

# 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.





## 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 Minneapolis Fed, our partners, and your members with tremendous insights on current conditions





# CONSTRUCTION SURVEY

- **Conducted: November 7 to November 18, 2022**
- **Total responses: 276, mostly from Twin Cities/Minnesota**
- **Results are a snapshot: Not a scientifically sampled survey**
  - **Nonresidential/commercial: 55% of respondents work in this sector (non-exclusive)**
  - **Residential: 45%**
  - **Infrastructure/heavy: 20%**
  - **Industrial: 16%**
- ***Please interpret results carefully***





## SURVEY TAKE-AWAYS

- Revenue trending negative, but not for everyone
- Profits widely lower
- Residential seeing significantly tougher conditions
- Industrial seeing best conditions
- Future concerns: Increase in project cancellations, reduction in backlogs and new projects out for bid
- Challenging conditions, w/ interest rates added to mix
- Outlook has declined, but hasn't fallen off the table





**RECENT REVENUE**

**&**

**PROFIT TRENDS**

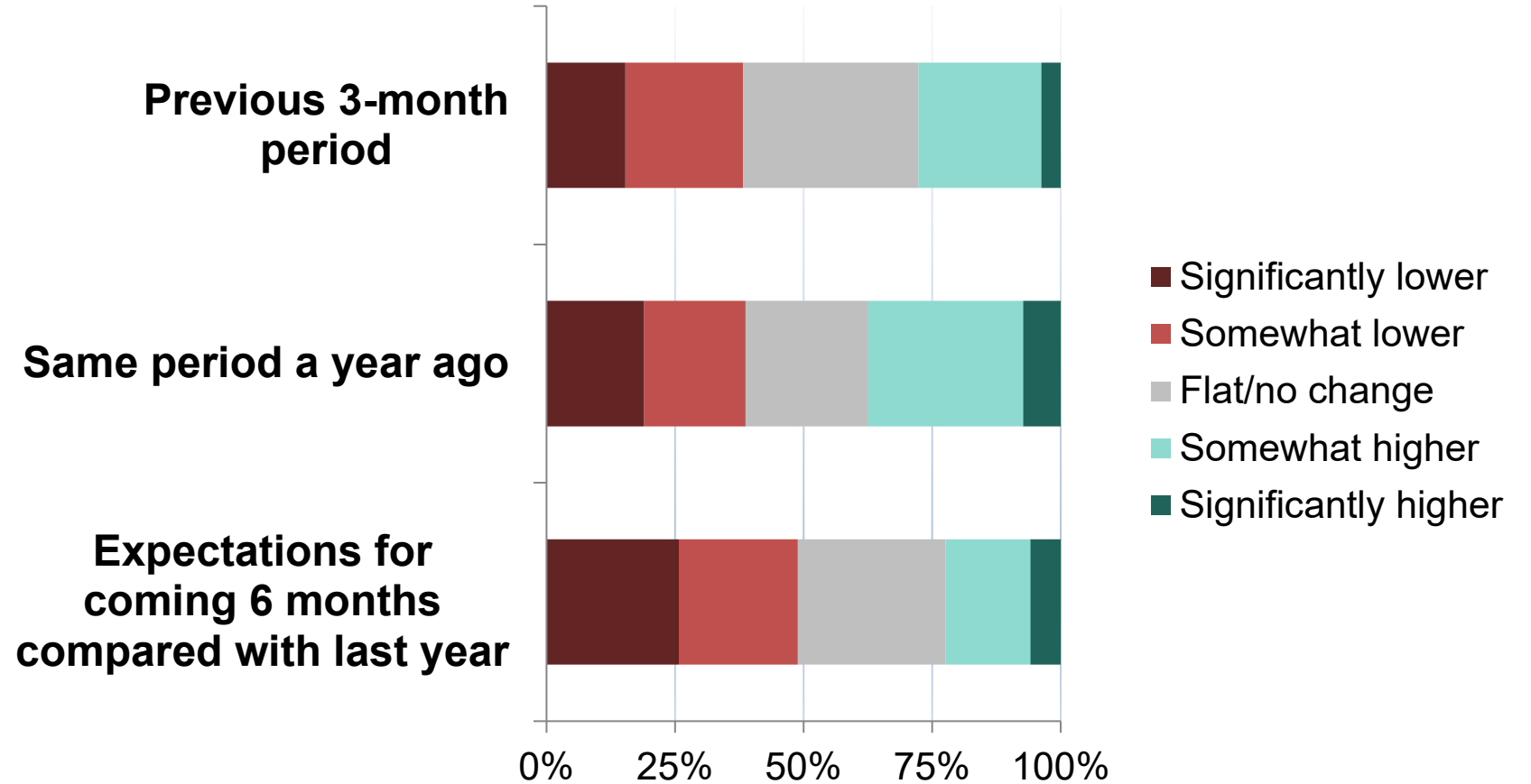
# RECENT AND FUTURE REVENUE

**Q-o-Q: Negative, but likely some seasonal effects**

**Y-o-Y: Flat overall, which is still high; however larger share seeing big decrease**

**Outlook: Notably less optimistic**

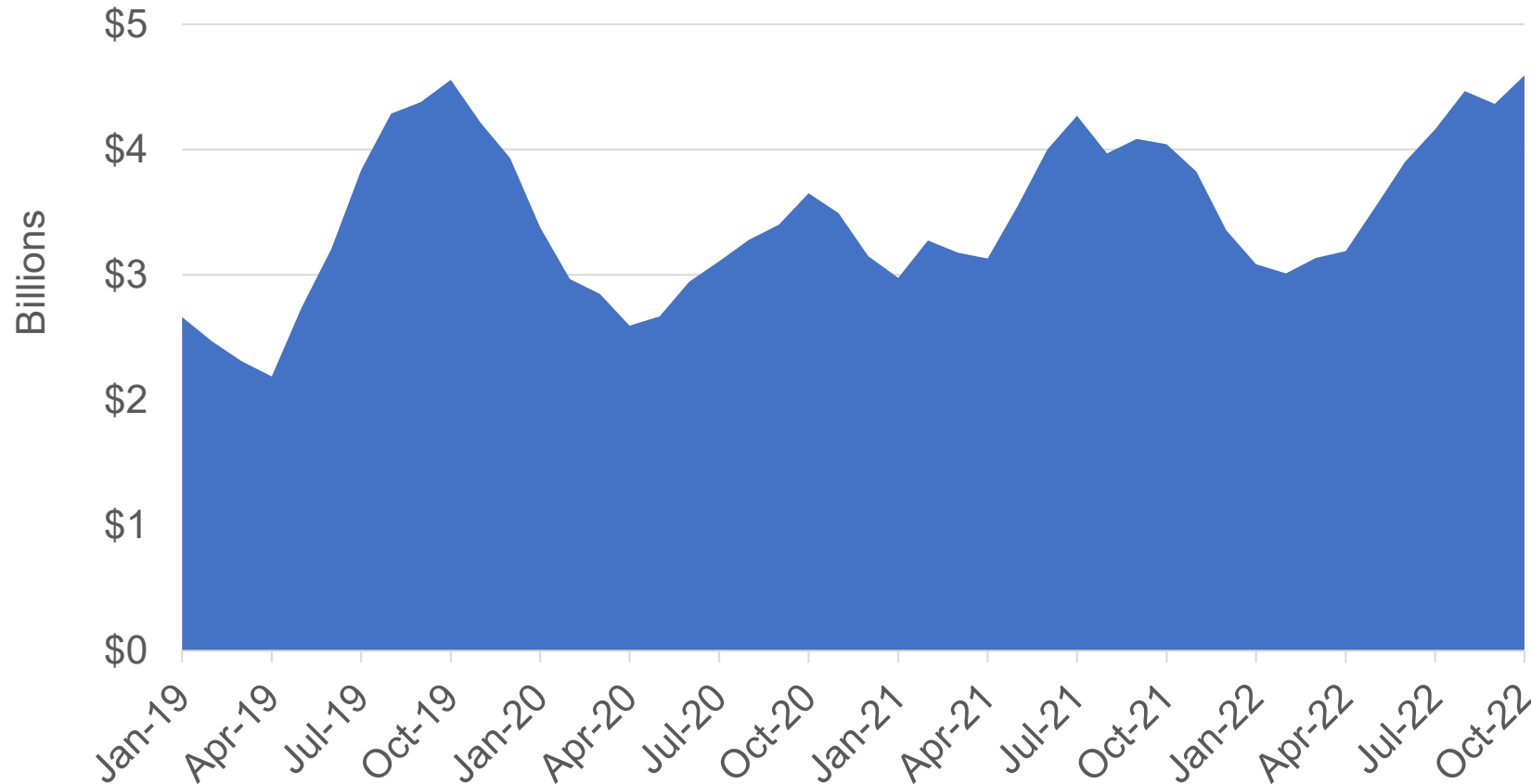
## Revenue over last 3 months compared with ...



