

# 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.





## **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





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# RECENT REVENUE TRENDS



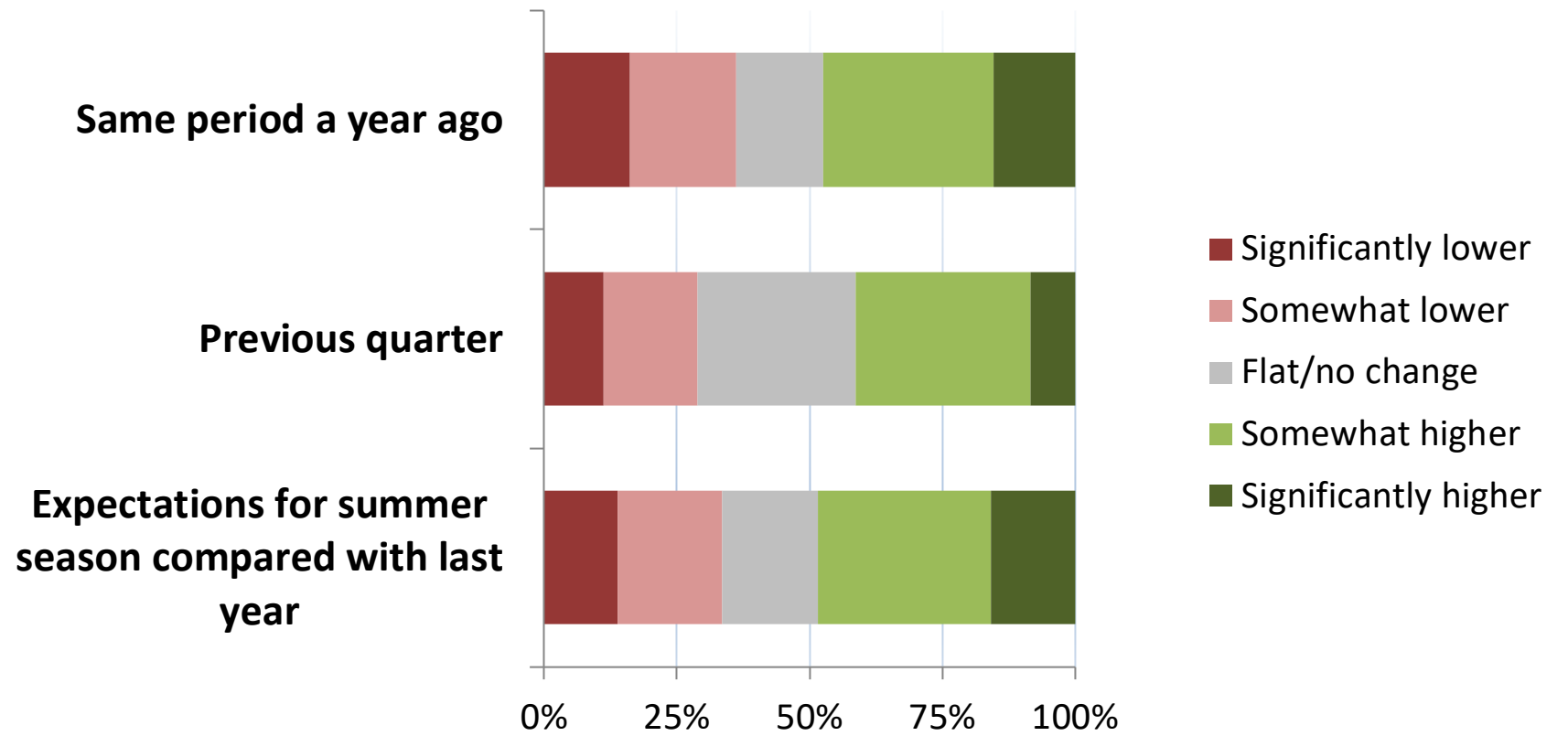
# RECENT REVENUE TRENDS

Recent revenue trends are modestly net-positive

But notable improvement over sentiment in February

## Recent sales

Please describe your firm's revenue trends over the last 3 months compared with ...

