

## Construction Spending Dropped Slightly in January, But Was Up Sharply on a Year-Ago Basis

- **Total construction spending fell 0.2% in January.**
- **Private nonresidential construction spending declined slightly while residential spending increased; both were up from January 2023.**
- **Commercial construction spending remained weak on the month.**
- **Multifamily construction spending will decline in coming months.**
- **Public construction spending was down on the month, but both private and public construction spending were up solidly from last year.**
- **PNC expects construction spending growth to slow in 2024.**

U.S. total construction spending in January was \$2.10 trillion at a seasonally-adjusted annual rate, decreasing 0.2% from an upwardly revised \$2.11 trillion in December 2023. Private construction spending rose 0.1% in January from December, with public spending down 0.9% on the month. Overall construction spending was up a strong 11.7% in January on a year-ago basis, with private construction spending up 9.5% and public construction spending up 20.1%.

The main driver of the overall drop in construction spending came from nonresidential spending, down 0.4% in January. This included declines of 3.1% decline in commercial, 2.9% in public safety, and 2.2% for highway and street. Residential construction spending rose 0.2% over the month. Over the past year the growth rate of nonresidential construction spending has slowed, but is stronger than residential spending, rising 17.1% from January last year. Private nonresidential construction spending dropped 0.1% on the month but increased a large 15.2% from last year, with spending growth in many segments, most notably in manufacturing, up 37% over the year.

Growth in private residential construction spending will likely slow in coming months due to the drag from multifamily building, as the number of residential constructions permits dropped 1.5% in January, with a big decline in multifamily housing permits, down 9% from December 2023. After a surge in multifamily building post-pandemic the sector is contracting as the market adjusts to the additional supply. Over the long run, however, a structural undersupply of single-family housing will support gains in multifamily construction.

Public construction spending declined 0.9% on the month, but was up 20% year-over-year thanks to increased federal spending.

PNC expects the Federal Open Market Committee will start cutting the fed funds rate in the second quarter in response to slowing inflation, and easing credit conditions will provide support for private construction spending. Growth in private office construction spending will remain weak as a result of structurally lower demand after the COVID-19 pandemic. But manufacturing construction spending will pick up this year due to easing monetary policy and the solid U.S. labor market.

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