



Market Features

How the Jobless Rate Affects the Housing Market

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It appeared to be another blow to the beleaguered housing market when the federal government said the national unemployment rate rose to 5%. A higher unemployment rate, after all, reduces the number of potential homebuyers and lower demand hurts house prices.

But some argue it's a positive sign that the housing market is correcting itself.

In December, employment in construction fell by 49,000 jobs, with losses occurring throughout the industry. Because homebuilders have been reducing starts on new homes as a way to reduce for-sale inventory, it isn't surprising that construction jobs would take a hit, says Jim Haughey, chief economist for Reed Construction Data, Waltham, Mass.

"Homebuilders have cut their prices and cut their work force. The 49,000 is probably accurate net, but the housing labor cuts are far bigger. The Labor Department just can't differentiate [the construction job losses] from residential builders and other builders. When some residential construction workers lose their job, they go build gas stations," he says.

Haughey says that last year the nation lost 195,000 construction jobs and, given that housing permits issued are down 24% November over October, according to the latest National Association of Home Builders data, we are going to see more construction job cuts in the coming months, he says.

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The cut in construction jobs "hopefully signals a correction so that demand and supply can realign, which will need to happen before the housing market turns back around," says Scott D. Watkins, a consultant with the east Lansing, Mich., office of Anderson Economic Group.

"Although one month of slow employment growth is enough to put many on edge, we'll really have to wait until January to see where job growth is really headed," Watkins adds.

"The decline in total employment in December is a worrisome sign for the economy. However, it must be remembered that preliminary employment numbers are often revised," says Jerry Howard, NAHB's chief executive officer. "The 49,000 decline in construction employment may be overstated due to adverse weather conditions in parts of the country in December. At the same time, it is clear that home builders are making the necessary adjustments to their production to bring supply and demand into balance. As a result, housing starts have fallen. This inevitably is translated into lower construction employment."

Haughey believes it will be the start of 2009 before dips in construction jobs start to level off. The loss of these jobs, he says, "is a positive thing in that it has to happen and the sooner the better. It is positive, but not pleasant."

Others also say the spike in the unemployment rate could just be a statistical fluke. Bill Knapp, the chief investment strategist for MainStay Investments, the retail distribution arm of **New York Life Investment Management**, points out that even at 5%, the unemployment rate is relatively low by historical standards. For instance, the rate was in double digits for several years during the early 1980s.

"There are several waves that must wash through the housing market before we start to see a 'bottom,' " says Mark G. Dotzour, chief economist and director of research for the Real Estate Center at Texas A&M University in College Station. "The first waves were the removal of speculators and unqualified subprime buyers, which reduced demand," says Dotzour. "As the overall economy cools, and unemployment rises, we will likely see a second wave of negative demand that has nothing to do with the silly lending underwriting of the past few years."

As jobless ranks increase, there will be more people wanting and needing to sell a home that is no longer affordable. This

will add more supply into an already saturated market and reduce demand at the same time.

Still, many people continue to see a lot more negatives than positives in the jobless data.

"It is difficult amid the current credit crunch for folks with good credit to obtain financing. It is almost impossible for the unemployed to get a loan. As a result, rising unemployment rates will cut the number of home buyers."

In the short term, of course job losses can force people to sell homes. With a glut of homes for sale, already there is little incentive for real estate investors to take a financial risk in acquiring real estate in hope of flipping those properties relatively quickly, says Rafael Castellanos, managing director of Expert Title. Thus there are more properties that are not moving.

"The housing market is in serious jeopardy," says Castellanos. When prices fall, even qualified buyers may take a "wait-and-see" attitude and postpone moving to a new neighborhood, he says.

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