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To: Robert Tannenwald
From: Matthew Nagowski
CC: Research economists
Date: July 12, 2006
Re: What explains the growing difference between BEA and Census data on government spending on construction?

A growing divergence in trends between two different metrics of state and local government construction activity has emerged over the last three reported quarters (Q3:2005 through Q1:2006) between the Bureau of Economic Analysis's (BEA) National Income and Product Accounts quarterly estimate of gross state and local government investment in structures and the U.S. Census's monthly survey of the total value of state and local construction spending put in place.

The Census data is reported in nominal dollars while the BEA reports its estimates in chained 2000 dollars (dollars that reflect the cost of public investment in structures in 2000); both measures represent a value at a seasonally adjusted annual rate. Historically, the two estimates have mirrored each other: when the nominal value of state and local construction spending has increased, so too has the real value of gross investment in structures. This pattern has stopped, however. Between Q1:2005 and Q1:2006, the nominal value of state and local construction put in place increased by over 10 percent, but the real total state and local government investment in structures dropped by close to 2 percent. Even after converting the construction values to real dollars using the BEA's implicit price deflator for state and local government, the real value of construction remains up 3 percent year over year.

While the BEA's estimate is based on the monthly Census data and is subject to minor accounting adjustments, it does not appear that accounting issues are responsible for this difference. Rather, the BEA data reflect the skyrocketing price of inputs and commodities. This conclusion has been confirmed by a recent conversation with a BEA program analyst. Although the BEA does not publish (and will not release) its implicit price deflator for gross state and local investment in structures, it does release an implicit price deflator for private structures. While not strictly comparable to the unpublished data, the price deflator for private structures has increased by 15 percent in the past year.

Indeed, if one deflates the Census construction data using the BEA price deflator for private structures, the real value of state and local construction over the past five years has fallen by more than 4 percent.

So even though state and local governments have significantly increased construction spending in the past year, higher input prices have resulted in a real decline in state and local government investment in structures over the past year.

Sources: bea.gov, census.gov/const/www/c30index.html

State and local government investment in structures and value of construction put in place

