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Global Thematics

AI Adoption and the Future of Work: Banks, Tech and Professional Services

We expand our AI Adoption survey to five new sectors: Banks, Software, Tech Hardware, Semis, and Professional Services. On average, companies reported a 5% net loss in jobs over the past 12 months, broadly consistent with our previous survey, underscoring AI's impact on workforces across industries.

AlphaWise 

Key Takeaways

- We broaden our AlphaWise AI Adoption survey to include sectors attracting strong investor interest in the impact of AI on employment.
- We surveyed companies in the Banking, Software, Tech Hardware, Semis, and Professional Services sectors across the US, UK, Germany, Japan and Australia.
- Respondents reported that over the past 12 months, AI drove 12% job cuts and a further 15% of roles to not be backfilled, partially offset by 22% new hires.
- This leads to a 5% net job loss, comparable to the 4% net loss in our prior survey of Consumer Staples, Real Estate, Transportation, Healthcare E&S, and Autos.
- AI is also driving meaningful efficiency gains, with companies reporting high single-digit to low double-digit productivity increases across both surveys.



Tech Diffusion

A Morgan Stanley Research
Key Theme of 2026



Societal Shifts

A Morgan Stanley Research
Key Theme of 2026

Earlier this year, we conducted a survey to assess the implications of AI on employment across the five industry groups we had determined to be most impacted by AI adoption: Consumer Staples Distribution & Retail; Real Estate Management & Development; Transportation; Healthcare Equipment & Services; and Automobiles & Components.

Given the significant and growing investor focus on the impact of AI on jobs, we have expanded our survey to include additional sectors attracting a high volume of investor questions: **Banks, Software, Tech Hardware, Semis, and Professional Services**. As before, we surveyed companies in the US, UK, Germany, Japan and Australia. Our two surveys provide unique insight into AI's employment impact, an area where comparable company-level data

remains limited.

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Our surveys indicate that AI adoption is reshaping workforces across industries, with broadly consistent dynamics observed in both waves. Survey respondents in the five new sectors ('Wave 2') said that in the past year, **AI adoption had led to 12% of jobs to be eliminated and a further 15% to not be backfilled, partially offset by 22% new hires. This yields a 5% net job loss** for companies included in Wave 2, broadly consistent with the 4% net job loss reported by companies in Wave 1 sectors. However, Wave 2 companies experienced a higher combined share of roles eliminated or not backfilled at 27% versus 22% in Wave 1, balanced by a higher level of new hires - indicating that whilst net losses may be broadly consistent, labor disruption is higher in Wave 2 sectors.

For Wave 2 sectors, net loss of positions was highest by sector for Semis at 8%, closely followed by Software at 7%; the net loss of positions was lowest for Banks at 3%. Across all sectors in Wave 2, the net loss of positions was highest by country in Japan, where companies across sectors reported a 10% net loss vs the 5% all-country average; German companies reported a small net gain in jobs at 1%.

Across both surveys, younger workers appear to be an early indicator of how AI is reshaping the workforce, with the percentage of roles eliminated and not backfilled highest for early-career employees and lowest for highly experienced employees. This is consistent with the findings of our [US economists' recent work](#).

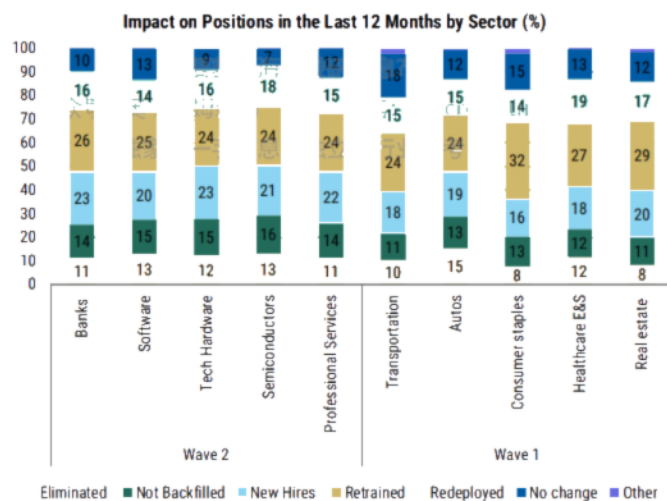
Overall, the share of roles eliminated or not backfilled was broadly similar between permanent employees and outsourced workers among Wave 2 companies, with outsourced workers only slightly more affected. Though there were regional and sector differences, with outsourced and offshore workers most impacted in European and Australian companies and permanent staff most impacted in the US and Japan. Outsourced and offshore workers were most impacted at Banks and Software companies.

Once again, companies reported a material increase in net productivity due to AI over the past 12 months, at 9.6% for Wave 2 companies. This was highest for Software companies and Banks at 10.4% and 10%, respectively. Though, this is lower on average than Wave 1 companies, which reported an 11.5% increase in productivity. This could reflect the greater AI adoption benefit TAM that we had estimated for the five sectors included in Wave 1, which tend to be labor intensive and have low profit per head. We note that IT/software development and customer services roles were the top two areas of increased productivity across both surveys. As highlighted in our previous note, country-level productivity metrics could be an early indicator of AI adoption.

As in our previous survey, the sample was focused on companies that have been adopting AI for at least a year, with most implementing solutions for two years or more, and therefore represents a group of more advanced AI adopters. So, as before, these results likely reflect the most significant downside case for workforce impact. That said, **the similar magnitude of job losses and productivity gains across our two surveys reinforces that these dynamics are not isolated and are indicative of a broader trend. We continue to view these findings as an early indicator of potential employment disruption as AI capabilities advance at a non-linear rate.**

Six Key Charts

Exhibit 1: Our surveys indicate that AI adoption is reshaping workforces across industries...



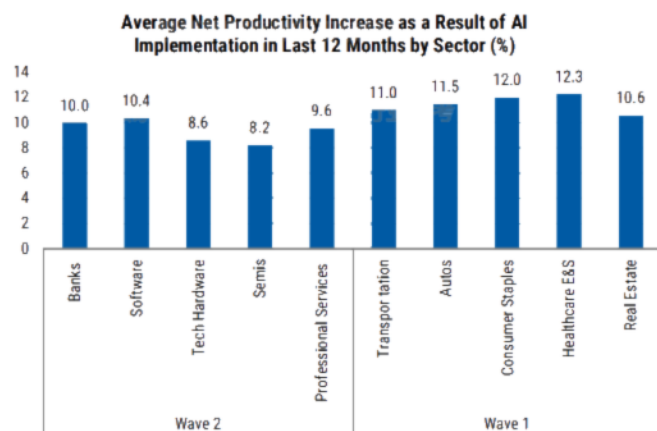
Source: AlphaWise, Morgan Stanley Research

Exhibit 3: Younger workers were most impacted by role eliminations and positions not backfilled across both surveys

WAVE 2 AVERAGE %	Eliminated	Not backfilled	Hired	Retrained	Redeployed
Graduates with no prior work experience	12	12	11	9	9
Non-Graduates with no prior work experience	11	10	7	8	8
< 2 years work experience	16	16	15	14	14
2 to 5 years work experience	18	19	21	20	20
6 to 10 years work experience	16	16	19	19	20
11 to 15 years work experience	11	11	12	13	13
16 to 20 years work experience	8	7	8	8	9
21 to 30 years work experience	5	5	4	5	5
Over 30 years work experience	3	3	3	3	3

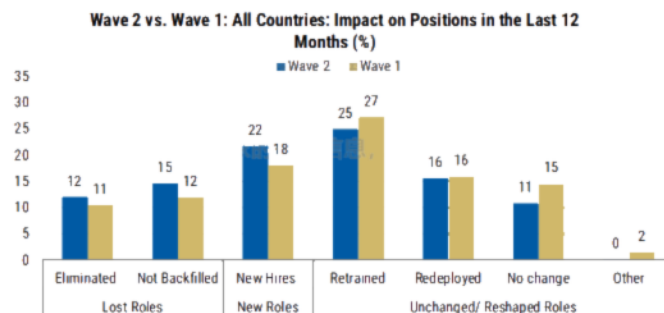
Source: AlphaWise, Morgan Stanley Research

Exhibit 5: AI is also driving meaningful efficiency gains, with companies reporting high single-digit to low double-digit productivity increases across both surveys



Source: AlphaWise, Morgan Stanley Research

Exhibit 2: ... with broadly consistent dynamics observed in both waves: an average 5% net job loss for Wave 2, vs 4% for Wave 1



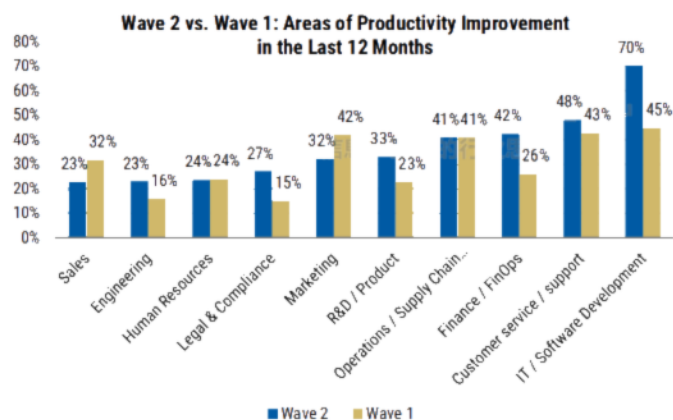
Source: AlphaWise, Morgan Stanley Research

Exhibit 4: Offshore workers were most impacted by eliminations and positions not backfilled at Banks and Software companies

Mean impact	Banks	Software	Tech Hardware	Semis	Professional Services
Permanent employees globally directly employed by the company	1.99	1.89	2.04	2.16	2.05
Contract/temporary employees globally directly employed by the company	1.95	2.05	2.07	2.06	2.04
Contract/temporary employees NOT directly employed by the firm/off-shore employees	2.24	2.24	1.98	1.8	1.99

Source: AlphaWise, Morgan Stanley Research

Exhibit 6: IT/software development and customer service were the top two areas of increased productivity across both surveys