# NEW CONSTRUCTION STARTS

## Total value of monthly construction starts

6-month rolling average  
MN, MT, ND, SD, WI



**General trend:  
total construction  
spending still high**

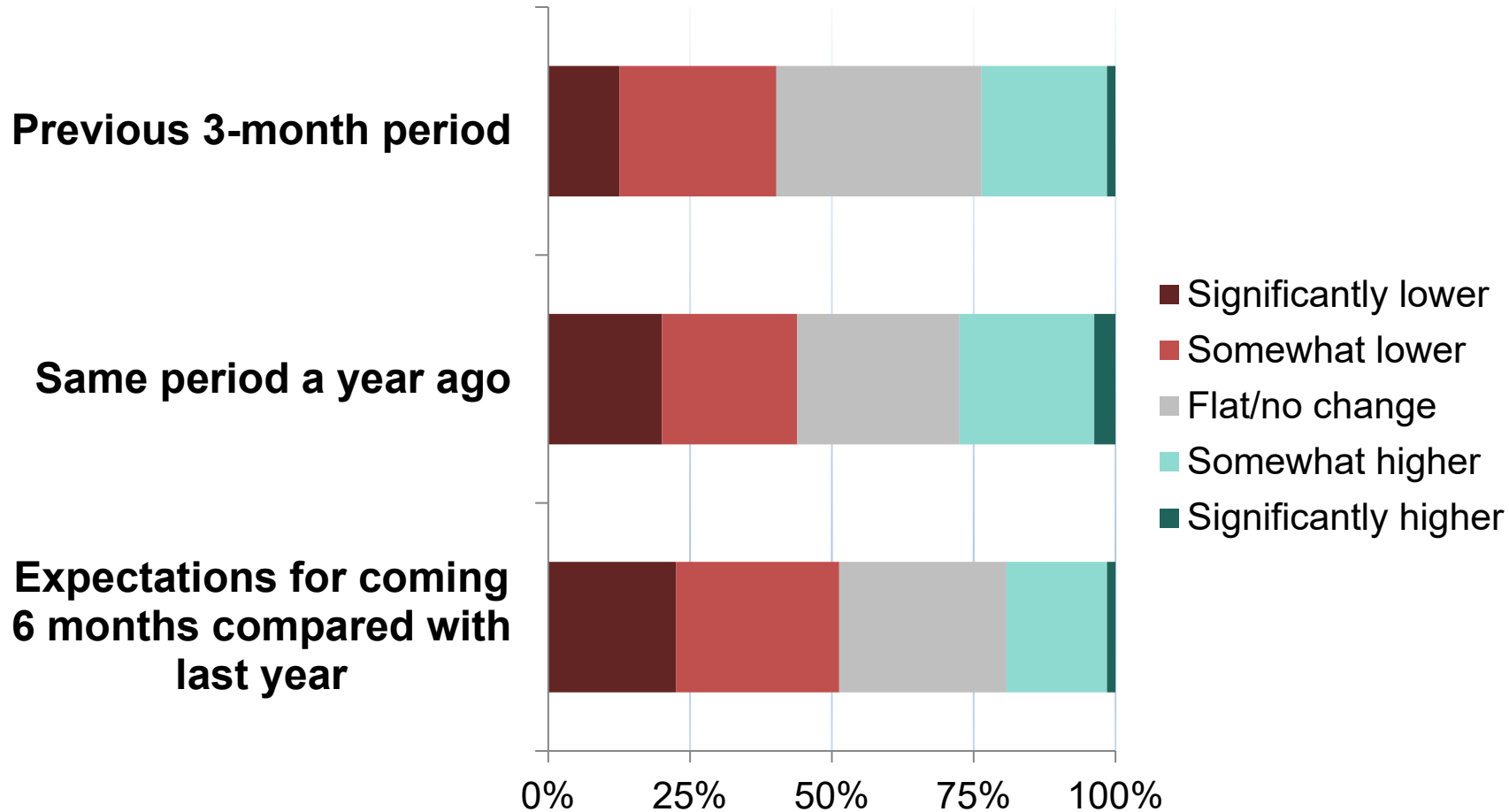
**District totals  
boosted by higher  
pricing & very  
strong activity in  
SD and MT (which  
are not well-  
represented in  
survey sample)**





# COMPANY PROFITS

## Profits over last 3 months compared with ...



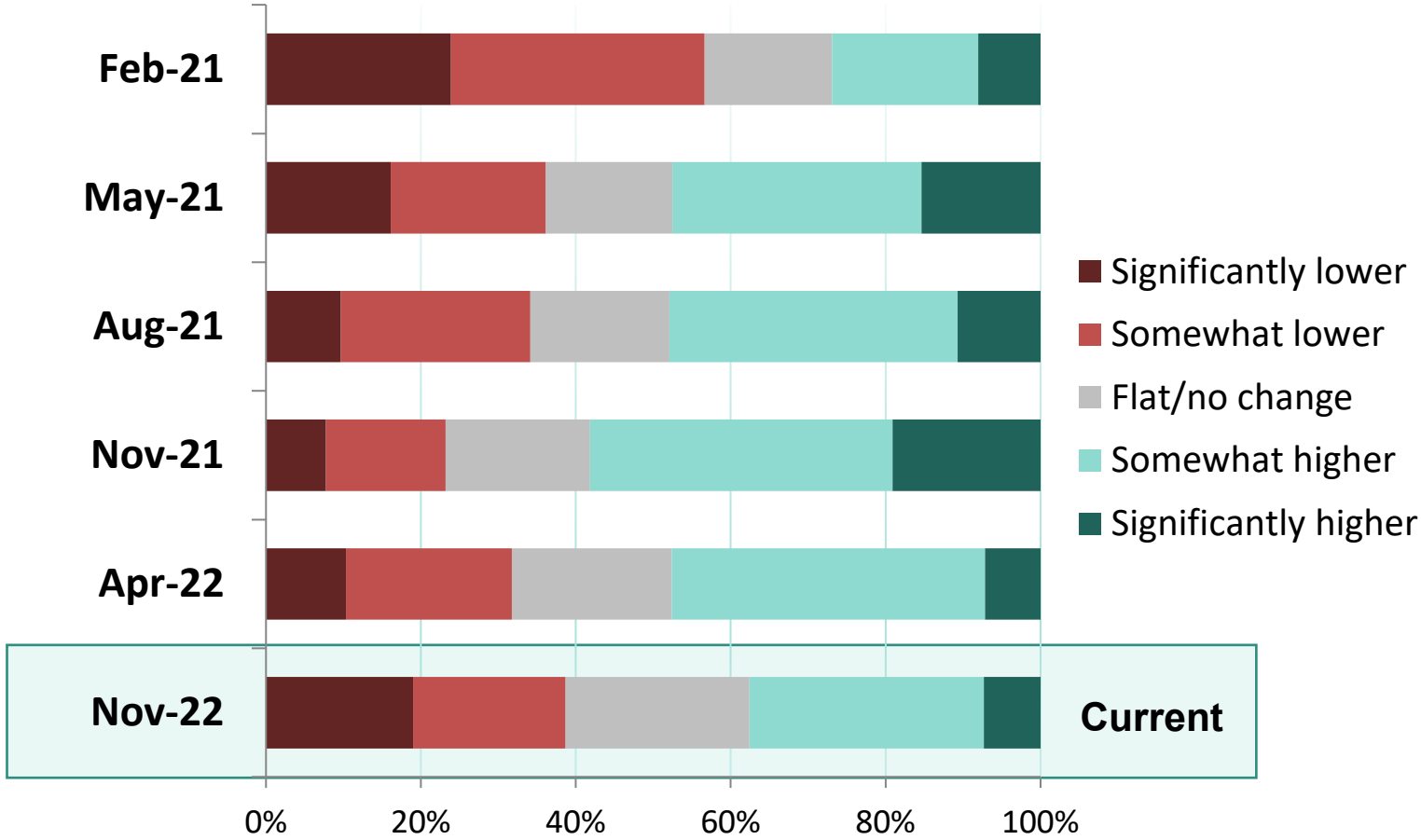
**Profit levels more negative across the board, and expected to worsen**



# REVENUE TRENDS, OVER TIME

## Year-over-year revenue comparisons

Survey conducted:

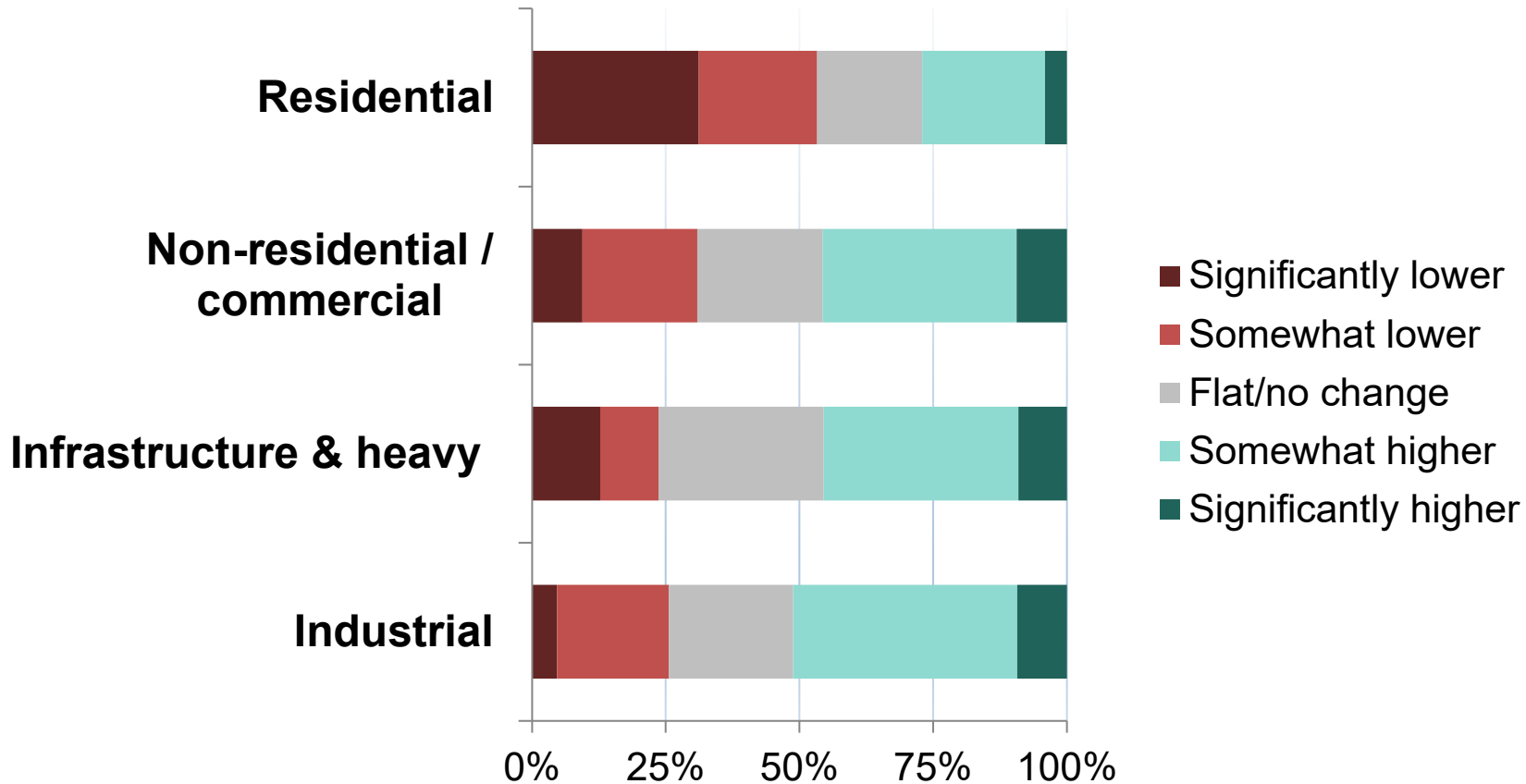


Repeated cross sections from previous surveys

Pullback first showed up in April survey, and continued in most recent survey

# REVENUE TRENDS BY CONSTRUCTION SECTOR

## Revenue over last 3 months compared with last year



Year-over-year trend heavily influenced by decline in residential sector

Other three sectors all report increases in y-o-y annual revenues

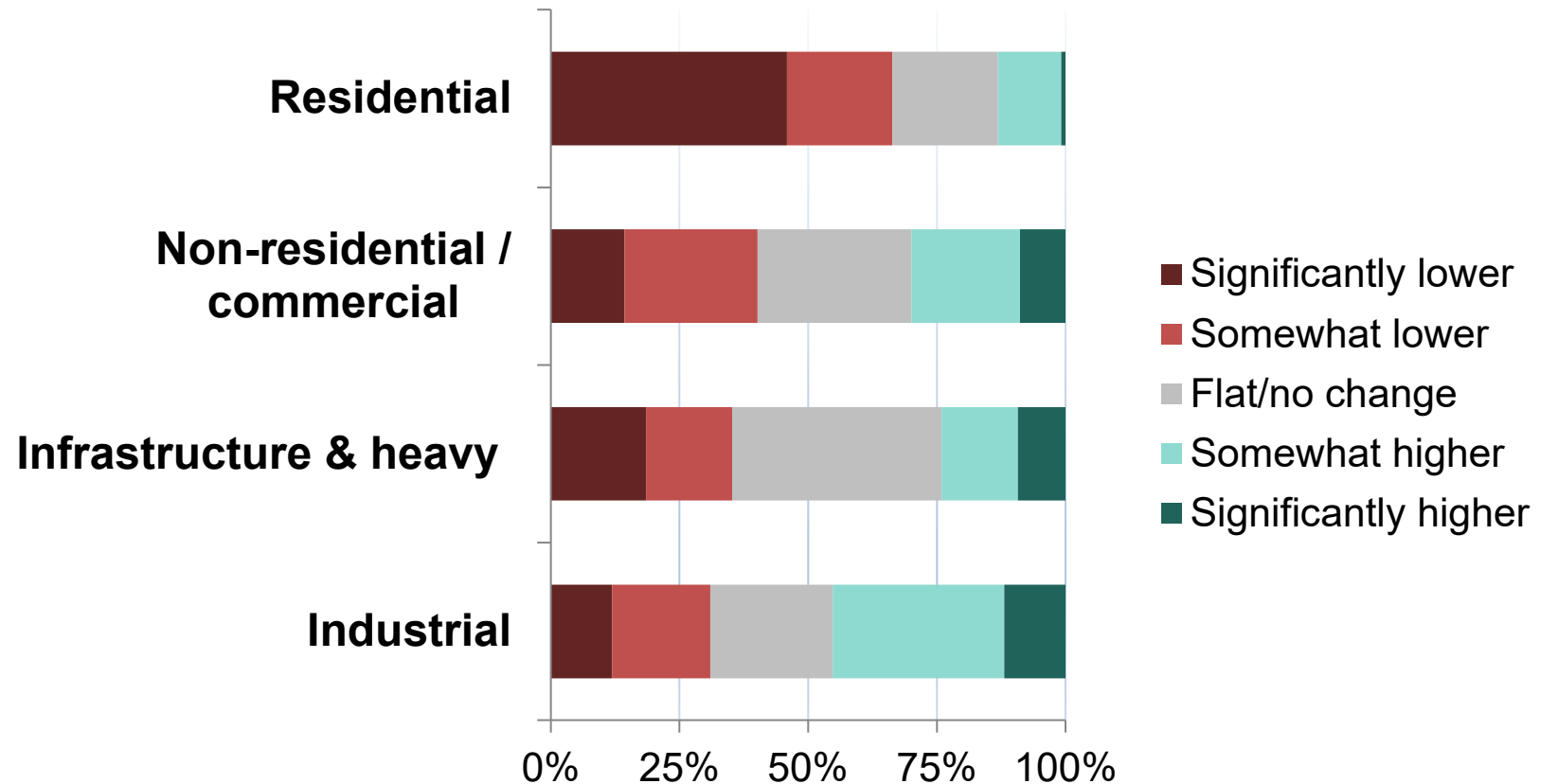


# FUTURE EXPECTATIONS

Short-term revenue outlook shows more concern across the sector, esp. for residential

Outlook for industrial still moderately net-positive

## Expectations for coming 6 months compared with same period last year



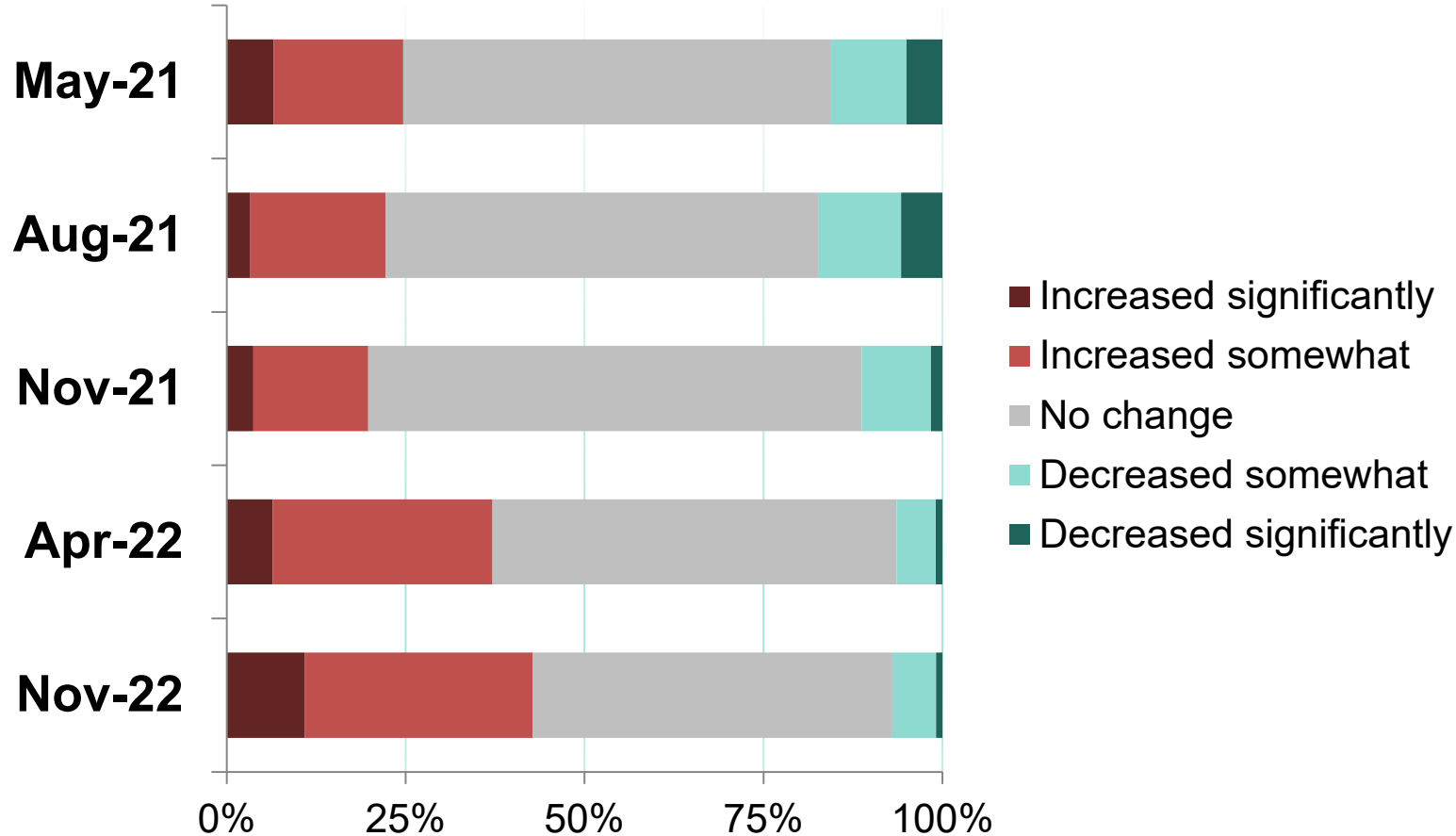


**OTHER METRICS OF CURRENT  
& FUTURE ACTIVITY**

# PROJECT CANCELLATIONS

## Recent project cancellations compared with previous 3-month period

Survey conducted:



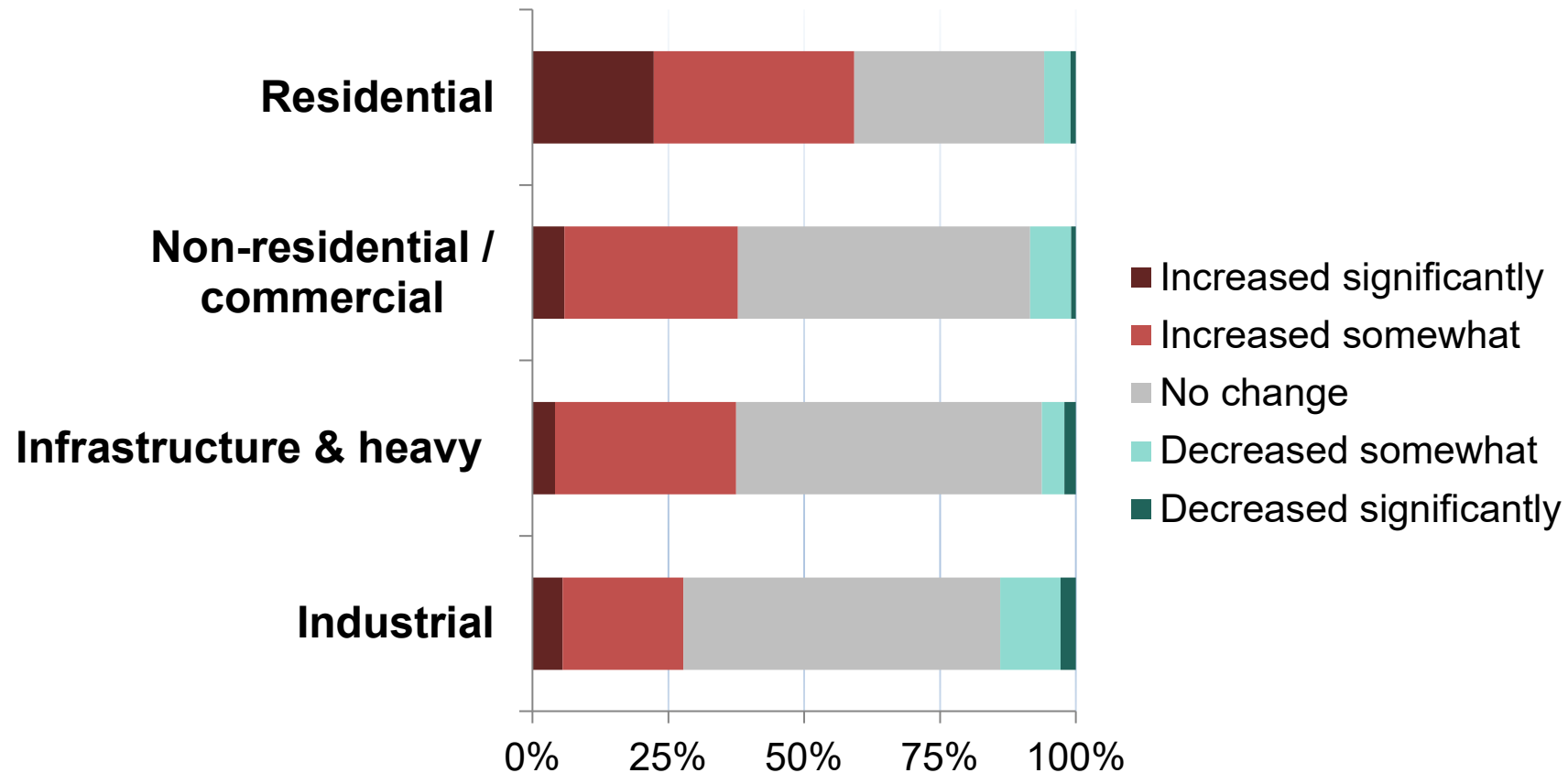
Continued uptick in cancellations

Most common reasons (from comments):  
**Cost inflation, higher financing costs, general uncertainty**



# CANCELLATIONS AND DELAYS, BY SECTOR

## Project cancellations compared with 3 months ago



Cancellations rose across all sectors

But residential seeing the worst trend by significant margin



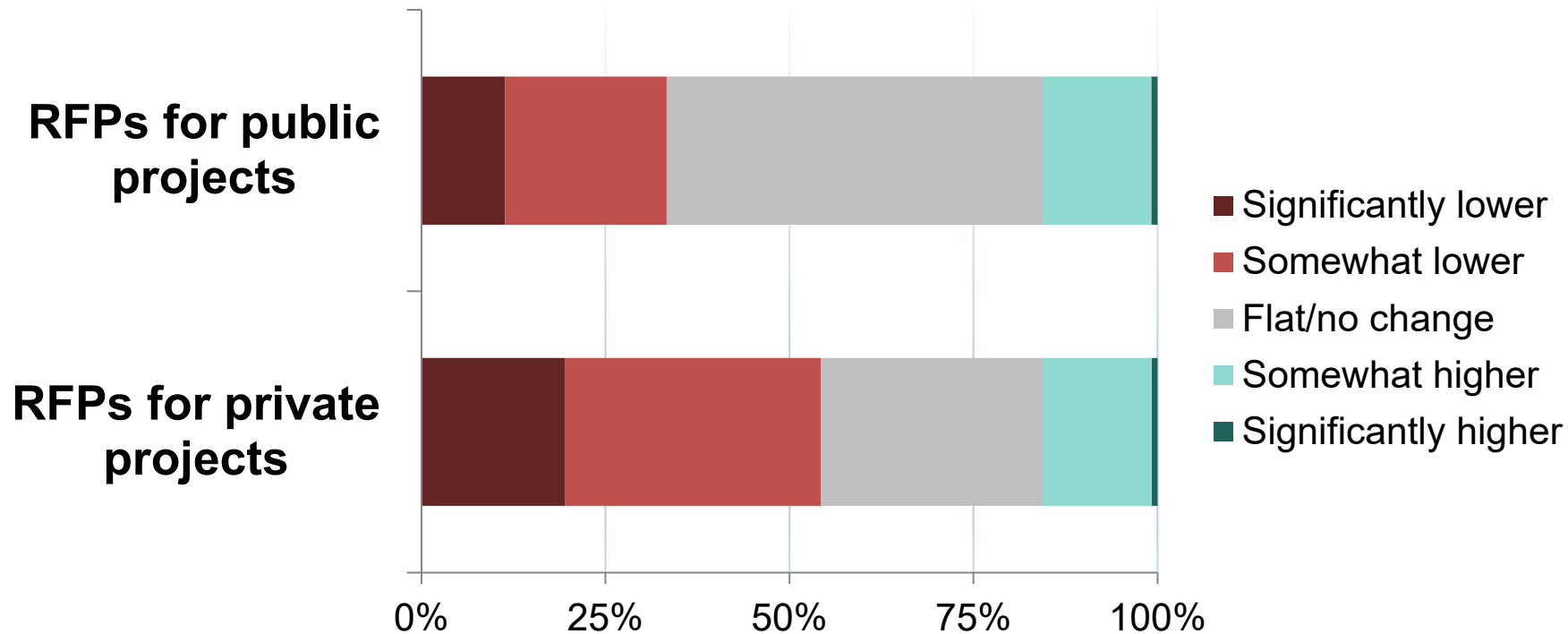


**FUTURE PIPELINE:  
PROJECTS OUT FOR BID**



# NEW PROJECT PROPOSALS SLOWING

Request for proposal (RFP) activity over last 3 months compared with same period last year



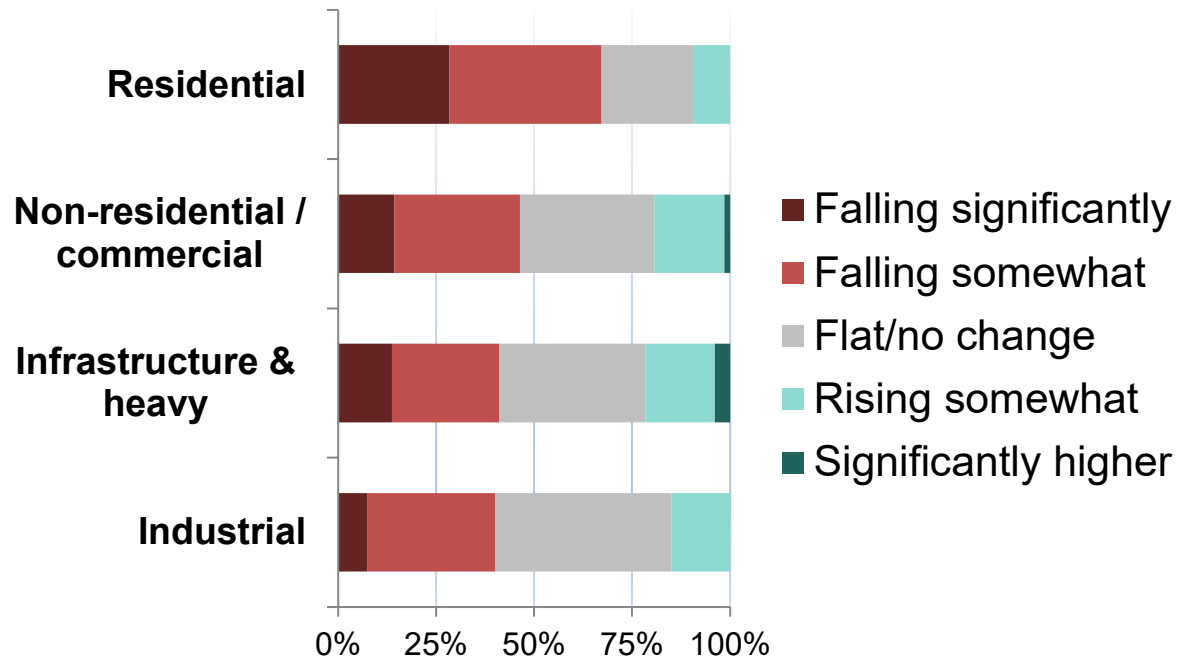
New projects out for bid (aka RFPs) shrunk noticeably, especially for private projects



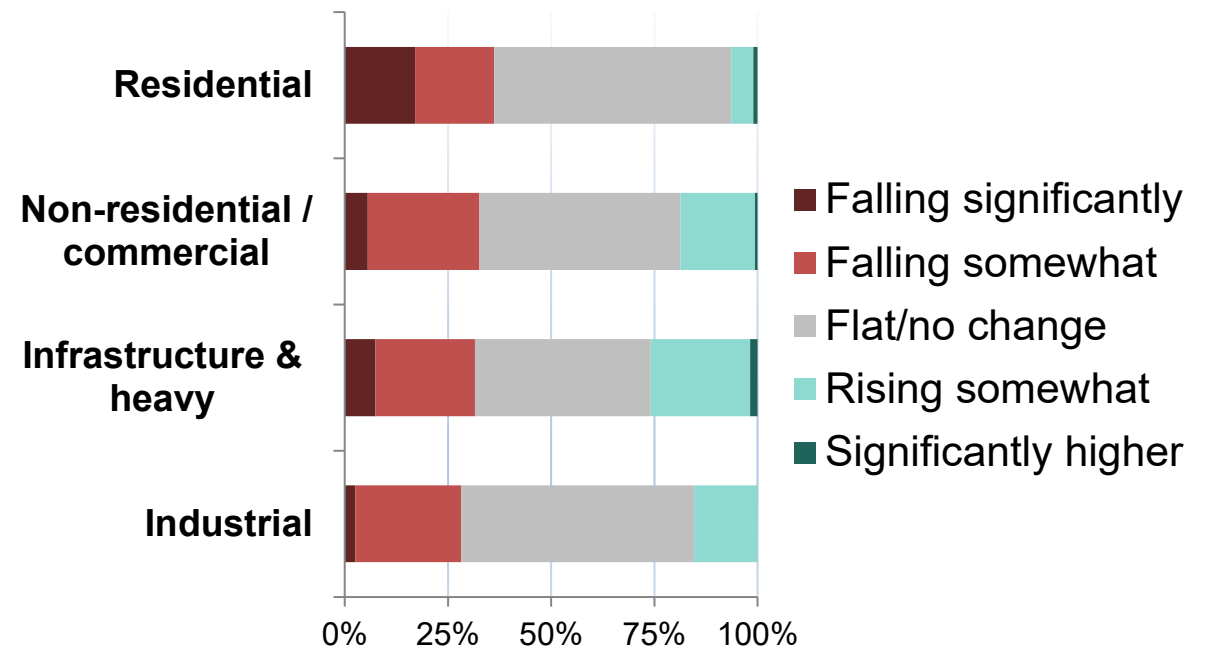
# REQUEST FOR PROPOSAL (RFP) – BY SECTOR

