

CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

May 6, 2022

Ron Wirtz

Regional Outreach Director



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.





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

RECENT AND FUTURE REVENUE

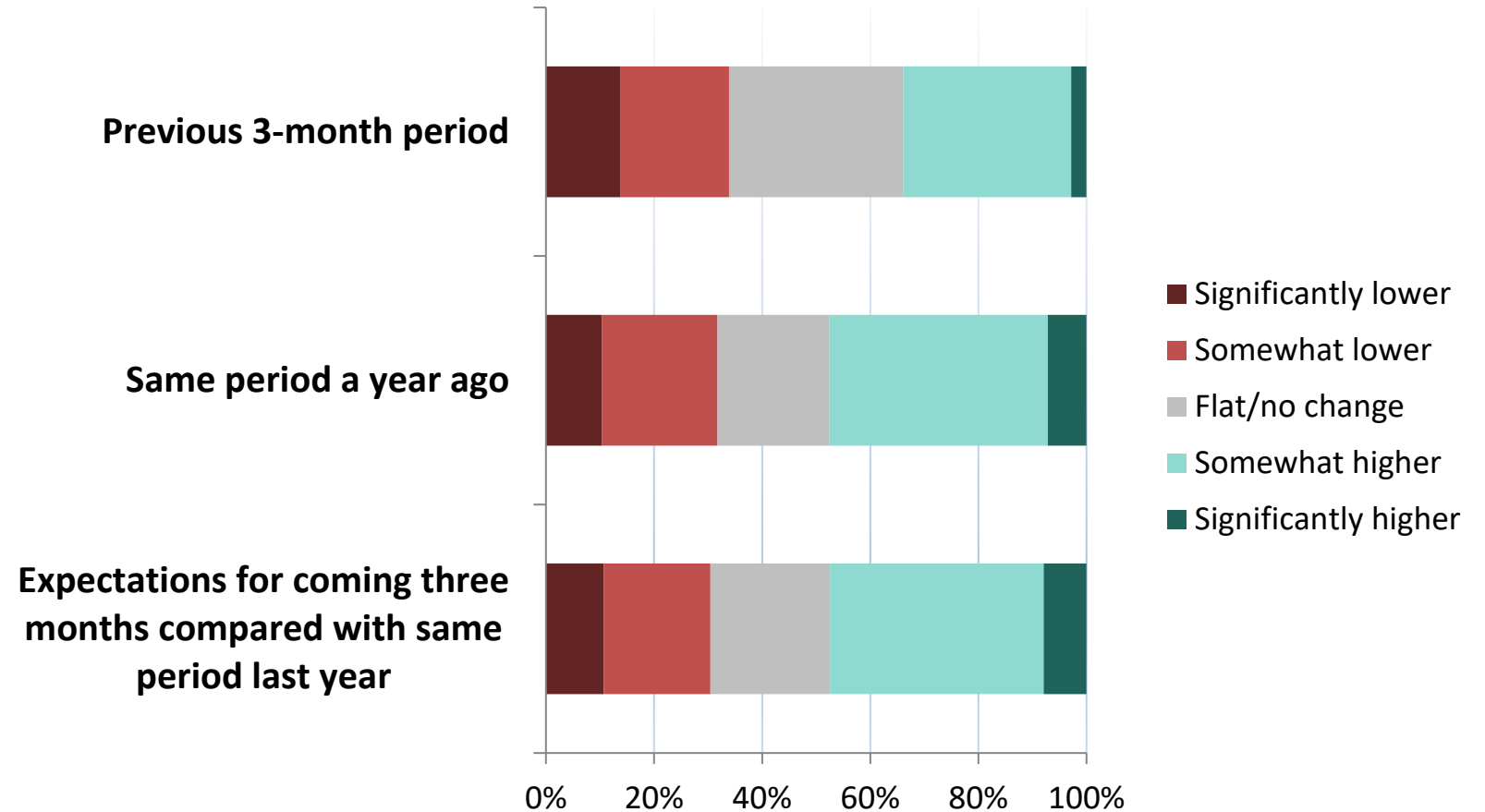
Revenue trends still positive, but compressing

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

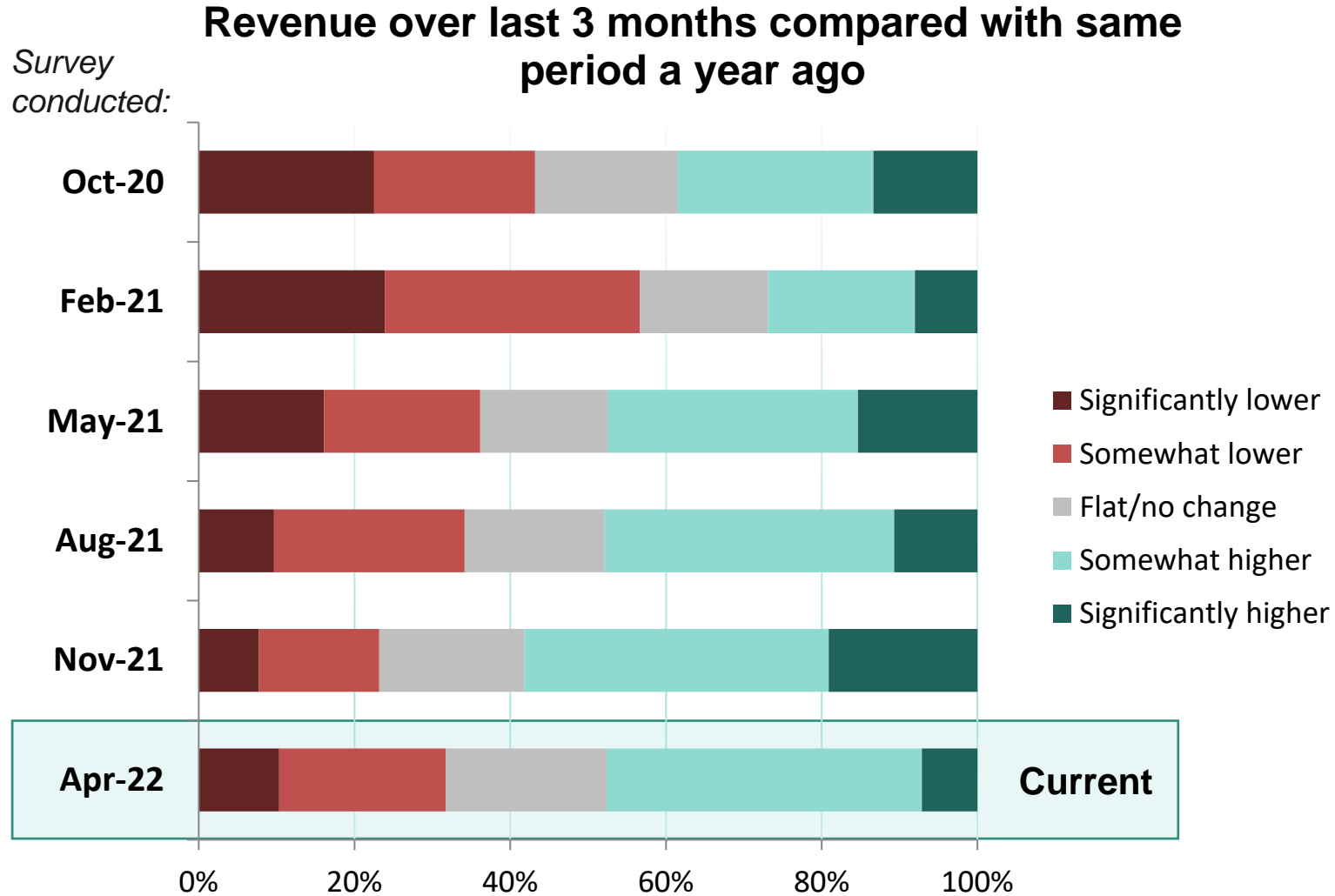
Some Y-o-Y revenue “growth” coming from higher costs

Outlook remains moderately upbeat

Firm revenue over the last 3 months compared with ...



