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.

THANK YOU TO PARTNERS (AND RESPONDENTS!)

- Partner survey: Construction-trade organizations in every District state distribute survey to their membership
- Largest construction-focused survey among the 12 Federal Reserve District Banks
- THANK YOU – survey provides Minneapolis Fed, our partners, and their members with timely insights on current conditions

CONSTRUCTION SURVEY

- **Conducted: April 10 to April 21, 2023**
- **Total responses: 254, with somewhat better representation across the Ninth District**
- **Results are a snapshot: Not a scientifically sampled survey**
  - **Residential and commercial: both sectors had about 50% of respondents (*non-exclusive*)**
  - **Infrastructure/heavy: 23%**
  - **Industrial: 16%**
  - ***Distribution by sector and size similar to past surveys***
- ***Please interpret results carefully***

SURVEY TAKE-AWAYS

- Revenue trending negative, profits widely lower
  - Trend affecting all sectors, but some more than others
- Cancellations increasing, now more bc of uncertainty
- New/future projects declining, backlogs shrinking
- Inflation, interest rates & labor lead broad pack of challenges
- There is some good news:
  - Supply chain improving; inflation also; labor demand healthy
- Despite some poor indicators, outlook still optimistic

RECENT REVENUE

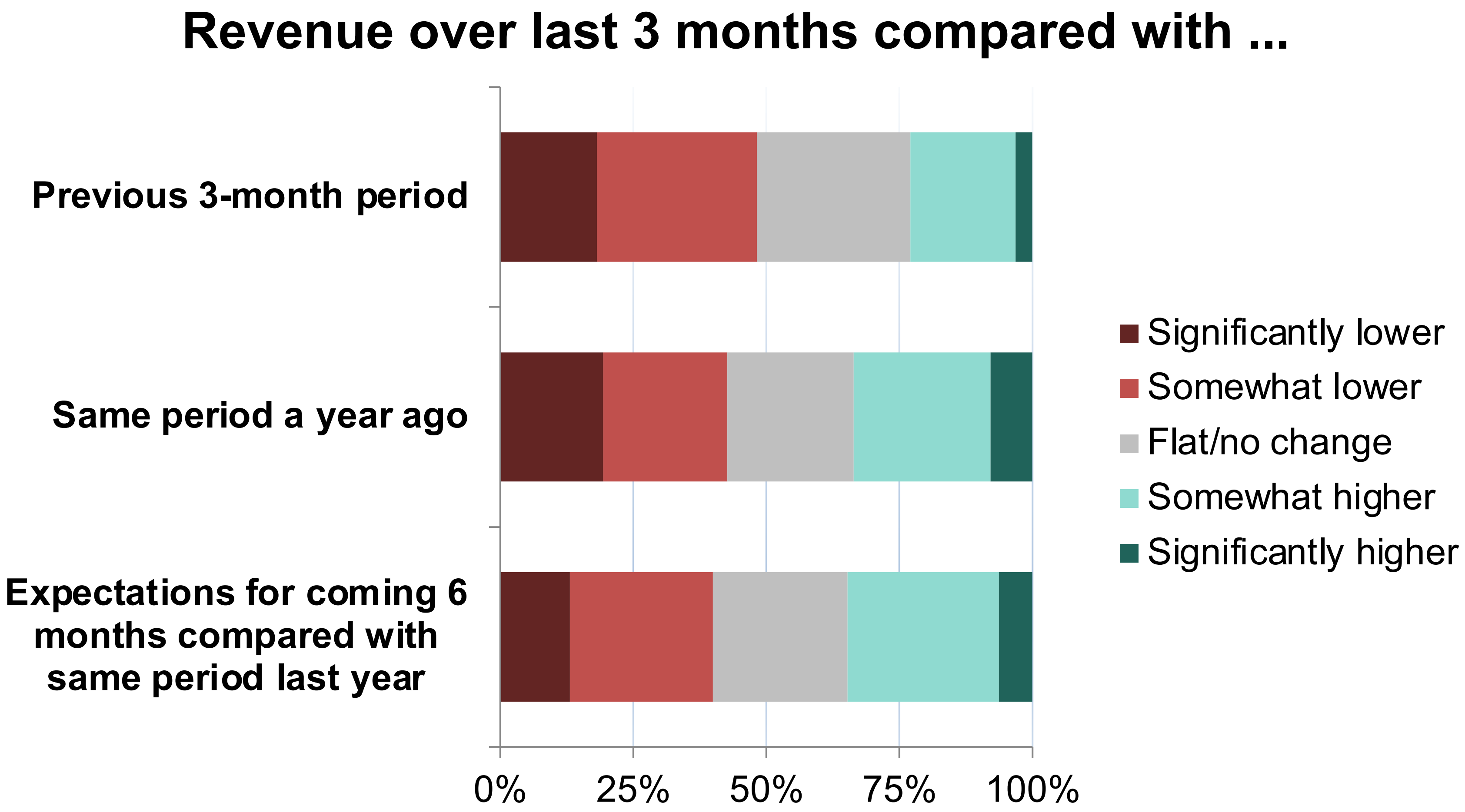
&

PROFIT TRENDS

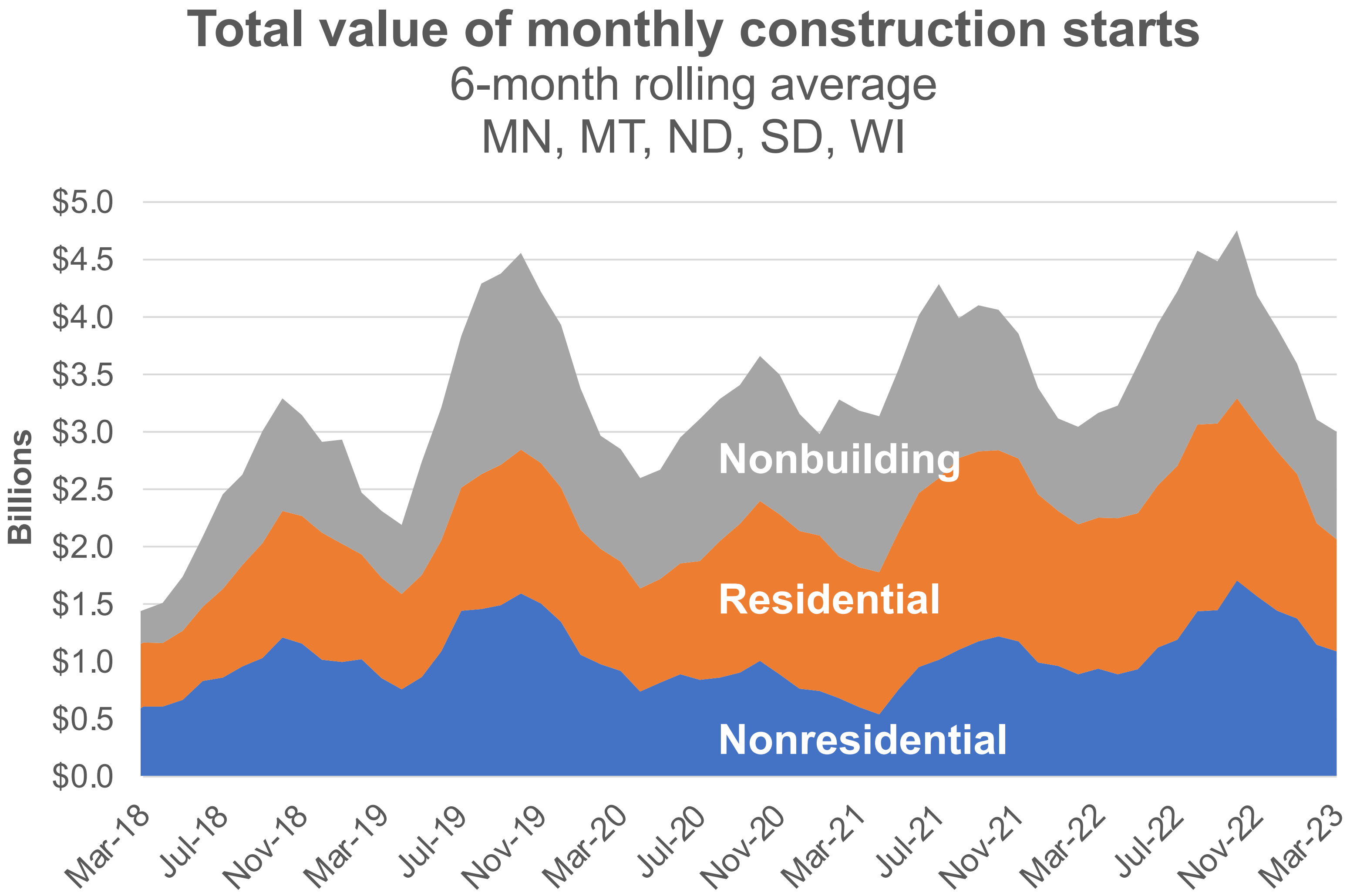
RECENT AND FUTURE REVENUE

Year-over-year: Slightly negative overall

Outlook: Also slightly negative but saw decent bounce-back from November survey



NEW CONSTRUCTION STARTS



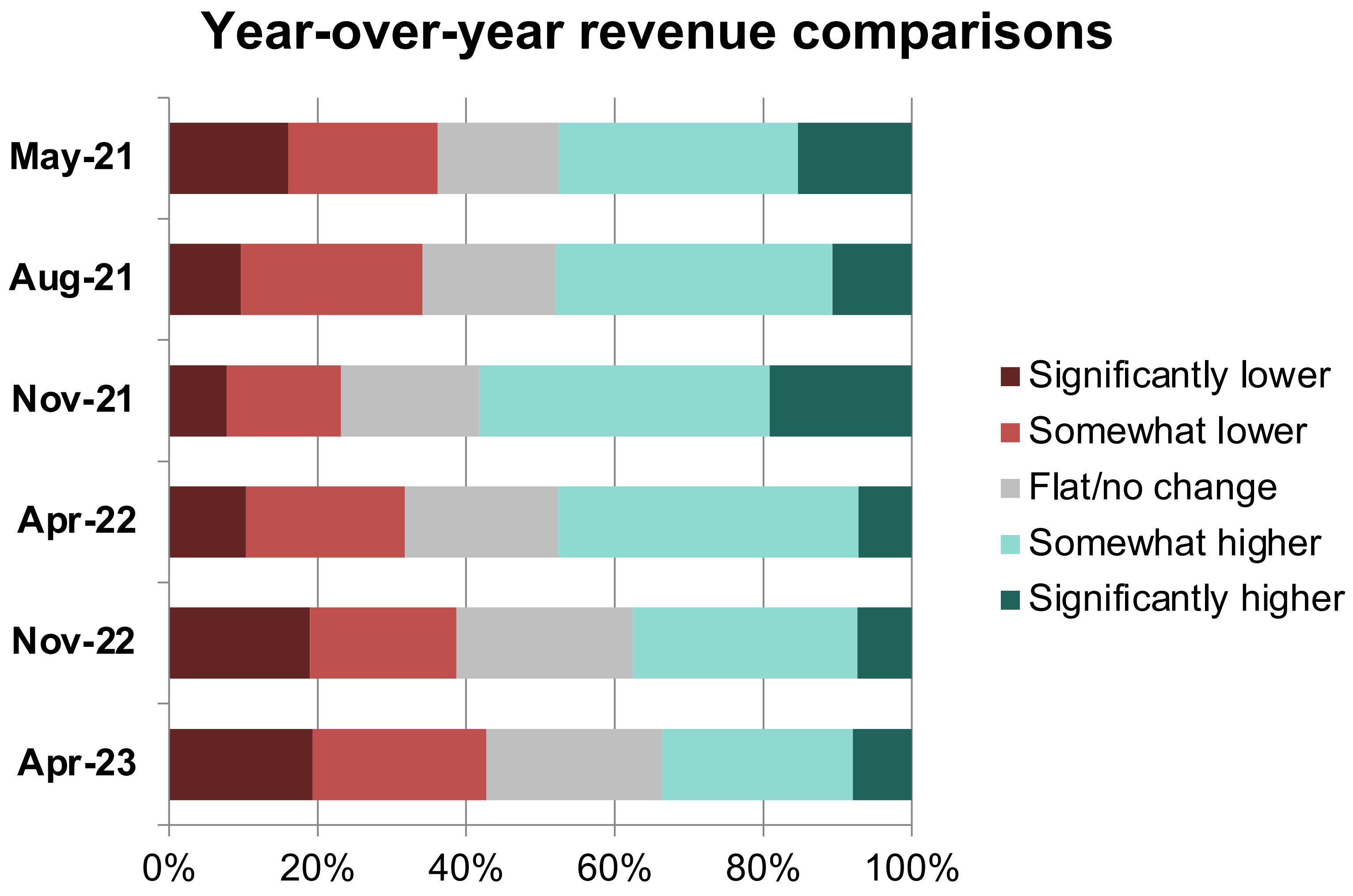
Source: Dodge Data & Analytics

Total construction spending still comparatively high

District totals boosted by:

- **Inflated costs**
- **Strong activity in SD and MT (states less represented in survey sample)**

REVENUE TRENDS, OVER TIME



Repeated cross sections from previous surveys

Slowing first showed up in April 2022 survey, and has continued in with most recent surveys

Note: Survey went to bi-annual in 2022

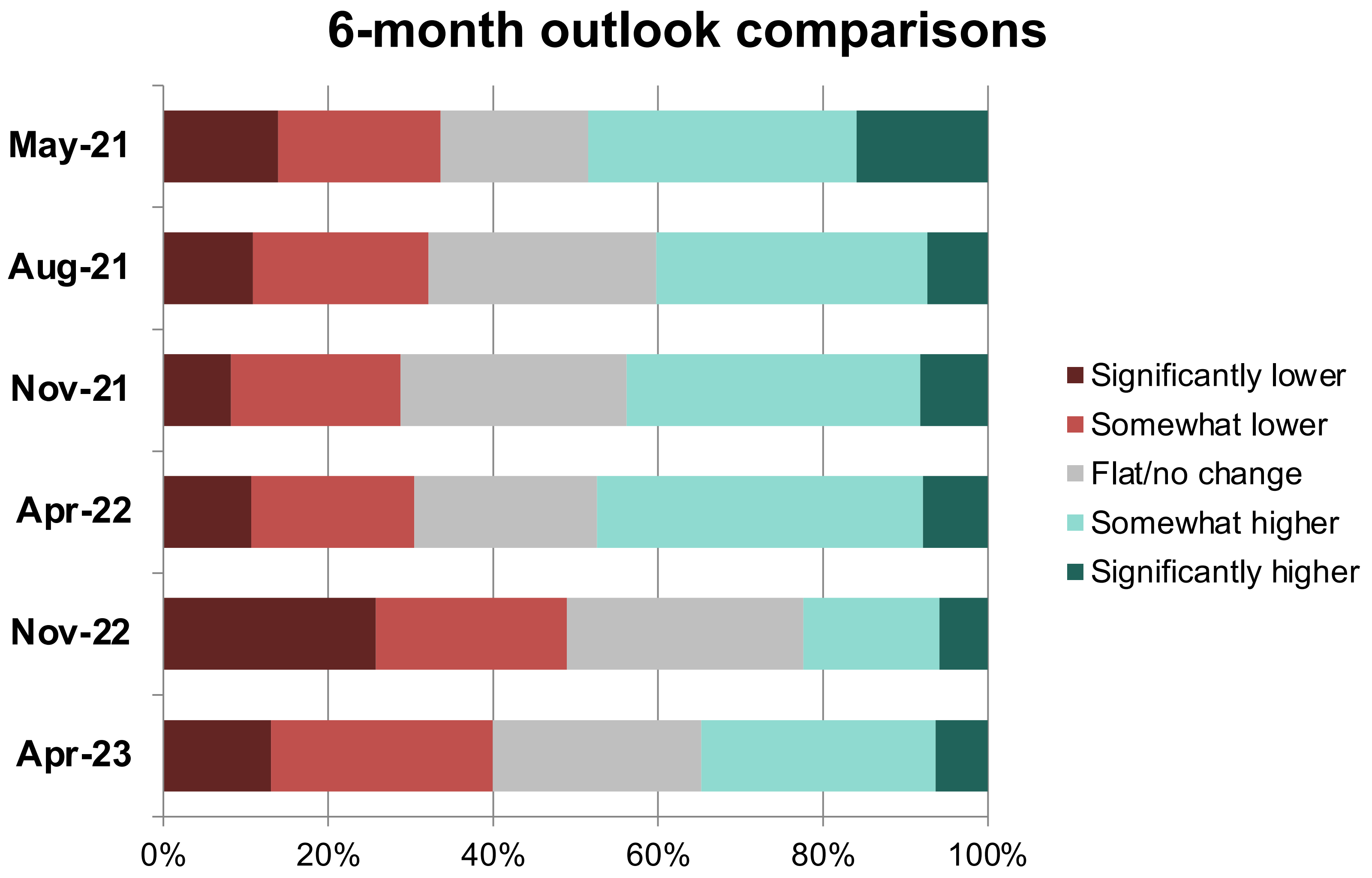
COMPARISON: 6-MONTH REVENUE EXPECTATIONS

