Economics

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BUILDER

COVID-19 Update: 'Duration' Will Be What Matters

Ali Wolf and Tim Sullivan examine the state of the industry and the K-shaped recovery in the latest COVID-19 Update webinar.

By Mary Salmonsen


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Overall, approximately 40% of the economy has “recovered” from the shock of the pandemic, with housing among the brightest spots in the recovery, according to this month’s COVID-19 Update Webinar by Meyers Research. The “headline,” or U-3, unemployment rate, stands at 10%/11%, while the U-6 unemployment rate stands closer to 17%.

Currently, both rates are tied with those at the height of the Great Recession. From here, says Meyers Research chief economist Ali Wolf, “duration” will be what matters, as the Great Recession sustained its high unemployment rate for many years.

"I believe the next three jobs reports will tell us the direction of the economy for the next two years," Wolf says. "If we continue to add at least 1.5 million jobs in August, that is great news for the economy … if we see the number at a million or even going negative, that should put you on high alert."

Mismatch Between Labor and Housing Trends

The economy added 1.8 million jobs in July, marking a pullback in job recovery from June, when the economy added 4.7 million jobs. (The August data is due out Sept. 4.) Total nonfarm payrolls remain well below pre-COVID levels, down approximately 13 million jobs from February. Of the 1.8 million jobs added in July, one-third were added in leisure and hospitality. Construction employment has recovered to 60% of its pre-COVID-19 levels.

Initial jobless claims still hover near 1 million per week, dipping below 1 million for the first time since March for the week of Aug. 8 before rising again for the week of Aug. 15. Continued claims remain at 14.8 million.

Wolf notes that unemployment rates vary widely based on educational attainment. The unemployment rate for workers with less than a high school diploma stands at 15.4%, while workers with a bachelor's degree and above have a 6.7% unemployment rate. However, she cautions that unemployment rates across educational attainment groups are still at their highest in the history of the data set.

For Wolf, one of the great differentiators between the Great Recession and the COVID-19 shock is the number of "permanent job losers," which stand far below Great Recession levels and flattened out in July.

The Most Confusing Economy of Our Time

While Wolf expects the economic recovery to continue to follow a "swoosh" shape, she notes that contained within that shape is a "K-shape," reflecting how recovery has come quickly to some sectors and very little—or not at all—to others. The "top half" of the K includes housing, online retail sales, the stock market, and employees who can work from home and save money, while the "bottom half" includes in-person retail, travel, conferences, working parents, employees who can't work from home, and persons vulnerable to COVID-19.

According to Wolf, businesses at the bottom of the K are performing at a 70% to 90% loss, while industries at the top of the K are seeing 40% to 60% increases in revenue. She does not foresee the top of the K serving as a "rising tide" for the rest of the economy until a solution is found for COVID-19—a process that continues apace.

According to the New Home Pending Sales Index by Meyers Research, home sales rose by 33% YOY in July. At the same time, nearly one in six FHA mortgages has fallen delinquent—reflecting both sides of the K-shaped economy.

July was a record-breaking month for some builders in terms of sales, with some of the strongest sales growth in Colorado, Utah, and the Northwest. Total listings have grown tighter across the country, with 50% to 60% decreases in the active listing count in some areas. Wolf attributes this to homeowners choosing to refinance instead of sell, combined with an incredibly high demand for homes. Active listings are spending less time on the market overall with some, she surmises, selling so quickly that data sets aren't even picking them up. This, Wolf says, could account for record high transactions despite very low inventory.

Given this trend in the existing home space, new homes are seeing a large market share gain this year over 2019. However, a series of disruptions may affect new-home construction's momentum moving forward. Almost half of builders are still seeing disrupted government services, and supply issues are on a meteoric rise, with 81% of builders saying material supply disruption will affect their sales plan moving forward—up from 49% in late July and 30% in early June. Wolf attributes this to trades that are going out of business, appliances in short supply, and staggering lumber price increases—up over 100% since mid-April.

As of Aug. 26, the lumber price increases between March and August add approximately $14,000 to the price of a new home—another large impact on housing affordability. Roughly 60% of active new-home shoppers report affordability as their greatest concern, according to Meyers Research consumer insights, followed by an inability to find a home at 51%, and concern for COVID-19 at 48%.

Overall, while Wolf foresees sustainability in the housing market in the short and long terms, the next six to 18 months remain "questionable," given a lack of inventory combined with seriously low mortgage rates, the wealth effect, and healthy home equity. "We're going to monitor these [categories], and we're going to tell you if they're trending up, trending down, or trending flat. That'll give us an idea of how sustainable it is," she says.

Real-Time Housing Stats

Based on conversations with Meyers Research's builder partners, senior managing principal Tim Sullivan reports that lumber prices, consumer confidence, and "election jitters" are among the biggest concerns for builders as the summer draws to a close.

Fifty-two percent of builders reported significantly or slightly improved contract volume from one week to the next. Twelve percent of builders kept base prices flat week over week, while 87% of builders increased prices—up from 61% last month. Six percent of builders increased incentives week over week, and 6% reported a rise in cancellations.

Almost half of builders reported stronger backlog than they had expected, while 38% said they are on track to meet plan. According to Sullivan, builders are in a "mad dash" to find new land or lots, with 46% actively bringing in new land and 32% moving forward with planned acquisitions. Over half of builders are sticking to their initial spec plans, but 23% are building more than they had originally planned.

The next COVID-19 Update Webinar will take place Sept. 23 at 2 PM EST / 11 AM PST. Click here to register.

About the Author

Mary Salmonsen is a graduate of the S.I. Newhouse School of Public Communications at Syracuse University. As an associate editor with Hanley Wood's Residential Construction Group, she covers demographics, local markets, and finance for *Builder* and *Multifamily Executive* magazines.