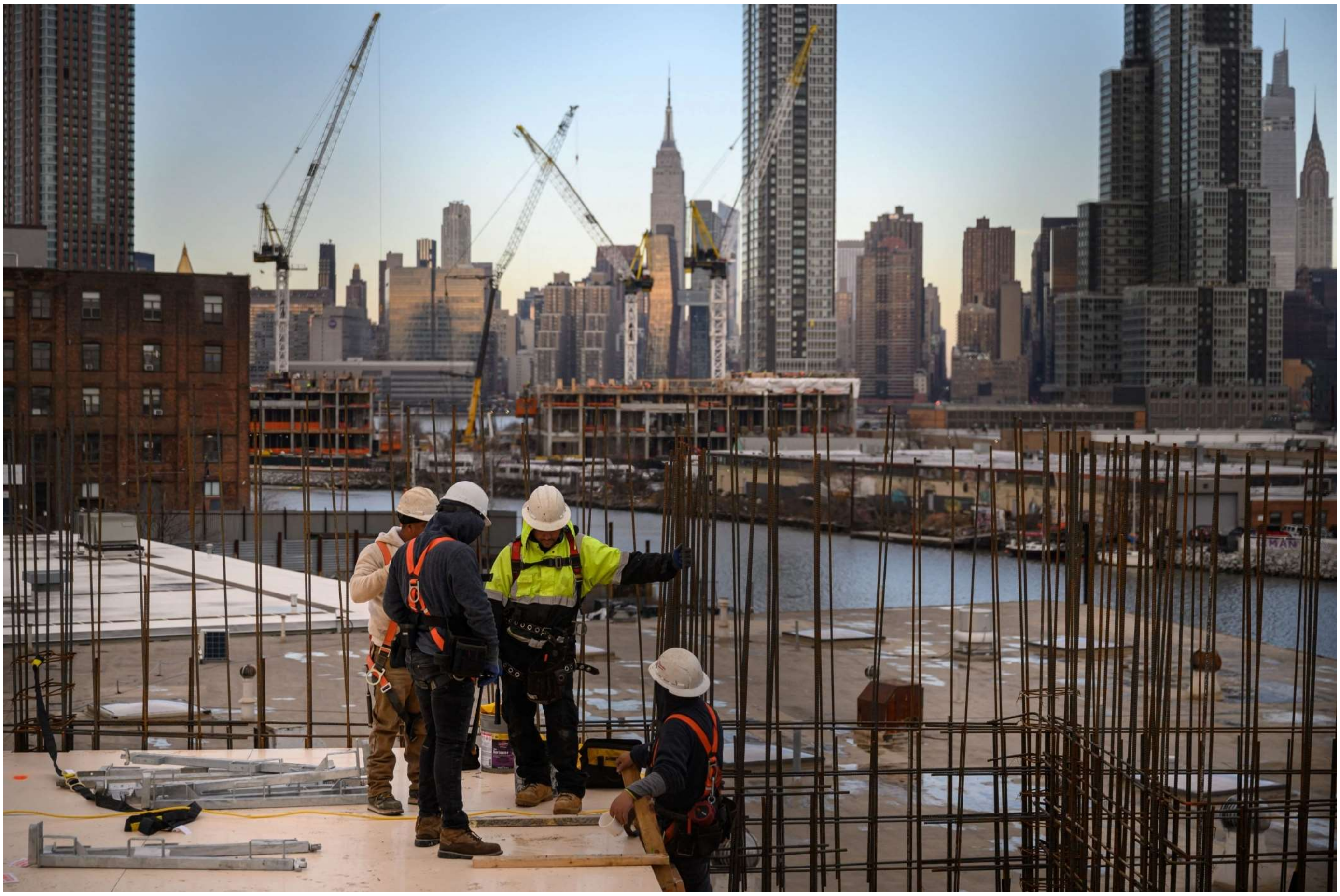
CoStar™

DAILY ROUNDUP

Construction Spending Rises, Manufacturing Activity Declines, Housing Availability Seen Improving

What You Need To Know To Start Your Day



The latest government data showed construction spending gains most pronounced in categories including multifamily and manufacturing projects. (Getty Images)

By Lou Hirsh
CoStar News

May 1, 2023 | 5:09 P.M.

