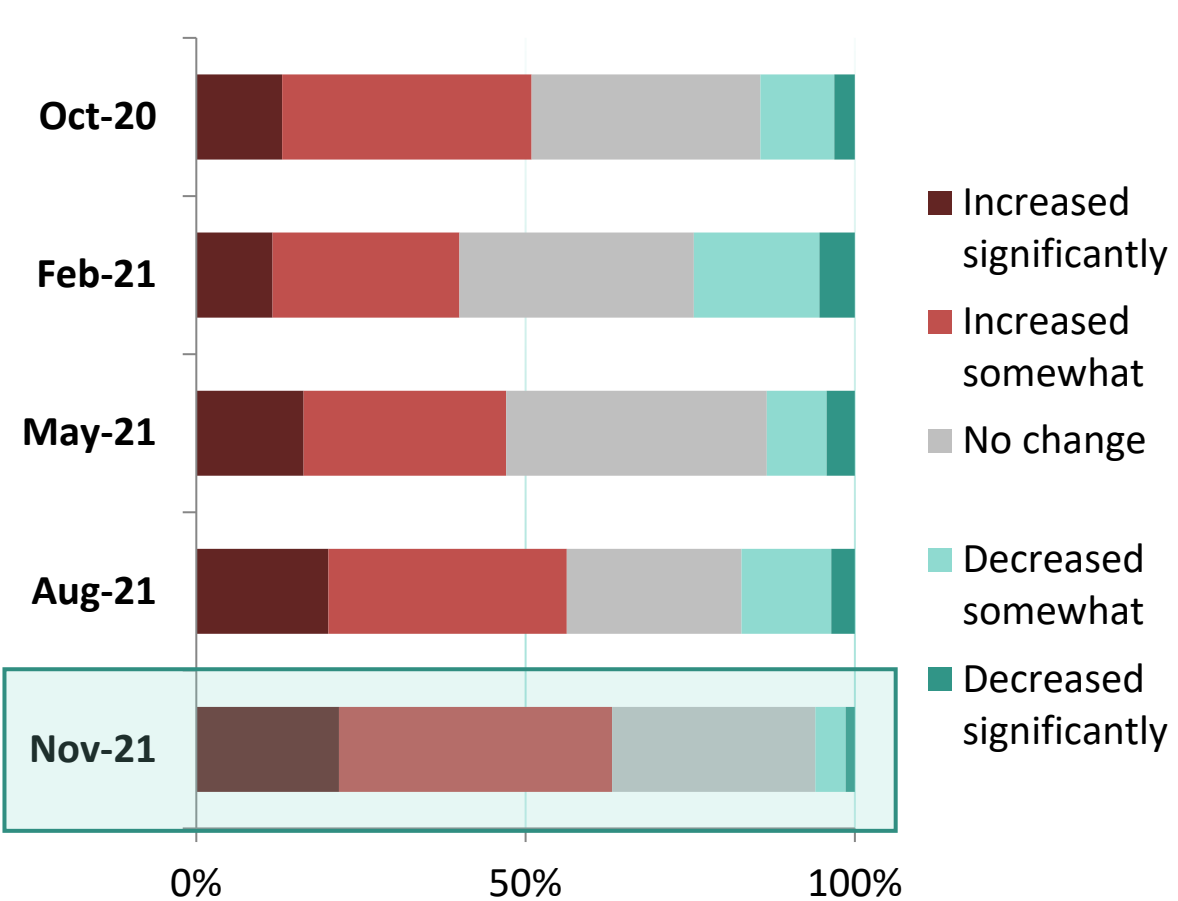


CANCELLATION & DELAY TRENDS: PANDEMIC

Project cancellations



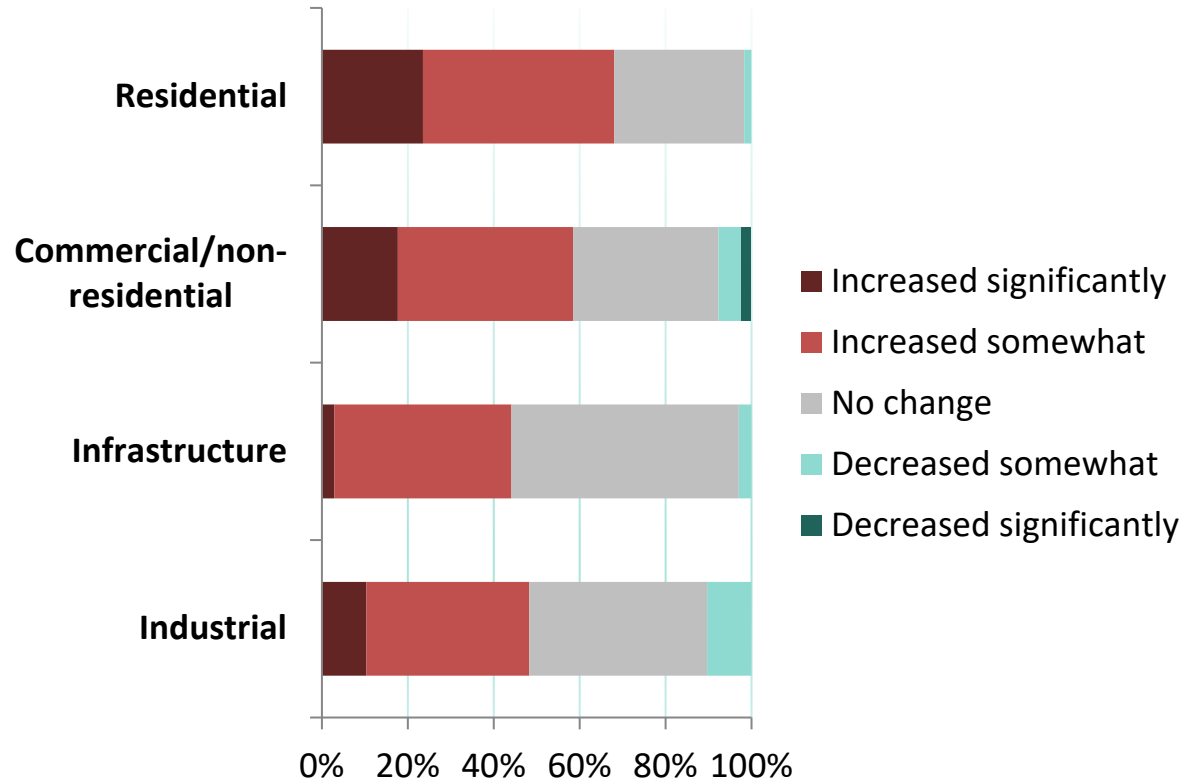
Project delays



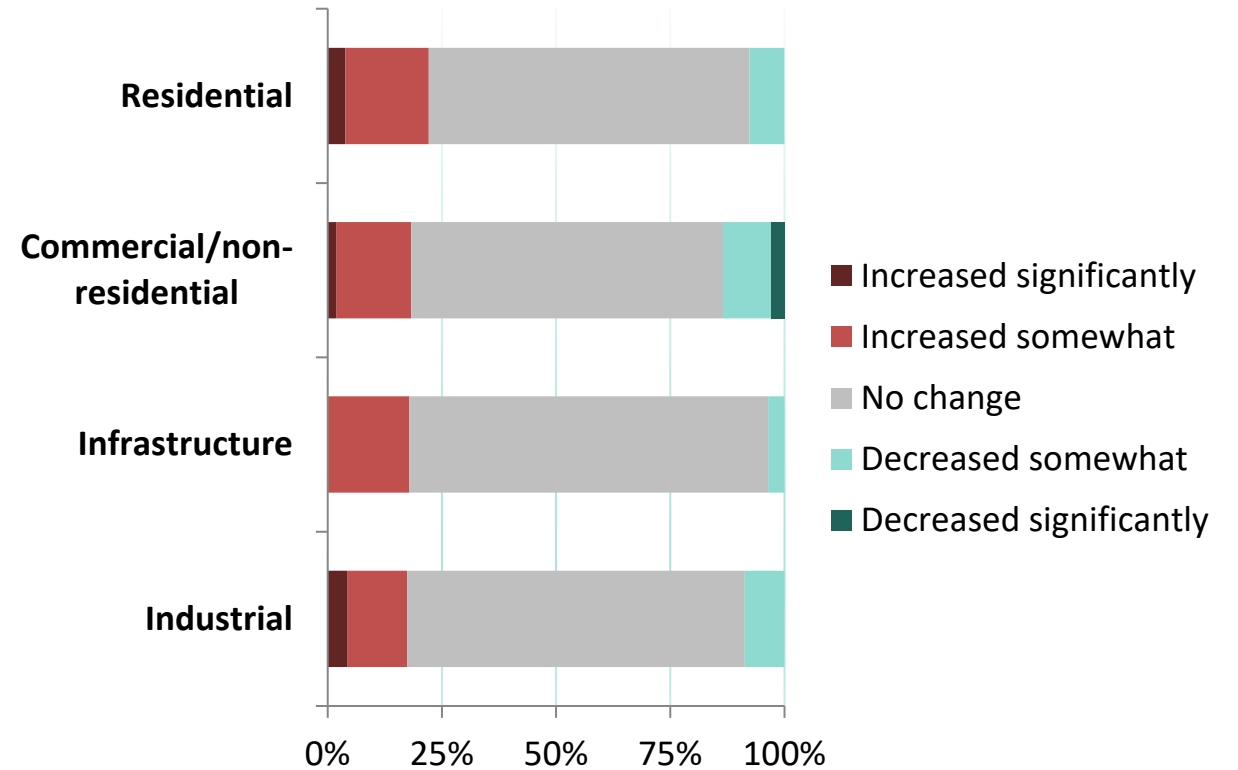
CANCELLATIONS AND DELAYS, BY SECTOR

- Delays hitting all sectors, esp. residential; infrastructure delays *dropped*
- Residential has highest cancellation rate, but slightly improved over August

