

Economic Indicator — October 2, 2023

Construction Spending Rises in August

Manufacturing and Single-Family Outlays Propel Overall Upshift

Summary

Construction Spending Continues to Buck the Headwinds

Construction activity this year has been largely resilient to broader macroeconomic headwinds. Total outlays increased 0.5% in August, solidifying an eight-month streak of improvements in 2023 and amounting to a 7.4% year-over-year gain. Yet as construction outlays rise on trend, clear divisions are forming under the surface. An uptick in single-family starts has bolstered construction spending over the last few months, largely owed to builders' success with incentives in the high mortgage rate environment. Multifamily outlays, by contrast, appear to be moderating as a near-record number of apartment units is set to deliver over the next few years. Similar dynamics are playing out within nonresidential construction. A bump in manufacturing outlays was the single-largest driver of August's overall increase in the nonresidential spending, a familiar theme following the shift toward domestic electric vehicle and semiconductor production. Alternatively, tighter credit conditions and higher financing costs have weighed on commercial construction, which was the largest drag on nonresidential outlays in August.

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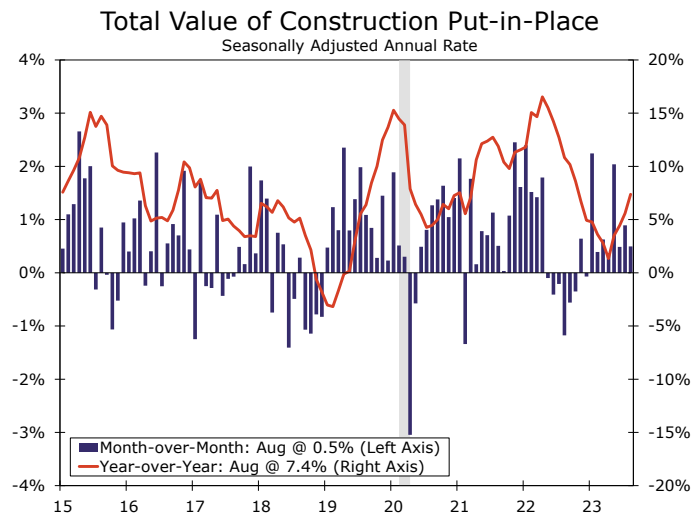
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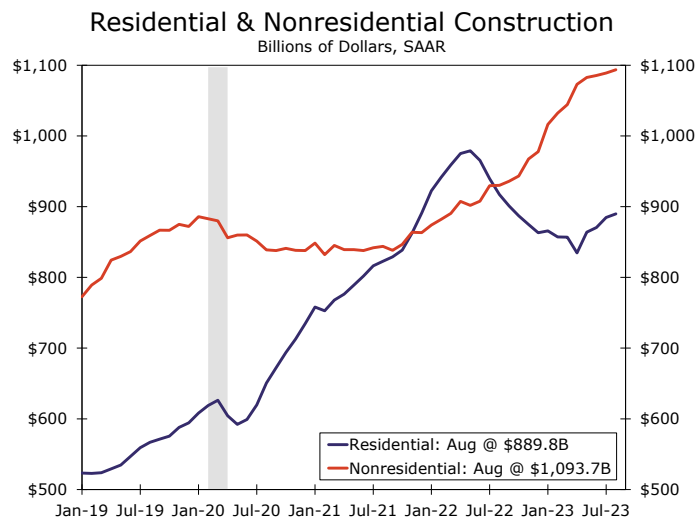
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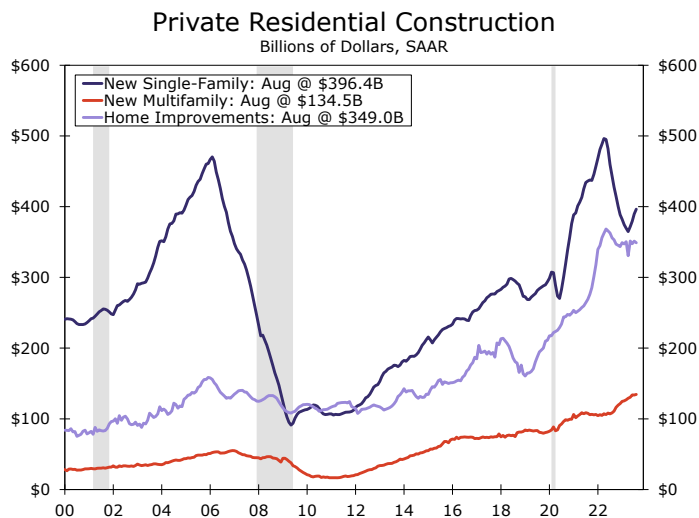
Source: U.S. Department of Commerce and Wells Fargo Economics

