

CONSTRUCTION CONDITIONS IN THE NINTH DISTRICT

Results of biannual Construction Survey

January 12, 2024

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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.



SURVEY BACKGROUND

- Largest regular, construction-focused survey among the 12 Federal Reserve District Banks
- Partner survey: Construction-trade organizations in District states distribute survey to members
- Partner model provides Minneapolis Fed, our partners, their members, and public with timely insights on current conditions
- Conducted in mid-November, 2023; 300+ responses; most in residential and/or commercial; smaller % in infrastructure and industrial, but tend to be larger (\$)
- Results are a snapshot; not a scientifically sampled survey. *Please interpret carefully*



SURVEY TAKE-AWAYS

- Negative revenue and profit trends continued
- Residential seeing worst outcomes, by sizeable margin
- New/future projects declining, backlogs shrinking
- Challenges: Interest rates, high input costs & labor
- Some good news:
 - Supply chain improving; price inflation moderating; labor demand still healthy and labor availability improving
 - Results pretty similar to Nov 2022 survey
- Outlook: Lower revenues expected, but overall sentiment flat; a lot of caution





RECENT REVENUE

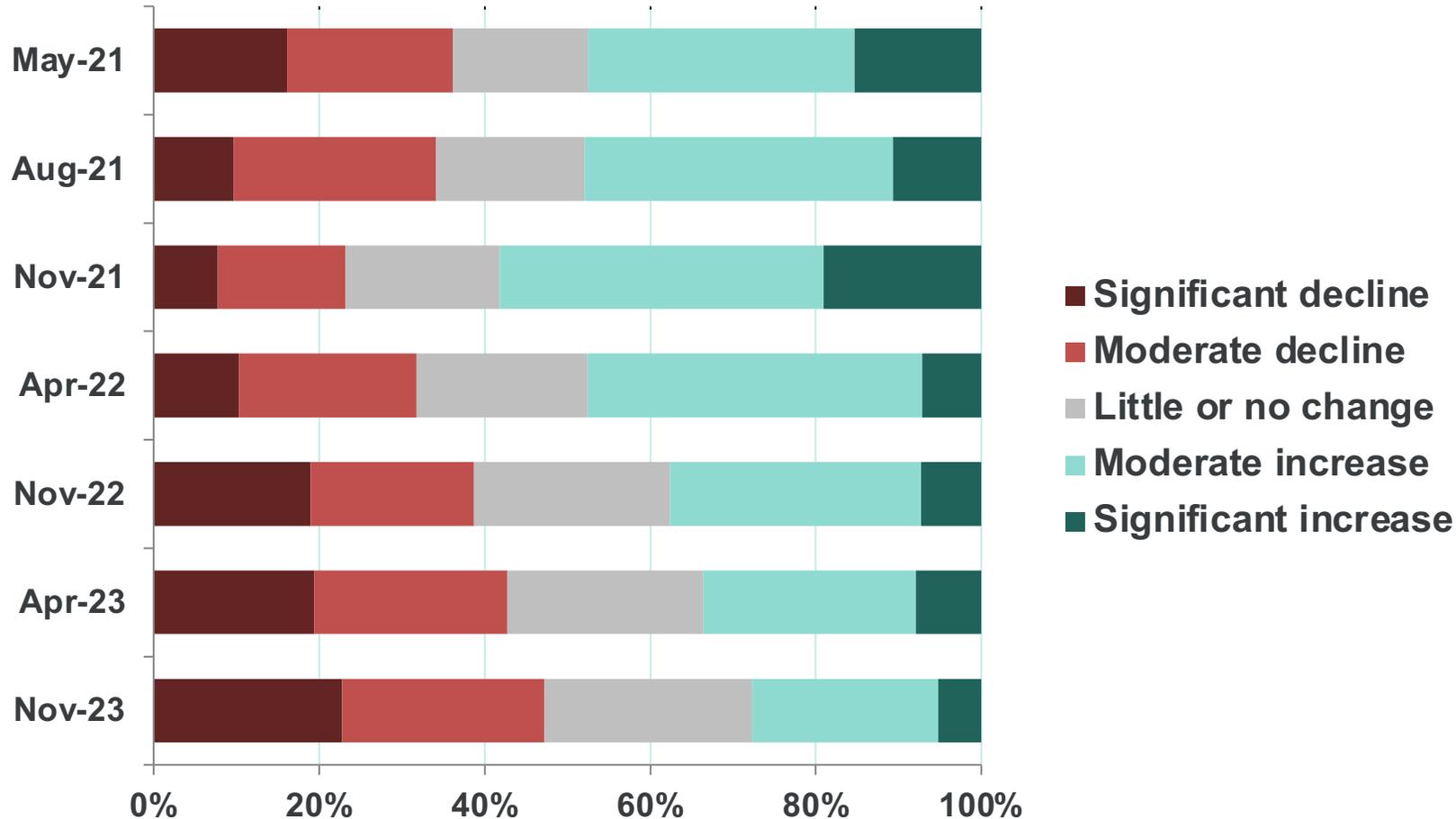
&

PROFIT TRENDS

REVENUE TRENDS DURING PANDEMIC

Recent-quarter revenue compared with same period previous year

Survey date



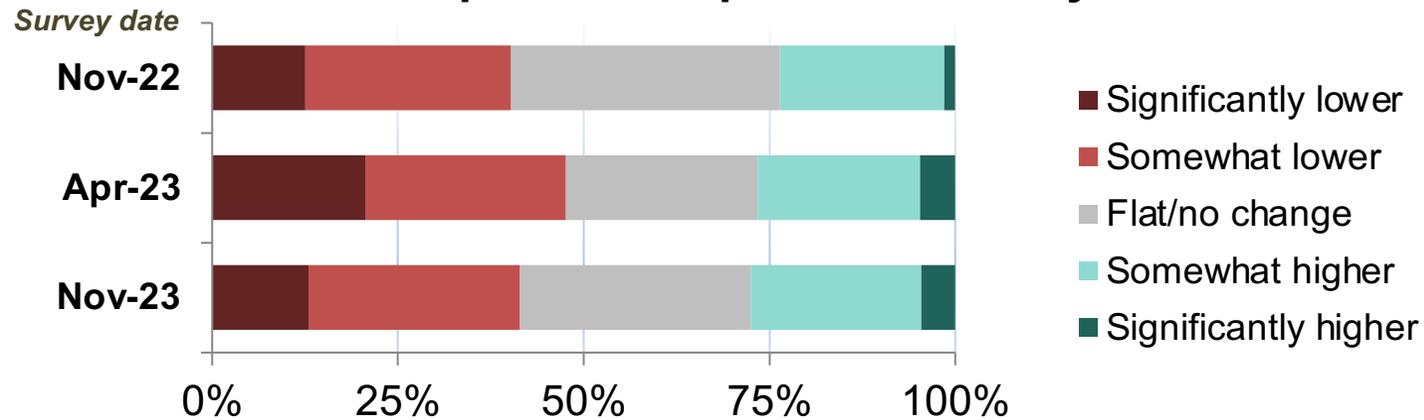
Revenue trend first slowed in April 2022, and has steadily deteriorated

