

Why One Million Construction Jobs May be at Risk

Troy Ludtka
Senior US Economist
SMBC Nikko

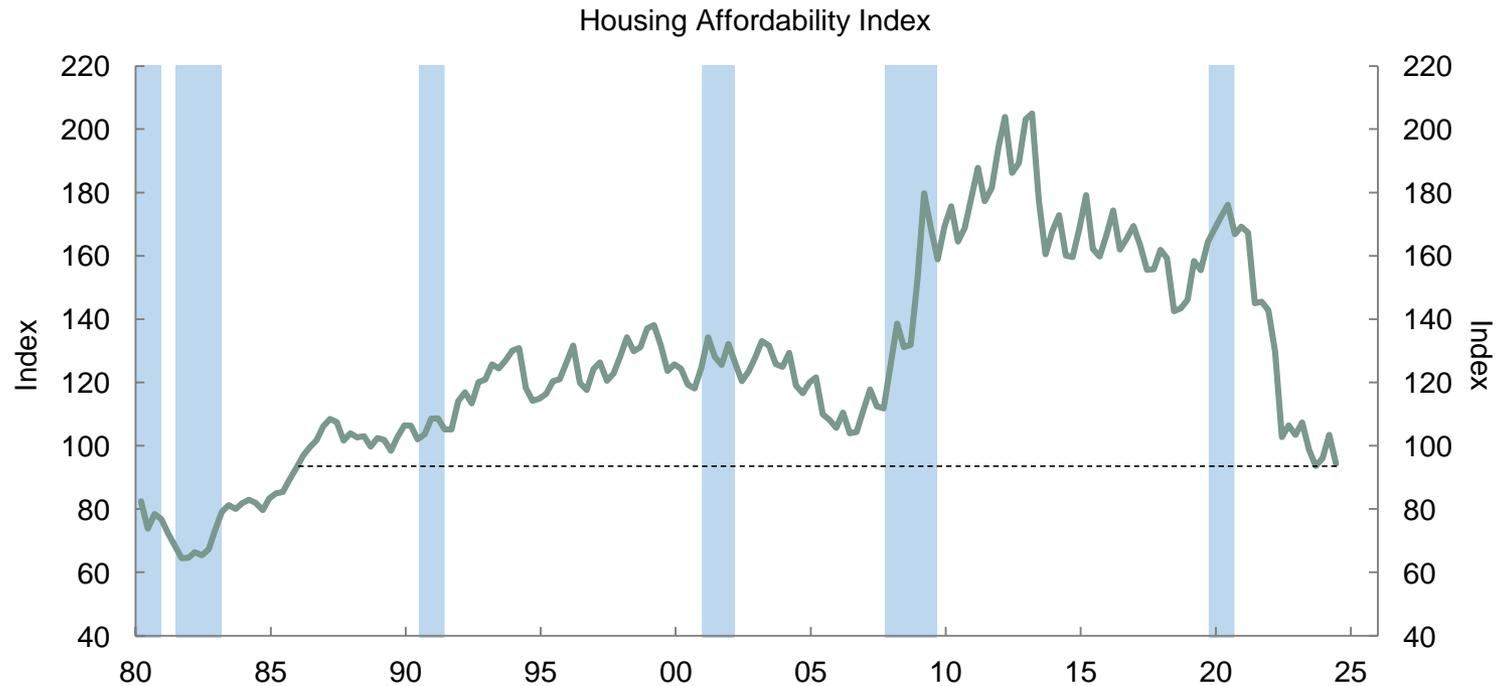
(212)-224-5483
Troy.Ludtka@smbcnikko-si.com
August 14, 2024

Overview

- **The housing market is a leading indicator of the economy, due to its cyclicity, its interest-rate sensitivity and because of the many ‘multipliers’ that affect the broader economy.**
- **Home builders appear to have overbuilt, possibly leading to a boom-bust housing dynamic. In our view, home prices are likely to come under pressure and 1 million construction jobs could be at risk (14% of construction employment). This is detailed in the following slides.**