Source: AlphaWise, Morgan Stanley Research

Summary Tables

Exhibit 7: Country overview

Country	Wave 2					Wave 1				
	Net Job Impact				Productivity Gain	Net Job Impact				Productivity Gain
	Net Job Loss/Gain	Eliminated	Not Backfilled	New Hires		Net Job Loss/Gain	Eliminated	Not Backfilled	New Hires	
All-Country Average	-5%	-12%	-15%	+22%	+9.6%	-4%	-11%	-12%	+18%	+11.5%
US	-5%	-13%	-15%	+23%	+10.2%	+2%	-8%	-9%	+19%	+10.8%
UK	-6%	-12%	-15%	+21%	+10.3%	-8%	-10%	-13%	+15%	+11.0%
Germany	+1%	-9%	-12%	+22%	+8.4%	-4%	-13%	-11%	+20%	+10.1%
Japan	-10%	-14%	-16%	+20%	+9.8%	-7%	-12%	-12%	+17%	+11.9%
Australia	-4%	-12%	-15%	+23%	+9.3%	-4%	-11%	-13%	+20%	+13.6%

Source: AlphaWise, Morgan Stanley Research

Exhibit 8: Sector overview

Wave 2						Wave 1					
Sector	Net Job Impact				Productivity Gain	Sector	Net Job Impact				Productivity Gain
	Net Job Loss/Gain	Eliminated	Not Backfilled	New Hires			Net Job Loss/Gain	Eliminated	Not Backfilled	New Hires	
Banks	-3%	-11%	-14%	+23%	+10.0%	Transportation	-3%	-10%	-11%	+18%	+11.0%
Software	-7%	-13%	-15%	+20%	+10.4%	Autos	-10%	-15%	-13%	+19%	+11.5%
Tech Hardware	-5%	-12%	-15%	+23%	+8.6%	Consumer Staples	-4%	-8%	-13%	+16%	+12.0%
Semis	-8%	-13%	-16%	+21%	+8.2%	Healthcare E&S	-5%	-12%	-12%	+18%	+12.3%
Professional Services	-4%	-11%	-14%	+22%	+9.6%	Real Estate	+1%	-8%	-11%	+20%	+10.6%

Source: AlphaWise, Morgan Stanley Research

AlphaWise Survey Details

Exhibit 9:



Primary Research

See what others don't.

1) AI adoption drove a 5% net job loss globally over the last 12 months among the banks, software & services, tech hardware & equipment, semiconductors and professional services sectors. Over the last 12 months, those with 2 to 10 years' work experience, particularly those with 2 to 5 years' experience, were more vulnerable to job elimination and positions not backfilled. Candidates most likely to be hired in the next 12 months will have 2 to 10 years' work experience, followed by those with 2 years' experience. 2) Across all countries, of those positions that were eliminated/not backfilled in the last 12 months, 41% of companies reported that offshore contract/temporary employees were most impacted, followed by 38% asserting that permanent employees globally were most impacted. 3) AI adoption boosted company productivity by a net average of 9.6% over the past year, highest in the UK and US, with the biggest gains in IT, customer service, and financial operations. Looking ahead, firms expect even stronger improvements — especially in Germany, Japan, and sectors like semiconductors and professional services, signalling growing confidence in AI's ability to drive measurable efficiency gains.

Methodology

In April 2026, we carried out a total of 808 online interviews with professionals with detailed knowledge of their company's AI strategy & implementation. The sample consisted of companies within the banks, software & services, tech hardware & equipment, semiconductors & professional services sectors in the US, the UK, Germany, Japan and Australia that have been implementing or developing AI solutions for at least 12 months and plan to continue to do this in the next 12 months.

Sample by Country

US: 160

UK: 163

Germany: 163

Japan: 159

Australia: 163

Sample by Company Sector

Banks: 202

Software & services: 204

Tech hardware & equipment: 150

Semiconductors: 52

Professional services: 183

Team behind the analysts.

AlphaWise Primary Research gathers alternative data and generates unique insights via an innovative analytical and visualization platform.

The Story in Pictures

AI Adoption drove an average of 5% net job loss over the last 12 months across...

BANKS SOFTWARE TECH HARDWARE SEMICONDUCTORS PROFESSIONAL SERVICES

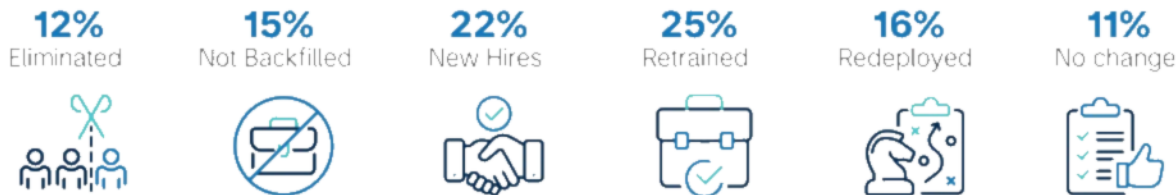


Job Elimination / Replacement: Mid-career professionals (2-10 years' experience) suffered losses but also were most hired, retrained, and redeployed.



Offshore employees most impacted by eliminated / not backfilled positions.

All Countries: Impact on Postions in the Last 12 Months (%)



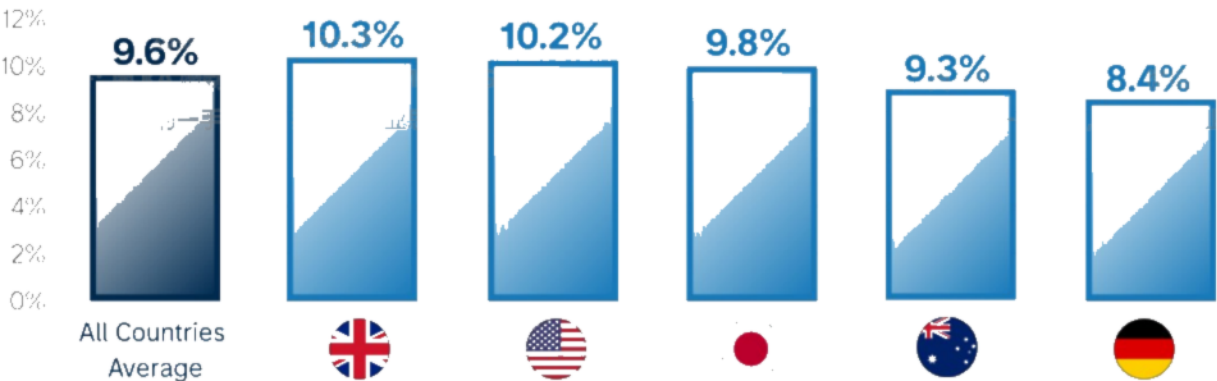
Impact on Positions in the Last 12 Months by Country - Net Loss (%)



Past Year: AI adoption **boosted productivity** by a net average of 9.6% in the last 12 months. Biggest gains in...



Average Net Productivity Increase as a Result of AI Implementation in Last 12 Months by Country



Global Overview

Earlier this year, we conducted a survey assessing the impact of AI adoption on employment across the five industry groups we had previously determined to be most impacted by AI adoption; we mapped out the magnitude of potential economic value creation from AI adoption for the S&P 500 by sector: Consumer Staples Distribution & Retail; Real Estate Management & Development; Transportation; Healthcare Equipment & Services; and Automobiles & Components. Our initial survey covered companies in the US, UK, Germany, Japan and Australia. Throughout this note, we refer to this survey as Wave 1.

Given strong investor interest in the broader sector implications, we have expanded our survey to include additional sectors that have attracted a high volume of investor questions: **Banks, Software & Services, Tech Hardware, Semis, and Professional Services** (Wave 2). We surveyed executives at 808 companies in total, across the same regions as our previous survey.

As before, the aim of the survey was to determine the degree to which AI may impact employment, as well as which types of roles might be most at risk. We also assessed how companies are measuring productivity gains as a result of AI adoption, barriers to AI integration, and responsible AI practices.

Key global takeaways

Our surveys indicate that AI adoption is reshaping workforces across industries, with broadly consistent trends in job displacement and productivity gains observed across both surveys. In our view, this suggests these dynamics are not isolated and are indicative of a broader trend. We continue to view these findings as an early indicator of potential employment disruption as AI adoption accelerates at a non-linear rate.

Survey respondents in the five new sectors (Wave 2) said that in the past year, AI adoption had led to 12% of jobs to be eliminated and a further 15% to not be backfilled, partially offset by 22% new hires. This yields a 5% net job loss for companies included in Wave 2, broadly consistent with the 4% net job loss reported by companies in Wave 1 sectors. However, Wave 2 companies experienced a higher combined share of roles eliminated or not backfilled at 27% versus 22% in Wave 1, balanced by a higher level of new hires - indicating that whilst net losses may be broadly consistent, labor disruption is higher in Wave 2 sectors.

For Wave 2 sectors, net loss of positions was highest by sector for Semis, at 8%, closely followed by Software at 7%; the net loss of positions was lowest for Banks at 3%. Across all sectors in Wave 2, the net loss in positions was highest by country in Japan, where companies across sectors reported a 10% net loss vs the 5% all country average; German companies reported a small net gain in jobs at 1%.

Regarding the types of roles that are likely to be most impacted, across both surveys, younger workers appear to be an early indicator of how AI is reshaping the workforce, with the percentage of roles eliminated and not backfilled highest for early-career employees (particularly 2-10 years) and lowest for highly experienced employees. Though, employees with 2-10 years experience are also most likely to be retrained or redeployed. Overall we find little difference in the share of roles eliminated and not backfilled

between permanent employees and outsourced workers amongst Wave 2 companies, with outsourced workers only slightly more affected; however, modest variations are evident at the regional and sector level.

The areas of greatest productivity improvement are concentrated in digital and knowledge-based functions where workflows are information-intensive and readily augmented by AI tools, with IT/software development and customer service roles the top two areas of increased productivity across both our surveys.

On average, productivity increases were lower for Wave 2 companies (9.6%) than Wave 1 companies (11.5%). Wave 1 companies were selected based on our estimates of the magnitude of economic value creation from AI adoption for the S&P 500 across sectors, and these sectors had the greatest AI adoption benefit TAM as a percentage of pre-tax earnings (see [note](#)). The higher productivity amongst this group could reflect the greater upside potential from AI adoption.

Whilst economic value creation remains important, our survey results show that organizations are also prioritizing improvements in quality, accuracy, productivity, and time savings. At the same time, trust, security, privacy, and reputational risk rank among the top barriers to adoption across both surveys.

