**Motivation and Framework**

Early labor market experiences are a crucial period of transition. A disadvantaged childhood affects labour market success, through education and cognitive and non-cognitive skills. These supply-side factors must be coupled with the regional demand for labor in order to explain variation over time. The effects of family background grow more important if a young adult enters the labour market during high rather than low regional unemployment.

**Data**

SOEP 1984-2011 for West Germans, aged 16-35. Interaction of local unemployment rate and family background, in quintiles based on education, income and occupational prestige in household while growing up.

**Results**

Transition after compulsory education

The unemployment rate has a significantly stronger effect on disadvantaged than advantaged young adults in choosing alternatives for work after compulsory education.

**Control variables**

Fixed effects for year and Bundesland, gender, children, marital status, satisfaction with health, age and age squared, migration, highest qualification (9 categories), social class, work experience, history of living with parents, parents’ birth years, their social class and work experience.

**Wage and overqualification**

Increasing unemployment rates at the start of a job make the wage for the disadvantaged with a degree go down more than for the most advantaged. The disadvantaged are also increasingly likely to be overqualified for their work.

**Conclusions**

Conditions while growing up matter more on the labour market if the labour market is tight.

Disadvantaged young adults are the first to be unemployed.

Even with higher qualifications increasing unemployment makes it harder for the disadvantaged to find a job that matches those qualifications. Rising unemployment lowers the wage for the disadvantaged, but not for their advantaged peers.

When studying inequality over generations it is crucial to take account of the unemployment rate as this may confound any long-term trend.

Multinomial logistic regression for 3925 young adults and 23757 year observations.