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US Macroeconomics

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Small Cracks Precede Large Fissures

February construction jobs rose 24k, the 13th straight gain. Over the past year, construction employment is up a robust 3.3%, compared a 2.9% increase for the rest of the economy. However, the outlook for construction hiring is dimming.

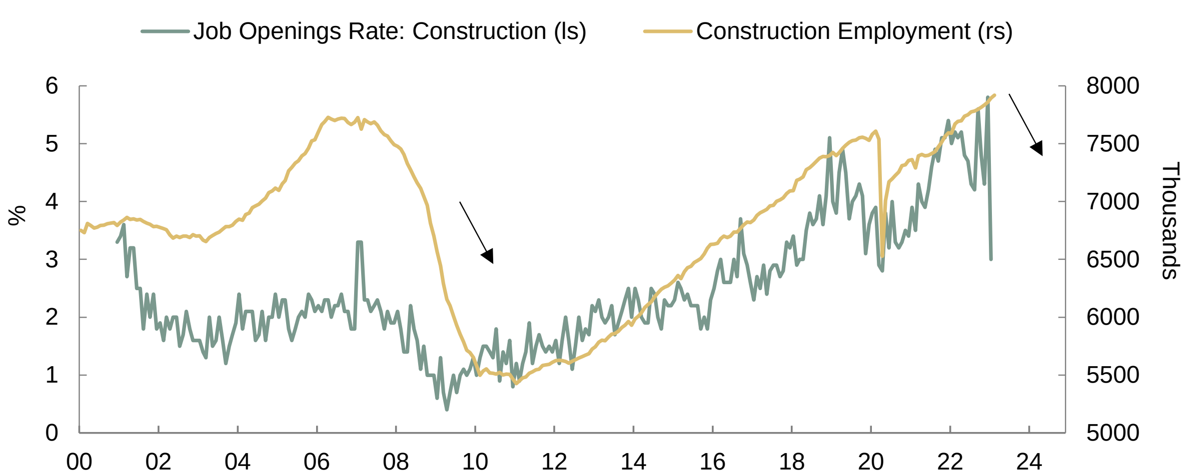
The labor market is on the cusp of a major pullback in construction hiring that could push the unemployment rate up through 4%. Given the sector's high multiplier, there is little doubt that a collapse in construction hiring will negative knock-on effects elsewhere in the labor market. When the construction sector begins shedding labor, other industries generally soon follow.

Capturing data through January, the Job Openings and Labor Turnover Survey (JOLTS) shows that **the job openings rate in the construction industry plunged from 5.8% in December to 3.0% in January. This is the biggest monthly swing in the history of the series dating back to 2000**. But it is also worth noting that the drop is nearly three times the next largest decline from January 2019, which happened to be one month after the Fed had raised rates to 2.38%. This turned out to be the cyclical top as the Fed began cutting interest rates shortly thereafter in July 2019.

Prior declines in construction payrolls have been presaged by declining job openings. Witness what happened in 2001 and 2007. Given the magnitude of the January drop in job openings, a much larger pullback in hiring is coming. As discussed in our January 17, 2023 piece "Nearing A Tipping Point," there is a record large gap between construction employment and spending. With the latter in freefall, **we estimate that the labor market would need to shed nearly 750k construction jobs to bring employment in line with construction outlays**. This would have a sizeable negative impact on the unemployment rate.

According to our calculations, the anticipated decline in construction jobs alone would push the unemployment rate up 45 points. While this may not see like much, every recession in the post-WWII era occurred when unemployment went up 50 bps. Small cracks in the labor market turn into large fissures. **When unemployment begins to rise, it continues to rise** — it never goes up just a little and then stops.

While no two business cycles are the same, the historical roadmap tells us there will be many more bumps ahead.



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