

April 26, 2026 06:00 AM GMT

## Sunday Start | What's Next in Global Macro

# AI, Productivity, and the Labor Market

Narratives on artificial intelligence range from unbridled optimism to fears of a disruptive force in labor markets, where jobs are shed far faster than they can be replaced. History, current data, and economic theory point to a more nuanced conclusion ... with the ultimate verdict as yet unknown. We think of AI as the [sixth major innovation wave](#) since the Industrial Revolution. We have confidence that productivity will be substantially boosted over time, but AI's development has been far faster than past innovation waves, so the business cycle consequences will depend on the speed of diffusion and the responses of policymakers during the transition.

Every [innovation wave](#) – mechanization, electrification, mass production, automation, and the IT revolution – has generated anxiety about job loss. In each case, productivity rose, tasks shifted, and labor demand ultimately expanded. These technologies did eliminate some tasks and jobs, but more generally they changed the composition of work. AI lowers the cost of specific tasks, but whether it eliminates whole occupations remains to be seen. I find that many people view AI as reducing labor to achieve the same output; the very same mechanisms argue that the same amount of employment can generate a great deal more output. The two are the same, and we are inclined to believe the latter is more likely.

So far, the data allow for optimism. Despite rapid advances in AI compute and capability and increasing adoption by firms, aggregate [labor market indicators show remarkably little disruption](#). Employment growth, unemployment rates, job openings, and separations do not yet signal any systematic weakness in industries with higher AI exposure than in less exposed sectors. Unemployment among young workers is often cited, but adjusting for the aggregate slowing in hiring in the US, youth unemployment is only up a touch more than historical cyclical patterns would suggest.

The effects of AI are starting to appear in [productivity data](#) but do not so far support the mass-displacement narrative. Industries with higher AI exposure have recorded stronger labor productivity, gains driven primarily by faster output growth rather than fewer hours worked. That distinction is critical.

But the future remains opaque. The biggest productivity gains are in front of us as firms across the economy adopt and internalize the new technology. It seems unavoidable that some jobs will be lost and some hiring curtailed. Earlier innovation waves unfolded over decades, AI adoption has been much faster, compressing adjustment dynamics. Will job destruction be faster than job creation? If firms realize the productivity gains from AI very quickly and they are broadly disbursed across the economy, one can imagine almost recession-like increases in

Seth B Carpenter

Chief Global Economist

Seth.Carpenter@morganstanley.com

+1 212 761-0370

unemployment at least until the market clears.

But a richer consideration of the effects of AI would include demand feedback effects. Productivity-driven income gains support aggregate demand. Rising wealth effects sustain consumption. New tasks and roles emerge within firms, absorbing labor displaced from disrupted activities. Any cyclical slowing in employment and the likely associated disinflationary impulse would be met with monetary policy that would try to stimulate the economy back to full employment. And if monetary policy reaches its limits, it is safe to assume that fiscal policy, with both automatic stabilizers and discretionary responses, can smooth at least some of shortfall in income during the transition. With these buffers in place, AI-driven increases in unemployment become smaller, shorter lived, and more manageable.

Clearly, AI's effects on the labor market are not predetermined. We will keep monitoring the pace of diffusion, the evolution of the labor markets, and the likely policy responses. But in the simplest terms, the speed of diffusion and adoption relative to the economy's ability to adapt is at the core of the debate. As [our strategists have noted](#), adoption will also depend on complementary physical infrastructure, which is still being built out: of the \$3+ trillion the capex we had penciled in for 2025-28 for data centers and related infrastructure, only about a quarter has been deployed so far. History suggests that productivity ultimately wins, but not every member of society shares equally. The early evidence is reassuring, but the story is still being written.

Enjoy your Sunday.

[Send Us Feedback](#)

### What I'm Reading This Week

[AI and Economic Transition: Lessons from the Five Innovation Waves That Preceded AI \(6 Apr 2026\)](#)

[AI and Economic Transition: AI Labor Disruption: More Micro Than Macro So Far \(6 Apr 2026\)](#)

[AI and Economic Transition: Industries with high AI exposure are seeing labor productivity from faster output growth, not labor replacement \(20 Apr 2026\)](#)

[Thematic Alpha: Momentum Around AI Adoption Is Building as Companies Cite More Quantifiable Benefits \(14 Apr 2026\)](#)

### What We Are Watching This Week

**TUESDAY, APRIL 28**

**Brazil IPCA-15:** We expect IPCA-15 for April to accelerate to 1.00% m-o-m, driven by food inflation and higher energy prices.