Project delays compared w/ August levels



Project cancellations compared w/ August

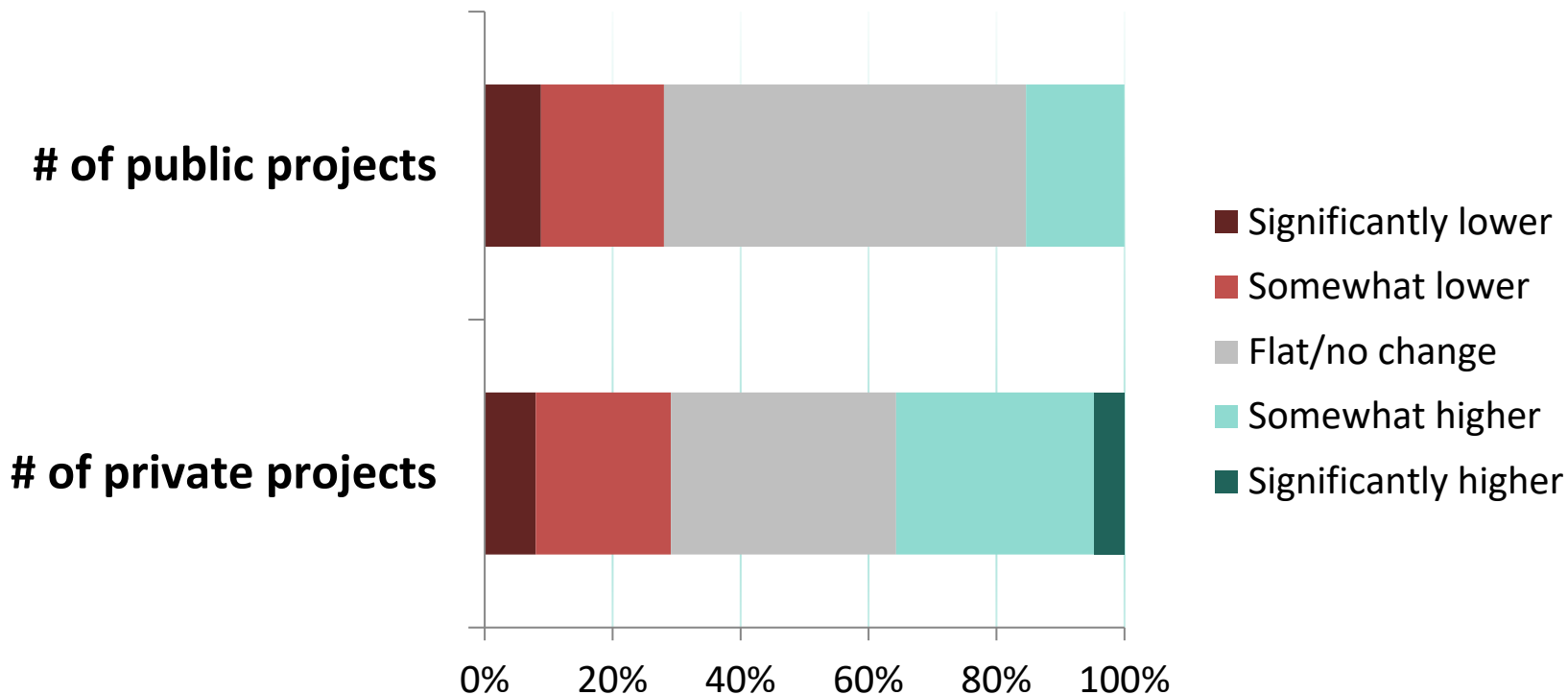




**FUTURE PIPELINE:
PROJECTS OUT FOR BID**

NEW PROJECTS: REQUESTS FOR PROPOSALS

Request for proposals compared with August levels



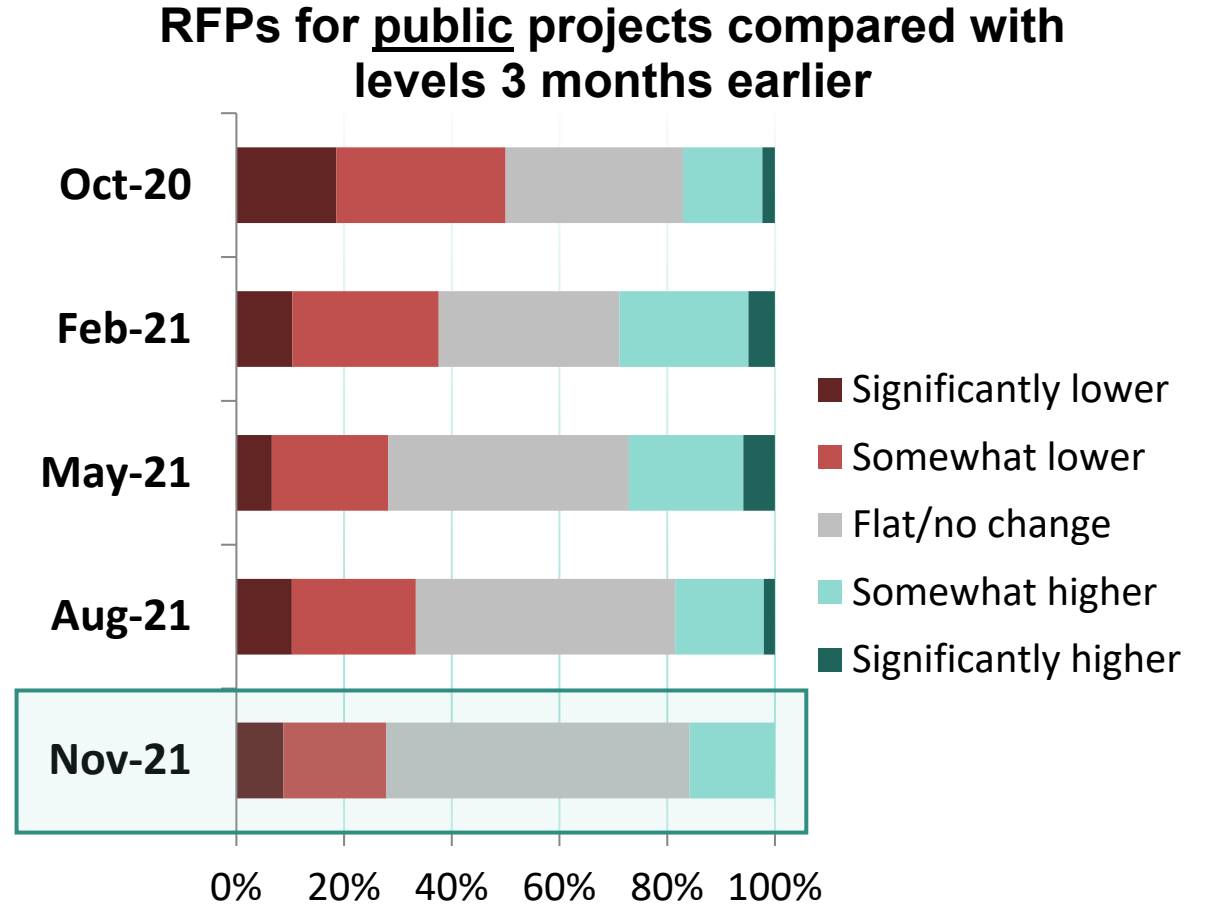
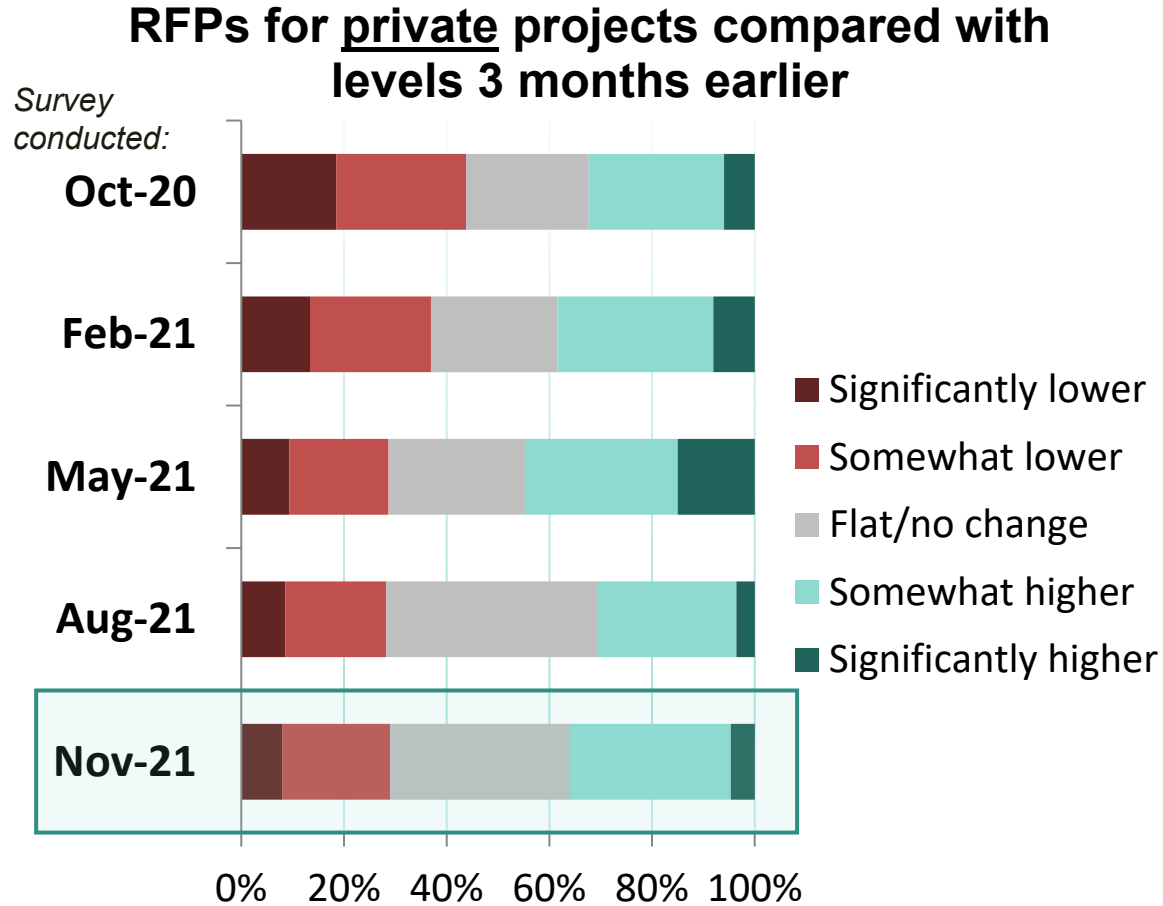
Public projects out for bid still in contraction

Private-project pipeline modestly positive

Longer pandemic trend suggests improvement, but also caution

PANDEMIC TREND IN NEW PROJECTS:

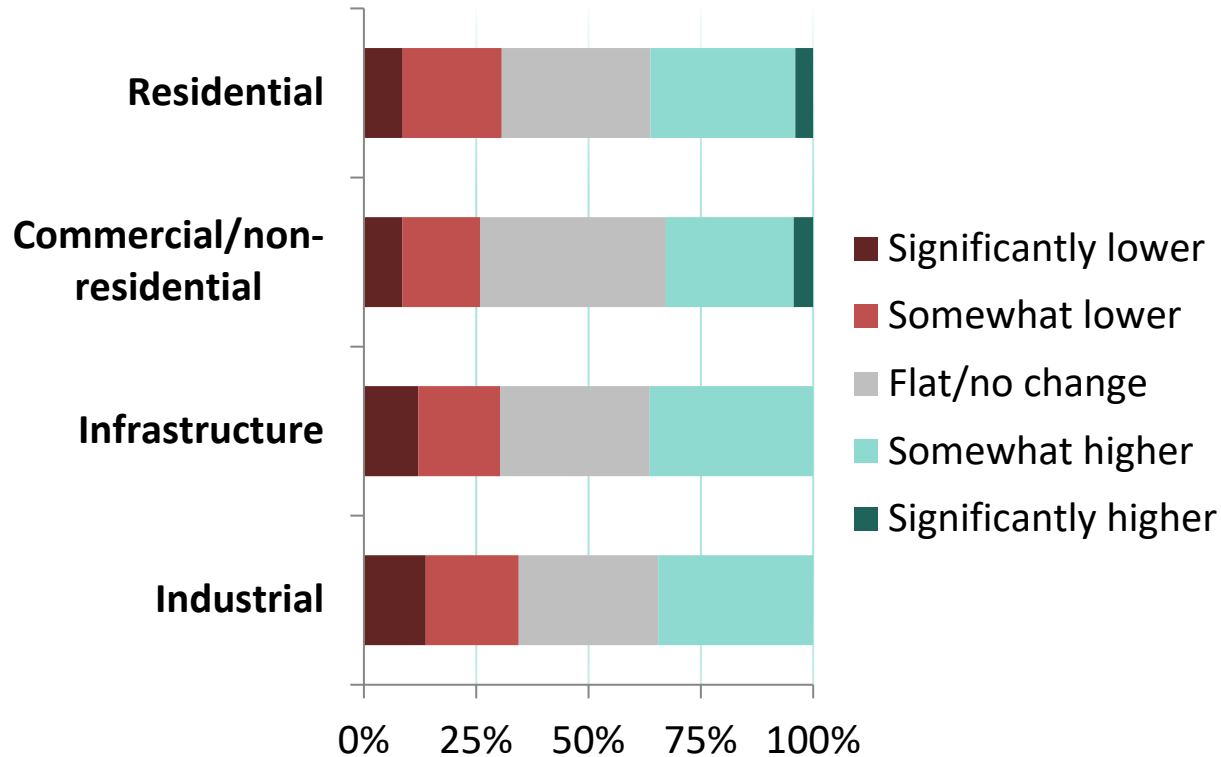
Despite contraction, public project pipeline improving