Limitations of the survey

Although we have expanded our survey to additional sectors, our sample is not fully representative across all industries. The sample also focused on companies that have been adopting AI for at least a year; we note that the majority of companies in the sample have been implementing AI solutions for two years or more and respondents are therefore amongst the most advanced adopters of AI. Hence, these results likely represent the most significant downside case for workforce impact.

It should also be noted that the conclusions in this report are based on the survey respondents' own assessments, rather than observed labor market outcomes. Responses will ultimately depend on the respondents' level of awareness, personal experiences, and attitudes towards AI. Additionally, whilst the survey aimed to isolate employment outcomes attributed exclusively to AI adoption, it is possible that changes attributed to AI in survey responses also reflect the combined effect of multiple factors, including broader economic conditions, structural challenges within the sector, and organizational strategies.

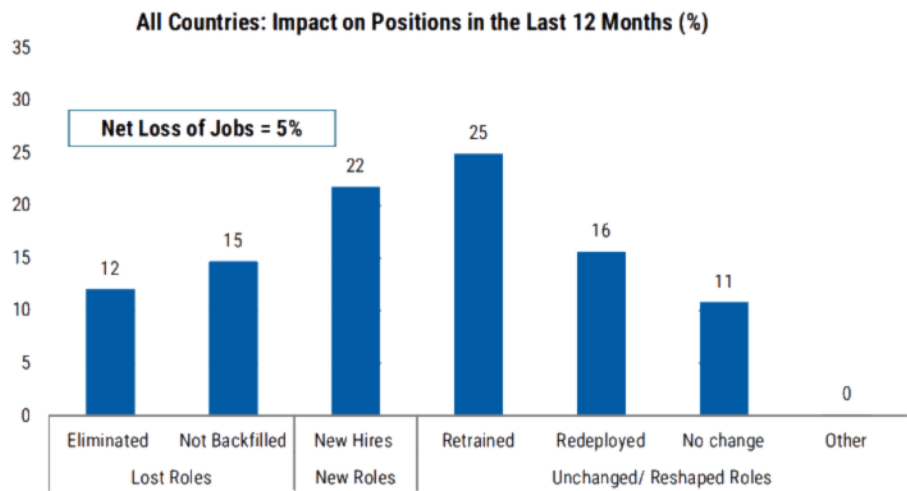
The factors discussed above explain why the survey results may not fully align with labor market data. Whilst our economists agree that it is too early to definitively say AI is one of the main driving forces behind recent labor market dynamics, there are some signals within the data that could point to job market disruption due to AI. For example, our economists have found that AI-related labor market disruption in the US remains modest so far, likely reflecting the early stage of adoption (see [note](#)). However, the data for younger workers in the US is more indicative of AI-driven disruption, potentially acting as a "canary in the coal mine". Our economists agree that productivity growth could also be an early signal, and our US economists have found a positive correlation between productivity and industry exposure to AI (see [note](#)).

AI Impact on Jobs

Companies reported a 5% net job loss globally: In the last 12 months, survey respondents in the Banks, Software & Services, Tech Hardware, Semis and Professional Services sectors said that AI adoption had led to 12% of jobs being eliminated and a further 15% to not be backfilled. This is partially offset by 22% new hires, leading to a 5% net job loss globally over the last 12 months.

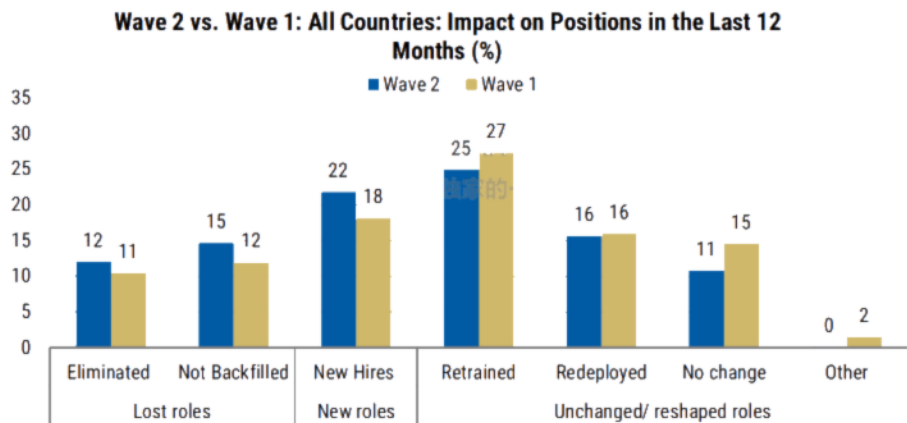
Another way to look at the data is to consider the total number of staff that have been retained. Taking the percentage of 'no change' roles, together with those where staff have been retrained and redeployed, gives a total 'retained staff' percentage of 51%.

Exhibit 10: AI-employment survey for Banks, Software & Services, Tech Hardware, Semis, and Professional Services ('Wave 2'): 5% net job loss (12% eliminated + 15% not backfilled, net of 22% new hire volume)



Source: AlphaVise | Morgan Stanley Research

Exhibit 11: Wave 2 survey companies reported a 5% net loss on average, this compares to a 4% net loss for sectors included in Wave 1



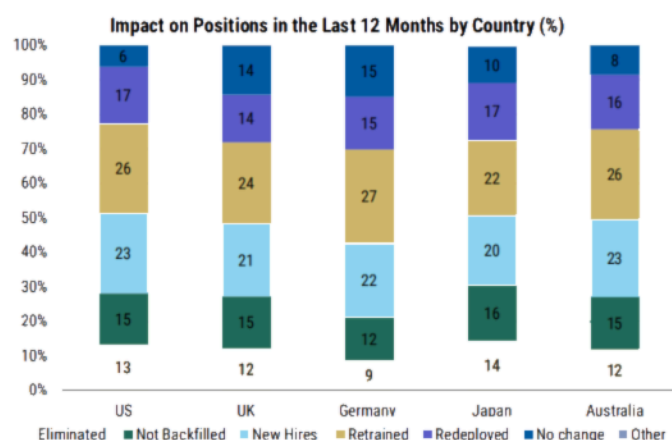
Wave 1 sectors: Consumer Staples Distribution & Retail, Real Estate Management & Development, Transportation, Healthcare Equipment & Services, and Automobiles & Components. Wave 2 sectors: Banks, Software & Services, Tech Hardware, Semis, and Professional Services.
Source: AlphaVise | Morgan Stanley Research

This compares to a 4% net job loss for sectors included in our previous survey ('Wave 1' survey), where companies reported that 11% of jobs had been eliminated and 12% not backfilled, offset by 18% new hires.

Net loss of positions was highest in Japan, at 10% compared to a 5% all country average. Japanese companies reported the highest level of positions eliminated (14%) and not backfilled (16%), as well as the lowest level of new hires (20%). In our previous survey (Wave 1), net loss of positions was highest in the UK - in Wave 2, the UK has the second highest level of net losses at 6%.

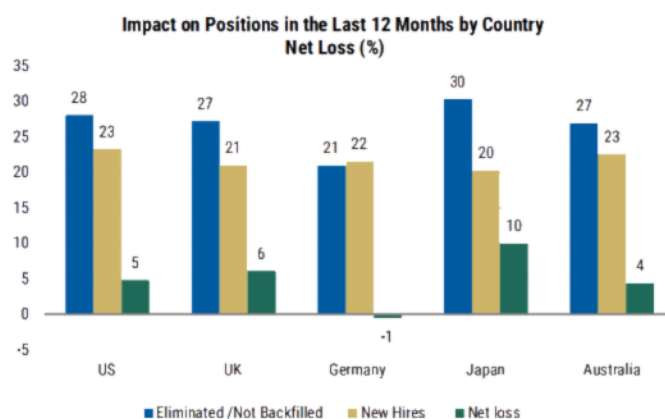
German companies reported a 1% net gain in positions, with the highest level of new hires. We note that in our previous survey (Wave 1), US companies reported a 2% net gain, though in Wave 2, companies reported a 5% net loss - in line with the all-country average.

Exhibit 12: Net loss of positions for Wave 2 was highest in Japan...



Source: AlphaWise, Morgan Stanley Research

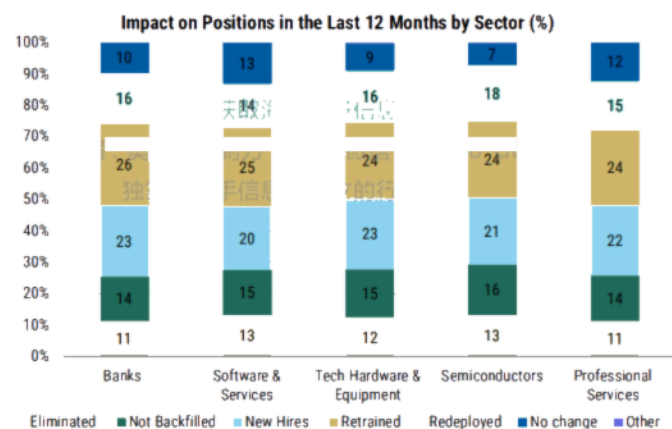
Exhibit 13: ... with Japanese companies reporting a net loss of 10% vs an all-country average of 5%



Source: AlphaWise, Morgan Stanley Research

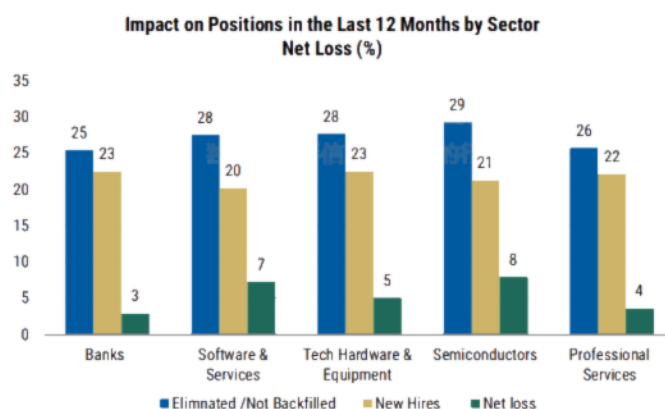
Semis had the highest net loss of positions at 8%, followed by Software and Services at 7%. The net loss was lowest for Banks at 3%.

Exhibit 14: Semis had the highest net loss of positions...



