Economic Indicator — October 1, 2024

Construction Spending Tempers in August

Residential and Nonresidential Outlays Pull Back

Summary

Brighter Days Ahead

High interest rates, a tight credit environment and elevated operational costs continue to weigh on construction. Total construction spending fell 0.1% during August, the third straight monthly decline. Drops in the private residential and nonresidential categories drove the overall monthly pullback in outlays, while public expenditures rose modestly. Although it may take time for construction to benefit from less restrictive monetary policy, lower interest rates should eventually bring a turnaround in activity.

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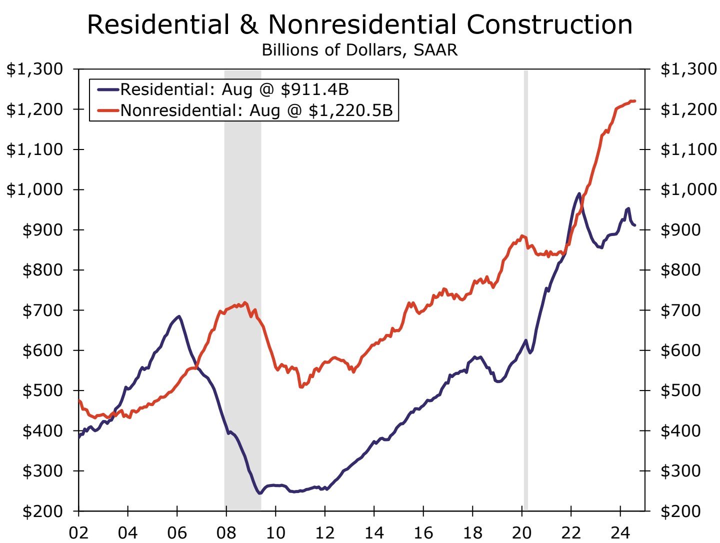
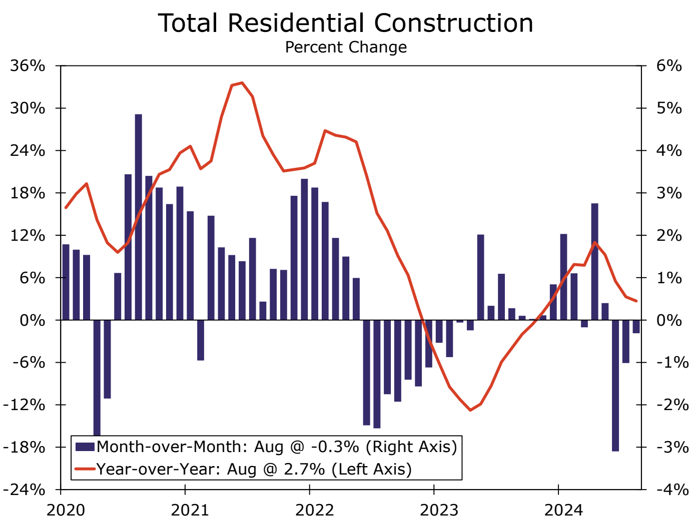


Source: U.S. Department of Commerce and Wells Fargo Economics

Residential Construction Remains Challenged

- The pace of residential construction appears to be moderating under the weight of restrictive monetary policy. Although overall residential outlays elevated far above their pre-pandemic levels, the 0.3% dip in August marked the third sequential decline.
- August's slip in residential spending was felt entirely in the private sector, which makes up more than 98% of overall residential construction. Both single-family and multifamily building waned over the month.
- Private single-family outlays slid 1.5% in August, an expected outcome following the five-month downdraft in single-family permits from January to June of this year. Recent mortgage rate declines have brightened builder confidence, sparking a modest improvement in permits in August. However, it will take time for new starts to translate into a faster monthly pace of single-family construction.
- Multifamily construction also continues to temper as builders attempt to rightsize the supply-demand imbalance in the multifamily market. Private multifamily outlays slipped 0.4% in August, marking the 13th drop in the last 14 months.
- Home improvement outlays are the lone bright spot in an otherwise dim environment for residential building. Spending on private residential improvement projects rose 1% in August and are up 9.4% year-over-year.