Half-empty/full

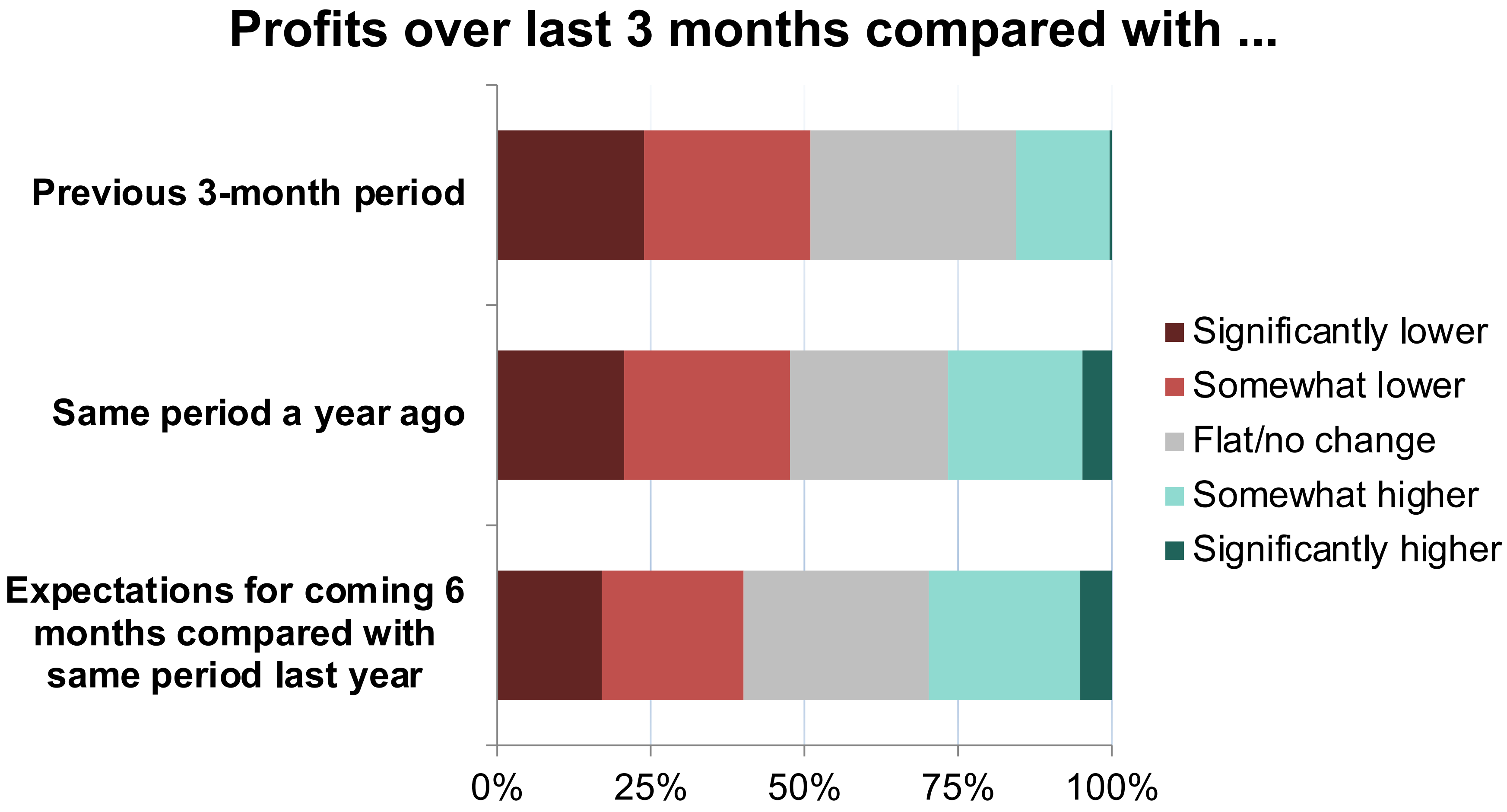
Comparison to April is poorer

Comparison to the previous survey is better

Note: Survey went to bi-annual in 2022



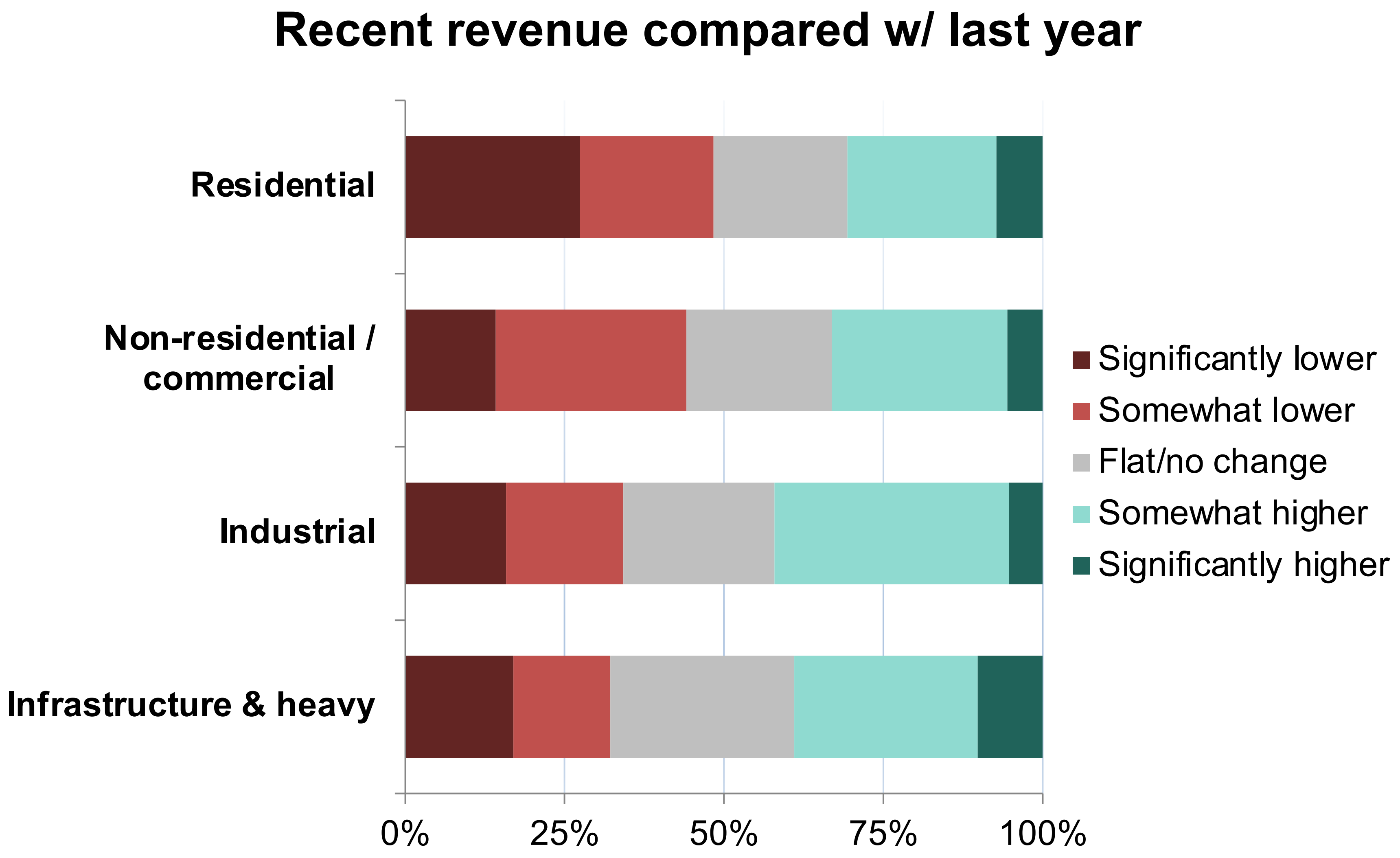
COMPANY PROFITS



Profit levels negative across the board

But profit outlook not quite as dour as November survey

REVENUE TRENDS BY CONSTRUCTION SECTOR



Sectoral performance

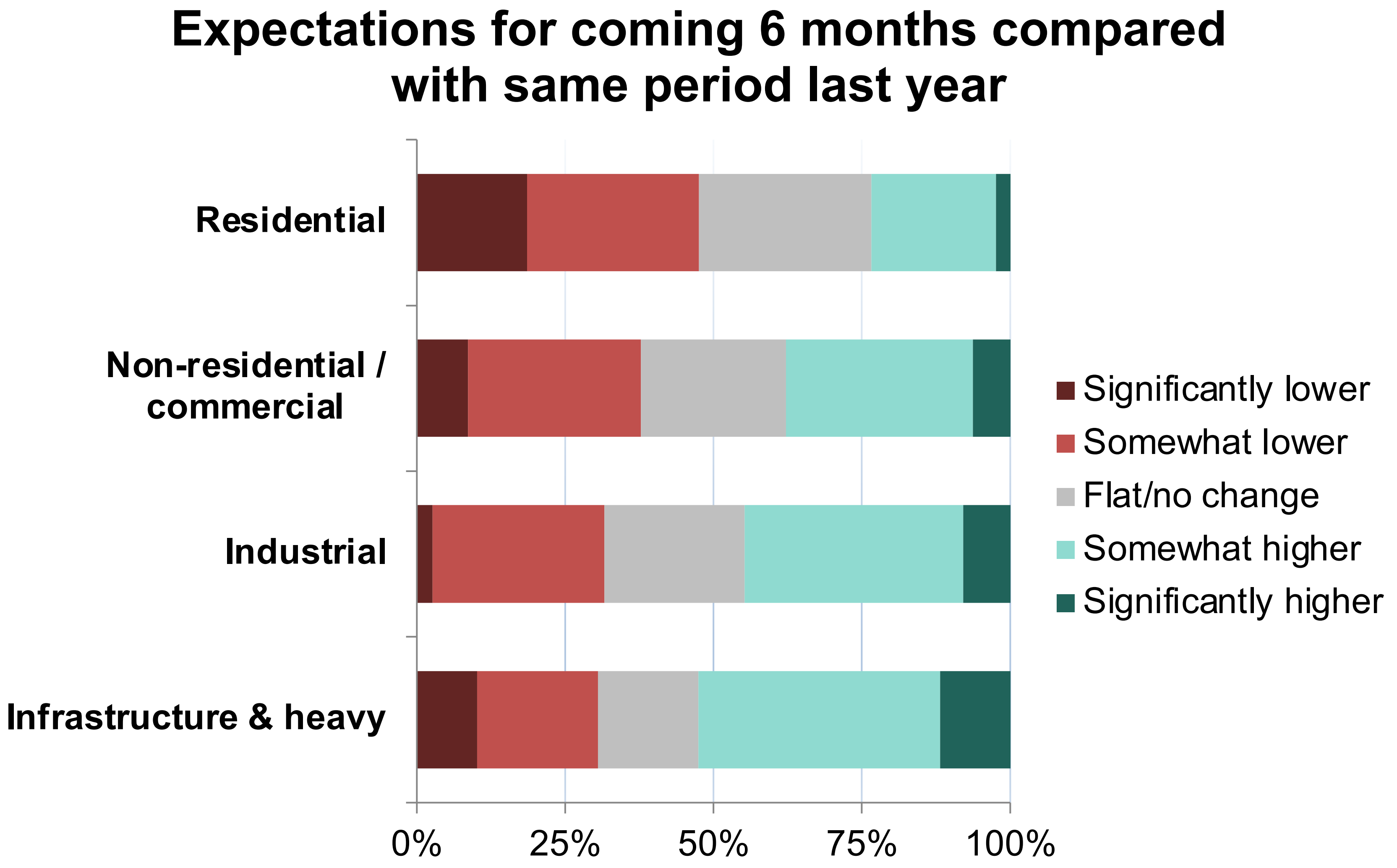
Residential and commercial seeing poorest revenue trend

Infrastructure and industrial still seeing positive outcomes

Note: Smaller sample among infrastructure & industrial firms, but they also tend to be bigger

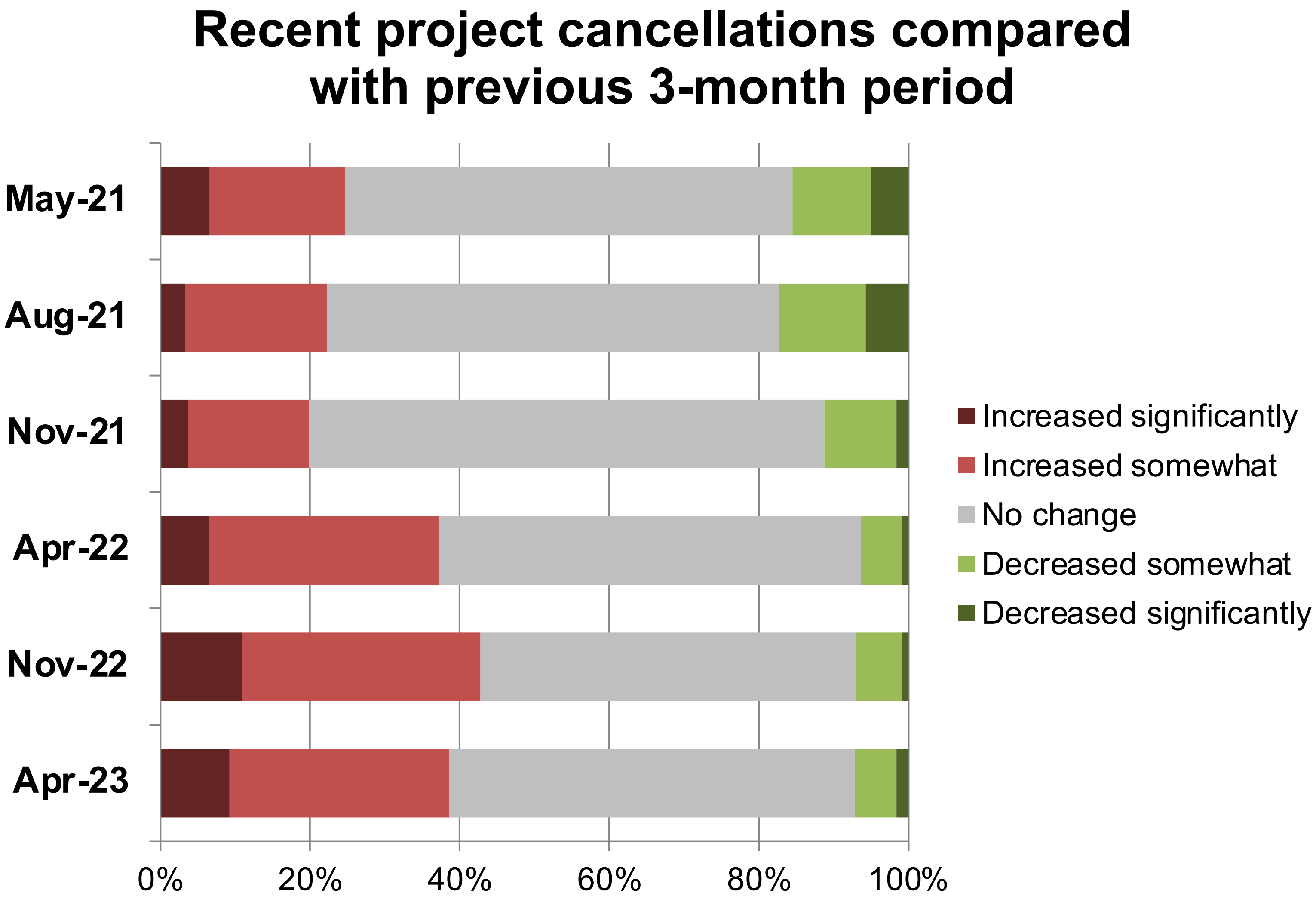
FUTURE EXPECTATIONS

6-month revenue outlook shows more concern for residential, and flat-to-good outlook for other sectors



