Economic Indicator — August 2, 2021

Construction Spending Underwhelms in June

Summary

Pandemic-Related Impacts Are Weighing on Nonresidential Construction

Construction spending once again underwhelmed in June, with overall outlays inching 0.1 percent higher, following a 0.2% decline in May. Residential construction continues to plow ahead, with outlays rising 1.1% in June and outlays for the first six months of the year up 24.5% from last year. By contrast, nonresidential construction outlays fell 0.9% in June and are down 8.1% over the year on a year-to-date basis. Nonresidential construction went into the pandemic with strong momentum, but the project pipeline quickly dried up as more businesses tightened their belts and focused on survival. Sectors most severely impacted by COVID shutdowns have seen the largest pullbacks.

Economist(s)

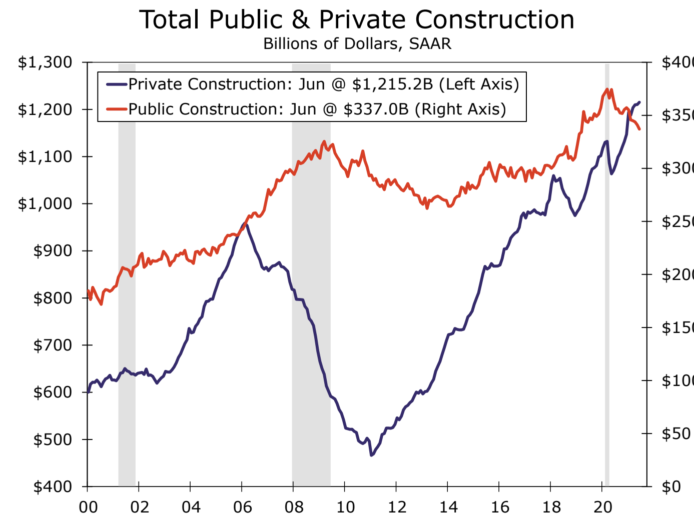
Mark Vitner
Senior Economist | Wells Fargo Securities, LLC
mark.vitner@wellsfargo.com | 704-410-3277

Construction Spending Remains Under Pressure

Total construction spending increased 0.1% in June, coming off a slight upward revision for May. Private outlays rose 0.4%, while public outlays fell 1.2%. All the decline was in nonresidential outlays, which fell 0.7% in the private sector and declined 1.2% in the public sector. Spending for new residential projects continues to increase, with private outlays rising 1.1% and public outlays climbing 0.8%.

Within the public sector, the bulk of June's 1.2% decline was in highway and street projects, which fell 5.3%. Spending for educational facilities fell 0.8%, and outlays for public amusement and recreation facilities declined 1.1%. On a year-to-date basis, spending is down 7.1% or nearly $12 billion. Most of that drop has been in educational facilities (-8.7% and $3.8B), public safety (-29% and $2.6B) and transportation projects (-6.8% and $1.4B).

The weakness in highway & street and transportation projects highlights the need for additional funding for infrastructure projects. While a bill may soon work its way through Congress, there is considerable funding already in place. Many state and local governments are sitting on a mountain of cash provided by federal stimulus programs, which could fund outlays for street and sidewalk construction, public safety facilities and education projects later this year.



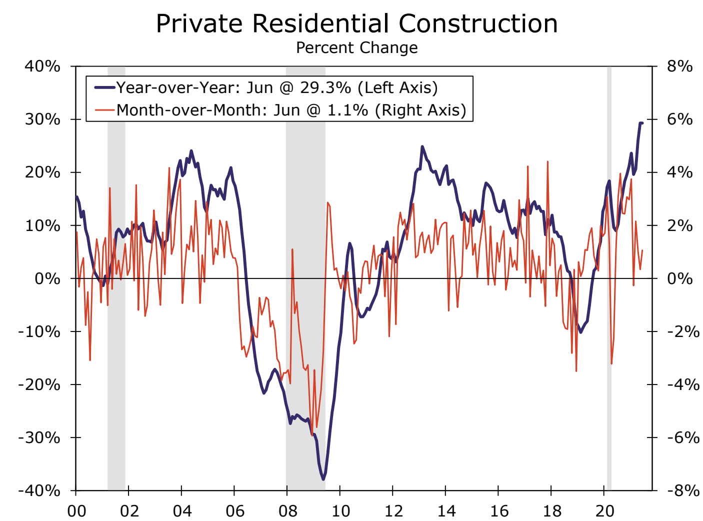
Source: U.S. Department of Commerce and Wells Fargo Securities