Note: Survey went to biannual in 2022



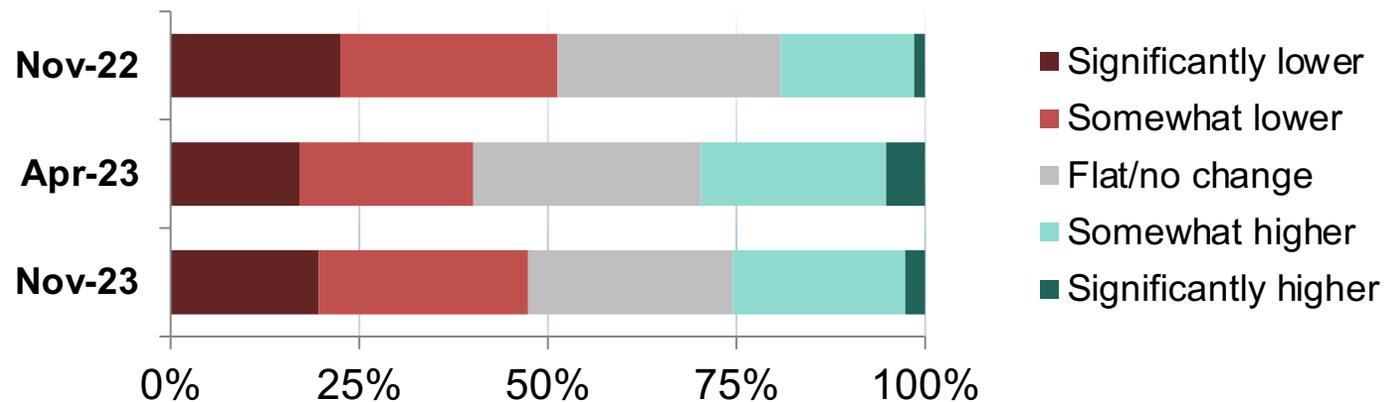
COMPANY PROFITS

Recent profits compared with last year



Profit levels falling, and not expected to improve much in the short-term

Future profit expectations compared with last year

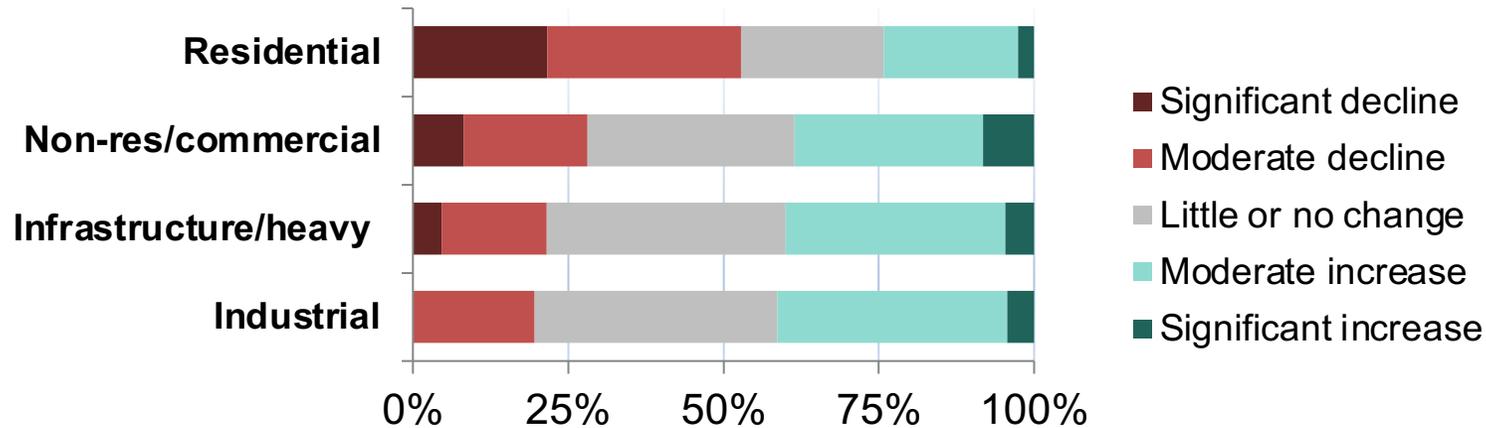




SECTOR BREAKDOWN

REVENUE TRENDS BY CONSTRUCTION SECTOR

Summer 2023 revenue compared with 2022

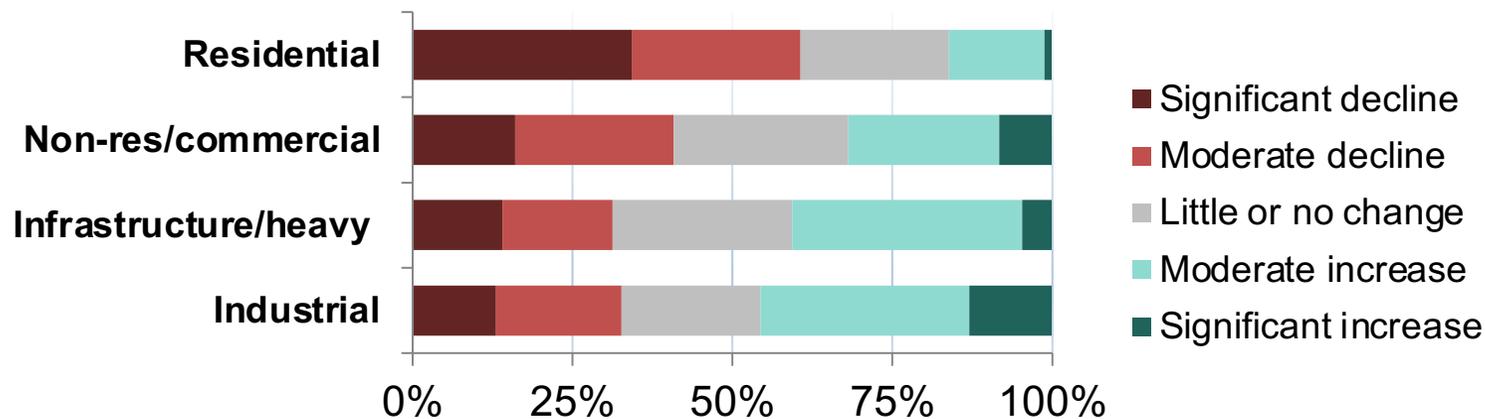


Sectoral performance

Residential & commercial seeing poorest revenue trend

Infrastructure & industrial still positive, but compressing a bit

