

CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

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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.





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





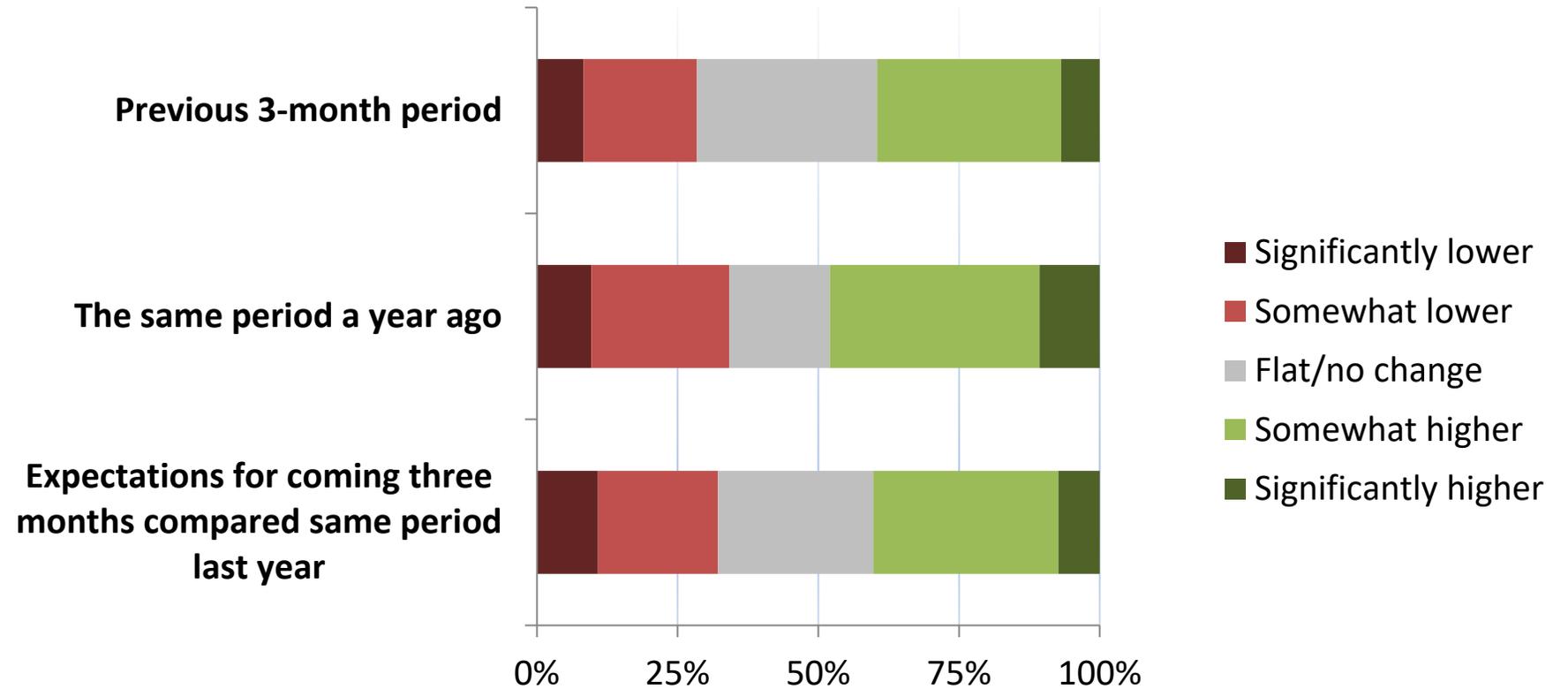
RECENT REVENUE TRENDS

RECENT REVENUE TRENDS

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 ...