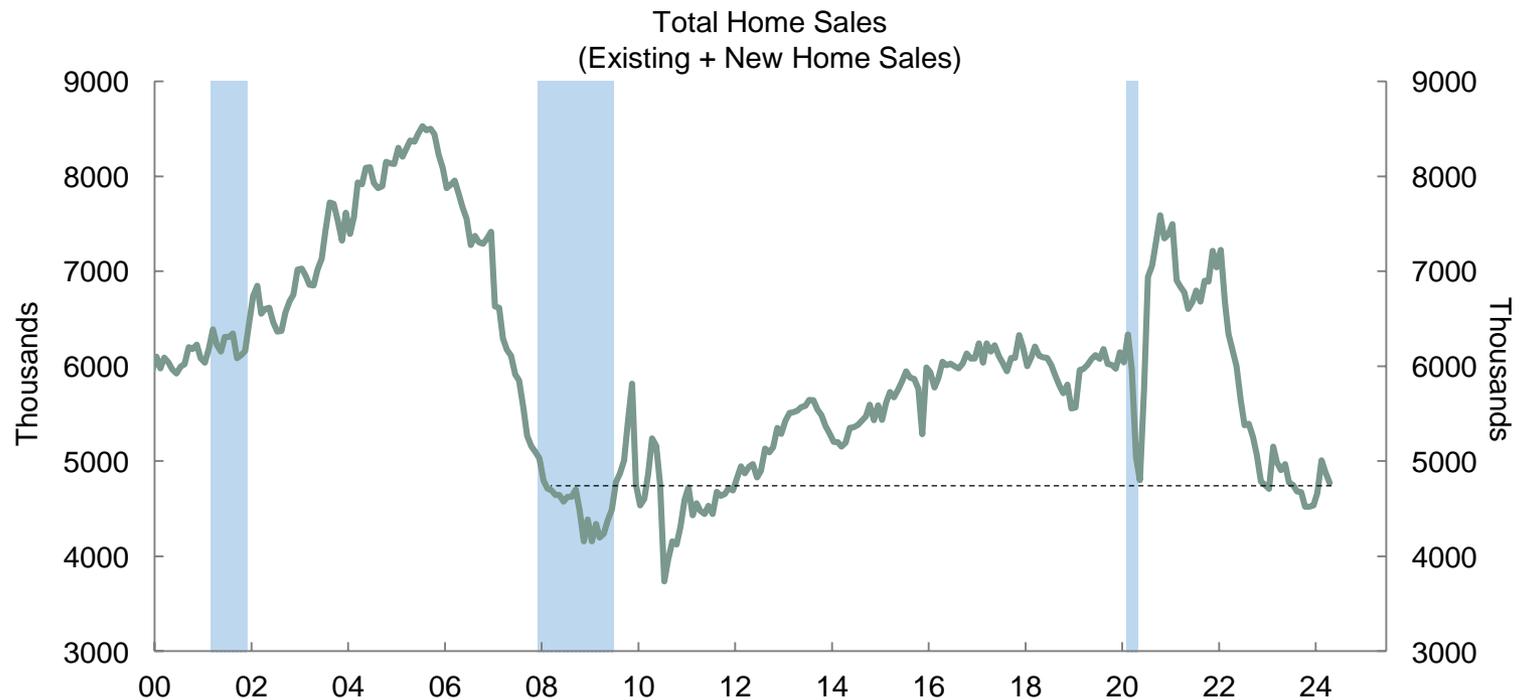
Lowest Affordability Since 1985

Post-pandemic, both home prices and mortgage rates have risen sharply. Incomes have not. Affordability has declined.



