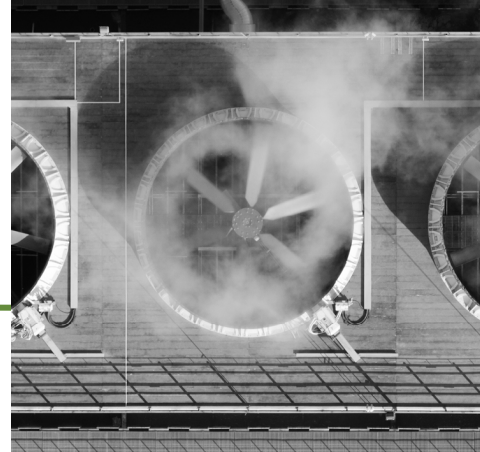


MARKET SIGHT LINES



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 significant [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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