

Projected Slowdown in Labor Force Growth Suggests Weaker Future Housing Activity

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“Even using optimistic assumptions about future labor force participation rates, we project that workforce growth between 2012 and 2025 will be well below the historical average.”

Introduction

Fannie Mae’s Economic and Strategic Research (ESR) group forecasts a healthy rebound in new housing production later this decade as housing markets return to normal.¹ However, beyond that, an anticipated slowdown in workforce expansion suggests more modest prospects for new housing demand and construction than witnessed historically.

Labor Force Growth Downshifts

In the aftermath of the Great Recession, the U.S. labor force shrank for three consecutive years – the only multiyear decline in postwar history.² Although short-term cyclical factors drove some of the recent workforce contraction, longer-term forces –

including the continued retirement of Baby Boomers – will soon usher a prolonged period of slower labor force expansion.

As shown by the light blue line in Exhibit 1, the most recent projections from the U.S. Bureau of Labor Statistics (BLS)³, which are based on the Census Bureau’s 2008 population projections, call for annual labor force growth averaging just 0.6 percent between 2012 and 2025. This compares with average growth of 1.5 percent per year between 1948 and 2012.

Following the release of these labor force projections from BLS, the Census Bureau prepared new population projections that predict slower growth in coming years.⁴ The new projections call for average annual population growth of 0.8 percent between 2012 and 2025, compared with a growth rate of 0.9 percent in the 2008 projections. Reduced immigration accounts for the bulk of the slowdown.

¹ See Brian Hughes-Cromwick’s FM Commentary, *Transitioning to “normal”: What does a healthy housing market look like and how far off is it?* (<http://www.fanniemae.com/portal/about-us/media/commentary/031413-hughes-cromwick.html>)

² The labor force is defined as the civilian noninstitutional population age 16 and older that is either employed or unemployed. To be considered unemployed, a person must be available for work and actively seeking employment. This article uses the terms “labor force” and “workforce” interchangeably.

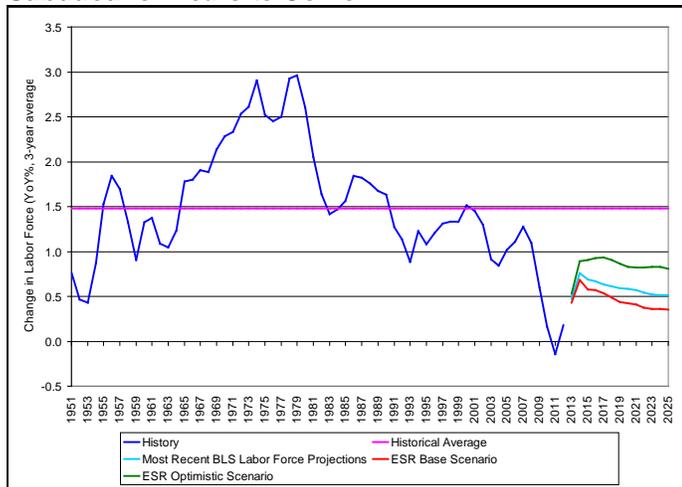
³ Toossi, Mitra, “Projections of the Labor Force to 2050, A Visual Essay,” *Monthly Labor Review* (October 2012), plus unpublished tables provided by the author.

⁴ U.S. Census Bureau, Population Division, Middle Series Population Projections (Table 1. Projected Population by Single Year of Age (0-99, 100+), Sex, Race, and Hispanic Origin for the United States: July 1, 2012 to July 1, 2060), released December 2012.

To assess the implications of these new population projections for future labor force growth, we prepared two workforce projections based on the Census Bureau's most recent population outlook. First, we prepared a base scenario that applies future sex- and age-specific labor force participation rates from the most recent BLS labor force projections to the Census Bureau's new population projections.⁵ As shown by the red line in Exhibit 1, this scenario projects labor force growth averaging just 0.4 percent per year between 2012 and 2025, an anemic rate of increase weaker than that plumbed at the depths of most postwar recessions.

In addition, we prepared a more optimistic scenario that assumes greater increases in participation rates for all sex/age groups between now and 2025 than assumed in the BLS projections.⁶ As indicated by the green line of Exhibit 1, even under the optimistic scenario, projected labor force growth would average only 0.9 percent per year between 2012 and 2025, still well below the historical average.

Exhibit 1. Labor Force Growth Is Expected to Remain Subdued for Years to Come.



Source: U.S. Bureau of Labor Statistics, ESR.

