Construction Spending Climbs in September

Total spending rose 0.5% during September thanks to sturdy gains in both residential and nonresidential outlays. Private nonresidential outlays, however, dipped 0.3%. Total outlays are still down 2.2% year-to-date.

Residential Building Momentum

Total construction spending rose 0.5% in September, with gains in both residential and nonresidential outlays. While there have been notable improvements recently—particularly in single-family home construction—total construction expenditures remain down 2.2% on a year-to-date basis. The residential sector has been the clear standout in recent months. Total residential spending increased 0.6% during the month. That is the third consecutive monthly gain, which is consistent with the recent improvement in home sales and housing starts, as well as the recent construction jobs data. Lower financing costs, better weather and improved buying conditions have given homebuilders confidence to move forward with projects that had been sidelined. Single-family outlays rose 1.3% in each of the past three months. The improvement in single-family construction has coincided with some moderation in the multifamily sector. Multifamily spending is still up 5.6% year-to-date, but declined 0.7% in September, reflecting our contention that apartment and condo construction has likely peaked for the cycle. Excluding the volatile home improvements category, total residential spending rose at an even stronger 0.9% pace.

Nonresidential construction spending, on the other hand, appears to be losing steam. Total nonresidential spending increased 0.5% during September, but that follows a 1.1% dip in August. Furthermore, the rise during the month was entirely the result of a 1.5% gain in public outlays, which was owed to an uptick in education building and highway & street spending. Heavy and civil engineering construction added 4,300 jobs in September and 6,000 more in October.

Private nonresidential construction expenditures fell 0.3% in September and are down 5.9% on a three-month annualized basis. Spending in the “power” category has weakened over the past few months and fell 1.4% during September, making this category the likely culprit behind the downturn in nonresidential spending. Power expenditures, which represent outlays for electricity generation and distribution, such as power plants, substations and transmission lines, constitute roughly 20% of private nonresidential spending. Lodging construction also fell 1.3%, while the commercial sector, which includes retail, declined 0.8% in September and has sunk 20% over the past year. Office spending edged up 0.3%, while educational and healthcare outlays rose 1.4% and 0.8%, respectively. Spending on manufacturing buildings rose 1.2% and is up 3.2% year-to-date. The proliferation of natural gas production in various shale plays across the nation has led to massive amounts of chemical and plastics-related industrial construction in Western Pennsylvania, Southern Texas and Louisiana. After a lull in activity the past few years, several new projects appear to be getting underway or are slated to begin in 2020.

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