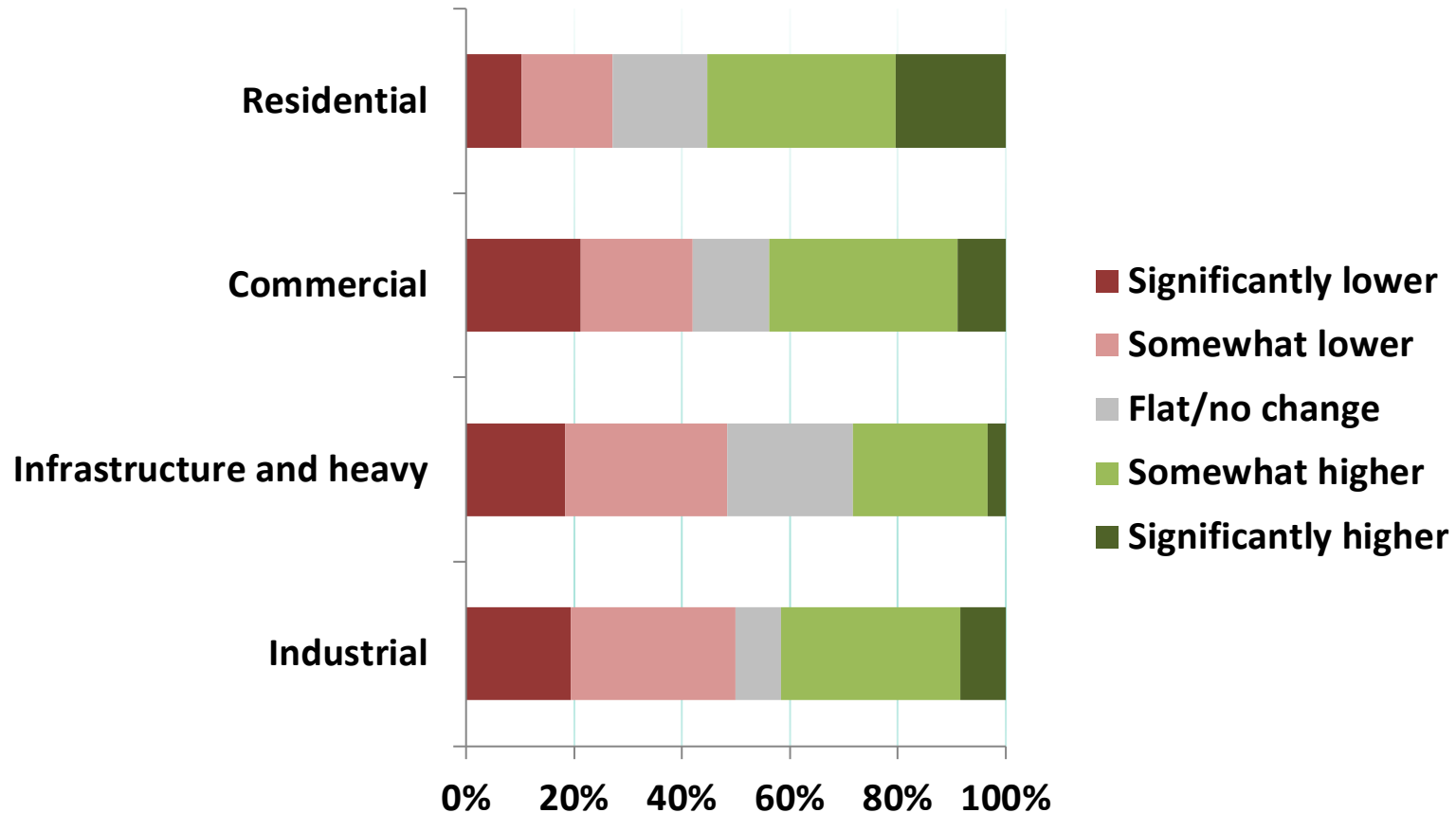




**UNPACKING REVENUE TRENDS**

# REVENUE TRENDS BY CONSTRUCTION SECTOR

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



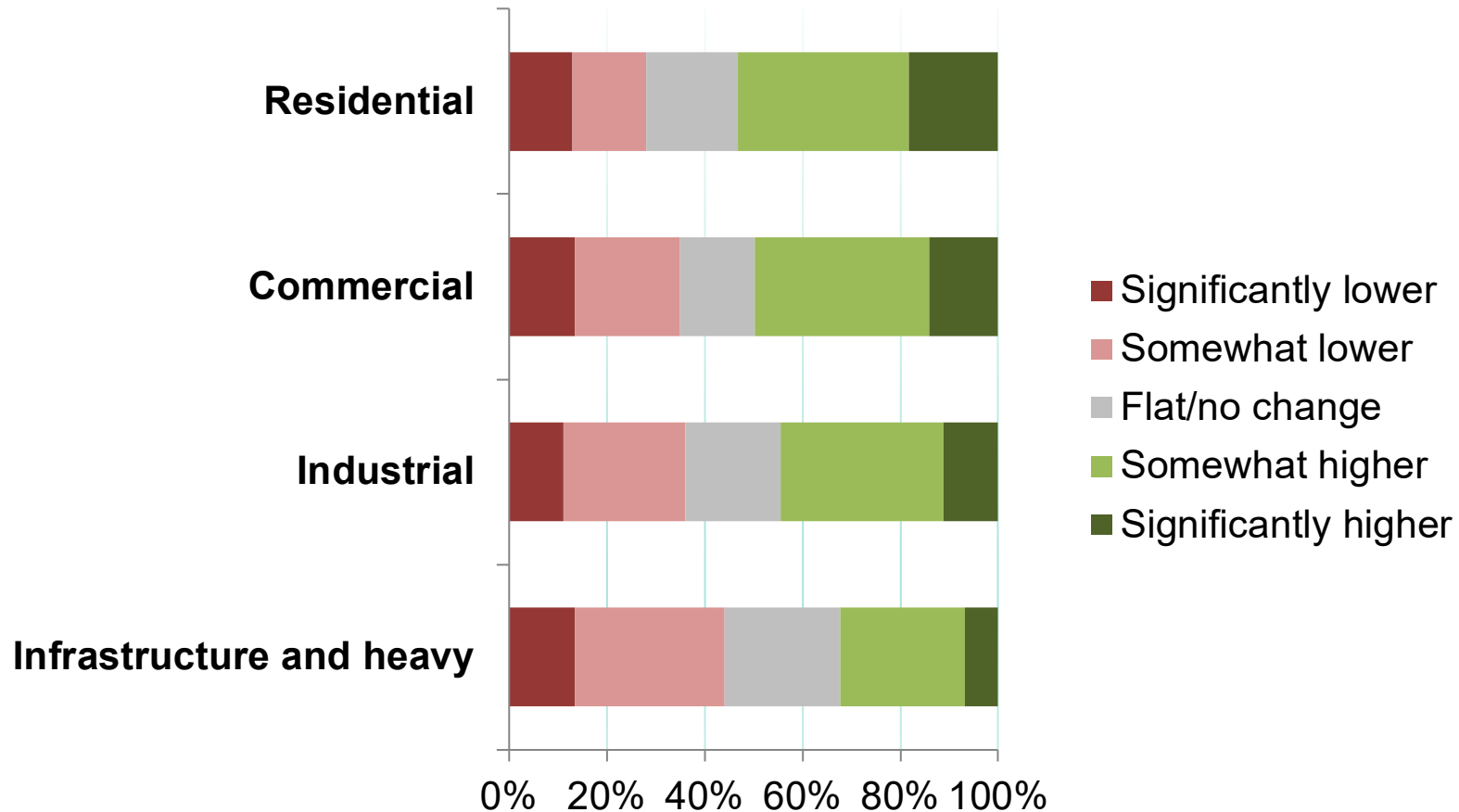
Residential sector remains the leader among subsectors (also a big factor in overall results)

Y-o-y revenue in other sectors = neutral or negative, BUT improved over February results



