



Weak Labor Market Affects Housing Trends

By Frank Nothaft, Freddie Mac Chief Economist

The employment report for November may have been an indication that the labor market is nearing a turning point after 23 consecutive declines in payroll employment – a cumulative loss of 7.2 million jobs. In the November report, non-farm payrolls fell by only 11,000 and unemployment dipped to 10 percent. Still, the October and November unemployment rates were the highest since mid-1983. A broader measure of underemployment, which includes part-time workers who want full-time jobs, discouraged workers and people marginally attached to the labor force, eased slightly to 17.2 percent. While the November report suggested that employment gains are more likely in the first quarter of 2010, the data also showed that the share of the unemployed that were out of work for more than six months rose to 38.3 percent. This was the highest share since such data began to be collected in 1948; the long-term unemployed are an increasing concern, as job market skills may depreciate over time.

The sharp cut in payrolls over the past two years, however, has also allowed businesses to slash their labor costs. The U.S. Department of Labor has reported that productivity and costs improved for the third quarter, with productivity surging at a 9.5 percent annual rate. While output was up 4 percent, hours worked by employees fell; the resulting productivity improvement reduced unit labor costs by 5.2 percent. While job cuts have had severe consequences for families, they are also contributing to a dramatic turnaround in the financial position of many American businesses.

The weak labor market has affected some demographic groups more than others. Workers with less job-market experience often feel the effects first and hardest: the unemployment rate for teenagers was 26.7 percent in November, and for 20-24 year olds it was 16 percent. Many in these two groups are forming households and entering the rental market for the first time. With high unemployment rates, many either postpone household formation or move back with family and friends, leaving rental apartments vacant that they had or shared. Coupling reduced household formations with tax credit incentives for first-time buyers who have sufficient financial reserves to buy, the rental vacancy rate has moved up. The Census Bureau has reported that its measure of rental vacancy in buildings with 10 or more apartments hit a record of 13.5 percent in the third quarter. Further, apartments built in the past decade experienced the highest rental vacancy rate, 23.2 percent, reflecting in part the slow rental rate of newly built dwellings.

As a result of rising vacancies and a lack of opportunity to increase rent, the National Multi Housing Council reported in their quarterly survey that rental conditions as a whole were 'looser' as of October. The National Council of Real Estate Investment Fiduciaries apartment index found that multifamily property values in the U.S. were down about 29 percent from their mid-2008 peak. The relatively weak rental market coupled with declines in multifamily property values has led to a rise in multifamily loan delinquencies. According to the Federal Deposit



Insurance Corporation, as of September 30, insured depositories report that the share of multifamily loans that were 90 days or more delinquent or in nonaccrual status rose to 3.58 percent, the highest since 1993 and more than double the rate a year earlier.

December 18, 2009

www.freddiemac.com/news/finance

chief_economist@freddiemac.com

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose. The information is therefore provided on an "as is" basis, with no warranties of any kind whatsoever.

Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited.

© 2009 by Freddie Mac.