

Small Drop in Nominal Construction Spending in January; Risks Remain Elevated

- **Total construction spending retreated 0.2% in January after rising in December.**
- **Private residential construction spending fell on the month, with an improvement in single-family and a drop in multifamily.**
- **Private nonresidential spending was flat in January.**
- **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 slightly weaker than the consensus and fell 0.2% in January from December, at \$2.193 trillion at a seasonally-adjusted annualized rate. On a year-over-year basis total construction spending grew 3.3% in January, a slower pace than in December and the slowest year-over-year growth since mid-2019. Private residential construction spending was down 0.4% on the month in January, dragging on overall spending. Private nonresidential construction spending was flat on the month. But both private residential and private nonresidential spending were up modestly on a year-ago basis.

Despite the overall retreat in private residential spending, private single-family construction spending grew 0.6% in January, but was down 0.9% from January last year. Multifamily spending fell 0.7% on the month and was down 12% over the year.

Results were mixed across segments in private nonresidential construction. In the largest categories, manufacturing was down 0.3% on the month, power was up 0.6%, and commercial was down 0.4%. Over the past year private commercial construction spending was still down over 6%, followed by healthcare (down 4%) and lodging (down 0.4%).

Public construction spending increased 0.1% in January and was up 5.9% over the past year. The monthly growth was broad-based except for commercial and power. The year-ago increases were in most categories thanks to federal government support from the infrastructure bill. Commercial, amusement and recreation, and water supply spending were up the most in percentage terms. The largest public construction category, highway and street spending, was down 2% in January from a year ago, a smaller decline than in December.

Private construction spending growth will likely continue to slow in the near term, as interest rates remain much higher than they were a few years ago, even after three fed funds rate cuts in 2024. Inflationary risks are still tilted to the upside with more tariffs coming from President Trump. Not only would tariffs increase costs of construction materials, but higher inflation could mean that interest rates stay higher for longer if the Federal Open Market Committee turns more cautious with fed funds rate cuts. Public construction spending

growth will also likely slow with government spending cuts. PNC expects improved conditions for housing demand, homebuilding, and construction spending in 2025, but less FOMC easing than expected is a downside risk.

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