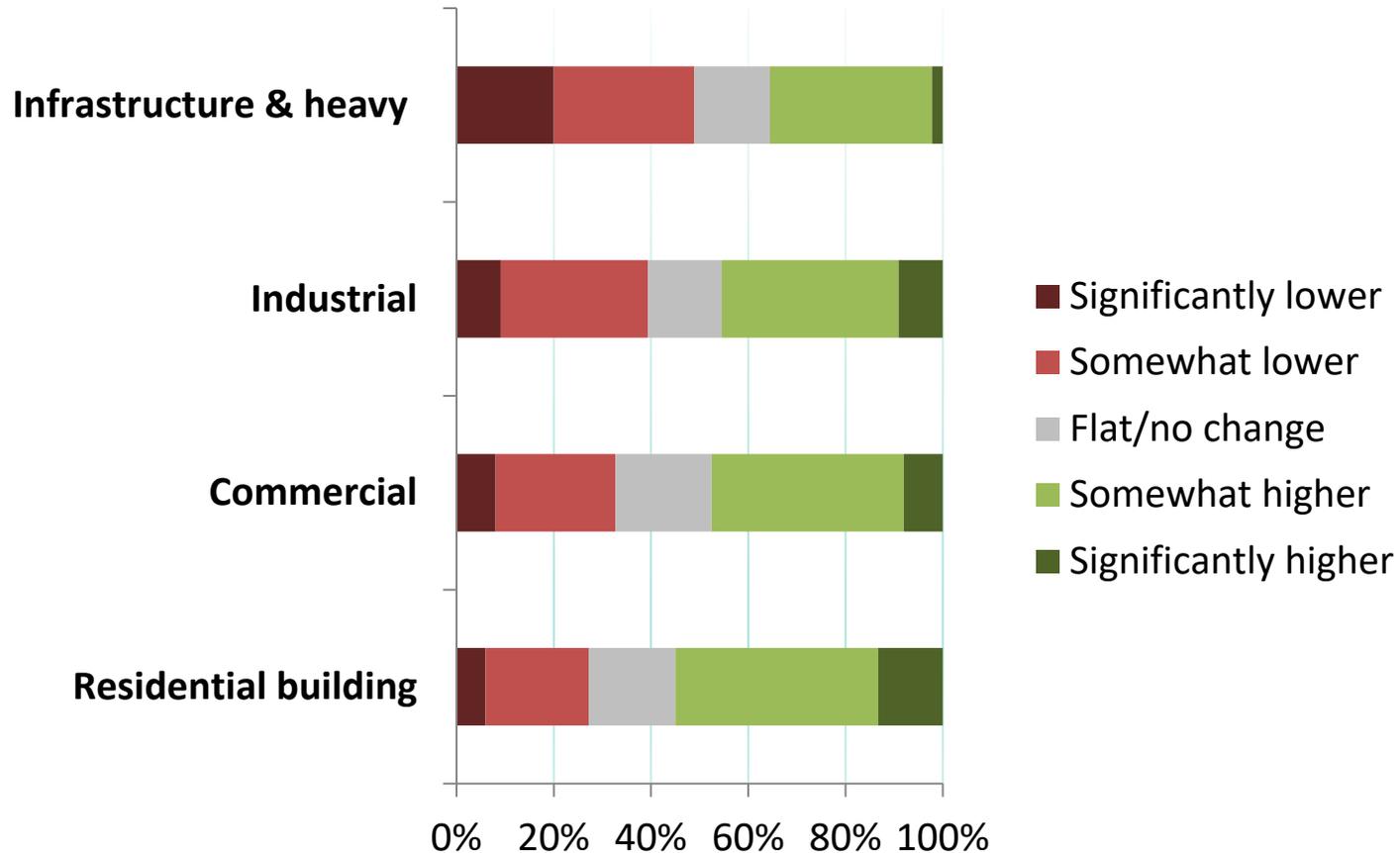




UNPACKING REVENUE TRENDS

REVENUE TRENDS BY CONSTRUCTION SECTOR

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



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

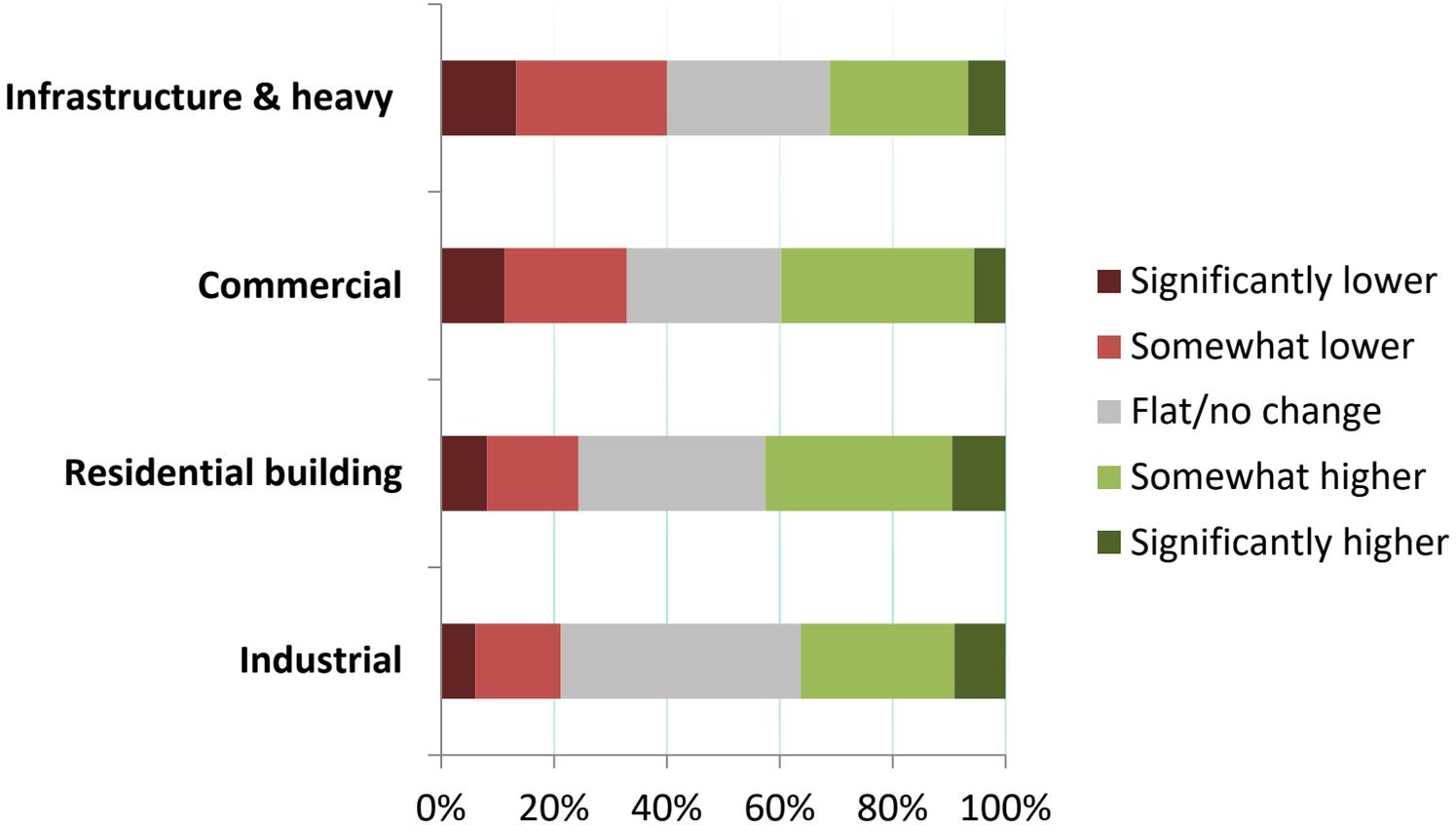
Respondents:

- 50+% in residential, commercial
- 10-15% in industrial, infrastructure



SECTORAL TRENDS, CONT. – FALL EXPECTATIONS

Expectations for next three months compared same period last year



Short-term future expectations also moderately positive for most of sector, though infrastructure remained net-negative

REVENUE TRENDS BY FIRM SIZE

Unlike businesses overall, firm size is not a great predictor of revenue trends in construction

Possible factors:

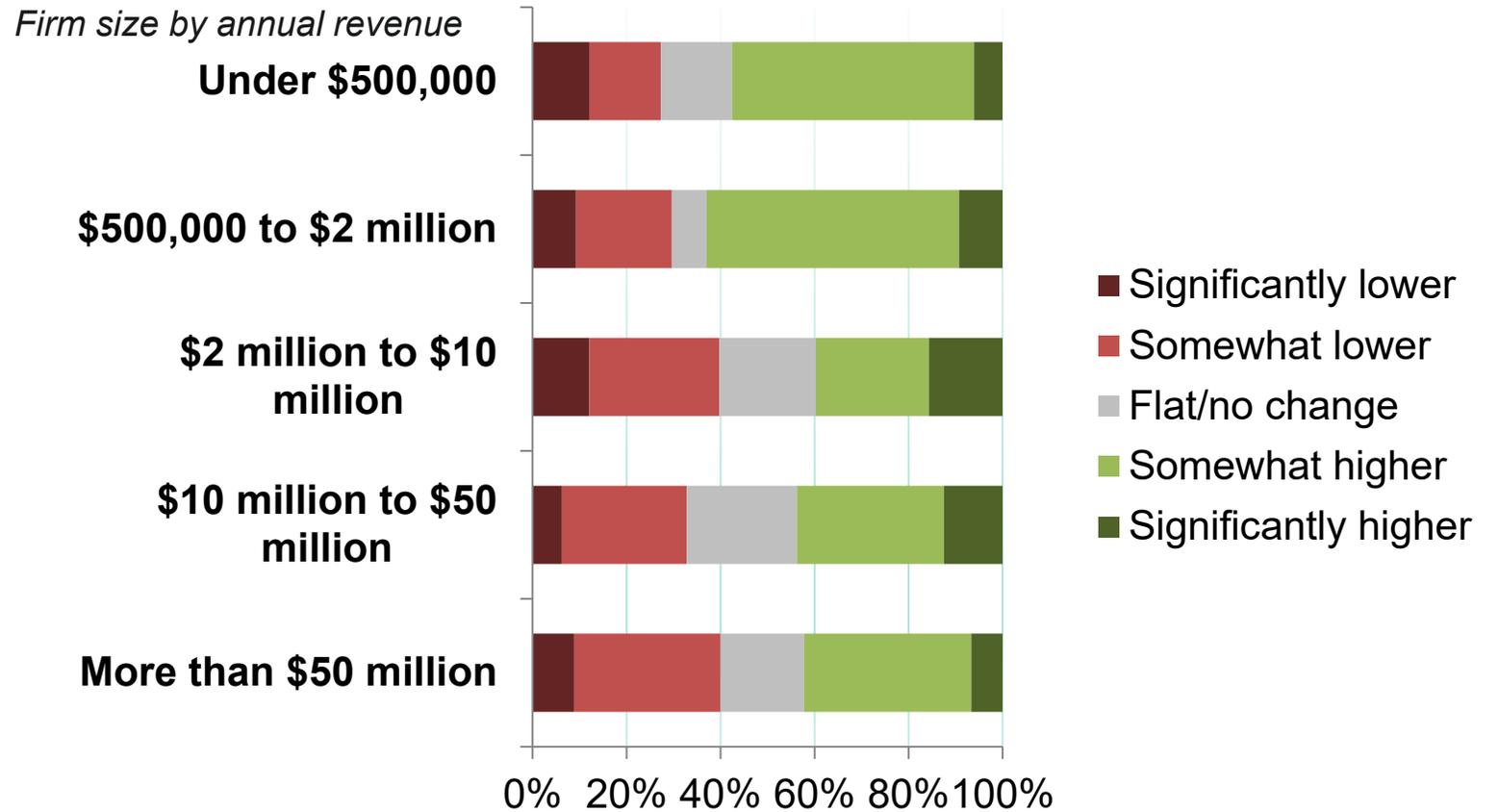
Residential = smaller projects = more small firms