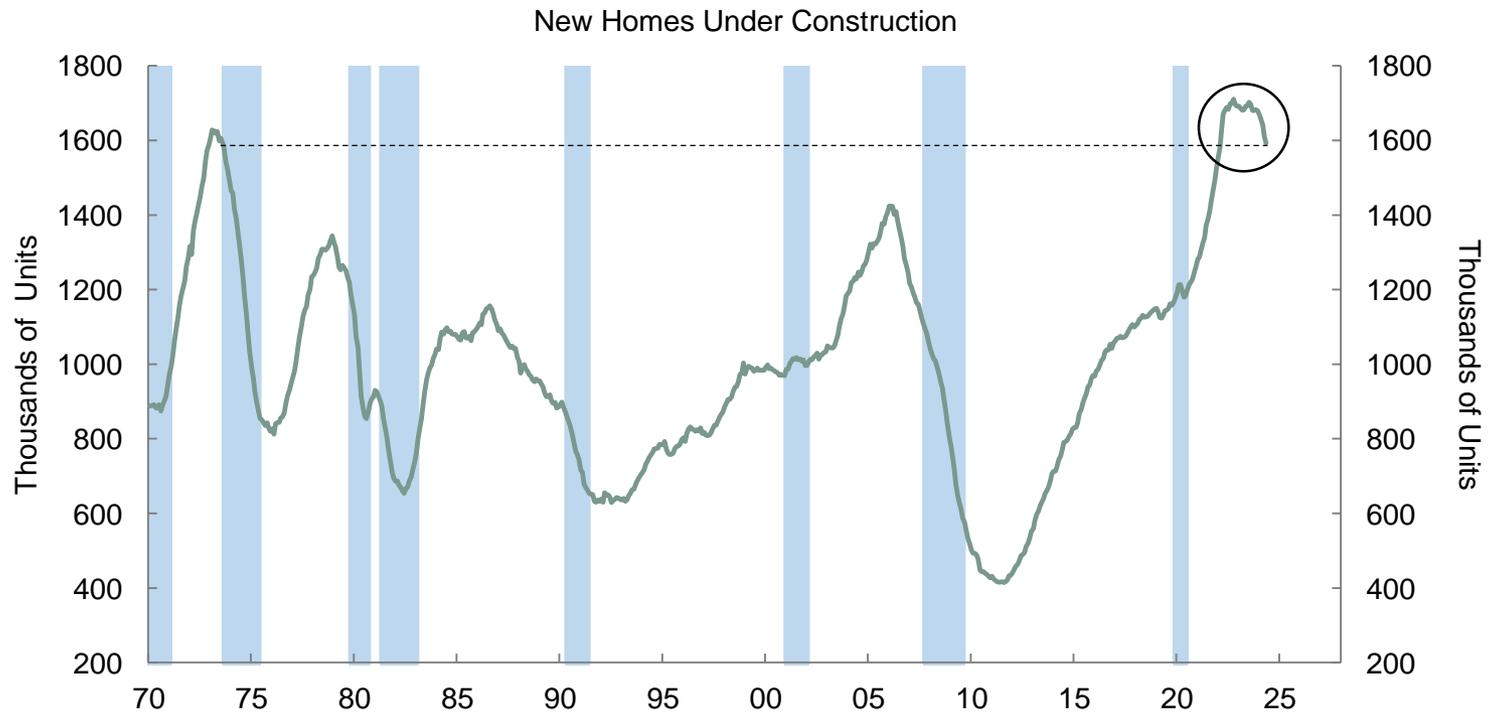
Lowest Home Sales Since 2011

Partly due to this, home sales have collapsed to levels last seen following the Global Financial Crisis.



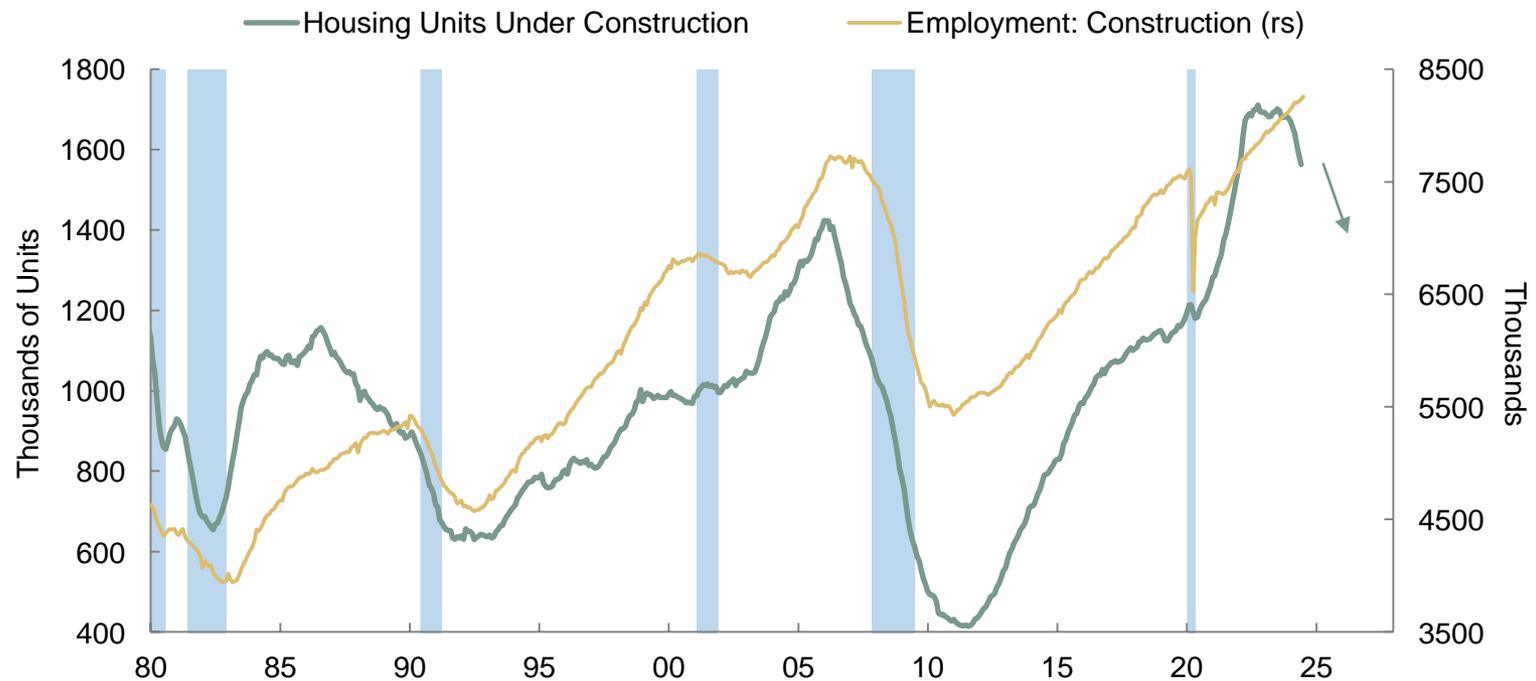
Record New Home Supply Forthcoming

Meanwhile, the pandemic building boom could lead to a flood of new home supply in the months and quarters ahead.



