CAREERS

It's Looking Grim For New Grads

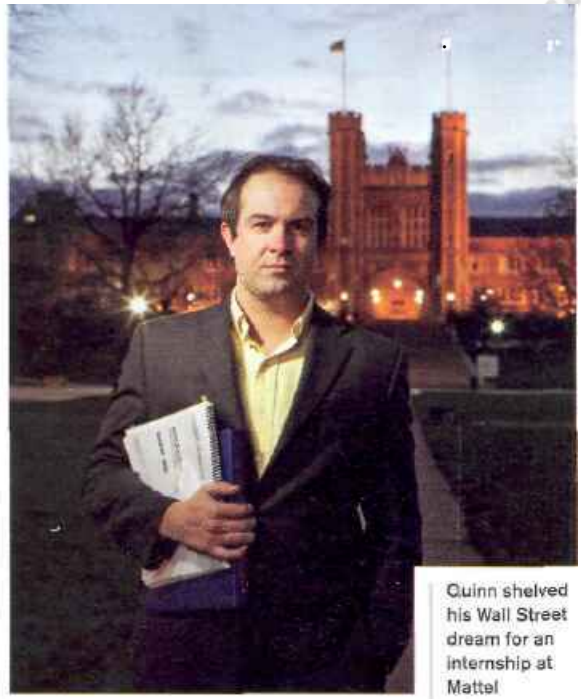
Recession-time MBAs face tough choices—and more modest earnings over their lifetimes

By Louis Lavelle

By early February, when Casey Quinn interviewed at Morgan Stanley for an internship, the handwriting was on the wall. Global stocks had lost $5 trillion in the first few weeks of the year, and the U.S. economy appeared to be on the verge of recession. So when Morgan told Quinn "no thanks," the 25-year-old MBA student at Washington University in St. Louis went to Plan B. Quinn shelved his dreams of working on Wall Street and took an internship at Mattel, which he hopes will lead to a permanent job after graduation. Says the aspiring CFO: "There's more than one way to skin a cat."

Gone are the days when B-schoolers had the luxury of choosing from among a half-dozen internships or job offers. As the Class of 2008 prepares to graduate, an uncertain business climate is forcing students to make difficult career choices that could have long-term economic consequences. A growing body of research on both MBAs and undergrads suggests that graduating into an economic downturn will substantially reduce lifetime earnings—in some cases by millions of dollars.

So far the recruiting environment isn't nearly as bad as it was during the 2001 downturn, when MBA grads accepted offers only to have them rescinded. Still, at the University of Rochester B-school, salary offers are trending modestly downward. And big financial-services firms are taking on fewer newly minted MBAs. At Citigroup, such job offers are down 10% to 15% overall, according to Caitlin McLaughlin, global head of campus recruiting. "We'll err on the side of caution," she says.



Quinn shelved his Wall Street dream for an internship at Mattel

THIRTEEN-YEAR GAP

For many new college grads, though, the real problems will come later than this summer—much later. One 2006 study found that Canadian college students graduating in a downturn earn about 6% less for the first decade of their careers. Another, examining the impact of the 1982 recession on U.S. undergraduates, revealed that every percentage-point increase in the unemployment rate at graduation translates into a 7%-to-8% initial wage loss. The gap closes over time but lasts at least 13 years. Lisa Kahn, the Harvard University PhD candidate who authored the study, found that recessionary grads had difficulty switching to better jobs after the economy picks up.

Billy Tilson knows what it's like to wander in the wilderness. He took a job with PricewaterhouseCoopers after graduating from the University of Virginia in 2000 but was laid off after eight months. For three years he got by on unemployment and $20-an-hour contract jobs before landing a position with a consulting firm in Richmond, Va. Looking back, Tilson, 30, says: "I felt like I was doing something wrong."

For MBA students, the stakes are even higher. Paul Oyer, an associate professor at Stanford, combed the job histories of Stanford University MBAs who graduated from 1960 to 1995 and found that those attending B-school during a bull market were more likely to pursue careers in investment banking. As a result, they earned far more over the course of their careers—$1.5 million to $5 million more—than they would have in other professions. "If you graduate in a recession, you're likely to work in a different [industry]," says Oyer. "That will take you down a different track for the rest of your life."

As fatalistic as that sounds, there is a way for students to escape the boom-and-bust cycle: Stay in school till the economy picks up. It will cost you in the short run, but in the long run, Kahn and Oyer say, graduating in a bull market will more than make up for BW

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