

Construction Labor Shortage

Michael Carliner

For many builders, the biggest challenge in 1998 has been finding workers. Home builders are not unique in facing labor supply constraints. When data for the full year are in, the overall unemployment rate in 1998 will average about 4.5 percent, lowest since 1969, and the percentage of the civilian population aged 16 years and over who were employed will average a record 64.1 percent.

Employment Growth

The labor supply problems for home builders are even more acute than those facing most other employers. With residential construction accounting for a larger share of GDP than in any year since 1988, payroll employment in the construction industry grew by 5.4 percent in the year ending November 1998, to about 6.1 million (seasonally adjusted). The

growth in construction payrolls clearly outpaced the 2.3 percent growth in total payroll employment. Employment is also measured in the government's monthly Current Population Survey, which involves interviews with about 50,000 households and provides estimates of unemployment rates and characteristics of the labor force. As measured by the household survey, construction industry employment grew by 4.2 percent to 8.7 million, while total employment grew by only 1.2 percent.

The household survey estimate of employment in the construction industry exceeds the payroll figure by more than two and a half million. This large difference is due primarily to the inclusion of self-employed workers in the household survey. During the past year, there have been an average of 1.5 million self-employed workers with unincorporated businesses in the industry. Another 0.6 million self-employed workers in the industry have incorporated

businesses. Thus about a quarter of all workers in the construction industry are self-employed. For residential construction, the share may be closer to 40 percent.¹

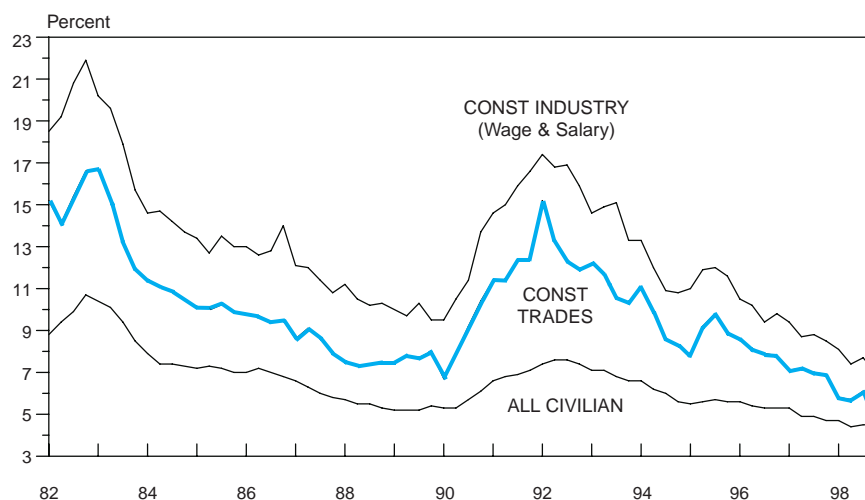
In addition to including self-employed workers, the household survey data include about 0.5 million government employees in federal, state, and local agencies involved in construction.

Importance to Builders

NAHB conducts a quarterly survey of local home builders' associations in which local leaders are asked to rate a list of more than 70 industry concerns on a scale of 1 (not at all critical) to 5 (very critical). In the two most recent surveys, labor availability was rated as the most critical issue, ahead of concerns such as growth restrictions and impact fees that normally command attention at the local level. Labor availability wasn't considered to be quite as serious a problem in the western states, but in the rest of the country a majority of local leaders described labor availability as very critical.

Despite widespread reports of construction labor shortages, the construction industry unemployment rate has remained above the overall unemployment rate.² The only construction industry unemployment rate that is reported on a seasonally-adjusted basis and included in the monthly Department of Labor press release is the rate for private wage and salary workers, with the average for the first 11 months of 1998 at 7.6 percent. When the self-employed

Unemployment Rates: Total vs. Construction



Source: U.S. Department of Labor

and government construction labor force is included, the year-to-date average is 6.4 percent. As described below, however, even that statistic does not adequately measure the tightness of the labor supply facing the industry, particularly for skilled trades.

Construction Workers

The nature of the construction industry is such that workers frequently change jobs. Some projects are completed and others begin, and the work force is constantly adjusted. This translates into a higher rate of frictional unemployment. One alternative to the unemployment rate as a measure of labor market tightness or slack is the average number of weeks that unemployed workers have been without jobs. Among all unemployed workers during the first 11 months of 1998, the average period of unemployment was 14.5 weeks. For construction industry workers, the average period of unemployment was 13.7 weeks. In November, unemployed construction industry workers had been unemployed for a median of 5.2 weeks, compared to an overall median of 6.4 weeks.

The unemployment rate for the construction industry includes unemployment among unskilled workers and workers whose skills are not specific to construction. Of the 8.3 million people employed in the construction industry in an average month in 1997, as measured by the household survey, there were an average of 4.3 million working as supervisors or skilled craft workers in specialties such as carpentry, plumbing, or electrical work (Table 1). It is this part of the industry work force

where labor shortages are most severe and less easily remedied. In addition to the 4.3 million construction trades people working in the construction industry, another 1.1 million construction trades people were employed by firms in other industries. While the unemployment rate among skilled construction trades people is consistently lower than among unskilled construction laborers and other construction industry workers, it is normally higher than the rate for U.S. workers as a whole, again reflecting the project-based work. In recent months, however, the unemployment rate for construction trades has been nearly as low as the overall rate, with the rate for October 1998 dipping to 4.2 percent from 5.2 percent in September (not seasonally adjusted) before rising back to 5.0 percent in November. The BLS does not report the unemployment rate for trades on a seasonally-adjusted basis, but calculations by NAHB indicate that the adjusted rate was

6.4 percent in September, 5.5 percent in October, and 5.9 percent in November. For the first 11 months of 1998, the unemployment rate for construction trades averaged 5.8 percent, compared to 7.0 percent for the corresponding period in 1997. For the entire civilian labor force, the difference was 4.5 percent versus 5.0 percent.

Summary

While the current shortage of construction labor is largely the result of unusually strong demand for new homes—a situation that is unlikely to persist indefinitely—there are some longer term concerns about the construction labor supply that need to be addressed. The present situation, even if temporary, is a powerful reminder of the importance of skilled labor to industry success.

¹ See Michael Carliner, "Home Building Jobs", *Housing Economics*, December 1993.

² Unemployment rates for industries or occupations are based on where unemployed people last worked.

Table 1 **Employment by Occupation 1997**

	All Industries	Construction Industry
ALL EMPLOYED WORKERS	128,637	8,302
Managerial & professional specialty	37,677	1,432
Technical, sales, & administrative support	38,299	542
Service occupations	16,675	35
Precision production, craft, & repair	14,118	4,731
Construction trades	5,374	4,280
Supervisors	693	618
Construction trades, exc supervisors	4,681	3,661
Brick & stone masons, tile setters	256	234
Carpenters	1,335	1,134
Drywallers & plasterers	206	199
Electricians & power installers	887	499
Painters & paperhangers	576	482
Plumbers, pipe & steamfitters	548	408
Roofers	200	196
Other construction trades	673	509
Operators, fabricators, & laborers	18,390	1,540
Construction laborers	810	762

Source: Bureau of Labor Statistics
Annual averages of monthly data, based on Current Population Survey
Includes self-employed workers