# SECTORAL TRENDS, CONT. – SUMMER EXPECTATIONS

## Revenue expectation for next six months compared with last year

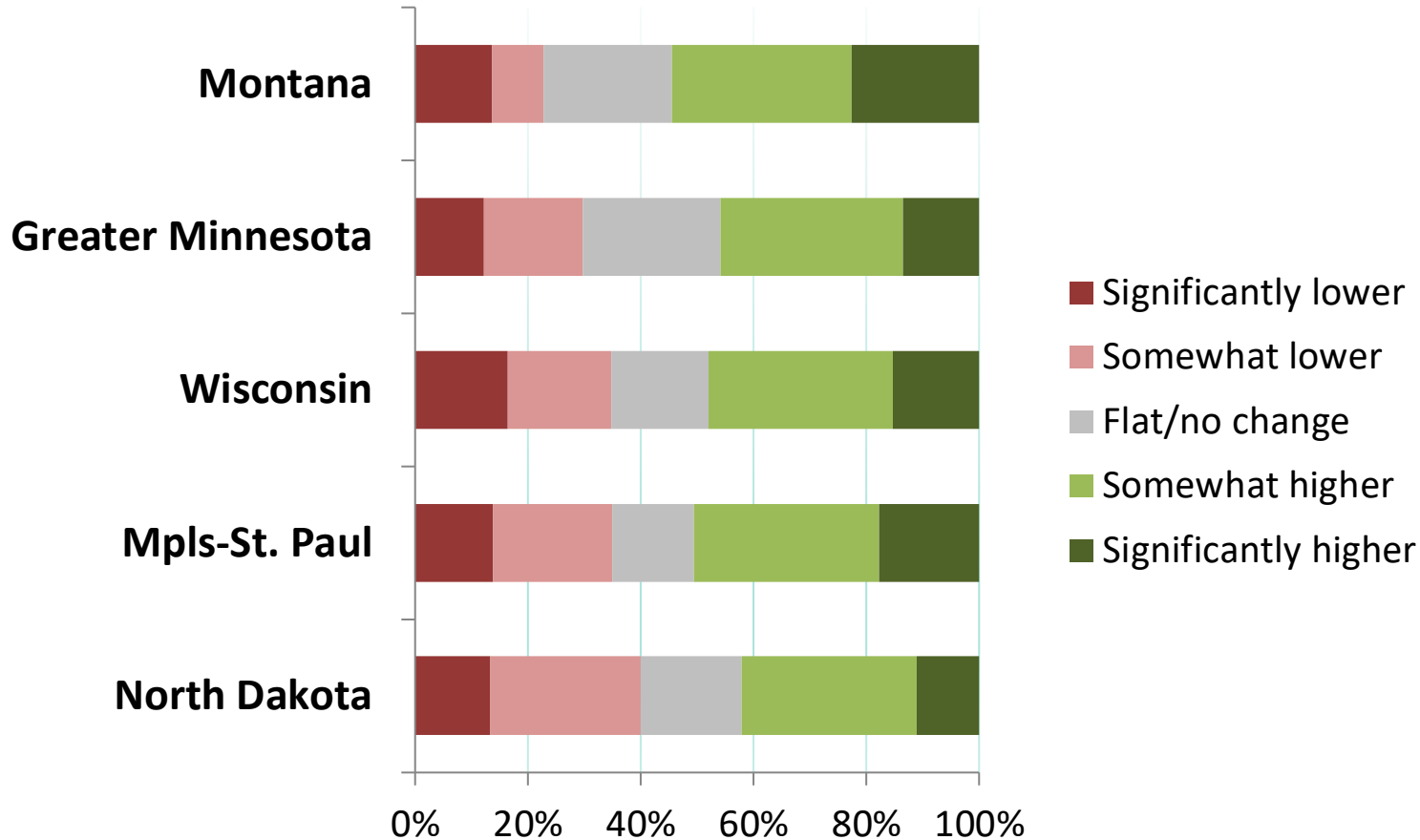


**Sectoral expectations for next 6 months improved across the board, though infrastructure still net-negative**



# REVENUE TRENDS BY STATE

## Revenue expectations for next six months compared with last year



### 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



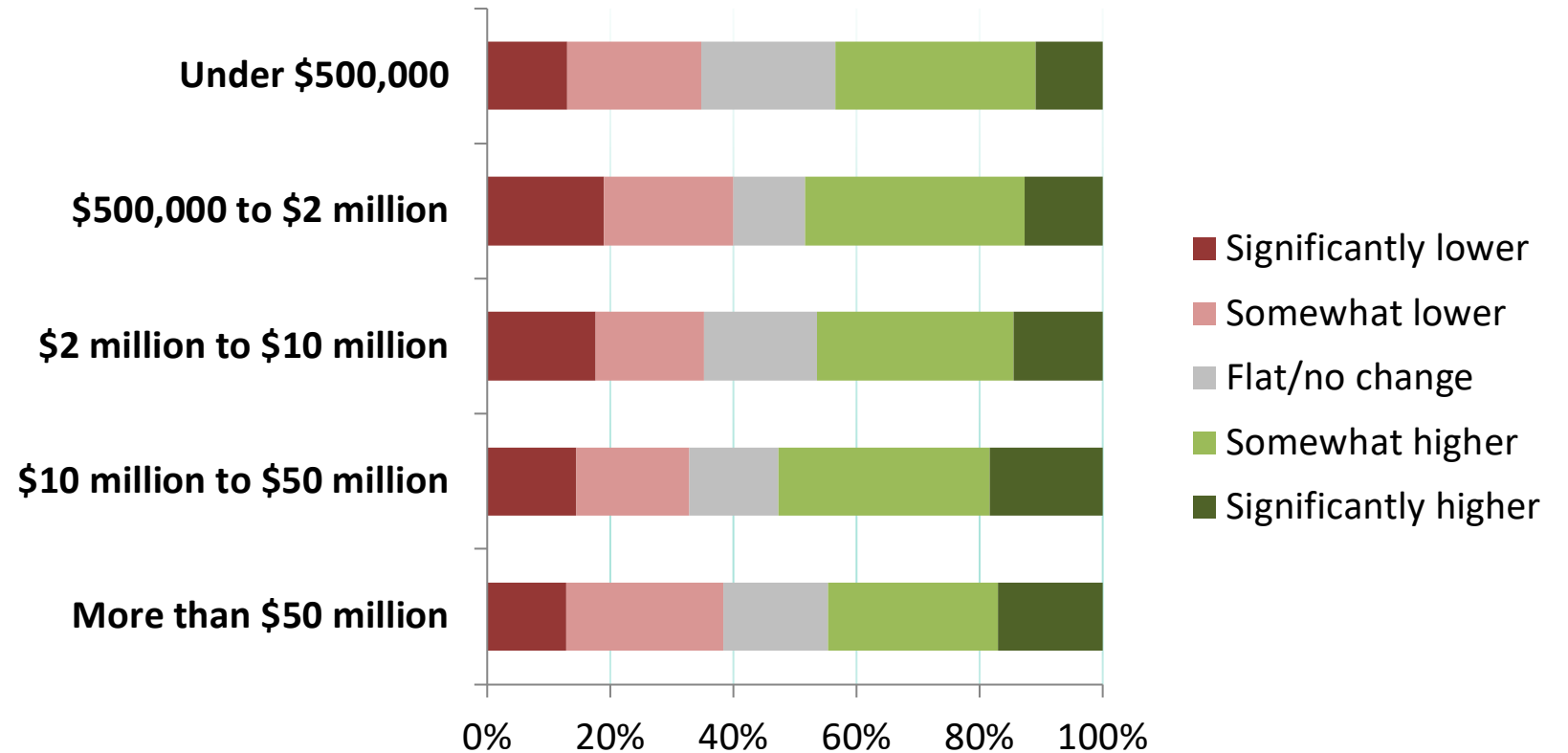
# REVENUE TRENDS BY FIRM SIZE

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

Likely factor: high housing response

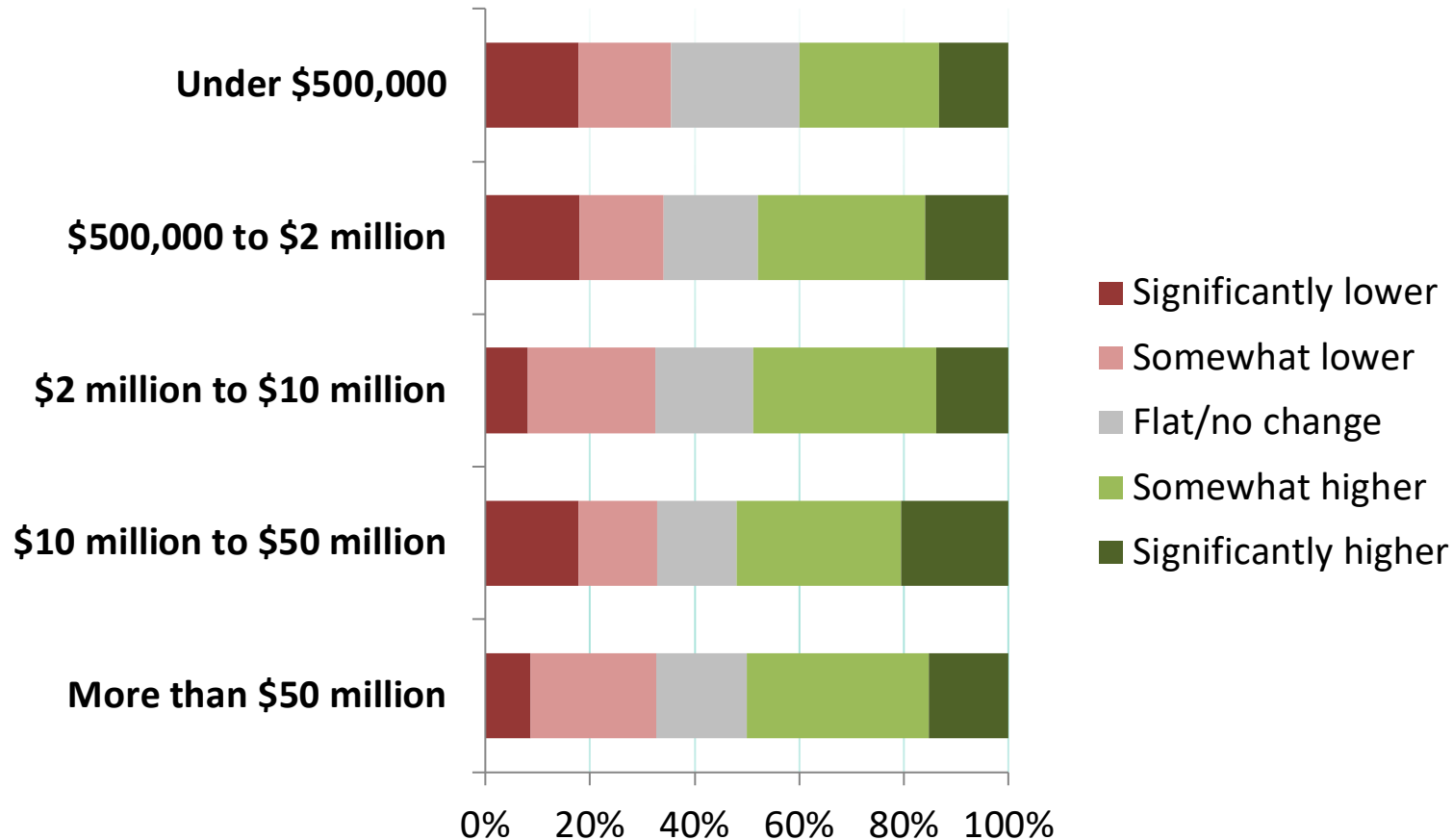
- Residential = more small firms
- Sector doing well

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



# REVENUE TRENDS BY FIRM SIZE, CONT.

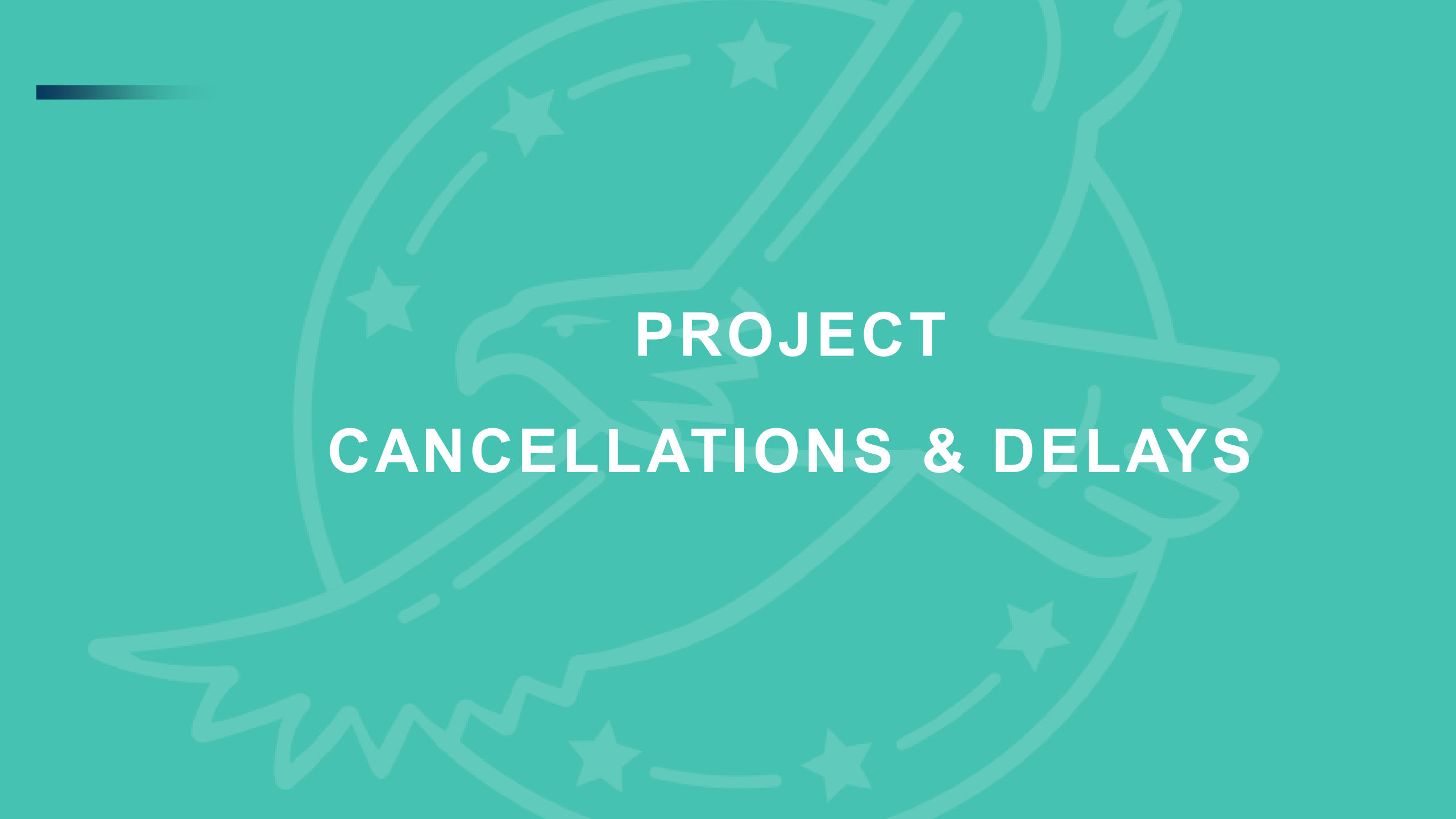
## Revenue expectations for summer season compared with last year



