Construction Spending Dropped for Second Straight Month in June

- Total construction spending dropped in June from May. Growth was positive on a year-over-year basis in June but is slowing.

- Both private and public construction spending fell on the month, but both were up from last year.

- Residential construction spending has fallen in 2024.

- PNC expects yearly construction spending growth to slow further in 2024. Lower interest rates will support activity next year.

U.S. total construction spending dropped 0.3% in June to $2.148 trillion at a seasonally-adjusted annualized rate, from $2.155 trillion in May (upwardly revised from $2.140 trillion). Spending fell 0.4% in May. Both residential and nonresidential construction spending dropped in June, down 0.4% and 0.2%, respectively. Momentum in construction spending is fading. Total spending was up 6.2% in June on a year-ago basis, slowing from 7.1% in May and 8.7% in April; this is the slowest pace in construction spending growth since August 2023.

Private construction spending narrowed 0.3% in June. The month-on-month decline in private construction spending was driven by drags from new single-family construction spending (down 1.2%), commercial (down 0.8%), healthcare (down 0.8%), and power (down 0.6%); new multifamily construction spending was up 0.1% from May.

Over the past year private construction spending was still up 5.9%, with new single-family construction spending up 9.9% and multifamily down 7.4%. Manufacturing construction spending was up 19.1% over the past year in June, leading private construction spending growth. Commercial, lodging, and amusement and recreation construction spending were all down on a year-ago basis.

Public construction spending declined 0.4% on the month in June, but was still up 9.7% over the past year, thanks to federal government support for infrastructure. The year-over-year increase in public construction spending was broad-based in June except for healthcare (up only 0.1%).

Housing construction has slowed in 2024 from the beginning of the year. Construction spending fell in May and June, and growth slowed on a year-ago basis as elevated interest rates continue to weigh on building activity. Single-family housing starts dropped 2.2% on the month in June; total residential construction permits were up 3.4% in June, but were down 3.1% over the past year.
PNC expects year-over-year construction spending growth to slow further in 2024. The outlook for the housing market is modestly positive as conditions for homebuilding and demand will improve in the second half of this year. The 30-year fixed mortgage rate, despite rising in early 2024, is still down from its peak in October 2023, and will decline through the rest of this year and into next. Material cost pressures from supply-chain disruptions also continue to ease. The U.S. labor market will continue to soften in the near term, but will remain solid, with the unemployment rate expected to peak at slightly above 4%, well below its levels during the COVID-19 recession and the Great Recession from 2007 to 2009. Lower interest rates this year will support greater residential and commercial construction spending in 2025.

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