OTHER ACTIVITY METRICS

PROJECT CANCELLATIONS

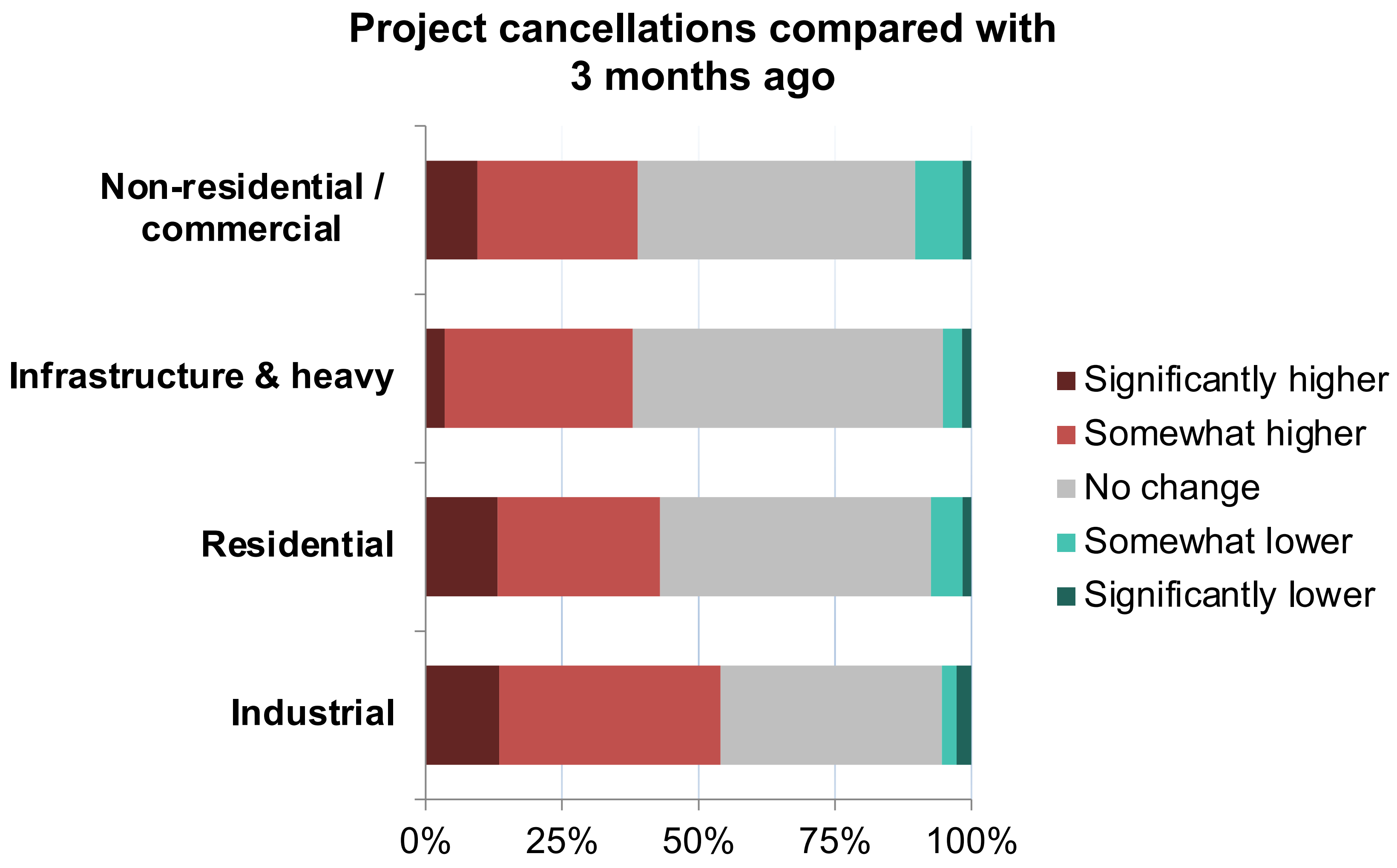


Cancellations and delays continue to run high; little sign of big reversal

Common reasons (from comments):

- Cost inflation,
- Higher financing costs
- More so in this survey: general uncertainty

CANCELLATIONS, BY SECTOR



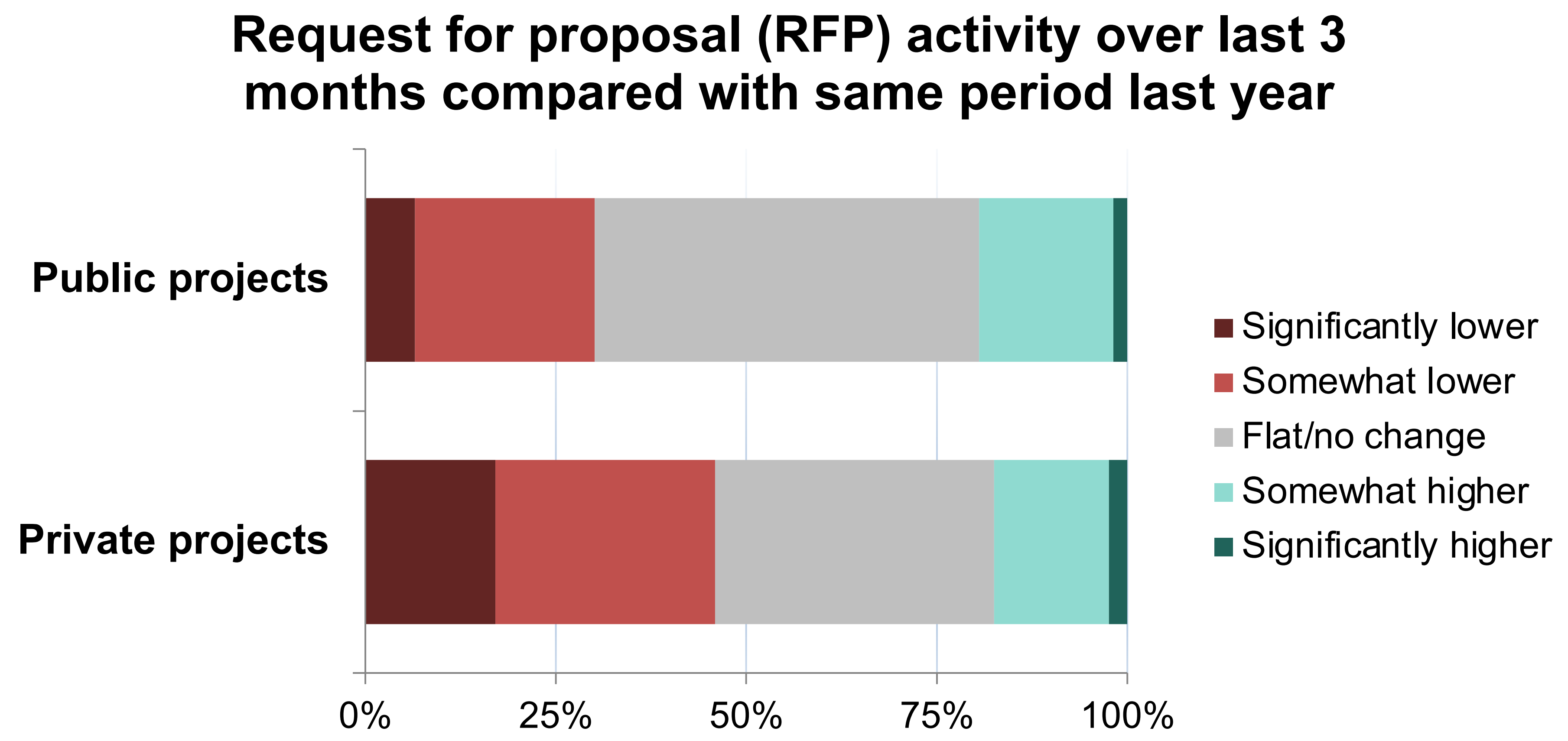
Cancellations rising

In November, residential was seeing the worst trend (by far); industrial saw notable jump in April survey