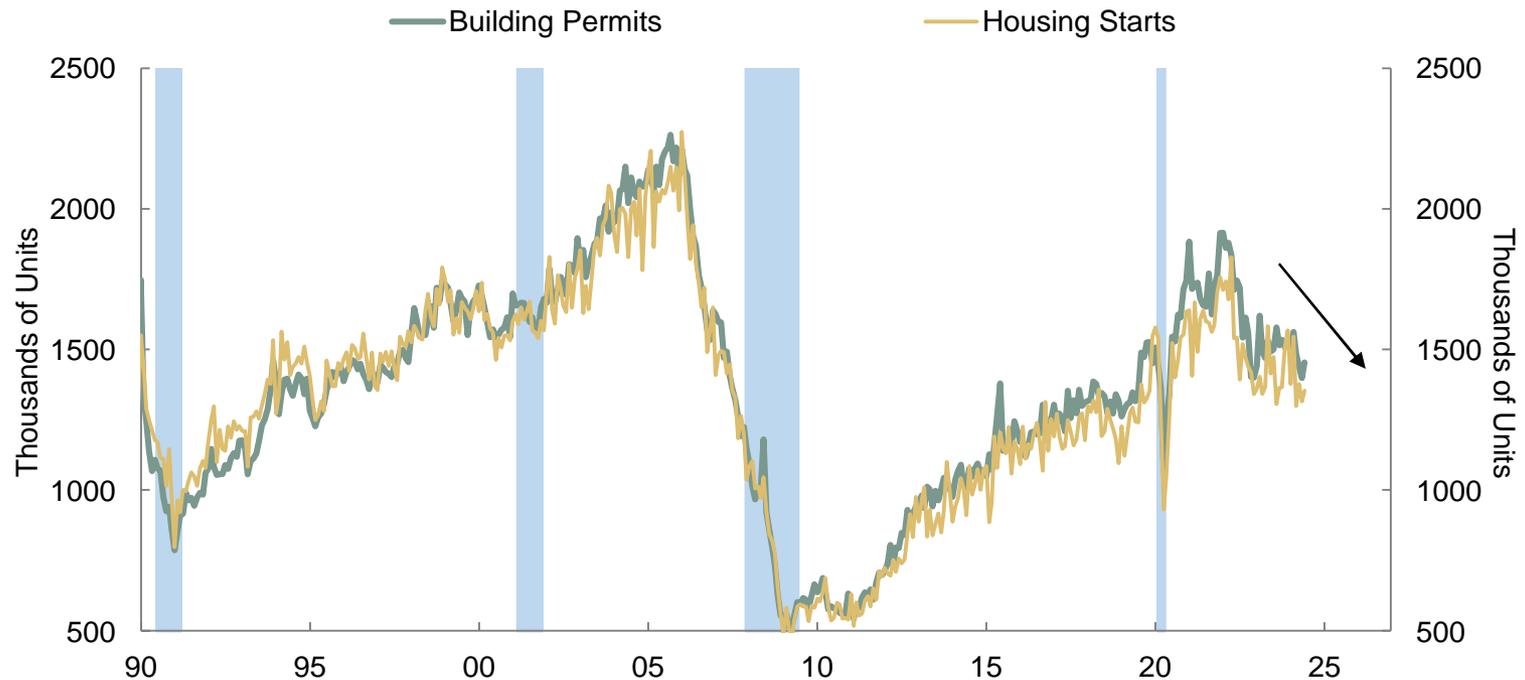
Construction Leads Labor Demand

Record home construction requires a commensurate number of workers to finish these projects. But, with the number of projects now declining, the number of workers is likely to fall too.