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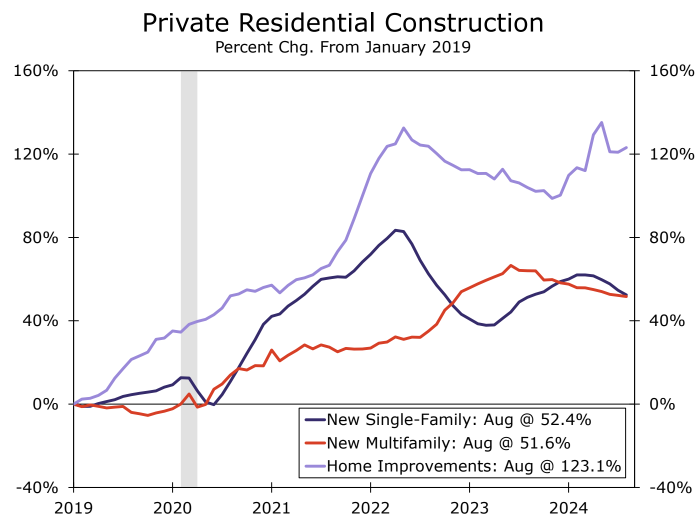
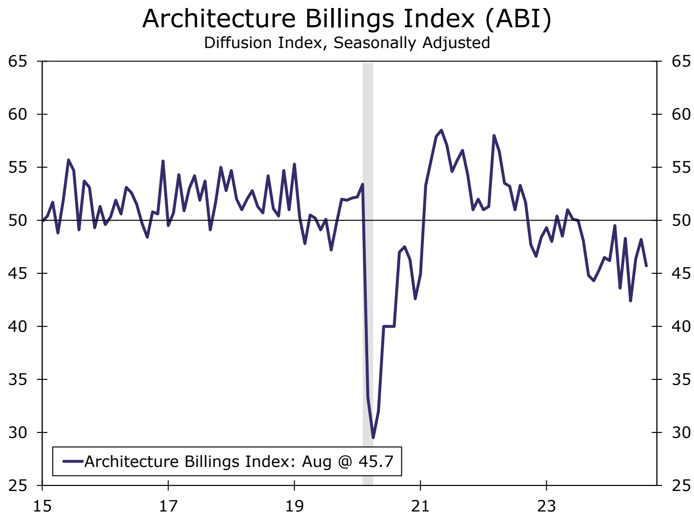


Source: U.S. Department of Commerce and Wells Fargo Economics

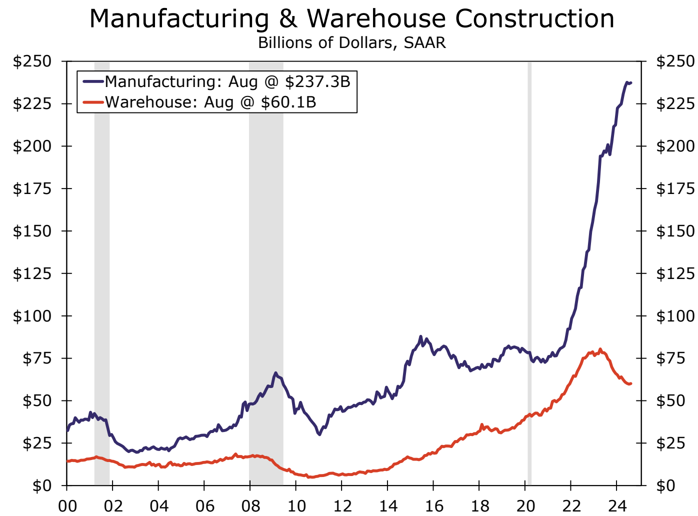
Nonresidential Construction Mostly Weak

- Nonresidential construction eked out a 0.1% gain in August, driven entirely by increased public outlays. Private nonresidential spending slid for the second straight month as high interest rates and reduced credit access scaled down construction.
- August's weakness in private nonresidential outlays was primarily owed to drops in commercial and health care construction. Most commercial categories lost ground over the month, dragging overall commercial spending nearly 15% below the pace in August 2023.
- Warehouse spending bucked the trend with a slight over-the-month gain. But stepping back, warehouse spending has drifted nearly 20% lower year-over-year amid inventory normalization and elevated financing costs.
- Although high interest rates loomed large over nonresidential building, not every category declined over the month. Private spending on manufacturing, communication and transportation construction rose in August. Office outlays were also up 1.1% over the year, driven by a notable upshift in data center construction.
- A boost to public nonresidential construction cut against some of the broader interest rate headwinds afflicting nonresidential builders. Highway and street construction was the largest contributor by far, likely aided by the ongoing delivery of federal infrastructure funding.

- Meanwhile, August marked the 13th consecutive month that the Architectural Billings Index (ABI) remained in contractionary territory. As architects report a prolonged downdraft in billings, the forward-looking index suggests that nonresidential construction will likely be soft for some time.



Source: American Institute of Architects and Wells Fargo Economics



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