- Sector doing well

Infrastructure = big projects = big firms

- Sector doing worse

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





**PROJECT
CANCELLATIONS & DELAYS**

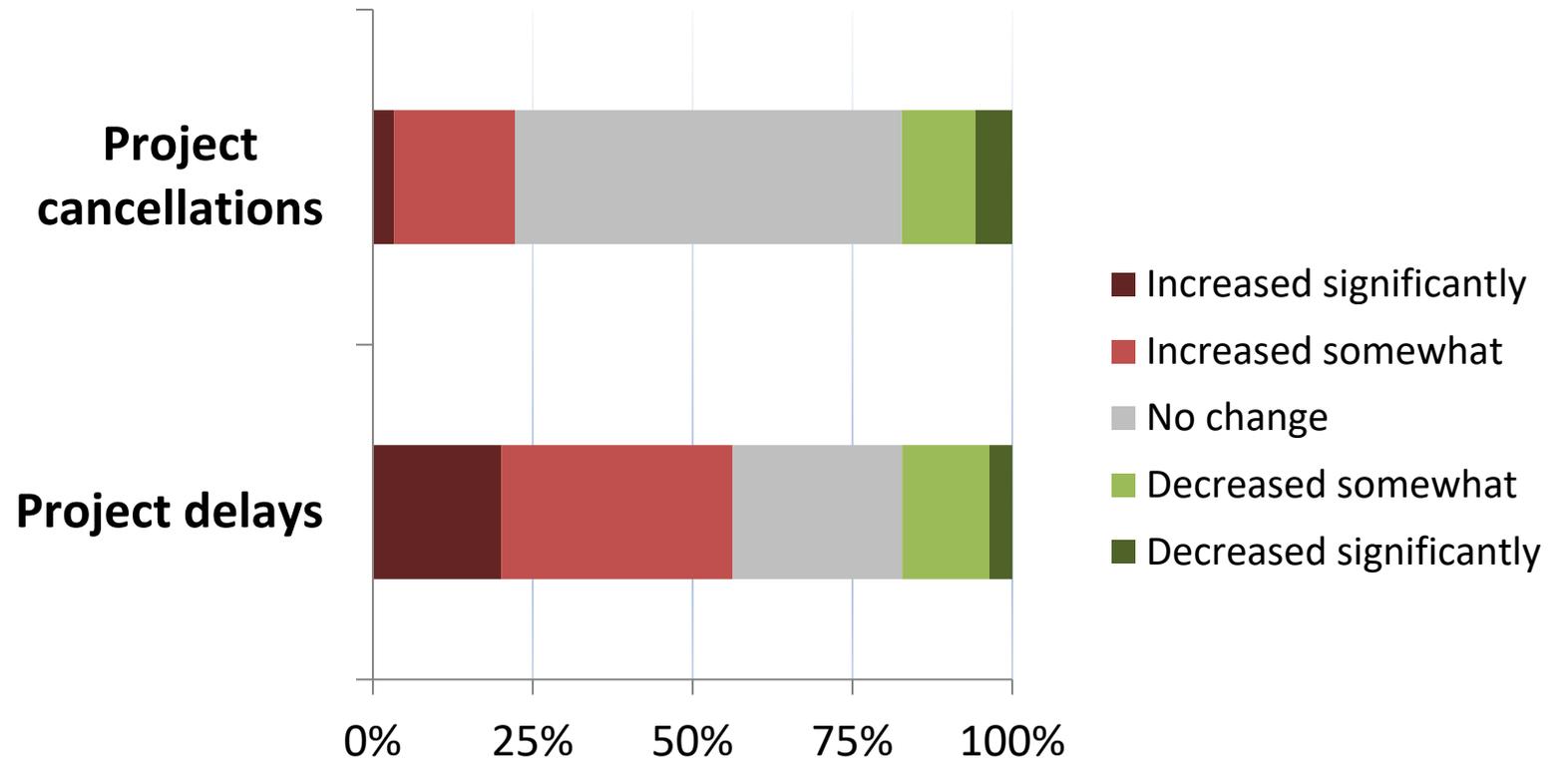
CANCELLATIONS & DELAYS

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

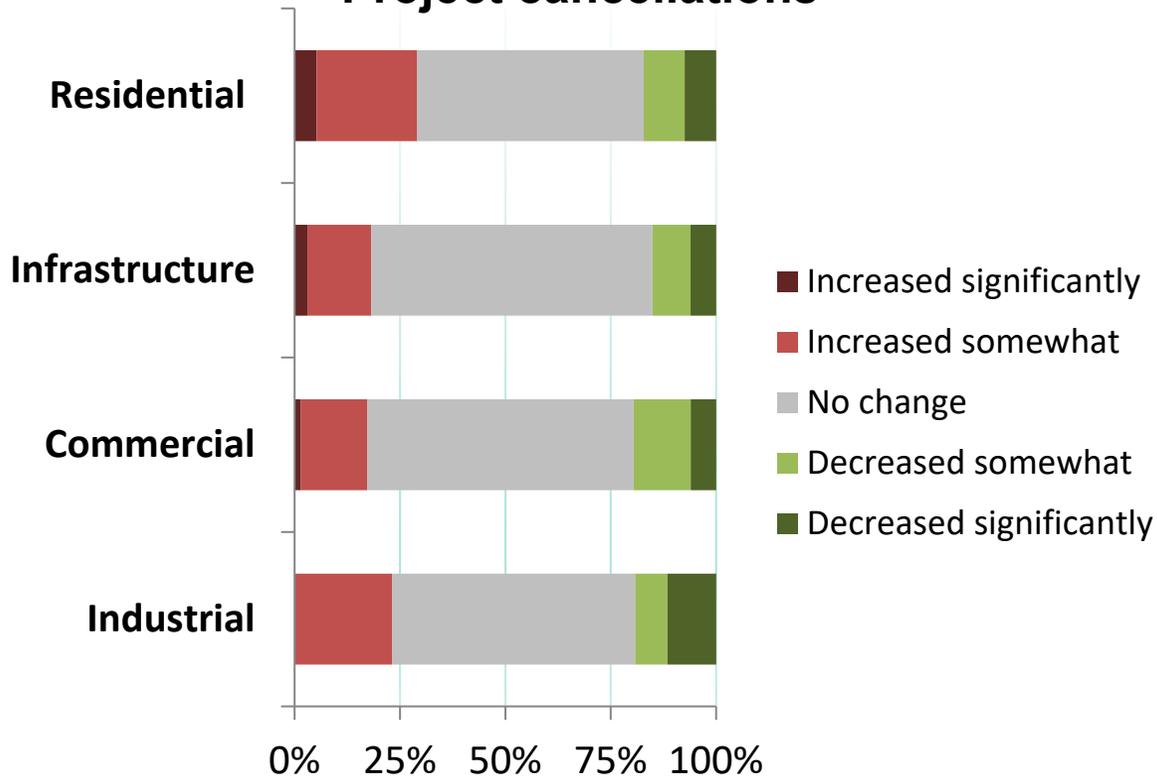
Current project cancellations and delays compared with May levels



