Construction Spending Dips in December

Construction outlays fell 0.2% in December as a solid gain in residential spending was not enough to offset a drop in nonresidential. Overall spending for 2019 was 0.3% below 2018 levels, the weakest outcome since 2011.

Spending Ends 2019 on a Soft Note

Construction outlays ended a five-month string of gains and fell 0.2% during December. Overall, spending continues to be somewhat subdued relative to recent history, as an ongoing shortfall of qualified workers has pushed labor costs steadily higher and delayed or sidelined many projects. On a full-year basis, total spending for 2019 was 0.3% below 2018 levels, which marks the weakest outcome since 2011. The fundamentals appear to be improving, however, and there are a number of encouraging developments pointing to better days ahead for construction. While finding labor remains a challenge, lower builder material prices and lower interest rates should produce a friendlier environment for construction in 2020.

The residential sector has already begun to benefit. Alongside reduced mortgage rates and still-low lumber prices, residential spending advanced 1.4% in December, and is up 15.0% on a three-month annualized basis. Nearly all of the recent momentum has been in single-family outlays, which rose 2.7% in December. Conversely, multifamily dropped 1.8%, the fifth consecutive decline. While we expect multifamily construction to remain low, activity has likely peaked for the cycle as more favorable buying conditions make home buying relatively more attractive. Apartment development is also shifting more toward the suburbs, where construction costs tend to be lower.

Nonresidential construction spending appears to be stuck in low gear. Total nonresidential outlays sunk 1.2% in December. Nearly every major subcategory fell, most notably manufacturing (-4.3%) educational (-2.0%), office (-1.0%) and commercial (-2.9%). Revisions to recent months’ data, however, now show total expenditures rising at a 1.8% annual rate over the past three months. Furthermore, the Architecture Billings Index (ABI) rose to 52.5 in December, a turnaround from the fairly weak readings earlier last year. Given the forward-looking nature of the ABI, this paints a slightly more positive picture for nonresidential spending in 2020.

Public expenditures were the clear standout during 2019, with total spending rising 7.1% compared to 2018, the strongest gain since 2007. Spending at the state & local level grew a robust 6.7%, while federal outlays surged 12.4%. The lion’s share of the recent strength has been infrastructure projects, an area in dire need of improvement as spending in this category has been remarkably weak for the past decade. Much of full-year 2019’s growth occurred in highway & street projects (+8.8%), transportation (+9.7%), sewage & waste disposal (+8.5%), water supply (+7.2%), power (+17.2%) and conservation & development (+12.2%).

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