CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

September 10, 2021

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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.
A BIG THANK YOU TO PARTNERS  
(AND RESPONDENTS!)

- 50+ 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
- Always looking for more partners to get survey to more construction businesses
  - Enhanced information sharing with partners
  - Contact info at end, or drop me a note in chat box
CONSTRUCTION SURVEY

• Conducted: August 16-27, 2021
• Total responses: 295 from Minnesota, Dakotas, Montana, western Wisconsin and Michigan’s Upper Peninsula

● Results are a snapshot
  • Not a scientifically sampled survey
  • Much higher response in Mpls-St. Paul, outstate MN, and UP/Mich.
  • Largest share of firms in residential and commercial
  • Good representation among firms of different size
    • Cone-shaped; most responses from mid-sized firms
  • Please interpret results carefully
SURVEY TAKE-AWAYS

● Revenue trends were positive, and similar to those reported in May
  • Residential still positive, but showing some cracks
● Delays persistent, and worsening
● Firms facing significant challenges – the big three
  • Supply chain disruptions
  • Labor constraints
  • High costs for materials; wages also rising
● Pipeline of new projects appears to be slowing, yet firms remained optimistic
RECENT REVENUE TRENDS
Recent revenue trends are modestly net-positive.

On par with results in May.

Recent sales activity: Please describe revenue trends over the last 3 months compared with...

- Previous 3-month period
- The same period a year ago
- Expectations for coming three months compared same period last year

Percentage distribution:
- Significantly lower
- Somewhat lower
- Flat/no change
- Somewhat higher
- Significantly higher
UNPACKING REVENUE TRENDS
Revenue trends over the last 3 months compared with same period a year ago

- **Infrastructure & heavy**
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

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

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

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

Residential sector remains the leader among subsectors (which also influences overall results)

Respondents:
- 50+% in residential, commercial
- 10-15% in industrial, infrastructure
Short-term future expectations also moderately positive for most of sector, though infrastructure remained net-negative.
Unlike businesses overall, firm size is **not** a great predictor of revenue trends in construction.

Possible factors:

- **Residential** = smaller projects = more small firms
  - Sector doing well
- **Infrastructure** = big projects = big firms
  - Sector doing worse

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

- **Under $500,000**
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

- **$500,000 to $2 million**
- **$2 million to $10 million**
- **$10 million to $50 million**
- **More than $50 million**

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PROJECT CANCELLATIONS & DELAYS
Slight increase in firms experiencing project cancellations

Delays continue to rise

More than half of firms saw increased delays, and one in five said they increased significantly
CANCELLATIONS AND DELAYS, BY SECTOR

- Delays hitting all sectors
- Residential sector showing more stress
- Consumers possibly more sensitive to delays and cost increases

Project cancellations:
- Residential
- Infrastructure
- Commercial
- Industrial

Project delays:
- Residential
- Commercial
- Infrastructure
- Industrial

Legend:
- Increased significantly
- Increased somewhat
- No change
- Decreased somewhat
- Decreased significantly
FUTURE PIPELINE:
PROJECTS OUT FOR BID
FUTURE ACTIVITY: PROJECTS OUT FOR BID (RFPs)

Pipeline for new public projects continues to contract.

New private projects out for bid still net positive, but barely.
• Infrastructure & industrial project pipelines contracting the most
• But all of the sectors seeing some pullback on new projects
CHALLENGES BOTH BIG AND...BIG
OPERATIONAL CHALLENGES

Challenge trifecta:
• Labor availability
• Material cost increases
• Supply chain problems

Everything else is in the margins

Pick two: Aside from customer demand, what are the two greatest challenges to operating capacity and productivity?
LABOR FORCE DEMAND: THE GOOD NEWS

Strong hiring activity; more than half of firms looking to add staff

Only slight pullback in hiring headed into winter
LABOR AVAILABILITY: THE LESS-GOOD NEWS

<table>
<thead>
<tr>
<th>Share of firms saying</th>
<th>February survey: 35%</th>
<th>May: 62%</th>
<th>August: 76%</th>
</tr>
</thead>
<tbody>
<tr>
<td>labor conditions are</td>
<td>“very tight”</td>
<td></td>
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Labor availability for open positions among hiring firms

- Not tight; good labor availability
- Slightly tight
- Moderately tight
- Very tight

![Bar chart showing labor availability comparison between August and May](chart.png)
Labor availability tight across all sectors, but particularly among firms in residential sector.
Wages are responding

Wages growing more in construction than most sectors

60+ percent say wages growing > 3% for skilled trades

Slightly more modest increases for all other types of jobs

Similar wage pressure expected over next 12 months
Material costs high, and mostly holding

Vendor prices: Many seeing price increases over 10% (and often much higher)

Customer prices: High share of vendor increases being passed to final customer – much higher share than seen in other sectors

Price changes for construction materials

- Average vendor prices compared with 3 months ago
- Average vendor prices compared with last year
- Customers' material prices compared with 3 months ago
- Customers' material prices compared with last year

Legend:
- > 10% lower
- 1-10% lower
- Mostly flat
- 1-3% higher
- 3-5% higher
- 5-10% higher
- 10-25% higher
- > 25% higher
MATERIAL COST IMPACTS

Higher prices are:

- Increasing delays
- Hurting profits
- Dampening demand

What effects, if any, are you seeing as a result of elevated costs for many inputs?

- Project timeline/delays
  - Significant negative effect
  - Somewhat negative effect
  - Little or no change
  - Somewhat positive effect
  - Significant positive effect

- Firm profits

- Overall project demand

What effects, if any, are you seeing as a result of elevated costs for many inputs?
OUTLOOK: OPTIMISM PREVAILS

Despite challenges, and tighter pipeline of new projects, firms still optimistic

Outlook for the next 6 months

- Very pessimistic: 6%
- Somewhat pessimistic: 22%
- Neutral/unsure: 28%
- Somewhat optimistic: 33%
- Very optimistic: 12%

Outlook for next 6 months, by sector

- Residential building
- Infrastructure & heavy
- Non-residential/commercial
- Industrial

Very pessimistic
Somewhat pessimistic
Neutral/unsure
Somewhat optimistic
Very optimistic

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SURVEY WRAP-UP

• Revenue trends still positive overall
• Residential still leading the pack, but has also ‘come back to the pack’
• In May, sector poised for growth; this survey suggests some caution & “challenge fatigue”
  • Supply chain a huge concern; project delays have worsened; cancellation rate also slightly negative
  • Future projects pipeline contracted
  • Material prices remain high, exacerbating delays, dampening demand and hurting profits
  • Firms are hiring, but perceived labor availability continues to fall; wage pressures are strong
• Firms still optimistic overall
FUTURE TRACKING OF ECONOMY

● Next construction survey: mid-November

● Always looking for new/additional partners to expand input from across the Ninth District

● Groups interested in participating = please contact me (see info at end) or leave a note in the chat box

● Additional surveys:
  • General Business: October
  • Ag credit: November
  • Hospitality & Tourism: late November
THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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