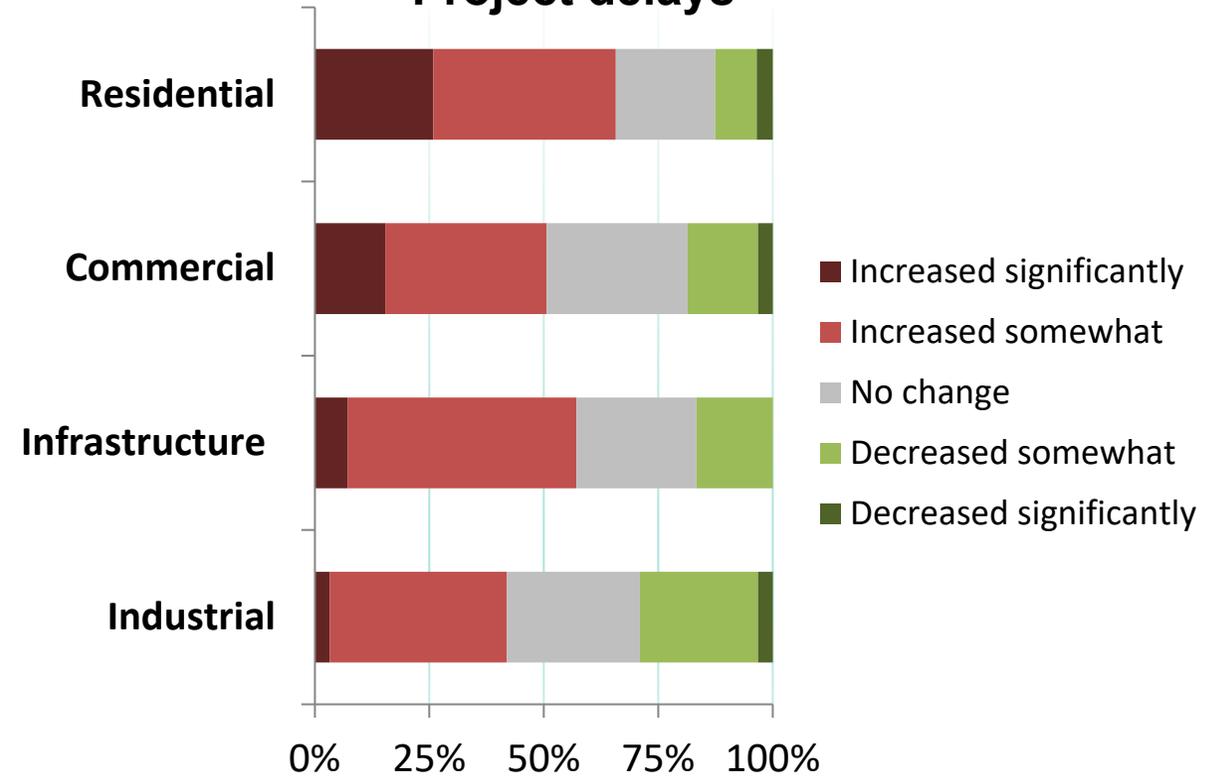
CANCELLATIONS AND DELAYS, BY SECTOR

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

Project cancellations



Project delays

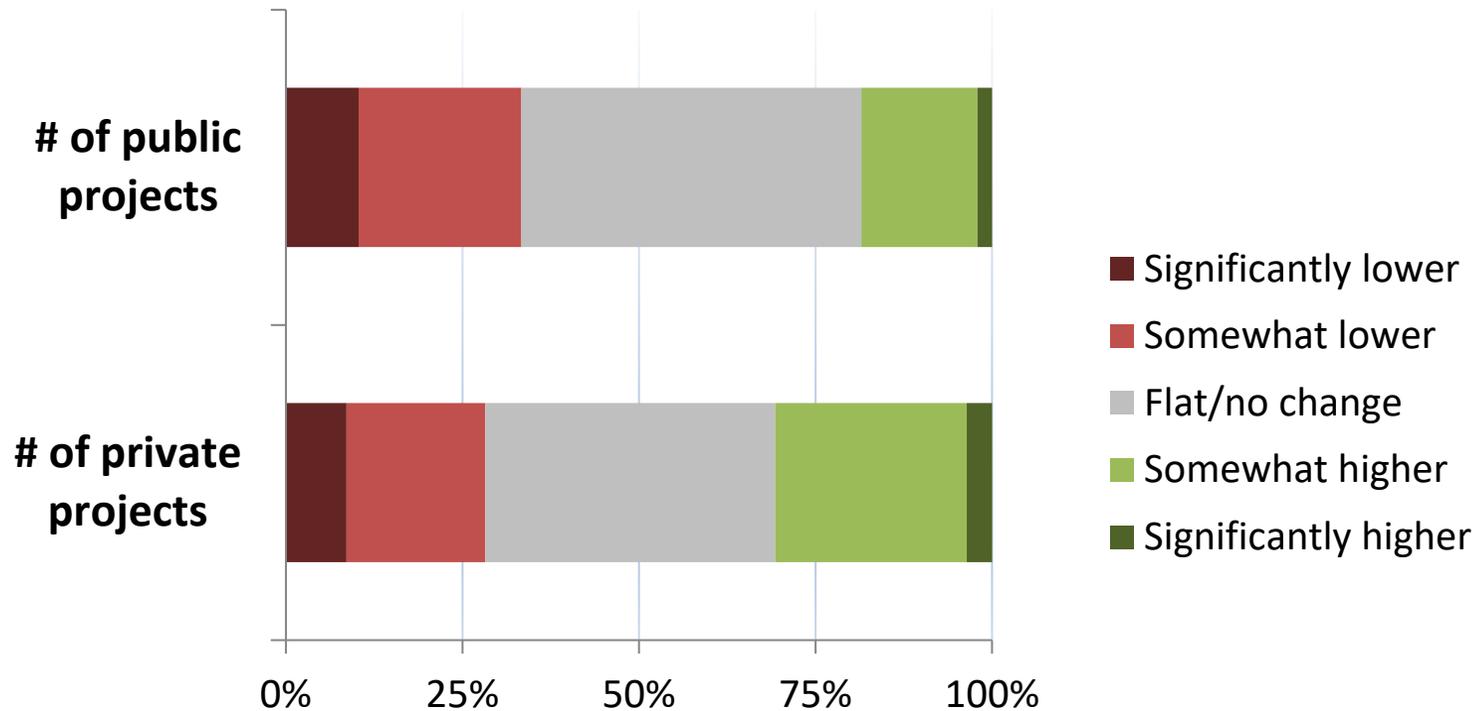




**FUTURE PIPELINE:
PROJECTS OUT FOR BID**

FUTURE ACTIVITY: PROJECTS OUT FOR BID (RFPs)

New projects out for bid compared with May levels



Pipeline for new public projects continues to contract

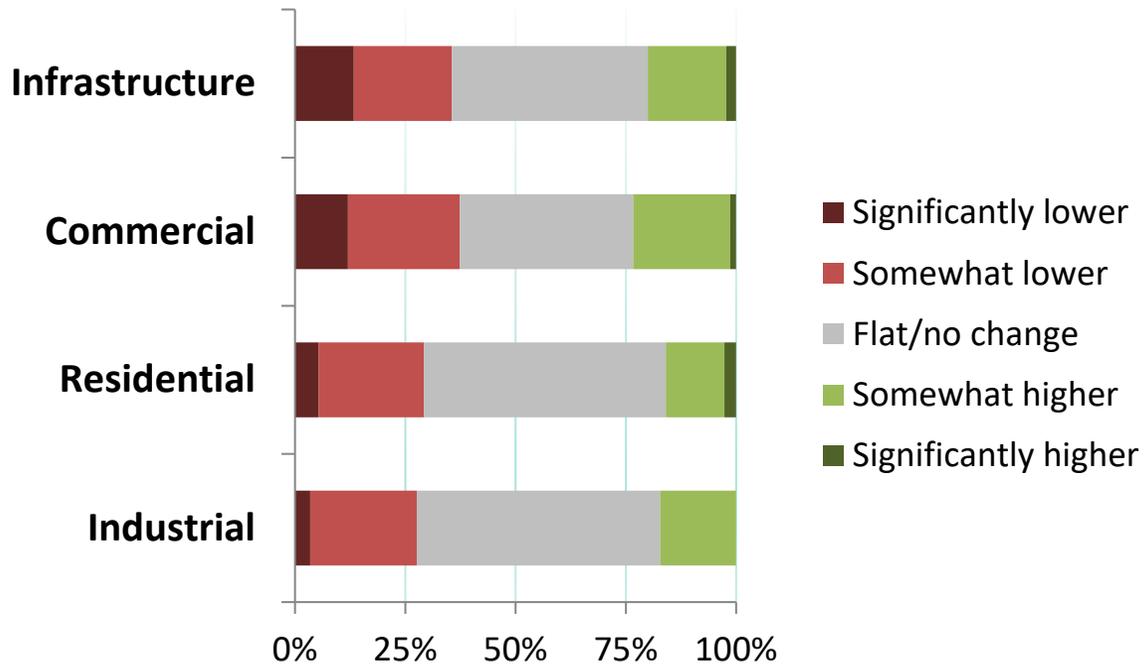
New private projects out for bid still net positive, but barely



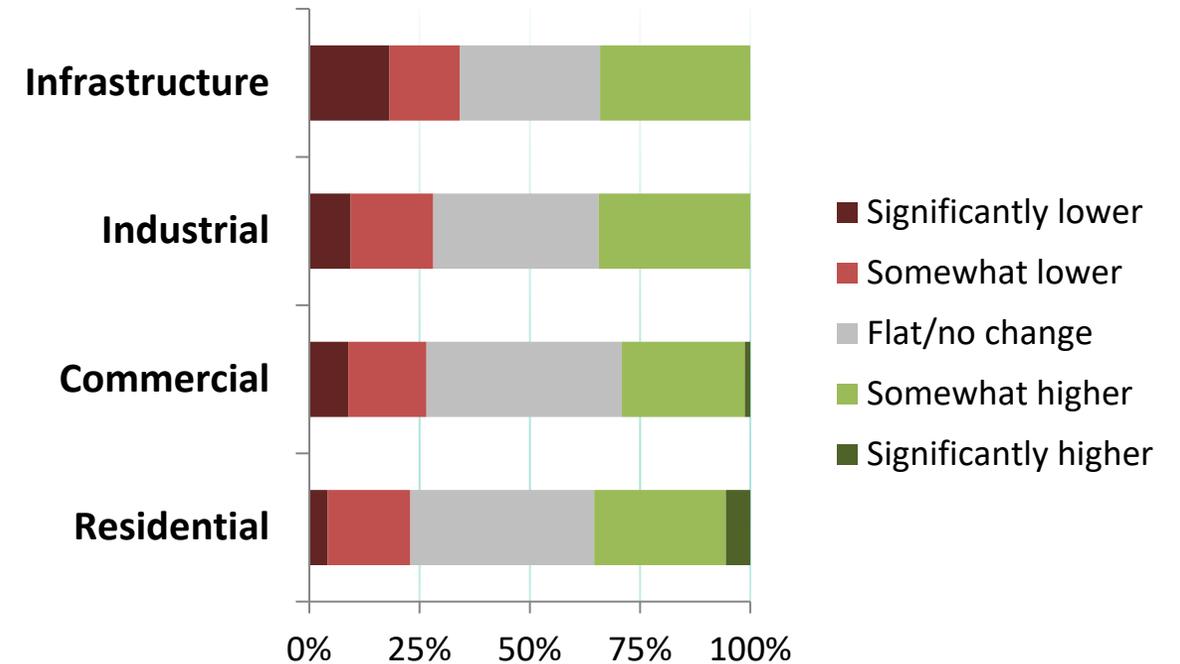
PROJECTS OUT FOR BID – BY SECTOR

- Infrastructure & industrial project pipelines contracting the most
- But all of the sectors seeing some pullback on new projects

