Construction spending Fell in September on a 5% contraction in residential

Headlines

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- Total construction spending fell sharply in September from an upwardly revised August level, down 1.9%. Spending was down 2.7% from a year earlier.
- Residential construction remained the primary drag, falling 5.4% in September.
- AI-related infrastructure buildouts continued to support overall construction spending in September, driving a sharp increase in office construction.
- Private power construction has overtaken manufacturing as the largest private nonresidential construction category. Manufacturing spending remains sharply below year-ago levels despite stabilizing recently.
- Public construction spending was essentially flat in September, held back by slight declines in highway and educational construction.
- Residential construction will remain under pressure, while technology-related investment should continue to provide support.

Details

U.S. total construction spending fell 1.9% in September from August to a seasonally-adjusted annualized rate of $2.186 trillion, according to the Census Bureau (Figure 1). This was down from $2.227 trillion in August which was revised upward from $2.203 trillion. August spending represented an 11-month high, but overall construction activity has weakened in 2026. Spending declined in five of the first nine months of the year and increased in only two, leaving total construction activity on a downward trend from its early-2025 peak despite August's temporary rebound. On a year-over-year basis total construction spending fell 2.7% in September.

Residential construction remained the primary drag on overall spending in September, falling 5.4% from August, while total nonresidential spending increased 0.6%. A pullback in home improvement activity in September following a surge in August was the primary driver of the overall monthly decline. New single-family construction spending was essentially unchanged in September, while multifamily construction spending edged up 0.1%. On a year-over-year basis single-family spending declined 2.4%, while multifamily spending slipped a more modest 0.2%.

Private nonresidential construction spending rose 1.1% month-over-month and 2.3% year-over-year in

September (Figure 2), led by continued strength in office construction, which increased 5.5% on the month and almost 40% from a year earlier. Data center development, which is classified under office construction, continues to drive these gains. Excluding data centers office construction spending was 8% lower from a year earlier and is down by more than one-third from its pre-pandemic trend.

Reflecting ongoing AI-related infrastructure investment, private power construction spending rose 1.2% in September. Notably, power construction has surpassed manufacturing to become the largest private nonresidential construction category and was up more than 12% from a year earlier. Although manufacturing construction has shown signs of stabilization, office construction is on track to overtake manufacturing as the second-largest private nonresidential category in the coming months as data center investment continues to accelerate.

Manufacturing construction spending continued to decline, although the pace of contraction has moderated significantly. Spending fell 0.3% in September from August, and was nearly 18% lower from a year earlier, reflecting a normalization after the surge in federally-supported semiconductor and clean-energy projects in 2023 and 2024.

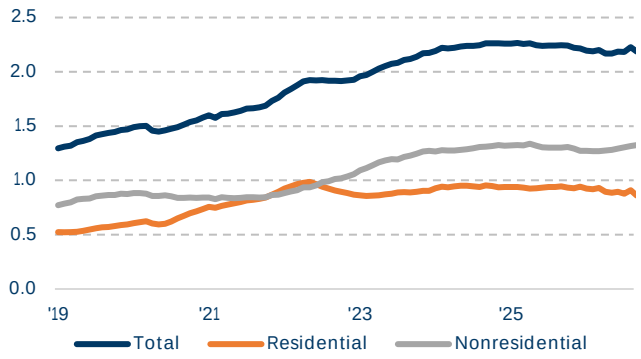
Despite recent gains in office and power construction, total private nonresidential construction spending excluding these AI-related categories remains weak, with persistent softness in manufacturing, commercial, education, and healthcare.

Public construction spending was little changed in September, down 0.1% from August but up 1.0% year-over-year. Highway and street spending, the largest public construction category, slipped 0.3% on the month but was still 3.5% higher than a year earlier. Educational construction was essentially unchanged on the month, while transportation-related spending posted a modest increase.

Looking ahead, public construction spending, particularly on transportation infrastructure, should continue to increase over the next year. As of August less than one-half of the funding authorized under the Infrastructure Investment and Jobs Act had been disbursed, while roughly three-quarters had been obligated, indicating a substantial pipeline of projects yet to be completed. At the same time elevated input costs and uncertainty surrounding global energy markets, including risks associated with the Strait of Hormuz, are likely to keep manufacturers cautious about new investment commitments, particularly as the sector moves beyond the wave of federally-supported projects launched in 2022 and 2023. Overall, PNC expects private nonresidential construction spending to post modest growth into 2027, with technology-related investment accounting for the majority of that expansion.

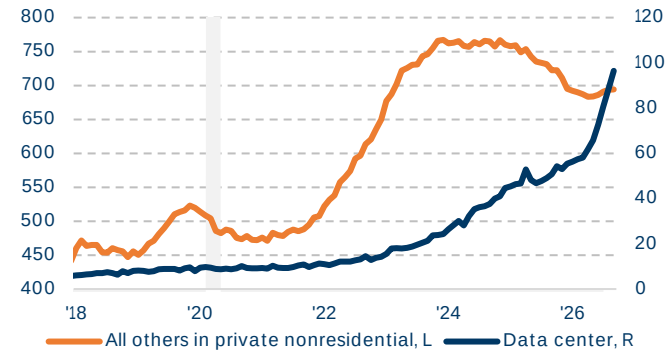
On the residential side historically weak consumer sentiment and poor housing affordability will continue to weigh on single-family construction. Mortgage rates have edged higher this year and are near 7.2% for a 30-year fixed-rate loan. A meaningful improvement in housing affordability would require a sustained increase in housing supply or a big drop in mortgage rates. Support could come if mortgage rates fall below 6.5%, or if stronger wage growth significantly boosts household purchasing power. Absent either development, residential homebuilding will remain soft.

Figure 1: U.S. Construction Spending (SAAR, Trillions)



Sources: US Census Bureau

Figure 2: Private construction spending by type (SAAR, Billions)



Source: US Census Bureau

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