Source: AlphaWise, Morgan Stanley Research

Exhibit 15: ... with Semis companies reporting a net loss of 8% vs an average of 5%

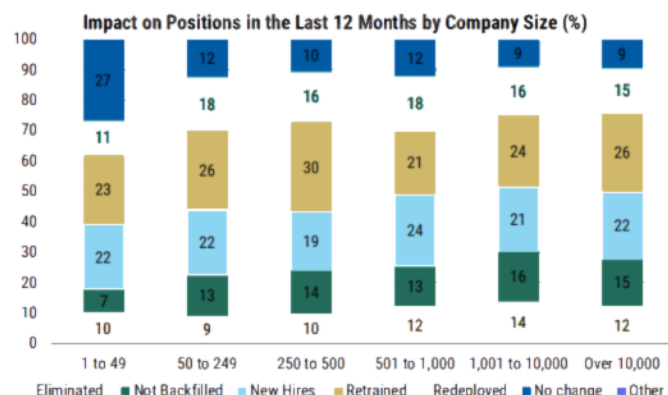


Source: AlphaWise, Morgan Stanley Research

As in our previous survey, smaller companies reported to have retained more staff:

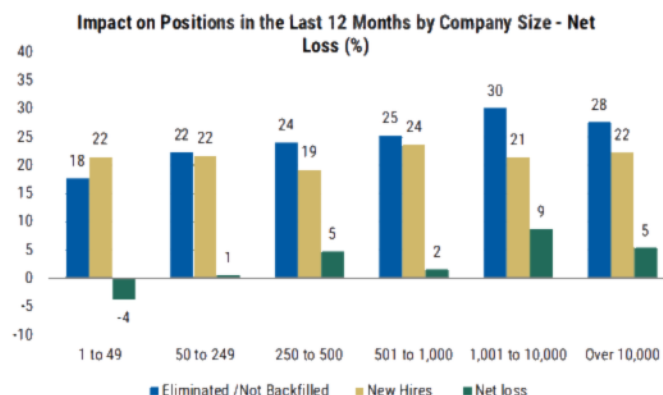
Companies with fewer than 49 employees have the highest staff retention, with a retained staff percentage (no change + retrained + redeployed) of 61% and a net gain in positions of 4% - the net gain is consistent with our previous survey. **Companies with 1,001-10,000 employees saw the highest net loss in positions at 9%** with a total staff retention of only 48%.

Exhibit 16: Wave 2 companies with 1,001-10,000 employees saw the greatest net loss of positions...



Source: AlphaWise, Morgan Stanley Research

Exhibit 17: ... and the smallest companies (1-49 employees) reported a net gain in positions.



Source: AlphaWise, Morgan Stanley Research

Companies reported little difference between the impact on offshore, contract and temporary employees vs permanent staff.

Across all countries, of those positions that were eliminated/not backfilled in the last 12 months, 41% of companies reported that offshore contract/temporary employees were most impacted, whilst 38% of respondents said that permanent employees globally were most impacted. However, there are notable differences by region. Contract, temporary and offshore employees were most significantly impacted in Germany (52% of companies), Australia (42%) and the UK (49%). Whereas permanent staff were more likely to be impacted by positions being eliminated or not backfilled in the US (46%) and Japan (45%).

Banks and Software companies reported that offshore employees were most impacted by positions being eliminated/not backfilled, within semiconductors and professional services permanent employees globally were most impacted and within the tech hardware & equipment sector, it was contract and temporary company employees.

Exhibit 18: Offshore employees in Banks and Software most impacted by positions eliminated/not backfilled

Mean impact	Banks	Software	Tech Hardware	Semis	Professional Services
Permanent employees globally directly employed by the company	1.99	1.89	2.04	2.16	2.05
Contract/temporary employees globally directly employed by the company	1.95	2.05	2.07	2.06	2.04
Contract/temporary employees NOT directly employed by the firm/ off-shore employees	2.24	2.24	1.98	1.8	1.99

The table shows mean impact, where respondents were asked to score the impact of eliminations and positions not backfilled across different contract types. 3= most impacted and 1= least impacted.

Source: AlphaWise, Morgan Stanley Research

Early-career positions appear most at risk: The percentage of roles eliminated and not backfilled was highest for early-career employees (particularly those with 2-10 years experience) and lowest for highly experienced employees (>11 years). Compared to wave 1 sectors, the level of graduates with no work experience being eliminated/not backfilled was lower. Whilst employees with 2-10 years experience are most at risk of roles being eliminated/not backfilled, employees with 2-10 years of experience, particularly those with 2-5 years experience, also show the highest rates of being retrained or redeployed.

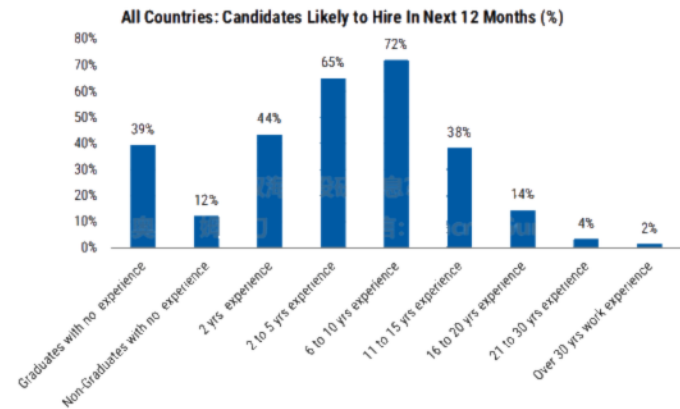
Exhibit 19: The percentage of roles eliminated and not backfilled was highest for early-career employees and lowest for highly experienced employees

WAVE 2 AVERAGE %	Eliminated	Not backfilled	Hired	Retrained	Redeployed
Graduates with no prior work experience	12	12	11	9	9
Non-Graduates with no prior work experience	11	10	7	8	8
< 2 years work experience	16	16	15	14	14
2 to 5 years work experience	18	19	21	20	20
6 to 10 years work experience	16	16	19	19	20
11 to 15 years work experience	11	11	12	13	13
16 to 20 years work experience	8	7	8	8	9
21 to 30 years work experience	5	5	4	5	5
Over 30 years work experience	3	3	3	3	3

Source: AlphaWise, Morgan Stanley Research

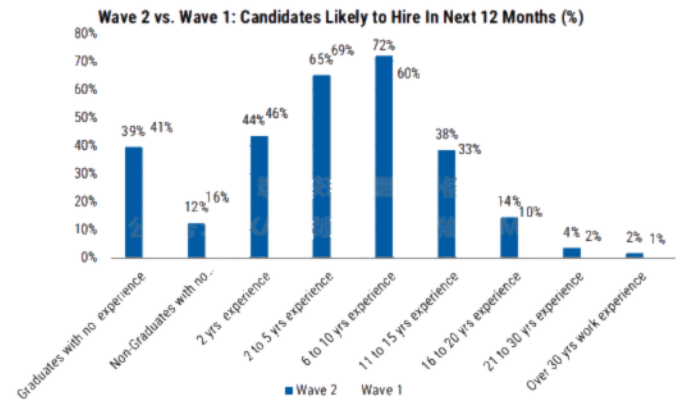
Candidates most likely to be hired in the next 12 months will have 2-10 years experience: For Wave 2 sectors, 72% of survey respondents said they were most likely to hire candidates with 6-10 years experience in the next 12 months, followed by 2-5 years experience (65%). This is broadly aligned with the responses from Wave 1 sectors, though there was a slight preference for 2-5 years experience amongst respondents to our first survey. Responses to both surveys indicate that graduate hiring remains strong at ~40%, indicating that investment in future talent is still seen as a necessity.

Exhibit 20: Candidates most likely to be hired in the next 12 months in Wave 2 sectors will have 2-10 years experience...



Source: AlphaWise, Morgan Stanley Research

Exhibit 21: ... this is broadly aligned with responses from companies in Wave 1 sectors.