**Very, very little difference in future expectations by firm size**







**PROJECT  
CANCELLATIONS & DELAYS**

# CANCELLATIONS & DELAYS

## Cancellations:

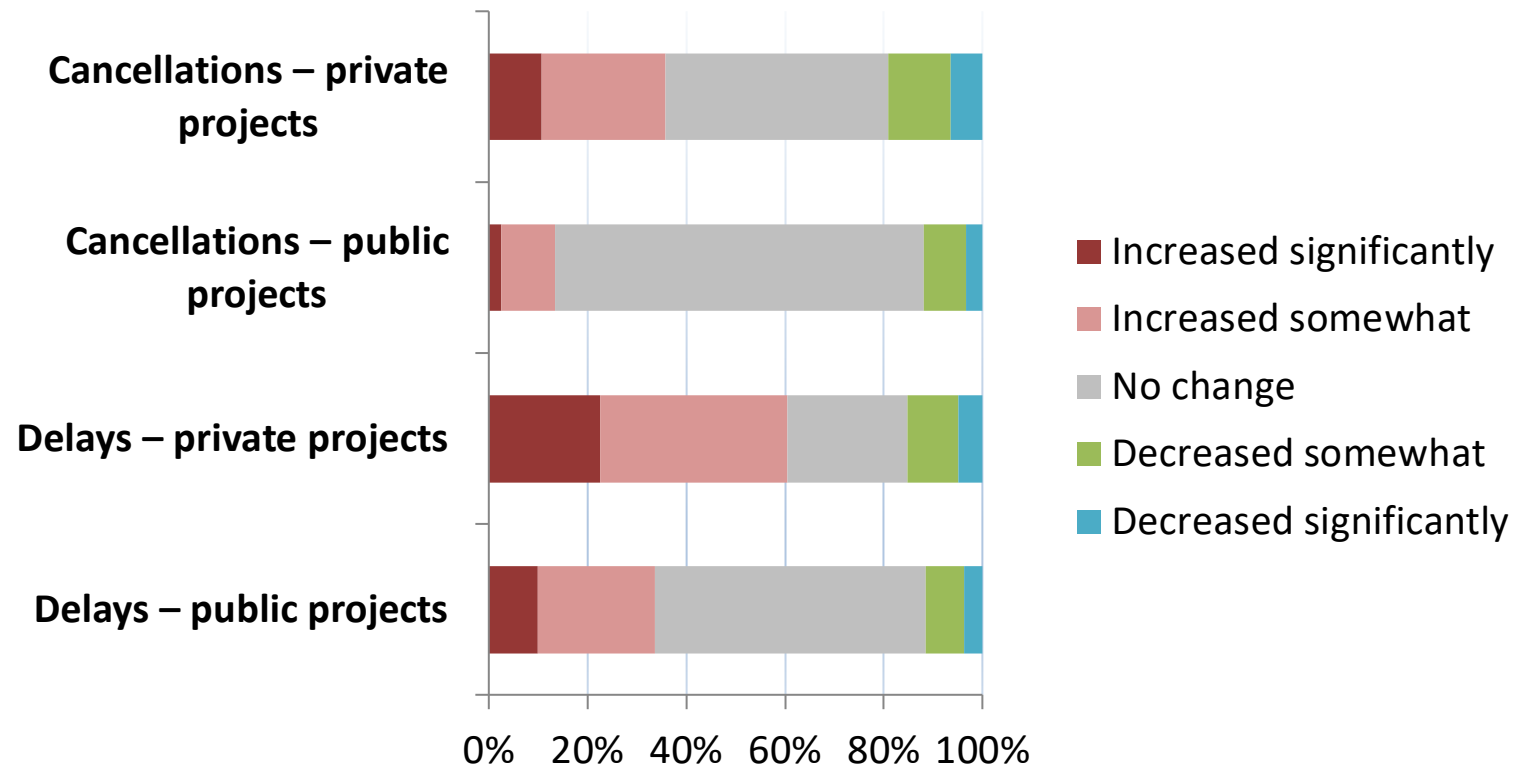
- Private projects = uptick from Feb.
- Public projects = continue to shrink

