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# Economics Group

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# Construction Spending Falls in Line with Expectations

***Construction spending fell just 0.1 percent in February, with the decline concentrated in private residential and public spending. We expect overall outlays to rebound from its winter malaise in coming months.***

## Construction Outlays Better Than the Headline Implies

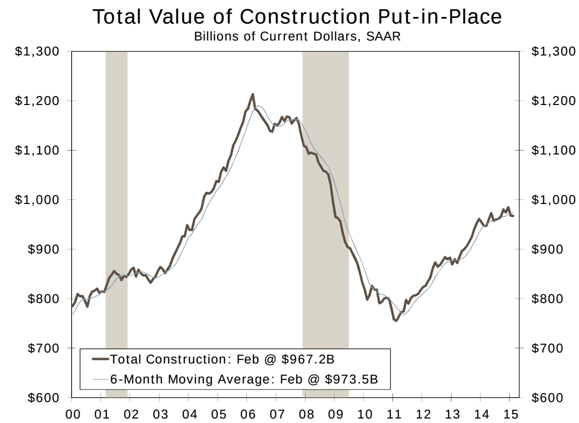
Total construction spending fell 0.1 percent in February to a seasonally adjusted annual rate of $967.2 billion. Spending for January was downwardly revised, with all of the weakness still concentrated in private nonresidential and public spending. For February, private construction was up 0.2 percent during the month, while public outlays fell 0.8 percent. Early indicators for construction spending, including projects in the planning phase, starts and architectural billings, all rebounded in February leaving a clue that overall construction spending is set to improve following its weather-induced slump.

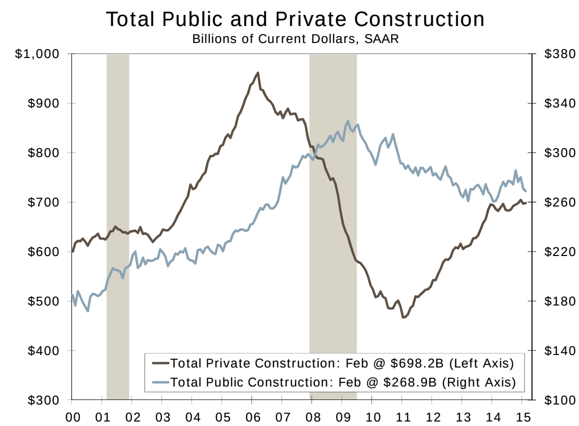
Following two consecutive monthly gains, private residential construction spending fell 0.2 percent in February, but was up 3.4 percent on three-month average annualized basis. During the month, single-family fell 1.4 percent, the first decline in eight months. We suspect that harsh winter weather conditions finally caught up with this resilient component of construction spending. The drop in single-family was heralded by the sharp decline in single-family housing starts in February. That said, we expect monthly gains to resume in the coming months. This view is supported by improvement in other housing market indicators, including permits and sales activity. On the other hand, multifamily rose a solid 4.1 percent during the month and is up 31.5 percent over the past year. Multifamily has posted double-digit year-over-year gains over the past three years and solid apartment demand suggests the trend will persist.

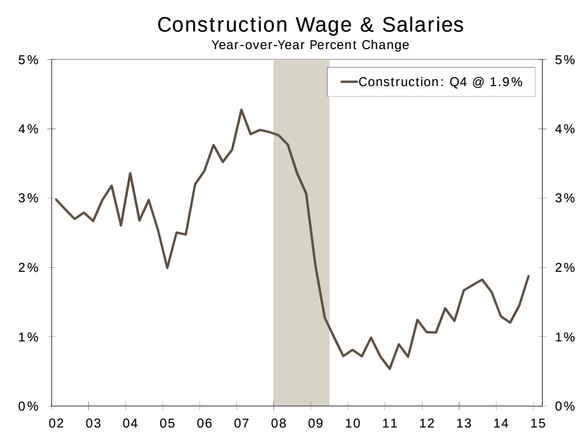
Private nonresidential construction spending rose 0.5 percent in February and is up almost 6.0 percent over the past year. Much of the decline was concentrated in power and commercial spending. Although commercial spending is expected to continue to improve this year, power outlays may be a bit more problematic. Power spending was down almost 17.0 percent in February.

## Keeping an Eye on Construction Wage Inflation

Construction firms continue to report a shortage of qualified workers as a major obstacle. If contractors are indeed seeing fewer qualified construction workers, we could see wage inflation in the construction sector down the road. On a national level, average hourly wage growth is lagging and is still well below its long-run trend. For the construction industry, there is also no evidence of wage inflation. According to the Employment Cost Index (ECI), which is known to be the broadest measure of labor costs, the index for private wages and salaries for construction workers was up only 1.9 percent in the fourth quarter, while total private wages and salaries grew 2.3 percent. Moreover, the prerecession average for ECI's private wages and salaries index for construction is about 3.0 percent, which means we have a long way to go before wage inflation in this sector becomes a problem.




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

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