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Hidden Dark Spots Mar Rosy View of Construction Spending in Census Report

Ken Simonson, chief economist for the Associated General Contractors of America provided the following comment in response to today's construction spending numbers released by the U.S. Census Bureau:

Bad news underlies the rosy top-line figure in today's report on construction spending from the Census Bureau. Census reported that total construction put in place climbed 0.8 percent from March to April at a seasonally adjusted annual rate, with private residential construction finally rallying 0.7 percent after years of steep declines.

However, buried in the Census website is the grim reality: new single-family construction tumbled 6.7 percent in April and new multi-family construction slumped 2.6 percent. The total rose only because of a third residential component that the Census Bureau includes in the total but declines to show separately: improvements to existing single- and multi-unit buildings, which leaped 8.9 percent for the month. Although improvements are now the largest residential spending category, that number is obtainable only by subtracting the new single- and multi-family figures from the total.

The Census tables also fail to show that the ostensible upturn in residential improvements comes after huge downward revisions to the estimates for March and February. In other words, the apparent gain in residential construction is really limited to a preliminary estimate for the volatile and hard-to-measure renovations and additions component.

Nonresidential construction spending had a mixed month. Private nonresidential spending climbed 1.8 percent, mainly on the strength of large gains for power and manufacturing. Again, the gains are not shown, even on the detailed web pages. There was a 24 percent jump in "power (inc. gas and oil)" other than electric, and a 7.5 percent gain in unseen categories that make up the bulk of manufacturing, such as refineries. However, refinery construction is likely to tail off in the coming months as current projects wind down. And it is important to note that no new comparable projects have been announced for a year or more.

Public construction slipped 0.6 percent in April. Of the two principal components, public educational construction retreated 1.8 percent while highway and street construction advanced 0.9 percent. This is consistent with the fact that declining revenues are making it harder for state and local officials to fund projects outside of the stimulus.

While private construction is likely to continue declining, publicly funded construction, especially in the highway sector, is almost certain to improve in the near term thanks in large part to the stimulus. Despite the stimulus, however, severe shortfalls in federal and state highway trust funds could trigger a downturn in highway spending later this summer unless Congress and the Obama administration quickly agree on how to maintain current investment levels.

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