CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

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Ron Wirtz
Regional Outreach Director
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!)

- About 50 construction/trade organizations across the Ninth District (and every District state) help get survey to member construction firms
- Always looking for more partners to get current conditions surveys to more businesses
  - Contact info at end, or drop me a note in chat box
BUSINESS OUTREACH

Surveys give us eyes and ears to *real-time* conditions

- Professional services (annual – in the field)
- Construction (quarterly, mid-May latest)
- Hospitality & tourism (quarterly, mid-May latest)
- Agricultural credit (quarterly, early-May latest)
- General business (quarterly, April latest)
- Manufacturing (annual – year end)
CONSTRUCTION SURVEY

- Conducted: May 18-24, 2021
- Total responses: 405 from Minnesota, Dakotas, Montana, western Wisconsin and Michigan’s Upper Peninsula

- Results are a snapshot
  - Not a scientifically sampled survey
  - Good response in MN, ND, WI; more sparse response in MT, SD and the UP/Mich
  - Over-represented among firms working in housing sector, under-represented in industrial & infrastructure
  - Please interpret results carefully
QUICK REVIEW:
RESULTS FROM FEBRUARY SURVEY

● Winter normally slower, but activity slowed more than usual
● Rising input costs a major concern
● However:
  • Requests for proposals were net-positive for first time since start of pandemic
  • Cancellations & delays were declining -- though still net-negative
  • Still hiring despite revenue slowdown
  • Positive outlook for spring and summer
MAY SURVEY TAKE-AWAYS

- Overall demand is healthy, esp. for housing
- “But”
- Pipeline is growing, more for private than public projects
- Cancellations and delays also affecting private projects more than public projects
- Major challenges: Rising prices for materials, supply chain problems, workforce availability
- Rising input costs are dampening demand, inducing delays and cutting into profits
- Outlook is optimistic, but firms nervous about challenges lingering long enough to turn market
RECENT REVENUE TRENDS
Recent revenue trends are modestly net-positive. But notable improvement over sentiment in February.
UNPACKING REVENUE TRENDS
REVENUE TRENDS BY CONSTRUCTION SECTOR

Residential sector remains the leader among subsectors (also a big factor in overall results)

Y-o-y revenue in other sectors = neutral or negative, BUT improved over February results
Sectoral expectations for next 6 months improved across the board, though infrastructure still net-negative.
**Revenue Trends by State**

**Construction zone:** Proceed with caution!

- Montana 22 responses, SD & UP < 10 (not incl.)
- Wisconsin: Very high response among small home builders
- Mpls-St. Paul – most balanced sectoral response; big share of large firms
Unlike businesses overall, firm size is *not* a great predictor of revenue trends in construction.

Likely factor: high housing response
- Residential = more small firms
- Sector doing well
Very, very little difference in future expectations by firm size.
CANCELLATIONS & DELAYS

Cancellations:
• Private projects = uptick from Feb.
• Public projects = continue to shrink

Delays rose, esp. for private projects

Public projects seeing less volatility, likely because of the larger project scale and underlying finance

How would you describe current project cancellations and delays compared with February levels?

- Project cancellations & delays

For Cancellations:
- Cancellations – private projects
- Cancellations – public projects

For Delays:
- Delays – private projects
- Delays – public projects

- Increased significantly
- Increased somewhat
- No change
- Decreased somewhat
- Decreased significantly

0% 20% 40% 60% 80% 100%
PROJECT CANCELLATIONS: BY SECTOR

Cancellations ticking up, especially in residential

Consumers likely less tolerant of delays and cost increases
FUTURE PIPELINE:
REQUESTS FOR PROPOSALS
FUTURE ACTIVITY: REQUEST FOR PROPOSALS

Pipeline of future projects:

RFP levels net-positive for private projects

Pipeline for new public projects appears to be slowing some

Projects out for bid compared with February levels:

- # of private projects
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

- # of public projects

- # of bidders per project
Every sector seeing growth in private projects out for bid, save for infrastructure

Public project RFPs mostly neutral; infrastructure sector less optimistic here as well
HALF FULL?
OR
HALF EMPTY?
HEALTHY DEMAND, BUT...
**OPERATIONAL CHALLENGES**

**Challenge trifecta:**
- Labor availability
- Material cost increases
- Supply chain problems

**Challenges**

What are the two greatest challenges to operating capacity and productivity?

[Bar chart showing various challenges with Material input costs and Supply chain disruptions being the highest challenges.]
STRONG hiring activity, both recently and expected over summer.

**Workforce:**
Please describe staffing/hiring demand at your firm.

- Cutting year-round staff
- Cutting seasonal staff (only)
- Not hiring, but stable FTE
- Hiring to replace turnover (only)
- Hiring seasonal staff (only)
- Hiring to increase year-round staff
- Hiring both seasonal and year-round staff
LABOR AVAILABILITY: THE LESS-GOOD NEWS

From Feb to May:
Share of firms saying:

- “very tight” rose from 35% to 62%
- “moderately tight” rose from 22% to 27%

![Bar chart showing labor availability]

Labor availability
Please describe worker availability for open positions

- Not tight; good labor availability
- Slightly tight; labor available except for certain positions
- Moderately tight; labor unavailable for many positions
- Very tight; labor unavailable for most positions
WAGES ARE RESPONDING

Wages growing more in construction than most sectors

Half of firms say wages growing > 3% for skilled trades

Consistent across firm size, save for smallest firms

Slightly greater wage pressure expected over next 12 months

WAGES

Please describe average wage pressure

From start of pandemic - skilled trades
- Wage cut (any amount)
- Little or no change (+/- 1%)
- Increase of 1-3%
- Increase of 3-5%
- Increase > 5%

From start of pandemic - all other jobs

Expected over coming 12 months - skilled trades

Expected over coming 12 months - all other jobs

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

FEDERAL RESERVE BANK OF MINNEAPOLIS
MATERIAL COSTS

Vendor prices:

• 70 percent seeing increase of 10% or more (and often much more)

• Steel, lumber seeing biggest increases, but virtually everything affected

Much of increase being passed to final customer

Price increases

Please estimate price changes over the last three months to customers and from vendors

Average price increase to customers, all materials

Average price increase from vendors, all materials

- > 10% lower
- 1-10% lower
- Mostly flat
- 1-3% higher
- 3-5% higher
- 5-10% higher
- 10-25 % higher
- > 25% higher
Among major product groups, virtually everything seeing steep increases
MATERIAL COSTS, CONT.

Dampening demand

Increasing delays

Hurting profits

Effects of rising material costs
What effects are you seeing as a result of higher input prices/costs?

- Overall project demand
- Firm profits
- Project timeline/delays

- Significant negative effect
- Somewhat negative effect
- Little or no change
- Somewhat positive effect
- Significant positive effect
• More firms seeing revenue increases than decreases; overall trend is up
• Pipeline of new private projects also seeing growth; public projects more neutral
• Costs have been increasing significantly, dampening demand and hurting profits
• Firms are hiring, but perceived labor availability fell significantly
• Challenges = more cancellations for private projects; delays more widespread
• If prices and supply issues are transitory, sector in good place for more growth
FUTURE TRACKING OF SECTOR

● Next construction survey: mid-July

● 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)
THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

TWITTER: @RONWIRTZ
@MINNEAPOLISFED

CONNECT VIA LINKEDIN

RON.WIRTZ@MPLS.FRB.ORG