Economic Update

October 1, 2024

Construction Spending Fell for Third Straight Month in August; Private Construction Spending Faces Near-term Weakness

- **Total construction spending dropped in August, including a decline in residential spending.**
- **Expectations for a Federal Reserve interest rate cut in September may have weighed on private construction spending in August.**
- **Public construction spending was up both on the month and over the past year.**
- **PNC expects more fed funds rate cuts this year and next will support a recovery in fixed investment in structures.**

U.S. total construction spending dropped 0.1% in August to $2.132 trillion at a seasonally-adjusted annualized rate, from $2.134 trillion in July (downwardly revised from $2.163 trillion). This is the third straight month of contraction in total construction spending. Residential construction spending fell 0.3% on the month, while nonresidential spending rose 0.1%. Spending was up on a year-ago basis for both residential and nonresidential construction in August, but total spending growth is slowing, to the weakest pace since June 2023.

Expectations for a September cut in the federal funds rate from the Federal Open Market Committee may have weighed on private construction spending in August, which fell 0.2% over the month. The weakness in single-family homebuilding continued, with a 1.5% drop in spending over the month and a small 0.8% increase over the past year. New multifamily construction spending dropped 0.4% in August from July and was down 7.5% from the same time last year. Commercial construction remained a drag, with spending down 0.4% on the month and 14.8% from a year ago. But manufacturing construction spending was up 0.2% on the month and more than 18% on a year-ago basis, supported by federal government spending on the industry.

Public construction spending rose 0.3% in August. Over the past year spending was up 8%, and spending was up broadly, including gains in commercial, public safety, amusement and recreation, water supply, power, and healthcare.

PNC expects continued monthly weakness in construction spending as interest rates remain elevated in September, even with the 50 basis point fed funds rate cut from the FOMC. Lagged effects from tight monetary policy will continue to weigh on consumers in the near term, but the U.S. labor market will remain solid, supporting continued economic growth into 2025. Year-over-year construction spending growth is set to slow further in the months ahead, but more rate cuts this year and next will eventually encourage business investment, home sales, and consumer spending on durable goods, supporting homebuilding and industrial activity in 2025.

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