REVENUE TRENDS, OVER TIME



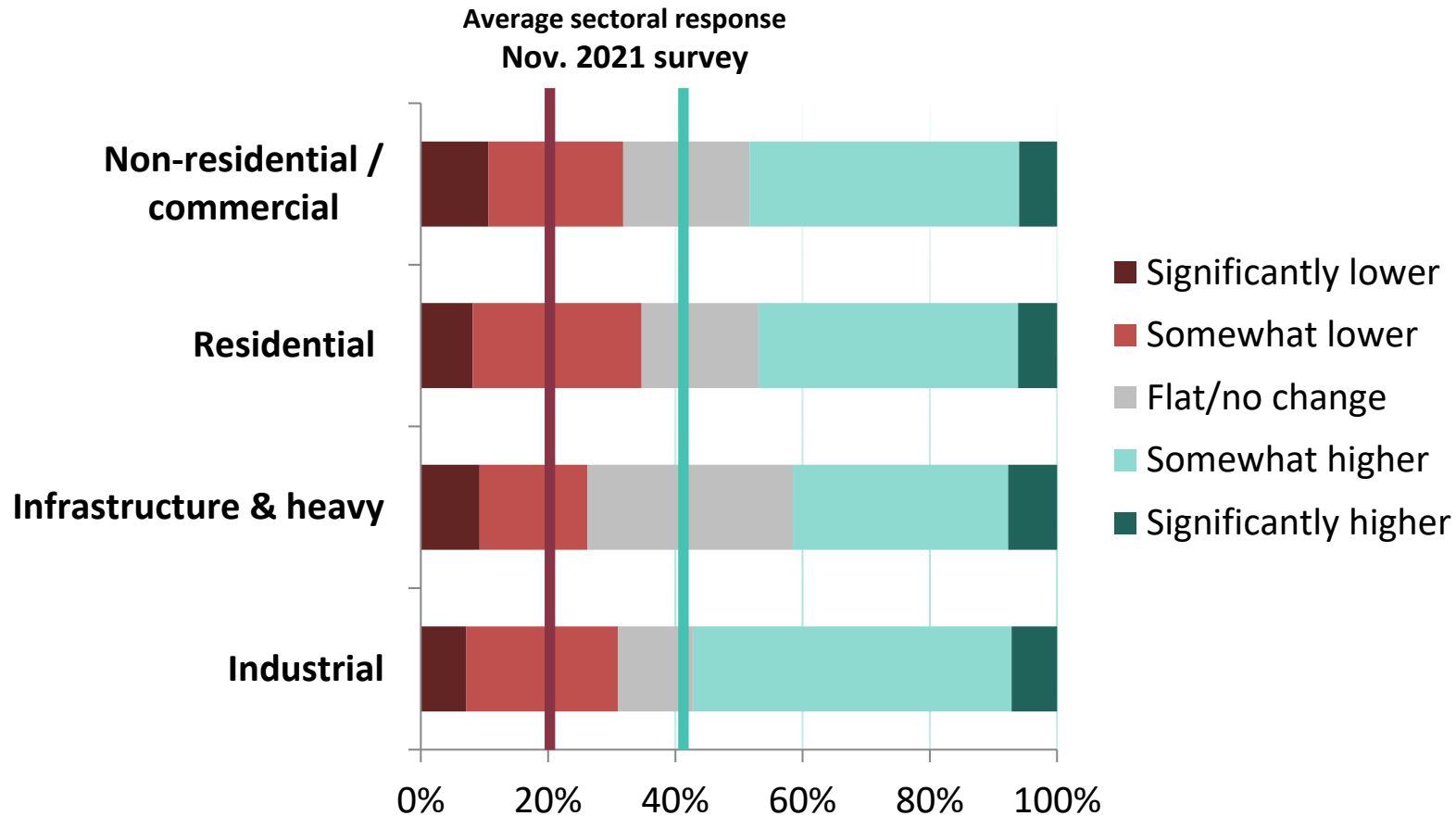
Repeated cross sections

Notable pullback, while remaining net positive



REVENUE TRENDS BY CONSTRUCTION SECTOR

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



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

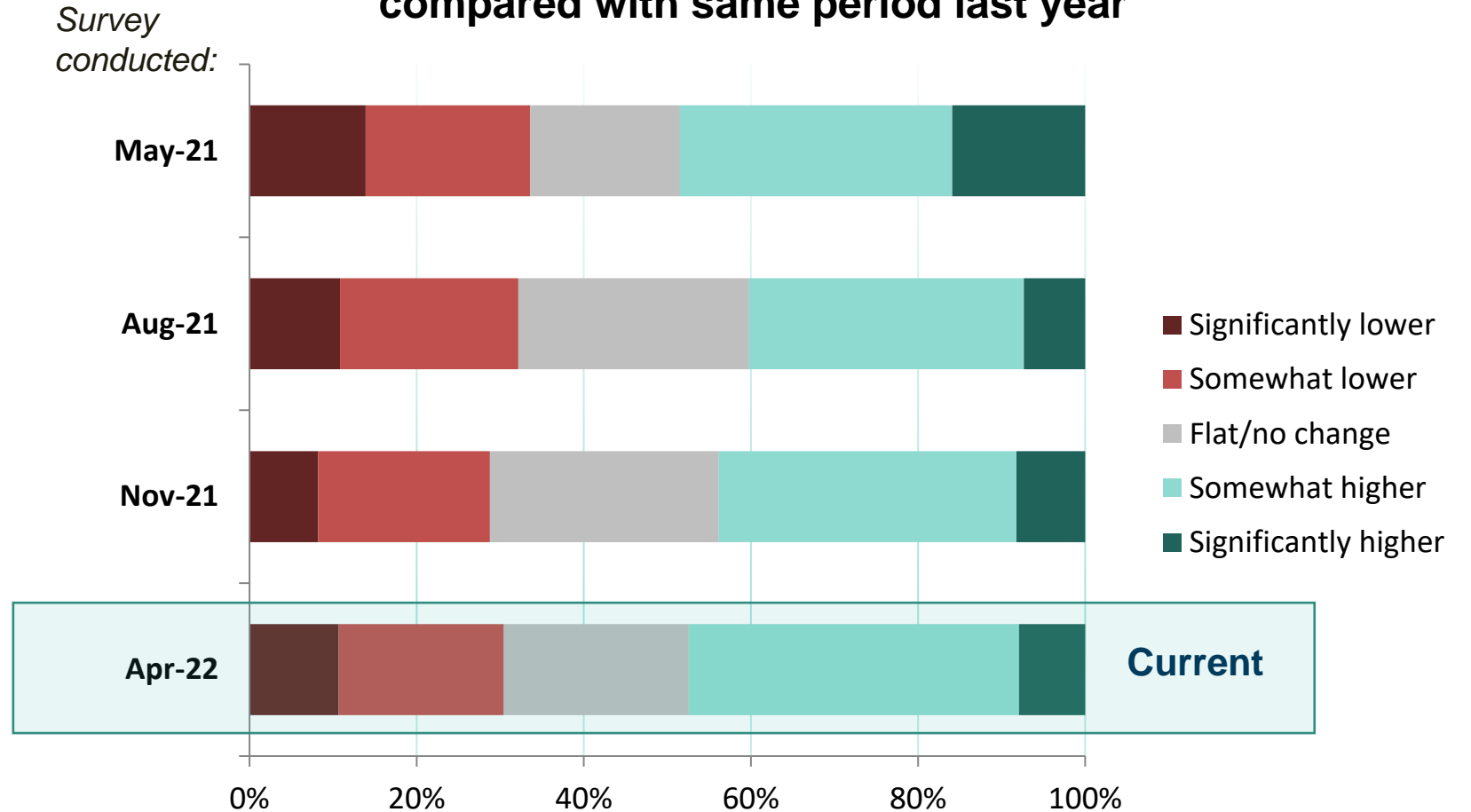



FUTURE EXPECTATIONS

Short-term revenue outlook is positive, and holding

Outlook pretty consistent among sub-sectors; industrial quite positive

Revenue expectations for coming three months compared with same period last year



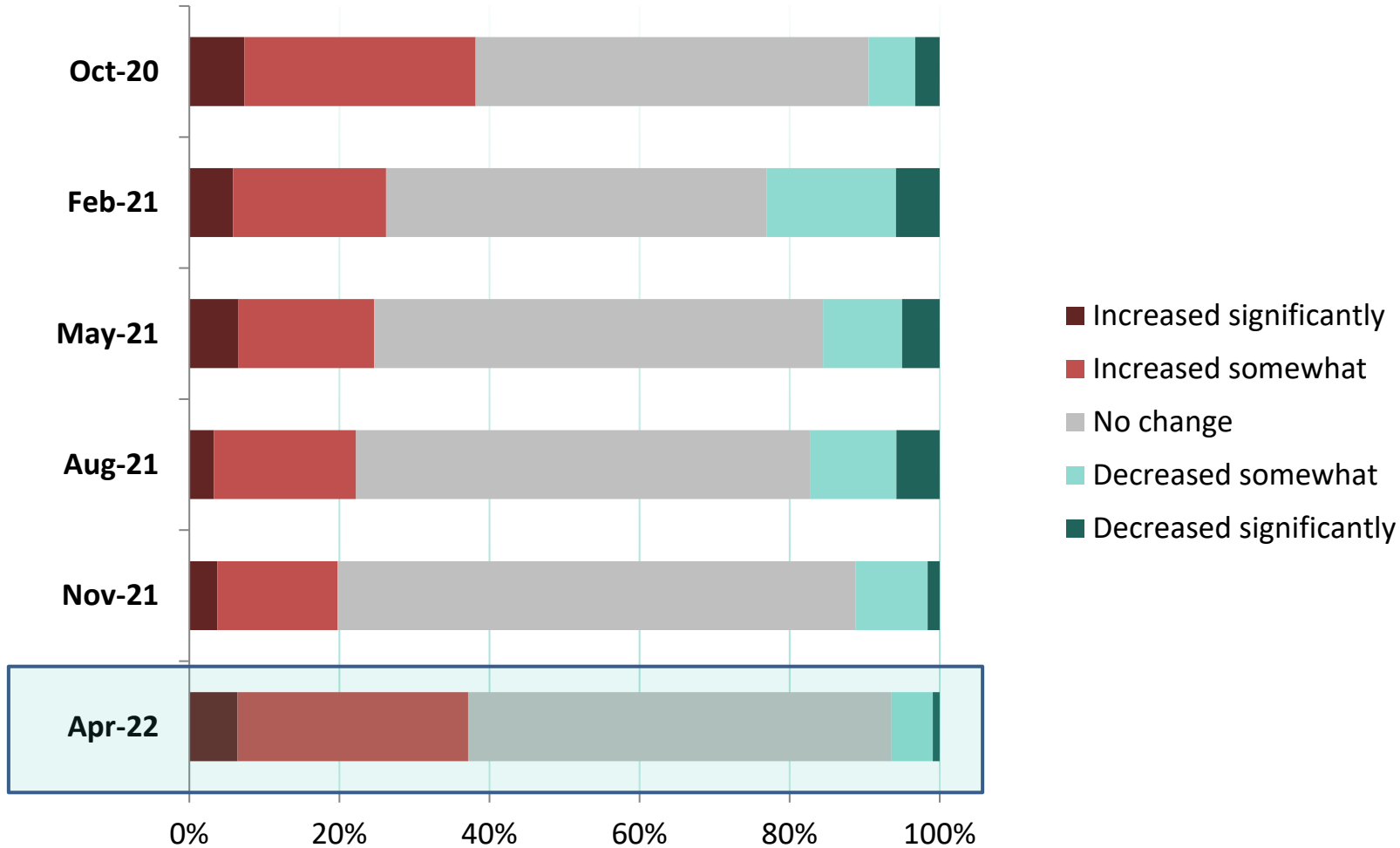


**PROJECT
CANCELLATIONS & DELAYS**

PROJECT CANCELLATIONS

Project cancellations compared with levels from previous survey period

Survey conducted:



Notable uptick in cancellations

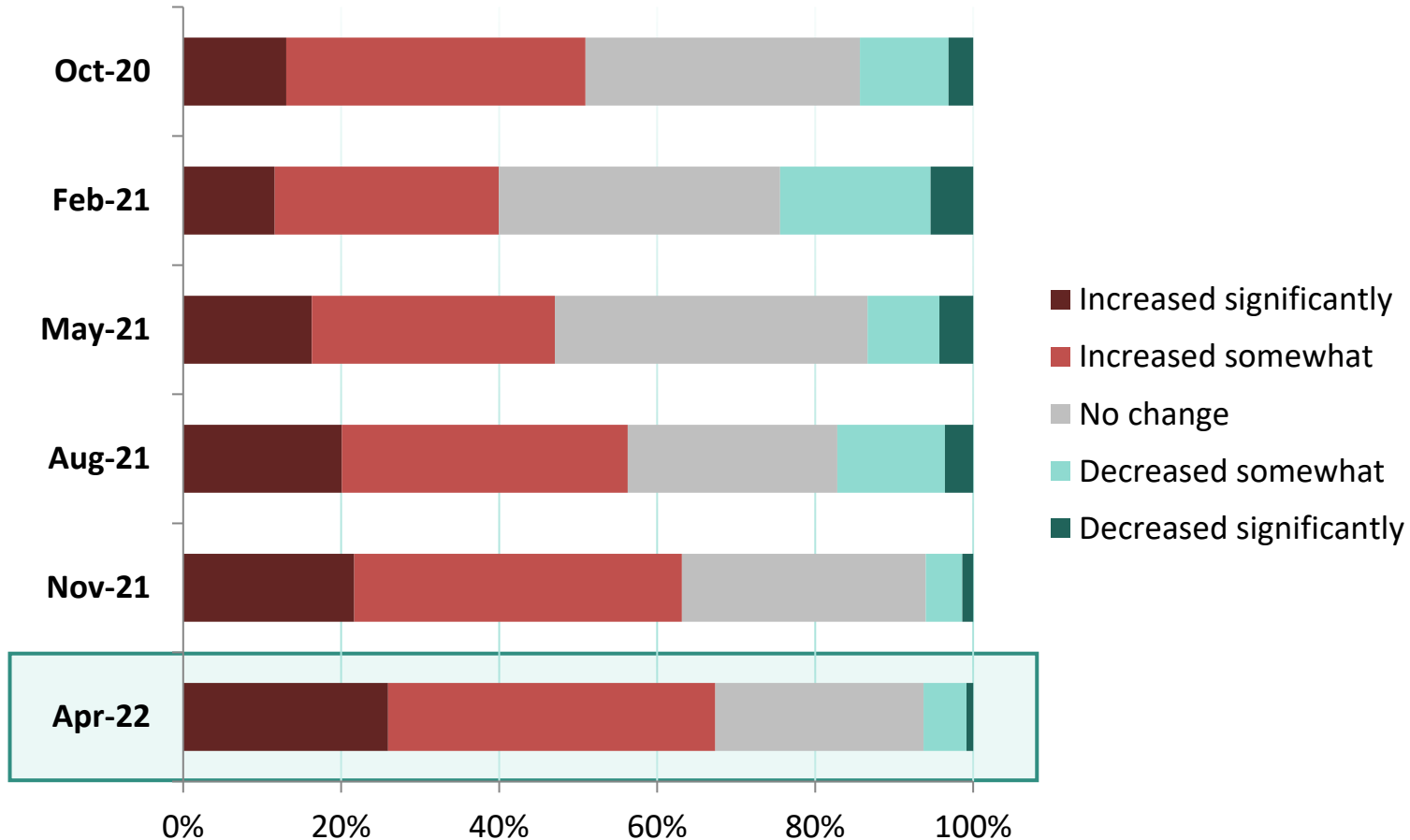
Myriad underlying reasons
(more on that in a bit)



PROJECT DELAYS

Project delays compared with levels from previous survey period

Survey conducted:



Project delays continue to worsen

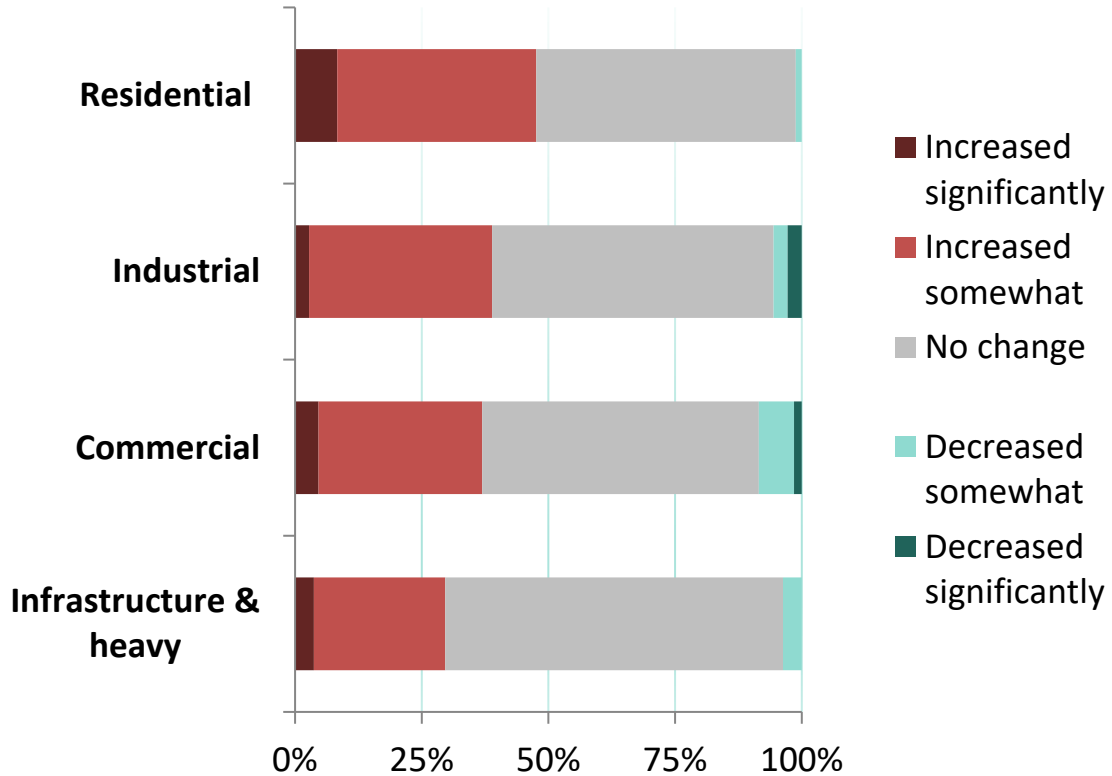
Probably more unusual now to *not* encounter delays during a project



