

SECOND ORDER

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AI, Capital & Work · A Second Order research briefing

The Entry-Level Puzzle

Workers aged 20 to 24 are unemployed at nearly twice the national rate, three credible studies blame three different causes, and employers cite AI whichever cause holds. The stock data tells us the AI-exposed occupations kept growing, and that firms stopped hiring juniors into them.

FOR DISCUSSION · NOT INVESTMENT ADVICE

Firms can act on this without settling the cause

THE THROUGH-LINE

Issue 02 showed compute budgets crowding out headcount plans, and this issue follows that money to the people it reaches first, those who need a first job. Young workers diverged from the rest of the labor market in 2024, and the argument over the cause, whether AI, remote work, or nothing, distracts from what a firm can act on today.

WHY NOW

The NY Fed's remote-work study landed June 1 and cuts against the AI story your board has already heard. Graduate season is underway, and the hiring plans for 2027 are being set this quarter.

WHAT YOU'LL LEARN

1. The tape, where young workers diverged from the market in 2024 (§01)
2. The freeze, hiring at GFC-recovery rates with 4.4% unemployment (§01)
3. Three studies and three culprits, AI, remote work, and nothing (§02)
4. Our numbers, where exposed occupations grew +10.4% (§03)
5. The seed-corn problem, and five moves for this quarter (§04+)

ONE LINE. The AI-exposed jobs kept growing, and firms stopped hiring juniors into them.

The jobs kept growing while entry hiring stopped

Since Issue 01 we have argued the AI shock works through prosaic channels, and in the labor market it moves through hiring before headcount. The exposed occupations are still growing, up 10.4% in employment since 2019. What has bound is the flow of new hires, and the freeze falls on the people who need a first job.

Whether AI or remote work broke the ladder is unresolved. The one fact every firm confirms in its own numbers is that it has stopped hiring juniors.

9.2%

peak monthly unemployment, ages 20 to 24, in 2025, against 4.3% for all workers (BLS)

3.1

hires per 100 employees, Feb 2026, a rate seen only in 2008 to 2013 before now (JOLTS)

42.5%

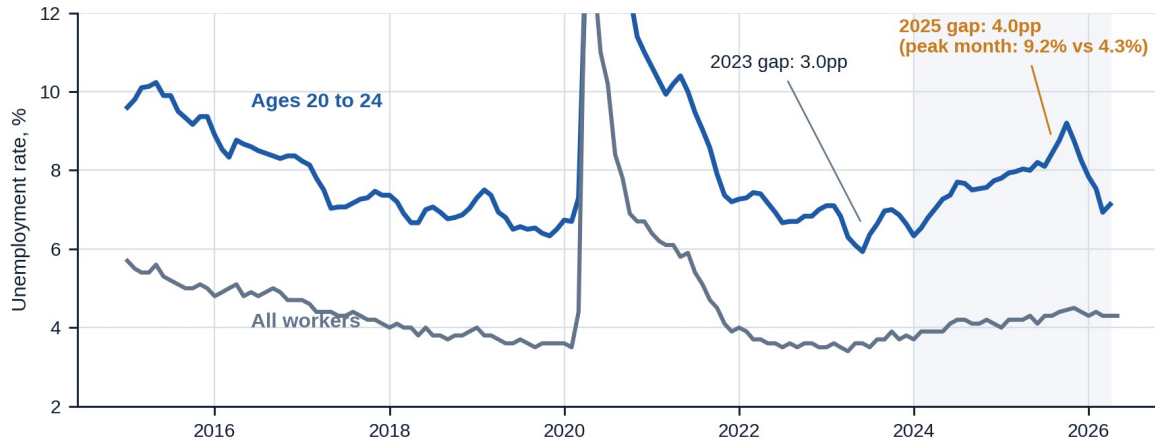
of recent college graduates underemployed, the highest share since 2020 (NY Fed)

Young workers diverged from the market in 2024

EXHIBIT 1

Young workers diverged from the rest of the labor market in 2024

Unemployment rate, ages 20 to 24 (3-month average) vs. all workers, monthly, 2015 to 2026



Note: Oct 2025 missing (federal shutdown; CPS not collected). Pandemic spike truncated for scale.

Source: BLS via FRED (LNS14000036, UNRATE), retrieved Jun 12, 2026; Second Order calculations.

