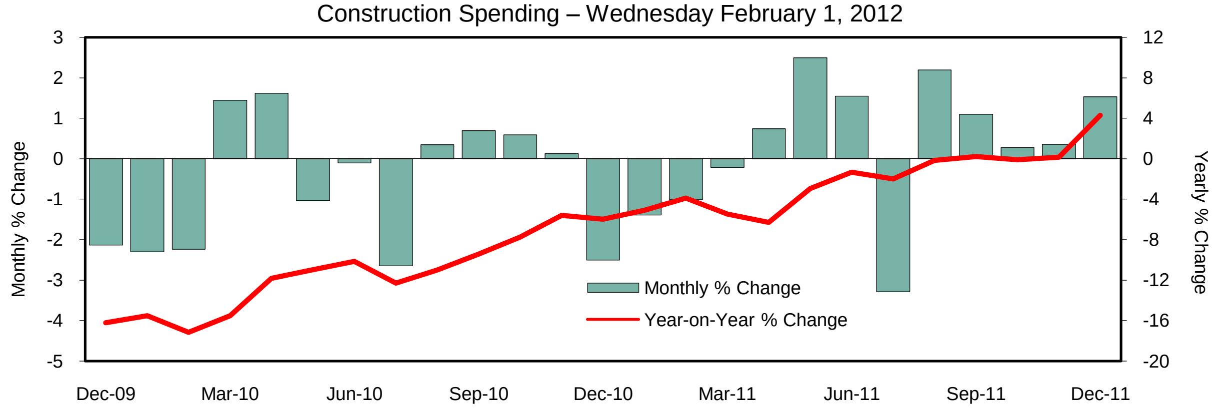
Hot Sheet

Focus on Construction Spending

SOLID GAIN FOLLOWING DOWNWARD REVISION

Construction Spending – Wednesday February 1, 2012



Construction spending rose 1.5% in December following a downwardly revised gain of 0.4% in November. Spending in November was originally reported as a 1.2% gain. Construction spending is now 4.3% above its year ago level, its second straight year-over-year gain after declining on an annual basis in the previous 48 months. Moreover, annual gains have accelerated in the past several months. Residential construction spending rose 0.8% in December and is now 4.9% higher than its year ago level. Even with these gains, residential investment has been basically flat for the past two and a half years and remains just above its cyclical nadir of July 2009. A rebound will be dependent on reduction of the current large inventory of existing homes, particularly REOs and other foreclosures. Nonresidential construction spending increased 3.3% in December amid broad based strength. Nonresidential construction spending is up 11.4% over the last year. Public construction expenditures rose 0.5% in December but remain 2.5% lower on the year. Despite the monthly gain, the major weak spot in construction spending continues to be the public sector. Fading stimulus dollars and difficult budget positions for many state and local governments significantly downgrade the outlook for public spending going forward. Of the other two categories of spending in the private sector, residential construction spending has stabilized at a weak level while non-residential investment remains volatile. Recent gains suggest that construction spending will contribute positively to Q4 economic growth and if sustained, signal that better times may be ahead for construction activity.

Forecast:	1.0%
Consensus**:	0.5%
Actual:	**1.5%**

PERCENT CHANGE

		Monthly % Change			Annual Rates of % Change for						
	Relative Weight*	Dec-11	Nov-11	Oct-11	Three Month	Six Month	Twelve Month	2010	2009	Five Year	Ten Year
Construction Spending	100.0%	**1.5**	**0.4**	**0.3**	**9.0**	**4.3**	**4.3**	**-6.0**	**-16.2**	**-8**	**-0.4**
Previous estimate			1.2	-0.2							
Private Construction	64.9%	**2.1**	-0.4	1.4	13.2	5.5	8.3	-8.1	-21.9	-12.2	-2.4
Residential	29.5%	**0.8**	-0.3	2.8	14.0	-2.2	4.9	-6.3	-15.0	-19.1	-4.0
Nonresidential	35.3%	**3.3**	-0.5	0.2	12.4	12.6	11.4	-9.7	-27.0	-1.0	-0.8
Commercial	4.9%	**0.1**	0.0	-2.8	-10.5	-7.5	13.6	-14.3	-40.6	-13.2	-5.7
Power	10.9%	**3.2**	1.8	3.5	39.9	36.5	14.9	11.1	-5.2	19.4	10.6
Office	2.8%	**-0.5**	0.2	0.0	-0.9	-6.5	-0.7	-19.4	-43.5	-9.7	-8.9
Health Care	3.6%	**1.8**	-1.0	-3.3	-9.7	-5.6	-2.7	-1.8	-21.9	0.7	4.2
All Other	13.1%	**5.8**	-2.5	-0.2	12.6	14.7	15.3	-20.1	-27.1	-1.6	-1.8
Public Construction	35.1%	**0.5**	1.7	-1.7	1.8	2.1	-2.5	-2.1	-3.7	4.0	4.7
Education	8.6%	**-0.6**	-0.5	-1.7	-11.0	-1.8	1.8	-10.6	-10.3	-0.5	#N/A
Highways & Streets	10.3%	**1.8**	1.6	0.8	18.3	22.3	2.5	5.1	-3.0	4.5	#N/A
All Others	16.1%	**0.3**	3.0	-3.3	-0.3	-6.5	-7.4	-1.5	-0.2	6.3	#N/A

Source: Bureau of the Census, Department of Commerce via Haver Analytics. Data, graph & table courtesy of Insight Economics, LLC. **Bloomberg