



# Economics Group

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## Construction Outlays Less Than Forecast in March

**Total construction spending rose 0.3 percent in March, with weakness in public spending. Private residential outlays rose 1.6 percent and private nonresidential also advanced during the month.**

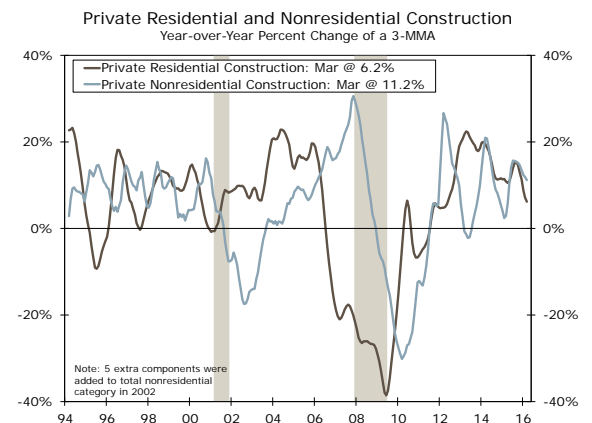
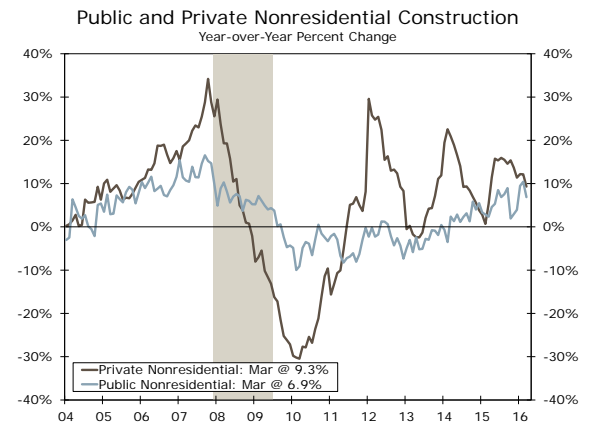
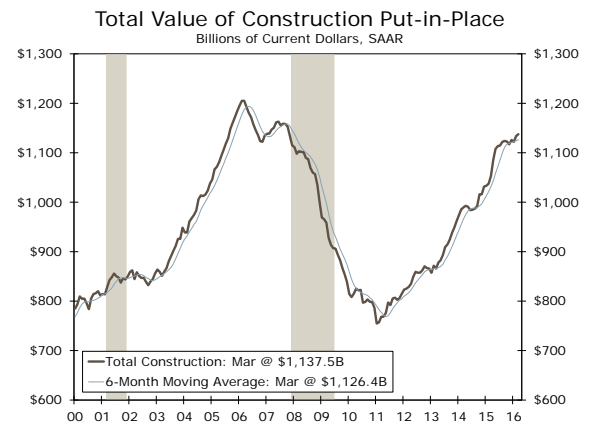
### Total Construction Nearing its Pre-Recession Peak

The total nominal value of construction spending put-in-place rose 0.3 percent in March to a seasonally adjusted annual rate of \$1,137.5 billion, from an upwardly-revised estimate of \$1,133.6 billion in February. As expected, revisions to previous months' data were significant. February's initial 0.5 percent decline was revised to a solid 1.0 percent increase, while January's reading now shows a 0.3 percent slip from an original increase of 2.1 percent. We do not see any significant impact from the monthly reading to Q1 real GDP growth. Overall construction spending rose 8.0 percent relative to a year earlier on the back of strong readings in private construction spending and public nonresidential. Public residential spending fell 0.4 percent in March registering its fifth straight decline.

Within the residential component, outlays increased across the board. Single-family outlays, which comprise more than half of overall residential spending, was unchanged during the month, while multifamily rose 5.6 percent. Despite a gradual rise in the apartment vacancy rate, the sector remains resilient as renting remains the favorable option for many households. We expect apartment fundamentals to continue to show gains in the coming months. Outlays in this space are up 34.6 percent year over year, with monthly readings now up for the fifth consecutive month in March. We also continue to see a tremendous amount of pent-up demand from young adults still living at home, suggesting that even if we see some moderation in activity, there is still room to grow in this sector.

Following three consecutive monthly declines, private nonresidential outlays rose 5.0 percent in March. Healthcare, lodging, manufacturing, commercial, transportation and communication led the way, while office education, and power contracted during the month. Lodging was an early outperformer in this cycle, with hotel demand growth surging, occupancy reaching an all-time high and real revenue per available room (RevPAR) growth also seeing strong gains; however, activity is beginning to soften in the sector. We suspect occupancy peaked last year and growth in the real average daily rate (ADR) is moderating. Manufacturing was another strong outlier during the cycle on the back of chemical and transportation equipment manufacturing. Both components advanced during the month, but chemical manufacturing fell 4.5 percent year over year. Transportation equipment is up almost 15 percent from a year earlier.

The nominal level of overall construction spending is nearing its pre-recession peak and is currently off just 13 percent. Private nonresidential spending should continue to show broadly based gains in the coming months consistent with improvement in the labor market. Private nonresidential is also expected to continue to rise this year. The forward-looking Architecture Billings Index remains in expansion territory.



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