Delays still rampant also

FUTURE PIPELINE:
PROJECTS OUT FOR BID

NEW PROJECT PROPOSALS SLOWING



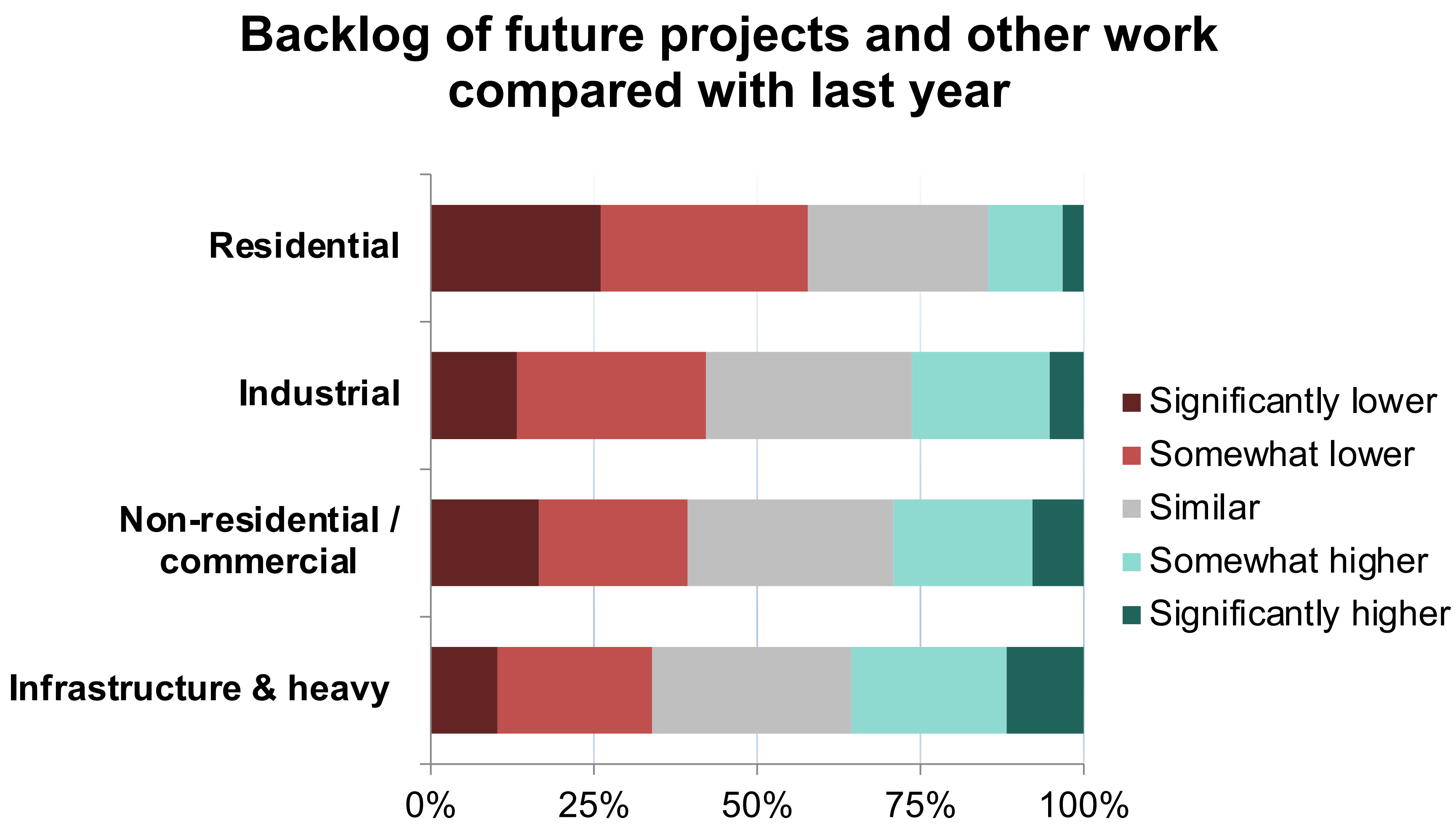
Pipeline for future projects out for bid (aka RFPs) continues to slow, especially for private projects

No major differences among sectors

PROJECT BACKLOGS

Backlogs continue to shrink, esp. in residential

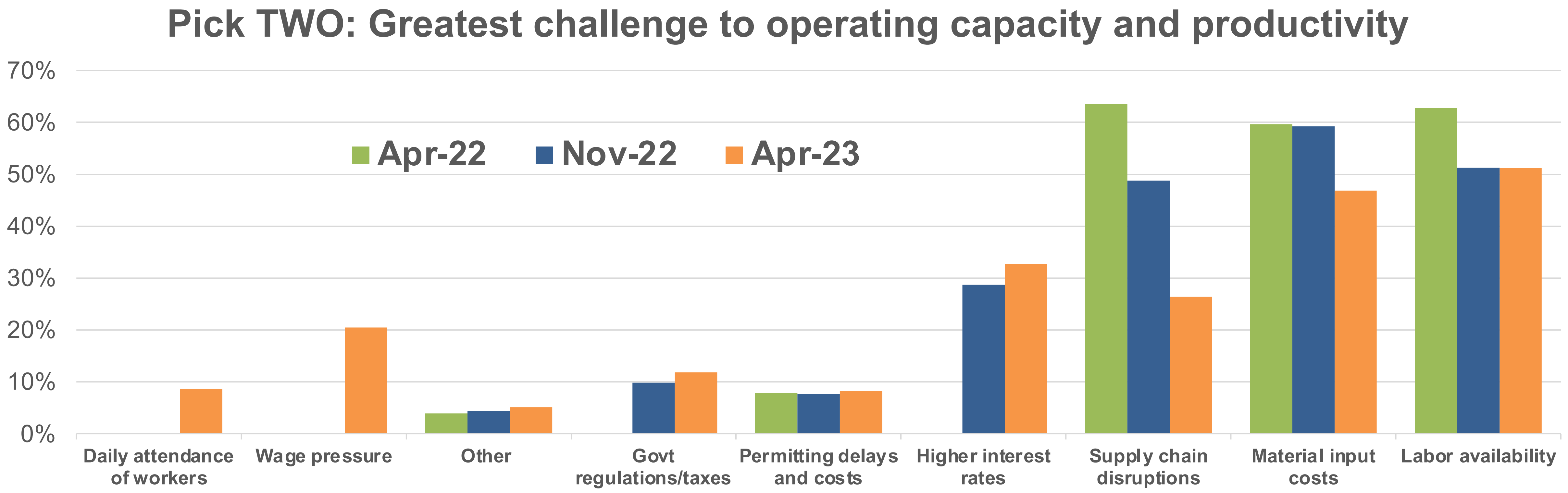
Result of higher cancellations, fewer new projects and pulling work forward



CHALLENGES

CHALLENGES TO OPERATIONS

- "Big three" challenges turning into "big two plus lots of other things"
- Supply chain down considerably
- Wages and attendance offer more insights to labor issues



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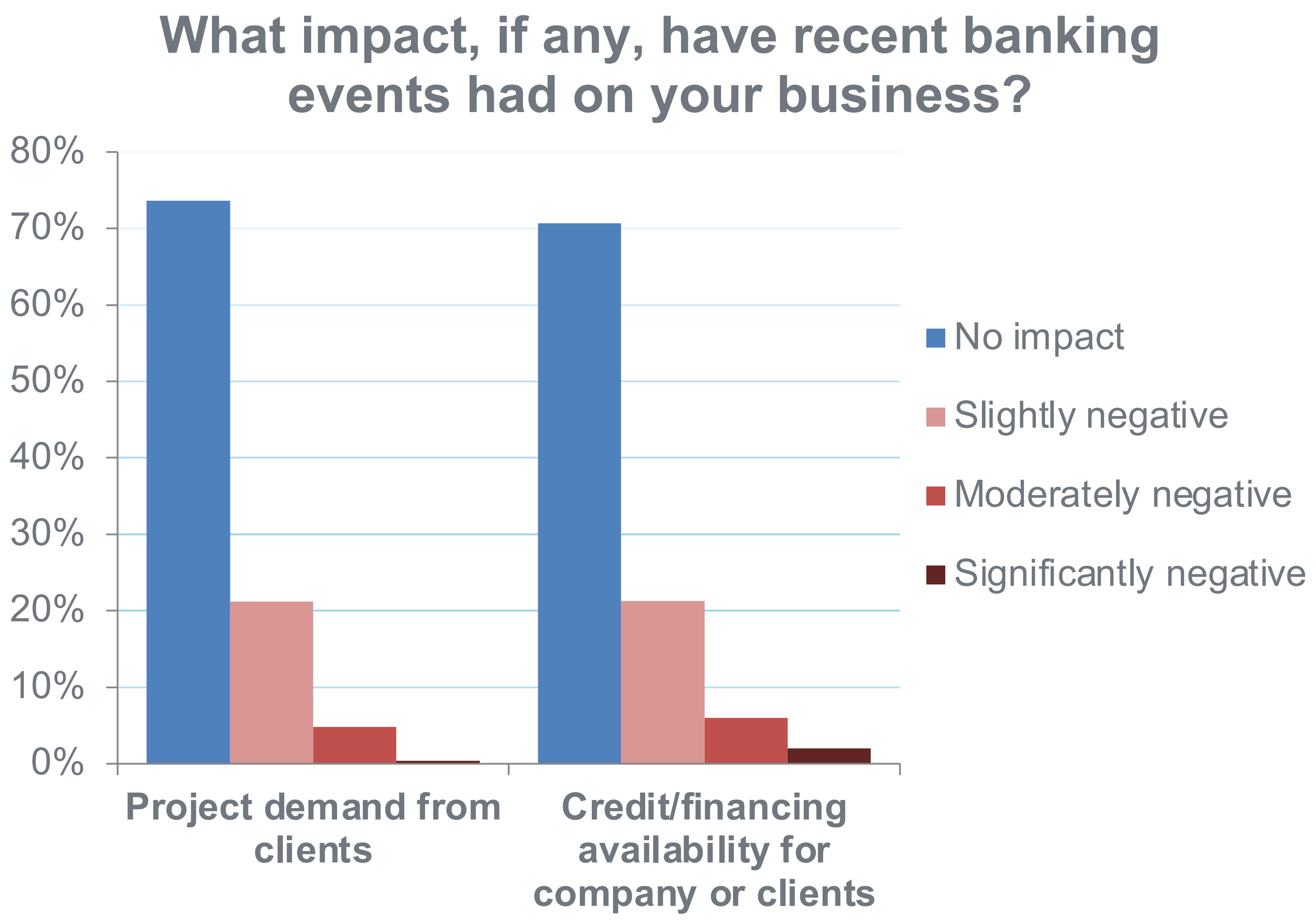
BANKING ENVIRONMENT