SO WHAT

- The youth-to-all gap widened from 3.0 points in 2023 to 4.0 points in 2025.
- It opened in a growing economy, with overall unemployment in the low fours, which rules out a recession.
- Recent-graduate underemployment reached 42.5%, the worst since 2020 (NY Fed).

Hiring is frozen at rates last seen after the GFC

EXHIBIT 2

Hiring has sunk to levels last seen climbing out of the GFC

JOLTS hires rate, total nonfarm, monthly, 2001 to 2026



Note: Hires per 100 employees, seasonally adjusted. Pandemic rebound spike (May 2020: 6.1) truncated for scale.

Source: BLS via FRED (JTSHIR), retrieved Jun 12, 2026.

SO WHAT

- The hires rate sits at 3.1 to 3.4, a level last seen climbing out of the GFC, though with unemployment at 4.4% and not near 10%.
- Layoffs stay low, so incumbents are safe while entrants are shut out, and the headline rate registers almost none of it.
- Indeed names the symptom “experience creep,” asking for years of experience to fill the roles that used to supply it.

Three credible studies, three different culprits

EXHIBIT 3

Three credible studies blame three different causes

Headline findings, entry-level labor research, 2025 to 2026

STANFORD · AI EXPOSURE

-16%

relative employment decline,
ages 22 to 25, in the most
AI-exposed occupations
since late 2022

NY FED · REMOTE WORK

64%

of the rise in young-graduate
unemployment traced to
remotable occupations
with AI exposure controlled

YALE · NEITHER, YET

0

deviation of the occupational
mix from its pre-2022 trend,
33+ months after ChatGPT

Note: Reported point estimates from each study; methods and data differ and are not directly comparable.

Source: Stanford Digital Economy Lab (ADP payroll data); NY Fed Liberty Street Economics (Jun 2026); The Budget Lab at Yale.

SO WHAT

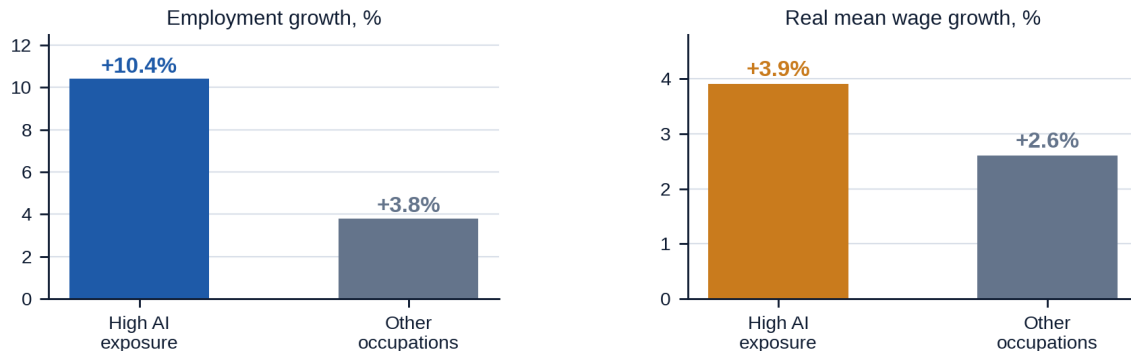
- They measure different objects, a flow for the youngest (Stanford), a mechanism (NY Fed), and a stock (Yale).
- All three hold at once if the squeeze sits in entry hiring and not in the stock of jobs.
- They converge on the one point none set out to make, that none finds occupations disappearing.

Exposed occupations grew while hiring into them froze

EXHIBIT 4

Our OEWS cut shows exposed occupations up 10.4% as entry hiring froze

May 2019 to May 2025, high-AI-exposure occupations (50.1M jobs) vs. all other (105.4M)



Note: Excluding office support, employment rises +25.2% and real wages fall 2.3%.

Source: BLS OEWS (May 2019, May 2025); CPI-U via FRED; exposure per Pew Research (2023); Second Order calculations.

