

ABOUT

Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's [Jessica Dill](#), [Kristopher Gerardi](#), Carl Hudson, and analysts, as well as the Boston Fed's [Christopher Foote](#) and [Paul Willen](#).

In December 2020, content from *Real Estate Research* became part of [Policy Hub](#). Future articles will be released in [Policy Hub: Macroblog](#).

[Disclaimer](#)

[Email Me](#)

[Subscribe by E-mail](#)

[Subscribe by RSS](#)

[Other Fed Websites](#)

Comment Standards:

Comments are moderated and will not appear until the moderator has approved them.

Please submit appropriate comments. Inappropriate comments include content that is abusive, harassing, or threatening; obscene, vulgar, or profane; an attack of a personal nature; or overtly political.

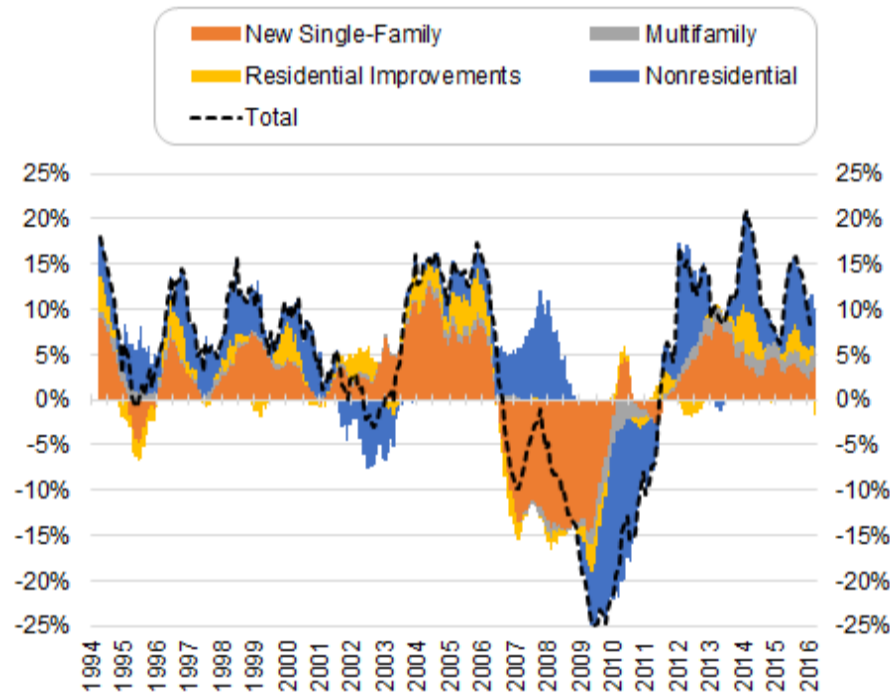
In addition, no off-topic remarks or spam is permitted.

May 4, 2016

Construction Spending Update

Looking at the latest construction spending report can be an informative exercise, despite the fact that the data lag other releases, because it bundles together various measures of construction activity for one comprehensive look. The latest report, released on May 2, revealed continued growth in construction spending. Private construction spending increased 8.5 percent on a year-over-year basis. The breakdown of growth by segment shown in chart 1 reveals that private residential (the sum of new single-family, multifamily, and residential improvements) and private nonresidential spending contributed almost equally to this increase (4.0 and 4.5 percent respectively).¹

Chart 1
Private Construction Spending
Contribution to year-over-year percent change



Growth in private residential and nonresidential spending from the year-earlier level has persisted since July 2011, but how does the level of spending compare to the previous cycle? The seasonally adjusted annual rate of private nonresidential spending has rebounded to a level just 1.8 percent below its previous peak. Private residential construction spending, on the other hand, remains 35.8 percent below its previous peak. With that said, after zooming out to look at spending over the entire horizon of the series and adjusting for inflation (see chart 2), it doesn't seem particularly wise to judge the health of construction spending relative to the past peak. In hindsight, the last peak was clearly an aberration, especially for residential spending.