Private RFPs went negative among *all* construction sectors  
Public RFPs went negative after showing some strength earlier this year

**Private project RFPs compared with last year**



**Public project RFPs compared with last year**

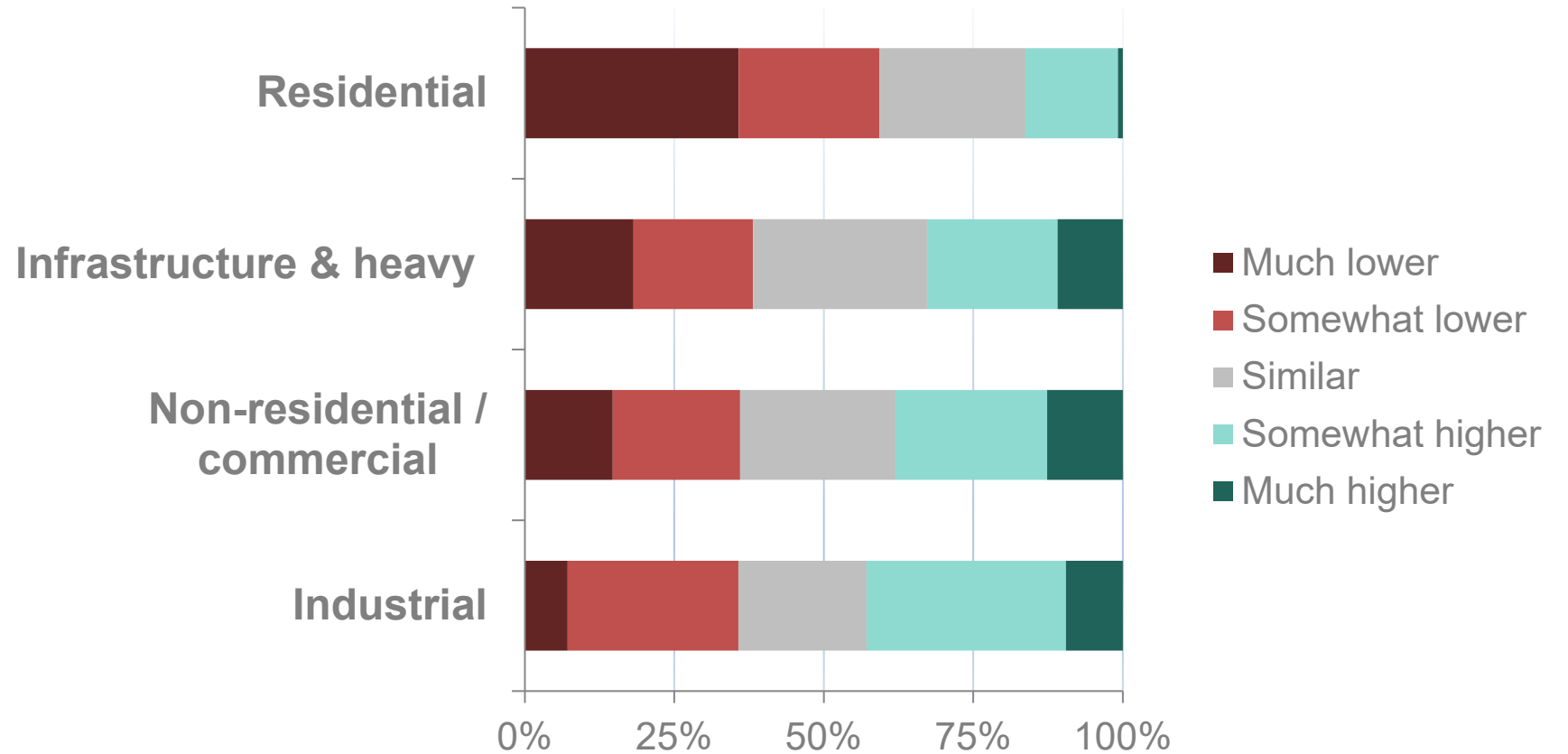


# PROJECT BACKLOGS

Backlogs shrank dramatically in residential, but every sector effected

Likely from higher cancellations, lower RFP levels and pulling work forward

## Backlog of future projects and other work compared with last year



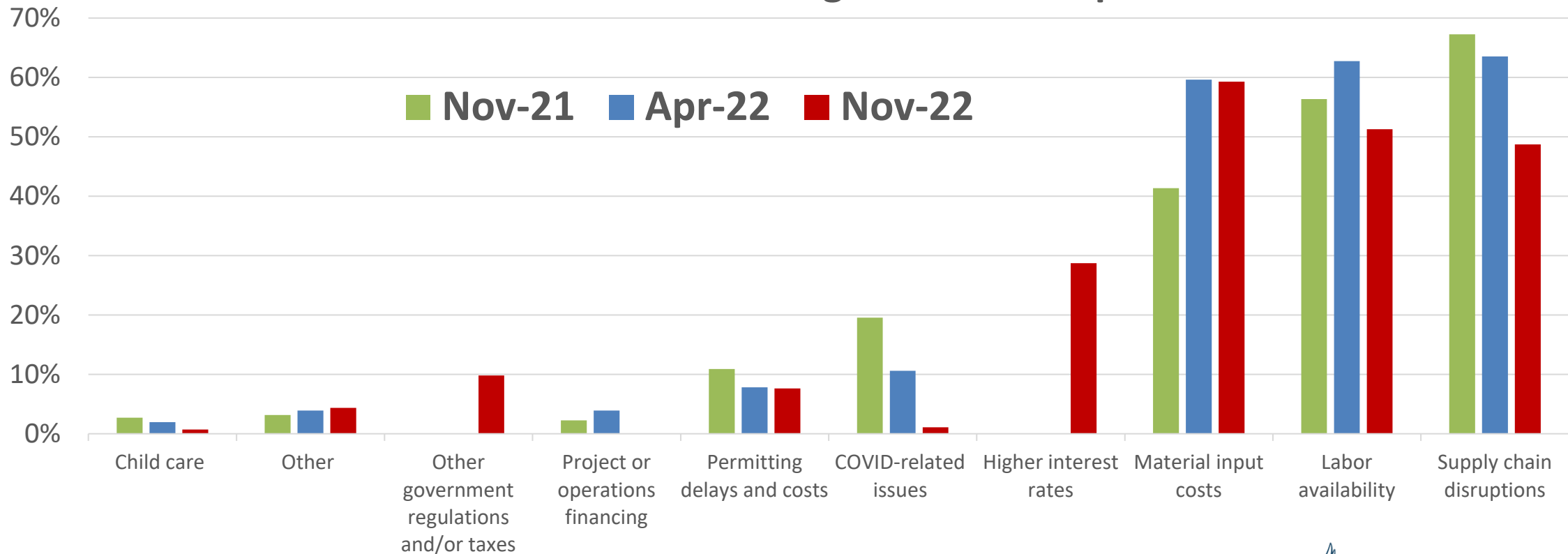
A large, faint, light teal outline of an eagle with its wings spread, set against a solid teal background. The eagle's head is turned to the left, and its tail feathers are visible on the right. Several five-pointed stars are scattered around the eagle's body. In the top left corner, there is a small,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

# CHALLENGES

# CHALLENGES TO OPERATIONS

“Big Three” still biggest challenges: Labor, inflation, supply chain  
Rising interest rates add another challenge, esp. for residential

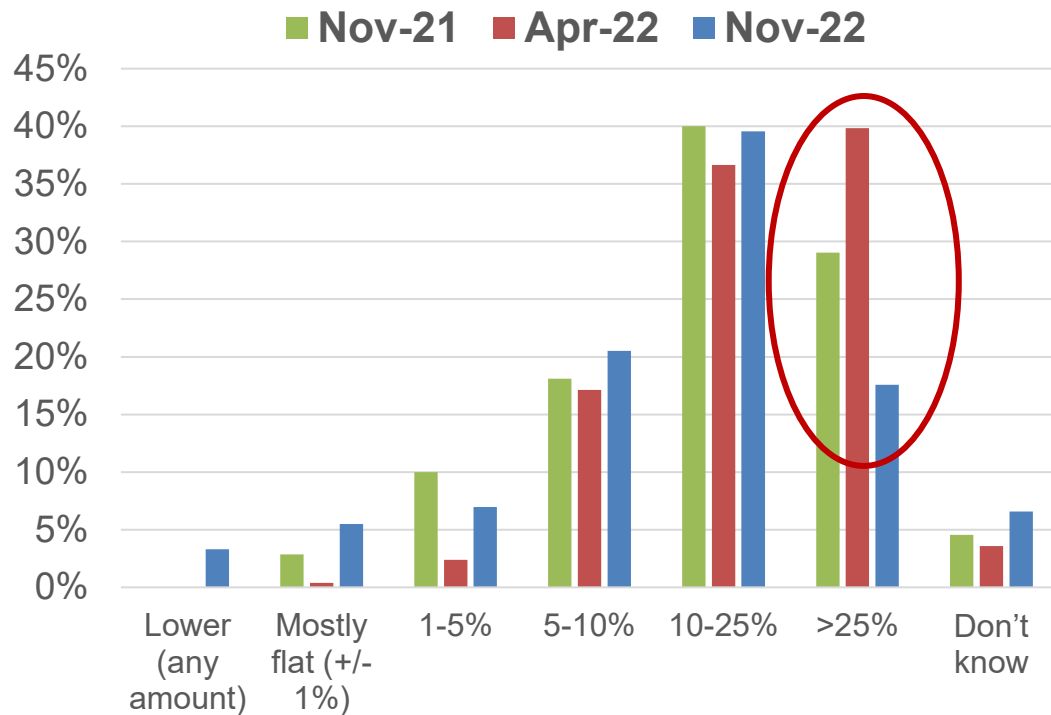
## Pick TWO: Greatest challenge to current operations



