

Economic Indicator — May 3, 2021

## Construction Spending Edges Higher in March

### Summary

- Total construction spending rose 0.2% during March, which still leaves outlays 5.3% above their year-ago level.
- Residential spending advanced 1.7% during the month, driven by sturdy gains in single-family construction and home improvement spending.
- Increased household space needs and fast-rising building material prices continue to propel residential spending, which is now up 23.3% over the year.
- By contrast, nonresidential spending continues to be bogged down by the pandemic. Total nonresidential spending fell 1.1% in March and is down 7.4% over the past year.
- Public outlays dipped 1.5% in March, the third consecutive monthly decline.
- Recent gains in construction hiring hint that conditions are improving on the nonresidential side.
- The AIA's Architecture Billings Index (ABI) rose to 55.6 in March from 53.3 the month prior, reflecting a brightening outlook for commercial and industrial construction.

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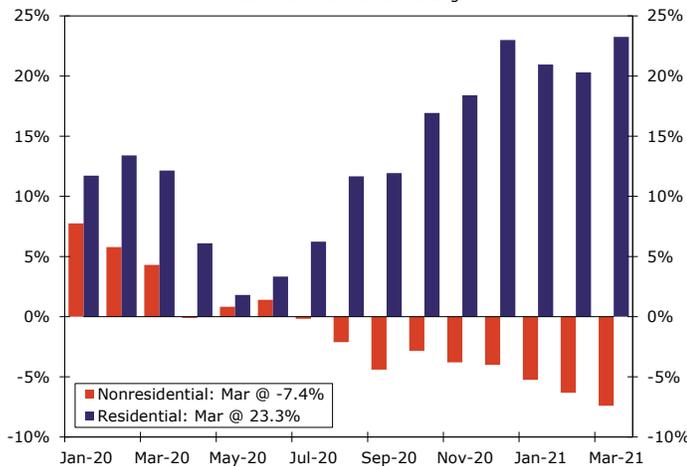
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## Rising Residential Spending Lifts Overall Outlays

Construction activity rebounded solidly in March. Total construction spending edged up 0.2% during the month, which helped to make-up for the previous month's weather-related decline. However, once again, it was a tale of two sectors. The residential sector remains white-hot, with outlays rising 1.7% throughout the month. The pandemic has spurred a need for more space and a rush of home buying. With little inventory of existing homes for sale, prospective buyers are increasingly looking to the new home market, and builders are struggling to keep up. Single-family spending rose 2.0% in March, which equates to a 26.7% year-over-year gain.

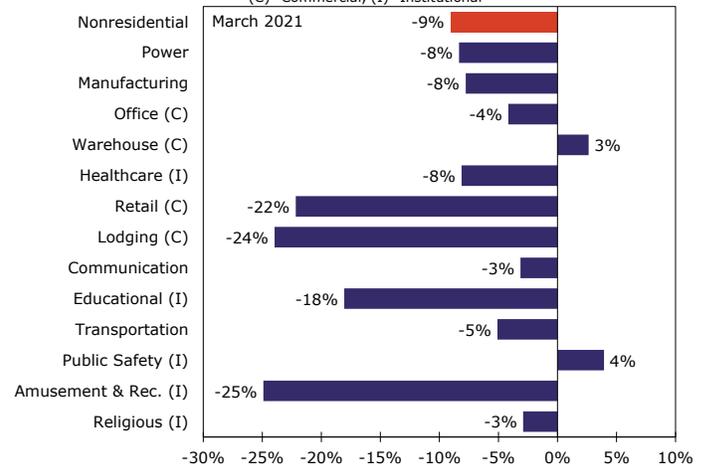
Relatively few trade-up options and soaring home values, which have significantly boosted homeowner equity, have led to a surge in additions and renovations. Home improvement spending, which rose 2.0% in the month, is up 21.7% over the past year. Demand for single-family construction and home improvement projects has been so strong that building material prices continue to skyrocket, notably for lumber. According to the NAHB, lumber prices are up roughly 250% since April of last year, increasing the cost of the average new single-family home by nearly \$36,000.

