

Economic Indicator — July 1, 2022

Construction Spending Declines in May Rise in Residential Not Enough to Offset a Decline in Nonresidential

Summary

- Total construction spending dropped 0.1% during May, which brings the year-over-year gain down to 9.7%.
- Most of the total increase in construction outlays over the past year has been on the residential side. Residential spending, which posted a 0.2% gain in May, is up 18.7% over the past year.
- By contrast, nonresidential outlays are up just 1.0% year-over-year as of May. Nonresidential spending fell 0.6% during the month, marking its third straight drop.
- Residential's monthly gain was mostly attributed to a solid rise in home improvement spending, which rose 0.6%. Single-family (+0.03%) and multifamily (-0.03%) outlays were essentially flat.
- Declines in highway & street (-2.3%), healthcare (-1.8%), commercial (-0.9%), educational (-0.5%) and power (-1.0%) project spending dragged down the nonresidential category.
- Not all nonresidential segments declined, however. Manufacturing (1.2%), transportation (1.3%) and office (0.2%) posted gains in May.
- Public expenditures fell 0.8% during the month. Public nonresidential spending, which accounts for over 97% of total public sector outlays, declined 0.8%. Highway & street (-2.3%) and educational (-0.4%), the two largest major segments of public nonresidential spending, both fell in May.

Economist(s)

Mark Vitner

Senior Economist | Wells Fargo Economics
Mark.Vitner@wellsfargo.com | 704-410-3277

Charlie Dougherty

Economist | Wells Fargo Economics
Charles.Dougherty@wellsfargo.com | 212-214-8984

Patrick Barley

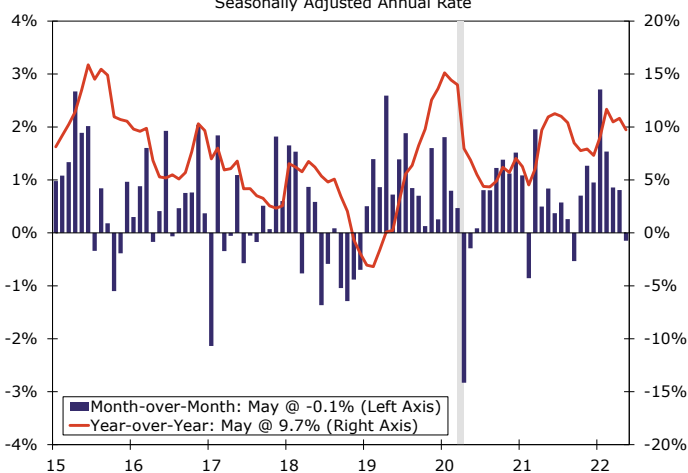
Economic Analyst | Wells Fargo Economics
Patrick.Barley@wellsfargo.com | 704-410-1232

Home Improvement Spending Boosts Residential

- Total construction spending fell 0.1% in May, while April's originally-reported 0.2% gain was revised up to a 0.8% increase. Overall spending is now up 9.7% on a year-over-year basis through May.
- Most of the total increase in construction outlays over the past year has been on the residential side. Residential spending, which posted a 0.2% gain in May, is up 18.7% over the past year.
- Residential's monthly gain was mostly attributed to a solid rise in home improvement spending, which increased 0.6%. Record homeowner equity, increased household space needs and shortfalls of available single-family inventories have boosted home improvement spending over the past two years. Higher interest rates are likely to moderate spending moving forward, however.
- Single-family (+0.03%) and multifamily (-0.03%) outlays were essentially flat. The sharp rise in mortgage rates and accompanying slowdown in buyer demand will likely lead home builders to scale back production, although there are numerous homes still under construction that have yet to be completed. Deteriorating single-family buying conditions will likely serve to bolster multifamily construction, which continues to run at a strong pace.