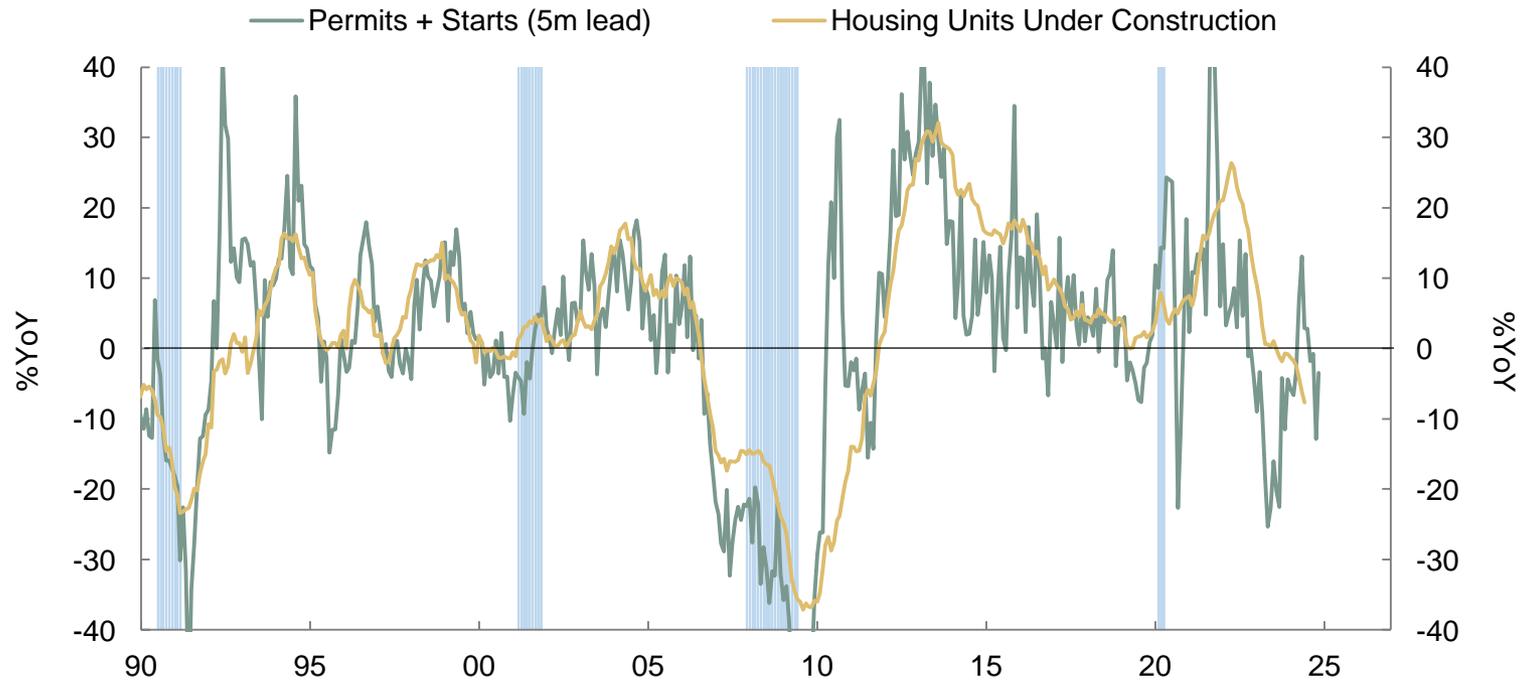
Builders Taking Some Chips Off the Table

Recognizing the over-supply risk, builders have pulled back on their investment.



