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Recent College Graduates and the Job Market

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In the recent recession and recovery, the unemployment rates, part-time employment trends, and earnings growth of recent college graduates have closely mirrored the patterns they displayed during the cyclical recession of 2001 and the subsequent jobless recovery. Recent college graduates are typically not subject to structural frictions that can contribute to weak labor markets, such as mismatches between the skills of job seekers and the needs of employers. Similarities in the labor market experiences of recent college graduates in the two recessions and recoveries suggest that the current high unemployment rate is primarily cyclical.

Although the U.S. economy is recovering from the 2007–09 recession, the labor market remains weak. The unemployment rate was 8.9% in February 2011, down more than a percentage point from its peak in 2009, but about four percentage points higher than before the recession. Some economists have concluded that this persistently high unemployment rate is due largely to structural frictions in the U.S. labor market rather than to weak demand for workers associated with the severe recession (Kocherlakota 2010). Generally, such structural frictions arise from mismatches between workers and employers. A common example of a mismatch occurs when employers are looking for skills that are different from those that available workers offer. Another type of mismatch occurs when jobs are available in geographic regions with few qualified job seekers (see Daly, Hobijn, and Valletta 2011 and Weidner and Williams 2011).

One way of testing whether such structural factors are important in the overall labor market is to examine a segment of the market that is not subject to these constraints. Recent college graduates for the most part don't experience skill and geographic constraints because they tend to be highly educated and mobile (Pianalto 2010). Thus, if structural unemployment were the principal factor accounting for labor market weakness in this downturn, then the job market for recent college graduates would be relatively stronger than in a mainly cyclical downturn. In this *Economic Letter*, we analyze the extent of structural constraints on employment by comparing current trends for recent college graduates with the trends that prevailed during the recovery after the 2001 recession, a labor market downturn that was mainly cyclical in nature. We find that the labor market for recent college graduates is equally weak or even weaker than the overall market, just as in the 2001 recession and its aftermath. The weakness of the current labor market for college graduates is reflected not only in the unemployment rate for this group, but also in their part-time employment rate and earnings. This indicates that structural factors are of minor importance for current unemployment.

Data and methods

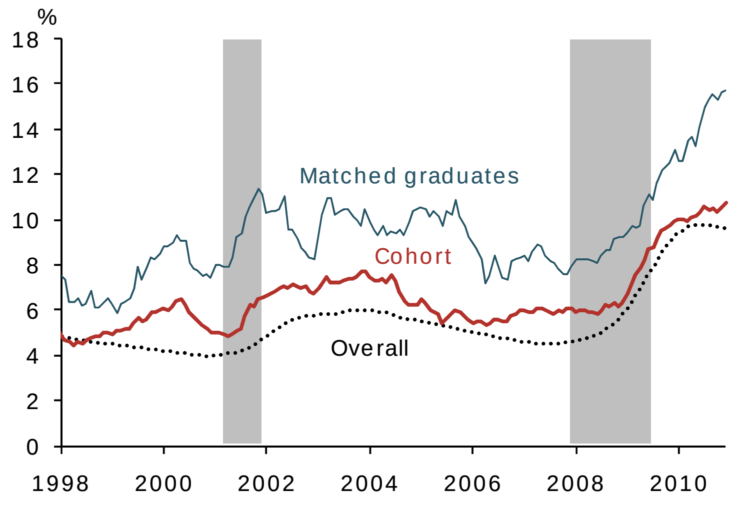
We use person-level micro data from the Current Population Survey (CPS), which is the source of the unemployment rate published by the Bureau of Labor Statistics and other aggregate labor market statistics. Unfortunately, the CPS does not provide precise information on when an individual graduates from college. As an alternative, we consider two proxy samples of recent college graduates. The first, which we call the "cohort sample," consists of all 21–23 year olds with a bachelor's degree. Though we don't know their graduation dates, we assume they recently obtained their degrees. The second, called the "matched graduates" sample, consists of 21–25 year olds who have a bachelor's degree but did not have one 12 months before. Because of the way the CPS is constructed, we can only analyze individuals over time if they have continued to live in the same residence. Thus, the matched graduates sample includes only former students who graduated during the past 12 months and who stayed in the same residence, such as commuter students or those who found employment locally. We include 24 and 25 year olds to increase the sample size.

Of our two proxy samples, the cohort group is broader because it includes recent graduates who moved after they got their degree or who graduated more than a year ago. Among cohort group members who were in the CPS a year earlier, 70% had a bachelor's degree and 30% did not have such a degree a year before. Thus, the cohort group includes individuals who have been at their jobs longer or been able to search longer. Because of the smaller size of the matched graduates sample, the results for the group tend to be more volatile than for the cohort sample. Both of these samples have advantages and limitations. However, both samples point to the same conclusion: the labor market opportunities of recent college graduates deteriorated to a similar extent in both the current downturn and the 2001 recession and recovery.

Economists have cited several structural factors that might be pushing the unemployment rate higher than would normally be expected at this stage of the business cycle. In addition to the previously noted mismatches, the temporary extensions of unemployment insurance (UI) benefits up to 99 weeks could be increasing the unemployment rate. However, the UI extensions barely affect recent college graduates because, as new entrants to the labor force, they generally are not eligible for benefits. Even if a graduate worked during college, the individual would be ineligible for UI benefits in most states if he or she worked part time or through work-study.

As previously noted, recent college graduates are much less subject to structural factors, such as mismatches and the effects of UI extension, than other workers. Therefore, if structural factors were contributing prominently to the run-up of the overall unemployment rate, then the increase for recent college graduates should be less pronounced than that for other workers. Figure 1 shows this is not the case. During the labor market contraction, from the beginning of the recession until now, the 12-month moving average of the unemployment rate of the cohort sample bottomed out at 5.8% and peaked at 10.7%. The matched graduates unemployment rate

Figure 1
Unemployment rate (12-month moving average)



Sources: Current Population Survey (CPS) and authors' calculations.

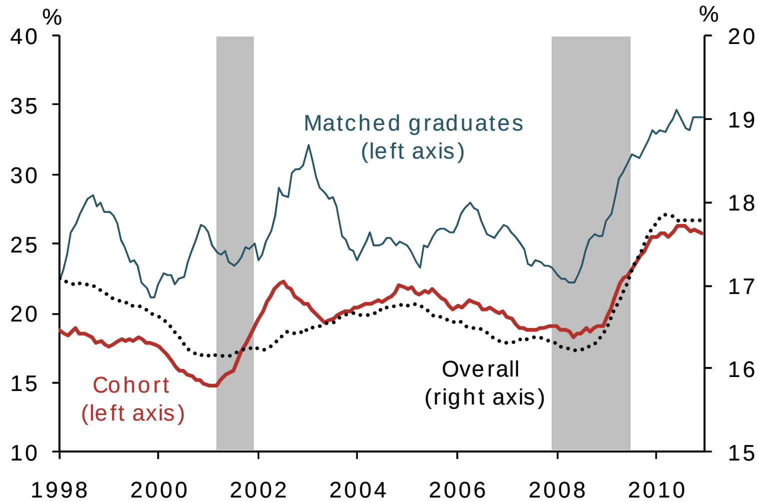
registered a minimum of 7.9% and topped out at 15.7%. Just like the labor force as a whole, recent college graduates have seen a near doubling of their unemployment rates. This pattern is similar to the labor market experience of recent college graduates during the cyclical recession of 2001.

We also consider the time paths of the unemployment rates of the two recent college graduate proxy samples and the labor force as a whole during the recovery. The overall unemployment rate has fallen in the past few months, while both the cohort and the matched graduates unemployment rates have continued to rise. This reflects ongoing weakness in employment prospects, similar to what happened during the recovery following the 2001 recession, when the decline in the unemployment rates of recent college graduates also lagged the drop in the overall rate. The fall in the unemployment rates of recent college graduates tends to lag because much of the hiring in the early stages of the recovery involves employers bringing back people who previously worked for them.

Hence, the current unemployment rate trends are reminiscent of the 2001 recession and the subsequent jobless recovery that continued through 2004 (Daly, Hobijn, and Kwok 2009). This holds for both the overall unemployment rate and for those of recent college graduates, suggesting that structural factors are not quantitatively important in driving the overall unemployment rate, just as they were largely irrelevant after the 2001 recession.

The weakness in the labor market for recent college graduates is also evident in the case of those who do become employed. Figure 2 shows the percentages of employed cohorts, matched graduates, and total labor market participants that hold part-time jobs. Notably, the part-time rates for both groups of recent college graduates began to increase significantly during the current recession, just as they did during the 2001 recession. This means that, of the recent college graduates who become employed, an increasing number took part-time jobs, a sign of underemployment. Since the beginning of the recession, the overall part-time employment rate increased from 16.3% to 17.8%. At the same time, the part-time rate of the cohort sample increased from 19.1% to 25.7%, while that of the matched graduates sample increased from 23.4% to 34.1%. In this dimension, college graduates have fared worse than other labor market participants, similar to what took place in the 2001 recession.

Figure 2
Part-time employment (12-month moving average)

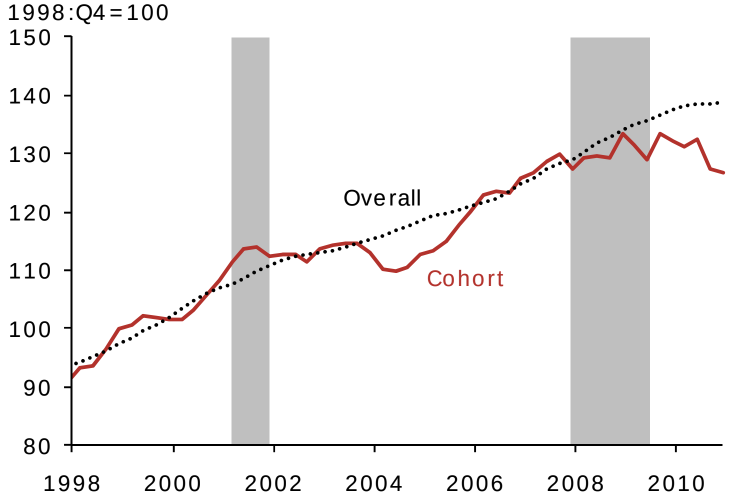


Sources: CPS and authors' calculations.

So far, we have looked at recent college graduates who are unemployed or unable to find full-time employment. Figure 3 shows that the weak labor market has also limited the wage growth of those who are employed full time. The figure displays only data for the cohort group. Earnings data are available only for a subset of the already-small matched graduates sample, so it would be difficult to draw statistically meaningful conclusions.

If structural constraints were at play, the wage growth of a labor-force subgroup with general skills and high mobility, such as recent college graduates, would outperform or be in line with wage growth in the overall labor market. That's because recent college graduates are more mobile and adaptable, and are more able to make the adjustments needed to take hard-to-fill positions. However, recent college graduates are not seeing above-average earnings growth. Recent graduates with full-time positions are currently making about as much as workers who had just graduated from college at the end of 2007, when the recession began. In contrast, earnings for the average worker grew 7.3 % over the same period. This drop in the relative earnings of recent graduates has been particularly steep in recent months, similar to what was observed in the 2001 recession. Importantly, the relative wages of recent college graduates continued to decline during that downturn until well into the recovery. Since the current recovery has not yet reached a comparable stage, we expect continued downward pressure on the relative wages of recent graduates.

Figure 3
Median weekly earnings for full-time workers (Four-quarter moving average)



Sources: CPS and authors' calculations.

The effect of the very weak labor market for recent college graduates is likely to go beyond their current employment and earnings prospects. Graduating from college during a recession has significant and persistent negative effects on future earnings (Kahn 2010 and Oreopoulos, von Wachter, and Heisz 2010). Given the current weak labor market, we expect the labor market outcomes of the recent college graduate cohort to remain depressed well into the future.

Conclusion

The current labor market outcomes of recent college graduates closely mirror those observed during the 2001 recession and the subsequent jobless recovery. This is important because recent college graduates are not subject to the kinds of structural factors that have been posited as the main sources of weakness in the overall labor market. Unemployment rates during the 2001 recession are widely recognized as cyclical in nature. Similarities in the experiences of recent college graduates in the labor market during the two recessions and recoveries are evidence that high unemployment rates in the current downturn and recovery are also mainly cyclical.

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