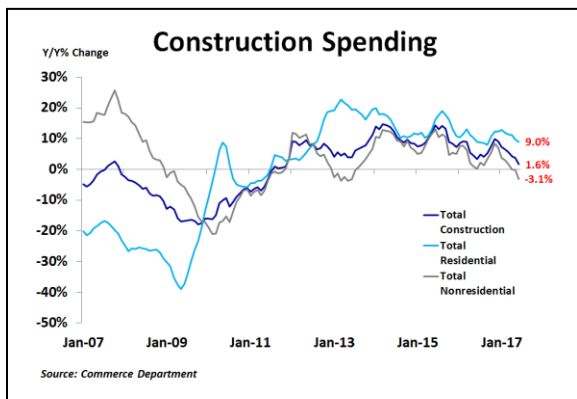




June Construction Spending Report Weakness widespread as nearly every category sees declines

According to the Commerce Department, total construction spending plunged by \$15.8 billion, or 1.3%, in June to \$1.21 trillion, widely missing the consensus forecast of a 0.5% increase. This follows a 0.3% increase in May that was revised up from no change. Compared to a year ago, spending was up just 1.6%, the least since November 2011.



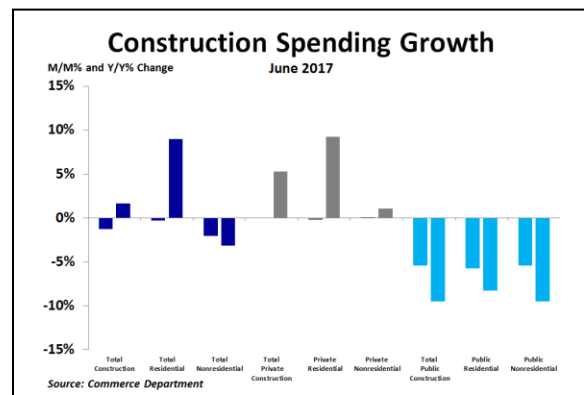
Weakness was widespread in June. Residential spending fell by \$1.4 billion, or 0.3%, from the prior month but was up 9.0% from the prior year. Non-residential spending plunged by \$14.4 billion, or 2.0%, and was down 3.1% from the prior year, the worst in four years.

For non-residential spending, only two of fifteen categories saw spending increases. Spending on office projects rose by \$1.4 billion, or 1.9%, and spending on communications projects rose by \$612 million, or 2.8%. Every other category saw spending fall, led by a huge \$5.7 billion, or 6.4%, decline in spending on highways and streets, which took the level of spending down to the lowest in over three years. Other notable declines were a \$3.9 billion, or 4.3%, decline in education spending and a \$1.2 billion, or 1.8%, decline in manufacturing. The biggest percentage declines came in conservation and development, where

spending dropped 7.3%, and public safety, where spending fell 6.5% from the prior month.

Private spending only fell by \$573 million, or 0.1%, with all of the decline coming from residential projects. Although non-residential spending rose by \$503 million, or 0.1%, that included a \$1.8 billion, or 2.9%, increase in spending on office projects and a \$1.3 billion, or 1.9%, decrease in manufacturing. Meanwhile, public spending cratered by \$15.2 billion, or 5.4%, half of which came from just two categories, with highway and street projects falling by \$5.8 billion, or 6.6%, and education spending dropping by \$3.9 billion, or 5.5%. Thus, 94% of the drop in total spending came from public non-residential projects.

Compared to a year ago, the strongest growth in total construction spending has come from residential, office and commercial projects. Conversely, the biggest declines have



been seen in conservation/development, sewage and waste disposal and water supply.

Last week the Federal Reserve held the Fed Funds rate steady. Today's very weak report suggests that was a wise move. With inflation slowing, Treasury yields and mortgage rates have been trending down, which should help to support the construction industry.