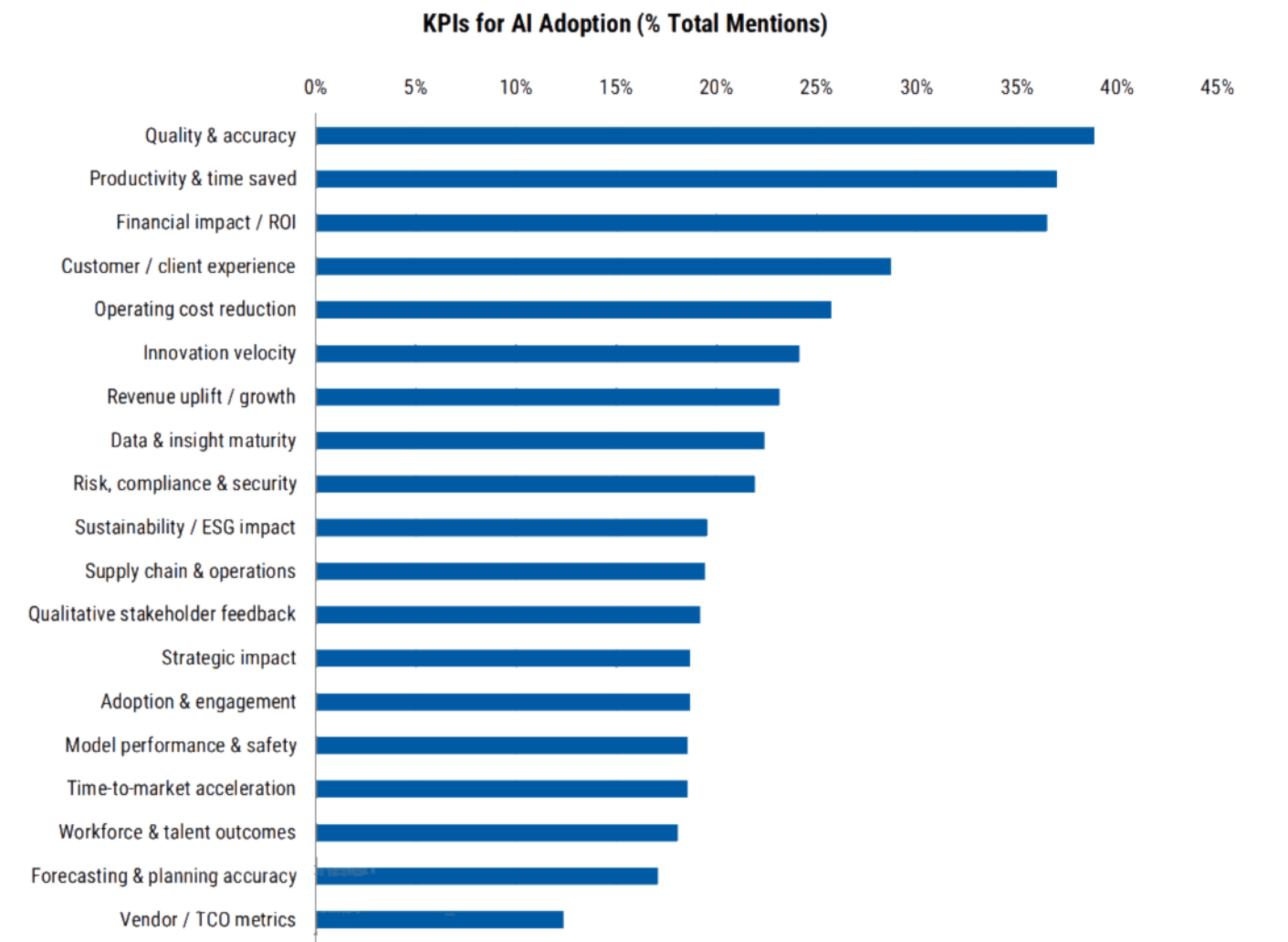


Source: AlphaWise, Morgan Stanley Research

AI Impact on Productivity

How are companies measuring productivity? Across all countries, the top three KPIs for measuring business outcomes from AI adoption for Wave 2 companies are: 1) quality and accuracy, 2) productivity and time saved, 3) financial impact/ROI. ROI is further up the priority list for Wave 2 companies than Wave 1, where operating cost reduction is in the top three KPIs.

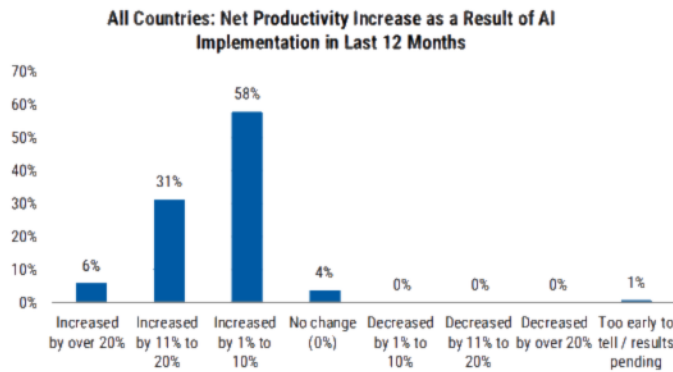
Exhibit 22: For Wave 2 companies, the top three KPIs for measuring business outcomes from AI adoption are 1) quality and accuracy, 2) productivity and time saved, 3) financial impact/ROI



Source: AlphaWise, Morgan Stanley Research

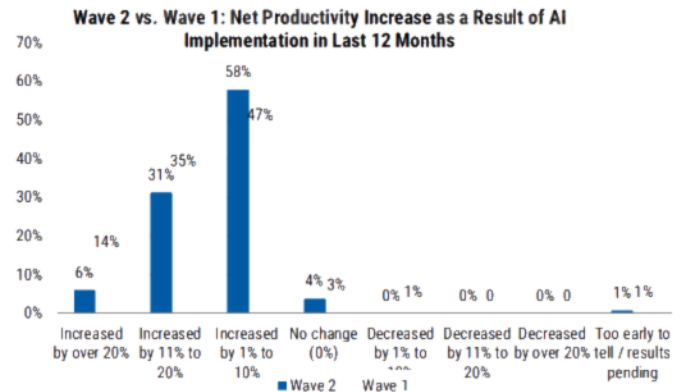
Wave 2 companies reported an average 9.6% increase in net productivity due to AI, this is lower than the 11.5% increase for Wave 1 companies. For Wave 2 companies across all countries, the majority of companies (58%) noted a 1-10% increase in net productivity as a result of AI implementation. Around a third (31%) noted an 11-20% increase, and 11% said that productivity had increased by >20%.

Exhibit 23: Wave 2 companies reported an average 9.6% increase in net productivity due to AI implementation...



Source: AlphaWise, Morgan Stanley Research

Exhibit 24: ... this is lower than the 11.5% reported for Wave 1 companies.

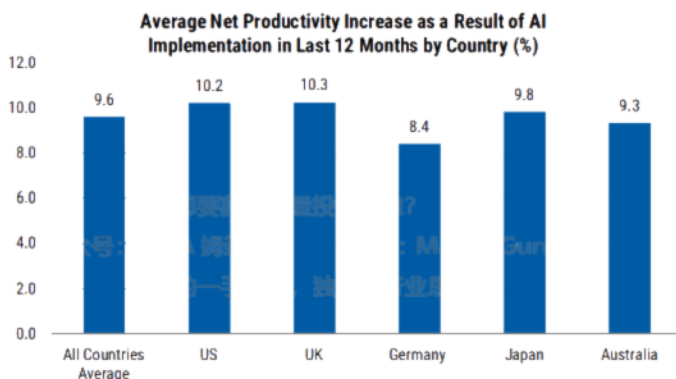


Source: AlphaWise, Morgan Stanley Research

British companies reported the highest average net productivity at 10.3% and German companies reported the lowest increase at 8.4%. We note German companies also reported the lowest productivity increase in our previous survey, though in our previous survey Australian companies reported the highest increase.

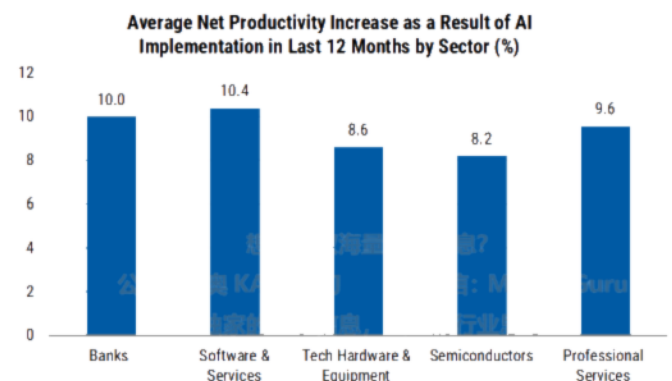
Average net productivity was highest for Software companies, at 10.4% followed by Banks at 10%. Semis companies reported the lowest net productivity increase at 8.2%.

Exhibit 25: For Wave 2 companies, average net productivity increase was highest for the UK...



Source: AlphaWise, Morgan Stanley Research

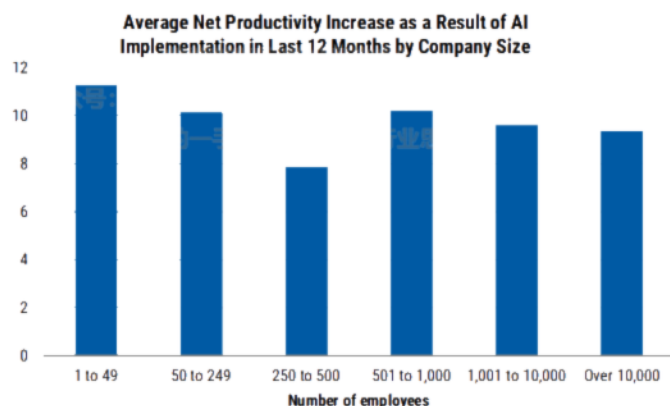
Exhibit 26: ... and in the Software & Services sector



Source: AlphaWise, Morgan Stanley Research

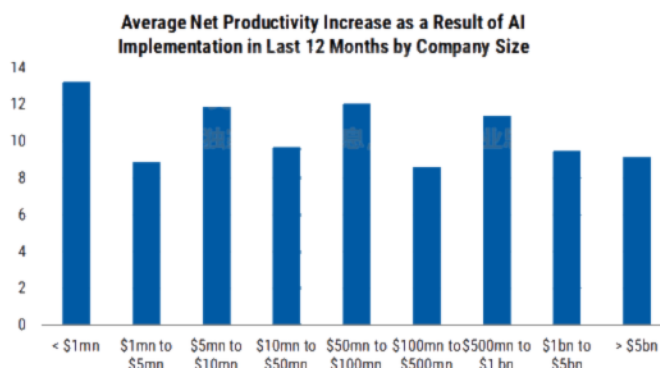
The smallest companies reported the highest net productivity increase, this is true when comparing companies in terms of both number of employees and revenue generation.

Exhibit 27: Companies with <50 employees reported the highest net productivity increase



Source: AlphaWise, Morgan Stanley Research

Exhibit 28: Companies with <\$1 mn revenues reported the highest net productivity increase



Source: AlphaWise, Morgan Stanley Research

Productivity gains differ considerably across roles: Across sectors and countries, the greatest productivity gains were seen in IT/Software Development (70%), followed by Customer Service/Support (48%), and Finance (42%). This differs slightly from Wave 1 company responses, where Marketing was a top three response. We note that IT/Software Development has a significantly higher number of responses for Wave 2 companies. These responses likely reflect the business operations of the Wave 2 sectors, which include Software companies and Banks.

