

The Construction Job Mystery – What Gives?

Non-farm payrolls expanded by a better than expected 157,000 in May – a nice improvement from the April increase of just 80,000. Part of the upside surprise was because construction employment was unchanged in May – a 1,000 job loss in residential construction, offset by a 1,000 job gain in the commercial arena.

Most economists have expected a significant decline in construction jobs. But, it hasn't happened. Residential construction jobs have fallen by only 130,800 in the past year, after gaining 740,000 between 2001 and 2005.

Some treat this as a mystery. After all, housing starts have fallen at double-digit rates and are back to 1997 levels, but construction employment is down just 4%. But there really is no mystery.

In order to be counted by the payroll survey, an employee needs to be covered by the Unemployment Insurance System. The “payroll survey” is just what it implies – a count of people on payrolls of companies that file with the state. But many construction-related jobs (dry-walling, painting, framing, realtor, etc.) are done by “independent contractors,” and some of those jobs are filled by illegals. As a result, many of these jobs were never counted by the payroll survey.

On the other hand, the “household (or civilian) survey” – which contacts people at home and asks if they have a job – did count these workers. This is one reason why the household survey found 1.2 million more jobs than the payroll survey were created during the three years ending in December 2006.

But this has changed. In the past six months, payroll jobs have climbed by 890,000, while the household survey shows civilian employment has stalled – up just 169,000. This is an interesting development.

But the stall in household employment likely overstates the impact from the housing slowdown. We are close to some small Midwest residential home-builders who have picked up commercial business. Because many of their skills transfer easily into small commercial building projects, they have hardly slowed down.

In addition, from a macro-economic point of view, as housing slows, the resources that would have gone in that direction do not disappear – they get redirected into different sectors of the economy. This does not happen overnight, but after a year of weaker housing activity, it appears that this is now occurring.

The recent increase in US stocks and a sharp rise in bond yields has coincided with a growing certainty that US economic activity is beginning to pick-up once again. It's the pessimists who try to explain away the growth by suggesting the numbers are wrong. But, it's hard to show job losses, when they were never counted to begin with.

We remain optimistic that the economy has moved through the worst of the housing correction, and forecast a real GDP growth rate of 3.5% in the second quarter, and 3%+ for the second half of 2007 and into 2008.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-4 / 9:00 am	Factory Orders - Apr	+0.6%	+0.4%		+3.9%
6-5 / 9:00 am	ISM Non-Man. - May	55.3	56.6		56.0
6-6 / 7:30 am	Q1 Non-Farm Productivity	+1.1%	+0.9%		+1.7%
7:30 am	Q1 Unit Labor Costs	+1.3%	+1.4%		+0.6%
6-7 / 7:30 am	Initial Claims - Jun 2	313K	310K		310K
9:00 am	Wholesale Trade - Apr	+0.5%	+0.2%		+1.8%
6-8 / 7:30 am	Int'l Trade Balance - Apr	-\$63.6 Bil	-\$63.3 Bil		-\$63.9 Bil
6-12 / 1:00 pm	Treasury Budget - May	-\$66.0 Bil	-\$76.0 Bil		-\$96.3 Bil
6-13 / 7:30 am	Business Inventories - Apr	+0.3%	+0.5%		-0.1%
7:30 am	Import Prices - May	+0.4%	+0.7%		+1.3%
7:30 am	Export Prices - May	+0.2%	+0.2%		+0.3%