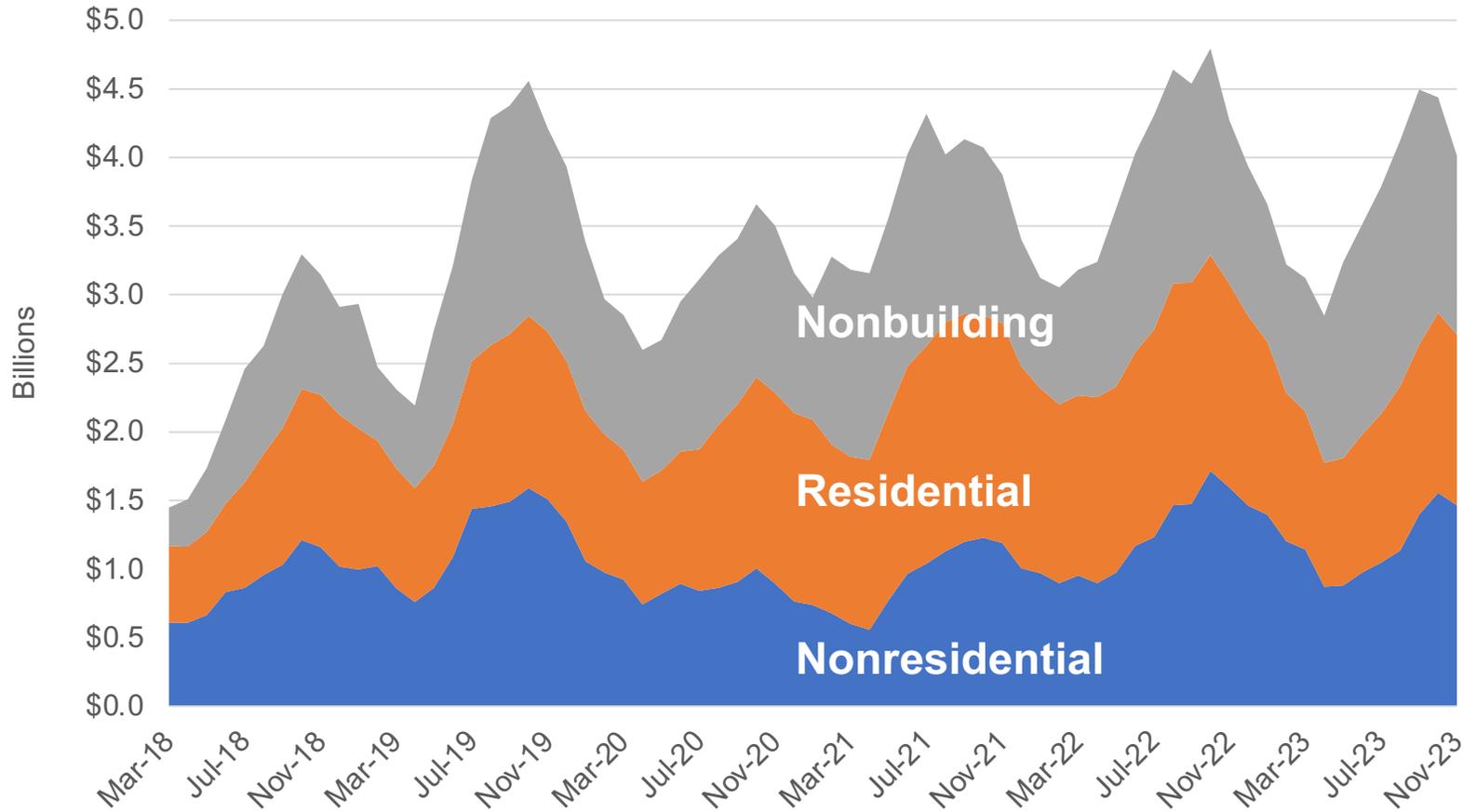
Fall 2023 revenue compared with 2022



NEW CONSTRUCTION STARTS

Total value of monthly construction starts

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



Total value of construction starts, year-to-date through November compared with 2022:

Residential: -23%

Nonresidential: -2%

Nonbuilding: +1.1%

Source: Dodge Data & Analytics



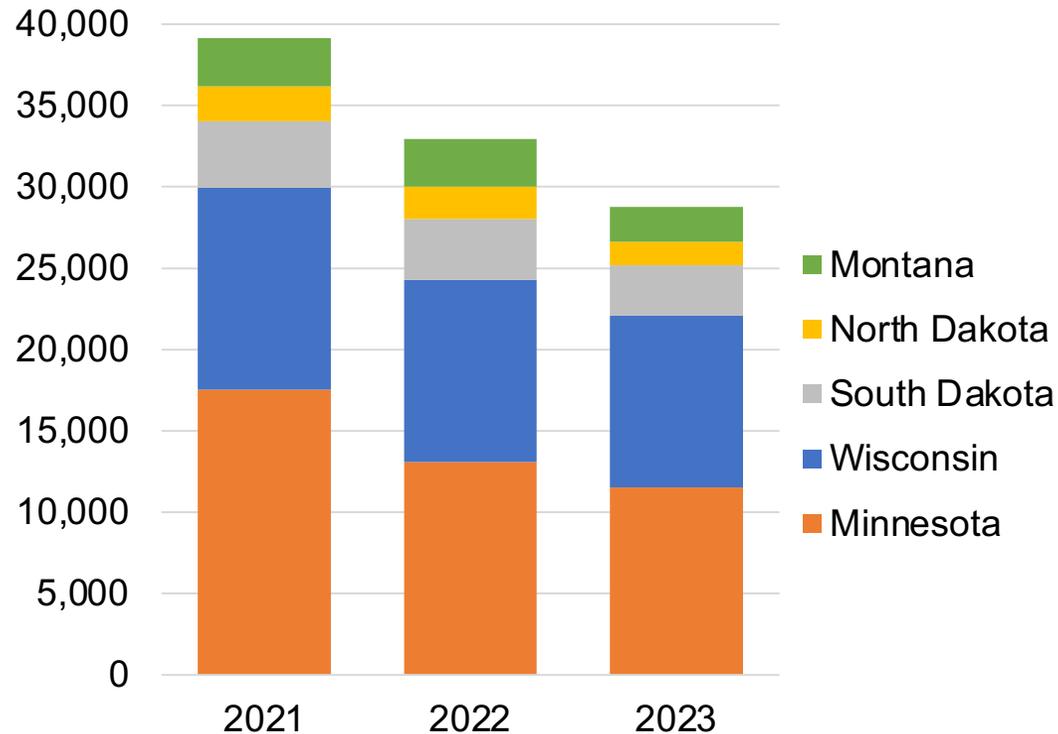
FEDERAL RESERVE BANK OF MINNEAPOLIS

HOUSING PERMIT DATA – NINTH DISTRICT

- Bigger slide in single-family since peak
- More dramatic fall-off for multi-family in 2023

