



10-Year Treasury Yield  
 9:45 - 4.55%  
 10:15 - 4.57%

# Economics Group Domestic

Gina Martin, Financial Economist  
[gina.martin@wachovia.com](mailto:gina.martin@wachovia.com) • 704-383-6805

WACHOVIA

## Construction Spending - Thanks Goes To Shoppers

March 1, 2006

*Headline spending disappointed the consensus, but the details show that nonresidential construction continues to grow at a steady pace. Commercial construction, boosted by investment in new retail structures, leads the way. Aging boomers and their spending habits are affecting construction trends.*

### Details Matter in 2006

Construction spending rose a rather disappointing 0.2 percent in January (top graph) to a level 7.4 percent above January of last year. The consensus had expected a gain of more than one percent for the month, assuming the extraordinarily warm weather in January would provide a boost to activity. However, residential construction increased just 0.1 percent, and nonresidential construction grew 0.3 percent. In January, spending on residential construction was 6.5 percent higher than a year ago. Despite the sky-high level of housing starts reported for January (2.276 million units, seasonally adjusted annual rate), we expect residential construction activity to slow in the year ahead.

Nonresidential activity, meanwhile, is expected to pick up this year, though solid activity in this sector may be overwhelmed by a slowdown in residential spending. Delving beneath the headline of this report will become increasingly important this year, as private residential construction makes up 56 percent of the total construction figures currently. As the residential segment slows, construction spending figures are likely to look quite meager.

### Thank you, Consumer - Retail Construction Booming

Public and private spending each increased 0.2 percent in January, but nonresidential private spending was the bulk of the headline gain. The largest category of nonresidential spending (by nearly two times) is commercial construction, which increased 0.4 percent in January and was 9.5 percent higher than a year ago (bottom graph). Commercial construction includes buildings used for retail, wholesale, and other service industries. Multi-line retail structures are the largest category within commercial construction, and spending on these structures was 40.0 percent higher than a year ago. Shopping center construction, in particular, has shown extraordinary gains over the last twelve months, and was up 57.2 percent from a year ago in January. Thank you, American consumer.

### Big Picture Effects on Small Categories of Construction

Other interesting gains were posted in the commercial segment, though the categories are just a blip on the radar in comparison to retail construction. Baby boomers are impacting construction markets. Spending on drug stores was nearly double the level of a year ago. Americans spent more than \$270 million on drug preparations and sundries last year, about six percent more than the year prior. Purchases of such items are now about three percent of disposable income, up from only one percent twenty years ago.

