CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

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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.
THANK YOU TO PARTNERS (AND RESPONDENTS!)

- Construction/trade organizations across the Ninth District (and every District state) help get survey to their member firms
- Largest construction-focused survey among the 12 Federal Reserve District Banks
- **THANK YOU** – survey provides the Minneapolis Fed, our partners and your members with tremendous insights
CONSTRUCTION SURVEY

- Conducted: March 28 to April 4, 2022
- Total responses: 255, mostly from Twin Cities/Minnesota
- Shifted to bi-annual survey, so there is a longer window from previous survey
- Results are a snapshot: Not a scientifically sampled survey
  - Nonresidential/commercial: 43%
  - Residential: 28%
  - Infrastructure/heavy: 17%
  - Industrial: 11%
- Please interpret results carefully
SURVEY TAKE-AWAYS

- Revenue trends remain positive overall, but signs of caution and slowing
- Subsector activity also positive, but less so; industrial seeing best metrics
- Pipeline of new projects holding at modest levels
- Cancellations increasing; delays continue to worsen
- Challenge fatigue: supply chain, labor, high costs
  - Wages also a factor, and now rising interest rates
  - Hard to overstate difficulty of current environment
- In spite of challenges, outlook remains net-positive
RECENT REVENUE TRENDS
Revenue trends still positive, but compressing

Q-o-Q suggests seasonal effects not playing a role

Some Y-o-Y revenue “growth” coming from higher costs

Outlook remains moderately upbeat
Revenue trends, over time

**Survey conducted:**

Oct-20

Feb-21

May-21

Aug-21

Nov-21

Apr-22

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

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

Repeated cross sections

Notable pullback, while remaining net positive

FEDERAL RESERVE BANK OF MINNEAPOLIS
REVENUE TRENDS BY CONSTRUCTION SECTOR

Some slowing on a year-over-year basis across all sectors.

Industrial showing the healthiest Y-o-Y trend.

Industrial = smallest sample, but tend to be large companies.
FUTURE EXPECTATIONS

Short-term revenue outlook is positive, and holding.

Outlook pretty consistent among sub-sectors; industrial quite positive.
PROJECT CANCELLATIONS & DELAYS
PROJECT CANCELLATIONS

Notable uptick in cancellations

Myriad underlying reasons (more on that in a bit)

Survey conducted:

Project cancellations compared with levels from previous survey period

- **Oct-20**: Increased significantly 20%, Increased somewhat 40%, No change 40%
- **Feb-21**: Increased significantly 20%, Increased somewhat 40%, No change 40%
- **May-21**: Increased significantly 20%, Increased somewhat 40%, No change 40%
- **Aug-21**: Increased significantly 20%, Increased somewhat 40%, No change 40%
- **Nov-21**: Increased significantly 20%, Increased somewhat 40%, No change 40%
- **Apr-22**: Increased significantly 20%, Increased somewhat 40%, No change 40%
PROJECT DELAYS

Survey conducted:

Project delays compared with levels from previous survey period

- Oct-20
- Feb-21
- May-21
- Aug-21
- Nov-21
- Apr-22

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

Project delays continue to worsen

Probably more unusual now to not encounter delays during a project
CANCELLATIONS AND DELAYS, BY SECTOR

• Cancellations and delays rose in all sectors
• Residential seeing the worst of both

Project cancellations

- Residential
- Industrial
- Commercial
- Infrastructure & heavy

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

Project delays

- Residential
- Infrastructure & heavy
- Commercial
- Industrial

- Increased significantly
- Increased somewhat
- No change
- Decreased somewhat
- Decreased significantly
FUTURE PIPELINE:
PROJECTS OUT FOR BID
PANDEMIC TREND IN NEW PROJECTS:

- New projects modestly net-positive
- Public projects improving
- Caveat: Spring season typically sees more new projects

Requests for Proposal:

- Private Projects
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

- Public Projects
  - Significantly lower
  - Somewhat lower
  - Flat/no change
  - Somewhat higher
  - Significantly higher

Survey conducted:

- Oct-20
- Feb-21
- May-21
- Aug-21
- Nov-21
- Apr-22

0% 25% 50% 75% 100%
REQUEST FOR PROPOSAL (RFP) – BY SECTOR

- Industrial sector seeing notable improvement (among small sample)
- RFP strength in industrial & infrastructure possibly underrepresents overall health in construction sector

**Private project RFPs compared with November levels**

- Commercial
- Industrial
- Residential
- Infrastructure & heavy

**Public project RFPs compared with November levels**

- Infrastructure & heavy
- Commercial
- Industrial
- Residential
CHALLENGES
Hard to overstate the challenges posed by rising costs, lack of labor and supply chain problems.

Pick TWO: Greatest challenge to current operating capacity and productivity.
WHOLESALE AND RETAIL PRICES RISING MORE STEEPLY IN CONSTRUCTION THAN VIRTUALLY ANY SECTOR

**Wholesale prices from vendors compared with a year ago**

- Lower (any amount)
- Mostly flat (+/-1%)
- 1-5%
- 5-10%
- 10-25%
- >25%
- Don’t know

**Retail prices to customers compared with a year ago**

- Lower (any amount)
- Mostly flat (+/-1%)
- 1-5%
- 5-10%
- 10-25%
- >25%
- Don’t know
Three of four respondents say they have moderate or worse difficulty getting critical supplies.

All sectors affected.

Describe your firm's ability to buy and receive critical supplies for your operations in a timely fashion.
Slight improvement in labor market perceptions

But labor conditions still very tight

February 2021 survey: share saying labor is ‘very tight’ = 33%

Tight across all sectors
Dual signals

- Strong labor demand a sign of underlying project demand
- But likely also driven by persistent inability to find labor for open positions
ADDITIONAL CHALLENGE: RISING WAGES

Wages seeing strong increases

Notable: Firms are projecting even higher future increases

Average wage increases at your firm

- Over the past year for skilled trades
- Expected over the coming 12 months for skilled trades

<table>
<thead>
<tr>
<th>Wage Change</th>
<th>Past Year</th>
<th>Expected 12 Months</th>
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<tbody>
<tr>
<td>Wage cut (any amount)</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Little or no change</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Increase of 1-3%</td>
<td>10%</td>
<td>15%</td>
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<tr>
<td>Increase of 3-5%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Increase &gt; 5%</td>
<td>20%</td>
<td>25%</td>
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</tbody>
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FEDERAL RESERVE BANK of MINNEAPOLIS
Firms’ expectations of future wages accelerating

44 percent expect wages to rise by 5% or more over coming year
Higher prices & supply chain disruptions are:

- Increasing delays
- Hurting profits
- Dampening demand

The “good” news: Very slight improvement over November survey

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

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

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

- Significant negative effect
- Somewhat negative effect
- Little or no change
- Somewhat positive effect
- Significant positive effect
Despite challenges, firms remain optimistic.
SURVEY WRAP-UP

• Revenue trends still positive overall, but compressing
• Increase in project cancellations a concern, but underlying demand still seems positive
• Industrial showing better signs than residential
• Challenging conditions; rinse & repeat
• Starting to see signs of net drag
• BUT: Firms still optimistic overall; resilience continues
UPCOMING REC WEBINARS

- Worker Experience: May 12, 9am
- MN child care sector: May 19, 12noon
- Ag credit: TBD, but likely late May
THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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