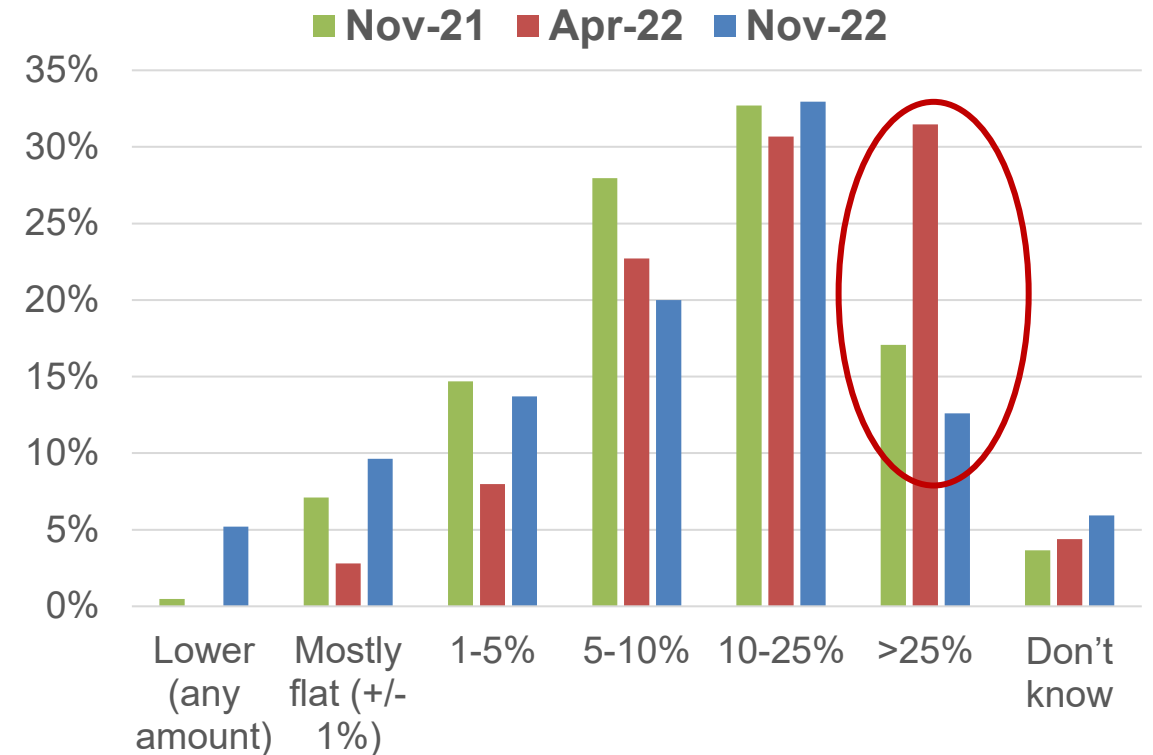
# CHALLENGE: RISING PRICES

## Wholesale and retail prices downshifted, but still high

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



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

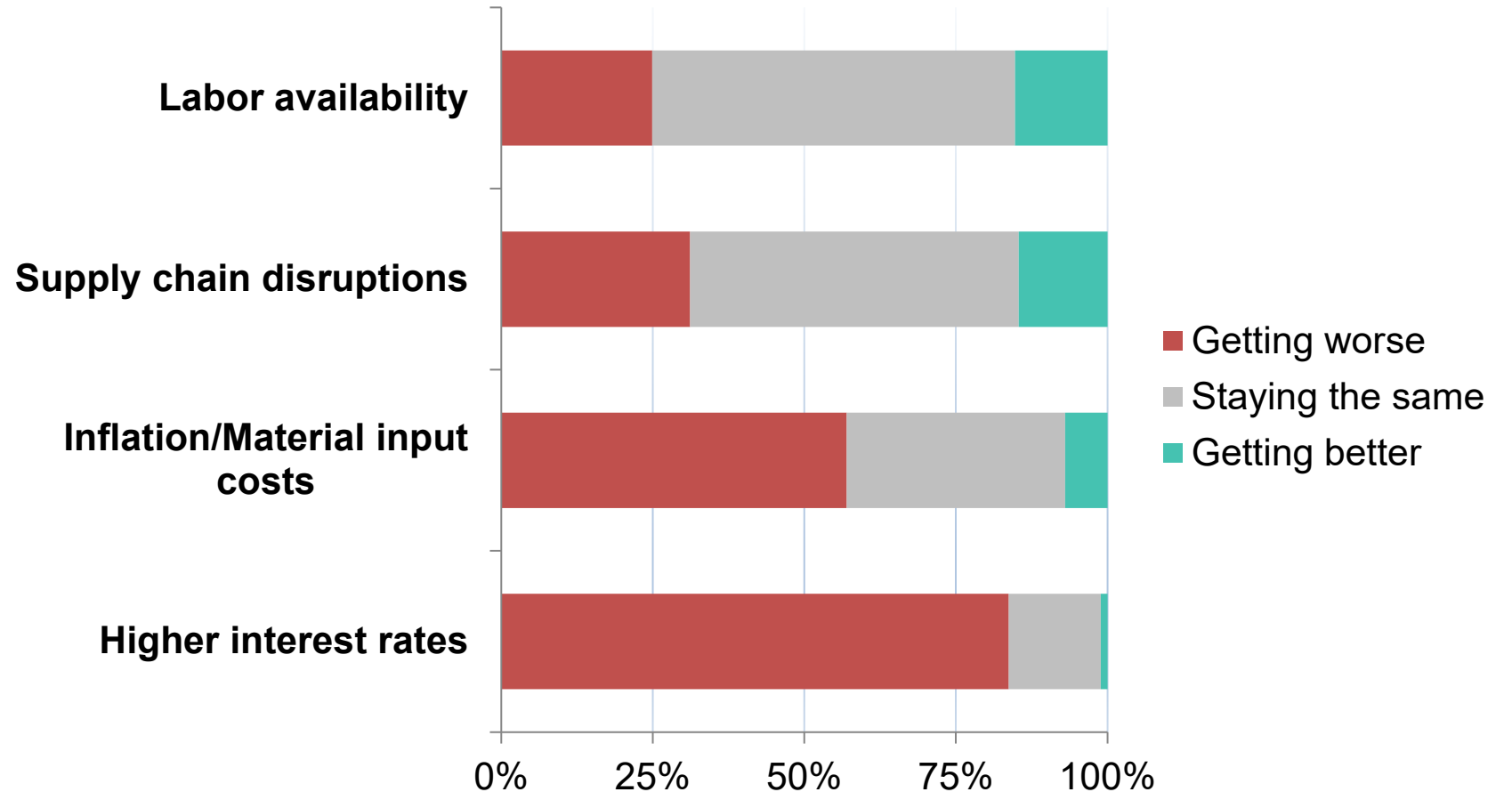


# CHALLENGES – GETTING BETTER OR WORSE?

Over the last 6-8 weeks, what is the trajectory or direction for certain challenges?

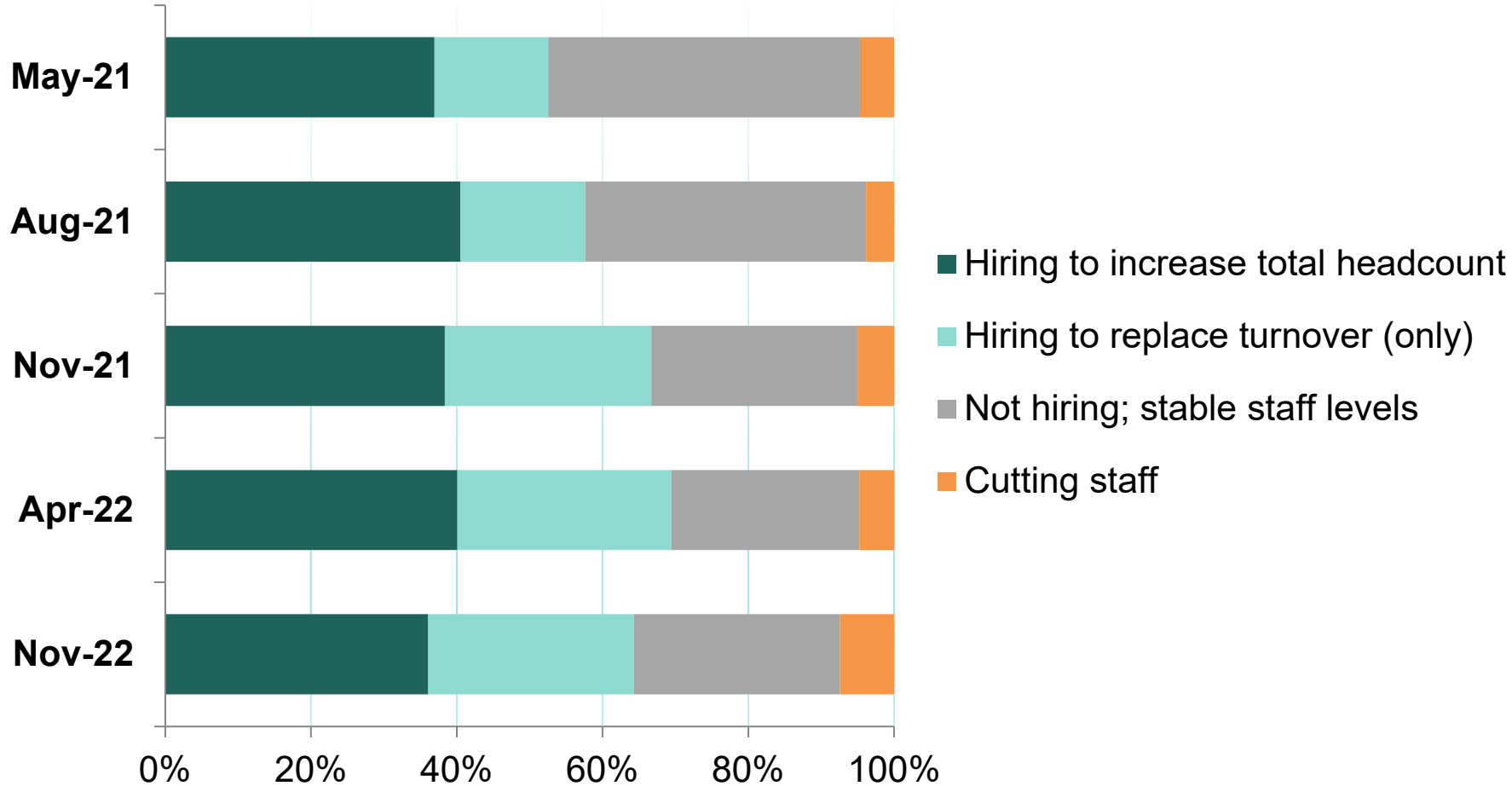
Problems not easing of late

Labor availability and supply chains are closest to easing



# LABOR FORCE: STRONG DEMAND CONTINUES

## Hiring Demand Over the Past Three Months



Persistent hiring good signal; industrial strong; residential weaker but still hiring