REAL ESTATE RESEARCH SEARCH

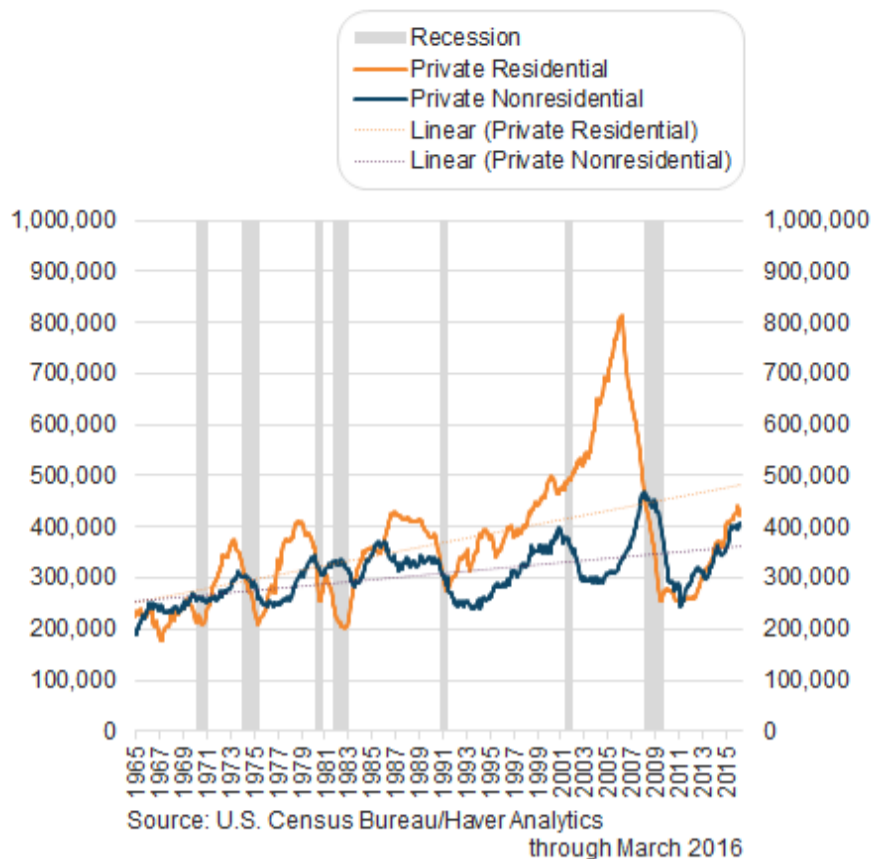
RECENT POSTS

- [Assessing the Size and Spread of Vulnerable Renter Households in the Southeast](#)
- [What's Being Done to Help Renters during the Pandemic?](#)
- [An Update on Forbearance Trends Examining the Effects of COVID-19 on the Southeast Housing Market](#)
- [Southeast Housing Market and COVID-19](#)
- [Update on Lot Availability and Construction Lending](#)
- [Tax Reform's Effect on Low-Income Housing](#)
- [Housing Headwinds](#)
- [Where Is the Housing Sector Headed?](#)
- [Did Harvey Influence the Housing Market?](#)

CATEGORIES

- [Affordable housing goals](#)
- [Credit conditions](#)
- [Expansion of mortgage credit](#)
- [Federal Housing Authority](#)
- [Financial crisis](#)
- [Foreclosure contagion](#)
- [Foreclosure laws](#)
- [Government-sponsored enterprises](#)
- [GSE](#)
- [Homebuyer tax credit](#)
- [Homeownership](#)
- [House price indexes](#)
- [Household formations](#)
- [Housing boom](#)
- [Housing crisis](#)
- [Housing demand](#)
- [Housing prices](#)
- [Income segregation](#)
- [Individual Development Account](#)
- [Loan modifications](#)
- [Monetary policy](#)
- [Mortgage crisis](#)
- [Mortgage default](#)
- [Mortgage interest tax deduction](#)
- [Mortgage supply](#)
- [Multifamily housing](#)
- [Negative equity](#)
- [Positive demand shock](#)
- [Positive externalities](#)
- [Rental homes](#)
- [Securitization](#)
- [Subprime MBS](#)
- [Subprime mortgages](#)
- [Supply elasticity](#)
- [Uncategorized](#)
- [Upward mobility](#)
- [Urban growth](#)

Chart 2
U.S. Private Construction Spending
 SAAR, \$ millions, inflation-adjusted



Using this longer-running and inflation-adjusted time series to help put current spending in context, it's hard not to notice that the level of private nonresidential spending has surpassed the level seen in earlier peaks (the most recent peak excluded) while private residential spending now looks to be about on par with levels seen in earlier peaks. This surface-level comparison is a bit short-sighted, as this is not a mean-reverting time series. An upward trend in aggregate real construction spending seems perfectly reasonable as the population and economy grow over time.

Shifting focus to the dashed trend lines in chart 2, we see that spending on residential construction has yet to catch up with trend but is much closer than when compared with the previous peak, while spending on nonresidential construction is at a level that exceeds its trend.

Takeaways

Two high-level questions emerge after reviewing the latest construction spending data. First, does construction spending really provide a comprehensive look at construction? The construction spending data could confound the underlying trend because it reflects activity, costs, and timing of payment (for some categories). Data on activity (that is, square feet and units under construction) for all subcategories are not available, but charts 3 and 4 (below) provide some indication for the trend in residential and some categories of nonresidential construction activity.

