

Capital Idea #6

How the housing boom masked a weak job market

The economic downturn exposed a secular, decades-old downward trend in manufacturing employment

- The housing boom temporarily masked a long, steady decline in low-skill manufacturing jobs, and may have even diverted young workers away from the path to long-term employment, [according to research](#) by Chicago Booth's **Erik Hurst** and **Matthew J. Notowidigdo**, with Kerwin Kofi Charles of the Harris School of Public Policy at the University of Chicago.
- The researchers analyzed labor and housing market data for 237 large US metropolitan areas, focusing on prime-age workers without a four-year college degree.
- During the 2000–07 housing boom, the share of men working in construction rose by about 5 percentage points. At the same time, there was a 5-percentage-point drop in the share of men working in manufacturing (see chart).
- This masking effect, visible in the aggregate, is observable even on an individual level. In many cities, a man who had lost a job in manufacturing was likely to find a job related to the housing boom, often in construction.
- The housing bust undid much of the employment gains from the boom, so housing actually explains little of the overall increase in nonemployment (those not employed who are actively seeking work and those who are not) in the 2000s, while manufacturing explains 40% of the increase, the authors find.
- The authors' ongoing research indicates that during the boom years, many recent high-school graduates chose work over community college, and did not resume their education when the boom ended. A college degree would have arguably raised their longer-term job prospects.

Decline in low-skill jobs

Employment share of 21–55-year-old men without a four-year-college degree, %

— Manufacturing + Construction
— Manufacturing
— Construction



Source: Charles, Hurst, and Notowidigdo, 2013

Research suggests that housing contributed little to the aggregate increase in nonemployment in the 2000s, while manufacturing contributed about 40%.

Kerwin Kofi Charles, Erik Hurst, and Matthew J. Notowidigdo, "Manufacturing Decline, Housing Booms, and Non-Employment," Working paper, April 2013.

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