Some labor demand likely driven by *persistent inability* to find labor for open positions



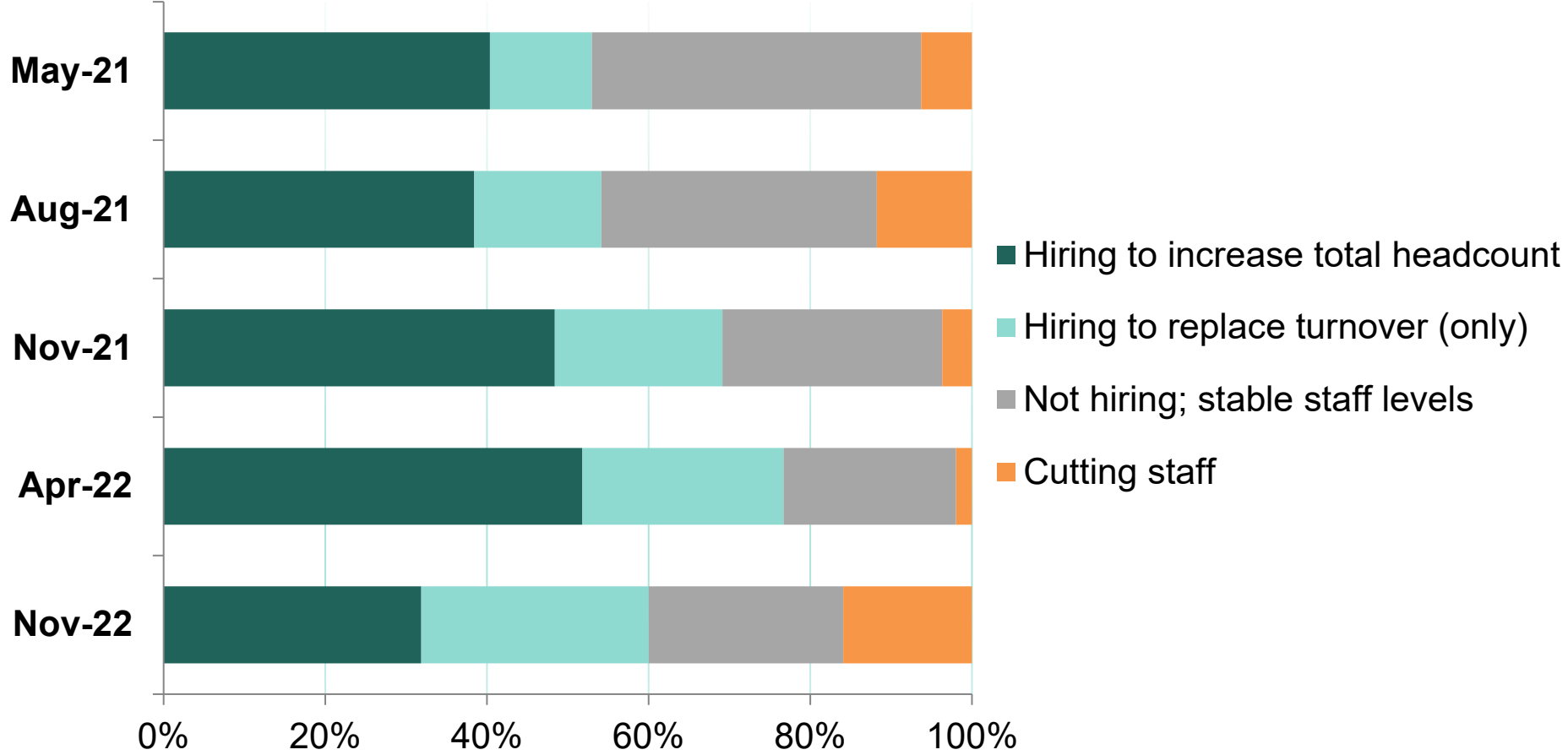


# FUTURE LABOR DEMAND: WEAKER

Clear pullback in expected future hiring

Could be a seasonal effect, but the same signal was not present in November 2021

### Staffing and hiring demand for coming six months

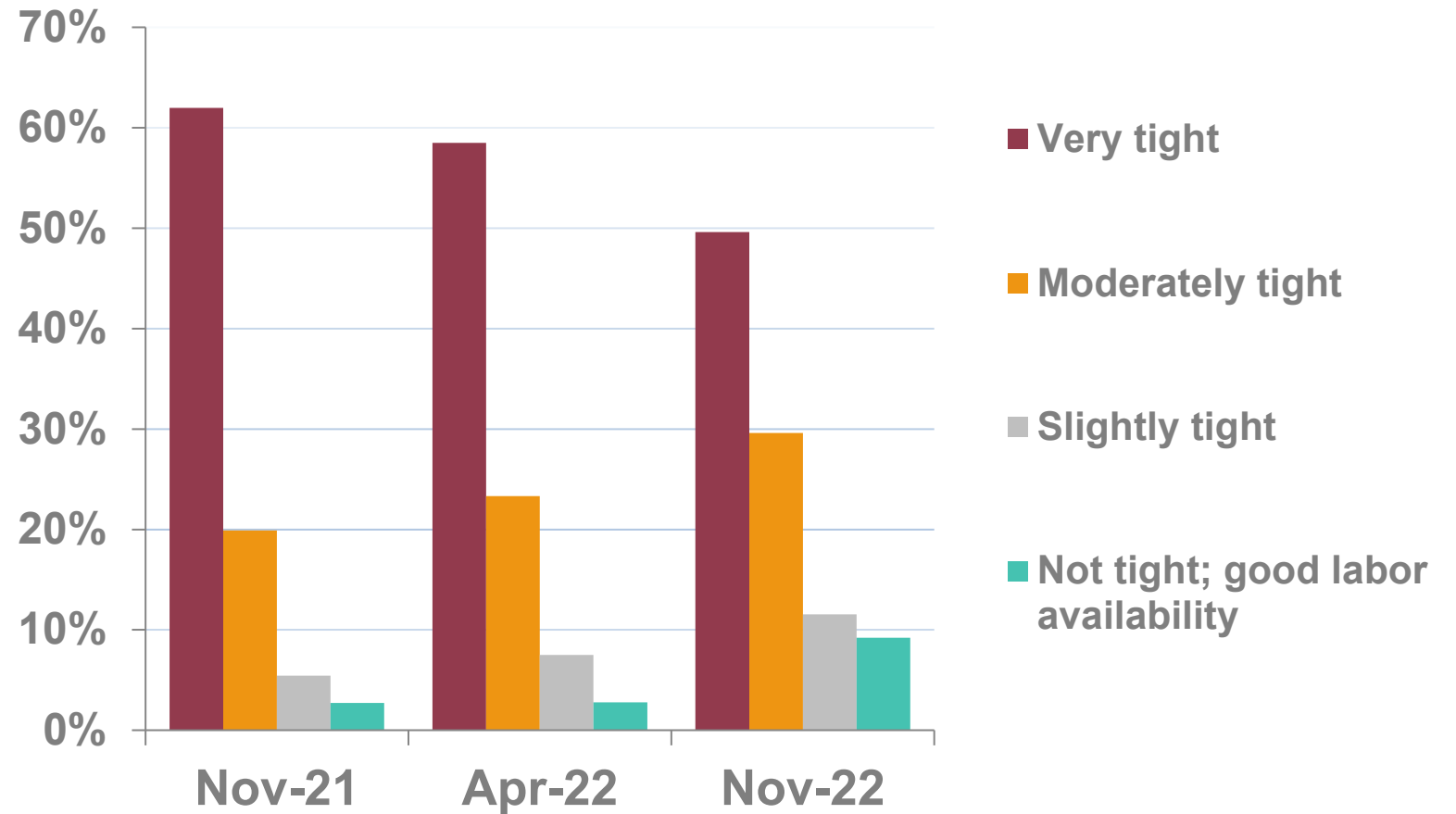


# CHALLENGE #3: LABOR AVAILABILITY

Modest, continued improvement in labor availability, likely due to softening conditions

