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NAHB Says Labor Shortages Worsening

About a month ago, the **National Association of Home Builders (NAHB)** seized on the May Job Openings and Labor Turnover survey (JOLTS) report as an indication that the tight construction labor market might be loosening. The report indicated a decline in the number of unfilled job openings. The shortage of skilled labor has been cited by NAHB as one reason for the slow recovery of the residential construction industry. This month, it is a **different story**.

Both the June JOLTS report and results of NAHB's most recent survey of home builders are a cause for concern. NAHB said the report shows "the number of unfilled jobs in the construction industry **rising significantly in June**." Their builders survey is more specific.

Economist Paul Emrath writes in NAHB's Eye of Housing blog that labor and subcontractor shortages had become even more widespread in July of 2017 than they were in June of 2016, the last time NAHB attached similar special questions to its NAHB/Wells Fargo Housing Market Index (HMI) survey. This year the survey asked the Association's home builder-members questions about 15 specific occupations. The categories were either recommended for inclusion by its workforce development arm, (the Home Builders Institute), or ones NAHB found particularly significant when analyzing recent Bureau of Labor Statistics data. As the figure below shows, there were **shortages reported in all 15 occupations**, with serious shortages in three carpentry related fields.

National Average Mortgage Rates



| | Rate | Change | Points |
|----------------------------|-------|--------------|--------|
| Mortgage News Daily | | | |
| 30 Yr. Fixed | 6.43% | +0.02 | 0.00 |
| 15 Yr. Fixed | 5.95% | 0.00 | 0.00 |
| 30 Yr. FHA | 5.82% | +0.02 | 0.00 |
| 30 Yr. Jumbo | 6.62% | 0.00 | 0.00 |
| 5/1 ARM | 6.28% | -0.01 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 6.35% | -0.51 | 0.00 |
| 15 Yr. Fixed | 5.51% | -0.65 | 0.00 |

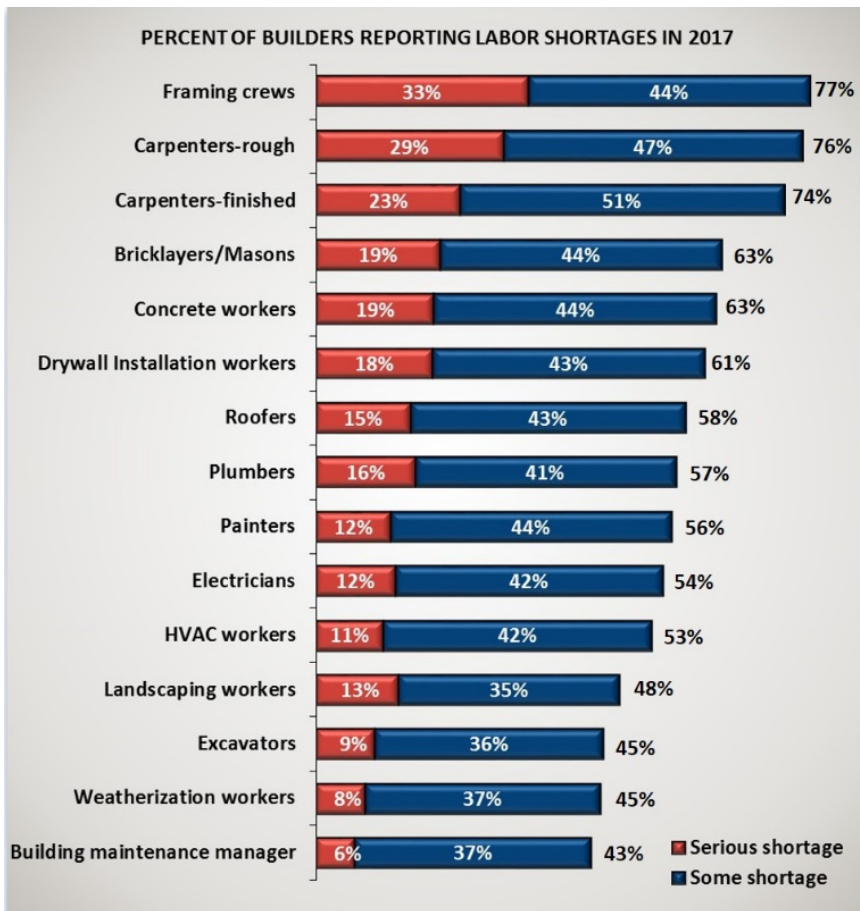
Mortgage Bankers Assoc.

| | | | |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 6.44% | -0.06 | 0.54 |
| 15 Yr. Fixed | 5.88% | -0.16 | 0.68 |
| 30 Yr. FHA | 6.36% | -0.06 | 0.85 |
| 30 Yr. Jumbo | 6.75% | +0.07 | 0.39 |
| 5/1 ARM | 5.98% | -0.27 | 0.65 |