of public projects



of private projects





**CHALLENGES BOTH
BIG AND...BIG**

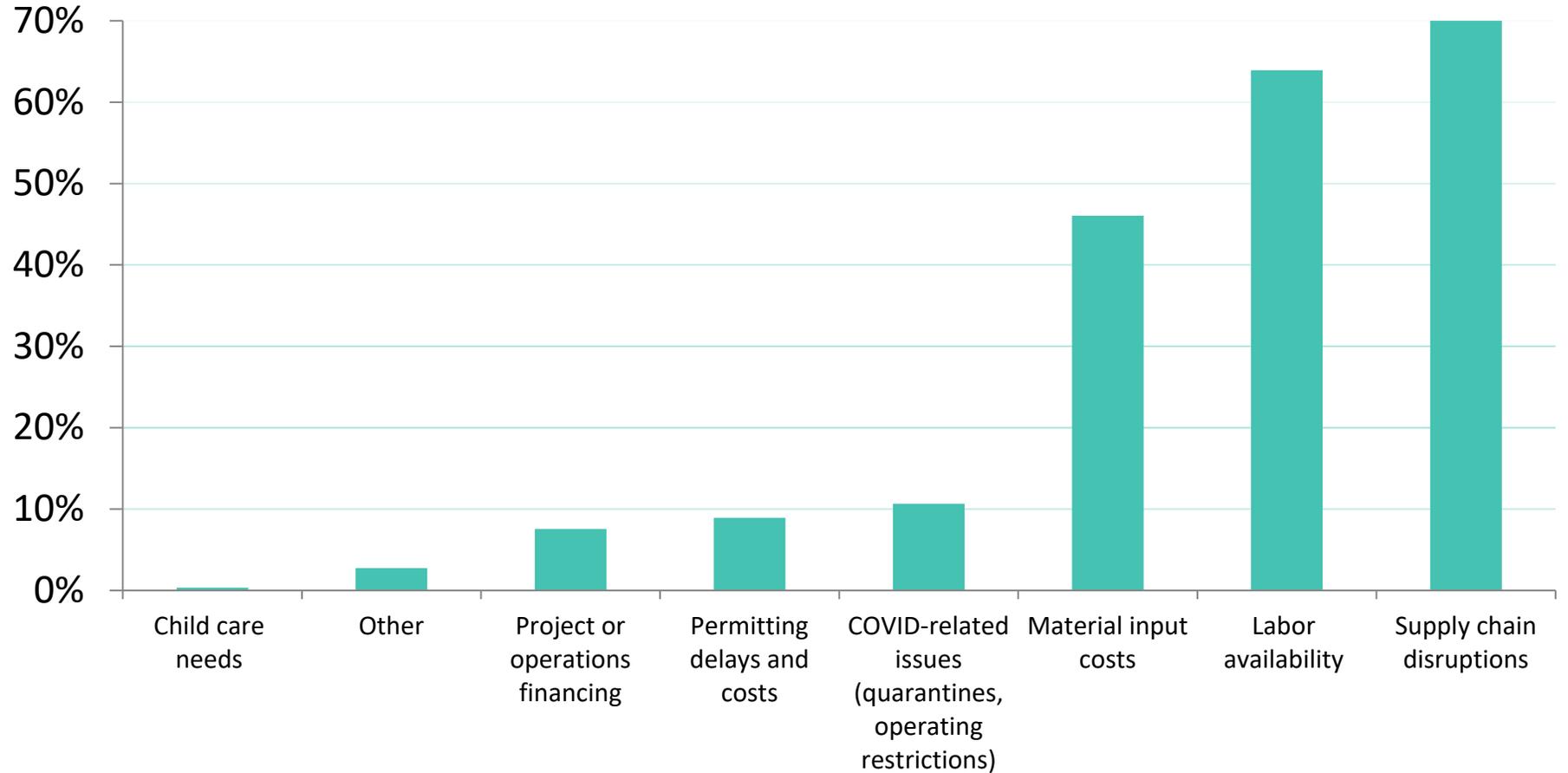
OPERATIONAL CHALLENGES

Pick two: Aside from customer demand, what are the two greatest challenges to operating capacity and productivity?

Challenge trifecta:

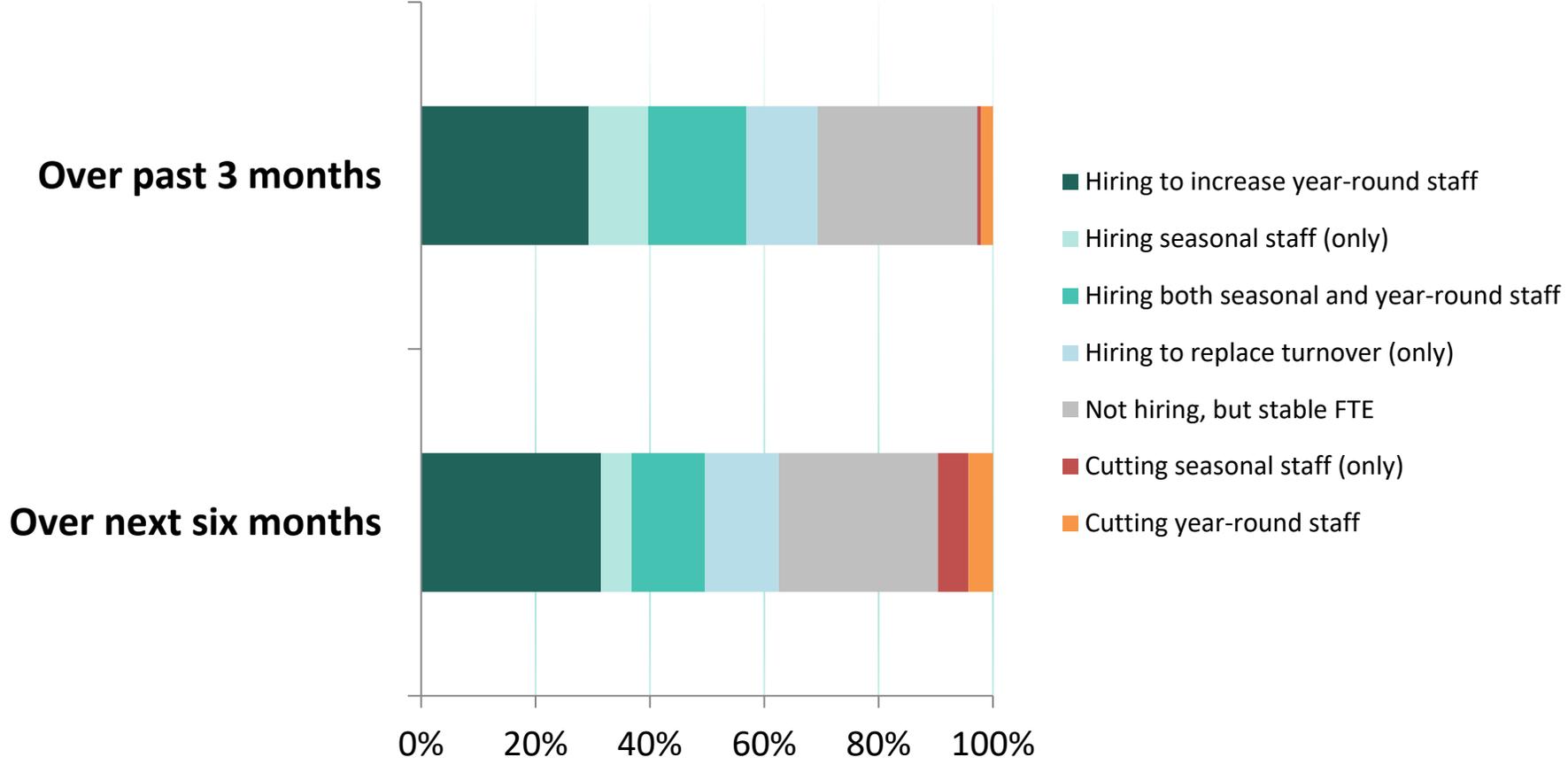
- Labor availability
- Material cost increases
- Supply chain problems

