

## Unemployment Trends Less-Educated Workers Hit Hard in Housing Bust

The U.S. housing market's troubles have spread to financial markets, and news reports have focused on broad indicators of Wall Street's distress, such as stock market indexes and interbank lending rates. However, the pinch on Main Street has been impacting low-wage workers for more than two years. High-wage workers are just beginning to feel the heat.

The unemployment rate of workers with less than a high school diploma began to rise shortly after U.S. home prices peaked in the second quarter of 2006. Between October 2006 and November 2008, the rate rose 4.7 percentage points from 5.8 percent to 10.5 percent (*Chart 1*).

In contrast, the rate for college-educated workers was mostly flat until last summer, when it jumped from 1.9 percent to 3.1 percent.

Recent trends in unemployment by educational level follow the pattern of a typical downturn. In general, low-skilled workers are more sensitive to business cycles than high-skilled workers, partly as a result of the industries in which they're employed and partly because low-skilled employees are easier to recruit and train, making them cheaper to lay off in bad economic times

and rehire when growth resumes.

As in previous downturns, cyclical industries this time have included construction and manufacturing, sectors with large shares of low-skilled workers.

### Tech Bust Revisited

The current slowdown differs markedly from the previous U.S. recession. The 2001 tech bust that centered on such industries as telecommunications and electronics was unusual in that it had a disproportionate impact on the unemployment rate of college-educated workers.

The December 2000 to January 2003 time frame spans the tech bust, the September 11 terrorist attacks and the ensuing job-less recovery.

Over that period, the unemployment rate of college-educated workers doubled, rising from 1.5 percent to 3 percent (*Chart 2*). Workers with less than a high school diploma experienced a much smaller increase in unemployment. Those with some college and high school graduates were in the middle.

Telecommunications and dot-com firms went under during the 2000–03 period. Many highly skilled information technology workers were left without jobs. Others took

jobs at lower wages.

Employment in the information sector declined 11.9 percent over that time. To make things worse, economic weakness spilled over into the transportation and hospitality industries following the terrorist attacks.

Texas' job-loss patterns were probably similar to the nation's in 2000–03, suggesting that the burdens of state unemployment were skewed toward more educated workers. The state had above-average employment shares in high tech and transportation, serving as headquarters for many technology companies and three major airlines.

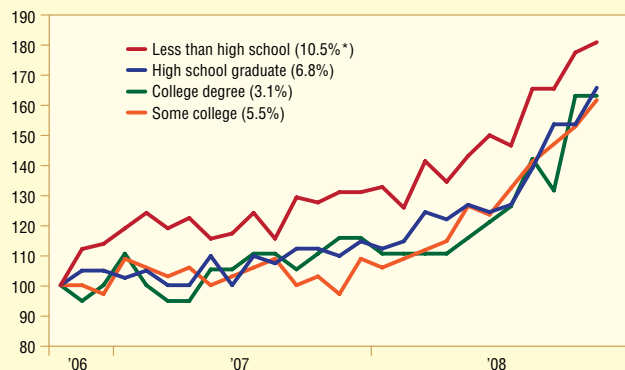
In the current slowdown, less-educated workers have fared better in Texas than in the U.S. State construction employment grew 1.9 percent from January to October, compared with a decline of 6.9 percent for the U.S. from January to November.

Overall, employment rose 1.7 percent in the state through October, while it fell 1.5 percent in the U.S. through November. Even so, sluggishness spread through Texas' labor market this year, with growth down from its 2007 pace for all major job categories except natural resources and mining.

—Pia Orrenius and Mike Nicholson

**Chart 1**  
**Unemployment Surges Among Less-Educated Workers**

Index, October 2006 = 100

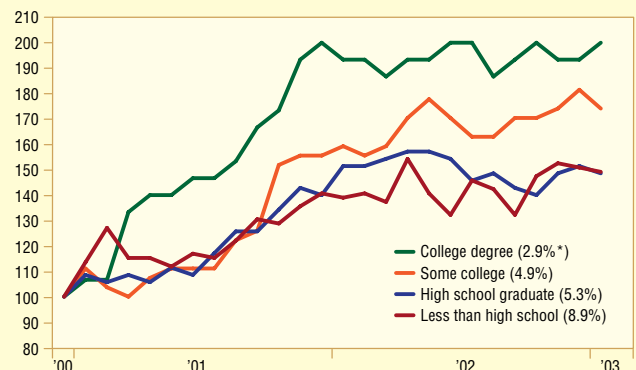


\*Unemployment rate, seasonally adjusted.

SOURCE: Bureau of Labor Statistics.

**Chart 2**  
**Tech Bust Dealt Hardest Blow to Educated Workers**

Index, December 2000 = 100



\*Unemployment rate, seasonally adjusted.

SOURCE: Bureau of Labor Statistics.