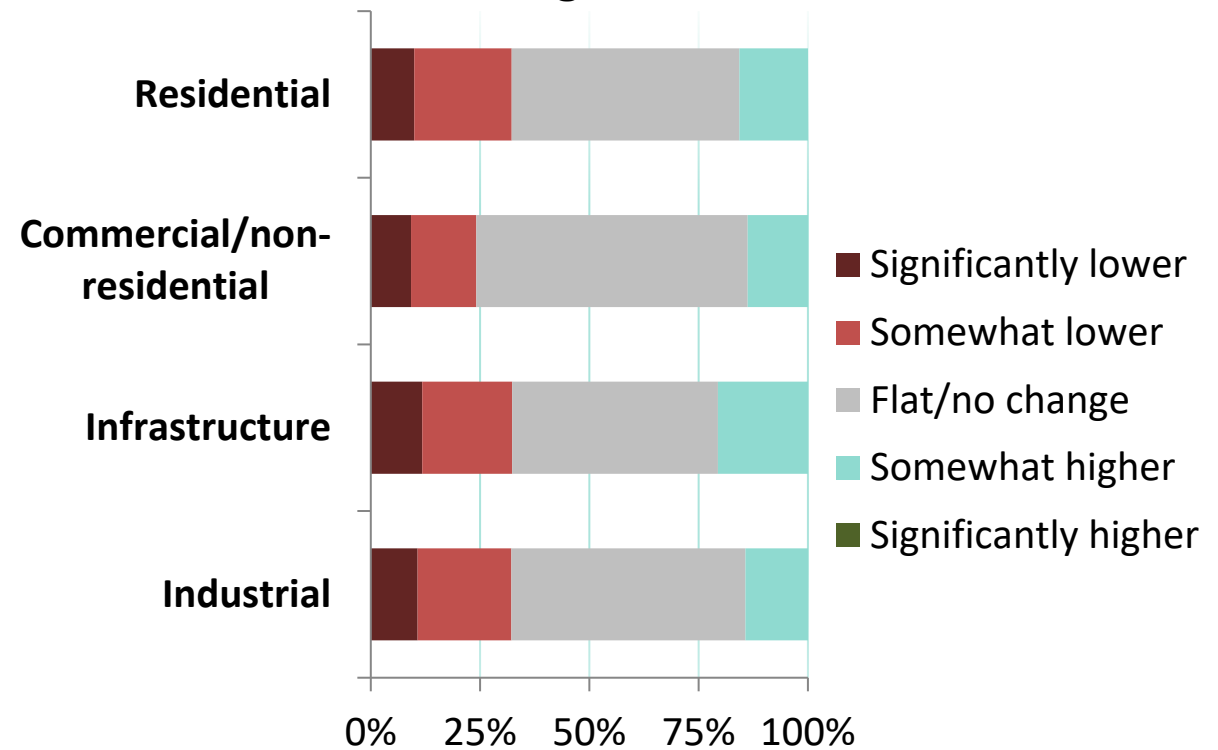
PROJECTS OUT FOR BID – BY SECTOR

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

RFPs for private projects compared with August levels



RFPs for public projects compared with August levels



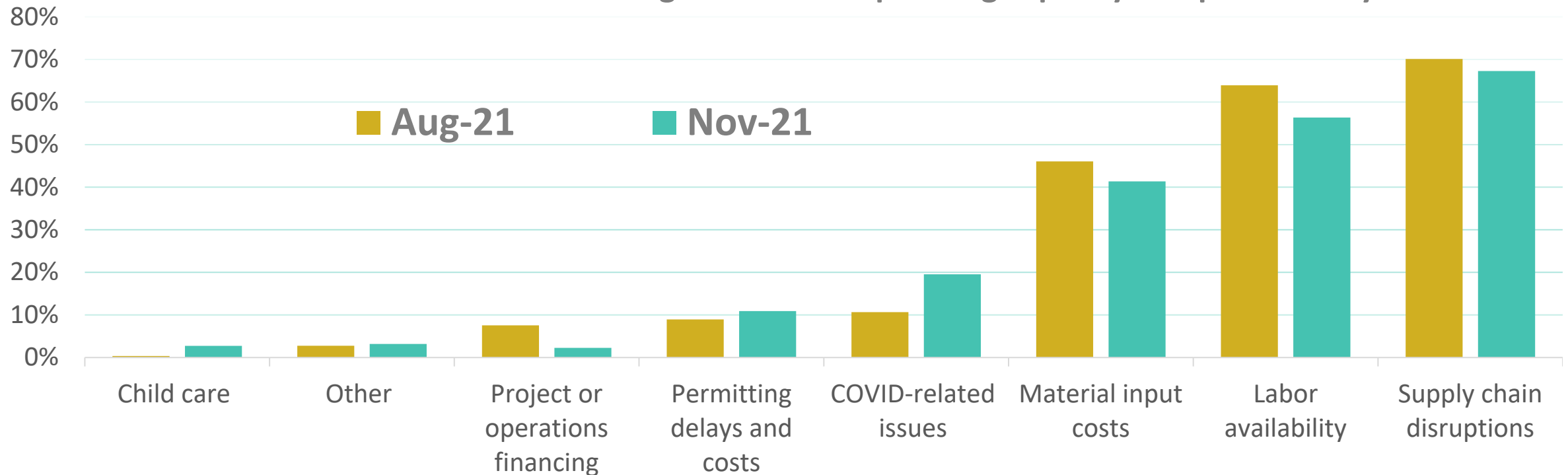
A stylized, light teal outline of an eagle with its wings spread, set against a teal background. The eagle is surrounded by several five-pointed stars. The text "CHALLENGES REMAIN" is centered over the eagle's chest.

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



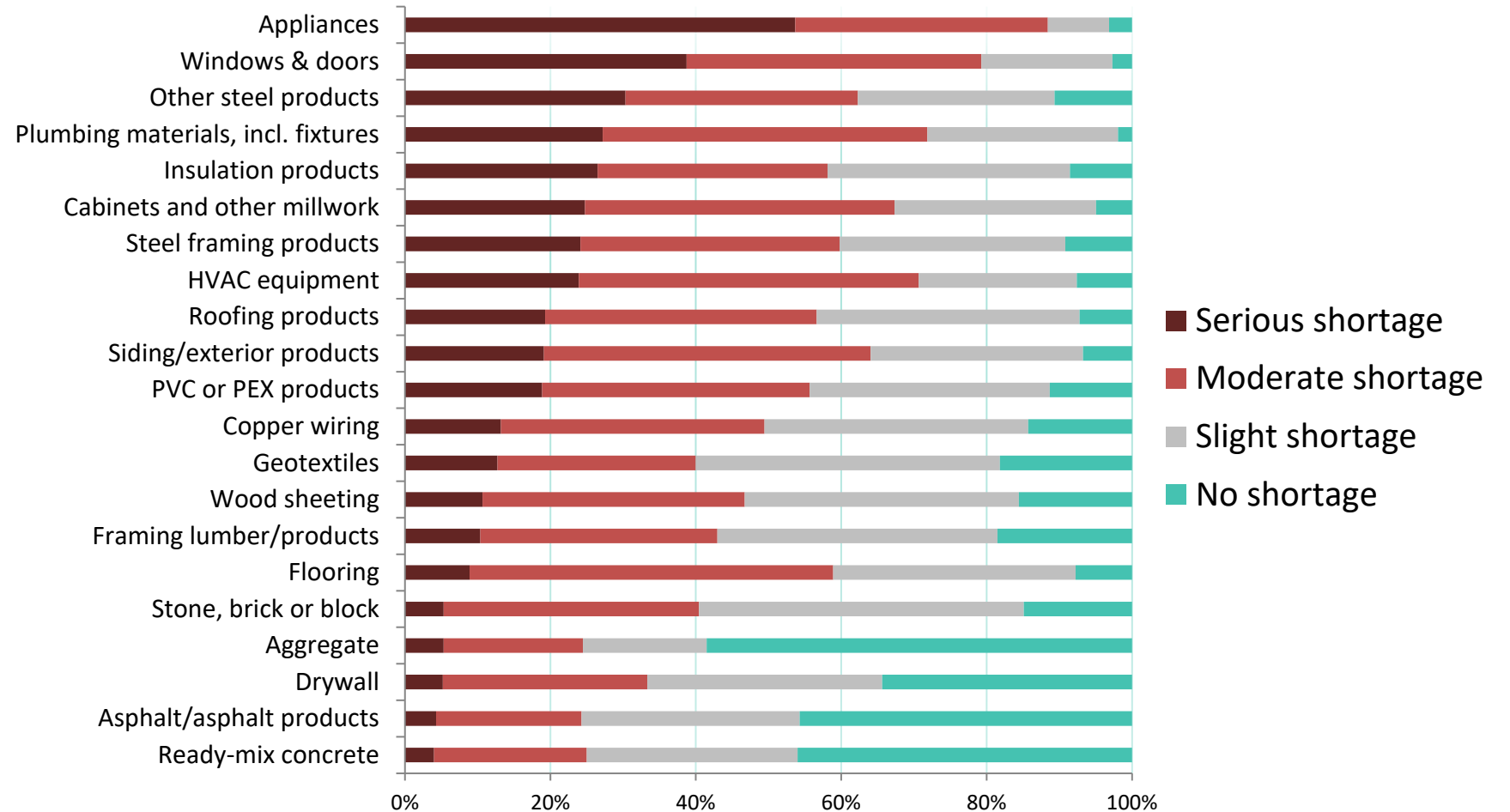
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SUPPLY CHAINS: PRODUCT SHORTAGES ABOUND

Please describe products availability

Responses reflect only those that use the product regularly

Product shortages abound for most materials, along with products not listed here (and volunteered by respondents ...e.g., paint, lighting)