Everything else is in the margins



LABOR FORCE DEMAND: THE GOOD NEWS

Staffing/hiring demand at your firm



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

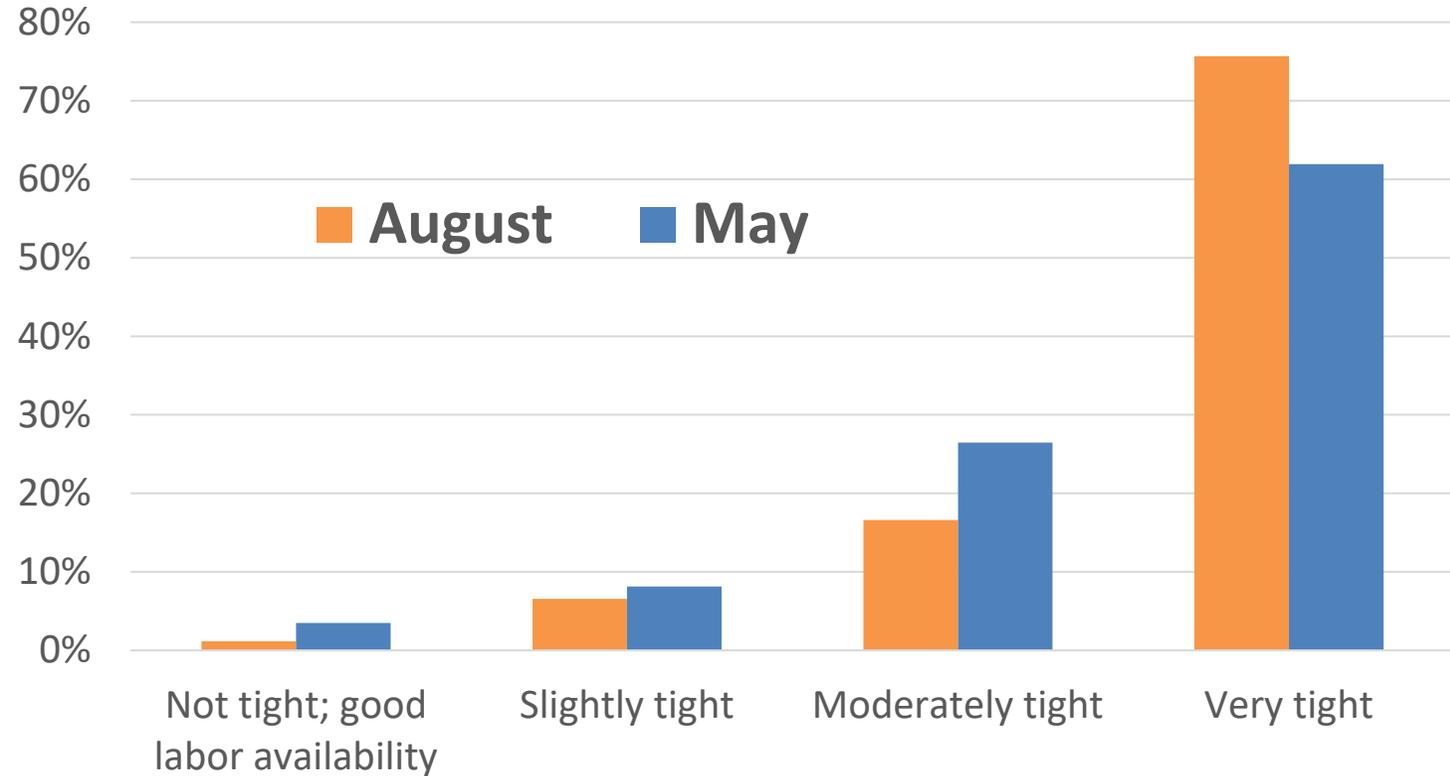
Share of firms saying labor conditions are “very tight”

February survey: 35%

May: 62%

August: 76%

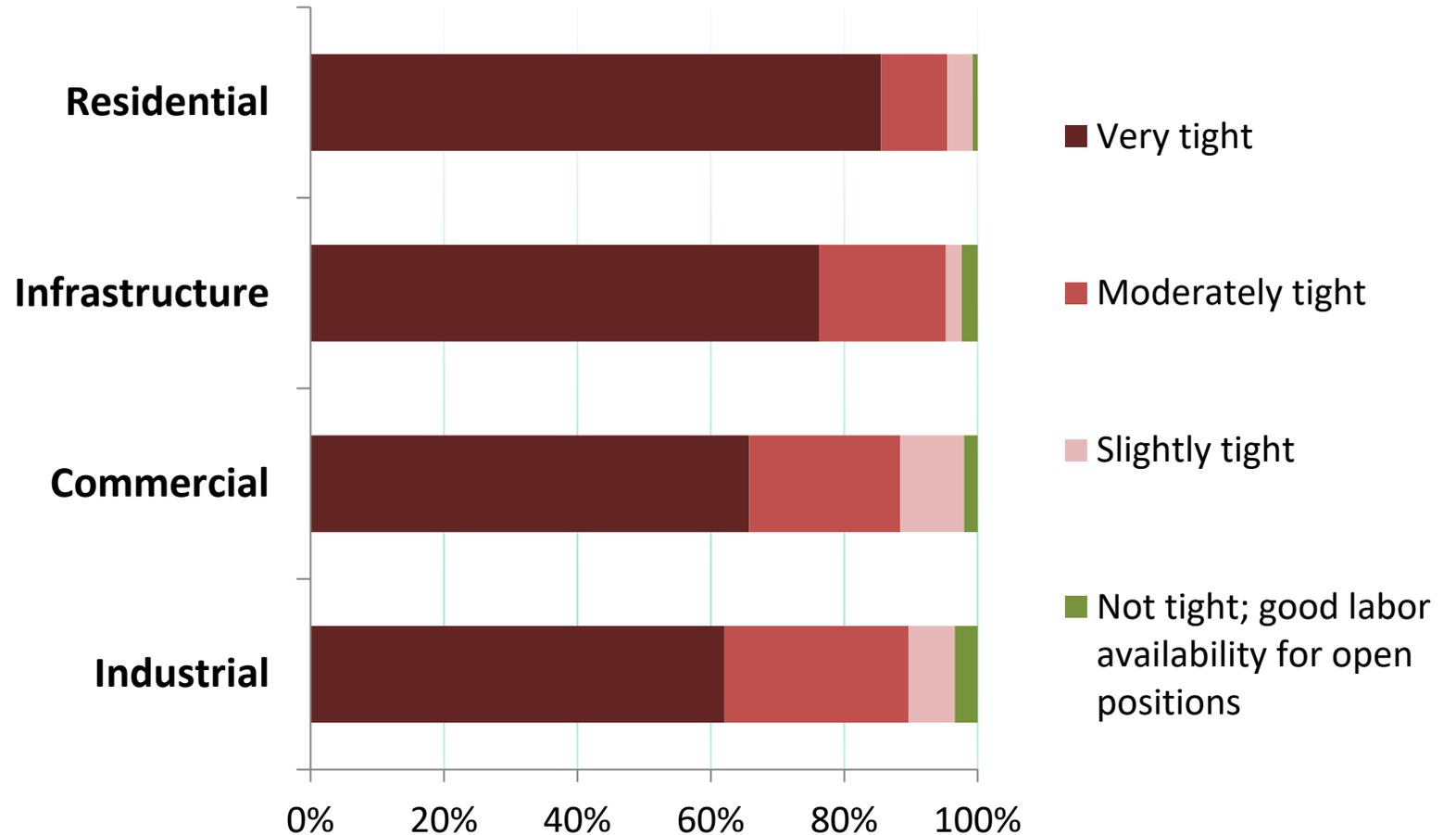
Labor availability for open positions among hiring firms



LABOR AVAILABILITY BY CONSTRUCTION SECTOR

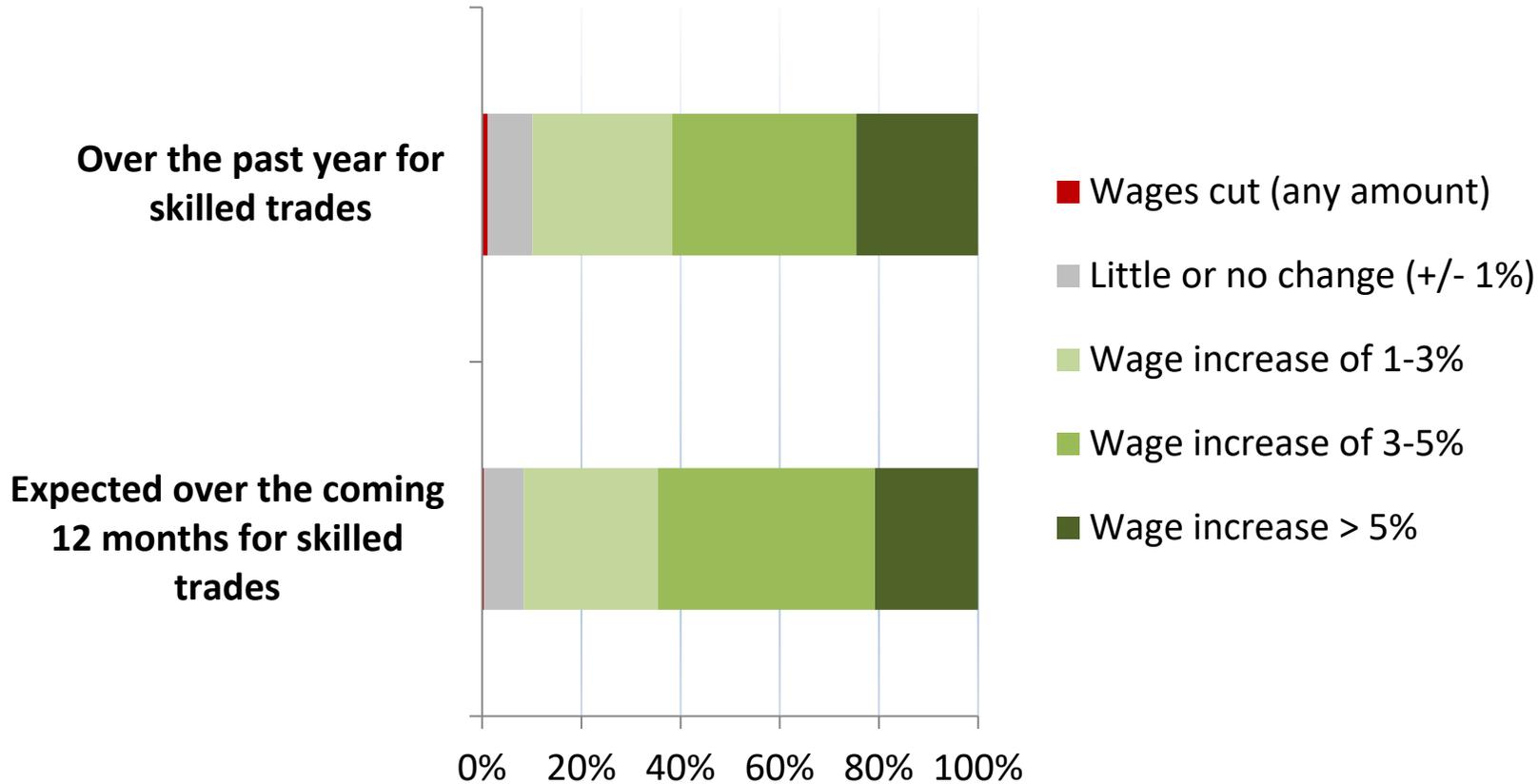
Describe worker availability for open positions

