

Economic Indicator — November 1, 2024

# Construction Spending Edges Higher In September

## Residential and Nonresidential Contributed to the Monthly Gain

### Summary

#### Activity Picks Up Amid Residential Turnaround

Total construction spending rose 0.1% in September, a monthly gain driven by both the nonresidential and residential categories. The solid rise in residential spending during September reflects the slide in mortgage rates which occurred over the summer in anticipation of less restrictive monetary policy. Although the Federal Reserve cut the federal funds target rate by 50 basis points at the September FOMC meeting, a rebound in mortgage rates over the past several weeks threatens to pour cold water on the fledgling residential recovery.

Meanwhile, total nonresidential spending inched up in September alongside an increase in public expenditures for highway & street and educational projects. However, private outlays declined during the month and the trend in overall nonresidential activity generally remains weak. Easier monetary policy should eventually help bring a turn in nonresidential activity, however, high financing costs and reduced credit access remain as significant headwinds.

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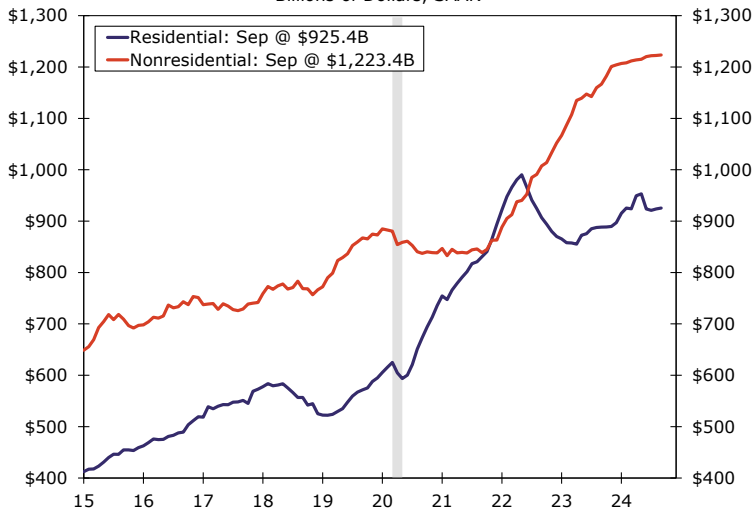
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**Residential & Nonresidential Construction**

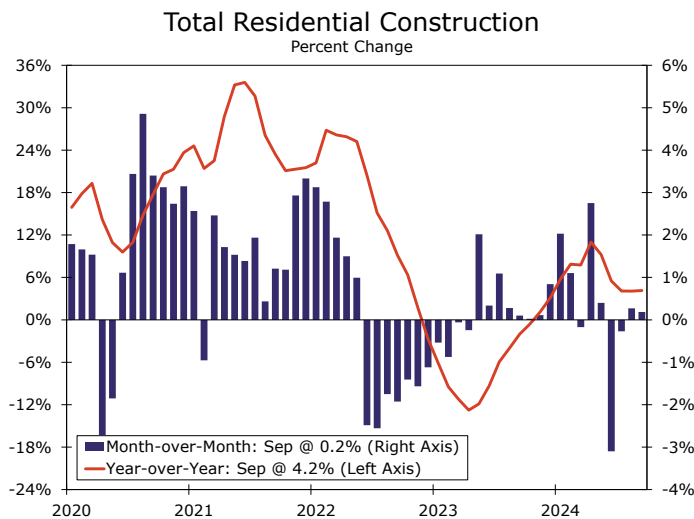
Billions of Dollars, SAAR



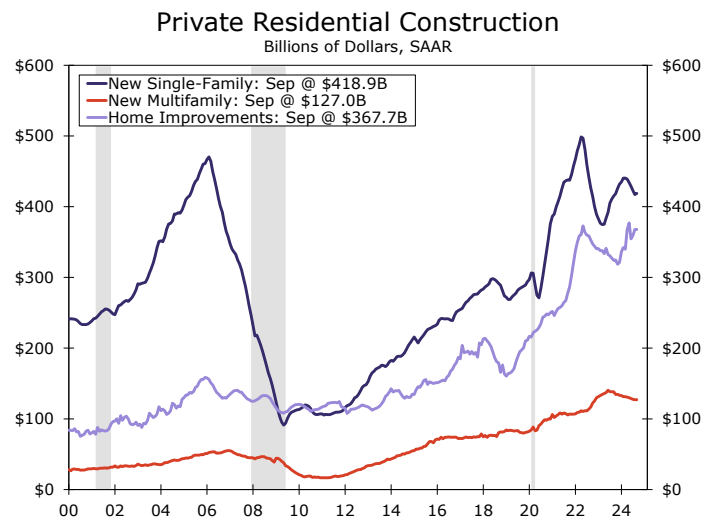
Source: U.S. Department of Commerce and Wells Fargo Economics

