

Nominal Construction Spending Rose in February; Risks Remain Elevated

- **Total construction spending increased 0.7% in February. Both residential and nonresidential increased.**
- **Private single-family construction spending rose, and multifamily remained flat from last month.**
- **The increase in nonresidential construction spending was almost broad-based.**
- **Public construction spending increased slightly on the month and was up from last year in most categories.**
- **Higher tariffs could be a drag on construction in 2025, slowing the recovery in homebuilding.**

U.S. total construction spending came in better than the consensus and rose 0.7% in February to \$2.196 trillion at a seasonally-adjusted annualized rate from \$2.180 trillion (downwardly revised from \$2.193 trillion) in January. Total construction spending grew 3% in February from last year, the second slowest spending growth on a year-over-year basis since mid-2019. Both residential and nonresidential construction spending increased on the month, up 1.3% and 0.3%, respectively.

Private single-family construction spending increased 1% in February. This coincides with a 11% jump in total US housing starts in February after retreating in January. Multifamily spending remained unchanged from last month. Both single-family and multifamily construction spending fell from last year, with multifamily down 12% and single-family construction spending down a narrow 0.1% in February.

Almost all categories of private nonresidential construction increased on the month except lodging (down 0.4%), led by a jump in religious (up 4.2%). The religious category, however, is the smallest construction spending, less than \$5 billion. The leading categories are manufacturing and power, both up 0.1%, and increased to \$0.234 trillion and \$0.134 trillion, respectively. Commercial construction spending rose 0.9% to \$0.119 trillion but was down 5% from last year. Lodging construction spending decreased both on the month and from a year ago. Over the past year private health care and educational construction spending also dropped.

Public construction spending increased 0.2% in February and was up 6% over the past year. The largest categories, highway and street and educational spending, increased 1% and 0.3% in January. All public construction spending rose from last year except power, which was down 7%.

With the downward revision to January spending, the value of construction put in place in February came in better than the consensus for February. PNC expects the Federal Open Market Committee to cut rates twice this year, each 25 basis points starting in mid-2025. Rates now remain elevated from a few years ago, even after three fed funds rate cuts in 2024. Meanwhile, under an escalating tariff war, the risk-off environment will likely weigh on investment decisions. Inflationary risks are still tilted to the upside with more tariffs coming

from President Trump over the near term. PNC expects improved conditions for housing demand, homebuilding, and construction spending in 2025, but uncertainties around trade policies and inflationary impacts could remain a drag.

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