Chart 3
U.S. Residential Construction
 monthly, SAAR, thousand units, 12-month moving average

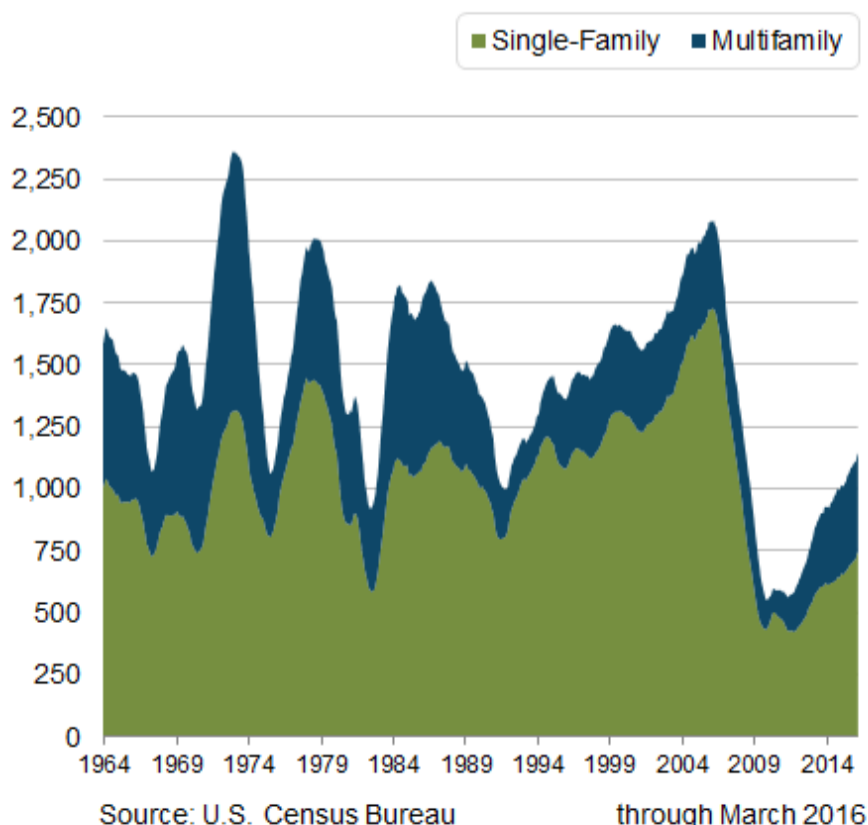
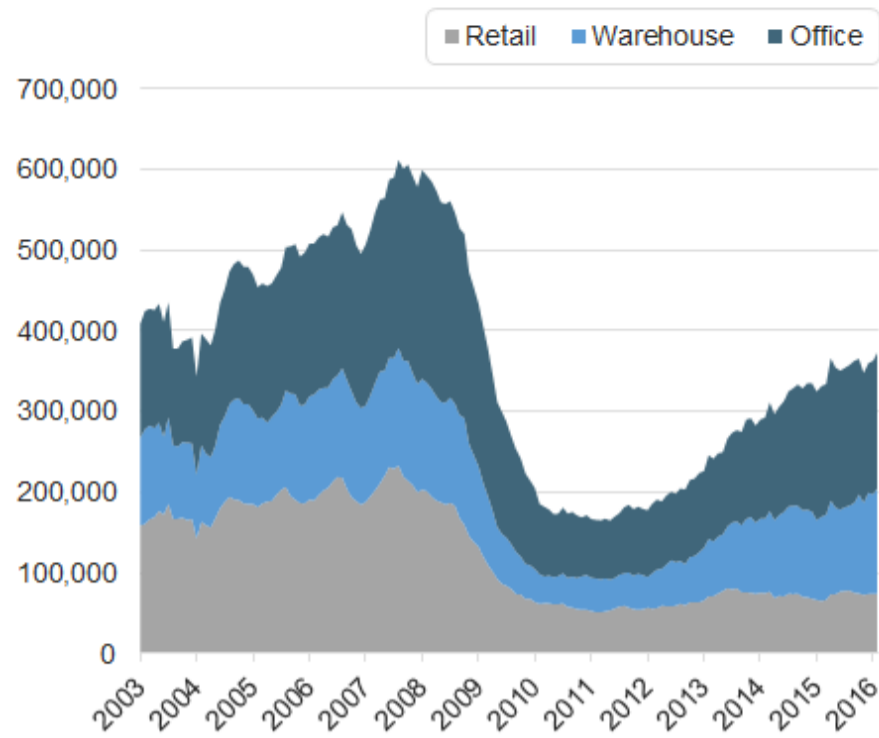


Chart 4
U.S. Nonresidential Construction
square feet under way, in thousands, nsa



Source: CBRE Econometric Advisors/Dodge Pipeline through February 2016

The construction of single-family and multifamily units as well as the square footage under way for warehouse and office properties have all resumed upward trajectories. Because these measures of construction activity tell a consistent story with the spending data, they provide some reassurance that the costs aren't the primary driver of the growth in construction spending.

Second, does the recovery in real estate still have legs? This one is hard to say for certain but, taking the construction spending and construction activity data together, it seems fairly likely that there is still room for growth.



Jessica Dill, economic policy analysis specialist in the Atlanta Fed's research department

¹ Private nonresidential spending is comprised of lodging, office, commercial, health care, educational, religious, amusement and recreation, transportation, communication, power, and manufacturing structures.

May 4, 2016 in [Affordable housing goals](#) | [Permalink](#)