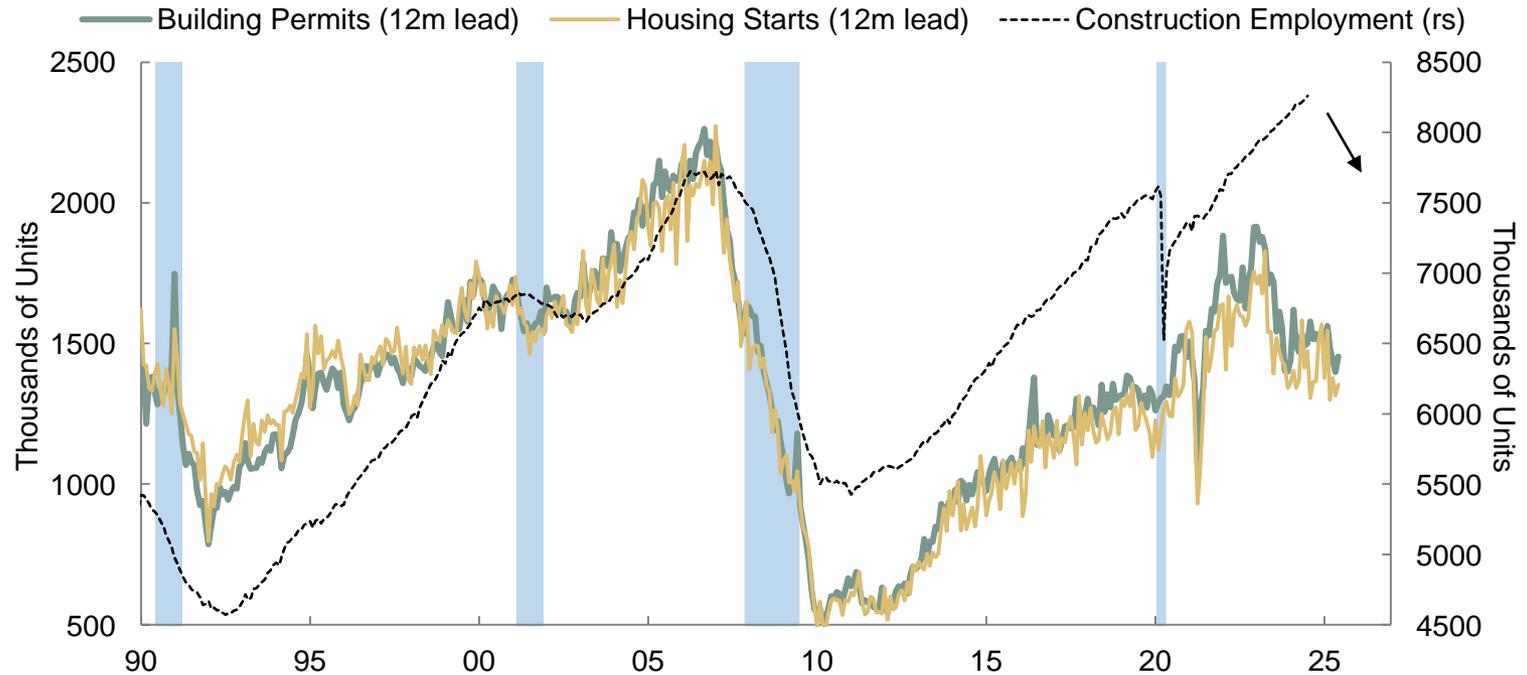
Less Housing Construction on the Way

Fewer housing starts and permits lead to less construction...



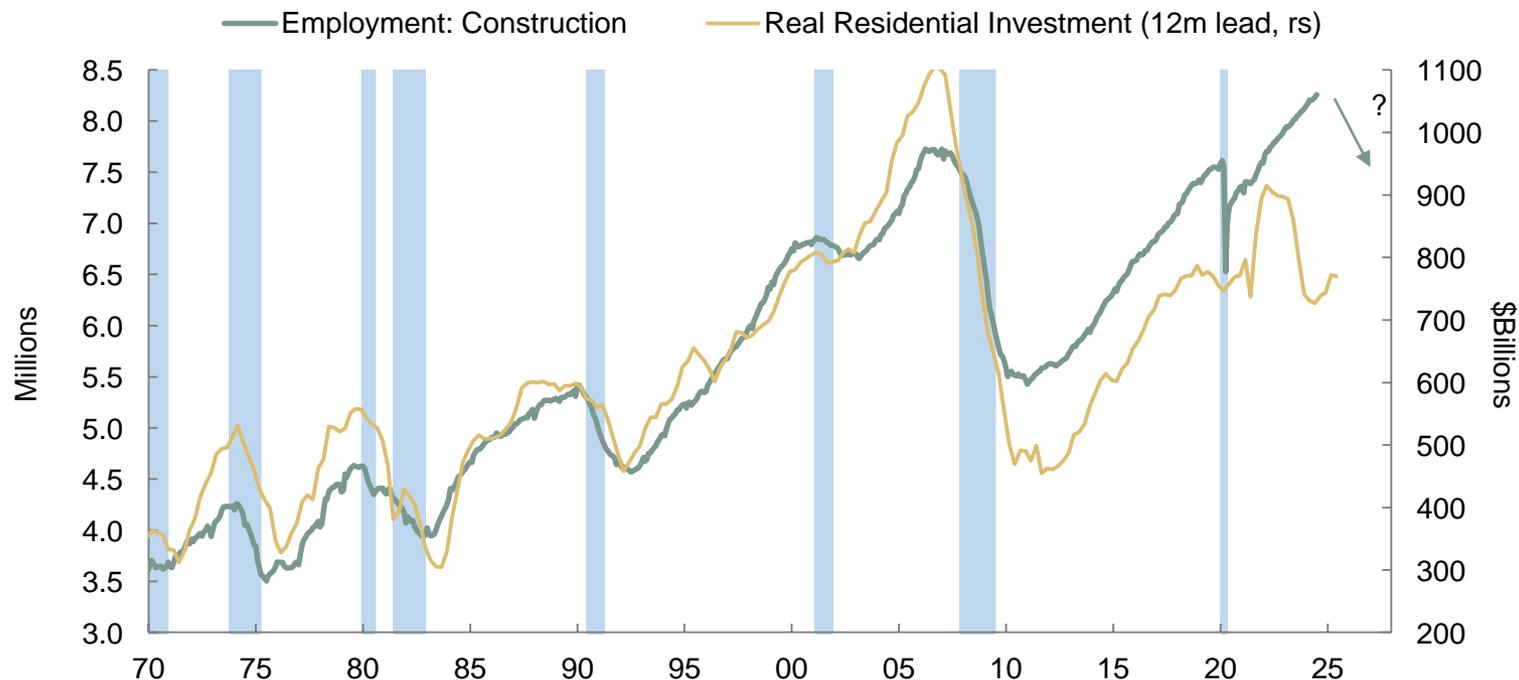
Less Housing Construction (2/2)

...And also leads to fewer jobs.



