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Economics Group

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Construction Spending Edges Up in July

Construction spending rose 0.1% during July, with a rise in residential outweighing a drop in nonresidential. Higher labor costs and trade uncertainty are weighing on construction outlays, which are down 2.1% YTD.

Residential Boosts Construction in July

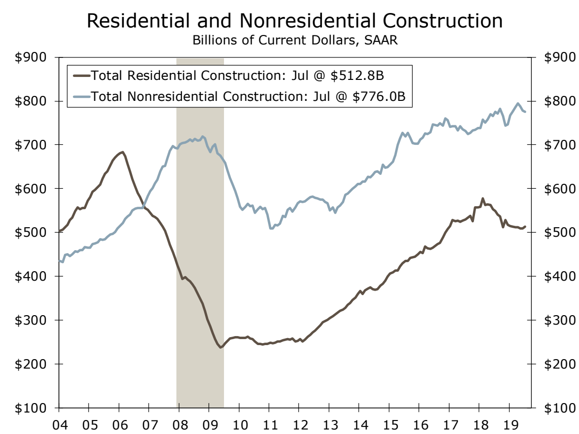
Construction spending broke a two-month string of declines and rose 0.1% during July. The monthly gain in overall spending was due to a 0.6% improvement in residential construction. Nonresidential expenditures declined 0.3%. There was a similar diverging pattern between public and private expenditures during the month. Private spending declined 0.1%, while public spending increased 0.4%.

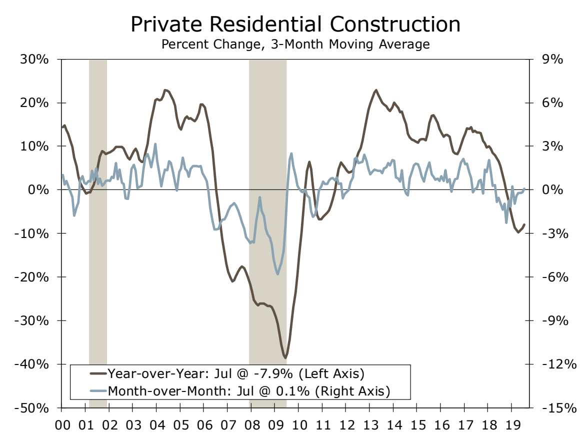
Mounting labor costs and uncertainty regarding the imposition of new tariffs on a litany of imported building materials appear to be holding back construction spending. On a year-to-date basis, total construction spending is down 2.1% compared to the same period last year, with residential spending the primary source of weakness.

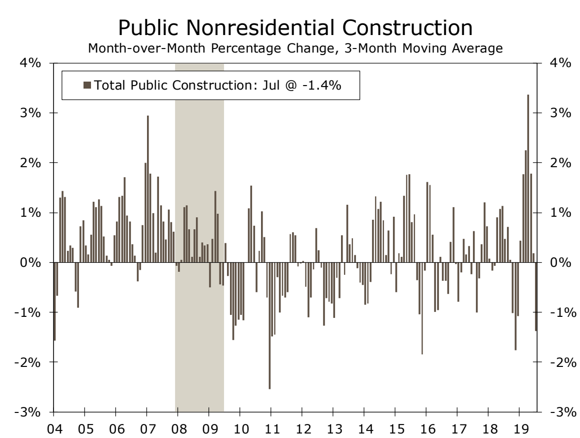
That noted, the residential category was the standout during July, as expenditures on single-family construction rose 1.4%, the strongest monthly gain since early 2018. Spending on the volatile home improvement component advanced 0.2%, the third consecutive monthly rise. Multifamily spending dipped 1.1%. The solid rise in single-family and decline in multifamily mirror the pattern seen in July for housing starts. We suspect the recent softness in multifamily is an indication that apartment construction has topped out. The single-family market appears to be gaining momentum, as lower mortgage rates are bringing buyers back into the market and lower short-term rates are reducing financing costs for builders. The recent turnaround in single-family building permits suggests we should see additional improvement in single-family outlays in coming months.

Private nonresidential spending dipped 0.8% during the month. After strengthening in the first few months of the year, expenditures have plateaued more recently, but remain up 0.7% on a year-to-date basis. The weakness in July was fairly widespread, although healthcare, manufacturing and office construction all advanced during the month. While there are still incredible amounts of new warehouses and distribution facilities under construction, activity appears to have cooled a bit over the past year, perhaps a result of languishing global growth and mounting trade concerns. That noted, spending on hotels and motels stands out as a front runner with expenditures up 11.0% year-to-date. The ongoing strength in the lodging sector reflects both the near-record high occupancy rate, as well as the underlying strength of consumer spending, which remains a bright spot amid deteriorating conditions in more trade-oriented sectors such as manufacturing.

Public sector spending continues to be an area of strength, as expenditures rose 0.4% during July and are up 5.6% year-to-date. Spending at the federal and state & local level continues to rise, notably for transportation, highway & street, water supply and sewage & waste disposal projects.







Source: U.S. Department of Commerce and Wells Fargo Securities

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