Rates as of: 8/30

Recent Housing Data

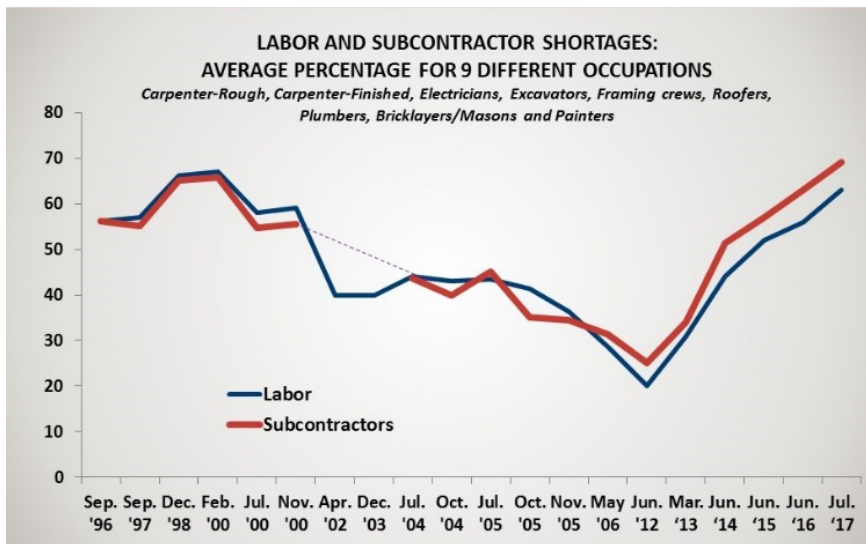
| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Aug 28 | 226.9 | +0.49% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |



| | | Value | Change |
|--------------------|-----|-------|--------|
| Builder Confidence | Mar | 51 | +6.25% |

While builders are finding difficulty filling their own job openings, the **availability of subcontractors** is even more problematic. Responses to the July HMI survey indicated greater and more widespread shortages of subcontractors than direct labor in each of the 15 occupations. As an example, NAHB said that 77 percent of respondents reported a shortage of framing employees while 85 percent of builders reported a shortage of this category of subs.

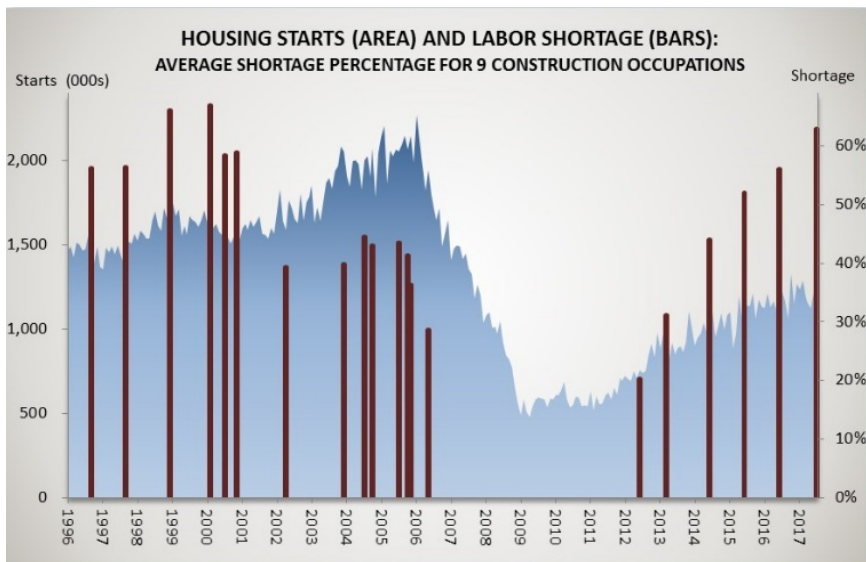
This has not always been the case, Emrath says. Across the nine trades that the NAHB has covered consistently since 1996, labor and subcontractor shortages have historically tracked each other relatively closely. "Since 2013, however, a persistent gap has opened, with the nine-trade shortage for subcontractors running 5 to 7 percentage points higher."



Emrath sets forth one possible explanation for the subcontractor deficit. Some workers who were laid off during the housing downturn **started their own trade contracting businesses**, but have now returned to work for larger companies. This would make slightly more workers available for hire while shrinking the pool of subcontractors.

There has been a consistent trend that has carried the nine-trade average shortage for labor from a low of 21 percent in 2012 to 56 percent in 2016, and now 63 percent in 2017. For each of the construction occupations covered in both years, the shortage percentage, for both directly employed labor and subcontractors, increased between 2016 and 2017. The percentage of excavator subcontractors remained roughly the same.

The average shortage across the nine trades is now at its highest since 2000, a year that marked the end of an extended period of strong economic growth and an unemployment rate of 4.0 percent. Emrath says the current shortage seems especially severe relative to housing starts, which have only **partially recovered** from their post-2006 decline.



The historical pattern has been quite consistent within each of the trades as well, with shortages for most occupations more widespread than at any time since 2000. For some, shortages are the worst since NAHB began tracking them. Shortages of directly employed painters for example is at a record high as are subcontractors in painting, framing, and electrical work. For excavator contractors the 2016 and 2017 shortages are essentially tied for **worst all time**.