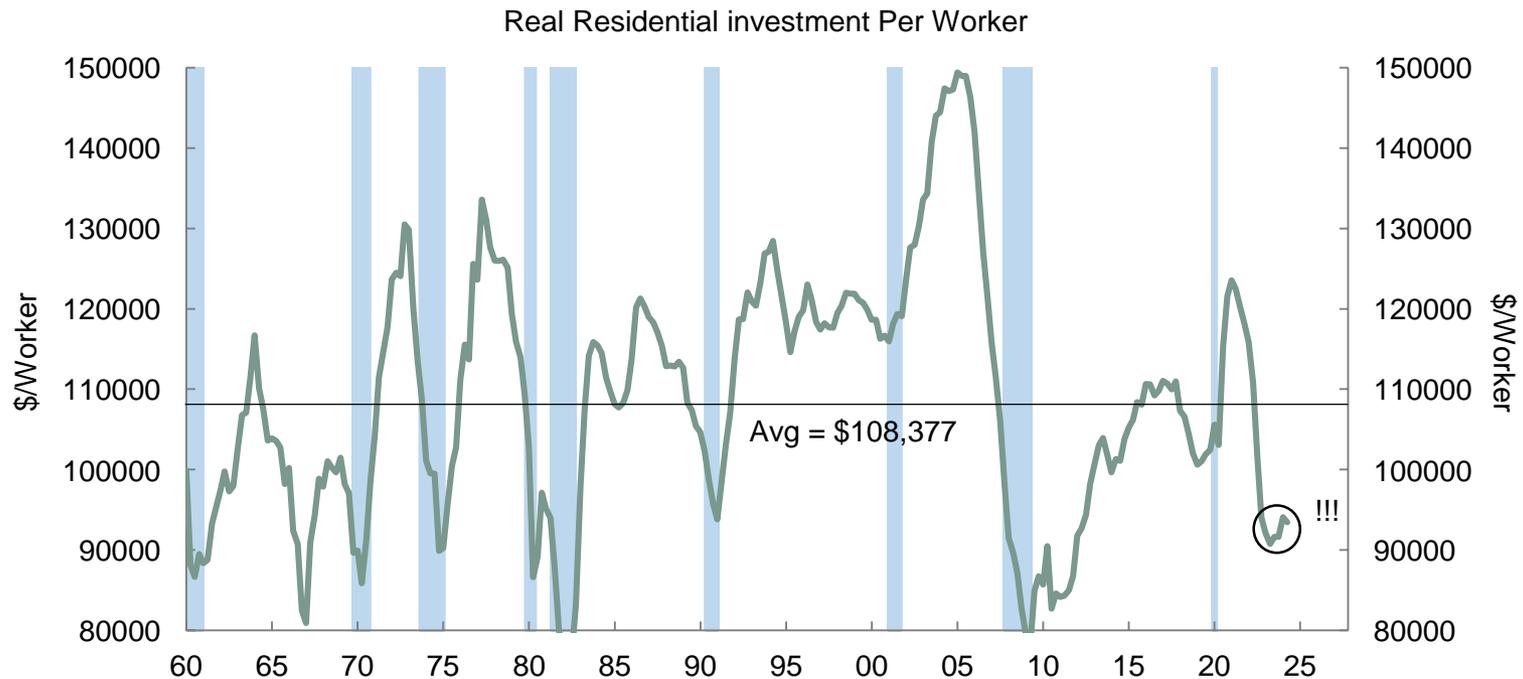
Payrolls Go Where Investment Goes

As shown below, investment generally moves in line with jobs. If history is any guide however, the current level of residential investment statistically implies that payrolls are overstuffed by around 1 million!