Delays rose, esp. for private projects

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

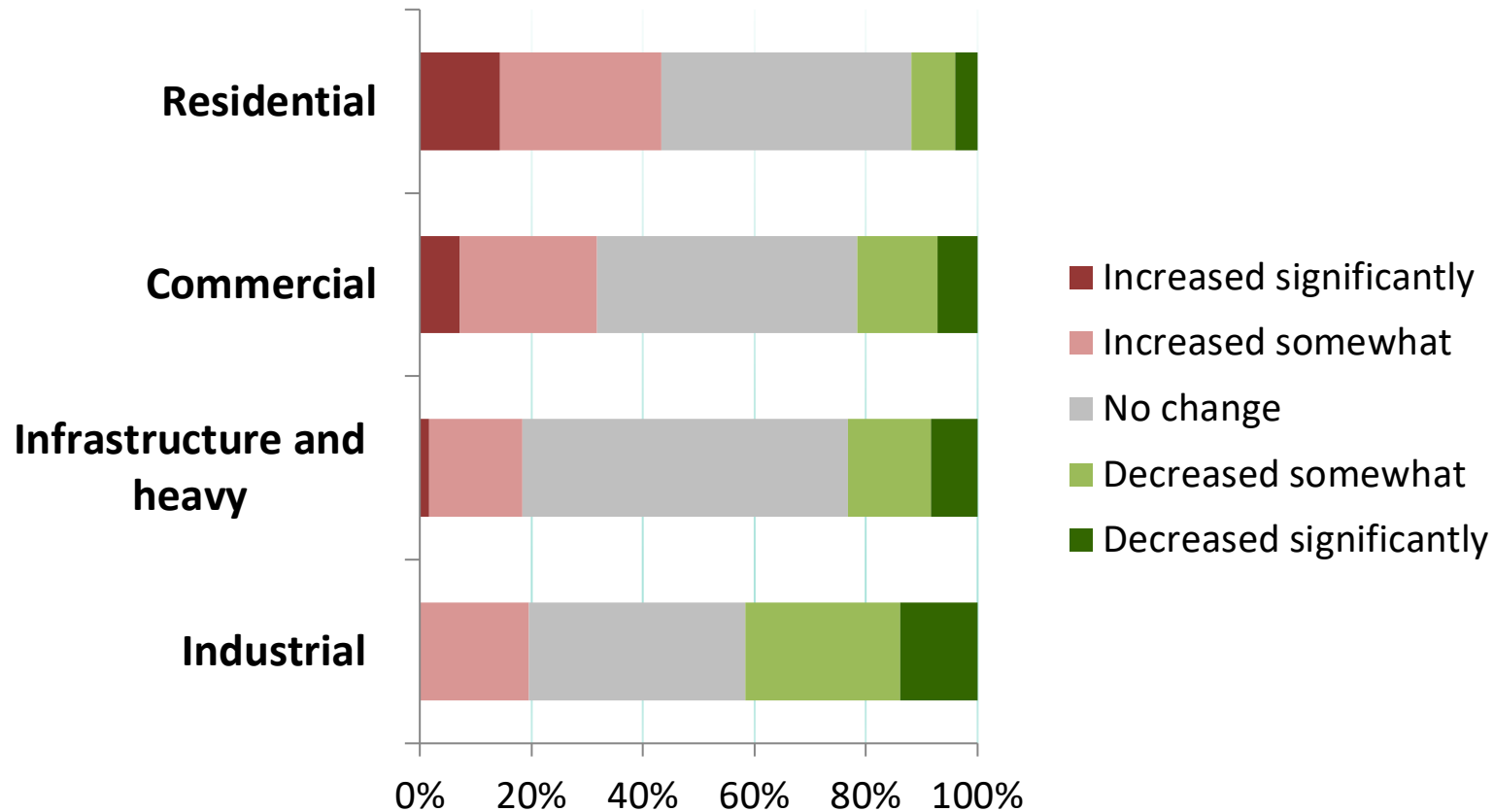
## Project cancellations & delays

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



# PROJECT CANCELLATIONS: BY SECTOR

## Private project cancellations compared with February levels



**Cancellations ticking up, especially in residential**

**Consumers likely less tolerant of delays and cost increases**

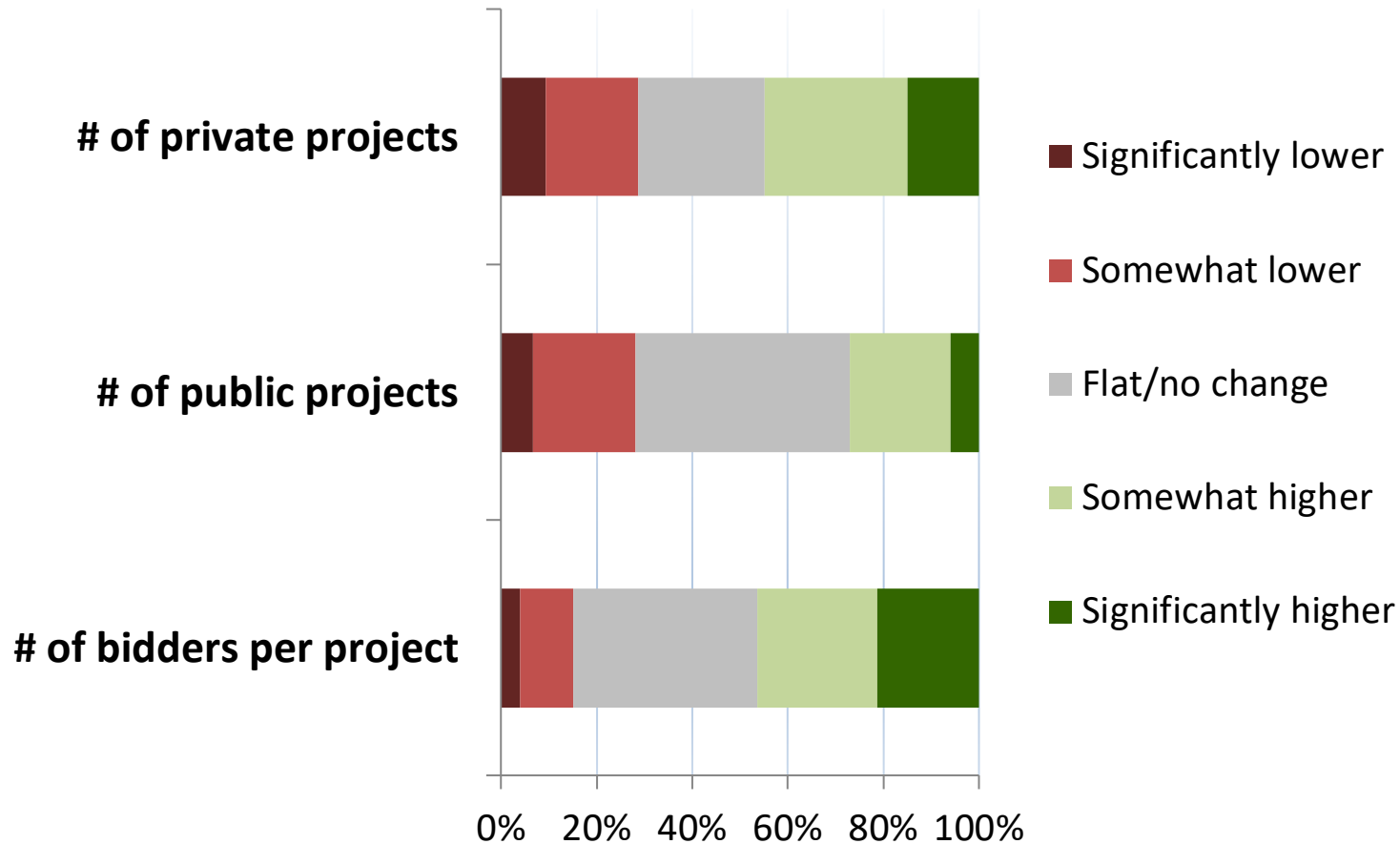




**FUTURE PIPELINE:  
REQUESTS FOR PROPOSALS**

# FUTURE ACTIVITY: REQUEST FOR PROPOSALS

## Projects out for bid compared with February levels



Pipeline of future projects:

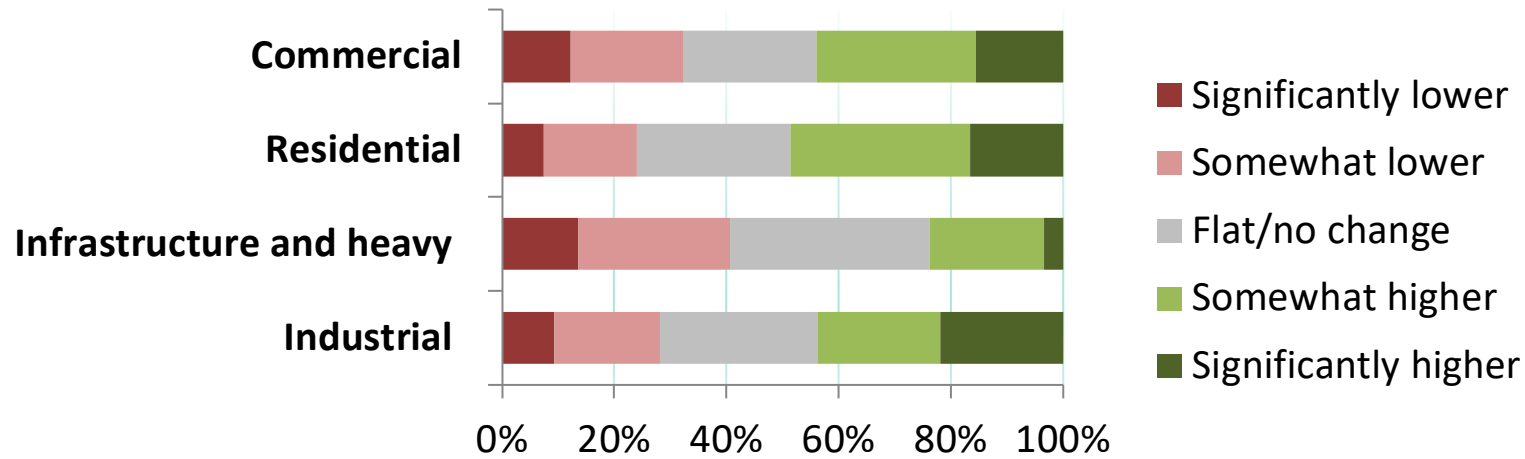
RFP levels net-positive for private projects

Pipeline for new public projects appears to be slowing some



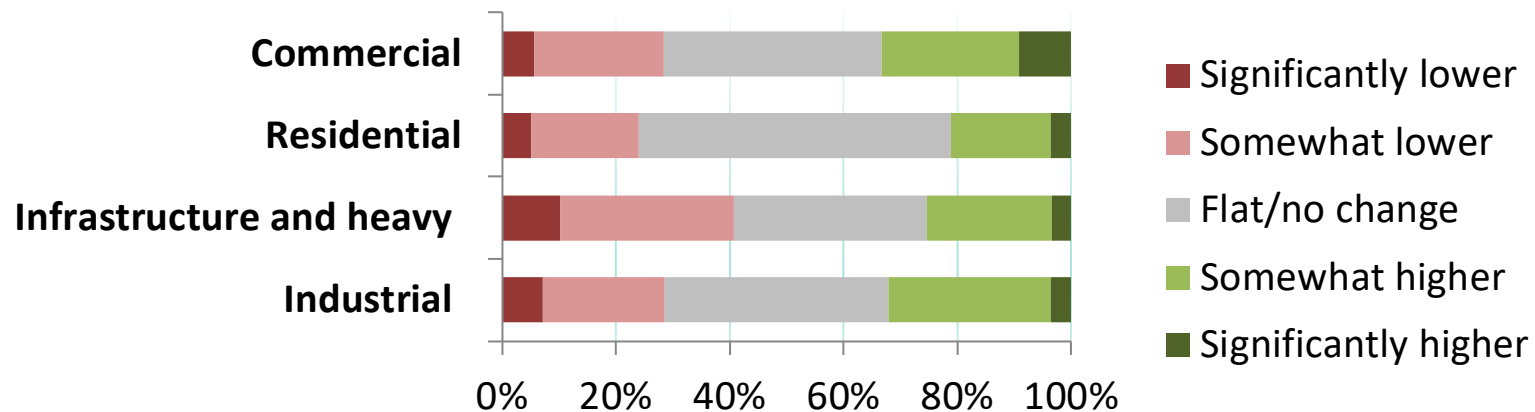
# REQUEST FOR PROPOSALS – BY SECTOR

## RFPs – Private projects



Every sector seeing growth in private projects out for bid, save for infrastructure

## RFPs – Public projects



Public project RFPs mostly neutral; infrastructure sector less optimistic here as well