Total Value of Construction Put-in-Place

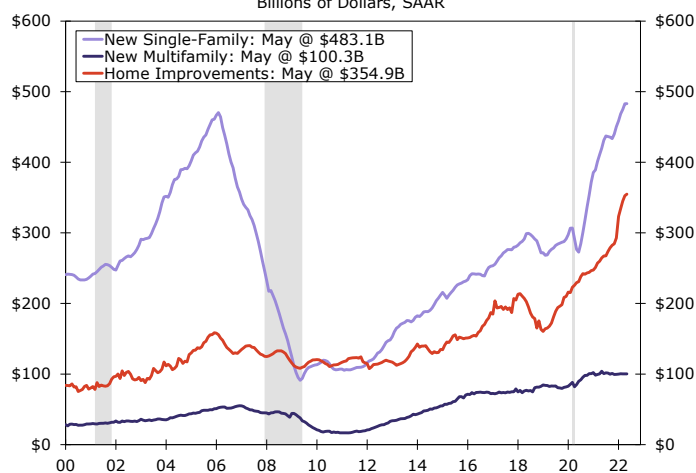
Seasonally Adjusted Annual Rate



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

Private Residential Construction

Billions of Dollars, SAAR



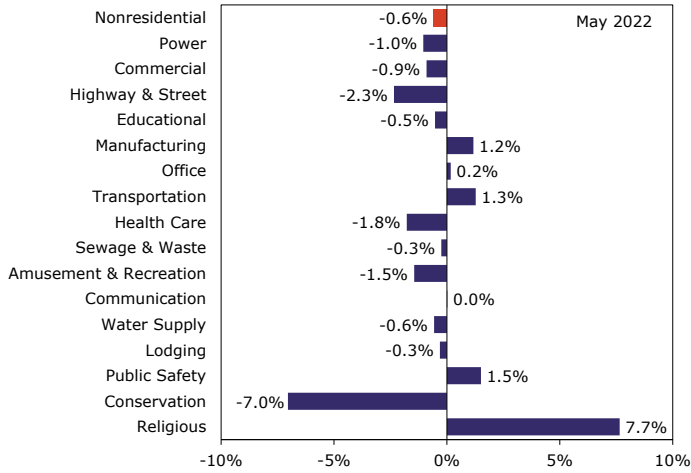
Source: U.S. Department of Commerce and Wells Fargo Economics

Nonresidential Project Spending Softens in May

- Nonresidential outlays are up just 1.0% over the past year as of May. Nonresidential spending fell 0.6% during the month, marking its third straight decline.
- Declines in highway & street (-2.3%), healthcare (-1.8%), commercial (-0.9%), educational (-0.5%) and power (-1.0%) project spending dragged down the nonresidential category.
- The commercial category, which includes spending on retail and warehouses, was 9.8% above prior year levels in May. Warehouse construction has been a major growth area for the past few years as the rise of e-commerce and global supply chain dysfunction boosted demand for industrial buildings. As we wrote in the CRE [chartbook](#), however, the sector may have reached an inflection point. Spending on warehouse projects fell 0.9% in May, marking the third straight decline.
- Not all nonresidential segments declined, however. Manufacturing (1.2%), transportation (1.3%) and office (0.2%) projects all posted gains in May. The increase in office spending occurred with help from a 0.9% improvement in public office projects. Private office spending was essentially unchanged.
- Over the past two years, the construction industry as a whole has been constrained by building material and labor scarcities. Those constraints now appear to be easing as supply chains become less congested and demand cools, which is helping moderate the earlier run-up in materials prices. The Producer Price Index for material inputs into new nonresidential construction rose 19.3% year-over-year in May, a step down from 19.5% in April.

Nonresidential Construction Put-in-Place

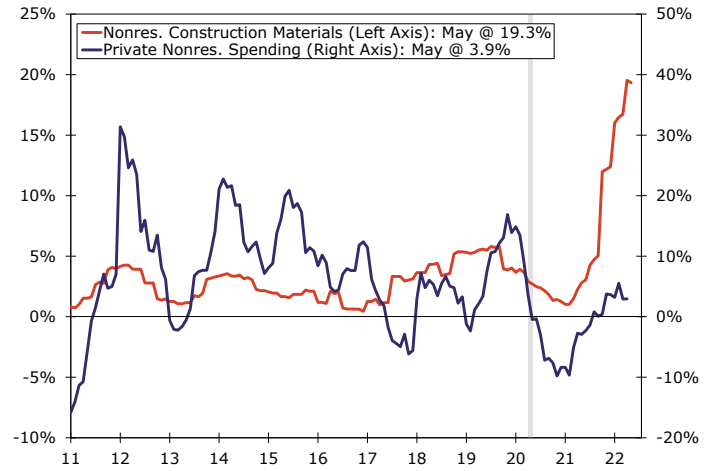
Month-over-Month % Change, SAAR, Ranked by Level of Spending



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

Producer Price Index: Nonres. Construction Materials

Year-over-Year Percent Change



Source: U.S. Department of Labor and Wells Fargo Economics

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Economics Group

Jay H. Bryson, Ph.D.	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	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	704-410-4405	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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