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Economics Group

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 374-7034
Sarah Watt, Economic Analyst
sarah.watt@wellsfargo.com • (704) 374-7142

Employment: Beyond the Sound Bites—Reading the Signals II

Sometimes life is unfair and so too goes the labor market. Labor market weakness in the latest recession has been compounded by long-term changes in the supply and demand for labor. Education is the dividing line.

Unequal Education = Unequal Recession

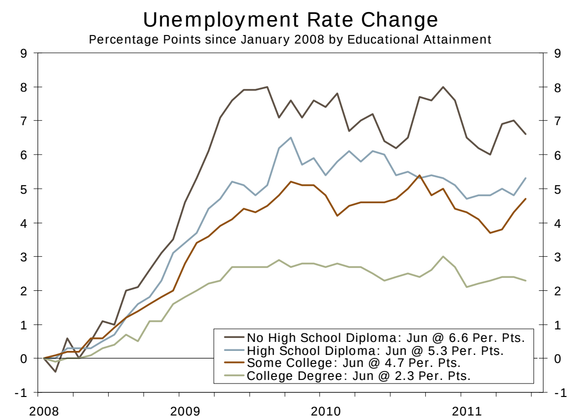
Is there a 21st century job for the 20th century worker? The severity of the past recession has had broad-based and unequal effects among workers. The rise in unemployment has been highly uneven across subgroups since the start of the recession, with educational attainment the driving factor for stark differences in joblessness (top chart). College-educated workers have fared significantly better than their less-educated counterparts in the 21st century job market. Unemployment for college grads was 4.4 percent in June compared to 14.3 percent for workers without a high school diploma and this large gap has persisted between the two groups, averaging 10 percentage points since 2009. While unemployment has historically been higher for workers with less education, the marked widening between educational groups since the 2007 recession is a departure from the 2001 recession when unemployment rose by a similar magnitude across groups. As employers have had to make tough decisions about firing and hiring since the onset of the recession, their preference for education has been clear. Bachelor's degree holders now account for 37 percent of employed workers compared to 34 percent at the start of the recession. Much of this shift has been driven by the need for well-educated workers in the industries that have been adding jobs during the recovery; half of the jobs added since employment bottomed have been in the professional & business services and education & health services industries.

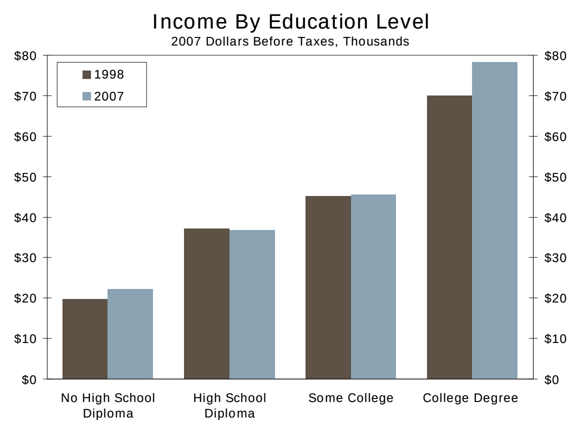
Dual Returns to Education: Higher Income and Lower Unemployment

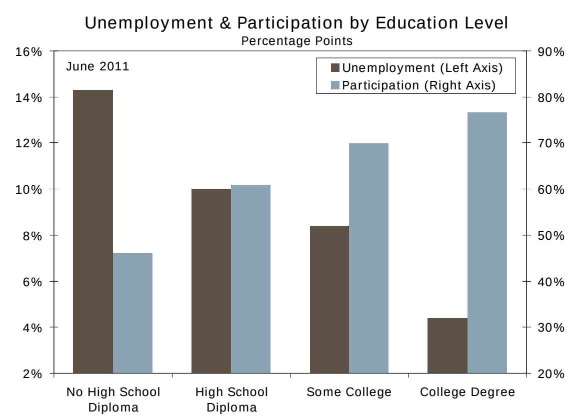
Labor market outcomes by education level are not only evident in the unemployment rate, but also in earned income. The income of college graduates is more than double the income of workers with only a high school diploma (middle chart). Furthermore, college graduates have seen an increase in real income over the past decade, whereas the income for non-college graduates has been flat. Education pays not only in job prospects, but in the paycheck of those jobs.

Hard Realities: Fewer Jobs for the 20th Century Worker

Fewer job prospects and lower wages for less-educated workers in the 21st century has been accompanied by higher rates of unemployment as well as lower rates of participation in the workforce (bottom chart). As employers continue to seek workers who are able to add value in a more knowledge-based economy, fewer opportunities will be available for low-skilled/semi-skilled workers—often associated with those without a high school diploma. Younger generations have a higher share of college graduates, but with only 30.5 percent of 25-34 year olds having college degrees, there is still great variation in educational attainment and this variation is a driving factor for rising incomes differences.







Source: U.S. Department of Labor, Federal Reserve Board and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
Paul Jeanne	Associate Director of Research & Economics	(443) 263-6534	paul.jeanne@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Tyler B. Kruse	Economic Analyst	(704) 715-1030	tyler.kruse@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com

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