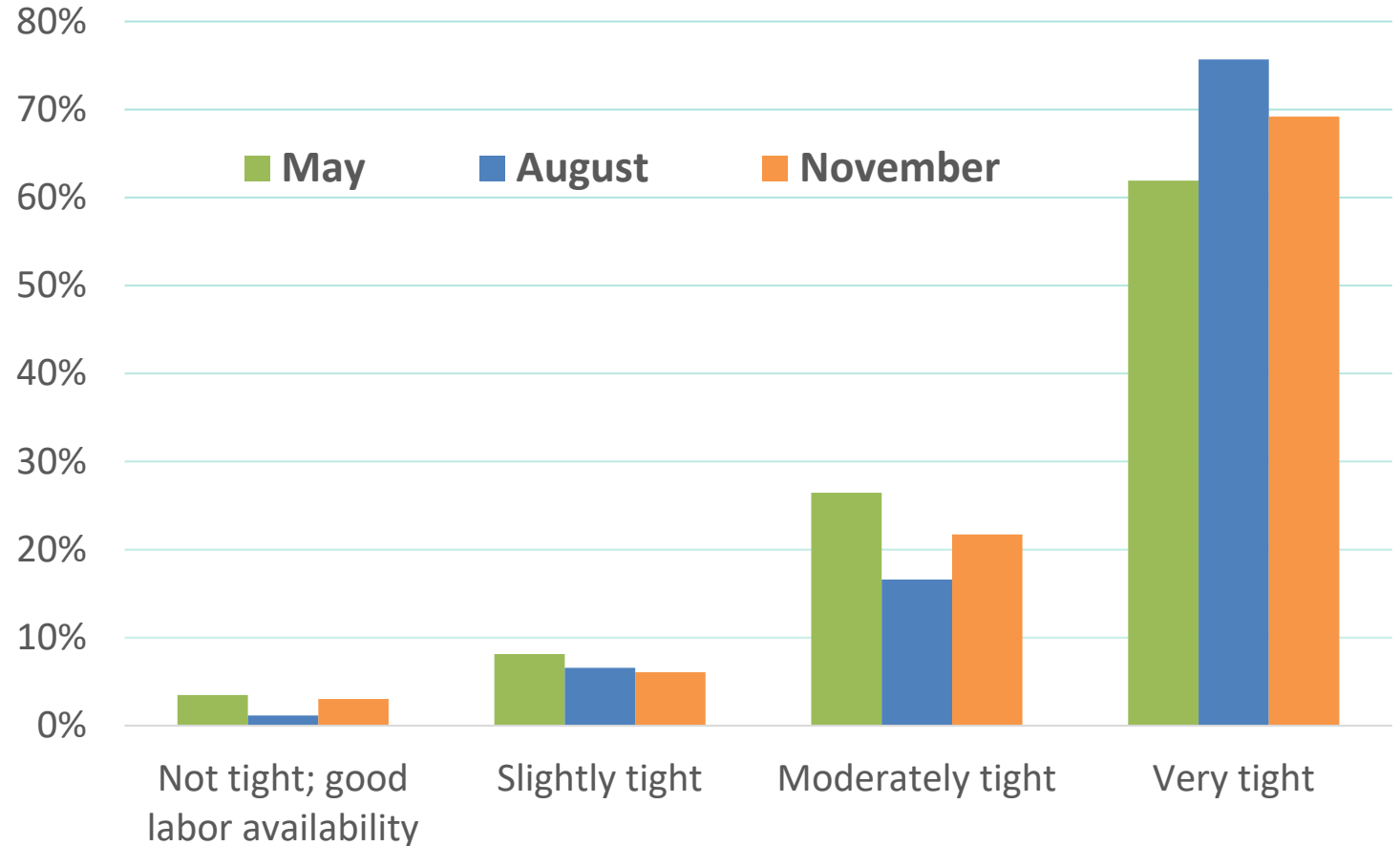
LABOR AVAILABILITY: THE LESS-GOOD NEWS

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

February survey: 35%

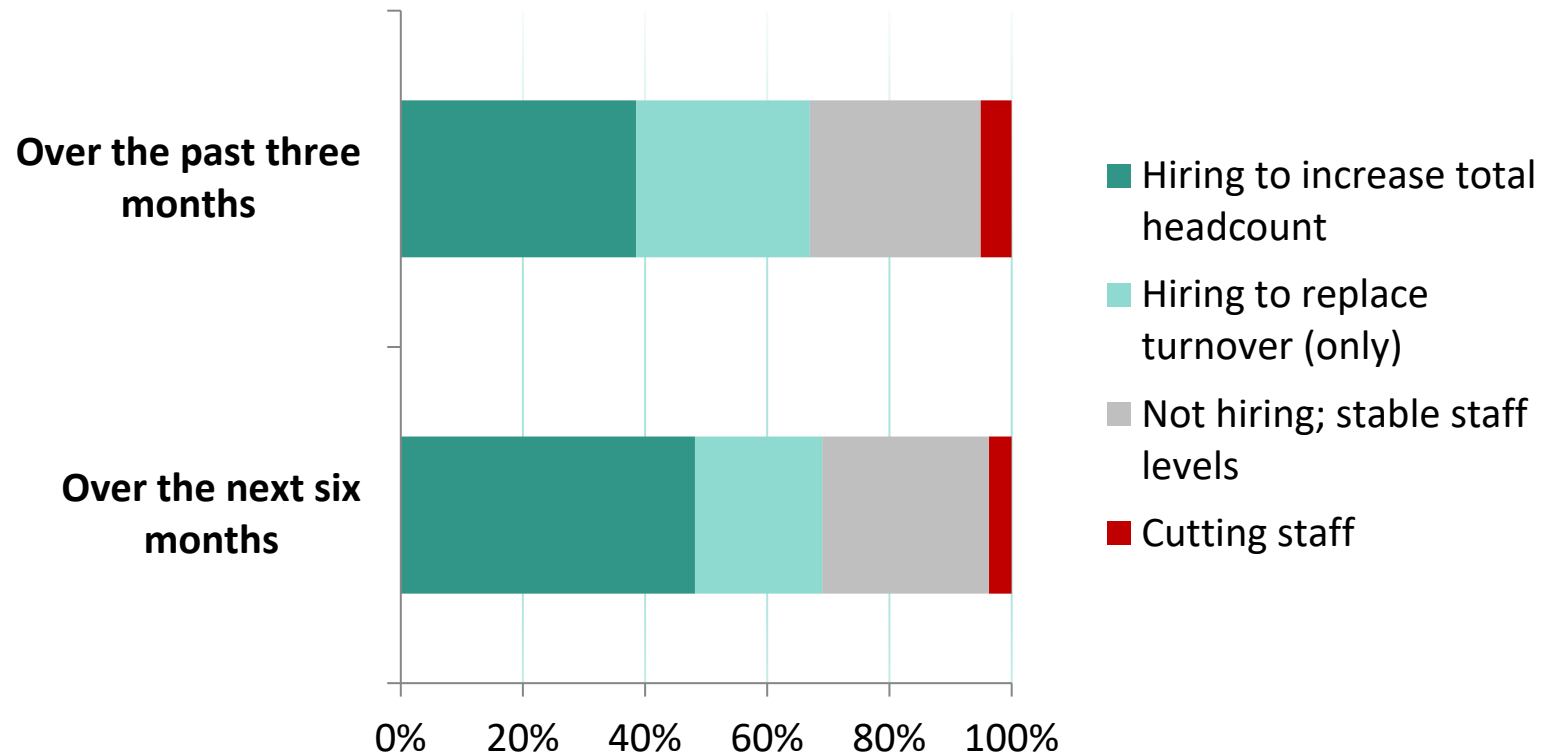
Possibly near a market ceiling

Labor availability for open positions among firms looking for workers



STRONG LABOR FORCE DEMAND CONTINUES

Staffing/hiring demand at your firm



The good news:
Labor tightness
comes in part
from lots of
firms looking for
workers

