



# Economics Group

**Mark Vitner, Senior Economist**  
[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • (704) 410-3277  
**Charlie Dougherty, Economist**  
[charles.dougherty@wellsfargo.com](mailto:charles.dougherty@wellsfargo.com) • (704) 410-6542

## 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

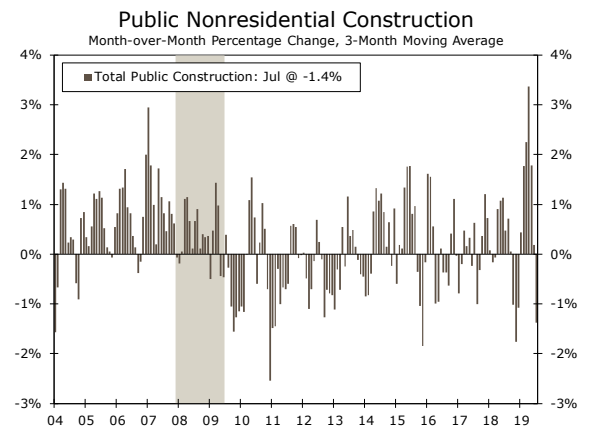
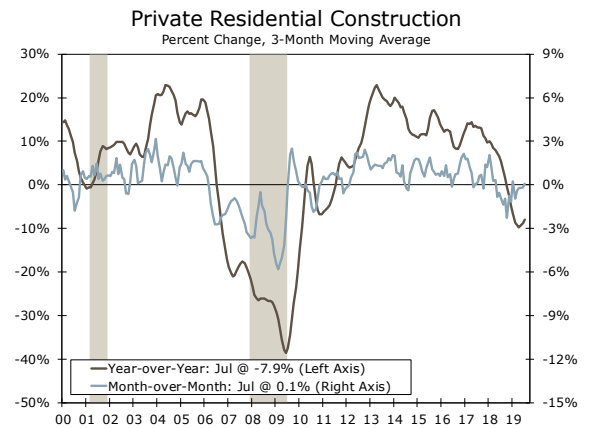
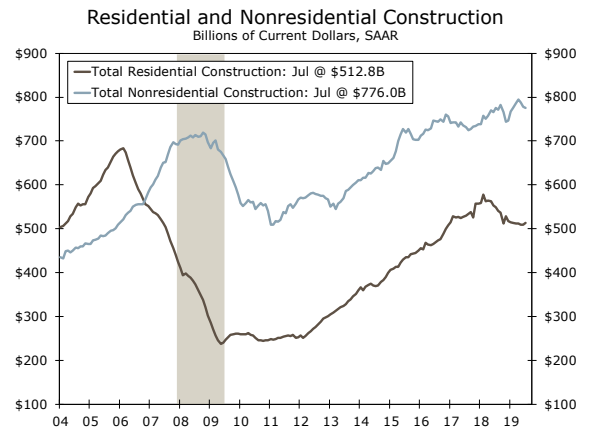
Construction spending broke a two-month string of declines and rose 0.1% during July. The monthly gain in overall spending was due to a 0.6% improvement in residential construction. Nonresidential expenditures declined 0.3%. There was a similar diverging pattern between public and private expenditures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



## Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2019 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE