Economic Update

May 1, 2025

Nominal Construction Spending Declined in March; Tariffs Remain a Major Drag

- **Total construction spending fell slightly in March.**
- **Private single-family construction spending remained weak, falling on the month.**
- **The decline in nonresidential construction spending was broad-based.**
- **Public construction spending also dropped on the month.**
- **Higher tariffs will be a drag on construction in 2025, slowing the recovery in homebuilding.**

U.S. total construction spending came in below the consensus and fell 0.5% in March to $2.196 trillion at a seasonally-adjusted annualized rate from $2.207 trillion (upwardly revised from $2.196 trillion) in February. On a year-over-year basis, total construction spending grew 2.8% in March, the slowest spending growth since mid-2019. Both residential and nonresidential construction spending fell on the month, down 0.4% and 0.5%, respectively.

Private single-family construction spending, which includes residential improvements, fell 0.6% in March. With a plunge in housing starts of over 14% in March, the value of total single-family housing construction increased only 0.1% to $437 billion. Multifamily construction spending remained flat on the month at $115 billion.

There was a broad-based retreat in private nonresidential construction spending, down 0.8% for the month to $750 billion. The largest categories were manufacturing, power, and commercial construction spending, down 0.4%, 0.1%, and 1.0%, respectively. From a year ago private nonresidential construction spending was still up 1.6%. Manufacturing and power spending were up 3.6% and 7%, while commercial construction spending fell 5.8%. Healthcare, education, commercial and lodging were all down both on the month and from last year.

Public construction spending fell 0.2% in March to $508 billion, but was still up 4.7% over the past year. The largest categories, highway and street and educational spending, fell 4.8% and 0.6% in March. Spending rose in most major public construction spending from last year, except for power and highway and street, which were down 12.8% and 2.4%, respectively.

The elevated 30-year fixed mortgage rate could weigh further on housing demand and homebuilding. PNC expects the Federal Open Market Committee to cut the fed funds rate four times in the second half of this year, each time by 25 basis points. Lower rates should help restore housing affordability and housing demand, but near-term risks remain elevated with a great deal of uncertainty around tariffs. The risk-off environment will likely weigh on investment decisions, and inflationary risks are still tilted to the upside.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

PNC Economics
Ershang Liang, Economist
economics@pnc.com

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