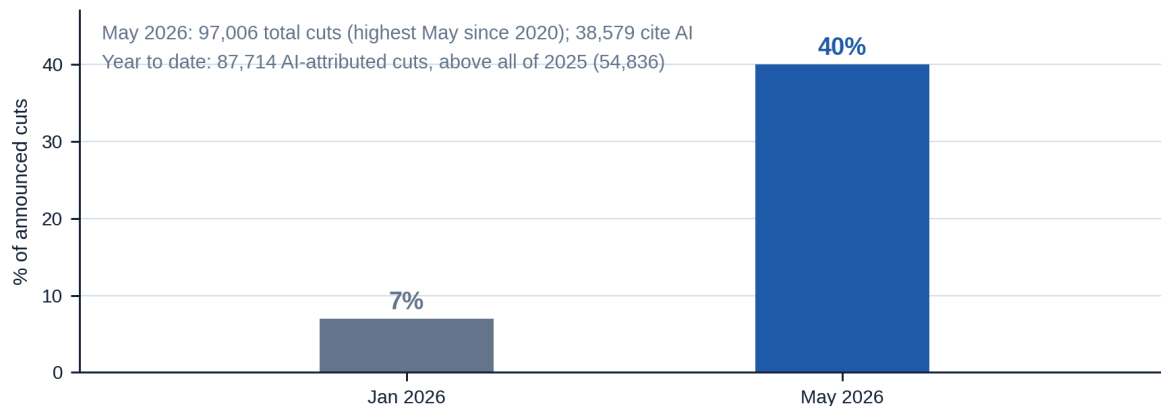
SO WHAT

- Second Order calculations on BLS OEWS, the exposed occupations added +10.4% employment and +3.9% real wages since 2019.
- Exclude office support and employment growth rises to +25.2% with real wages down 2.3%, so headcount climbs while pay compresses.
- Independent reads agree. PwC's billion-ad barometer shows seniorised entry roles up 35% since 2019 while early-career postings flatlined, and more developers, radiologists, and paralegals than in 2022.

Employers name AI whichever cause holds

EXHIBIT 5**Whatever the cause, employers now name AI in 40% of announced job cuts**

Share of announced US job cuts citing AI as the reason, reported months, 2026



Note: Only reported months shown; AI was the #1 stated reason in Mar, Apr, and May. Figures are employer self-attribution, a stated reason and not a measurement.

Source: Challenger, Gray and Christmas, May 2026 report (Jun 4, 2026); CNBC.

SO WHAT

- Stated AI attribution went from 7% of announced cuts in January to 40% in May, the number one reason three months running.
- That is self-attribution and not measurement. HBR finds the cuts anticipatory, made ahead of demonstrated capability.
- Issue 02's capital swap reappears, and when the token bill lands the graduate req is the easiest line to cut.

Five moves to make while entry talent is cheap

1. Set a graduate-intake floor

Fix entry hiring as a ratio of headcount and never a discretionary line that loses to the token budget every quarter.

2. Rebuild apprenticeship

Named mentors, structured reviews, and deliberate proximity. The 64% finding points here as the place the ladder broke.

3. Pair juniors with AI

If a junior with AI delivers most of what a mid-level delivered in 2023, the entry wage is the best unit of capacity available.

4. Recruit from the freeze

Underemployment at 42.5% means trained graduates are waiting tables, and buyer's markets in talent do not last.

5. Audit your attribution

Before naming AI in a freeze or a layoff, confirm the firm's own numbers show it. Boards are learning to ask.

6. The through-line

The seed-corn problem, where juniors skipped now are the mid-level staff missing in 2029. Hire and train them while they are cheap.

WATCHLIST

What would change our mind

July 2, June jobs report. a 20-to-24 rate under 7% for two prints marks the divergence as peaking, and above 8.5% as compounding.

July 7, May JOLTS. a hires rate under 3.1 hardens the freeze call, and a rate at 3.6 or above begins to break it.

Early July, Challenger June. whether AI attribution holds above 40% as the scrutiny rises.

NY Fed quarterly update. graduate underemployment holding above 42.5% says the door is still shut.

Falsifier. if the exposed occupations turn down from +10.4% and the Stanford decline spreads to ages 26 to 30 while hiring stays frozen, the stock is shrinking after all and our diagnosis is wrong.

NEXT ISSUE · THE CAPEX ECONOMY. AI-related investment was roughly three quarters of Q1 2026 GDP growth, and without it the economy was about flat. What a one-trade economy does to your demand forecasts.