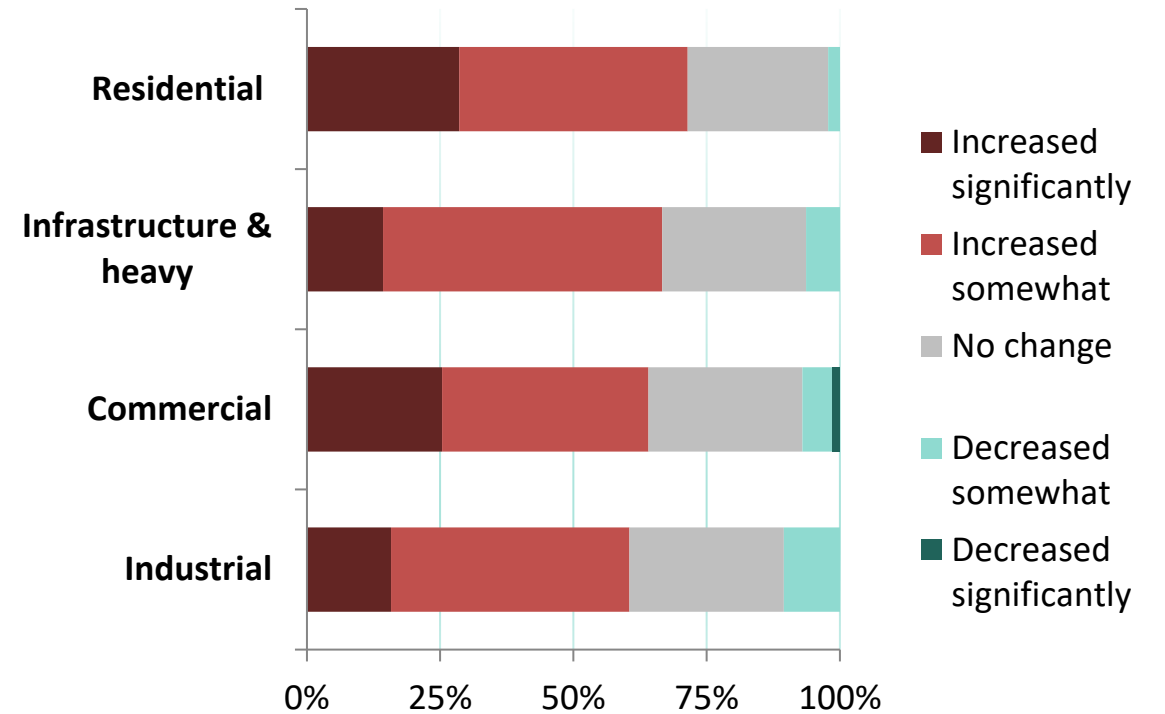
CANCELLATIONS AND DELAYS, BY SECTOR

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

Project cancellations



Project delays

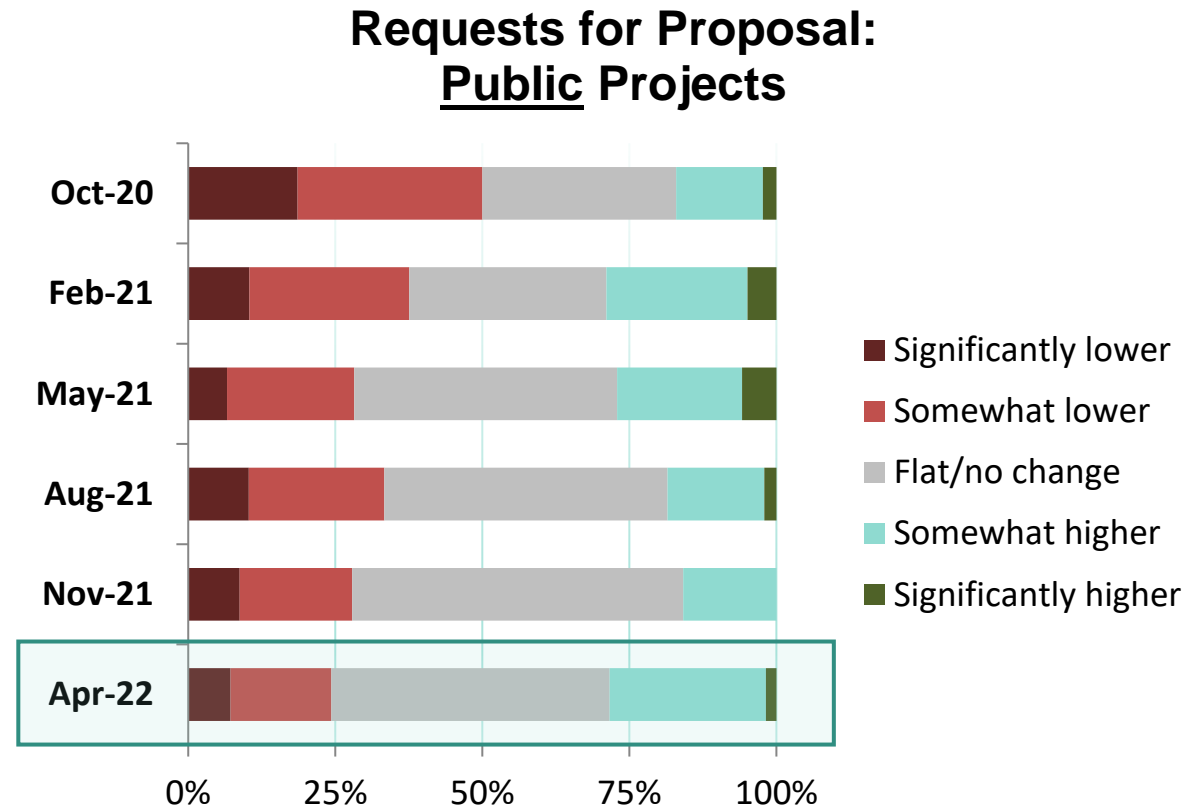
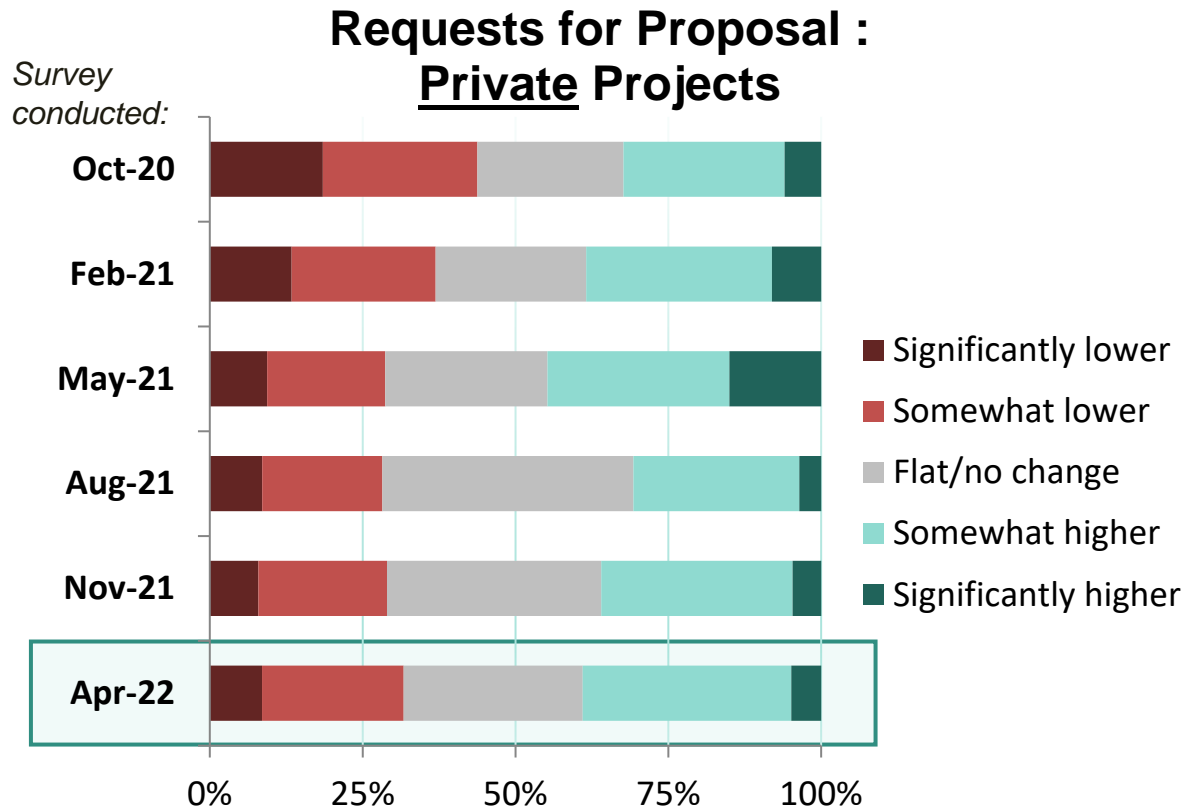




**FUTURE PIPELINE:
PROJECTS OUT FOR BID**

PANDEMIC TREND IN NEW PROJECTS:

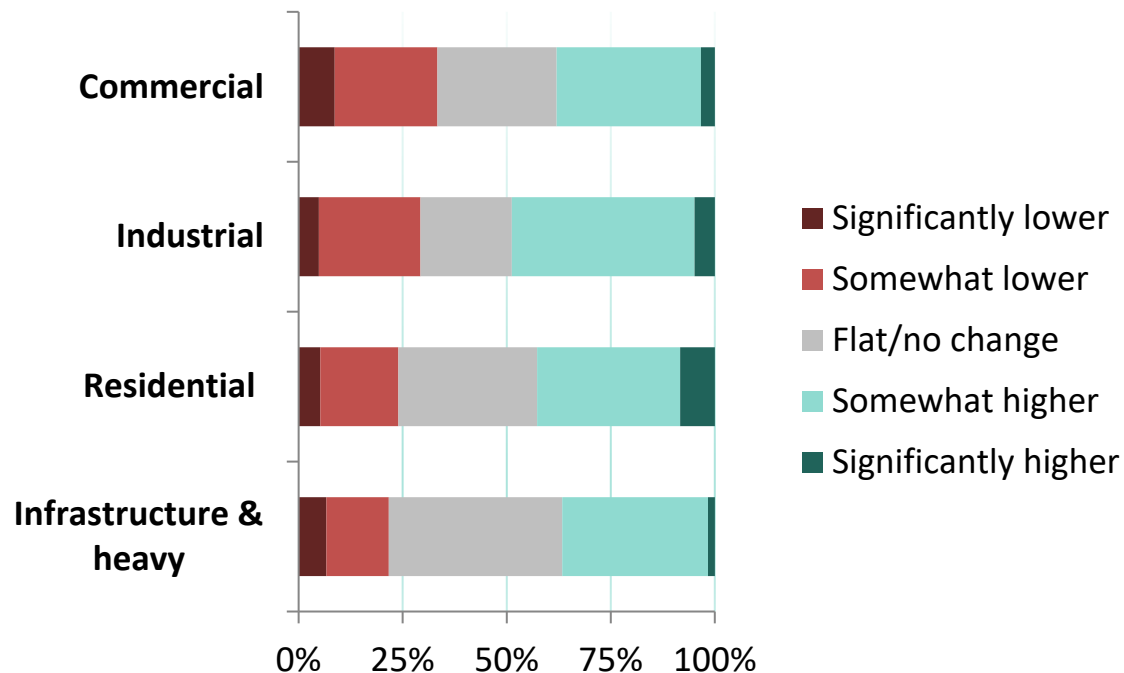
- New projects modestly net-positive
- Public projects improving
- *Caveat: Spring season typically sees more new projects*