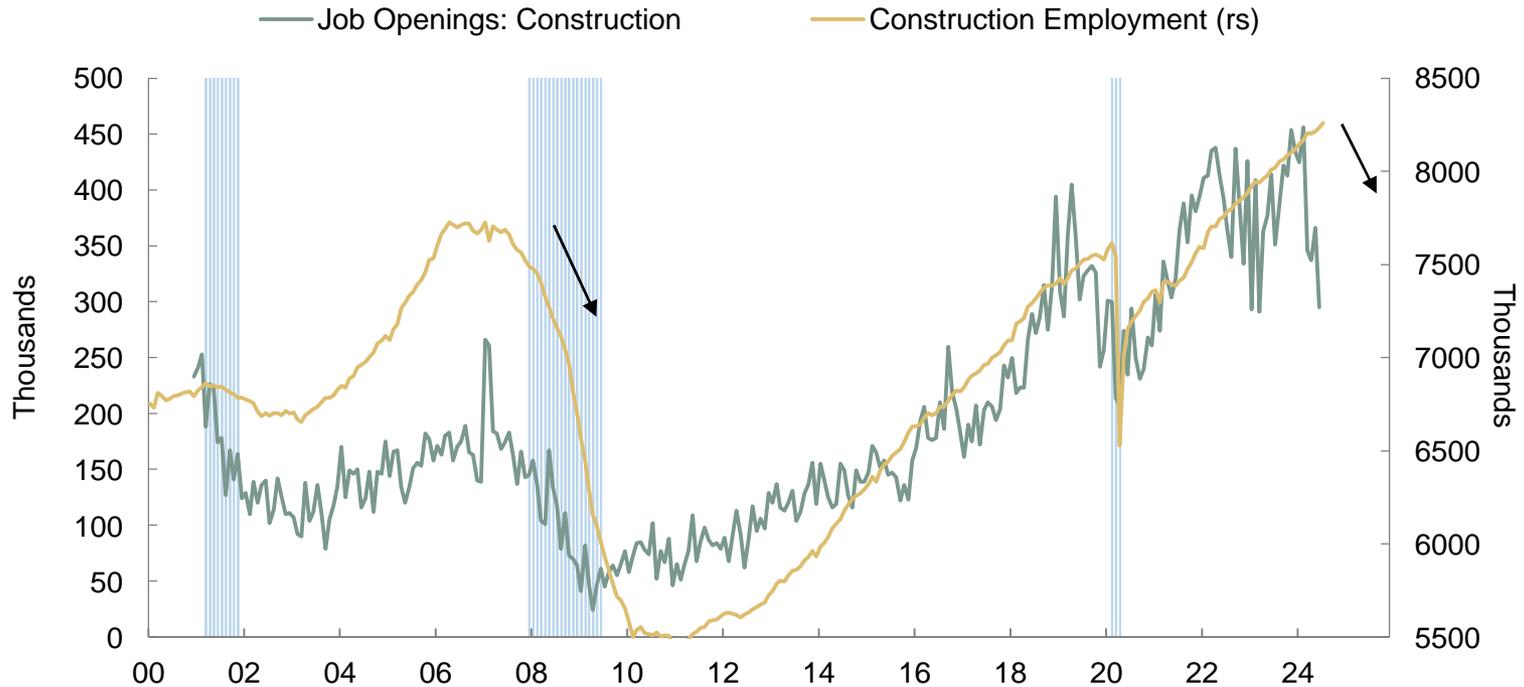
Investment Cuts Precede Job Cuts

Current residential investment does not justify current headcount. Construction payrolls are as overstaffed today as they were in other notable recessions. At \$93,443 in Q2, real residential investment per worker was 13.8% below the historical average. To return to the long-term average, either jobs need to fall by 1.1M or investment needs to rise 16% (or some combination of the two). Payroll cuts are likely to commence when current projects are finished (page 4).



Has the Labor Slowdown Begun?

Firms first reduce demand for new labor (job openings) then, if the slowdown continues, demand for existing labor is cut.



Conclusion

- **Construction payrolls are steadily rising because there is a near record number of new homes currently under construction and workers are needed to complete these projects.**
- **However, the lowest home affordability since 1985 is restricting housing demand. Once the aforementioned home builds are completed, the inventory of new homes for sale will increase. Home prices will likely have to adjust.**
- **Recognizing this, home builders are hedging themselves by reducing housing starts and building permits. Headcount reduction is likely next.**
- **Although lower interest rates could support housing demand, this usually comes only if there is a loss of jobs and income. Therefore, although *affordability* may recover, home sales are likely to remain weak through 2025.**

Disclaimer

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only, solely for use by the client(s) or potential client(s) to whom such document is directly addressed and delivered. This document was prepared by SMBC Group's economist(s). The views, statements, assumptions, and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Group. It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Group and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Group does not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion following their own independent analysis and assessment of the merits of any transaction prior to execution, after conducting a careful examination of all documentation delivered, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents. The financial instruments discussed may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views, statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Group may conflict with those of the recipient. SMBC Group may seek to do business with the companies mentioned in this material and the trading desks may accumulate, be in the process of accumulating or have accumulated, long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Group, and its directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

This document is the property of SMBC Group, subject to copyright. Any reproduction of this document, in whole or in part, is prohibited, and you may not release this document to any person (except your advisors and professionals to assist you in evaluating the document, provided that they are obligated, by law or agreement, to keep the document confidential). Distribution, possession, or delivery of this document in, to, or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

© 2024 SMBC Group. All rights reserved.