



Economics Group

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Big Surprise in Construction Spending in April

Construction spending rose 2.2 percent in April, which was well above the consensus estimate. Previous months' data were upwardly revised and suggests a better outturn for first quarter structure investment.

Second Quarter Outlays Off to a Solid Start

Total construction spending rose 2.2 percent in April to a seasonally adjusted annual rate of \$1,006.1 billion. Spending for February and March were upwardly revised, which should provide a boost to structure investment, all things equal. Keep in mind, the drilling component of structure investment is not included in the monthly construction spending report, which means we will still see a large contraction in Q1.

Private construction rose 1.8 percent and even the beleaguered public spending component rose during the month. Total public spending rose 3.3 percent with equal increases in the residential and nonresidential components. Highway and street, which is the largest public construction component, jumped almost 8.5 percent during the month and is up 4.6 percent over the past year. Education outlays also made a good showing in April, increasing 3.6 percent from March.

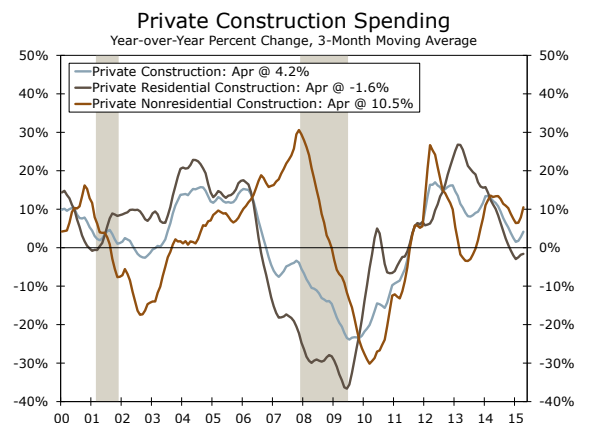
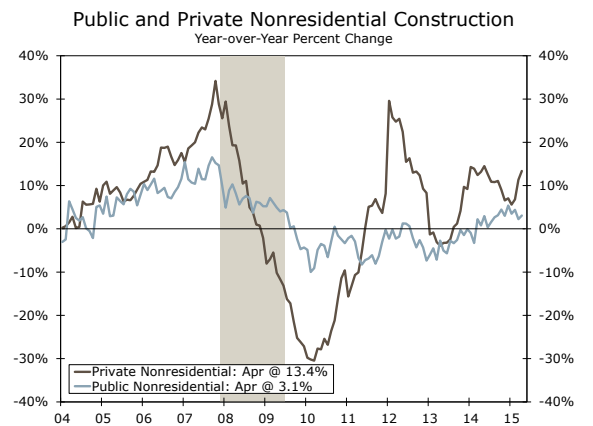
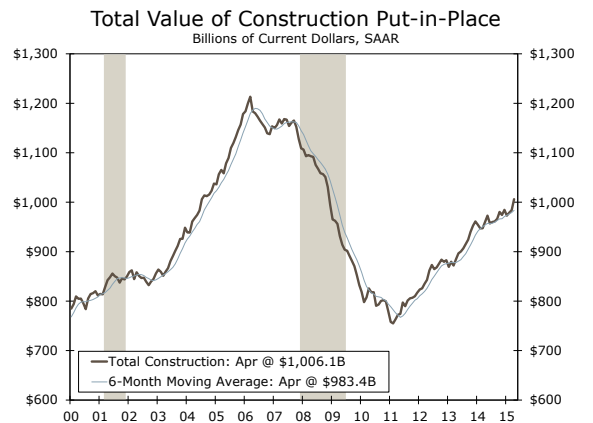
Private residential increased 0.6 percent, with single-family construction spending rising following two straight monthly declines. On the other hand, home improvement has been weak in 16 of the last 17 months. Although today's residential construction spending report pales in comparison to the April surge in single-family housing starts and the gain in permits, we expect spending to gradually improve in the coming months. However, there are downside risks to the forecast as single-family inventories remain extremely tight and flooding in Houston could dampen the outlook.

Private nonresidential construction spending jumped 3.1 percent during the month and is up 13.4 percent over the past year. With the exception of communication, all nonresidential sectors increased during the month. The largest contributions to headline nonresidential came from the commercial, office and lodging sectors. We suspect this trend will persist in the coming months, but should also see further acceleration in institutional outlays.

Looking Ahead: Improvement Is on the Horizon

We continue to expect nonresidential to strengthen in the coming months. Our forecast is largely unchanged as we continue to expect overall construction activity to rise about 8 percent in 2015. Moreover, nonresidential construction employment continues to improve and wages and salaries in this space are gradually edging higher. The nonresidential components of architecture billings show improvement. Residential spending will also improve this year, but much of the increase will continue to come from gains in multifamily, as demand remains solid.

Firming in underlying economic fundamentals will also continue to boost commercial and industrial outlays. Institutional construction spending has lagged commercial and industrial construction spending in the recovery, but should get a boost from healthcare and education building this year.



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