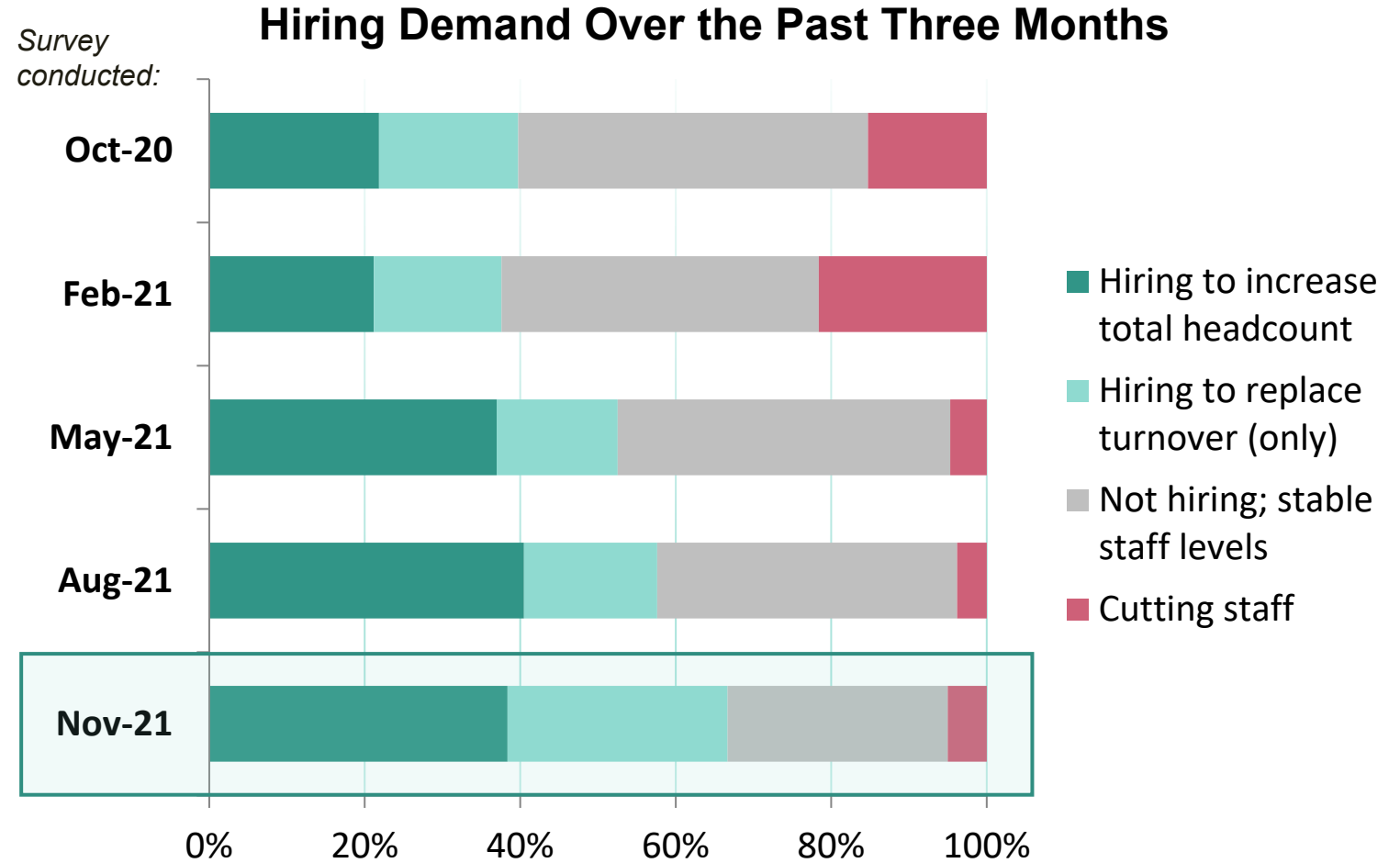
Almost half
looking to add
net staff over
coming 6
months



STAFFING TRENDS DURING PANDEMIC

Dual signals

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

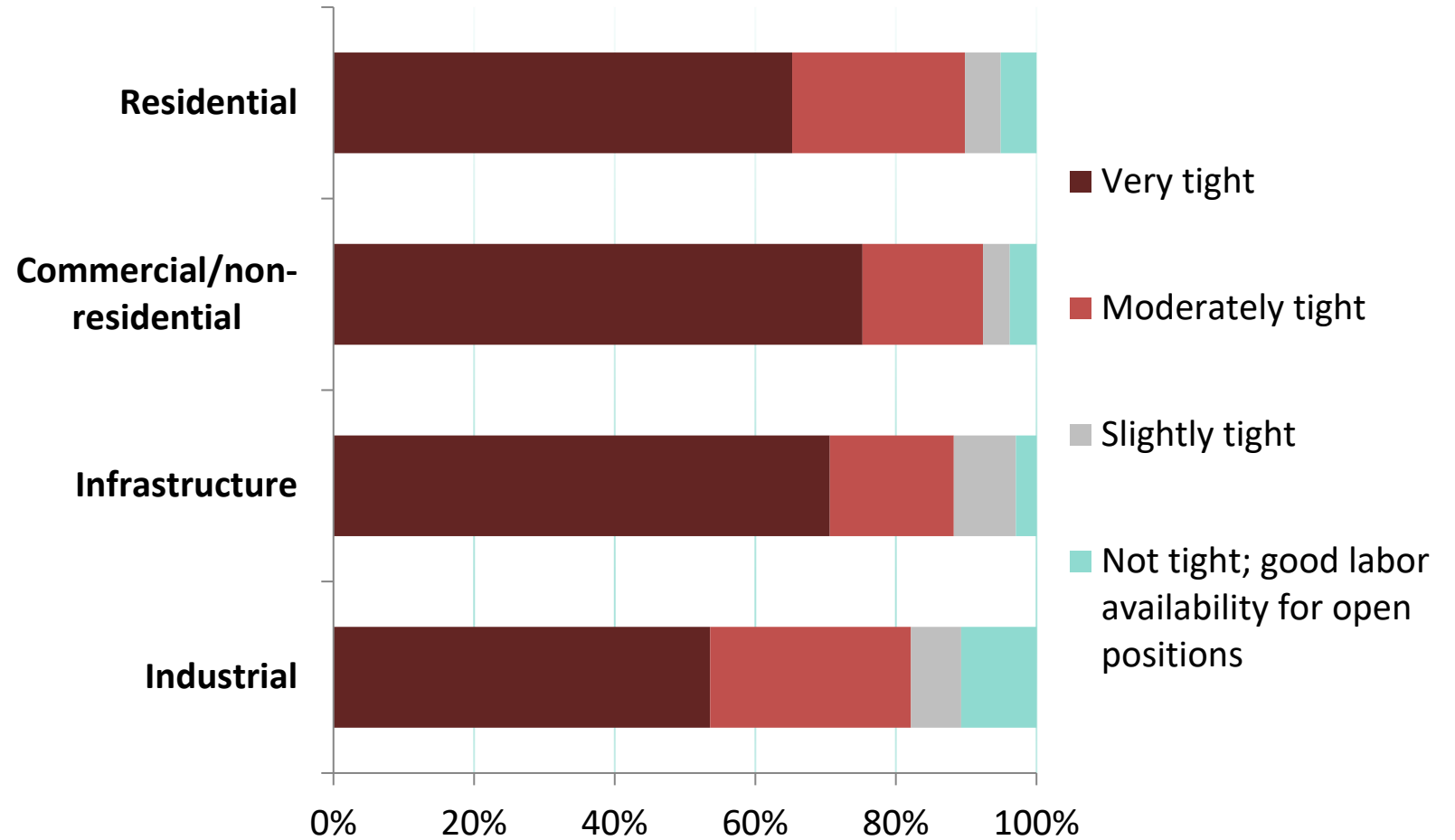


LABOR AVAILABILITY BY CONSTRUCTION SECTOR

Describe worker availability for open positions

Labor availability tight across all sectors

Labor tightness eased slightly in residential from August survey, possible related to seasonality; commercial worsened slightly