Labor availability tight across all sectors, but particularly among firms in residential sector



WAGES ARE RESPONDING

Average wage increase for your workforce



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



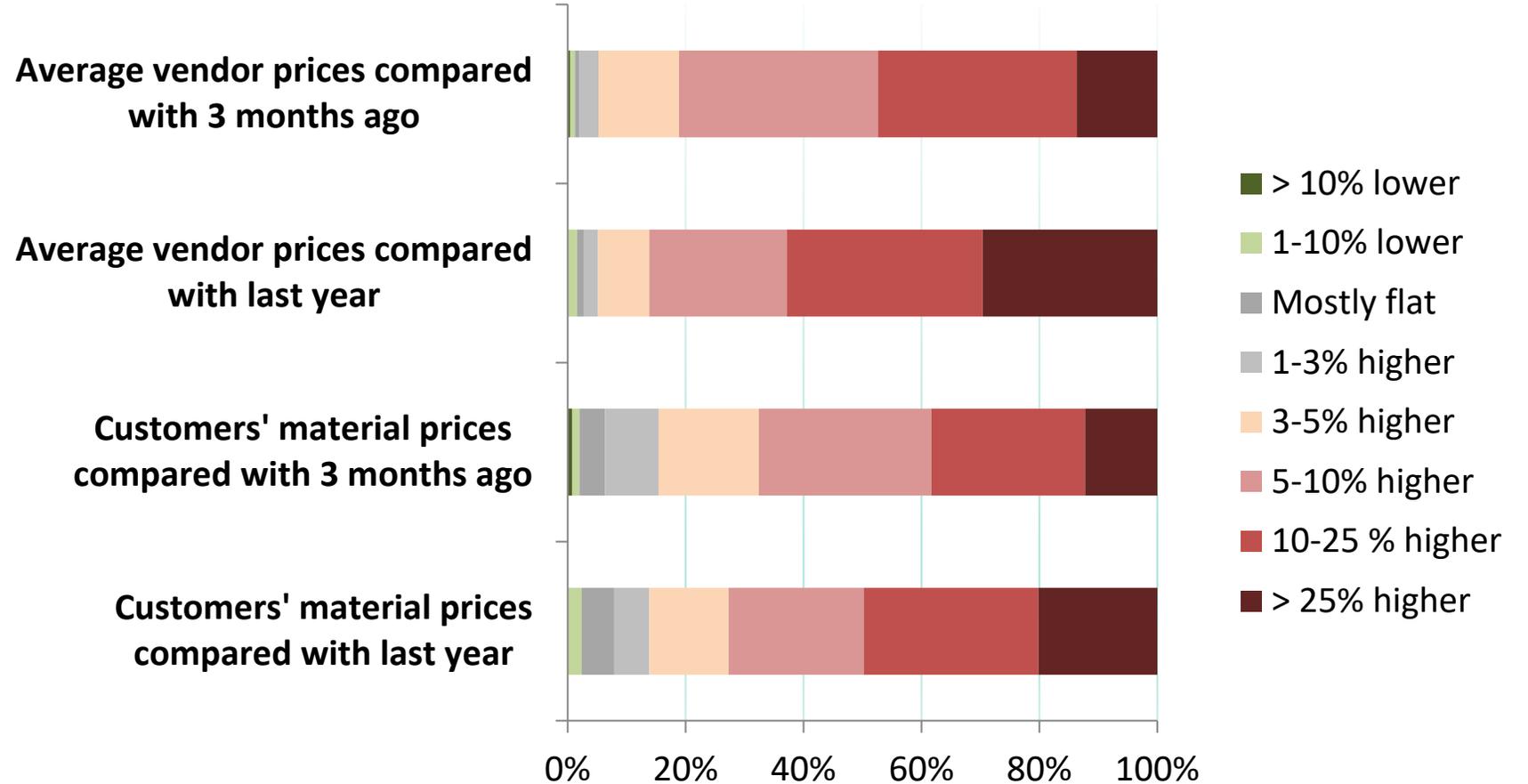
MATERIAL COSTS STILL HIGH

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

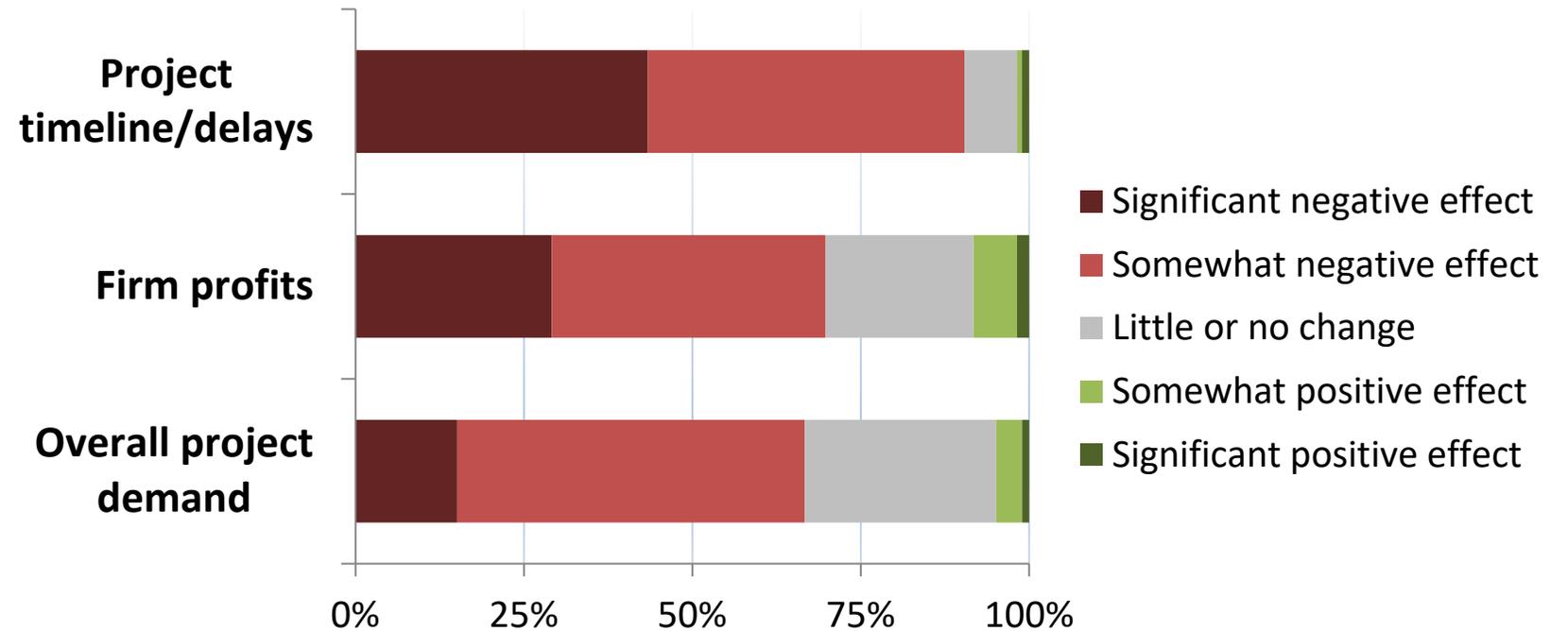


MATERIAL COST IMPACTS

Higher prices are:

- Increasing delays
- Hurting profits
- Dampening demand

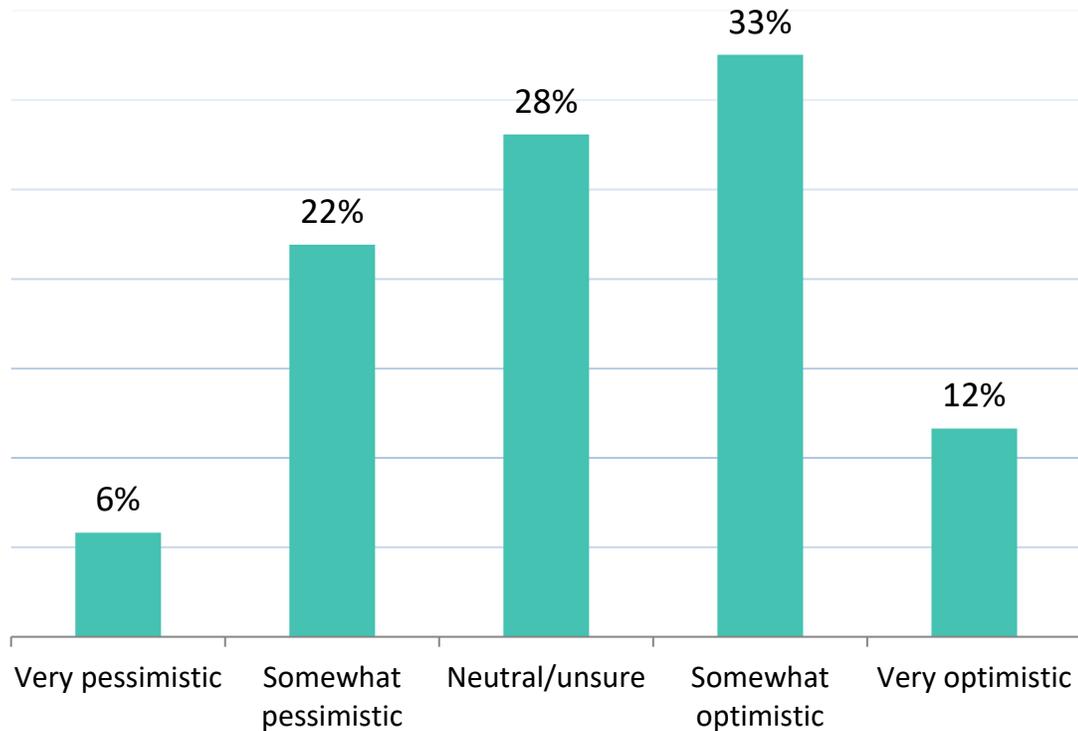
What effects, if any, are you seeing as a result of elevated costs for many inputs?



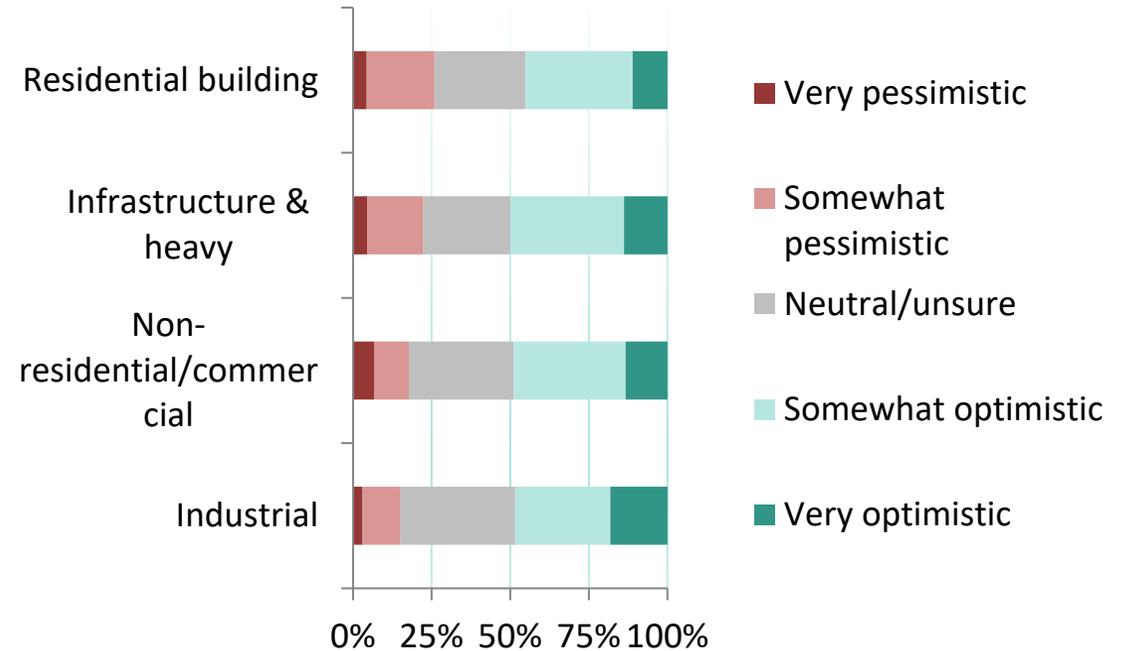
OUTLOOK: OPTIMISM PREVAILS

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

Outlook for the next 6 months



Outlook for next 6 months, by sector



SURVEY WRAP-UP

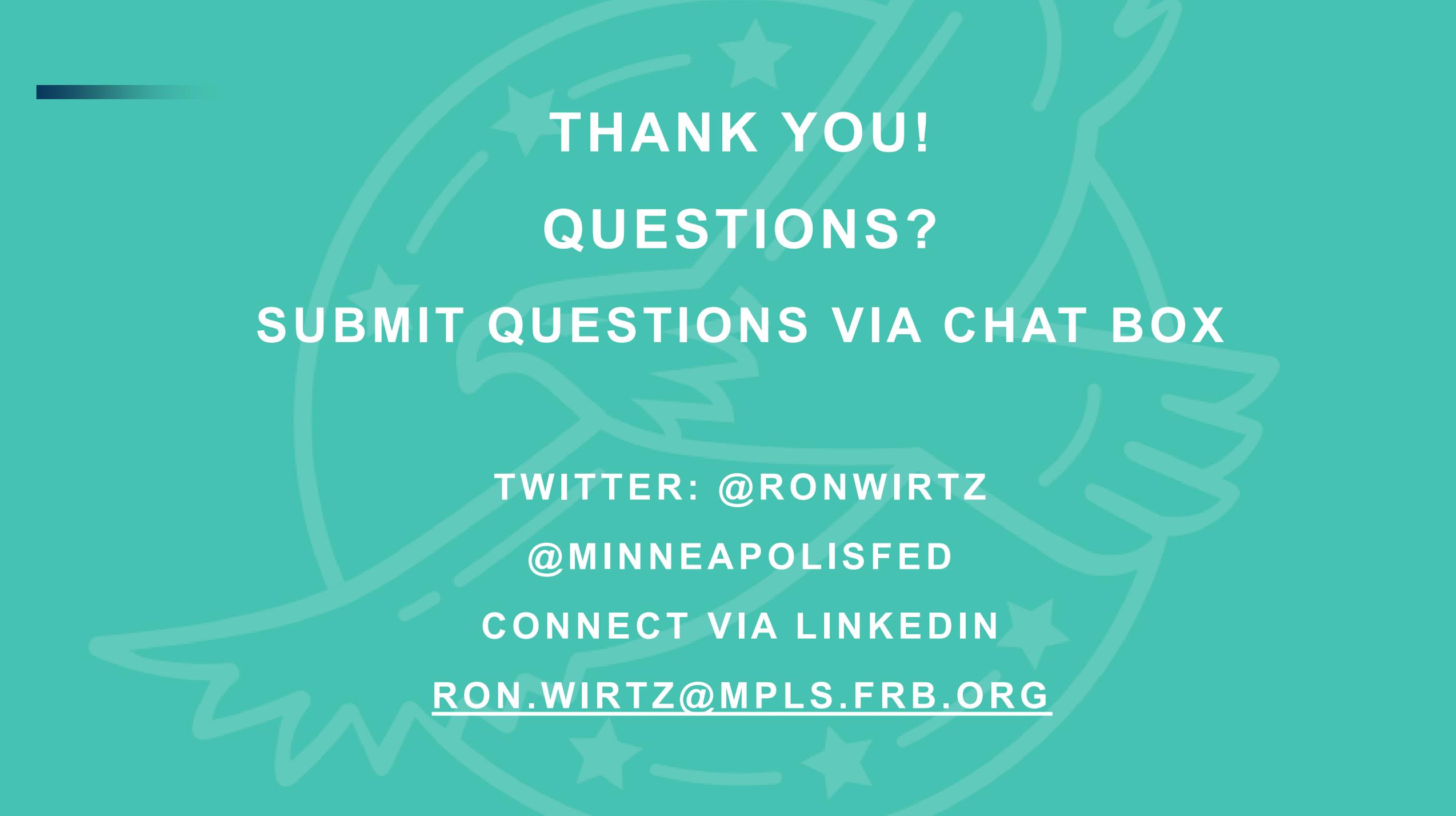
- Revenue trends still positive overall
- Residential still leading the pack, but has also ‘come back to the pack’
- In May, sector poised for growth; this survey suggests some caution & “challenge fatigue”
 - Supply chain a huge concern; project delays have worsened; cancellation rate also slightly 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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