**Chile BCCh Monetary Policy Meeting:** We expect a hold at 4.50% with cautious bias, as more persistent inflation risks are offset by improved financial conditions and still-anchored expectations.

**Japan BoJ Monetary Policy Meeting:** We expect the BoJ to remain on hold as there is unlikely to be sufficient information at the April meeting (Apr 27-28) to assess the persistence of the shock.

**Hungary Base Rate:** Despite the FX appreciation, we expect the NBH to leave its key policy rate unchanged at 6.25% and to continue guiding to a patient and cautious approach.

**US Home Prices:** Home price growth has slowed as inventories have picked up but better affordability has yet to spark more demand. The national Case-Shiller index was up only 0.9% y/y in January, down from 4.2% a year earlier. Our housing strategists expect further deceleration to 0.5% in February. Our rates strategists are bullish on duration, and lower mortgage rates should lead to reacceleration in prices towards 2% in the back-half of the year.

#### WEDNESDAY, APRIL 29

**Brazil BCB Monetary Policy Meeting:** We expect the BCB to cut rates by 25bps (to 14.50% from 14.75%), despite the recent rise in inflation expectations amid Middle East tensions. The statement will likely highlight the ongoing deceleration in economic activity.

**Germany CPI:** We forecast headline CPI up to 2.9%Y in April from 2.7%Y in March on the back of higher energy prices

**US Trade Deficit in Goods:** We expect the goods deficit narrows by about \$10bn to \$74bn. We think imports were pulled forward into February ahead of the Chinese New Year and slowed in March. There is some offset from slower exports of gold, but the net is a smaller March deficit.

**US Durable Goods Orders:** We expect aircraft orders held back durable goods orders in March but that underlying demand continued to rise healthily.

**US Housing Starts and Permit:** Starts and permits for February and March will be reported. We expect little change in trend, although winter weather may have delayed some single-family starts. We expect starts average a 1.35 million unit annual rate, with single-family at 920k. (Multi-family starts fall from an exaggerated pace in January.) Single-family permits, less weather sensitive than starts, probably move sideways at about a 880k pace.

**US FOMC Decision:** We expect the Fed on hold, with little change in tone in the FOMC statement or press conference. The FOMC likely retains an easing bias but emphasizes that heightened uncertainty means patience in policy making. At the last press conference, questions focused on inflation effects rather than growth effects of oil price pressures. We expect a more balanced set of questions following this meeting, which could give the impression of a lesser focus on inflation risks.

**Bank of Canada Decision:** We expect the BoC to remain on hold at its April meeting.

#### THURSDAY, APRIL 30

**Colombia BanRep Monetary Policy Meeting:** We expect the Banrep to hike rates by 50bps (to 11.75% from 11.25%) due to de-anchored inflation expectations.

**Mexico GDP (preliminary) 1Q26:** We expect an acceleration on growth to 1.2% y-o-y, likely supported by agriculture and services.

**Japan Unemployment Rate & New Job Offers/Application Ratio:**

Unemployment rate is expected to be at 2.6% in March, and new job offers/application ratio is expected to be at 1.18 in March.

**Japan Industrial Production:** We forecast March industrial production decreases by -0.3% MoM and increases by +2.4%YoY.

**Japan Retail Sales:** We forecast retail sales increase by +0.8% YoY in March.

**Japan Housing Starts:** We expect that new housing starts decrease by -32.0%YoY in March.

**Japan Consumer Confidence Index:** We expect April consumer confidence index to be 33.0.

**China NBS Manufacturing PMI:** We expect manufacturing PMI to edge up to 50.6 (vs. 50.4 in Mar).

**Czech Republic GDP:** We expect the flash GDP estimate for 1Q26 to show that economic growth has slowed down to 0.4%Q and 2.4%Y, from 0.7%Q and 2.7%Y in 4Q25.

**Euro Area GDP:** We expect low EA GDP growth in 1Q26, at 0.1%Q after 0.2%Q in 4Q25.

**Euro Area HICP:** We expect an uptick of EA HICP inflation to 2.9%Y in April, from 2.6%Y in March, on the back of higher energy prices. Core inflation is expected to soften to 2.1%Y from 2.3%Y.