Roughly 75 percent said banking events have had no impact

But that leaves 1 in 4 that perceive *some* negative impact

Adds to the pile of challenges

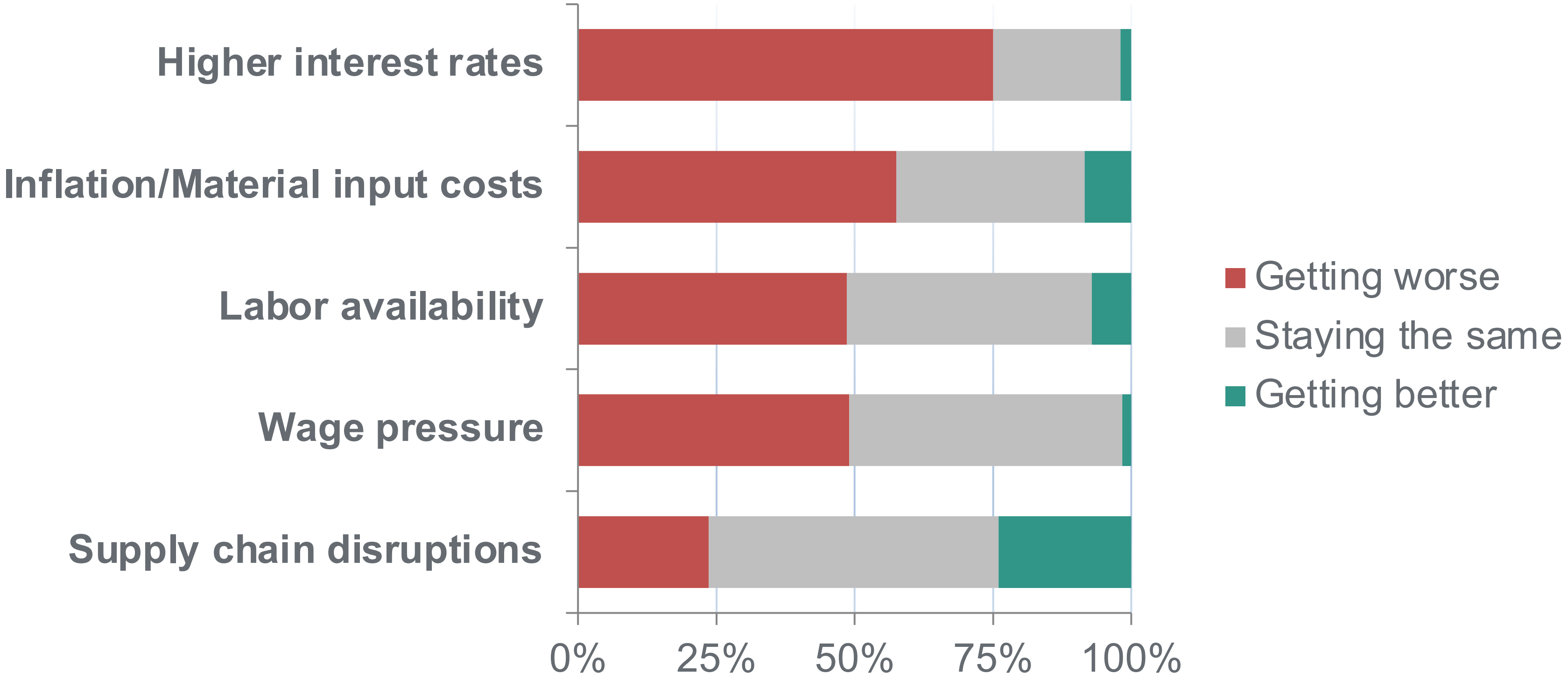
CHALLENGES – GETTING BETTER OR WORSE?

