Economic Update

November 1, 2024

Total Construction Spending Rose Modestly in September; Easing Monetary Policy Will Set Stage For Gradual Recovery in 2025

- **Total construction spending rose 0.1% up in September. Year-over-year growth was positive but continues to slow.**
- **Total private construction spending was flat on the month but up from a year earlier.**
- **Public construction spending was up both on the month and over the past year.**
- **PNC expects improved conditions for housing demand, homebuilding, and construction spending later this year and in 2025.**

U.S. total construction spending rose 0.1% in September to $2.149 trillion at a seasonally-adjusted annualized rate, from $2.146 trillion in August (upwardly revised from $2.132 trillion). Spending was up on a year-ago basis for both residential and nonresidential construction in September, but growth is slowing, to the weakest pace since mid-2023. In September total construction spending was up 4.6% from a year earlier, down from growth of 4.8% in August and 6.0% in June.

Total private construction spending was flat on the month. Tight monetary policy and continued high mortgage rates are weighing on private residential construction. Spending on single-family homebuilding rose 0.4% on the month and a weak 0.9% over the past year. New multifamily construction spending fell 0.1% in September, and was down 8.1% from the same time last year, as a big increase in multifamily is weighing on rent growth.

Nonresidential private spending was down 0.1% in September from August, but was up 3.5% from a year earlier. Over the past year there have been large declines in spending in commercial and lodging construction, but big increases for education and power construction. Manufacturing construction spending was down 0.2% monthly in September, but was still up 20% year-ago, backed by federal government support for the industry.

Public construction spending rose 0.5% in September. Over the past year public spending was up 7%, with increases in most categories thanks to federal government support from the infrastructure bill.

Construction spending should turn around in 2025. Homebuilder confidence is gradually improving, although it remains low. Monetary policy is still weighing on economic growth, although that drag should gradually lift as the Federal Open Market Committee continues to cut the fed funds rate, supporting construction activity. PNC expects the Federal Open Market Committee to further reduce the federal funds rate by 25 basis points at its meetings in both November and December, after an initial 50 basis point rate cut in September. Further rate cuts in 2025 will eventually encourage business investment, home sales, and consumer spending on durable goods, supporting homebuilding and industrial activity in 2025.

Gus Faucher *Chief Economist*

Jay Hawkins *Senior Economist*

Stuart Hoffman *Senior Economic Advisor*

Kurt Rankin *Senior Economist*

Ershang Liang *Economist*

PNC Economics
economics@pnc.com

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