**Total Residential & Nonresidential Construction**  
Year-over-Year Percent Change



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

**Private Nonresidential Construction Put-in-Place**  
Year-over-Year % Change, Seasonally Adjusted, Ranked by Spending  
(C)=Commercial, (I)=Institutional



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

## Nonresidential Spending Weakens, but Rays of Light Appear on the Horizon

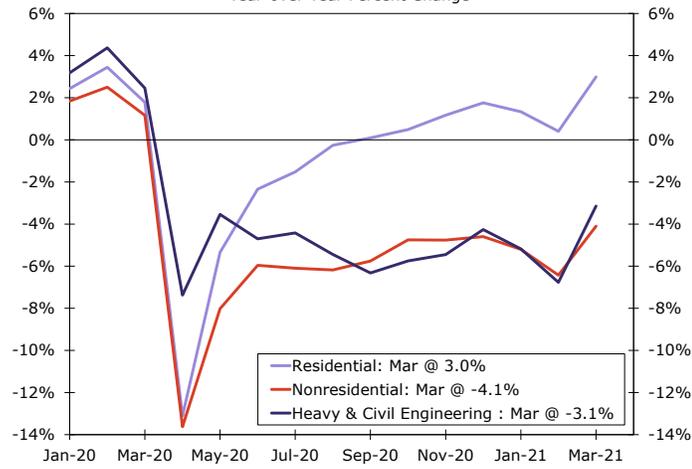
By contrast, nonresidential spending continues to be bogged down by the pandemic. Total nonresidential spending fell 1.1% during March. Expenditures on education (-2.0%), office (-0.3%), lodging (-2.4%) and commercial (-0.4%) slipped during the month. Power project spending declined 0.4%, while manufacturing outlays sunk 1.3%. Last year's considerable drop-off in starts set the stage for softer spending this year, and total nonresidential outlays are down 7.4% on a year-over-year basis.

Despite weakening recently, nonresidential construction activity appears poised for improvement this year as more projects are given the green light alongside diminishing COVID risks. During March, construction firms added 110,000 net new jobs, which more than offset the previous month's weather-induced decline. Nonresidential employment rose by 45,800 jobs, which outpaced residential (+37,000) and heavy and civil engineering (+27,300). We look for the construction industry to post a similarly robust job gain in April, the data for which will be released on Friday morning.

Public construction is another area poised to do better. Many local governments are also flush with federal relief money, which is helping fuel spending on smaller road projects, sidewalks and public buildings.

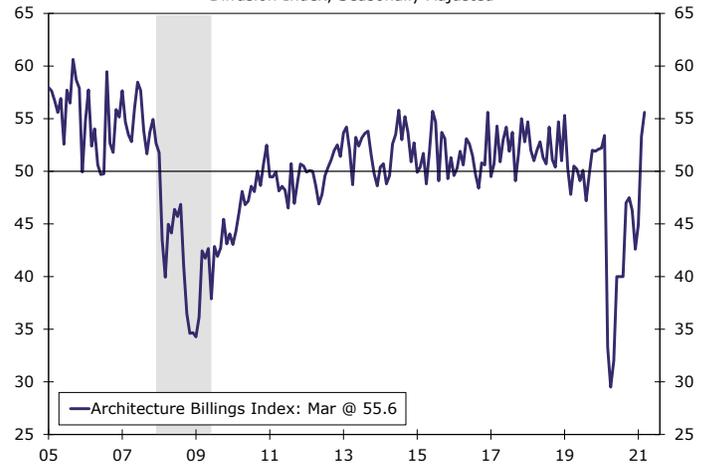
Another promising sign is that more architecture firms are reporting an increase in billings. The forward-looking Architecture Billings Index (ABI) rose to 55.6 in March from 53.3 the month prior, signifying continued improvement in new inquiries, signed contracts and backlogs of work. The recent rise in the ABI means nonresidential activity should strengthen over the course of the year.

**Construction Employment by Sector**  
Year-over-Year Percent Change



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

**Architecture Billings Index**  
Diffusion Index, Seasonally Adjusted



Source: American Institute of Architects and Wells Fargo Securities

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