Inflation and interest rate effects very persistent and negative

Some counter evidence that input costs/inflation is improving

Supply chain showing real evidence of improvement

Current trajectory or direction for certain challenges

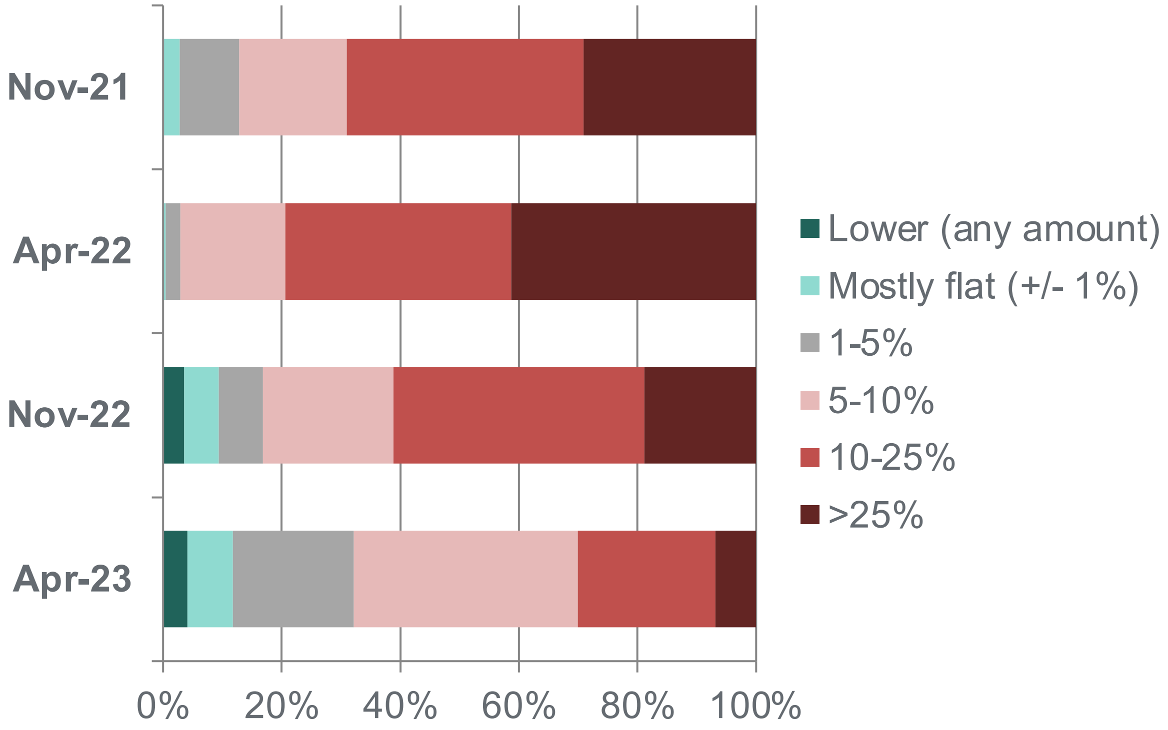


CHALLENGE: RISING PRICES

Wholesale and retail price inflation definitely trending down, but still high

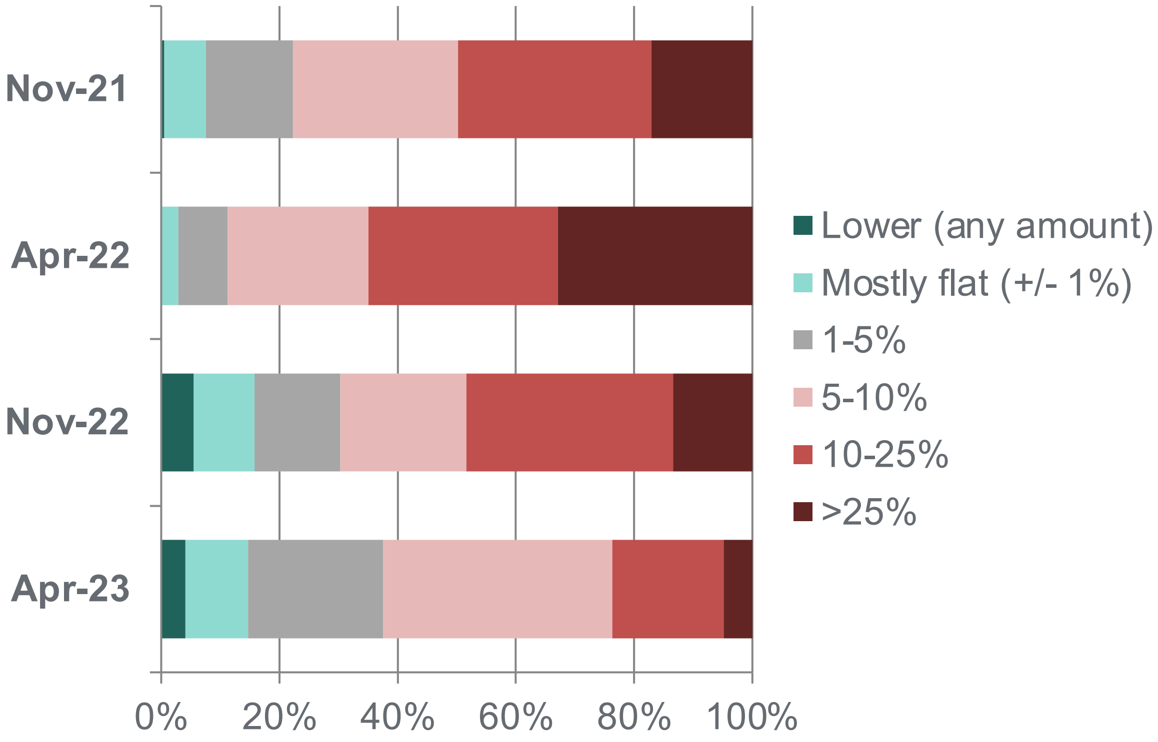
Wholesale pricing

Average price increase from vendors, all materials, compared with one year ago



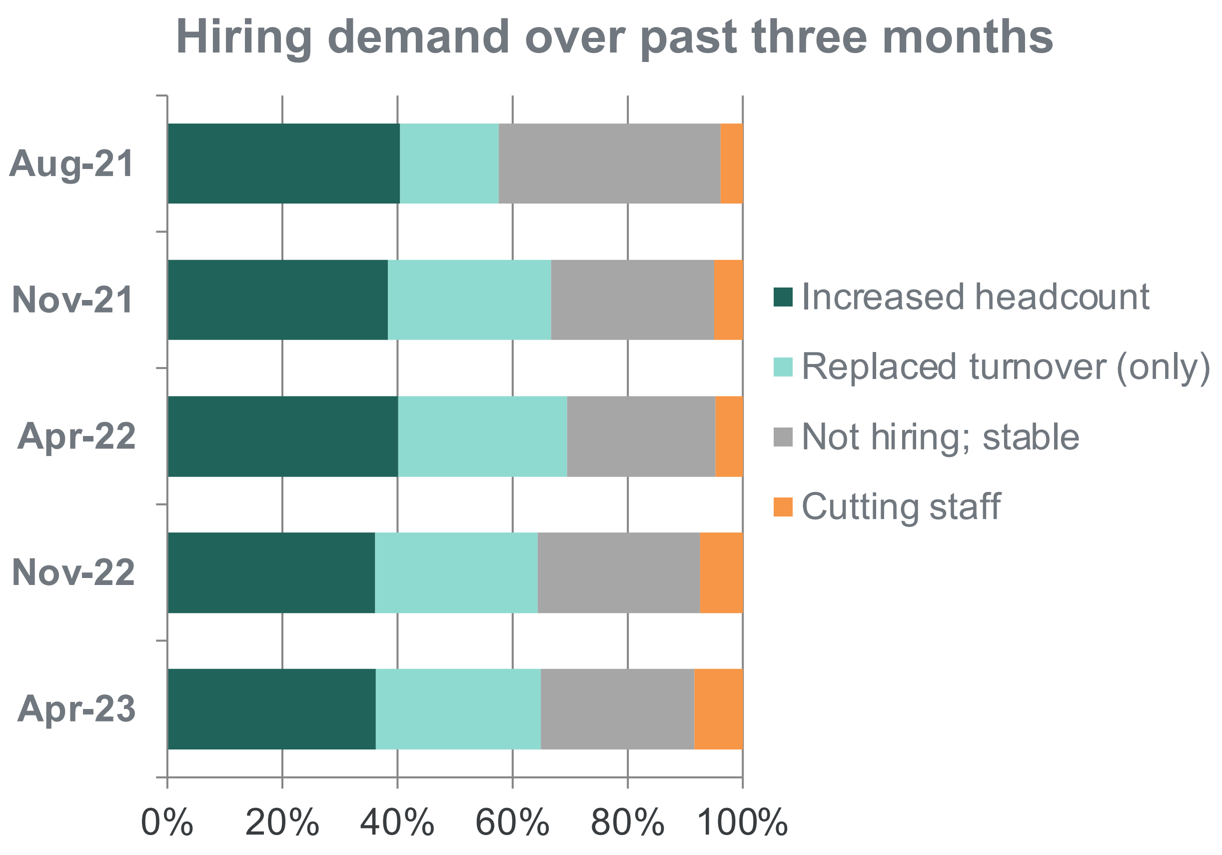
