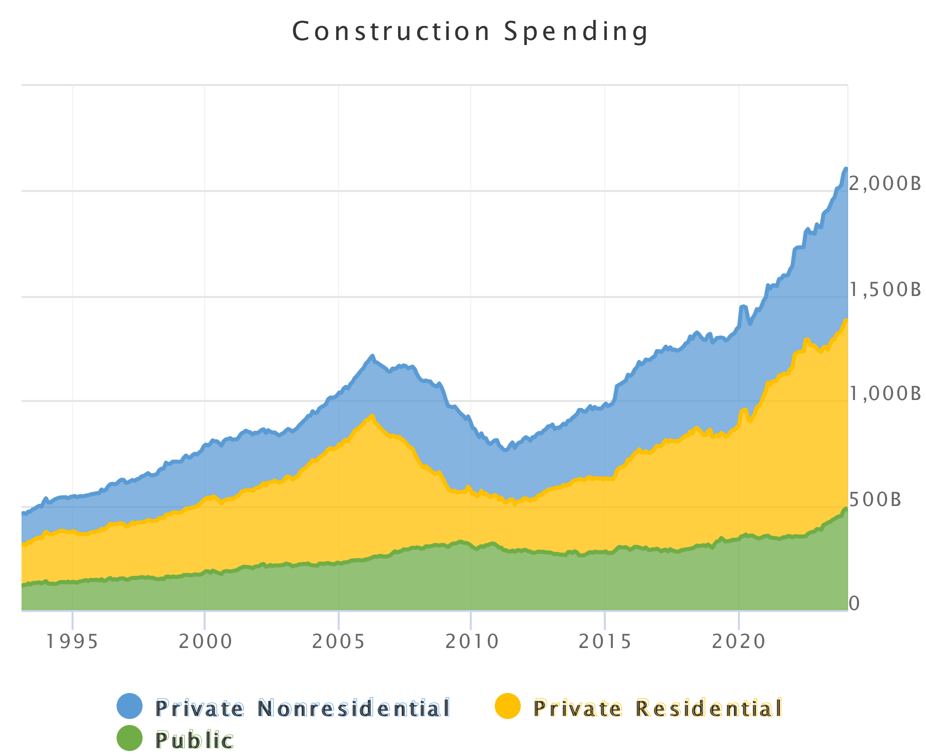
February Construction Spending Partially Driven by Inflation

Total construction spending rose in February to a seasonally adjusted annual rate of $1.704 trillion, a 0.5 percent increase from January and 11.2 percent higher than in February 2021. **It was also 13.5 percent above the rate the prior February**, just before the pandemic took hold. During the first two months of the year, expenditures total $237.846 billion, 10.4 percent growth compared to the first two months of 2021.

Private sector spending rose 0.8 percent to an annual rate of $1.354 trillion, a 14 percent annual increase. As has been the case for months, the increase was driven almost entirely by residential spending which gained by 1.1 percent from January and was 16.6 percent higher on an annual basis. Single-family construction accounted for most of the annual increase, up 20.0 percent, while multifamily was up 7.8 percent. Compared to January, the two construction categories increased by 2.5 percent and 0.1 percent, respectively.



In their analysis of the U.S. Census Bureau report, Wells Fargo economists Mark Vitner, Charlie Dougherty, and Patrick Barley said residential development "continues to be driven by a historic shortfall of existing homes." They say, however, that the sharp increase in interest rates in recent weeks may cool the robust buyer demand.

For the year to date (YTD) privately funded construction expenditures total $193.176 billion. This is a 13.1 percent increase over the spending in the first two months of 2021, and again the growth is primarily due to the residential sector. New single-family spending is up 19.1 percent YDT, and multifamily construction has seen 5.7 percent growth.

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Vitner, Dougherty, and Barley say that **builders and developers continue to contend with materials and labor shortages** which are pushing up costs. The Producer Price Index for construction was up 0.7 percent in February and 15.5 percent year over year. Since construction spending is presented in nominal terms, these higher prices are may be partially responsible for the increased spending. Russia's invasion of the Ukraine and the resulting sanctions are expected push prices higher due to reductions in the availability of oil, natural gas, aluminum, nickel, and steel, however the labor picture is brightening. Thus far in 2022, the construction industry has added 82,000 jobs.

Private non-residential expenditures rose 1.1 percent, but public spending dipped 0.5 percent, bringing overall expenditures for non-residential building down 0.1 percent, although it remains 5.8 percent higher than the prior February.

While residential spending was driving the numbers, some non-residential sectors performed well during the month. Spending on power projects rose 1.3 percent and lodging was up 1.2 percent. Construction for manufacturing facilities posted the highest annual growth at 35.0 percent

Public sector spending dipped 0.4 percent from January to a seasonally adjusted annual rate of $350.713 billion, 1.5 percent higher year-over-year. The Wells Economists note that publicly funded construction should be increasing over the next few years. Not only will the federal infrastructure bill be funding road, bridge, and other projects, but many state and local governments are planning projects funded by higher tax receipts and federal pandemic aid.