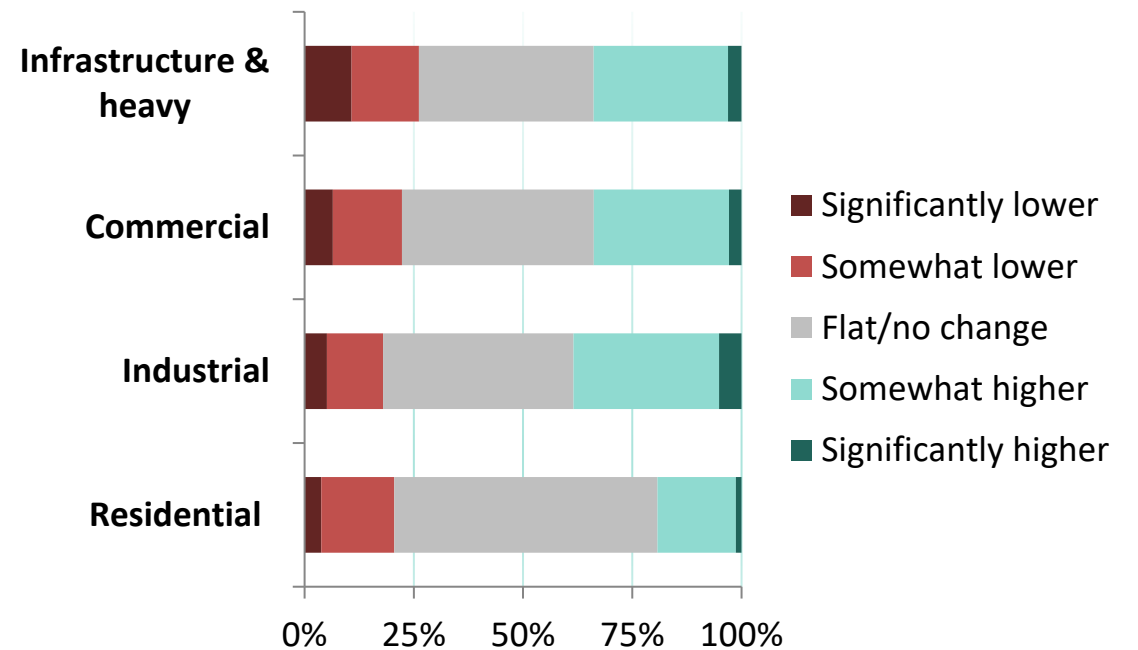
REQUEST FOR PROPOSAL (RFP) – BY SECTOR

- 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



Public project RFPs compared with November levels



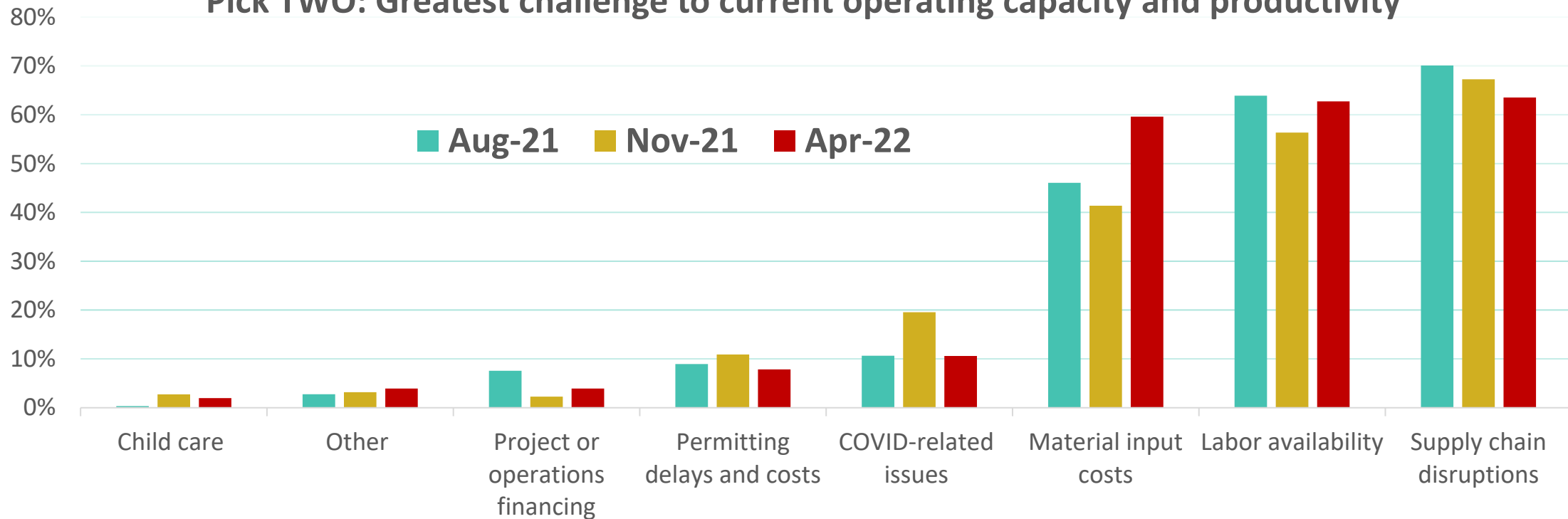
A large, faint, light teal outline of an eagle with its wings spread, set against a solid teal background. The eagle's head is turned to the left. There are several five-pointed stars scattered around the eagle's body. In the top left corner, there is a small, dark teal horizontal bar.

CHALLENGES

CHALLENGES TO OPERATIONS

Hard to overstate the challenges posed by rising costs, lack of labor and supply chain problems

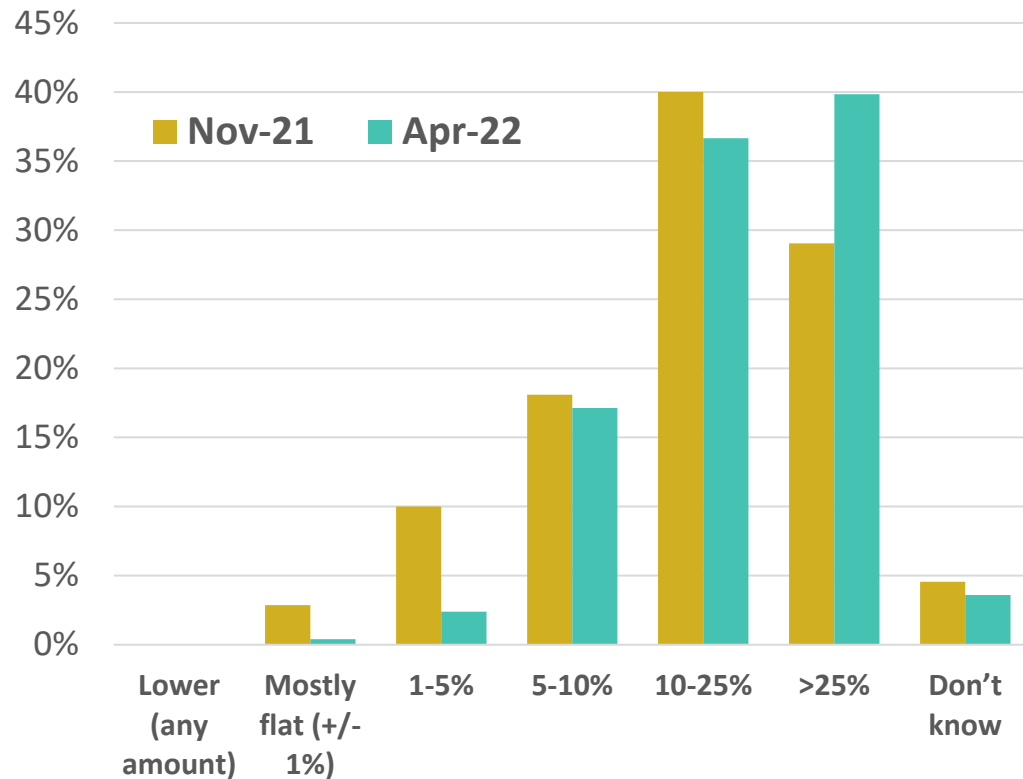
Pick TWO: Greatest challenge to current operating capacity and productivity