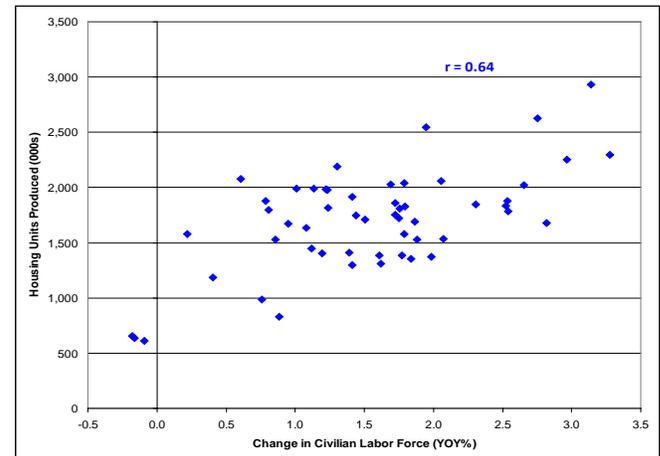
⁵ The labor force participation rate is the proportion of the population in a given sex and age group that is in the labor force. To maintain consistency with the Census Bureau's population projections, we calculated all labor force participation rates using a resident population base.

⁶ See the Appendix for a description of the labor force participation rates used in our projection scenarios.

Labor Force Slowdown Could Be a Drag on Housing Demand and Production

The anticipated deceleration in labor force growth suggests a slowdown in homebuilding activity to meet reduced demand for new housing. As shown in Exhibit 2, historical data covering the last five decades show that new housing production is positively correlated with the labor force growth rate.⁷ The correlation of new housing unit production with the labor force growth rate (0.64) is roughly comparable to the correlation with household growth rate (0.58) and the pace of growth in total nonfarm payroll employment (0.52), but much stronger than the correlation with population growth rate (0.10).⁸

Exhibit 2. New Housing Production Is Correlated with Labor Force Growth.



Source: U.S. Bureau of Labor Statistics, U.S. Census Bureau.

⁷ In Exhibit 2, the y-axis shows the number of new housing units produced (private housing starts plus manufactured home placements or shipments) during a given year, whereas the x-axis shows the percent change in the labor force during the preceding year. For example, housing production during 2012 is paired with the percent change in the labor force between 2011 and 2012. The chart shows data for 1959-2012.

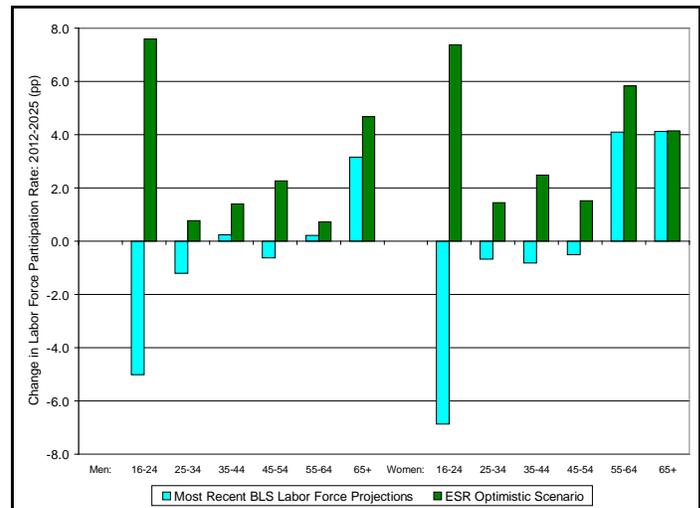
⁸ The statistics in parentheses are Pearson correlation coefficients between the number of new housing units produced and the percent change in each of the other factors. The correlation coefficient ranges from -1.0 to 1.0, with greater values indicating stronger positive associations between variable pairs. In addition to the results presented above, correlations were calculated using: 1) alternative specifications of change (numeric versus percent) for the demographic and labor force variables; 2) housing completions rather than housing starts in the calculation of housing production; 3) household growth estimates from several different sources; and 4) a one-year lead/lag between the housing production variable and the demographic and labor force variables. These alternative calculations did not alter the findings. Results of all calculations are available from the authors upon request.

Given the positive correlation between housing production and labor force growth, the anticipated marked slowdown in workforce expansion in coming years implies weaker housing demand and homebuilding activity than observed in the past.

Appendix: Description of Labor Force Projection Scenarios

Our base scenario applies age- and sex-specific labor force participation rates from the current BLS labor force projections to the Census Bureau's 2012 population projections. Our optimistic scenario also uses the Census Bureau's 2012 population projections, but does not use the BLS labor force participation rates. Rather, it assumes that between 2011 and 2025, participation rates for persons under age 55 recover three-quarters of the percentage point decline experienced between 2000 and 2011 and that participation rates for persons age 55 and older increase by the same amount as they did between 2000 and 2011. This assumption entails larger increases in labor force participation rates than those assumed in the current BLS labor force projections, particularly for young adults (see Exhibit 3).

Exhibit 3. Changes in Labor Force Participation Rates.



Source: U.S. Bureau of Labor Statistics, ESR.

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