AI's Labor Market Impact: Much Noise, Little Disruption

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US labor market data show minimal AI disruption to date, with employment and wages in AI-exposed sectors remaining resilient despite rising layoff announcements.

Discussions on AI often focus on the potential for new technologies to disrupt labor markets. Layoff announcements attributable to AI have picked up lately, and survey measures show concerns over job losses have increased.

Micro data suggest AI has begun to affect a narrow subset of jobs and industries. The unemployment rate for recent college graduates in AI-exposed fields have edged higher and employment has fallen sharply in some small sectors such as telephone call centers.

Despite the rapid pace of AI adoption, we see little evidence of a broad labor market impact.

Although more firms cite AI as a reason for shedding workers, layoff announcements have been relatively broad-based, not concentrated in AI-exposed sectors. Moreover, announcements are noisy and do not appear to be leading to realized job losses.

This suggests "AI-washing"—firms categorizing regular worker churn as AI impact. The Job Openings and Labor Turnover Survey (JOLTS) monthly reports by the U.S. Bureau of Labor Statistics shows layoffs are not particularly concentrated in the most AI-exposed sectors.

Firms can respond to AI adoption by slowing hiring, recruiting less intensely, or reducing wage growth. To date, the impact on broader labor data appears modest and uneven.

Overall, AI may be affecting labor demand at the margin, especially through postings and layoff announcements. But hard labor market data point to gradual reallocation, not mass displacement.

Some industries appear to be benefiting from the AI boom, with employment picking up in nonresidential construction (likely due to data center construction) and durable goods manufacturing.

Historically, technological advances have been positive for growth and labor markets. Rapid improvements in technology tend to raise demand, enable business creation, and generate new roles, helping expand employment over time.

History argues against persistent "technological unemployment." Despite concerns during the computer and internet age, realized employment ultimately came in well above projections, partly because forecasters overestimated automation's effects on worker demand and underestimated growth in computer-related employment. Superficially, AI appears to be well-suited to substitute for labor. However, we see reasons to expect the technology to remain a complement for existing workers. One important feature is AI’s jaggedness. AI can excel at several complex tasks, but still falls short on simple ones. R eliability remains a key concern, especially in view of the gap between benchmark performance and real world outcomes.

Forward-looking evidence points to augmentation rather than mass displacement. Regional Fed surveys suggest firms plan to increase AI investment but expect only modest impact on job creation.

Policymakers have generally been constructive on AI's longer-term labor market impact. With limited evidence of labor market damage so far, we expect officials to remain more focused on inflation risks than on downside risks from AI-driven unemployment.

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