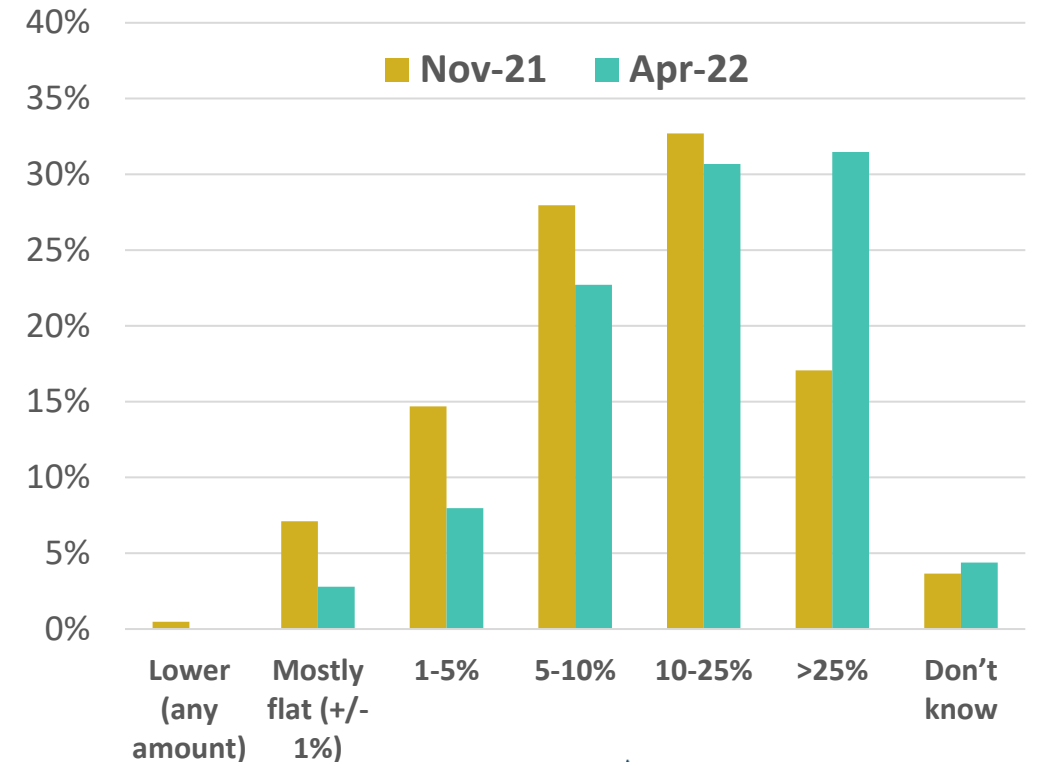
CHALLENGE #1: RISING PRICES

Wholesale and retail prices rising more steeply in construction than virtually any sector

Wholesale prices from vendors compared with a year ago



Retail prices to customers compared with a year ago

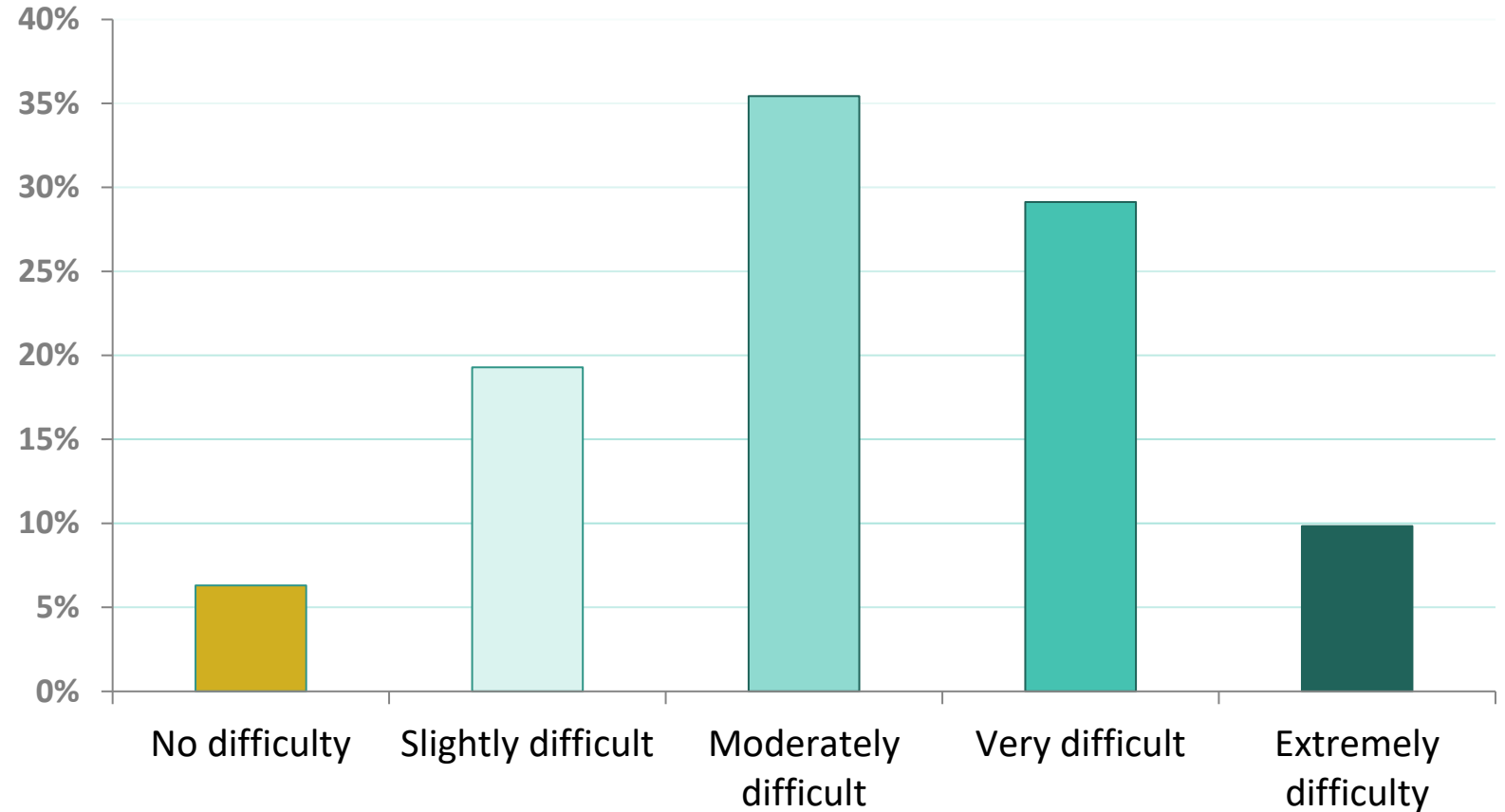


SUPPLY CHAIN DISRUPTIONS

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



CHALLENGE #3: LABOR AVAILABILITY

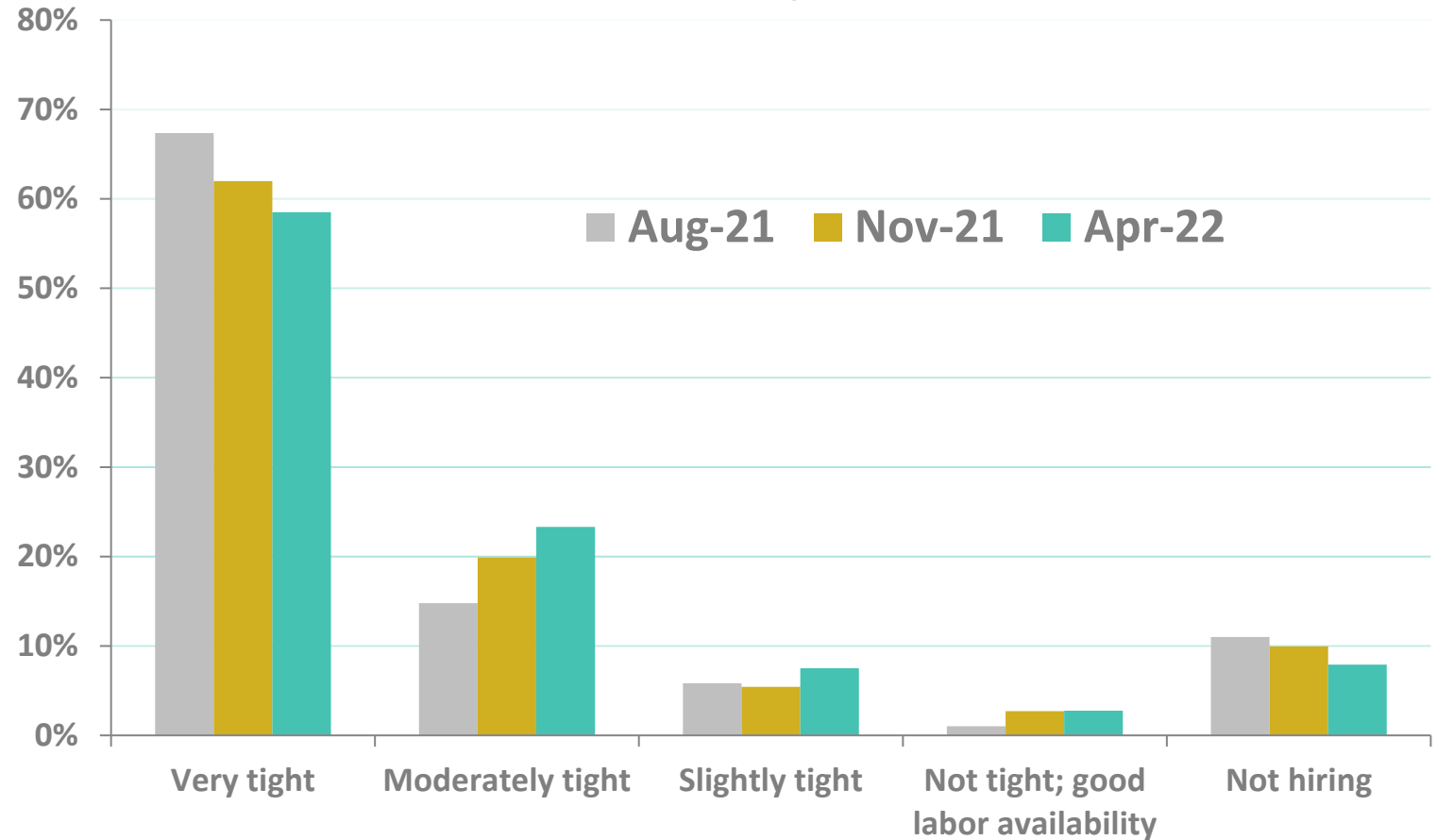
Slight improvement in labor market perceptions