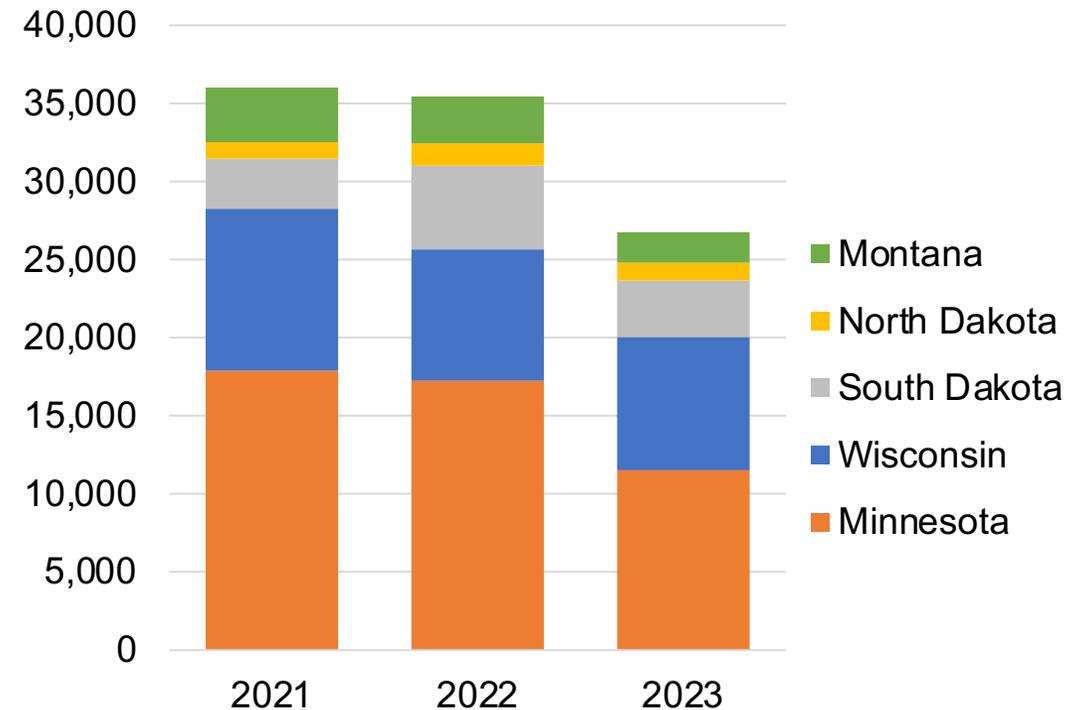
Single-family permits: Ninth District

Year-to-date through November



Multi-family permits: Ninth District

Year-to-date through November

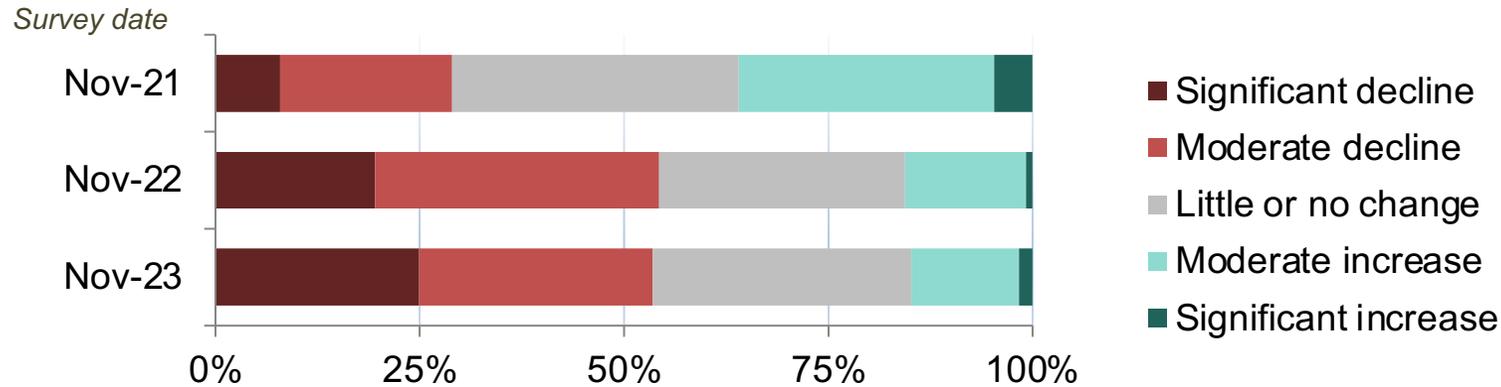


A large, faint, light teal watermark of an eagle with its wings spread, set against a teal background. The eagle's head is turned to the left, and its wings are spread wide. There are several five-pointed stars scattered around the eagle, some within its wings and some in the background. The overall style is minimalist and graphic.

OTHER ACTIVITY METRICS

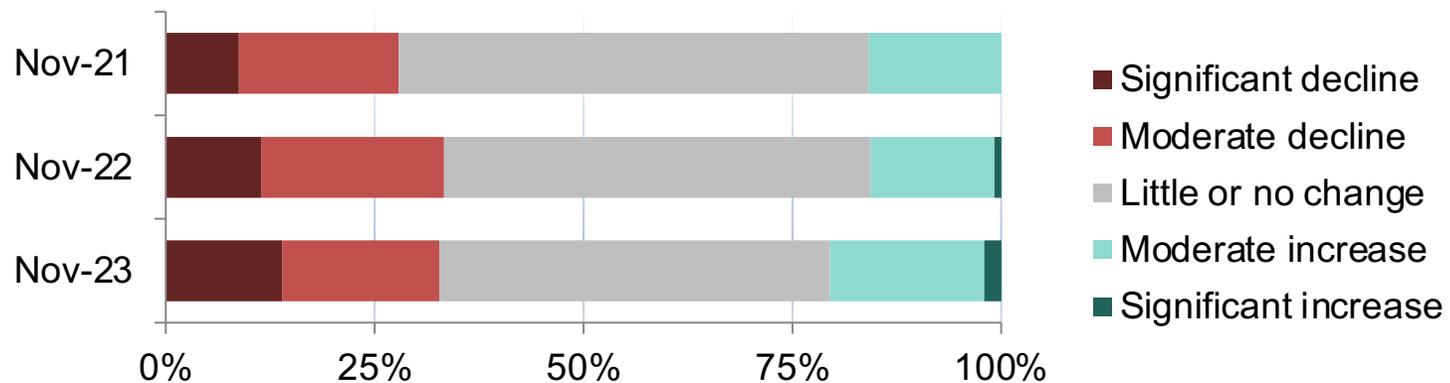
REQUEST FOR PROPOSALS (RFPS) – NEW PROJECTS

RFPs for private projects



New projects out for bid declining, especially private ones; closely mirrors last year's results

RFPs for public projects

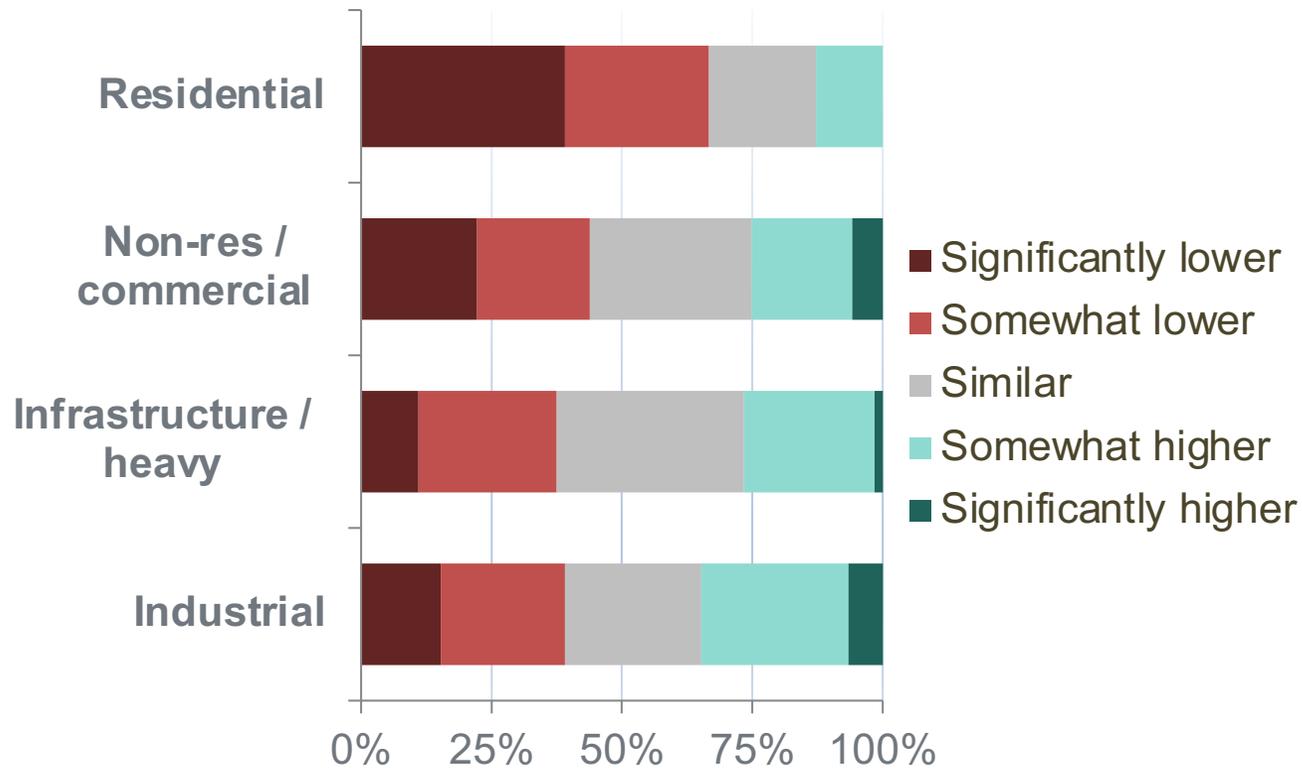


Public projects: Not necessarily reflective of current federal infrastructure spending (large projects & large firms)