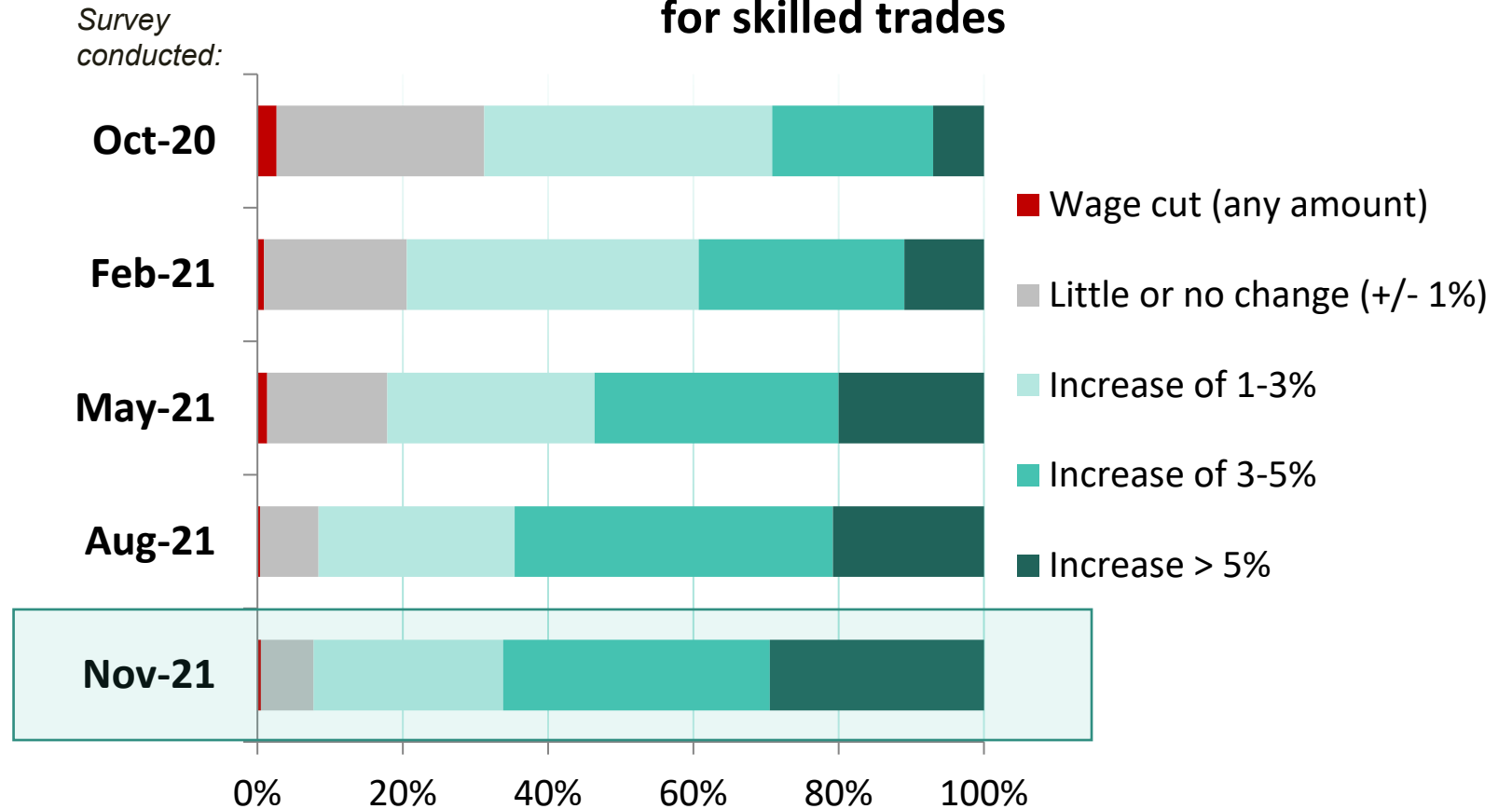


ADDITIONAL CHALLENGE: WAGES RISING

More firms giving raises, and bigger raises, over time

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

Wage increase expected over the coming 12 months for skilled trades



Source: Minneapolis Fed, preliminary results, General Business Survey, October 2021