But labor conditions still very tight

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

Tight across all sectors

Describe worker availability for open positions



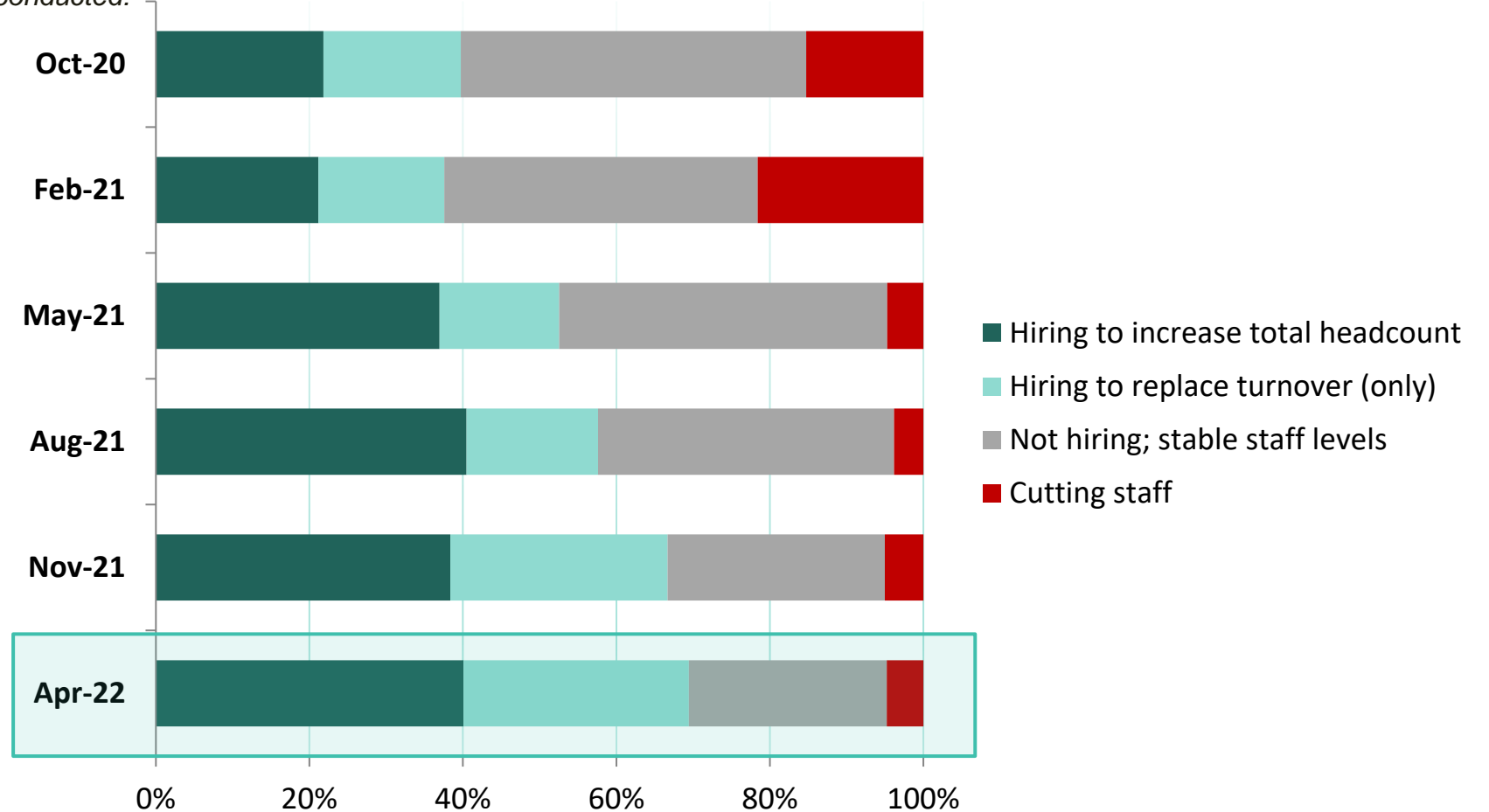
LABOR FORCE: STRONG DEMAND CONTINUES

Dual signals

- Strong labor demand a sign of underlying project demand
- But likely also driven by *persistent inability to find labor for open positions*

Survey conducted:

Hiring Demand Over the Past Three Months



ADDITIONAL CHALLENGE: RISING WAGES

Wages seeing strong increases

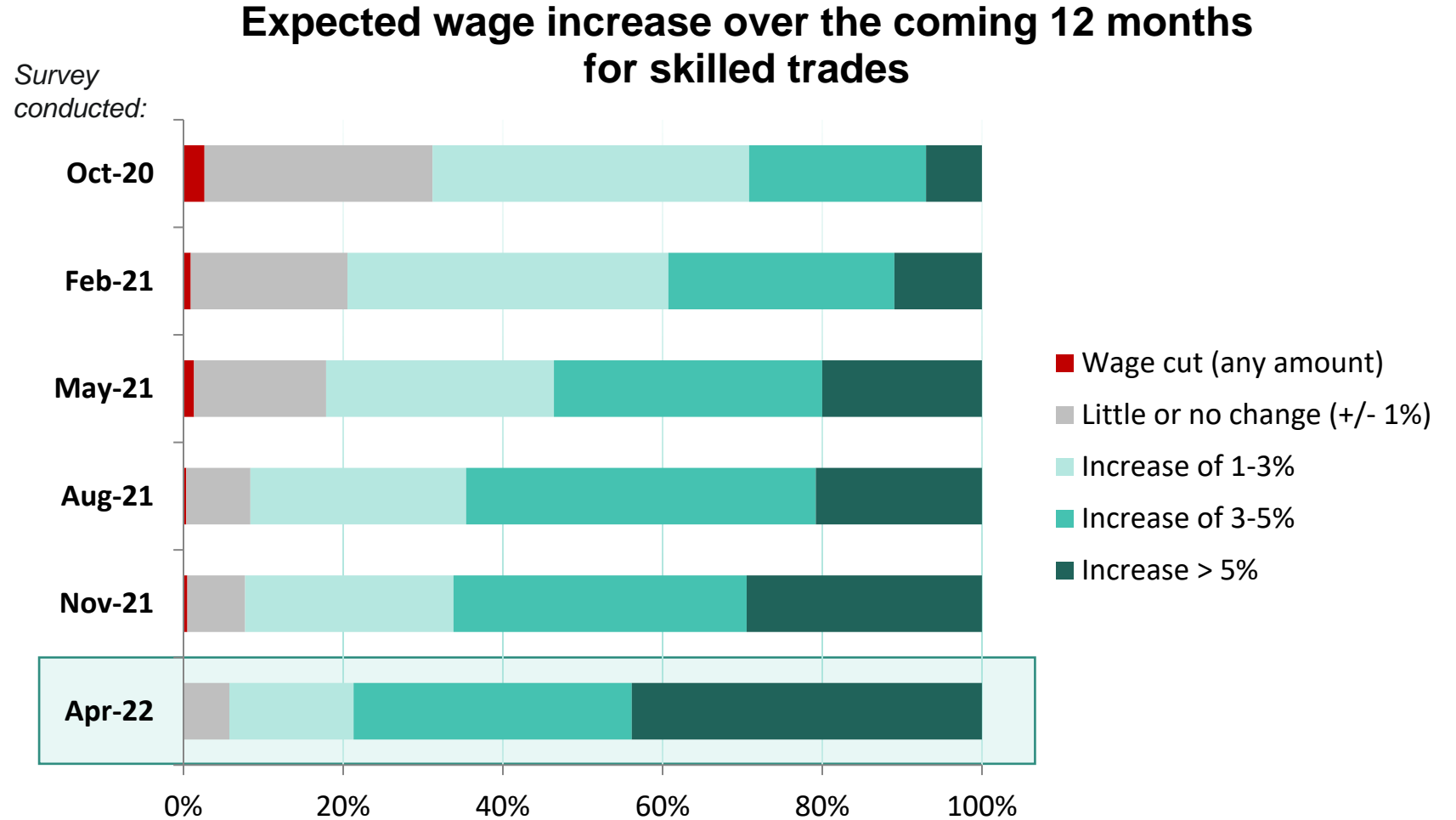
Notable: Firms are projecting even higher future increases



WAGE PRESSURE, CONT.

