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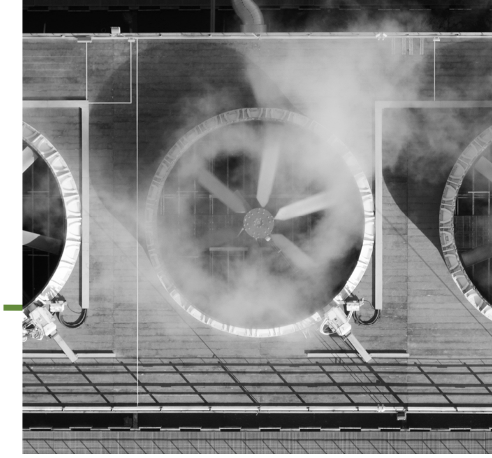
MARKET SIGHT LINES



The Job Market Is Cooling, Not Collapsing

By Michael O'Keeffe, *Chief Investment Officer*

The Federal Reserve met this week, cutting its benchmark funds rate another quarter point. In the Fed's statement and post-meeting news conference, officials explained that they cut in response to a softening labor market. This policy move was appropriate. Many are sounding the alarm that we're in a job market crisis, perhaps fueled by artificial intelligence (AI). But not so fast. We recently shared that while AI will rebalance the labor market, we should see a signficant increase in jobs over the next few years. In this Sight|Lines, we discuss how the labor force is normalizing, not collapsing, with a strong potential of settling into a post-pandemic equilibrium.

THE TAKEAWAY: THE LABOR MARKET IS COOLING, WITH SIGNS OF BALANCE

The U.S. job market remains resilient, even as momentum naturally slows. In summary:

- Fed officials have highlighted a cooling labor market as a reason to cut rates.
- Some larger companies have announced layoffs, stoking fears of a crisis.
- We should prepare for a rebalancing from AI but it may be net-net, with meaningful job growth.
- Payroll growth remains positive, supported by steady business demand.
- The unemployment rate has risen modestly but shows a still-healthy labor environment.
- Wage gains have moderated, helping inflation continue to trend lower.
- Job openings remain elevated, another healthy sign.
- Taking a step back, we see job growth has been very strong since 2019, putting into context that recent moves reflect modest cooling.

IN-DEPTH: THE LABOR MARKET IS COOLING, NOT COLLAPSING, POTENTIALLY SETTLING TOWARD A SUSTAINABLE POST-PANDEMIC EQUILIBRIUM

Investors have benefitted from a resilient economy and market, but a cooling labor market has led Fed officials to continue lowering rates. Going deeper:

- After this week's Fed meeting, officials highlighted a cooling labor market as a reason to cut rates:
    - Chair Jerome Powell said that job gains have slowed significantly from earlier in the year.
- Some big companies have announced layoffs, stoking worries, but that's after big job growth recently:
    - Amazon announced 14,000 cuts after doubling its workforce to 1.5 million in the last five years.
    - Microsoft reduced its workforce by 15,000, but headcount is still up 84,000 since 2019.
    - Target is eliminating 1,800 jobs, but its total headcount has grown 80,000 since 2019.
- AI will reallocate the workforce but may ultimately result in meaningful job growth globally:
    - ~92 million jobs are expected to be displaced globally.
    - ~170 million are expected to be added, producing a net gain of ~78 million jobs.
- Slowing payroll growth remains positive, still supported by steady business demand:
    - Though slower, employers added 22,000 jobs in August, marking gains in 55 of the past 56 months.
- The unemployment rate has risen modestly but remains at a level consistent with a healthy job market:
    - At 4.3%, the jobless rate remains near levels historically associated with full employment.
    - The unemployment rate averaged 6.3% for the 10 years before the pandemic.
    - Various Fed studies estimate the rate of full employment at 4.5%-5.5%.
- The restrictive Fed policy was designed to temper wage gains and inflation:
    - Wage growth has fallen from 6.7% in 2022 to 4.4% today, consistent with easing inflation but still strong enough to support spending.
- Job openings remain steady, with roughly 7.2 million positions available nationwide.
- Taking a step back, we see job growth has been very strong since 2019:
    - Nearly 13 million workers have joined the economy, consistent with healthy population growth and ongoing expansion.
    - The prime-age labor force participation rate is at near-record highs relative to recent decades.
    - The "Magnificent Seven" have increased their employee count by 88% (1.1 million people) since 2019.

CONCLUSION

The Fed cut its benchmark rate another quarter point this week in response to a softening labor market. Many are sounding the alarm saying the job market is in crisis, with AI job-related cuts in particular focus. We've shared how AI will rebalance the labor market globally, with meaningful job losses but even may have more gains over the next few years. For now, we see the job market is normalizing, with modest job cuts happening after a surge of hiring during the reopening after the pandemic. We see a strong potential for the labor market to settle into a new era, a post-pandemic equilibrium.

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