Turning Point for the Labor Market
Updated Wednesday, June 10, 2020

NAHB Chief Economist Robert Dietz provided the following economic outlook.

In a surprisingly positive reading for the labor market, recent jobs data from the Bureau of Labor Statistics reported the unemployment rate in May declined to 13.3%. The true unemployment rate is likely closer to 16% due to many who reported being "employed but absent from work" but who were most likely unemployed. However, even with this technical adjustment, the jobless rate came in well below the 20% rate (or higher) some analysts had forecasted. (NAHB's forecast called for a 17.8% rate for the second quarter.) This forecasting miss by those predicting a much higher level of unemployment appears to have been based on somewhat unreliable state-level jobless claims data. The unemployment rate for construction workers is currently 15.2%.

Moreover, a job gain of 2.5 million was reported for May; a striking contrast to what many analysts had predicted of a job *loss* of up to 8 million. Residential construction was among the top sectors in terms of the May turnaround. After posting a job loss of 422,000 in April, home builders and remodelers added 226,000 jobs last month, as housing demand improved. Getting the economy back on track will require additional hiring by employers, as well as a recovery for the labor force participation rate, a measure of people who hold a job or are actively looking for one. After declining 2.5 percentage points in April, the participation rate gained 0.6 points in May, rising to 60.8%.

The reopening of the economy in most states has led to a rapid reversal for the jobs outlook and the prospects for the beginning of a recovery in the third quarter. Housing data indicate the industry will lead the way in such a rebound: For eight consecutive weeks, data from the Mortgage Bankers Association has shown weekly gains for home purchase mortgage applications, a sign of improving housing demand, particularly for the single-family market. In fact, the data from the last week of May and first week of June show applications are running higher on a year-over-year basis. However, risks remain as the recovery could be uneven. For example, recent NAHB analysis identified states with vulnerable labor markets due to exposure of high unemployment business sectors, including tourism and hospitality enterprises.

Furthermore, we expect the economic crisis associated with the virus to accelerate existing geographic trends of home construction activity. The NAHB Home Building Geography Index (HBGI) found that in the first quarter, single-family construction expanded at a faster pace in small metros, small towns and rural areas than in larger metro areas. A similar pattern has been in place for apartment construction, with multifamily market share for less-dense markets having risen since the start of 2019. The impact of the virus, with people telecommuting more and seeking lower-density neighborhoods, will accelerate these existing trends.

Challenges remain ahead for housing, but as the labor market improves, so too has the outlook for the housing market. And while a decline in listings of existing homes is holding back the resale market, home builders have benefitted in the short-run due to the corresponding decline in competition. However, on the whole, historically low interest rates and a more rapid than expected improvement in the labor market should set the stage for a V-shaped recovery for housing, which in turn will provide support for the overall economy as a rebound takes shape in the second half of the year.

We will continue to update our outlook as more data become available. Further information can be accessed on NAHB's Coronavirus Preparedness webpage.