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Economics Group

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Construction Spending Declines Further in June

Construction spending was weaker than expected in June, with overall outlays falling 0.7%. Private residential outlays fell 1.5%, due to a drop in single-family construction. Private nonresidential outlays rose 0.2%.

Construction Outlays Were Surprisingly Soft in June

Construction outlays fell 0.7% during June, well below the consensus estimate of a 1.0% increase. Outlays were weak where they were expected to be and where they were thought to have been doing better. Private and public construction spending both fell 0.7%. Private residential spending fell 1.5%, however, with all of the drop coming in outlays for single-family homes. Nonresidential outlays rose 0.2% in June, with outlays for power projects and manufacturing projects leading the way.

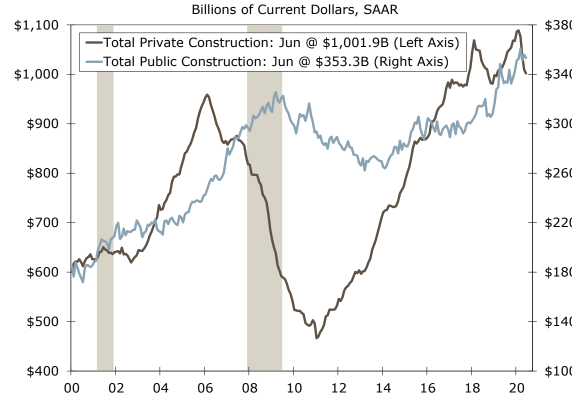
The construction spending report is considered a minor economic report for the financial markets. The report comes out with a long lag and revisions to previous data are often substantial, frequently indicating activity moved in the opposite direction from what was initially reported. That said, the data provide detail into various sectors of the economy and important clues about where the economy is headed. While the initial construction spending data are subject to large revisions, trends over several months reflect hard data. Decisions to build a home, office building, warehouse, power plant or manufacturing facility involve some deep thinking and the implications from those decisions have long-term consequences.

The continued decline in construction spending for single-family homes is probably the biggest surprise in the June report. Spending for single-family homes fell 3.6% in June. Most of the data on the single-family housing market have been clearly positive, with sales, buyer traffic, mortgage applications and pending sales collectively running at their strongest pace since prior to the housing bust. The weakness is due in part to the fact that the bulk of construction outlays for new home tend to occur 45 to 60 days after construction begins. That means construction outlays for single-family homes are likely headed much higher, as single family starts are up 22.4% since April and permits are up 25.2%.

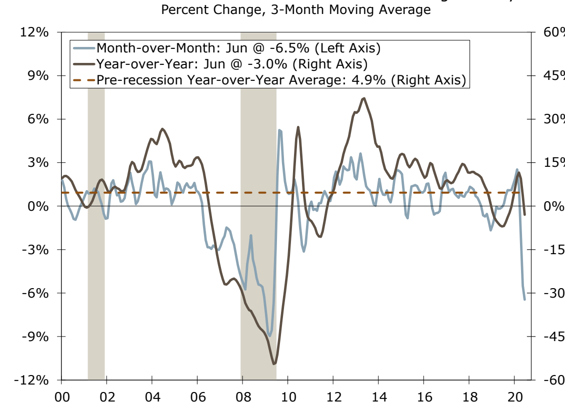
The 0.2% rise in private nonresidential construction was in line with expectations. Outlays for office buildings rose slightly, while spending on commercial structures, which includes shopping centers, fell 1.3%. The bulk of the increase came from increased spending on new and expanded manufacturing facilities, which rose 1.7% in June after falling for several months. Even with the increase, outlays for new manufacturing facilities remain 9.1% lower than they were a year ago. Growth appears to be reviving in some areas, however, most notably producers of building materials, flooring, pharmaceuticals and medical supplies, communications equipment and parts of the automotive sector—most notably battery plants.

Outlays for private amusement and recreation facilities fell 6.2% in June and are down 14.7% year-over-year. Spending on education facilities has fallen even harder, despite a slight rise in June, declining a whopping 25.5% over the past year.

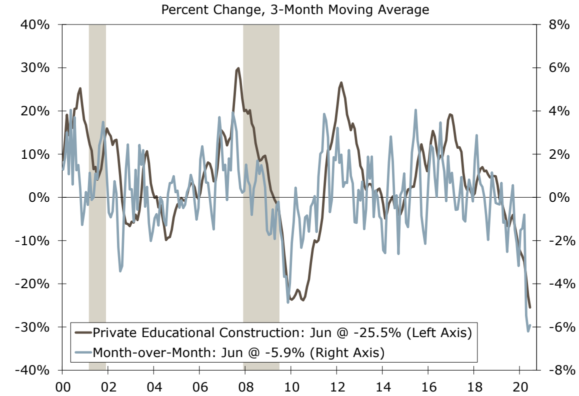
Total Public and Private Construction
Billions of Current Dollars, SAAR



Private Residential Construction Put-in-Place: Single-Family
Percent Change, 3-Month Moving Average



Private Educational Construction
Percent Change, 3-Month Moving Average



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

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