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**HALF FULL?**

**OR**

**HALF EMPTY?**

**HEALTHY DEMAND, BUT...**



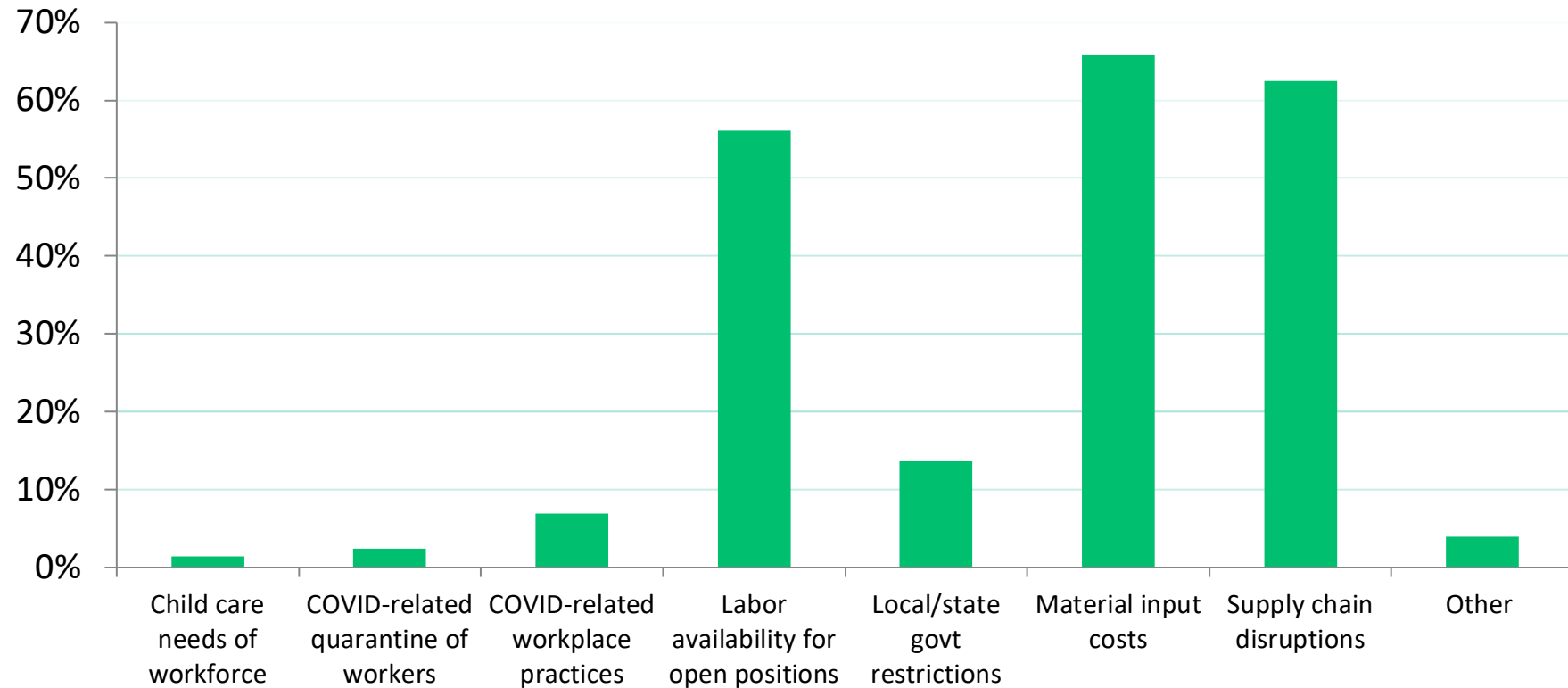
# OPERATIONAL CHALLENGES

## Challenge trifecta:

- Labor availability
- Material cost increases
- Supply chain problems

## Challenges

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

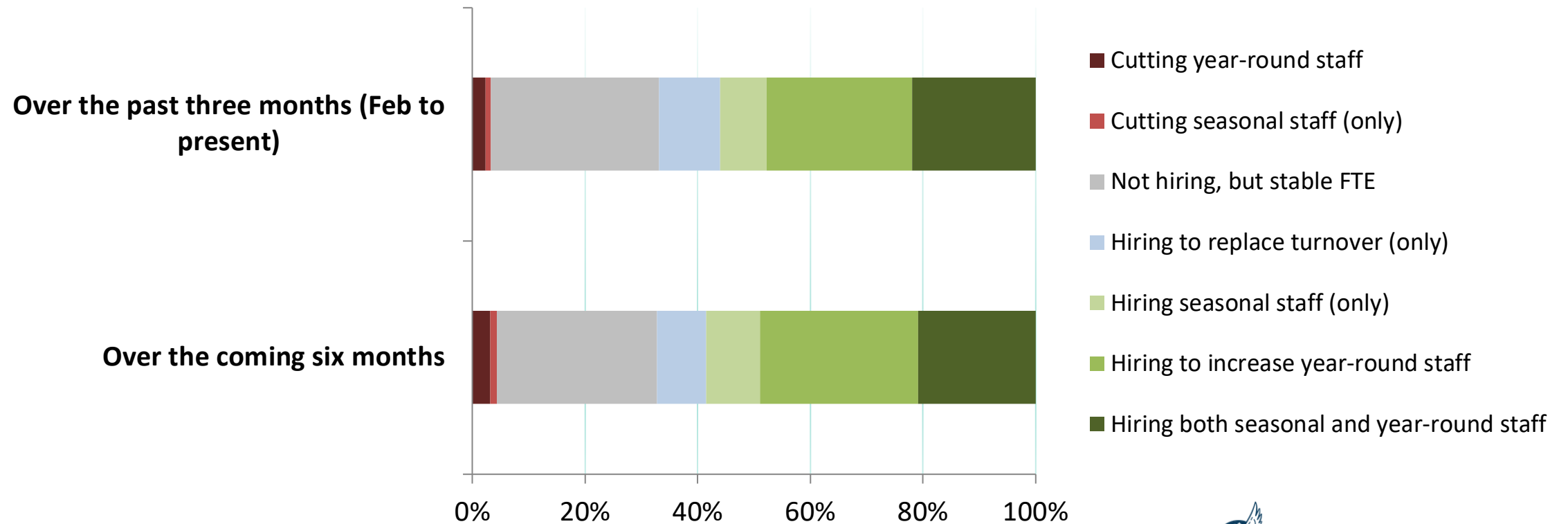


# LABOR FORCE DEMAND: THE GOOD NEWS

**STRONG** hiring activity, both recently and expected over summer

## Workforce:

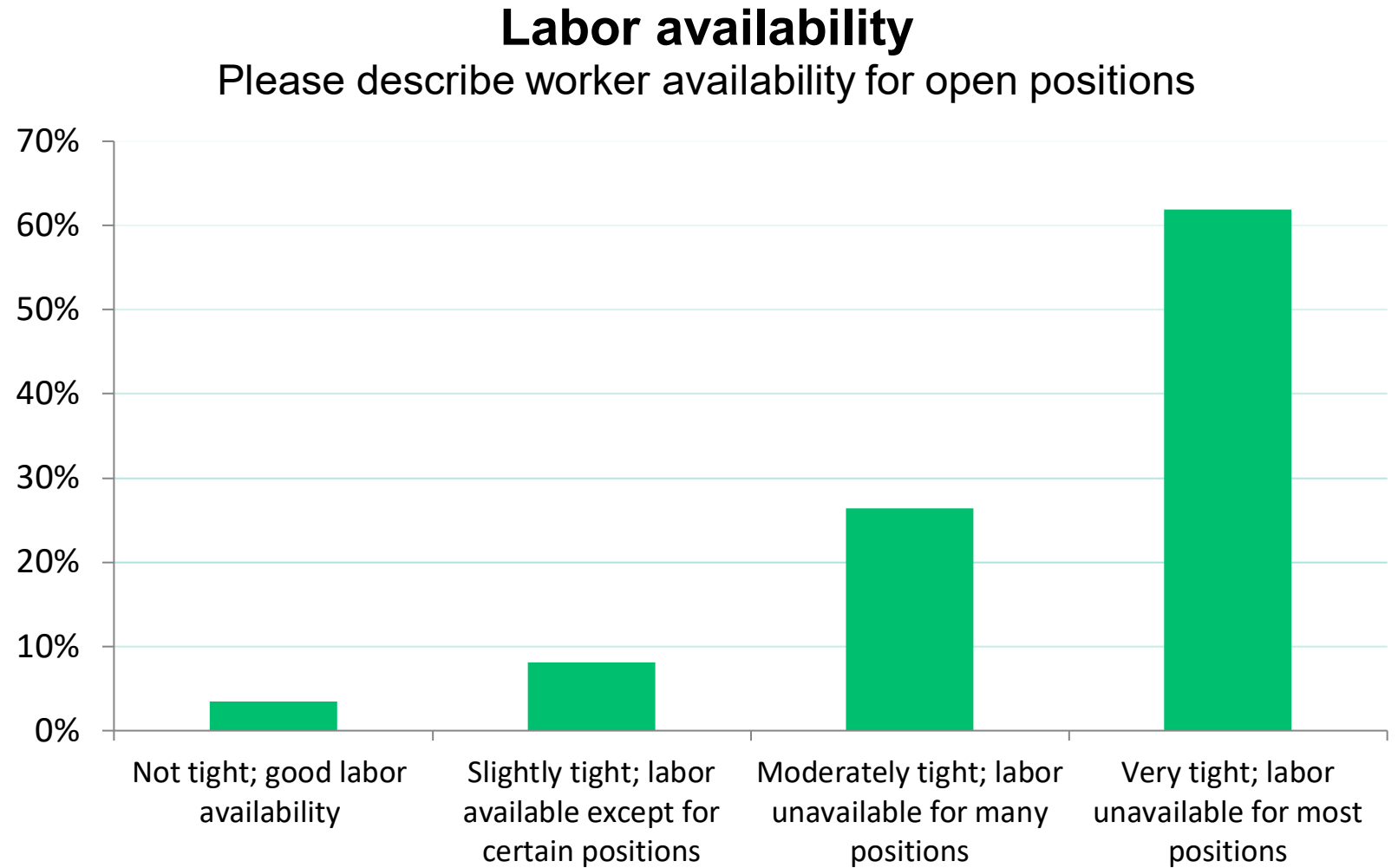
Please describe staffing/hiring demand at your firm



# LABOR AVAILABILITY: THE LESS-GOOD NEWS

From Feb to May:  
Share of firms saying:

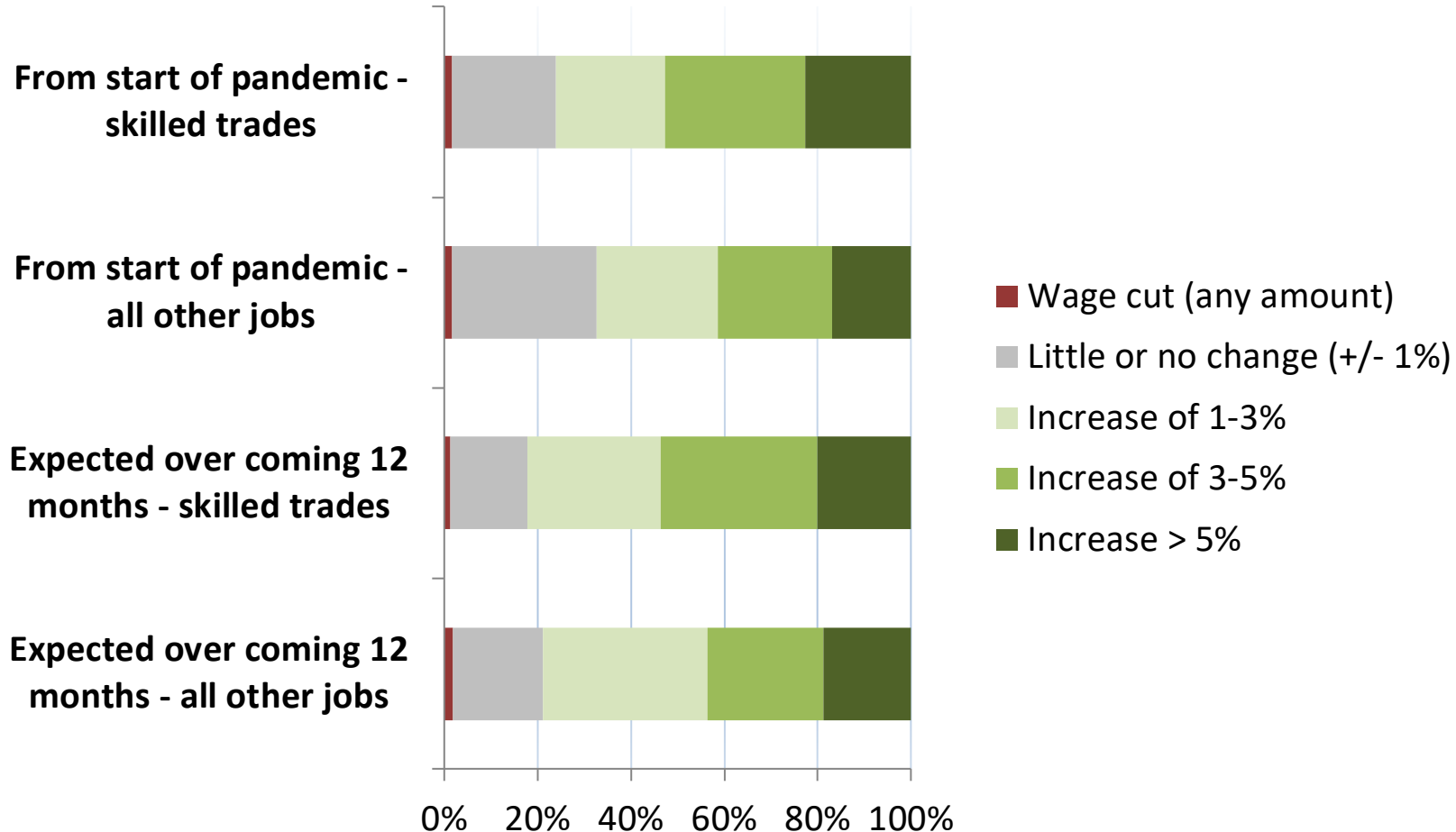
- “very tight” rose from 35% to 62%
- “moderately tight” rose from 22% to 27%



# WAGES ARE RESPONDING

## Wages

Please describe average wage pressure



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



# MATERIAL COSTS

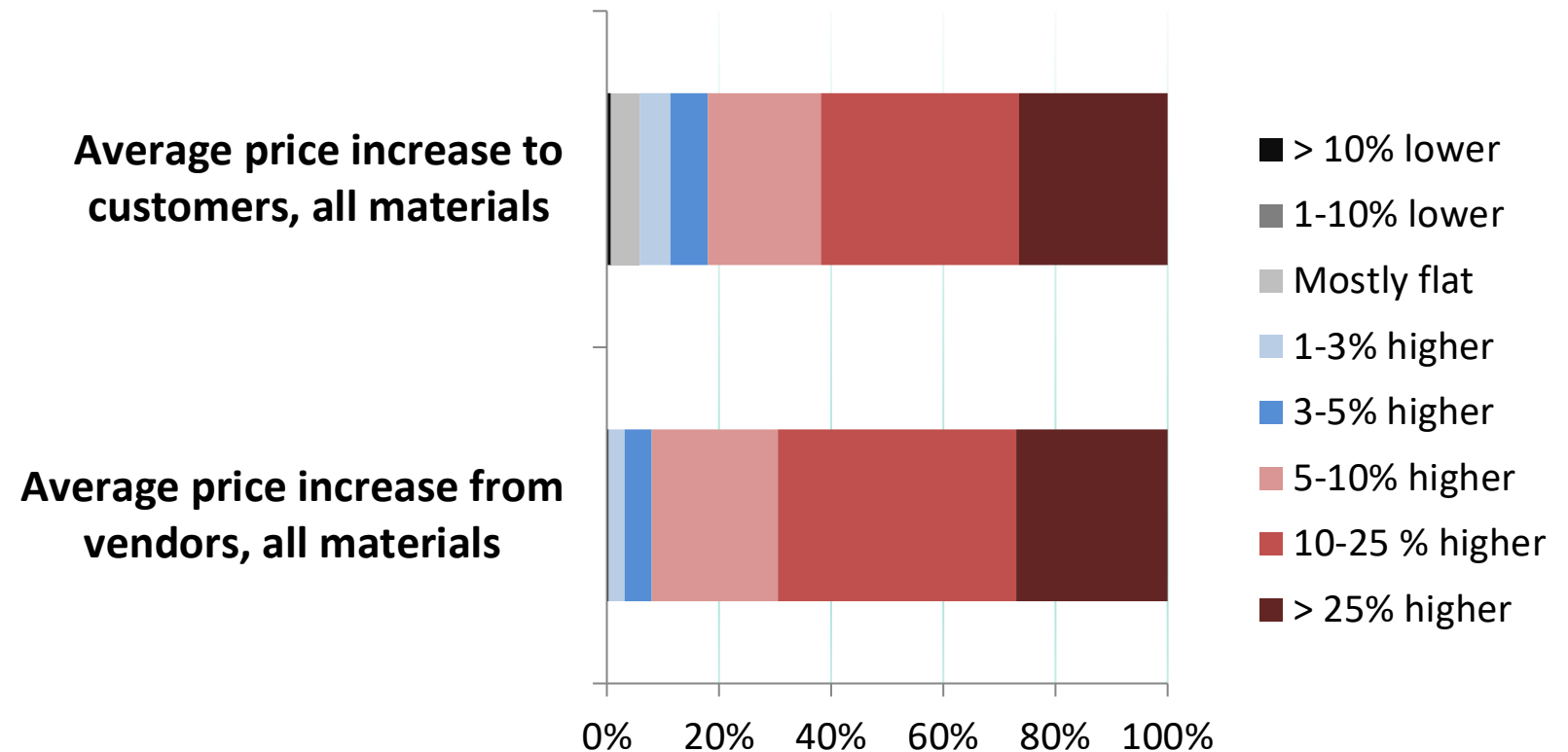
## Vendor prices:

- 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

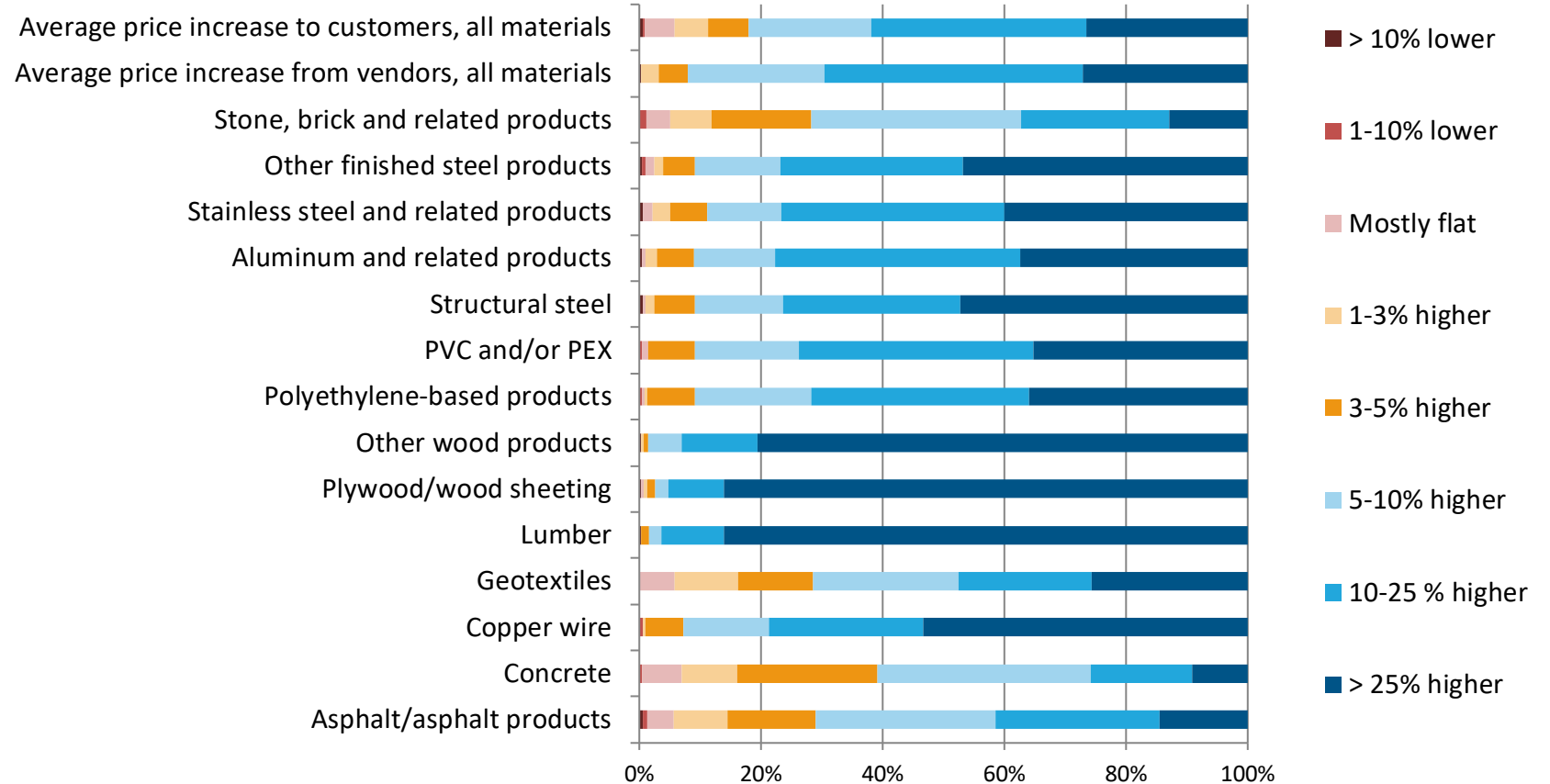


# PRICES, CONT.

Among major product groups, virtually everything seeing steep increases

## Prices

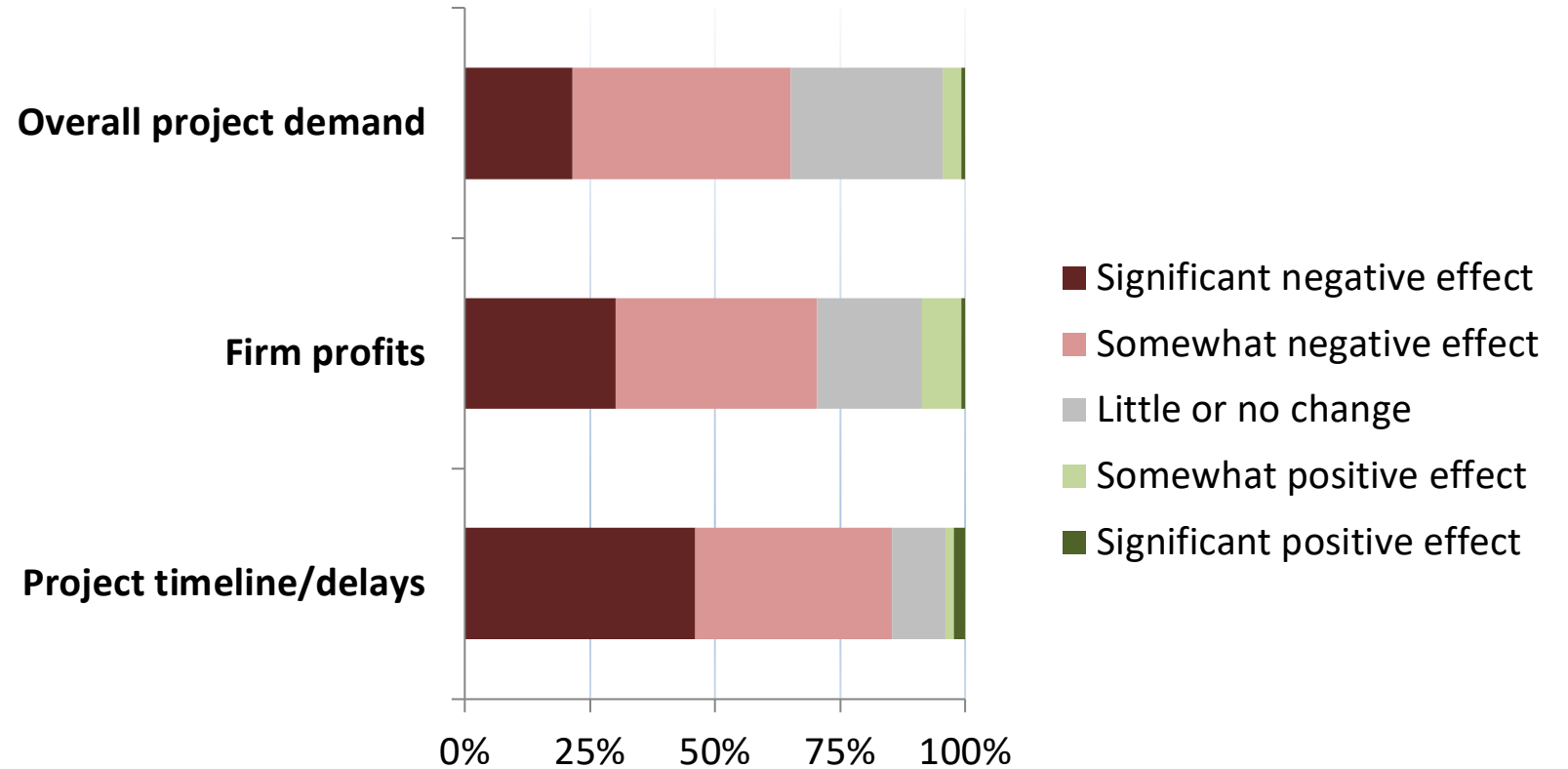
Please estimate price changes over the last three months for certain inputs/materials that your business uses regularly:



# MATERIAL COSTS, CONT.

## Effects of rising material costs

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



Dampening demand

Increasing delays

Hurting profits





## SURVEY WRAP-UP

- 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)**





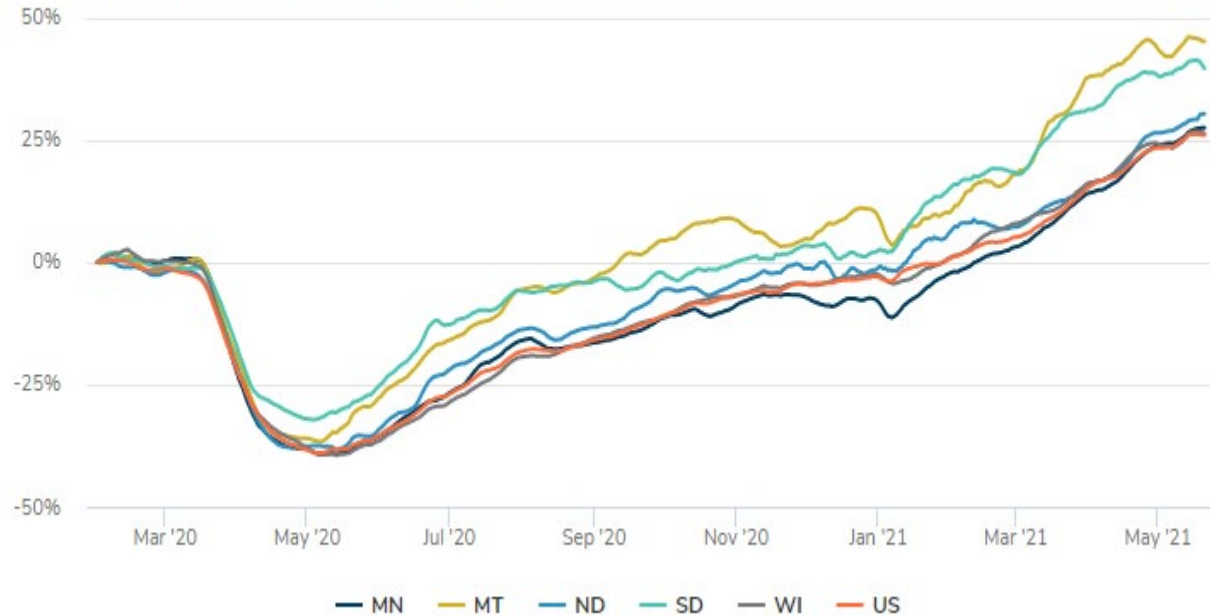
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## OTHER RESOURCES

### COVID-19 and the Ninth District economy: A dashboard

#### Change in online job postings

Relative to Feb 1st, 2020, 7-day moving average SA

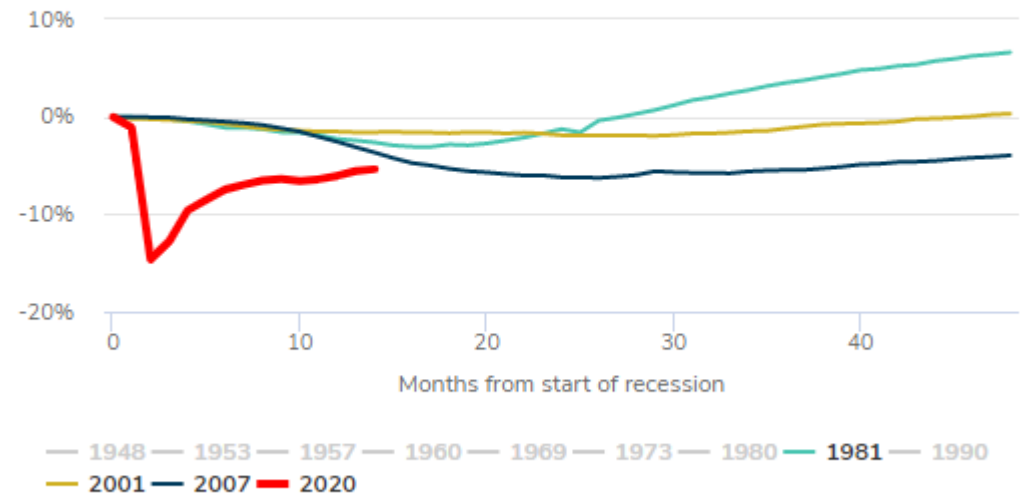


Source: Indeed

### The Recession in Perspective

#### Change in employment by industry

##### Total nonfarm



Source: Bureau of Labor Statistics

[www.minneapolisfed.org](http://www.minneapolisfed.org)



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**THANK YOU!**

**QUESTIONS?**

**SUBMIT QUESTIONS VIA CHAT BOX**

**TWITTER: @RONWIRTZ**

**@MINNEAPOLISFED**

**CONNECT VIA LINKEDIN**

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