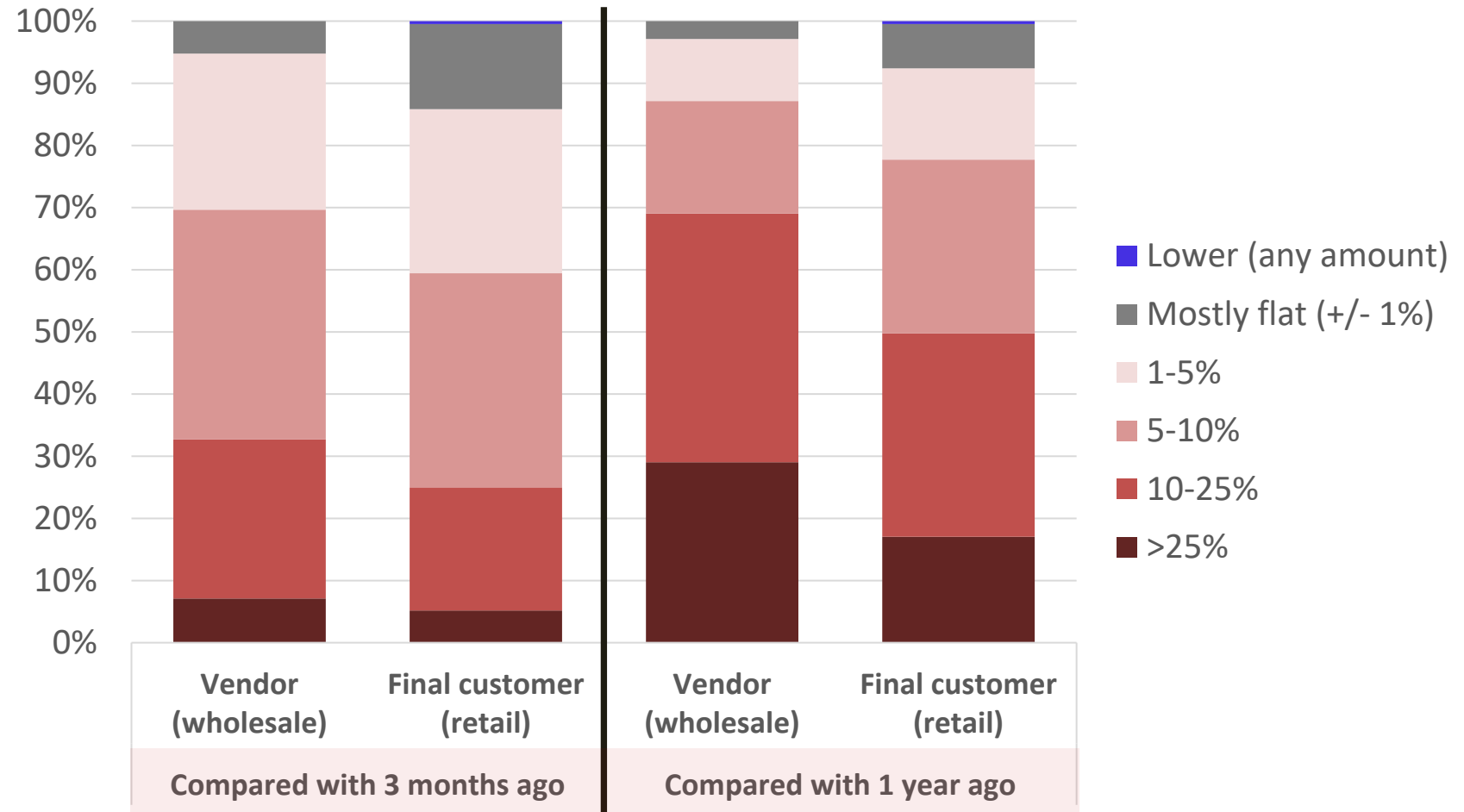
MATERIAL COSTS STILL HIGH

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

Price changes for nonlabor inputs

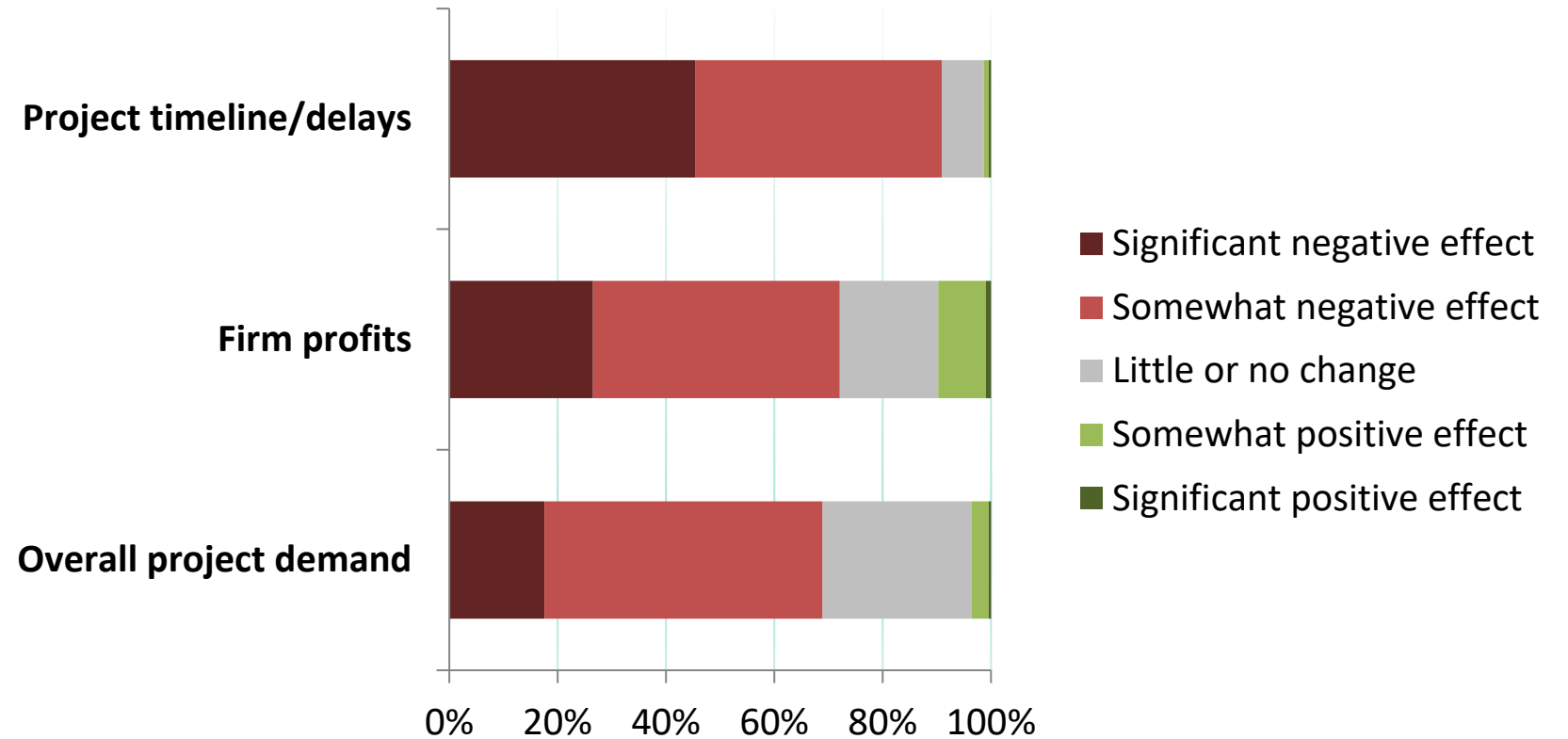


EFFECTS OF SUPPLY CHAIN & PRICES PROBLEMS

Supply chain disruptions, higher prices are:

- Increasing delays
- Hurting profits
- Dampening demand

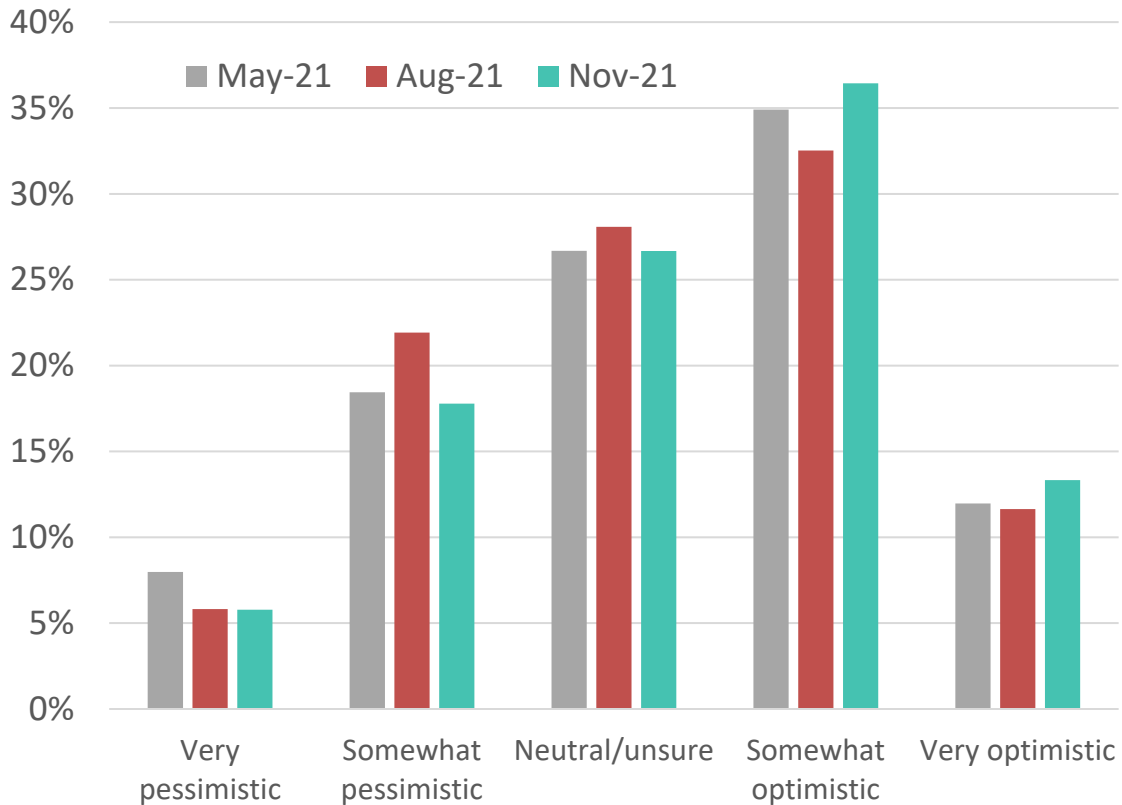