## Residential Construction Staging a Comeback?

- Total residential construction spending rose 0.2% in September, driven by a pickup in both public and private outlays.
- Of note, private single-family spending perked up 0.4% over the month, the first gain in six months. The downtrend in mortgage rates through the summer appears to have increased buyer traffic and boosted builder confidence. As of September, single-family building permits have increased in two of the last three months.
- That's not to say that the challenges facing single-family builders have wholly disappeared. Mortgage rates have moved higher in recent weeks, which may act as a headwind to new building activity. The 30-year fixed rate according to Freddie Mac has increased from a low of 6.12% the first week of October to 6.72% the last week of October. Higher frequency data from Mortgage News Daily show that rates have once again surpassed 7%. The recent uptick in financing costs could exert renewed pressure on the single-family sector.
- Meanwhile, multifamily construction continues to weaken. Private multifamily outlays dipped 0.1% over the month, the tenth monthly drop. As of September, private multifamily construction spending is down 8.1% year-over-year. Yet, the relatively tamer 4.7% year-to-date drop suggests that the long slide in multifamily construction may be losing steam.
- Multifamily weakness to date has been caused by a supply-demand imbalance in the apartment market. Multifamily deliveries have outpaced absorption for 12 consecutive quarters according to CoStar, causing the vacancy rate to increase from 5.0% in Q4-2021 to nearly 8.0% in Q2-2024. Momentum may be shifting, however, as poor affordability conditions in the housing market firm up apartment demand and slow the rise in apartment vacancies.



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



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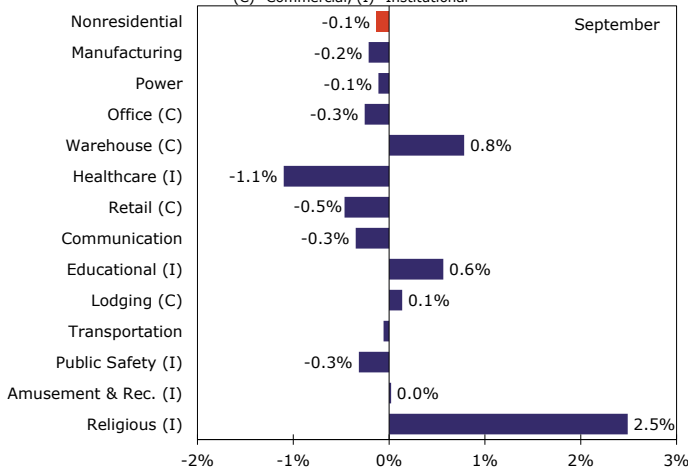
## Nonresidential Construction Is Not Out of The Woods

- Nonresidential construction continues to be weighed down by the lagged effects of monetary tightening. Overall outlays increased 0.1% over the month, mainly owed to a rise in public infrastructure spending. Private nonresidential construction posted its third consecutive weak print, dipping 0.1% in September.
- Manufacturing construction appears to be tapering down somewhat. Outlays on manufacturing facilities dipped 0.2% over the month, the second decline in the past three months. Softness in September was driven by weaker spending on nonmetallic mineral and computer & electronic manufacturing. That said, monthly construction data are subject to fairly hefty revisions, which have tended to skew higher in the manufacturing category.
- Dips in health care, office and communication construction also softened private outlays in September. Meanwhile, commercial construction spending registered its first over-the-month gain in a year, primarily owed to an increase in retail.
- Public sector investment is more insulated from interest rate headwinds. Public nonresidential outlays rose 0.4% in September and have ballooned 7.0% over the past year. Nearly every public

nonresidential category gained in September, with notable increases in highway and street, transportation and educational outlays.

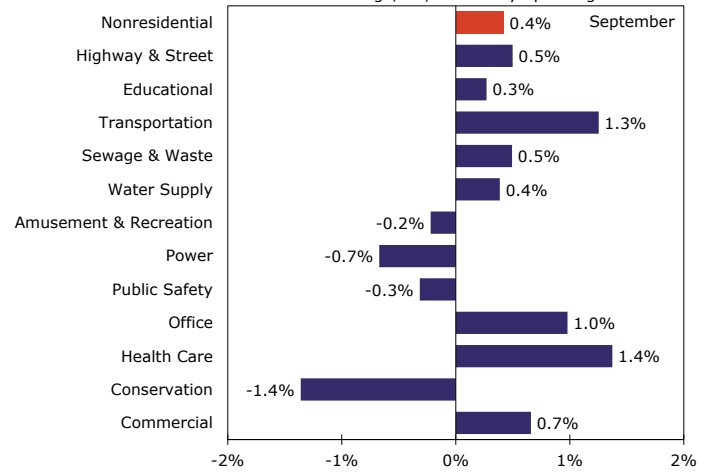
- Demand remains soft for architecture firms, suggesting that nonresidential construction will be suppressed for some time. The Architectural Billings Index (ABI) posted its 14th straight month in contractionary territory in September, reflecting a decline in billings activity. Although clients are hesitant over which projects to pursue, architects are reporting a backlog of 6.4 months, indicating the availability of some work in the pipeline.

**Private Nonresidential Construction Put-in-Place**  
 Month-over-Month Percent Change, SA, Ranked by Level of Spending  
 (C)=Commercial, (I)=Institutional



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

**Public Nonresidential Construction Put-in-Place**  
 Month-over-Month Percent Change, SA, Ranked by Spending



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

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