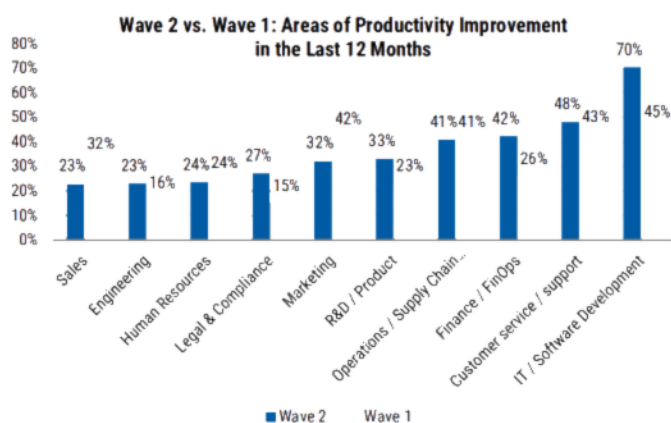
Exhibit 29: Productivity gains differ considerably across roles

All Countries: Areas of Productivity Improvement in the Last 12 Months



Source: AlphaWise, Morgan Stanley Research

Exhibit 30: IT/Software Development followed by Customer Service/Support saw the greatest productivity increases across both surveys



Source: AlphaWise, Morgan Stanley Research

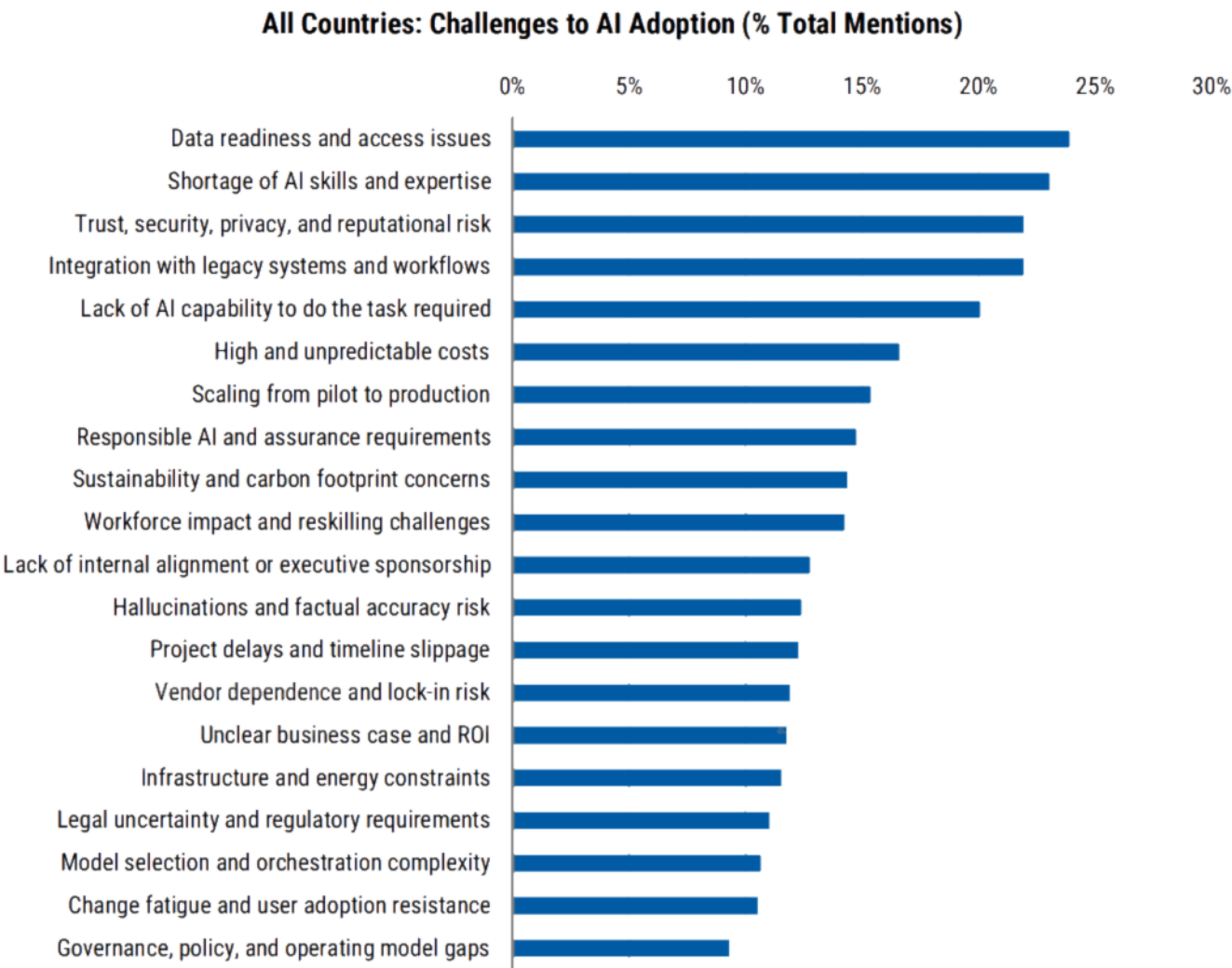
Companies anticipate making greater net productivity gains in the next 12 months. Average productivity gains are expected to increase to 11.7% in the next 12 months, up from a 9.6% average gain in the last 12 months.

Challenges to AI Adoption

What are the main barriers to AI adoption? Across all countries, the top five challenges for AI adoption across Wave 2 sectors were 1) data readiness and access issues; 2) shortage of AI skills and expertise; 3) trust, security, privacy, and reputational risk; 4) integration with legacy systems and workforce; and 5) lack of AI capability to do the task required.

Whilst most of the top 5 challenges for Wave 2 companies are the same as those reported by Wave 1, there is a divergence between the two waves on what matters most. Wave 2 companies' top challenges are skewed towards operational and system issues, whereas Wave 1 were more skewed towards safety and responsibility, with trust, security, privacy and reputational risk the top challenge for Wave 1 companies, and responsible AI and assurance requirements also featuring in the top five challenges.

Exhibit 31: Data readiness and access issues has been the main barrier to AI adoption for Wave 2 companies

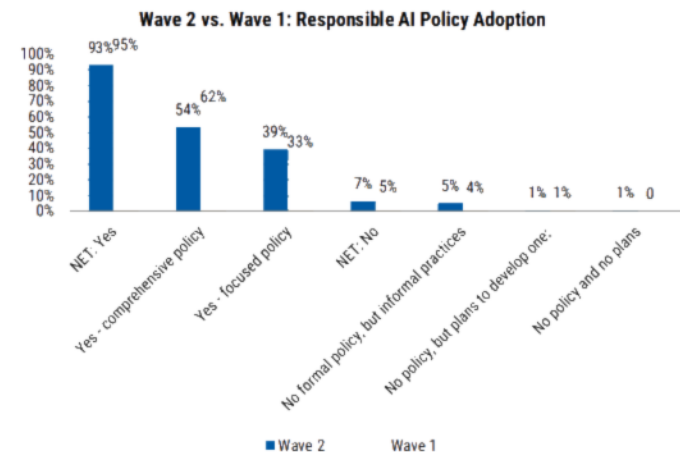


Responsible AI

93% of Wave 2 companies have a formal responsible AI policy in place, in line with 95% of Wave 1 companies from our previous survey. Whilst this may seem high, this survey focused on companies that had been implementing AI for at least the last 12 months, and this is therefore only a reflection of responsible AI practices amongst more advanced AI adopters.

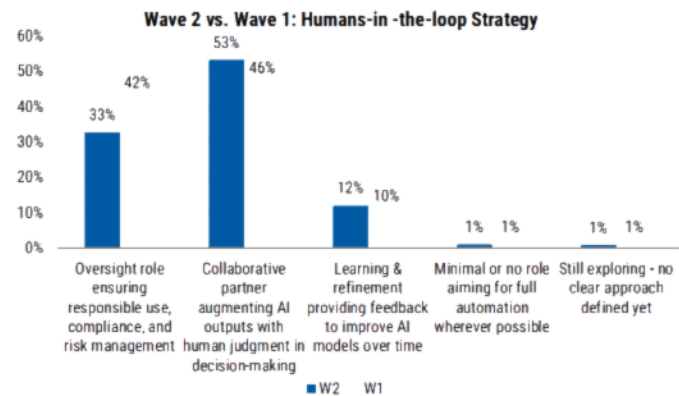
We note that most Wave 2 companies are adopting AI with an augmentation human-in-the-loop strategy, where AI is a collaborative partner and human judgement is required in decision making - this is in line with responses from Wave 1 companies.

Exhibit 32: 93% of Wave 2 companies have a formal policy in place



Source: AlphaVise, Morgan Stanley Research

Exhibit 33: Most companies are adopting AI with an augmentation human-in-the-loop strategy



Source: AlphaVise, Morgan Stanley Research

US – Key Takeaways

Michelle Weaver

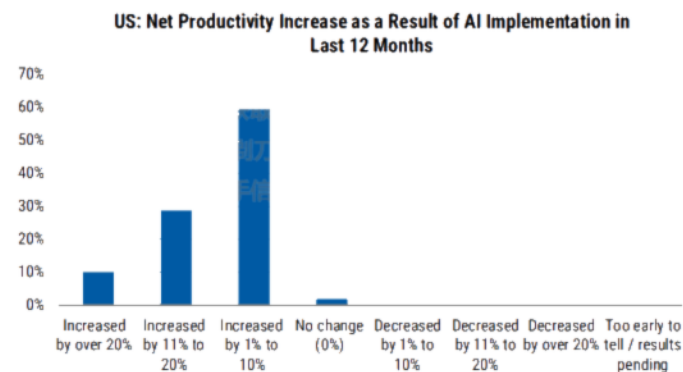
Since the launch of ChatGPT in late 2022, AI has emerged as a defining force across markets, reshaping how companies operate, invest, and compete. The current wave of innovation is following a similar pattern seen in past compute cycles: value creation first in semiconductors, then infrastructure, and then internet/software/services. But the impact is not confined to the tech sector. As in past cycles, companies across industries are beginning to realize tangible gains through technology diffusion. **This transformation is not just about the technology, it's also about how businesses evolve, reallocate capital, and unlock new efficiencies.**

Productivity & AI Use Cases

Companies in our surveyed industry groups (Banks, Software, Tech Hardware & Equipment, Semis, Professional Services) deploying AI report seeing net productivity increases over the last 12 months. Over half of these firms saw modest increases in productivity of 1-10%, just under a third saw 11-20% increases, and 10% saw net productivity increases over 20%. Very few respondents report no change, and none report productivity declines, suggesting that companies implementing AI are generally seeing positive early returns, though the magnitude of improvement is still concentrated in the lower double-digit or below range.

The areas of greatest productivity improvement are concentrated in digital, knowledge work, and process-intensive functions where workflows are data-heavy, repetitive, or easily augmented by automation and generative AI tools. IT / Software Development ranks highest, followed by Customer Service / Support, Marketing, and Operations / Supply Chain Management.

