

## Construction Spending Improved in December, But Details Were Mixed

- **Total construction spending increased in December.**
- **A large increase in private residential improvements camouflaged yearly contractions in new single-family and multifamily spending.**
- **Public construction spending was firmly up from last year in most categories despite a monthly retreat in December.**
- **PNC expects improved conditions for housing demand, homebuilding, and construction spending in 2025 with elevated inflation risks.**

U.S. total construction spending came in higher than the consensus and grew 0.5% in December from November, at \$2.192 trillion at a seasonally-adjusted annualized rate. November's construction spending was 0.2% from October after an upward revision. On a year-over-year basis total construction spending grew 4.3% in December, the same pace as in November, but a slowing from the beginning of 2024. Residential construction spending grew 1.5% in December and 6.1% over the previous year. Nonresidential construction spending fell 0.2% on the month, but was still up over 3% from a year prior.

Private residential spending increased 1.5% on the month, but much of that came from home improvements. New single-family spending rose 1.0%, with new multifamily construction spending down slightly. Total private residential spending was up 6.0% in December from a year earlier, but spending dropped for both new single-family (down 0.8%) and new multifamily (down 10.5%) construction.

Private nonresidential spending eked out a 0.1% gain in December from November, but spending was down in most categories except for office (up 1.1%), communication (up 0.6%), and power (up 0.3%). On a year-ago basis private nonresidential spending rose 2.3%, with a solid gain in transportation, but notable declines in lodging and commercial spending. Manufacturing construction spending was flat on the month but was up 11.1% from last year.

Public construction spending fell 0.5% in December, and was down in most categories. Still, it was up a firm 4.3% on a year-ago basis, with increases in most categories thanks to federal government support. Commercial, amusement and recreation, and sewage and waste disposal spendings were up the most in percentage terms. The largest category of public construction spending, highways and streets, was down 5% in December from a year earlier.

The 30-year fixed mortgage rate is up by about a full percentage point since it hit a one-year low in September, even as the Federal Open Market Committee has been reducing the fed funds rate. Elevated mortgage rates are weighing on housing demand and homebuilding in late 2024 and early 2025. Higher tariffs on Canadian lumber imports, along with higher interest rates, could raise the cost of homebuilding. PNC expects improved

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conditions for housing demand, homebuilding, and construction spending in 2025, but inflation risks for construction materials and wages are tilted to the upside.

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