PROJECT BACKLOGS

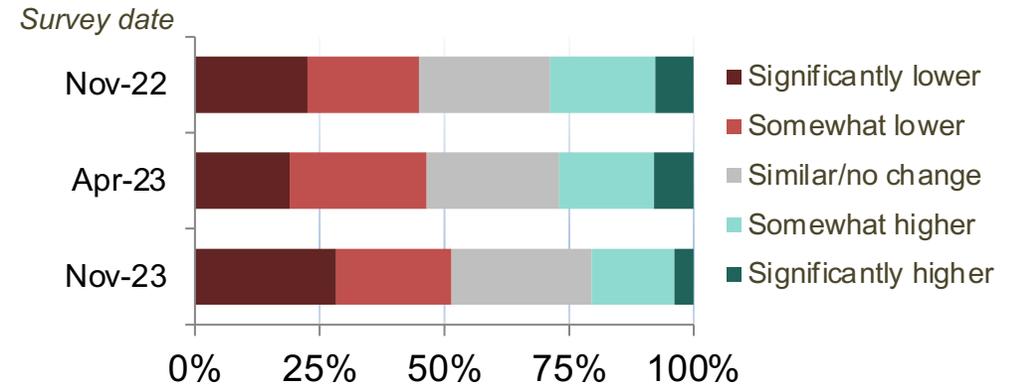
Backlog of future projects compared with last year



Backlogs shrinking, especially in residential

Stems from higher cancels, fewer new projects, and pulling work forward

Backlog of future projects



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. In the upper left and lower right areas of the eagle's body, there are several five-pointed stars. The overall style is minimalist and graphic.

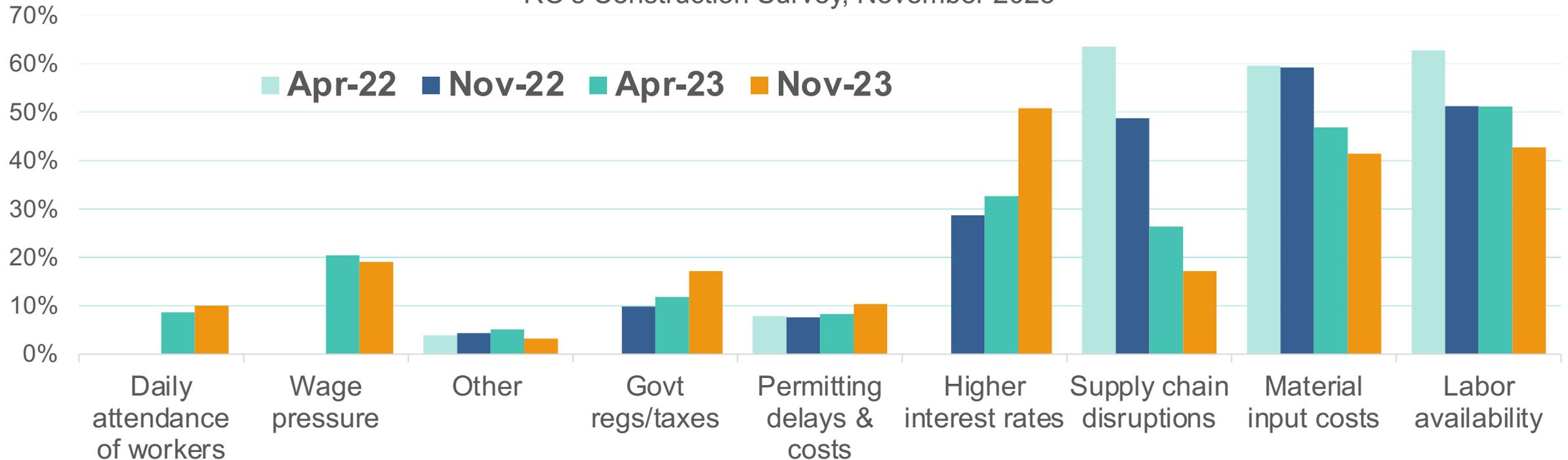
CHALLENGES

CHALLENGES TO OPERATIONS

- Higher interest rates becoming a more obvious problem
- Material costs and labor availability remain sticky problems
 - Supply chain problems have fallen significantly

Pick TWO: Greatest challenge to current operating capacity

RO's Construction Survey, November 2023

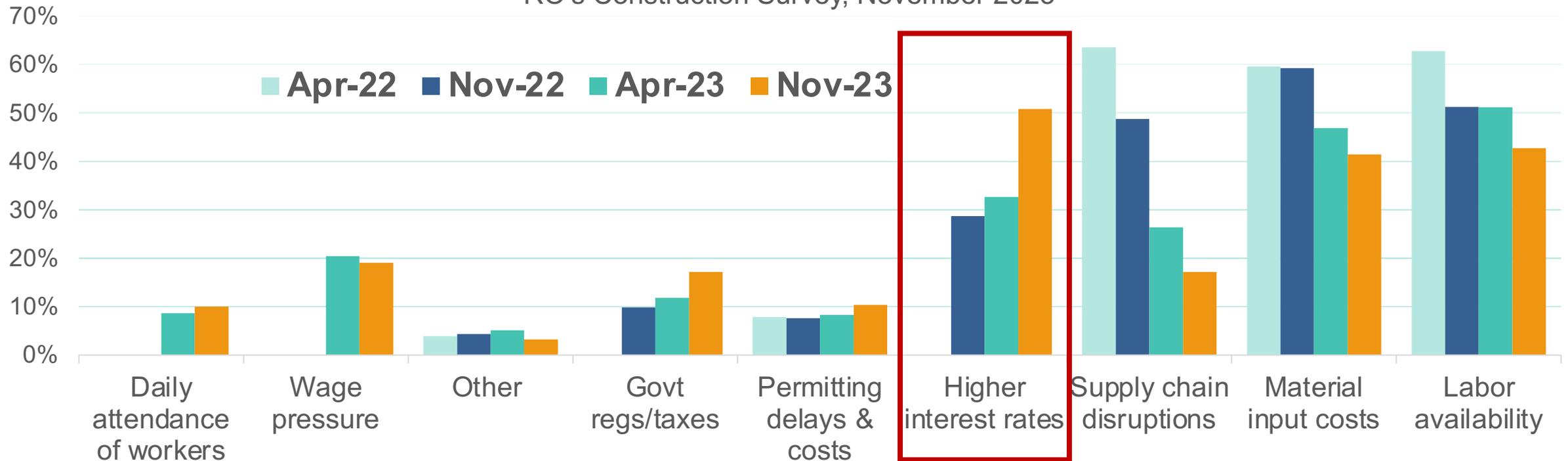


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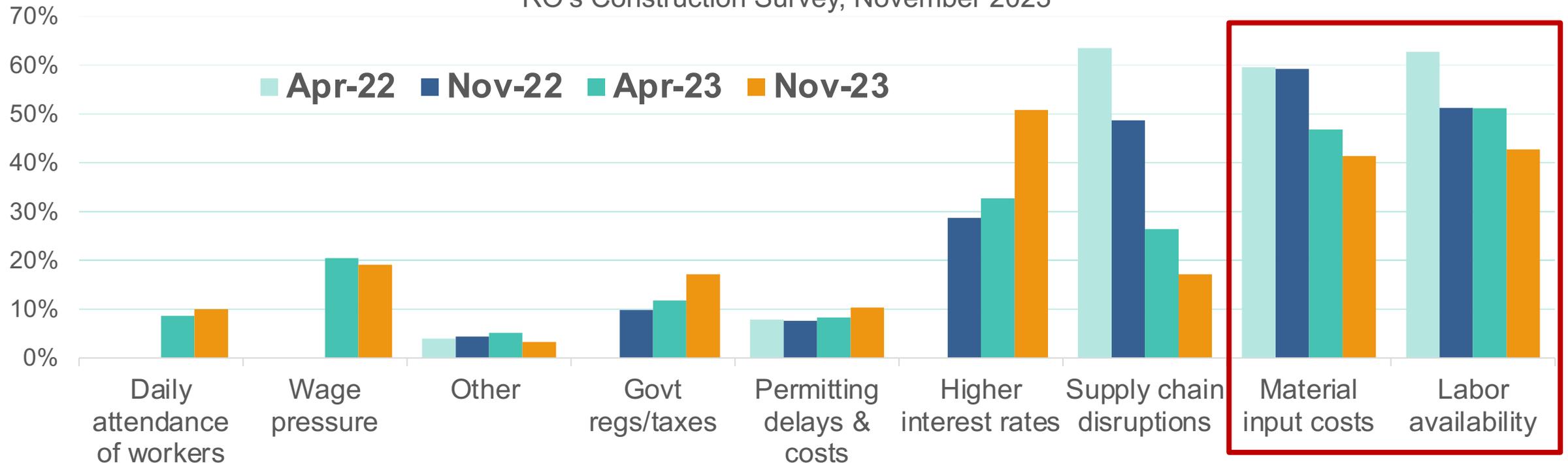