What effects, if any, are you seeing as a result of price increases and/or supply chain disruptions



OUTLOOK: OPTIMISM PREVAILS

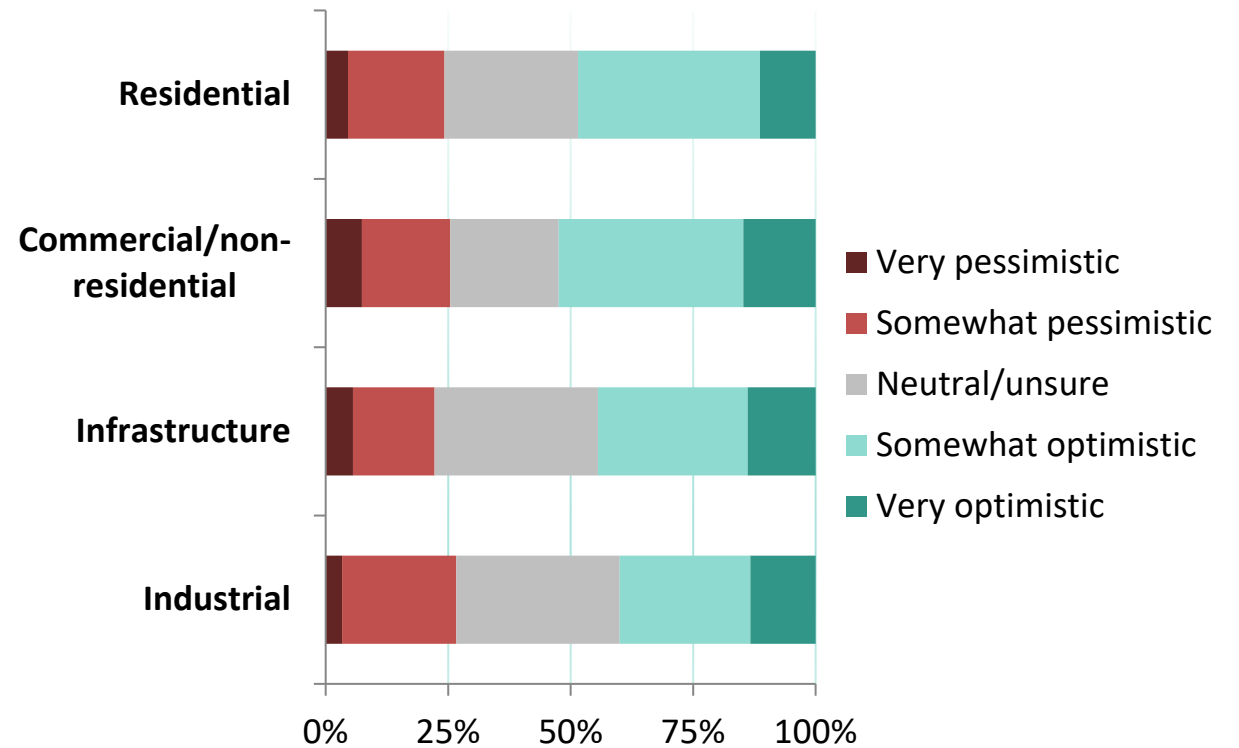
Despite challenges, and modest pipeline of new projects, firms a bit more optimistic

What is the outlook for the next six months?



Outlook for the next six months

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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