Exhibit 34: US respondents reported an average net productivity gain of 10.2% due to AI over the last 12 months, vs a global average of 9.6%



Source: AlphaVise, Morgan Stanley Research

Exhibit 35: IT and software development saw the greatest increase in productivity in the US over the last 12 months

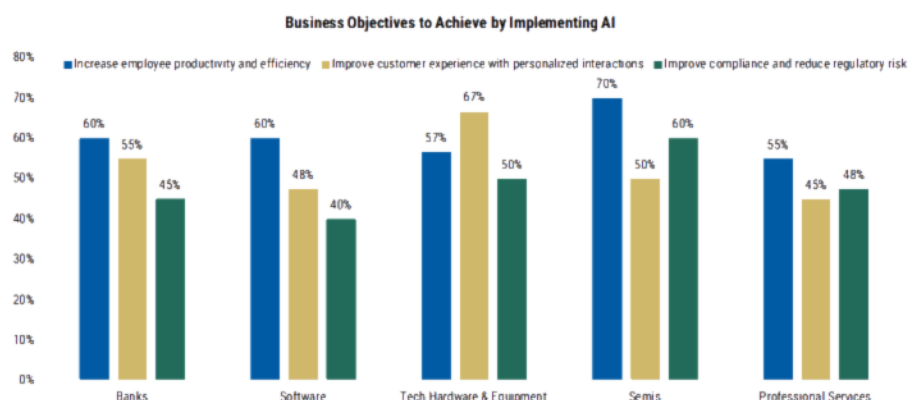


Source: AlphaVise, Morgan Stanley Research

Across industries, surveyed companies most commonly cite employee productivity and efficiency as a key objective for AI implementation, though the relative emphasis varies meaningfully by industry. Semiconductors stand out as the most productivity-

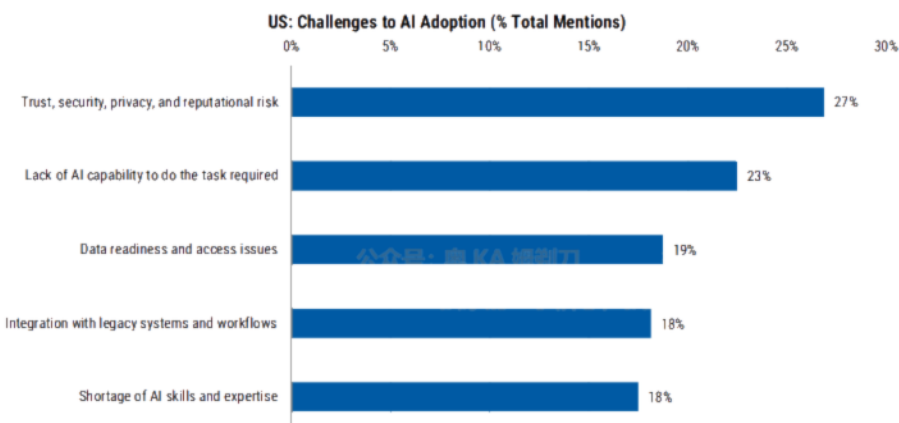
focused group, with 70% of companies identifying productivity and efficiency gains as a core AI objective; Software follows closely at 60%. The second most common objective is generally improving the customer experience through personalized interactions, but Tech Hardware & Equipment is a notable exception where this is the top-ranked priority. In that sector, 67% of respondents cite customer experience and personalization as an AI objective, well above the 57% citing productivity. Overall, the results suggest that companies are approaching AI with a mix of cost/productivity, revenue/customer experience, and risk-management objectives.

Exhibit 36: Objectives of AI Implementation



Source: AlphaWise, Morgan Stanley Research

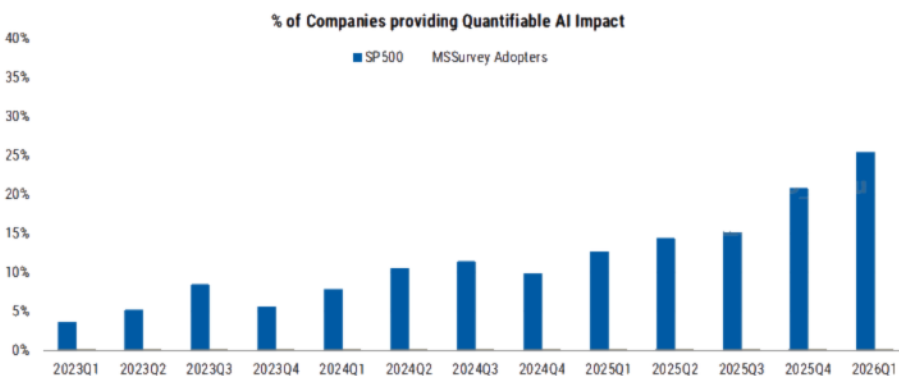
The most commonly cited challenge to AI adoption is trust, security, privacy, and reputational risk, representing 27% of total mentions. This reinforces that AI adoption is not constrained only by technical feasibility, but also by governance, risk controls, and confidence in how AI outputs and data are managed. Beyond trust and risk, companies also cite more practical implementation barriers. Lack of AI capability to do the required task accounts for 23% of mentions, followed by data readiness and access issues at 19%, integration with legacy systems and workflows at 18%, and shortage of AI skills and expertise at 18%. The results suggest that scaling AI use cases will require more than tool availability; companies need better data infrastructure, workflow integration, employee training, and risk management frameworks.

Exhibit 37: Challenges to AI Adoption

Source: AlphaVise, Morgan Stanley Research

The survey work dovetails with another analysis we recently refreshed. [Last fall, in collaboration with our QuantWise team, we leveraged the GPT model to analyze approximately >15,000 conference transcripts and track how management teams are communicating the quantifiable benefits of AI adoption to investors. We recently updated](#) that analysis for earnings calls and conference transcripts for events that took place during 1Q (note, earnings calls taking place during 1Q were largely those covering 4Q results).

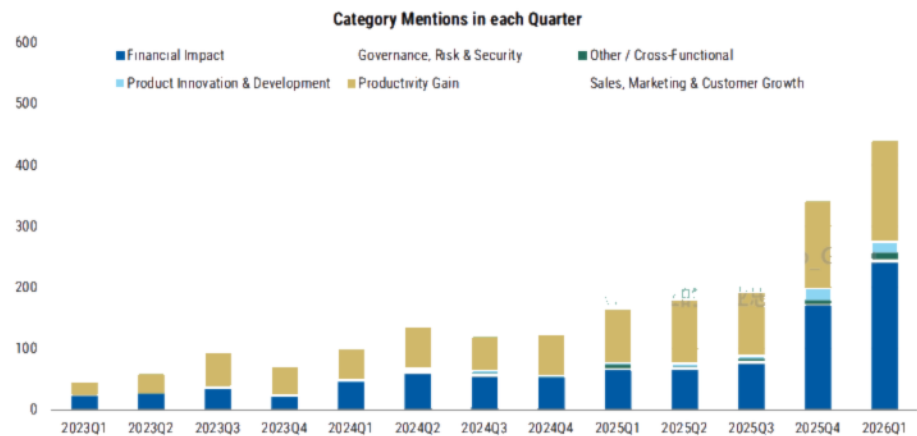
The share of companies citing quantifiable benefits from AI adoption has been steadily increasing based on our analysis. **In 1Q26, 37% of companies identified as "adopters" by our analysts mentioned at least one quantitative impact, up from 30% in 4Q25 and 22% in 1Q25.** For the broader S&P 500, **25% of members mentioned at least one measurable benefit, up from 21% in 4Q25 and 13% in 1Q25.** We expect this trend to continue as models become more powerful and as companies further ramp up their AI adoption efforts giving employees access to more AI tools.

Exhibit 38: Discussions of Quantifiable Benefits from AI Are Rising

Source: Morgan Stanley Research. Please note: companies mentioning multiple quantifiable benefits from AI are only counted once in this chart.

Today, the majority of discussions of quantifiable benefits are tied to "financial impact" (revenue growth/generation, cost savings, or investment & capital impacts). "Productivity gain" remains the second-most prevalent type of AI adoption.

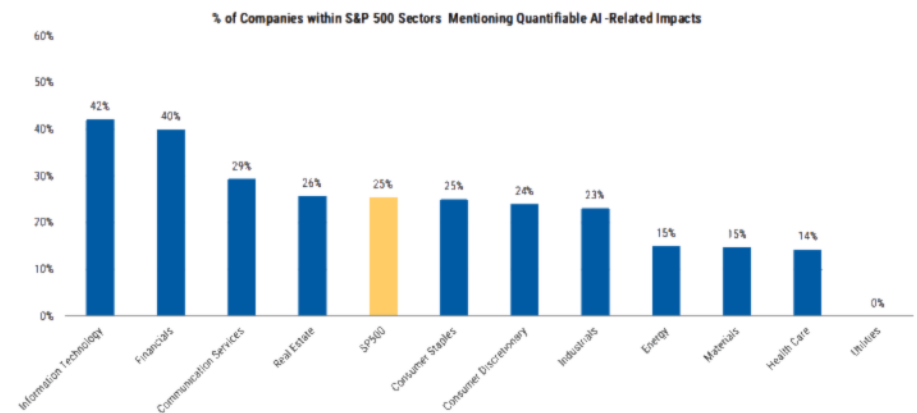
Exhibit 39: Category Level Mentions of AI Benefits



Source: Morgan Stanley Research

To better understand sector-level adoption, we analyzed the percentage of companies within each S&P 500 sector that referenced tangible AI-driven improvements. Technology holds its spot at the top, with 42% of companies highlighting quantifiable benefits. Financials follow at 40%, while Communication Services ranks third with 29%. On a year over year basis, Financials saw the largest increase in mentions (from 15% of the sector in 1Q25 to 40% today), followed by Tech (from 22% of the sector in 1Q25 to 42% today). Since 4Q25, an additional 17% of Communication Services companies and 15% of Financials companies mentioned quantifiable benefits.