Construction Spending Rises

Manufacturing and apartment projects helped U.S. construction spending in March rise 0.3% from the prior month and 3.8% from a year earlier, though there were signs of a slowdown in categories including retail, warehousing and transportation.

Commerce Department numbers Monday showed private and public developers spending a total of approximately $1.8 trillion on all types of projects in March. Private construction rose 0.3% for the month to $1.4 trillion, though the residential component of that category, at $827.7 billion, declined 0.2% amid slowing demand for single-family homes.

Spending on private new single-family projects was down 22.9% for the year, while private multifamily spending was the mirror opposite with a 23% annual increase.

Private nonresidential construction increased 1% for the month to $607.4 billion. Gains were led by manufacturing projects, with spending rising 4.6% for the month and 62.3% for the year to more than $147.4 billion in March. Other categories seeing notable annual increases included lodging, healthcare, and amusement and recreation.

“The manufacturing construction boom is really helping construction weather the softening residential and other nonresidential markets,” said Stephen Sandherr, CEO of the Associated General Contractors of America trade group, in a statement on the new government numbers. “But even as overall demand continues to increase, most firms are having a hard time finding enough workers to keep pace with that demand.”

Public construction spending overall was up 0.2% for the month and increased 15% for the year, though the trade group noted federal spending on transportation infrastructure has slowed considerably amid delays in obtaining construction permits for projects that have already been fully funded. Some of those delays are due to government staffing shortages and project review backlogs still lingering from the early months of the pandemic.

Manufacturing Activity Declines

Manufacturing accounted for much of the past year's construction investment as U.S. supply chains recovered in many industries and the government moved to increase domestic production of items such as computer chips and electric vehicle batteries. But there are now signs that manufacturing-related activities are slowing down, with implications for real estate demand.

A closely watched index by the Institute for Supply Management trade group, based on surveys of corporate purchasing managers, showed overall economic activity stemming from manufacturing contracting in April, marking the sixth consecutive month of year-over-year decline following a 28-month period of growth.

The group's monthly manufacturing PMI posted at 47.1%, with numbers below 50 generally signifying decline. Trade group Chairman Timothy Fiore said in a statement the latest composite number "reflects companies continuing to manage outputs to better match demand for the first half of 2023 and prepare for growth in the late summer/early fall period."

The trade group said the rate of decline slowed somewhat in the past month for categories including new orders and employment, and supply cost pressures are easing but remain high. Negative outlooks remain more pronounced in categories such as order backlogs and expectations for future production as consumers and companies pull back on spending.

The trade group said five industries seeing overall manufacturing-related growth in April were led by petroleum and coal products, along with transportation equipment. Eleven other industries reported overall contraction, including furniture, appliances, factory machinery, computers and electronics, and food and beverage products.

Housing Availability Seen Improving

The lack of homes listed for sale, among several factors contributing to a slowdown in U.S. home sales, now appears to be easing slightly in the minds of consumers, according to a survey by the National Association of Home Builders.

The trade group said a nationwide survey at the end of the first quarter found 26% of respondents expecting home searches to get easier in the months ahead, slightly ahead of the 24% who said this in the prior quarter. However, expectations are still well below the 37% who expected easier house-hunting ahead as of 2022's third quarter, according to numbers released April 27.

Other analysts have pointed to numerous other factors keeping prospective buyers from pulling the trigger on home purchases, including historically high prices and elevated mortgage interest rates.

In a related survey on affordability released April 28, the NAHB said recently slowing growth in home prices, along with builder incentives, are warming up prospective buyers' expectations somewhat. In the first quarter, 73% of respondents said they could afford less than half the homes for sale in their local markets, down from a record 87% in the final quarter of 2022.

Also in the first quarter, 27% of respondents said they could afford most homes available in their local markets, more than double the 13% of the previous quarter. "Affordability expectations between the final quarter of 2022 and the first quarter of 2023 improved in all regions," Rose Quint, assistant vice president for survey research at NAHB, said in a statement.