Retail pricing

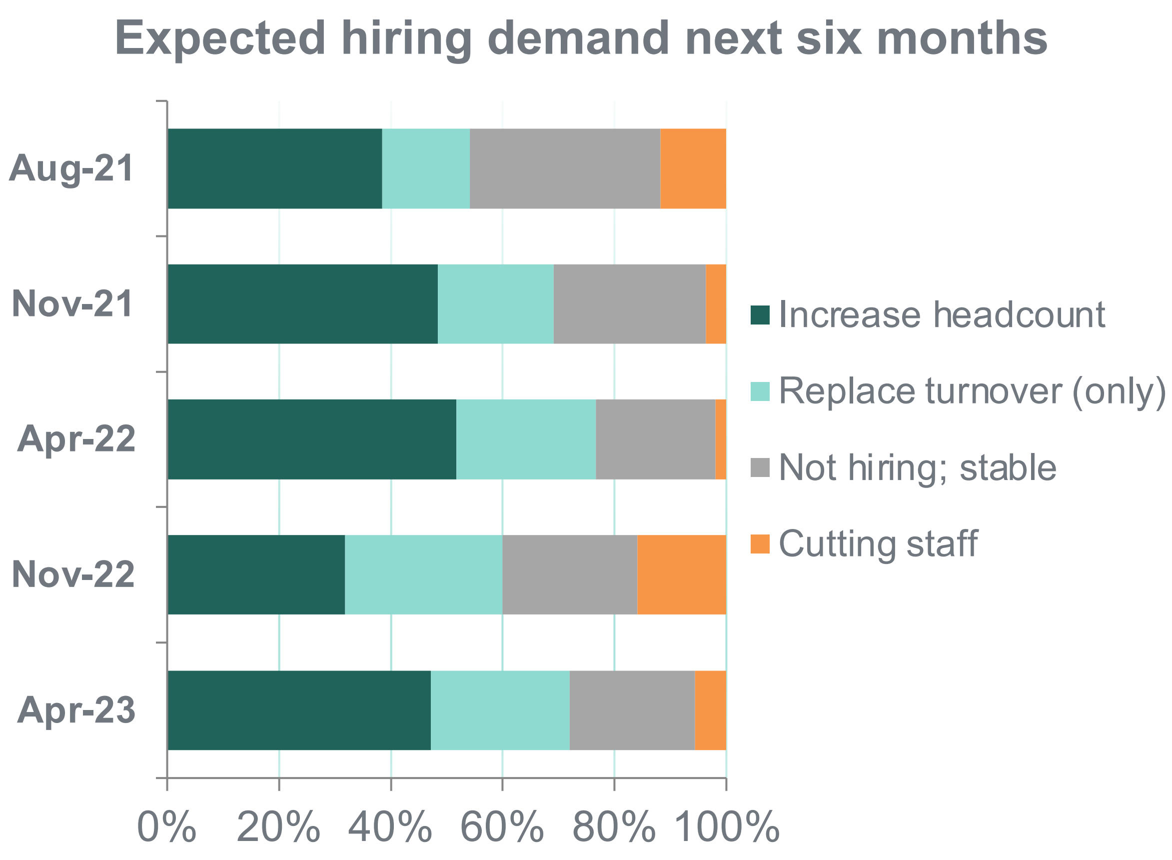
Average price increase to customers, all materials, compared with one year ago



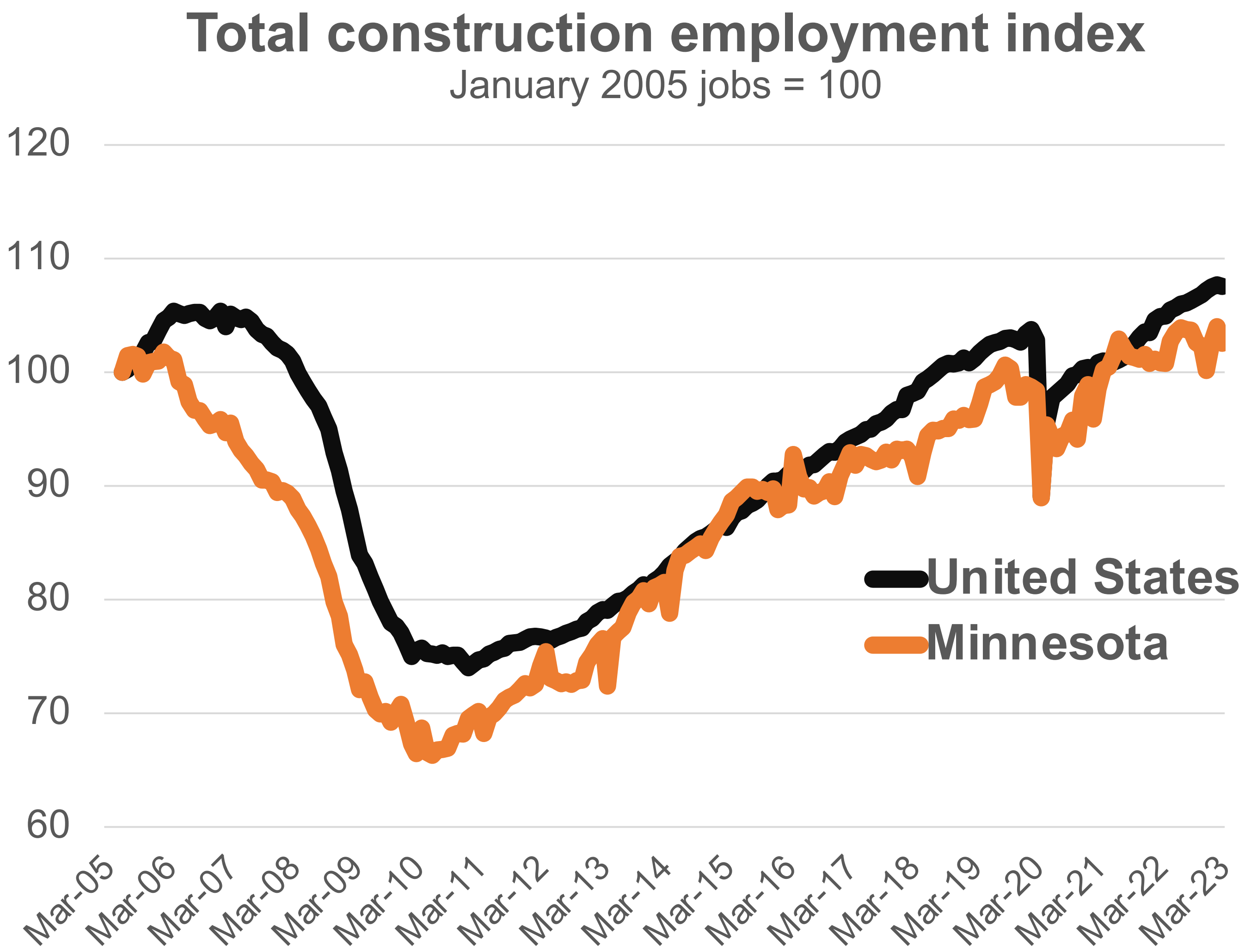
LABOR DEMAND STILL VERY HEALTHY

- Sector's difficulties ***not*** flowing through to hiring demand
- Some demand driven by persistent *inability* to find labor for open positions





HISTORICAL CONSTRUCTION EMPLOYMENT

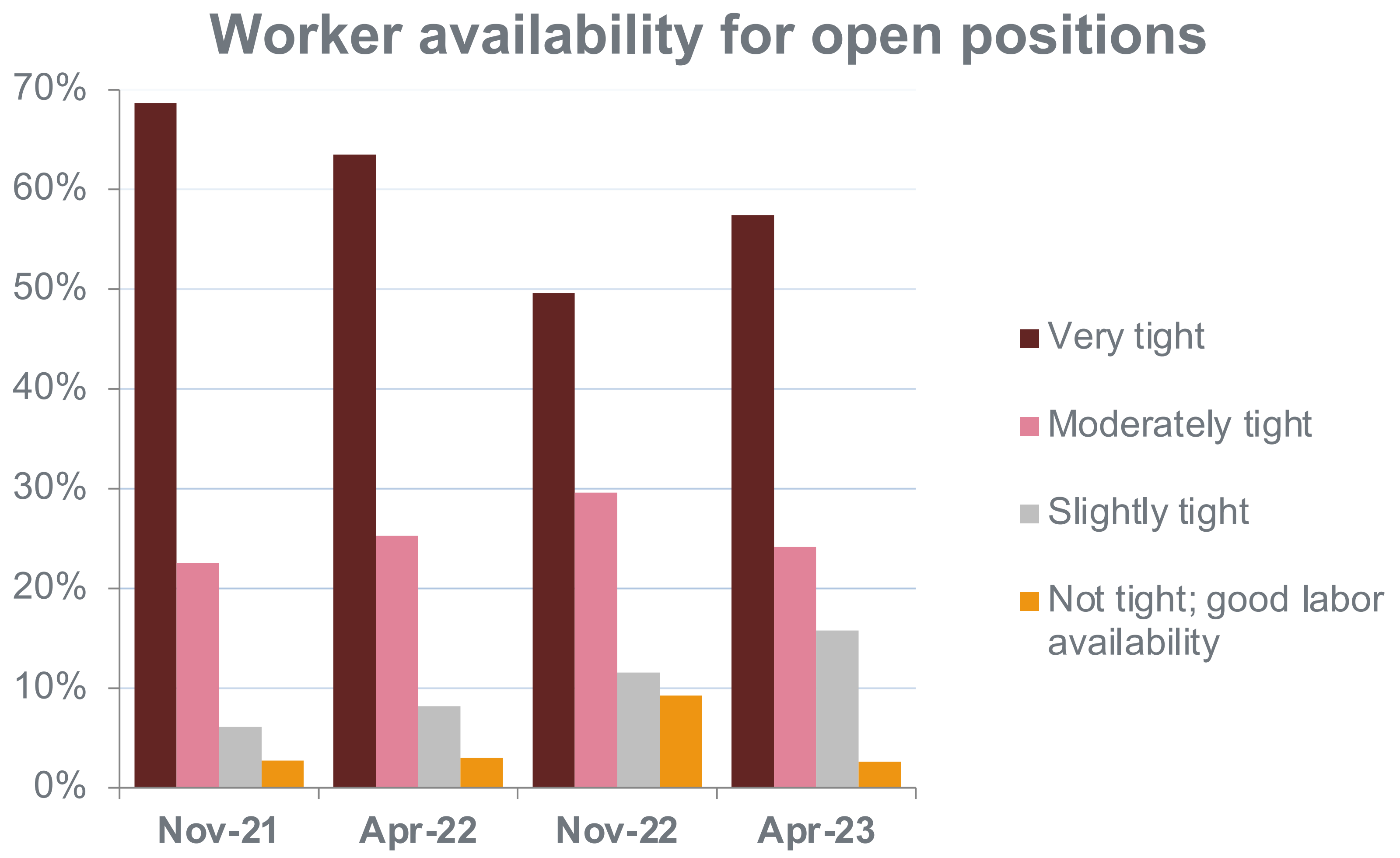


Even slow or flat construction employment looks *waaay* different than the recent past

