



# Economics Group

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## Construction Spending Starts Third Quarter on Good Note

**Construction spending rose 1.0 percent in October, with private and public outlays posting strong gains. Private single-family outlays increased 1.6 percent, and private nonresidential grew 0.6 percent.**

### Solid Construction Spending Reading

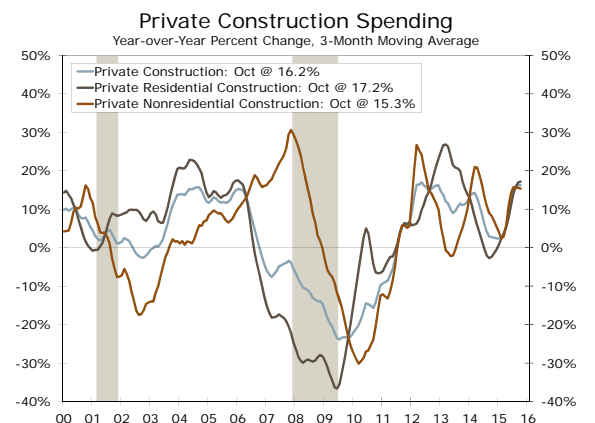
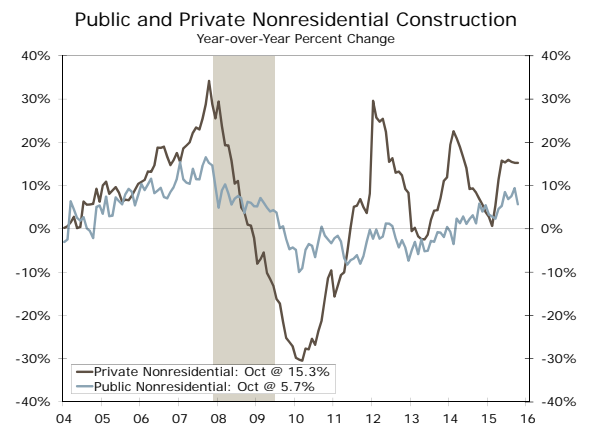
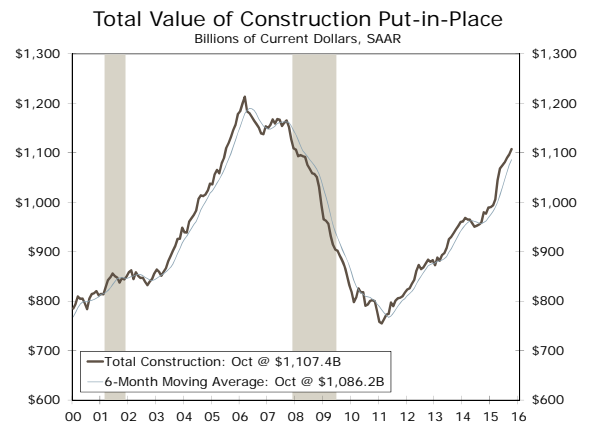
The total nominal value of construction spending put-in-place rose a strong 1.0 percent in October to a seasonally adjusted annual rate of \$1,107.4 billion. Revisions to previous months' data were minimal, which is a welcome occurrence given the extreme volatility in this indicator on a monthly basis. Private outlays rose 0.8 percent in October, with residential and nonresidential construction spending both increasing during the month. Private residential construction spending rose 1.0 percent, with gains in single- and multifamily outlays. Home improvements, however, were weak during the month, but came in flat based on a three-month moving average.

Although single-family construction spending rose during the month, other housing market indicators were mixed. That said, housing demand drivers, including the labor market, household formations, gradually easing lending standards and low borrowing costs, suggest the housing market has more room to run. Moreover, the trend in single-family housing starts, permits, building sentiment and sales are all supportive of continued gains in the sector. On the multifamily front, construction spending is up almost 30 percent relative to a year earlier. With new supply in the apartment market ramping up, we expect to see some moderation in performance metrics in the coming year.

On trend, private nonresidential construction spending continues to advance on the back of strong manufacturing, lodging, office and theme park outlays. During the month, manufacturing and institutional outlays continued to improve, while commercial spending detracted from the headline. Looking ahead, we continue to expect solid gains in private nonresidential construction spending, but will likely see some moderation in the pace of the growth, especially with lodging in the late stage of the real estate cycle. Early indicators of construction spending also suggest a downshift in the pace of institutional construction spending is in the offing.

### Public Spending Posts Strong Results

Public spending has improved on the back of strengthening state and local tax collection in fiscal year 2015. Although state and local spending was weak during the month, the trend is more instructive. State and local public spending is up 5.6 percent over the past year, but the pace is moderating. In fact, the strong increase in public spending during the month was concentrated in federal outlays. According to the Rockefeller Institute of Government, state and local tax revenue collection in fiscal year 2016 will likely come in weaker than fiscal year 2015. Large gains in personal income growth, which was bolstered by the stock market gains, are not expected to persist in fiscal year 2016.



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