

Economic Analysis

Nonresidential Weighs on Construction Spending in February

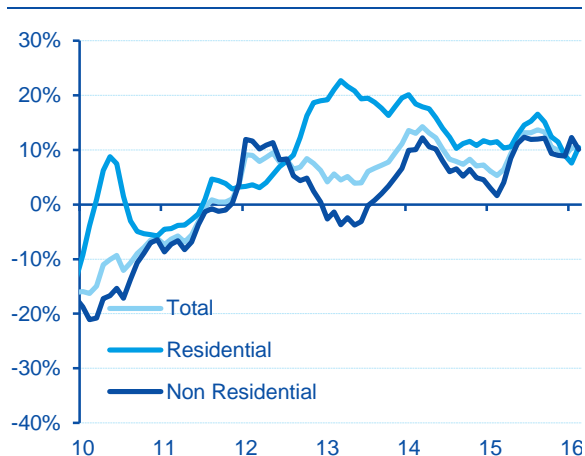
Filip Blazheski

- **Construction spending declined due to lower private nonresidential and public spending**
- **Growing private residential construction reflects solid homebuyer demand**
- **We expect construction spending to improve in the coming months**

The Census Bureau reported that construction spending in February was at a seasonally adjusted annual rate of \$1,144B, 0.5% below January’s figure, but 10% above this time last year (Chart 1). Private residential construction spending increased 0.9% MoM and stood at the highest level since November 2007. Spending on single family housing increased more than that on multifamily residential projects. On a YoY basis, construction spending on single-family homes increased 11% compared to 24% for multifamily, reflecting the strong demand for multifamily properties so far. The relative acceleration in single-family construction spending could indicate a shift in demand and supply away from multifamily and into single-family, as the labor market continues to chug along, consumer confidence to buy remains strong, and millennials start to form families in greater numbers. This, however, remains to be seen.

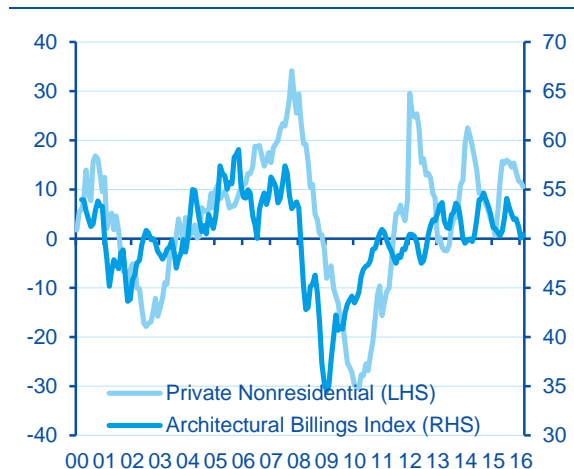
Private nonresidential spending declined 1.3% MoM. It has been roughly flat ever since June of last year and it stood 10.6% higher YoY in February only because of the gains made in March, April, and May of 2015. The primary reason for the slowdown is that construction in manufacturing, one of the most important categories, is barely above the level reached in February of last year. Almost all of the other categories are showing growth YoY, the most of all lodging and offices (31% YoY each), and amusement and recreation (29% YoY). These trends match the overall strength in consumer spending and weaknesses in manufacturing due to low

Chart 1
Construction Spending (% YoY)



Source: Census Bureau and BBVA Research

Chart 2
Private Nonresidential Construction Spending and Architectural Billings (% YoY & %YoY 3mma)



Source: Census Bureau and BBVA Research

commodity prices, lower global demand, and strong U.S. dollar. The slowdown in private nonresidential spending was anticipated as the architectural billings index, a leading indicator by 9-12 months, showed signs of a slowdown in the beginning of last year, before recovering (Chart 2). Based on this, we expect some improvements in private nonresidential construction in the coming months.

Public construction decreased 1.7% MoM, but was still up 9.2% YoY. On a YoY basis, public construction gained from a 25% increase in highway and street construction. Highway and street construction is expected to remain strong this year with the passage of the \$305 billion Fixing America's Surface Transportation Act, or FAST Act in December, which authorizes funding for highway and mass transit projects through fiscal year 2020 and includes a 5% increase in federal highway funding at the state-level and an 8% increase at the local-level. We expect the headline construction spending figure in the coming months to improve due to continuing gains in residential construction, improvement in private nonresidential construction spending, and solid highway and street construction.

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