Home Building Maintains Strong Momentum

Outlays for private residential construction projects rose 1.1%, with practically all of the gain coming from single-family homes. Outlays for single-family homes rose 1.8% in June and are up a whopping 36.5% through the first six months of the year from the same period last year. Outlays for new private multifamily projects fell 0.1% in June but remain up 19.5% through the first six months of this year compared to the same period in 2020. Spending for private residential renovations and repairs rose 0.4% in June and have risen 12.1% year-over-year, on a year-to-date basis.

Single-family construction continues to have strong momentum. While new home sales have shown signs of weakening, part of the problem has been a lack of homes available for sale. A growing proportion of new home sales have been for homes where construction has not yet started, which means builders have a considerable backlog headed into the second half of the year. Supply chain bottlenecks also continue to hand over home builders. While framing lumber prices have come down recently, prices for many other key inputs remain exceptionally high and shortages are still commonplace.

June's slight drop in spending for new multifamily projects looks to be an aberration. Demand for apartments strengthened during the second quarter and rents have spiked higher and sales of apartment communities have increased in recent weeks. We look for more projects to move forward during the second half of the year, as supply shortages ease somewhat.



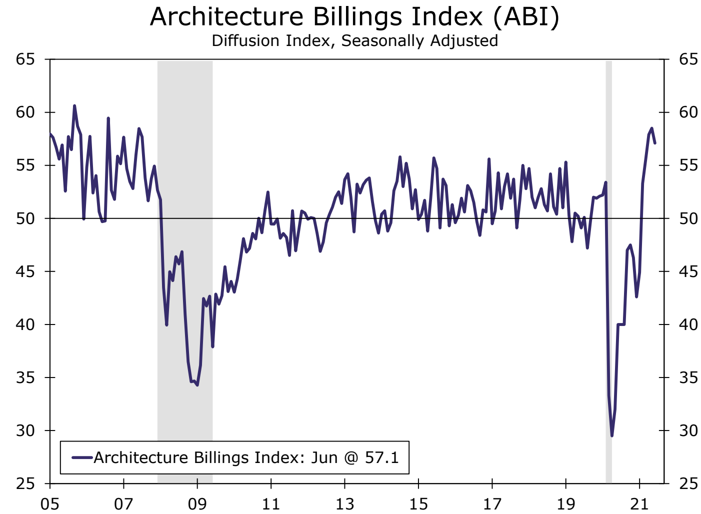
Source: U.S. Department of Commerce and Wells Fargo Securities

Nonresidential Construction Remains Sidelined

The persistent weakness in nonresidential construction spending likely reflects the knock-on effects of the pandemic. Office, industrial, retail and hotel development went into the pandemic with strong momentum, but developers quickly put the brakes on new projects. Shortages of steel and other key inputs have also compounded the timing of new projects, even those that have been approved and fully funded.

There are areas of nonresidential construction that are moving forward, most notably the industrial market which has seen demand surge from the growth in online retailing as well as efforts to build just-in-case inventories. Office development, retail development and construction of new amusement and recreation projects remains stymied, however, even though business has come roaring back in much of the country. Hotels are another story. While leisure travel has come roaring back, business travel largely remains dormant. Meetings and conventions will pick up this fall, but the industry looks to have abundant capacity in much of the country.

The Architecture Billings Index fell slightly in June but remains strong at 57.1. A reading above 50 indicates that more architectural firms are reporting an increase in billings, which tend to lead commercial construction by nine months to a year. The unusual nature of the COVID recession might alter this relationship, particularly with so many firms rearranging their workplace to accommodate social distancing and a more flexible workforce.



Source: American Institute of Architects and Wells Fargo Securities

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2021 Annual Economic Outlook: Aftershocks and Divergence in the Post-Pandemic Economy is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

And for those with permission at research.wellsfargosecurities.com

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
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
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	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Required Disclosures

Important Information for Non-U.S. Recipients