Single-Family Momentum Fuels Rise in Residential Outlays

- Scarce existing home supply continues to fuel a bump in residential construction outlays. Overall residential construction spending notched its fourth consecutive improvement in August, rising 0.6% over the month.
- While single-family construction outlays continue to improve on trend, a downshift in new multifamily projects appears to be weighing on multifamily construction. Within private construction, the 1.7% jump in single-family construction spending in August overshadowed the more modest 0.6% uptick in multifamily spending.
- Higher financing costs have also led to a moderation in home improvement outlays, which have been largely flat since the middle of 2022.



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

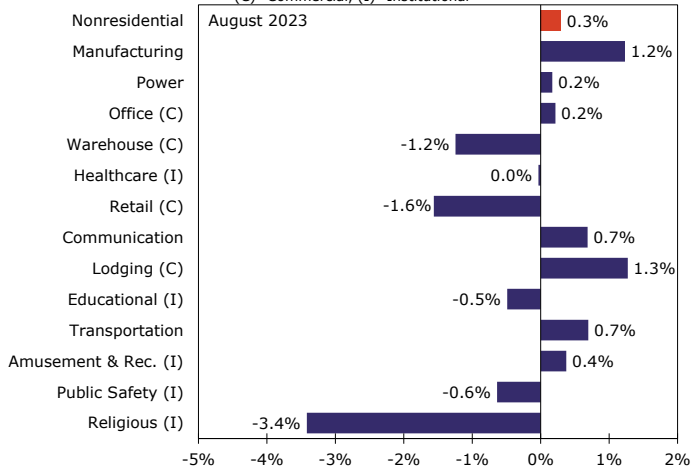


Source: U.S. Department of Commerce and Wells Fargo Economics

Nonresidential Spending Powered by Manufacturing and Infrastructure Projects

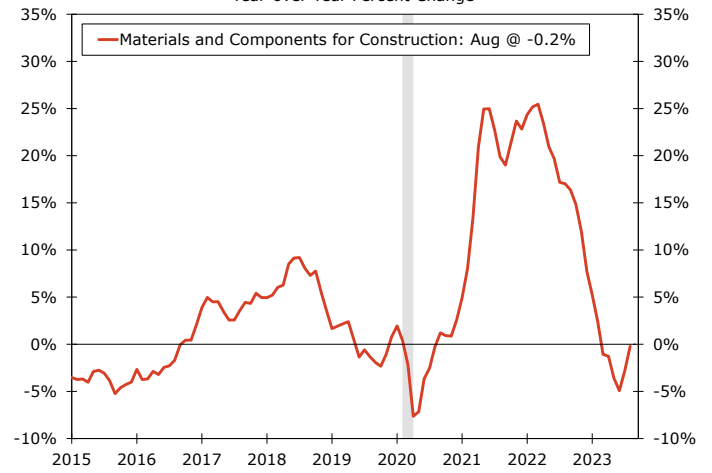
- Total nonresidential outlays improved for the 15th straight month, rising 0.4% in August. The headline improvement was driven by strong showings from private manufacturing and public nonresidential spending.
- Spending was mixed on the private side, with lodging and manufacturing posting the largest monthly movement. On the other hand, diminished retail and warehouse spending put some downward pressure on nonresidential spending.
- The upswing in public nonresidential spending can be owed to a surge in conservation spending as well as infrastructure spending on power, highway & street and transportation projects. These four categories accounted for 75% of the monthly increase in public nonresidential outlays.
- The AIA/Deltek Architecture Billings Index fell back into contraction territory in August, sliding to 48.1 from 50. Although inquiries into new projects grew modestly, the value of design contracts declined for the first time since April. Business conditions have softened primarily at firms specializing in multifamily residential projects.
- Builders continue to benefit from more stable material prices. The Producer Price Index for construction materials and components fell 0.2% over the year in August. The recent leg-up in oil prices could present near-term price pressure, however. Despite slipping over the year, the PPI for construction materials and components reached a 10-month-high in August.

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

Producer Price Index: Construction
 Year-over-Year Percent Change



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

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