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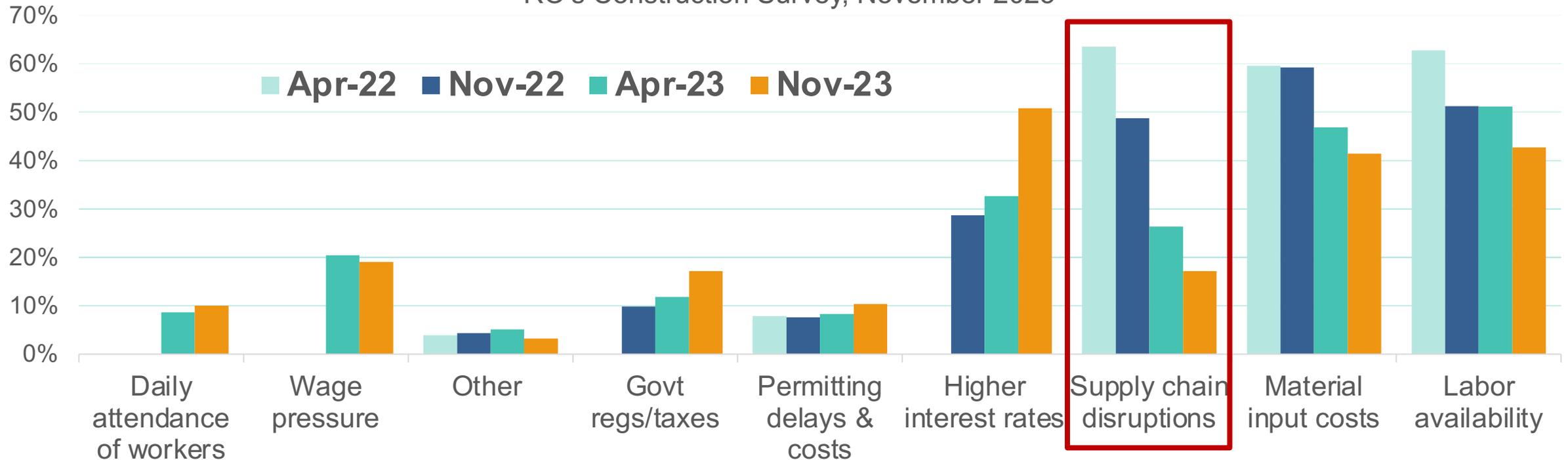


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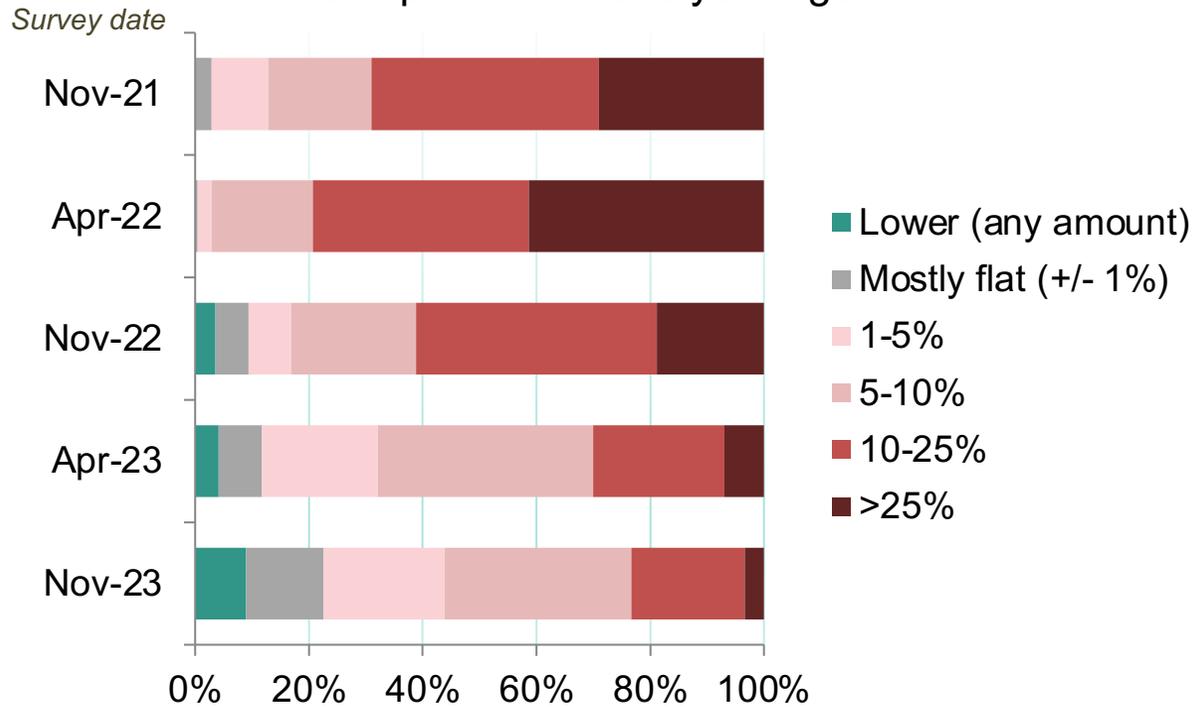