But labor conditions still very tight

## Describe worker availability for open positions



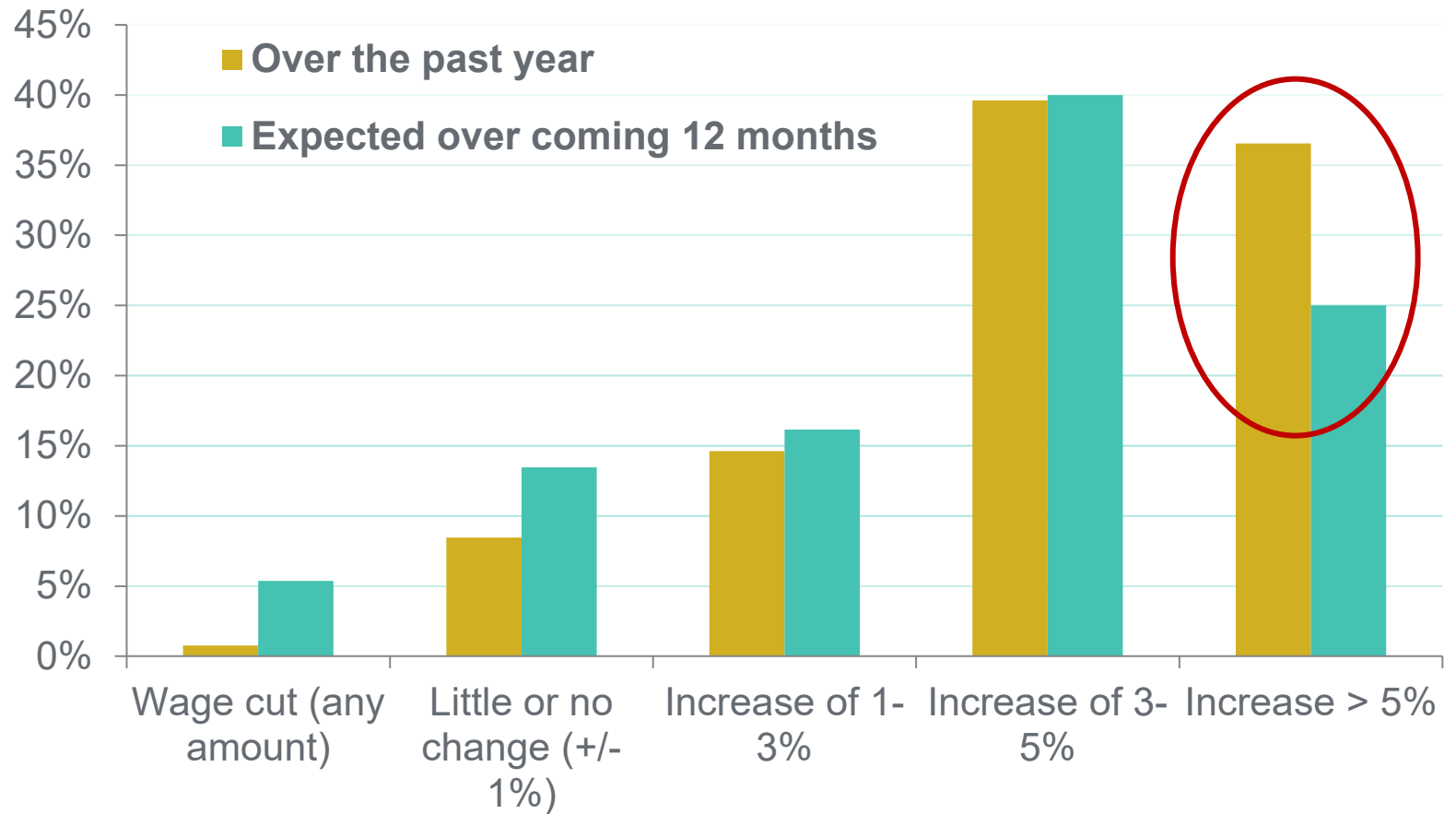
# WAGES HIGH, BUT MAYBE SOFTENING A BIT

Wage increase strong, but pullback on future wage expectations

Reversal from April survey



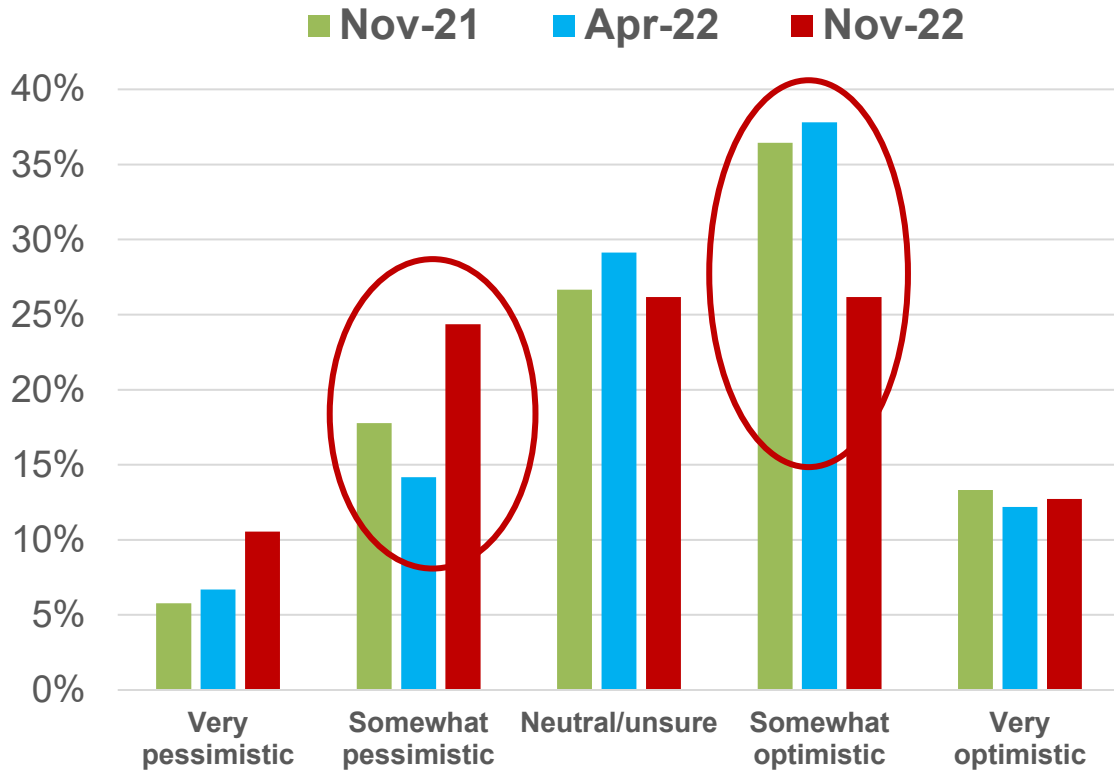
## Average wage increase for skilled trades



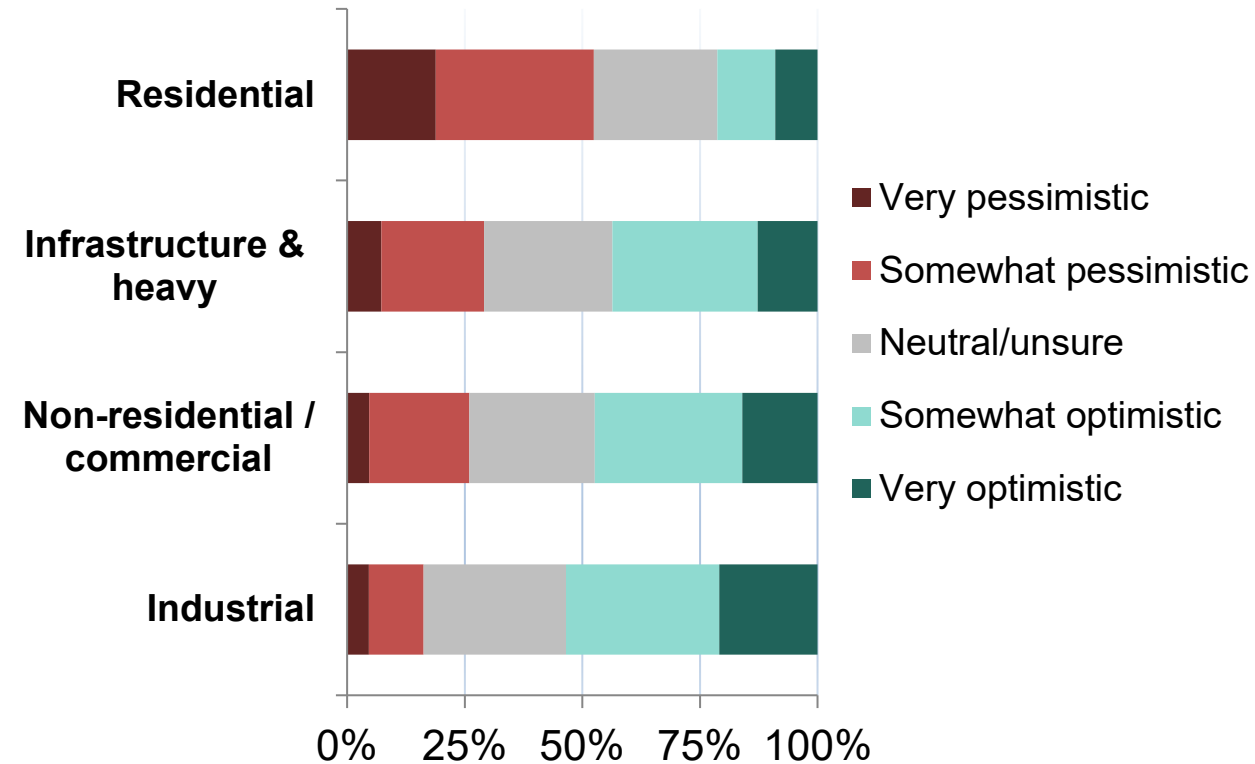
# OUTLOOK: OPTIMISM PREVAILS

Outlook fell; but despite persistent challenges, overall outlook still (net) flat/mixed  
 Heavily influenced by falling residential outlook

## Outlook for next six months



## Outlook for the next six months





## SURVEY WRAP-UP

- Revenue trending negative, but not for everyone
- Profits widely lower
- Residential seeing significantly tougher conditions
- Industrial seeing best conditions
- Future concerns: Increase in project cancellations, reduction in backlogs and new projects out for bid
- Challenging conditions, w/ interest rates added to mix
- Outlook has fallen, but maybe not as much as expected given the circumstances



## MINNEAPOLIS FED SURVEYS

- **Monthly Business Pulse Survey**
- **Quarterly: Ag Credit, Hospitality & Tourism**
- **Bi-annual: General Business and Construction**
- **Annual: Manufacturing, Professional Services, and Child Care Providers (MN only)**
- **Worker Experience: New area with much potential for insights to labor force participation**
- **More info online: [minneapolisfed.org](https://minneapolisfed.org)**
- **Contact: [ron.wirtz@mpls.frb.org](mailto:ron.wirtz@mpls.frb.org)**





## LOOKING FOR MORE ENGAGEMENT

- Minneapolis Fed always looking for new partners to help us gauge current conditions
- Partners receive more detailed response data than covered today
- Also available to discuss findings directly with (new?) construction groups, boards of directors and others interested in how construction companies are faring in current economy





**THANK YOU!**

**QUESTIONS?**

**SUBMIT QUESTIONS VIA CHAT BOX**

**TWITTER: @RONWIRTZ**

**@MINNEAPOLISFED**

**CONNECT VIA LINKEDIN**

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