Firms' expectations of future wages accelerating

44 percent expect wages to rise by 5% or more over coming year



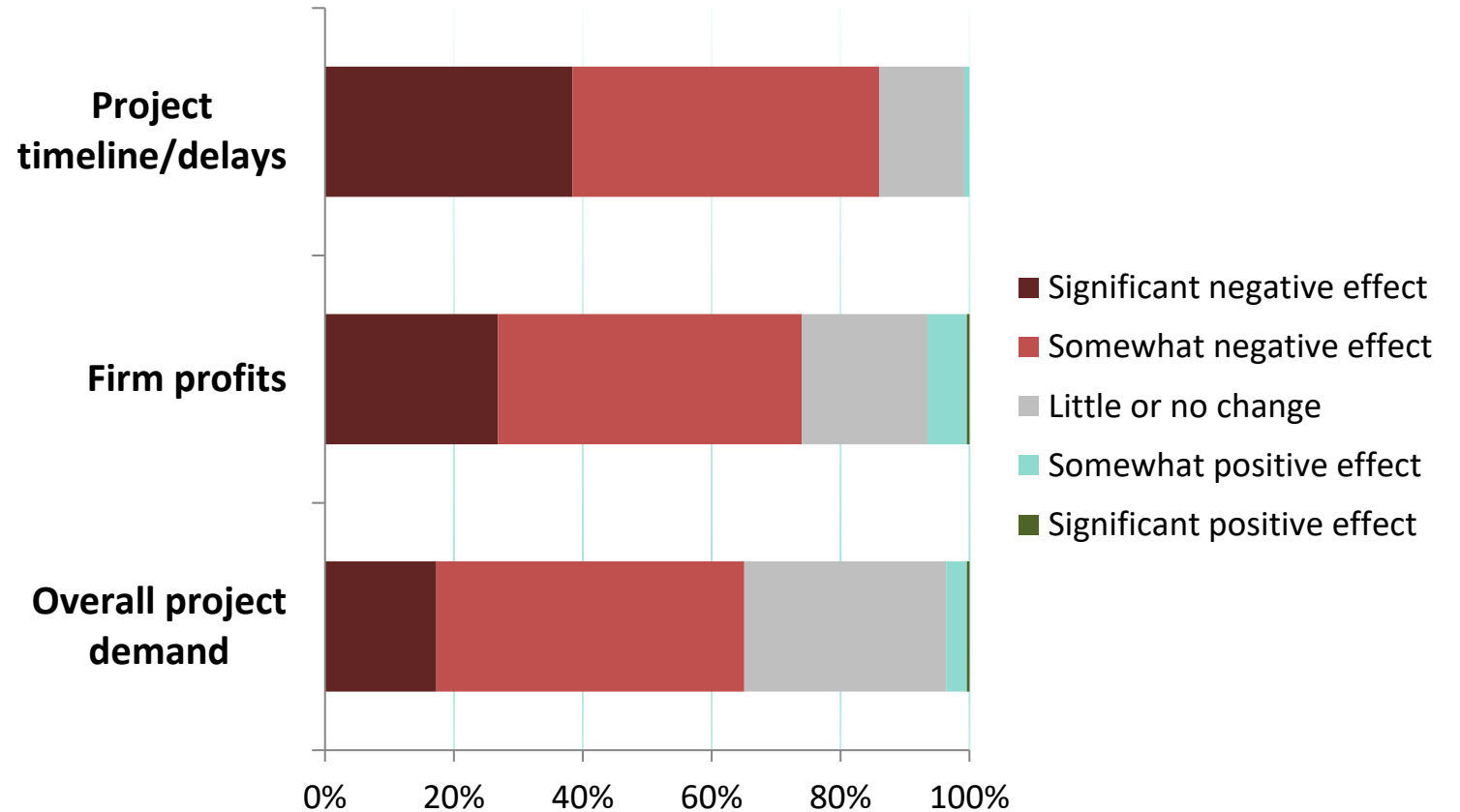
EFFECTS OF SUPPLY CHAIN & PRICES PROBLEMS

Higher prices & supply chain disruptions are:

- Increasing delays
- Hurting profits
- Dampening demand

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

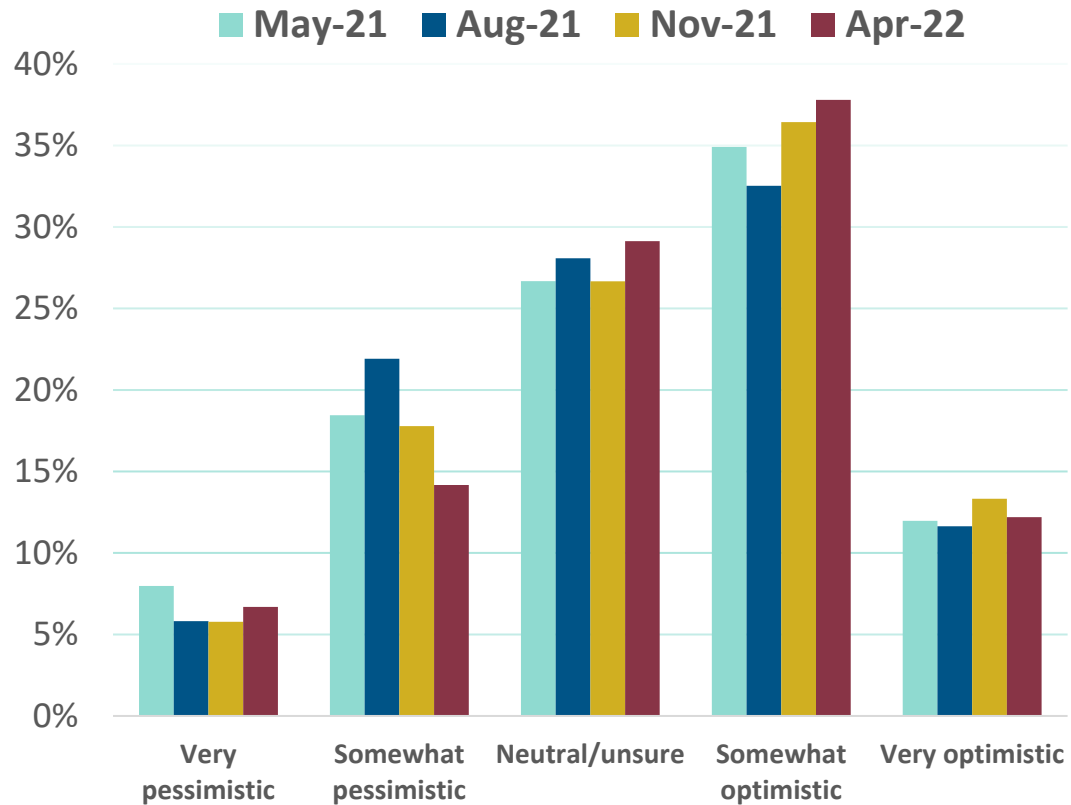
What effects, if any, are you seeing as a result of price increases and/or supply chain disruptions?



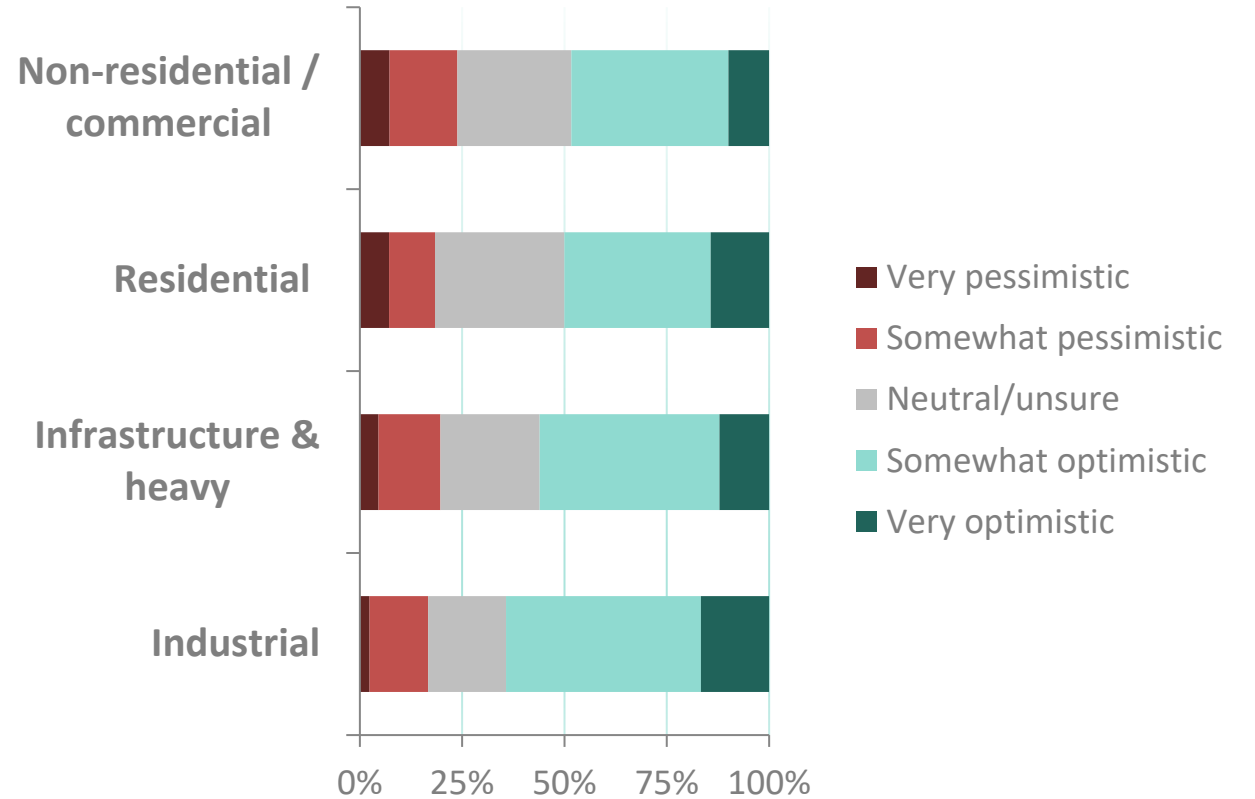
OUTLOOK: OPTIMISM PREVAILS

Despite challenges firms remain optimistic

Outlook for the next six months



Outlook for the next six months, by sector





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

TWITTER: @RONWIRTZ

@MINNEAPOLISFED

CONNECT VIA LINKEDIN

RON.WIRTZ@MPLS.FRB.ORG