**ECB Rates Decision:** We expect the ECB to remain on hold at the April meeting. The Council will want to keep all options on the table, which will prevent any firm messaging around the future rates path.

**US Personal Income and Spending:** We expect real consumer spending rose 0.4% m/m in March with goods up 0.7% and services up 0.3%. Retail sales for March were strong, and we do not expect higher gas prices weighed on real spending yet. We expect more effect from the shock in Q2 and beyond. Data in line with our expectation would mean Q1 real spending up 1.5% (q/q saar). This is stronger than we previously expected. Q1 spending is partially dragged down by residual seasonality but was likely boosted somewhat by higher tax refunds. Income growth is weaker in March, up 0.2% m/m in nominal terms with real disposable personal income down 0.4% m/m. Labor income is only slightly stronger, with nominal labor income up 0.3% as higher payrolls were offset by slower hours. Other forms of income including rental income, proprietor's income, and asset income are all relatively soft at 0.1% to 0.2% each. With strong spending, the saving rate falls from 4.0% in February to 3.3% in March.

**US PCE prices:** We forecast core PCE inflation at 0.22% m/m in March. Incorporating our expectation of a mild upward revision to January (+2bp to core PCE), the year-over-year rate is projected to rise to 3.11% in March, from

2.99% in February. Headline PCE is forecast at 0.60% m/m (3.42% y/y). Core goods inflation remains positive but moderates relative to February, and we think tariff pass-through is nearing completion. Our estimates use CPI data to project PCE legal services. If, as in January, the BEA again relies on PPI legal services rather than CPI, core PCE inflation would likely print higher—around 0.26% m/m instead of 0.22%.

**US Jobless claims:** Claims remain low, with new and continuing claims at or below their levels of a year ago.

**US 1Q26 GDP:** We estimate 1Q GDP rising at a 2.4% q/q annual rate. There is more uncertainty around the estimate than normal. Construction spending data and housing starts for February and March have not yet been reported—ongoing delays caused by the federal government shutdown. The various construction data will be reported earlier in this week and could affect our forecast. 1Q core PCE prices rise at a 4.1% q/q annual rate and headline PCE at 4.3%. Private domestic final purchases (consumption plus investment) rises at a 2.2% q/q annual rate, 0.2 pct pt below its average over the past year. Somewhat slower real consumption (1.5%), amid tariff price pressures plus the residual seasonality in prices that holds back 1Q consumption every year. Nonresidential fixed investment rises at a strong 6.6% pace—depending in part on what the business construction spending data for February show. GDP's further boosted by about 0.6 pct pt by a rebound in federal government output, which returns to trend in 1Q after the 4Q shutdown. Our forecast also incorporates a 0.3 pct pt drag from trade, mostly offset by a 0.2 pct pt boost from inventory investment. The trade drag would be larger except that we're assuming slower March imports following the Chinese New Year.

**US Employment Cost Index:** We were surprised at the extent of slowing in the 4Q ECI, which showed compensation, wages & salaries, and benefits all rising 0.7% in the three months through December: a 3.0% annual rate. We expect some slight reacceleration in the three months through March, forecasting a 0.8% increase. Average hourly earnings accelerated from a 3.5% pace through December to a 3.9% pace through March.

#### FRIDAY, MAY 01

**Japan Tokyo CPI:** We project headline Tokyo CPI for April at +1.8%Y, with Japan-style core (all items less fresh food) at +1.8%Y and core-core (all items less fresh food and energy) at +2.4%Y.

**US ISM Manufacturing:** We are tracking April manufacturing ISM at 52.9, with firm demand and continued output expansion signaling resilience. However, uncertainty around supply and prices keeps near-term risks tilted to the downside. Regional surveys and the S&P flash PMI show solid output and new orders, alongside rising input costs from higher oil prices. S&P details also indicate worsening supplier delivery times, pointing to ongoing supply constraints amid Middle East geopolitical uncertainty.

**US Light Vehicle Sales:** We expect March vehicle sales at 16.0mn, down from February's pace and slightly below last year's. We expect the oil shock to weigh on durable goods purchases, including autos, but the data through

April have not shown this weakness yet.