PRICES

Wholesale and retail price inflation moderating, but still high

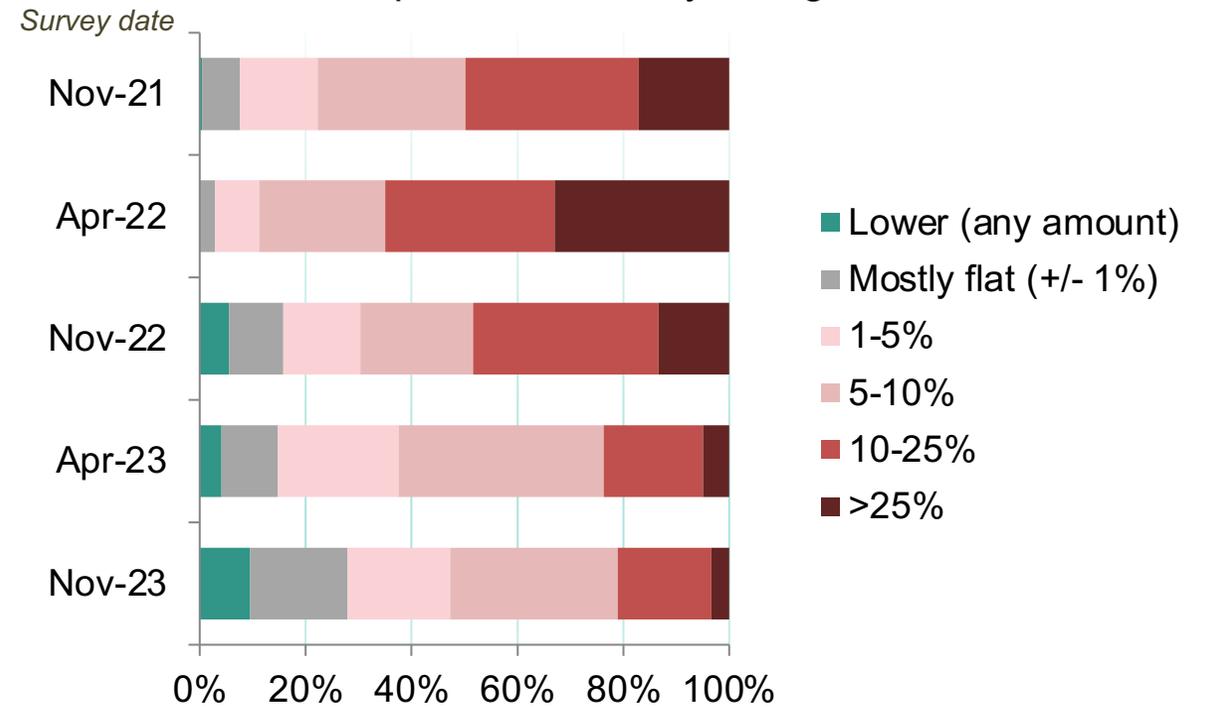
Wholesale pricing

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



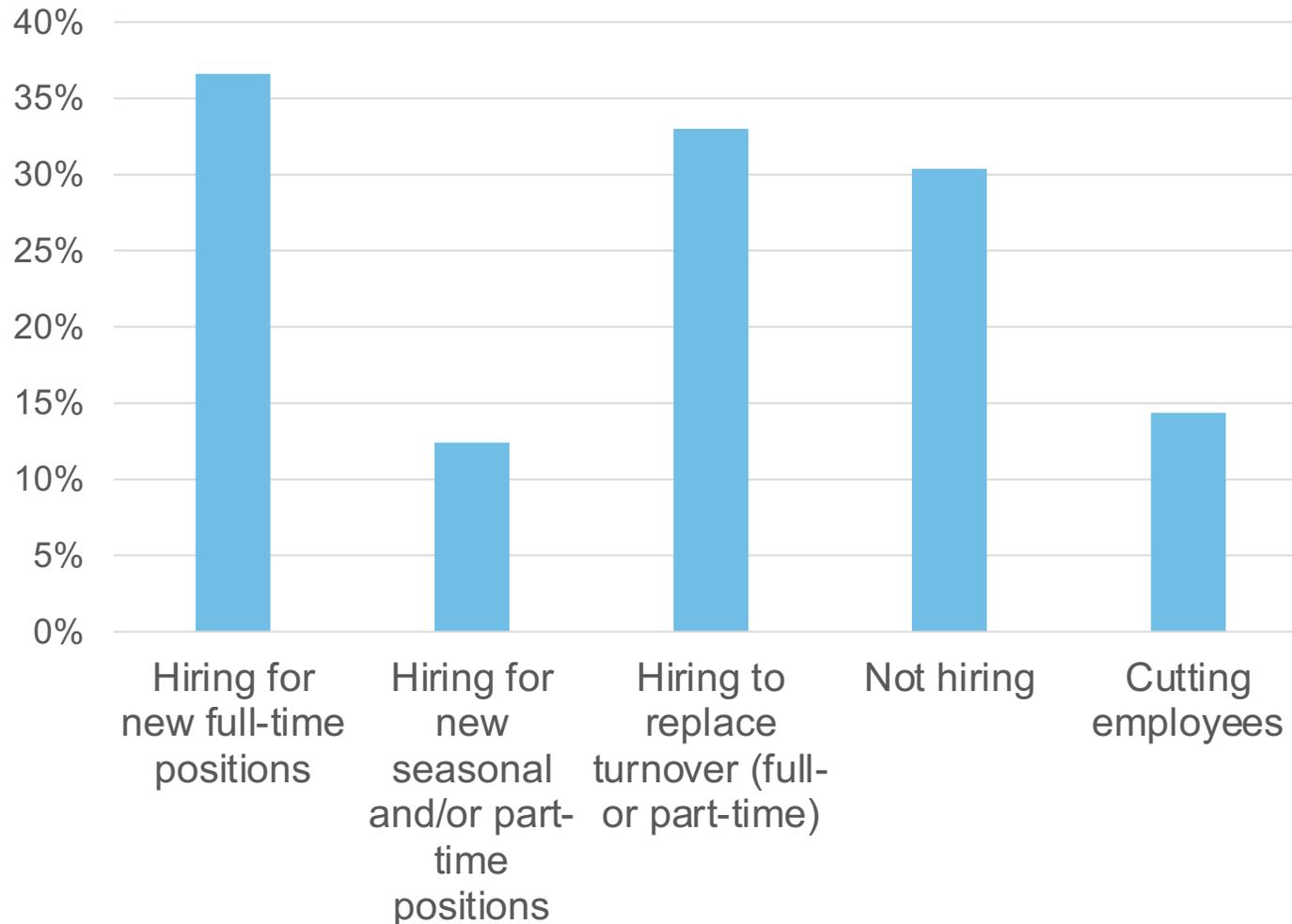
Retail pricing

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



LABOR DEMAND

Labor demand over last month



More than half of firms reported they were hiring, but some downward pressure on labor demand

Share of firms cutting workers doubled from last year's survey (7% to 14%)

Overall: Total construction employment *not* reacting like a sector in crisis

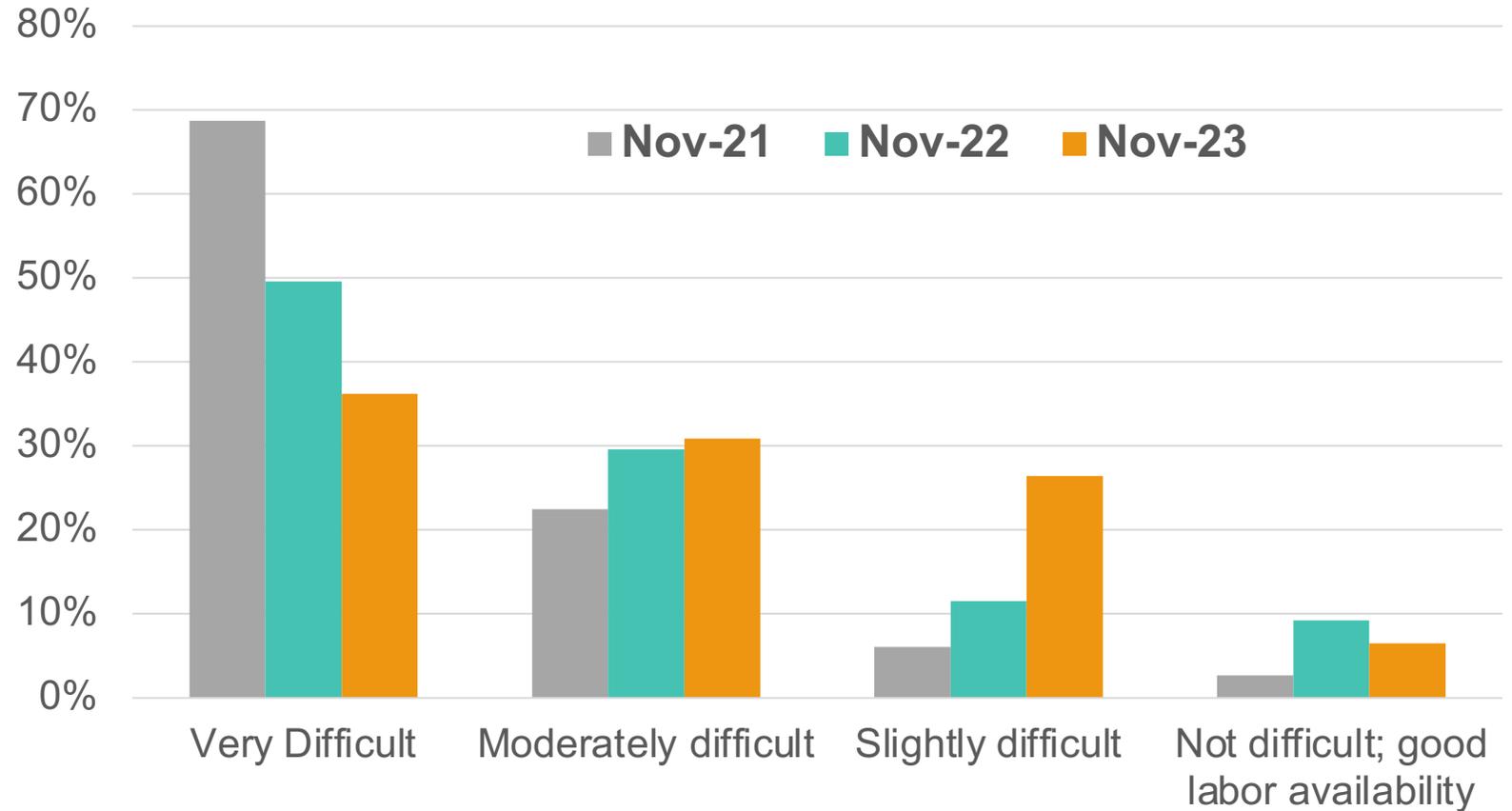
- **Minnesota construction employment at all-time high in November**