LABOR AVAILABILITY

Modest uptick in labor tightness, likely due to seasonality

Slightly lower than 2022 levels



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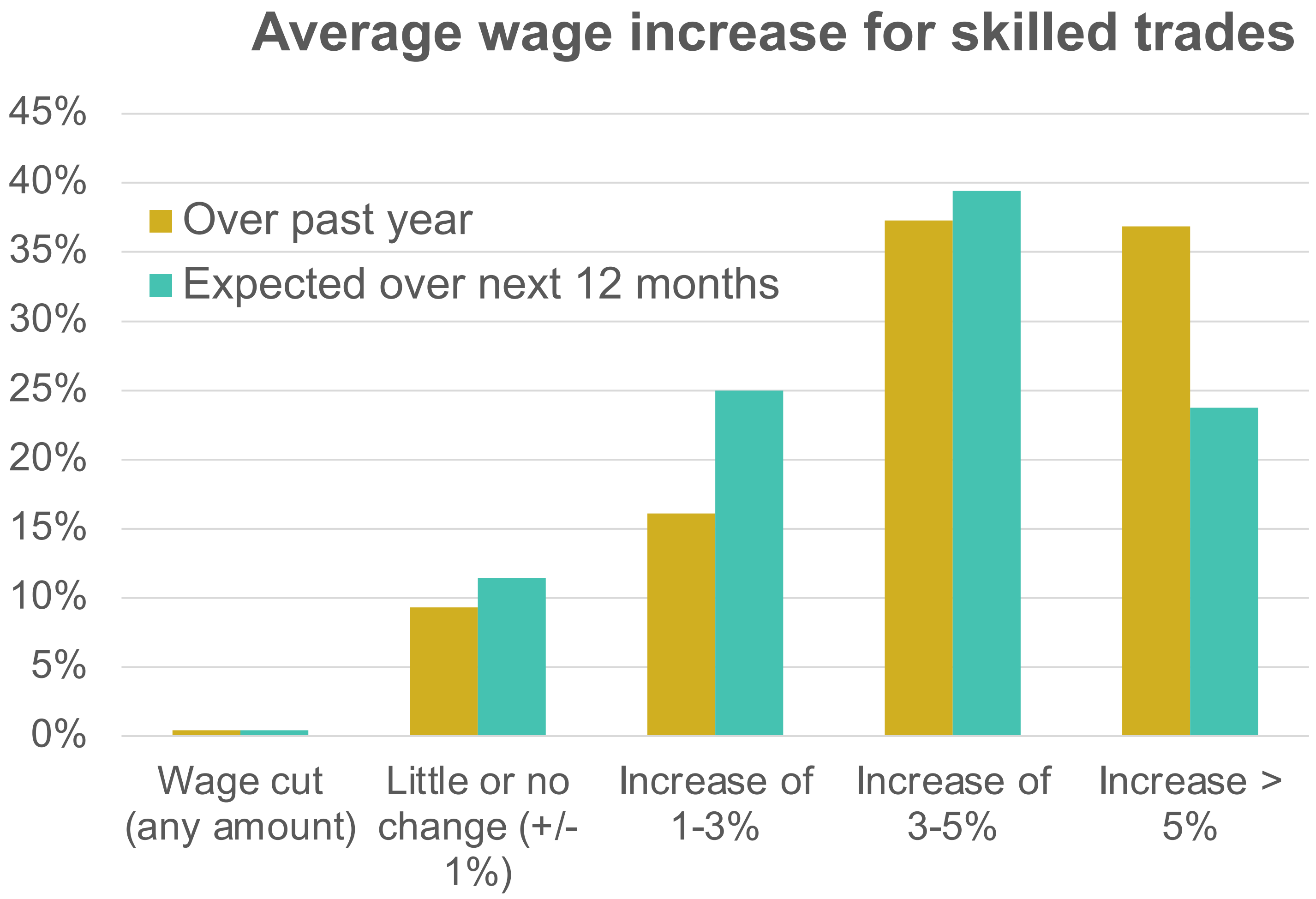
WAGES FOR SKILLED TRADES

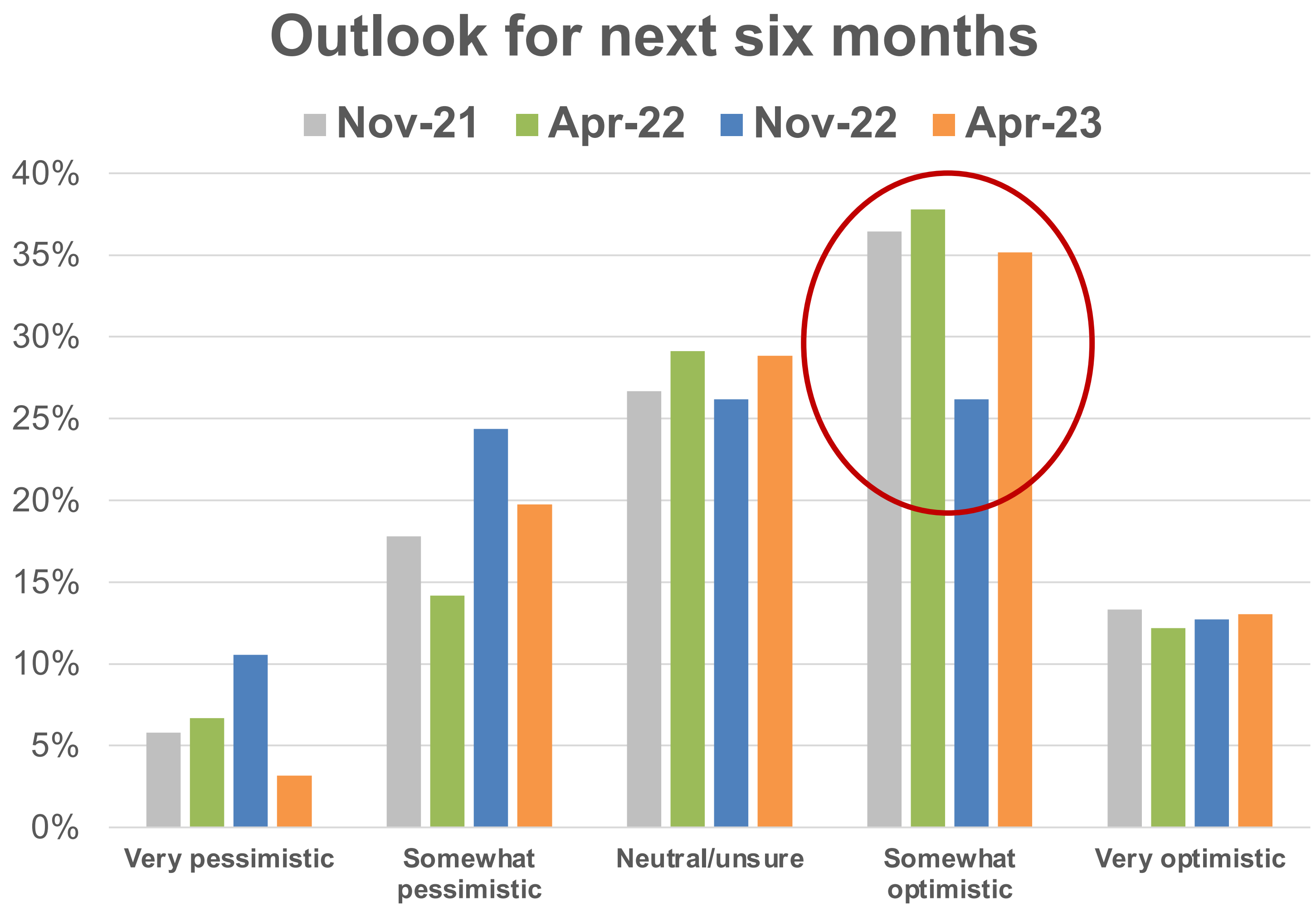
Wages pressure still strong overall

Some pullback on future wage expectations

Hard to know whether justified on activity basis, or just wishful thinking



OUTLOOK: OPTIMISM PREVAILS



- Despite persistent challenges, overall outlook is optimistic
- Might be seasonal effect, as most firms get busier in spring/summer

HOW TO EXPLAIN CONTRAST?

- Really can't with any certainty; construction sector is too broad & complex for easy generalizations
- Sector was challenged before pandemic, and doubly so during; as such it is battle-tested
- Comment from survey partner (MN Builders Exchange)
- Labor shortage maybe has had a silver lining
- Prevented sector from expanding too fast, and getting over-extended into areas that would eventually contract
- Some (many?) cancellations not permanent; that might be tomorrow's demand

SURVEY WRAP-UP

- Revenue trending negative, and across sectors
- Future activity looks tough:
  - Increase in project cancellations
  - Reduction in new projects out for bid
  - Smaller backlogs
- Many challenges persist, esp. related to pricing & labor
- But some fundamental strengths persist
  - Labor demand, pricing and supply chain easing
- Outlook still optimistic overall

UPCOMING WEBINARS ON CURRENT CONDITIONS

- Ag Credit with Joe Mahon
  - May 19, 9am
  - minneapolisfed.org

- Hospitality & Tourism (survey in field next week)
  - Webinar: June 22, 9am (tentative)

THANK YOU!

QUESTIONS?

SUBMIT QUESTIONS VIA CHAT BOX

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