**Note to Employers: the Construction Labor Market Not as Tight as Advertised**

Numerous recent news stories describe the labor market for construction jobs as excessively tight. Construction employers struggle to find blue-collar workers, these stories claim, and therefore are supposedly [offering luxurious compensation packages](https://www.bloomberg.com/news/articles/2017-06-27/want-a-1-million-paycheck-skip-college-and-go-work-in-a-lumberyard) to entice people to take jobs in the industry, or being [forced to turn down work](https://www.wsj.com/articles/labor-shortage-squeezes-real-estate-developers-1498595109). These employers and journalists often make basic errors when telling these stories. They conflate blue- and white-collar workers, and many never even think to ask whether employers have tried to raise wages to find workers. While there may be labor shortages in specific areas, and there may be some anecdotal evidence that some employers have a hard time finding workers, the data point to another possibility: in the industry as a whole, management do not consider using wage hikes to find workers and instead plead for policies that keep new workers coming in while wages remain low. In fact, [some construction employers](http://cepr.net/blogs/beat-the-press/lessons-on-labor-economics-for-the-owner-of-a-roofing-company-in-nebraska) directly say they can’t or won’t raise wages.

**The tight construction labor market doesn’t show up in data**

If a labor market is “tight,” a few things should happen and show up in economic data. First, there will be very few skilled unemployed people. In a tight labor market, employers will take more steps to find and hire the people who are looking for work and have skills the employers need. One way to measure this tendency in the construction industry as a whole is to calculate the ratio of unemployed construction workers to the number of construction job openings. Currently, there are more than three unemployed construction industry employees per opening. This is almost triple the ratio for all jobs, meaning the construction sector is nearly three times as likely to have unemployed workers available as the average for all sectors. While this data does not look specifically at blue-collar, unskilled and skilled workers that are often talked about, the results likely hold for these workers, which make up 75% of industry employment. Some set of the non-production employees and managers, including accountants and other office staff, are also more likely to quickly find work outside of the field than those with expertise that is more industry-specific.

Second, in a tight labor market construction workers who are already hired will be given additional hours. Since a tight labor market makes it difficult to find and hire new staff, those already employed will often have to work more to compensate. This shows up in economic data as average hours worked per week. Construction industry hours worked, on a seasonally adjusted basis, are currently near their lowest level since 2014. If the labor market were excessively tight, management would be incentivized to offer more hours to existing workers. Recent data do not confirm this possibility for the construction industry at large, and show that managers have been offering fewer hours over the past year. This suggests the same for blue-collar workers in the industry.

Perhaps most importantly, real wage growth should be strong if the supply of available workers is far below the demand for workers. Managers can simply raise wages to pull workers in from other locations and industries and entice workers on the sidelines to apply. Wages are what adjust to changes in the fundamental supply and demand relationship in labor markets. Looking at the data on production and non-supervisory workers, real wage growth in all sectors has been weak and construction is no exception. The most recent data on average hourly earnings, adjusted for inflation, show annual real wage growth of 0.69 percent for the construction sector compared to 0.63 percent for all jobs. The story of strong wage growth just doesn’t hold up.

On a national level, the data doesn’t support the notion that there is a labor shortage for construction workers, which follows from [previous CEPR research](http://cepr.net/blogs/cepr-blog/is-there-a-labor-shortage-in-the-construction-industry). This is not to say that specific geographic locations could not be experiencing shortages, but the overall story that is reported does not hold up when looking at the evidence.

**Policies can increase the supply of workers without higher wages**

Executives face many options for influencing their industry’s labor market. The obvious options, to offer more hours and higher wages to increase the available supply, are not being applied according to recent data. What does seem to be happening could perhaps be described as lobbying for labor policies that are more favorable for management. Construction industry associations consistently promote these policies and the labor shortage narrative, even in the years right after the Great Recession, when the labor market was obviously very loose.

Policies around funding for worker training and immigration can both affect the supply of workers in ways that allow the industry to avoid increasing wages or offering more hours (the latter can be expensive if the additional hours require more benefits to be offered or trigger overtime pay). The construction industry has pushed [effectively](https://www.agc.org/news/2017/06/22/house-passage-perkins-act-legislation-important-step-addressing-growing-construction) for federal and state funding of job training programs to be shifted towards construction industry skills. The industry narrative of a tight labor market is used to encourage the policymakers who dedicate job training funding to put more into training new construction workers. Government funding for this training costs the industry much less than training new workers themselves.

Additionally, a tight labor market narrative has been used to [increase](http://www.constructiondive.com/news/truly-no-better-option-h-2b-visas-for-construction-workers-spark-industr/421224/) the number of H2-B work visas issued. Such visas as usually reserved for instances where the demand for a certain set of skills exceeds the domestic supply. With so many unemployed experienced construction workers, it seems like a stretch to conclude that the industry can’t find enough qualified workers.

**But construction work tends to be more seasonal and cyclical**

One consequence of policies that increase the supply of available construction workers comes from characteristics of the construction industry that make it more seasonal and more cyclical than other industries. Simply put, construction work is slower in the winter in much of the country, and more susceptible to layoffs during economic downturns. This means that training and visas programs to increase the number of available workers might be better suited for industries that are more stable in their employment opportunities.

A policy-related push to increase the number of people with construction-related skills may have the unintended consequence of increasing unemployment during slow months and economic downturns. This would allow continued wage stagnation to worsen and result in a labor market that is only more slanted towards employers.

Instead, perhaps there should be a training program, sponsored and financed by the construction industry, for employers. This program could address the well-documented [skills](http://cepr.net/blogs/beat-the-press/how-about-the-stupid-boss-theory-of-why-it-takes-so-long-to-fill-vacant-jobs) [shortage](http://cepr.net/blogs/beat-the-press/more-evidence-of-a-skills-shortage-among-employers) among construction employers and train them in basic economics, for example, teaching them that offering higher wages will undoubtedly lead to more qualified workers applying to their open positions. It could also teach them that the supposed “[skills mismatch](http://cepr.net/blogs/beat-the-press/the-skills-gap-that-always-explains-unemployment)” between unemployed workers and open positions, which is frequently used to explain labor shortages, not only doesn’t fit the data, it does not really apply to the industry, which can train workers for most jobs relatively quickly.

As for the government’s role, it could pursue policies that make often-difficult construction jobs more attractive to workers. This could include mandating vacation and sick leave, improving the Affordable Care Act, and strengthening workers’ compensation and disability programs. These are important policies that would make more construction jobs “good jobs” and lead to more workers applying for them.

**Possible additions:**

Number of jobs added (BCJT)

Add a note on interest rate increases and construction slowdown?

Difference between other industries—health care, finance, information services all have worker protection groups that try to keep money out of visas and training.

Chart?

Higher wages yield higher productivity.

<https://www.nytimes.com/2017/07/07/opinion/yes-the-trump-administration-has-ideas-and-some-are-ok.html?mcubz=0>

<https://ftalphaville.ft.com/2016/03/29/2157698/ranking-americas-industries-by-profitability-and-tax-rate/>

http://cepr.net/blogs/cepr-blog/is-there-a-labor-shortage-in-the-construction-industry

http://cepr.net/blogs/beat-the-press/lessons-on-labor-economics-for-the-owner-of-a-roofing-company-in-nebraska

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