LABOR AVAILABILITY

Some slowing in overall hiring has helped the job-matching process for companies still looking for labor

Ability to find and hire necessary labor



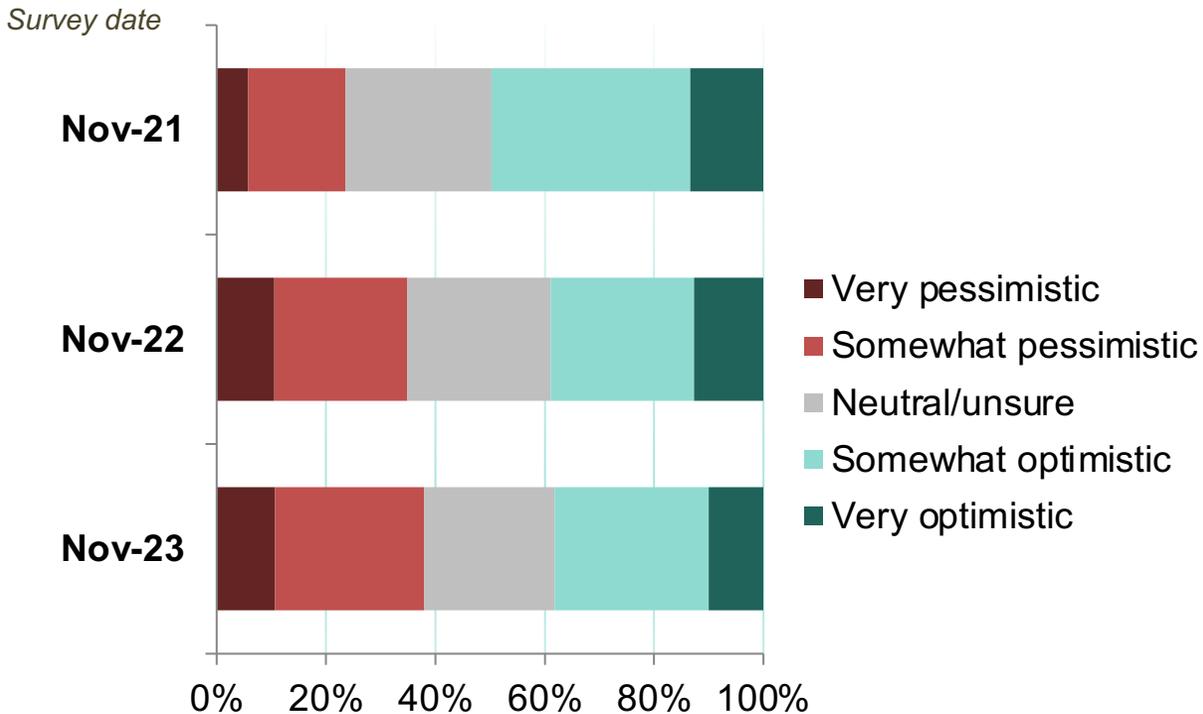


AND FINALLY...OUTLOOK

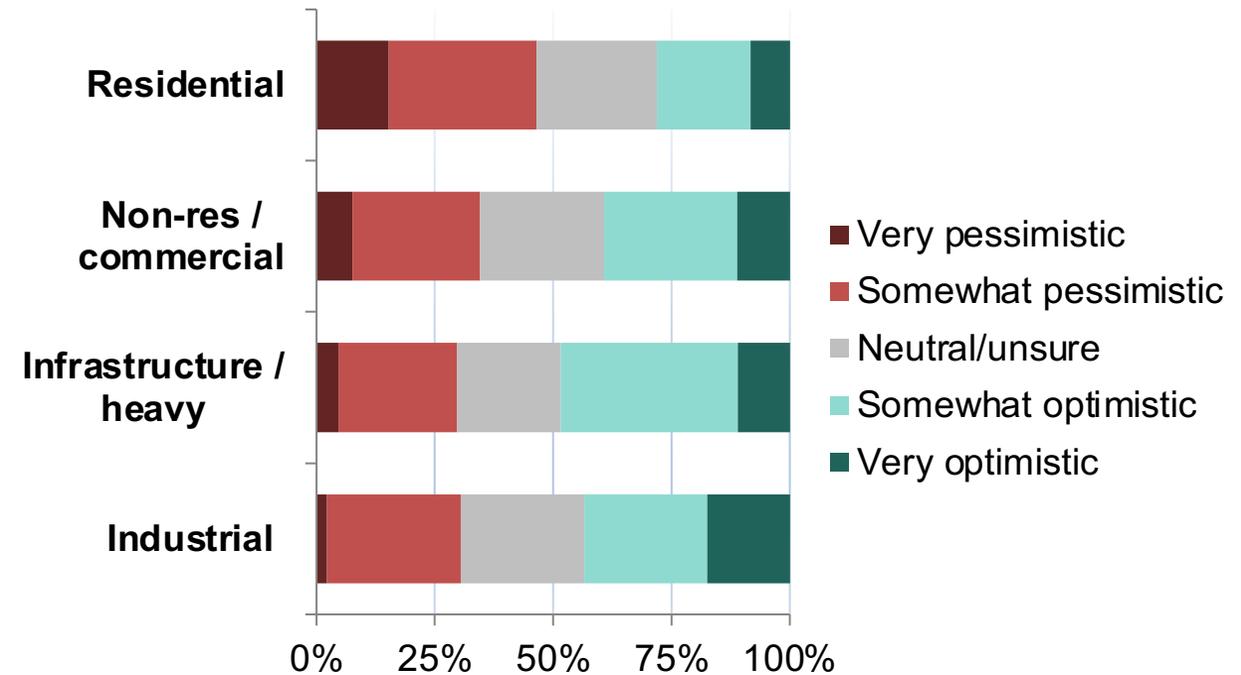
OUTLOOK: COULD BE WORSE?

- Flat overall; outlook virtually unchanged from last year
 - Residential sector much more dour in outlook

Outlook for next six months



Outlook by sector





THANK YOU!

**NOW, ON TO OUR PANEL DISCUSSIONS
WITH NINTH DISTRICT EXPERTS**

FIRST: LABOR MARKETS

PLEASE WELCOME MY COLLEAGUE

ERICK GARCIA LUNA!