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Why is the job market so tough for recent college graduates?

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There are many reasons why commencement speakers talking up AI may expect some boos from the crowd this year, but for now, AI taking their jobs should probably not be one of them.

A college degree has long been a reliable form of insurance against unemployment, with graduates more competitive in the labor market and more likely to land a job on their desired track. That advantage has, curiously, now reversed. A recent graduate today is more likely to be out of work than the average American, with an unemployment rate of 5.6% against 4.2%.

The popular narrative is that AI is automating the entry-level tasks firms once handed to junior workers. But employment trends suggest a different structural force at work: the jobs graduates want are not the jobs the economy is short of, and this mismatch has been building well before ChatGPT.

Among young workers, the strain is specific to recent grads

If AI were broadly eroding demand for young workers, the damage would show up across the whole cohort, yet young workers are not unusually stressed. Unemployment for 20-24 year-olds runs around 8%, only modestly above its 2023 low of 6%, and labor force participation has held steady. The low-hiring market may feel unwelcoming to young people, but the strain is specific to recent college graduates, not entry-level workers broadly.

A skills and preferences mismatch

Hiring has narrowed meaningfully in recent years and shifted away from the jobs graduates typically aim for. Since the start of 2025, payrolls have grown just 26,000 a month, almost entirely led by private education and health services (+56,000) while finance, professional services, tech and government have been shrinking. The “care economy” is projected to continue demanding significant workers, but mostly in lower-wage home- and personal-care roles that don’t require a degree.¹ Meanwhile, more coveted sectors are pulling back, whether for macro reasons or in anticipation of AI automation, with tech employment down about 11% from its 2022 peak.

Remote work may be working against graduates too. NY Fed researchers estimate that the spread of remote and hybrid work explains roughly two-thirds of the recent rise in young-graduate unemployment, as it’s harder to mentor and ramp up a new college grad on a remote team.²

It’s not that the economy has a college education problem so much as a mismatch problem, and one that current policy and societal preferences seem unlikely to resolve soon. Demand for college-educated workers is simply not rising as fast as the supply of new graduates each year, which

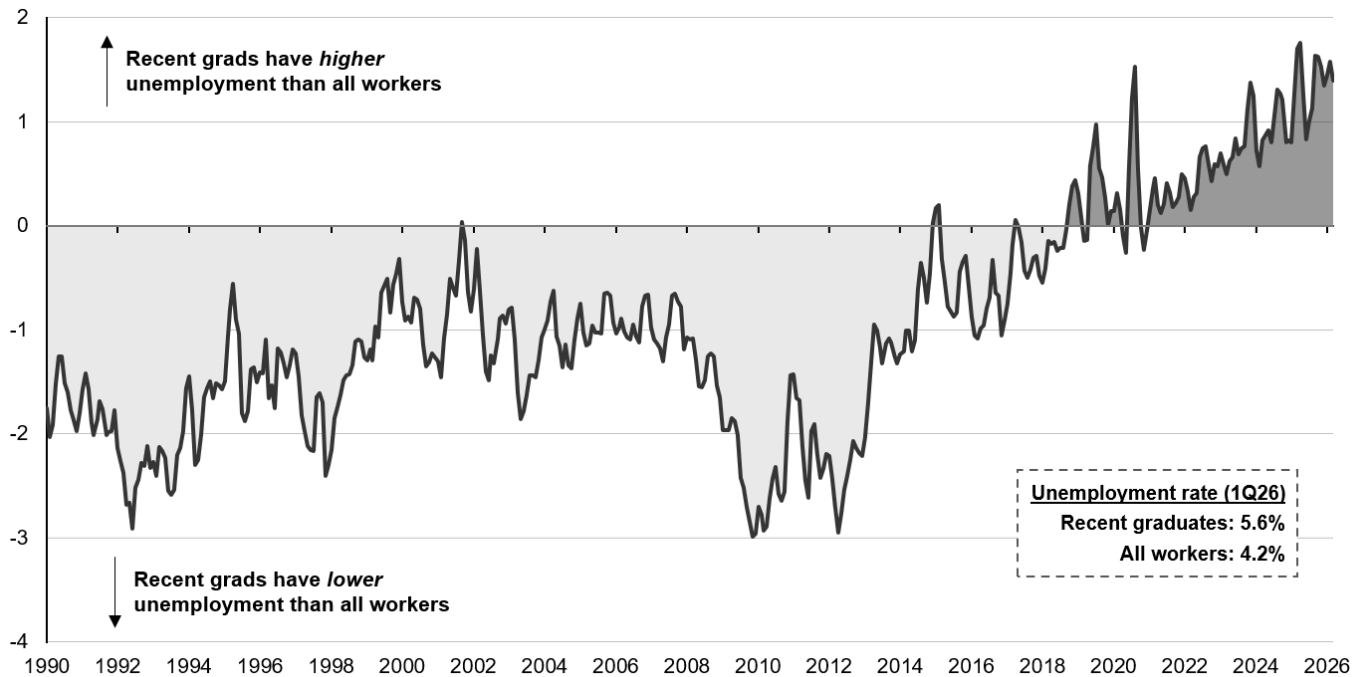
makes the competition for those jobs fiercer. In 2024, just 30% of jobs in the U.S. required a bachelor's degree or higher compared to 40% of young adults aged 25-29 that had attained one. Immigration policy has also widened the gap, curtailing the inflow of relatively lower-wage and lower-skilled labor into the economy.³

None of this rules out an AI labor shock in time. Many of the white-collar jobs graduates desire are precisely the ones most exposed to AI, and companies are increasingly citing AI as a reason behind layoffs. However, history offers us reason to expect AI's impact to evolve over time in unexpected ways. Banks hired more tellers as ATMs spread across the country, just for different tasks, and today's radiologists are more in-demand than ever despite AI radiology tools in growing practice.

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Recent-graduate minus all-worker unemployment gap

Percentage points. Below zero = grads do better than the workforce



Source: J.P. Morgan Asset Management, Federal Reserve Bank of New York, The Labor Market for Recent College Graduates; NBER. Recent graduates are ages 22-27 with a bachelor's degree. Data are as of June 2, 2026..

¹ BLS Employment Projections, 2024.

² Federal Reserve Bank of New York, "Remote Work Leaves Younger Workers Sidelined," Liberty Street Economics, June 2026.

³ Congressional Budget Office, "The Demographic Outlook: 2026 to 2056," January 2026.

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