Exhibit 40: Percentage of Companies within S&P 500 Sectors Mentioning Quantifiable AI-Related Impacts



Source: Morgan Stanley Research

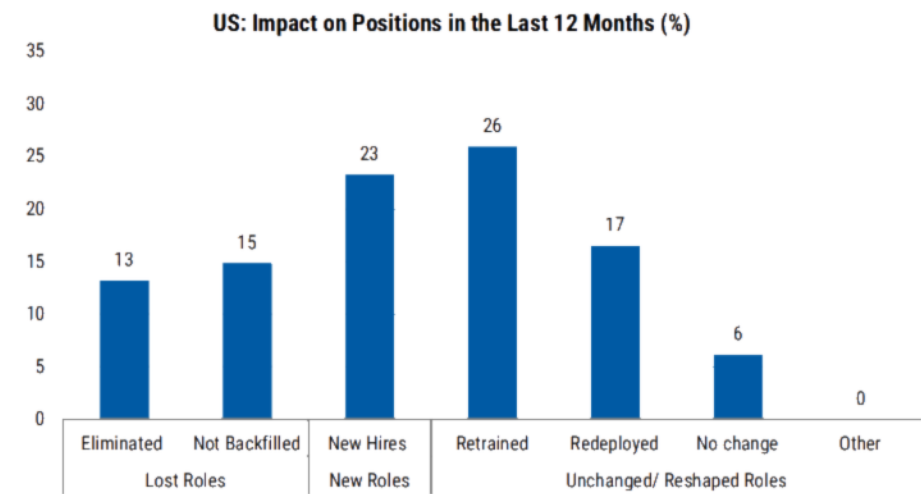
Labor Implications

US companies within the targeted industries (Banks, Software, Tech Hardware & Equipment, Semis, Professional Services) reported a 5% net loss of jobs over the last 12 months, in line with the all-country net loss of 5%. During the last wave of the survey, targeted industries reported a 2% net job gain. The net figure is calculated as new hires less eliminated roles and roles not backfilled; in the US, 23% of respondents

reported new hires, offset by 13% reporting eliminated positions and 15% reporting roles not backfilled.

The broader labor impact continues to look more like workforce reshaping than outright displacement. The largest reported impact was retraining, cited by 26% of respondents, followed by redeployment at 17%. This suggests that while AI adoption is now associated with modest net job losses in the targeted US industries, many companies are also reallocating employees, redesigning workflows, and building new AI-related capabilities rather than relying only on AI automation and headcount reduction.

Exhibit 41: AI Adoption Impacts on Positions



Source: AlphaVise | Morgan Stanley Research

By experience level, the labor impact is most negative for early-career employees, suggesting AI adoption may be weighing most heavily on entry level and junior roles. Respondents reported the largest net job losses for employees with less than two years of work experience (-18%) and two to five years of experience (-17%), followed by non graduates with no prior work experience (-14%) and graduates with no prior work experience (-13%). These cohorts also show relatively high rates of eliminated and not-backfilled roles, indicating that AI may be reducing demand for some junior execution oriented tasks or slowing replacement hiring at the bottom of the experience curve. Net job losses are still present across more experienced cohorts, but the impact becomes progressively less negative as job experience rises.

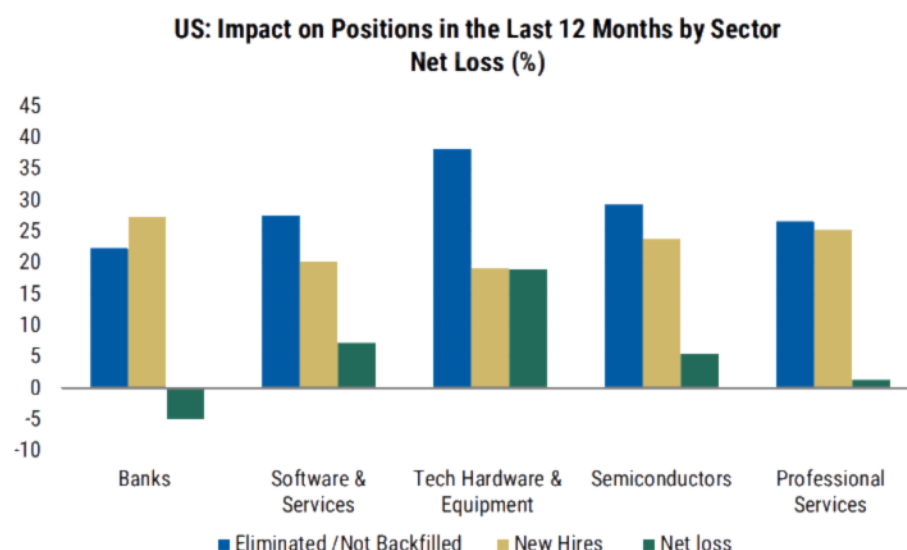
Exhibit 42: Average Job Impacts by Worker Level

US AVERAGE %	Eliminated	Not backfilled	Hired	Retrained	Redeployed	NET
Graduates with no prior work experience	11	11	10	8	7	-13
Non-Graduates with no prior work experience	10	11	7	7	7	-14
< 2 years work experience	17	16	15	15	14	-18
2 to 5 years work experience	19	20	22	21	21	-17
6 to 10 years work experience	17	16	19	19	20	-13
11 to 15 years work experience	12	12	12	13	14	-12
16 to 20 years work experience	8	7	8	9	9	-7
21 to 30 years work experience	5	4	4	5	5	-4
Over 30 years work experience	2	3	2	3	3	-3

Source: AlphaVise | Morgan Stanley Research

At the industry group level, we are seeing net positive hiring with Banks (+5%) while all other industries survey are seeing net job losses - Professional Services (-1%), Semiconductors (-6%), Software & Services (-7%), and Tech Hardware & Equipment (-19%). Tech Hardware firms in the US are seeing substantially higher losses relative to other countries.

Exhibit 43: Impacts by Sector



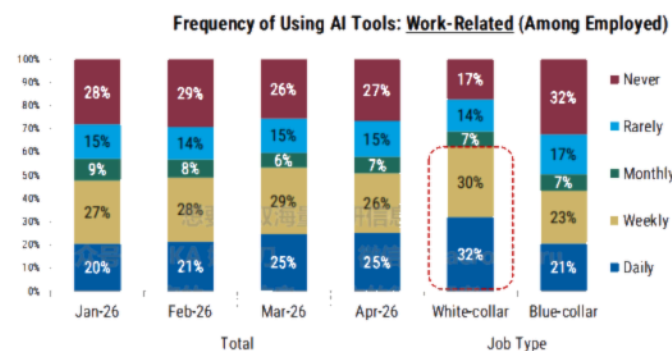
Source: AlphaWise, Morgan Stanley Research

How Are Workers Using AI?

We run a monthly survey of ~2,000 US consumers and featured several questions on AI use at work and overall sentiment toward AI - our latest note can be [found here](#).

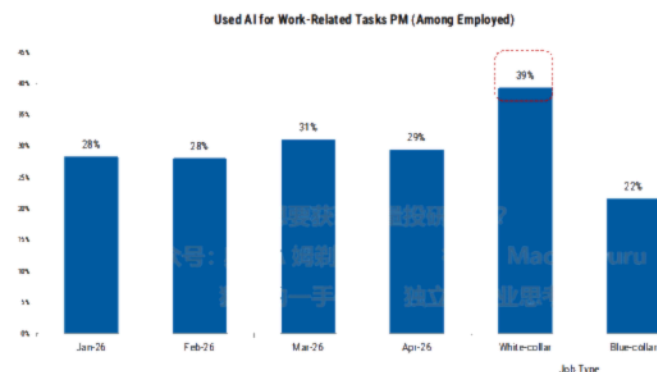
Work-related AI adoption among employed respondents has been relatively stable over time, with 29% reporting use of AI for work-related tasks. Adoption remains meaningfully higher among white collar workers than blue collar workers. In the latest survey, 39% of white-collar respondents reported using AI for work-related tasks, compared with 22% of blue-collar respondents. **White collar workers also report more frequent usage, with 32% using AI daily and 30% weekly, versus 21% daily and 23% weekly for blue-collar workers.** This gap is consistent with AI's current strength in knowledge work use cases, though the presence of daily and weekly usage among blue collar respondents suggests work related AI adoption extends beyond office roles.

Exhibit 44: Frequency of Work-Related AI Use



Source: AlphaVise, Morgan Stanley Research

Exhibit 45: Work-Related AI Adoption

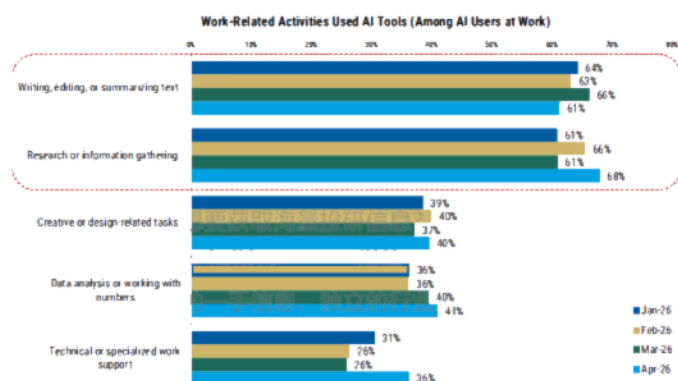


Source: AlphaVise, Morgan Stanley Research

Work-related AI use remains concentrated in core knowledge work activities, with writing, editing, or summarizing text and research or information gathering consistently the most common use cases. Over time, these two categories have remained well ahead of other applications, with research/information gathering rising to 68% in the latest wave and writing/editing/summarizing still elevated at 61%. More specialized use cases are less broadly adopted, though there are signs of expansion: data analysis or working with numbers increased to 41%, and technical or specialized work support rose to 36%, suggesting AI usage is broadening beyond basic text and search oriented use.

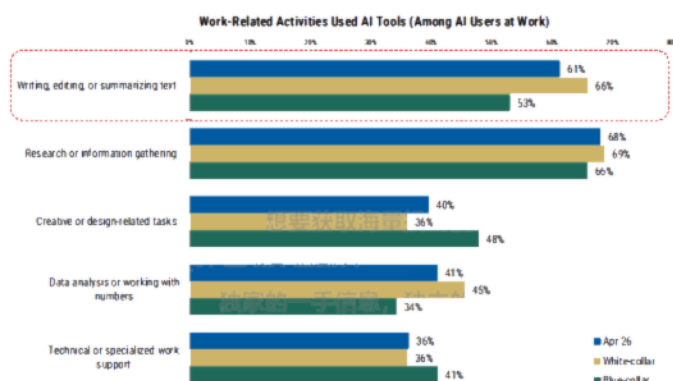
By worker type, the same two leading use cases dominate, but there are notable differences in secondary applications. White-collar workers report the highest use of AI for writing/editing/summarizing text at 66%, while blue-collar workers show relatively higher usage for creative or design-related tasks at 48% and technical or specialized work support at 41%.

Exhibit 46: Work-Related AI Use Cases Over Time



Source: AlphaVise, Morgan Stanley Research

Exhibit 47: Work-Related AI Use Cases by Worker



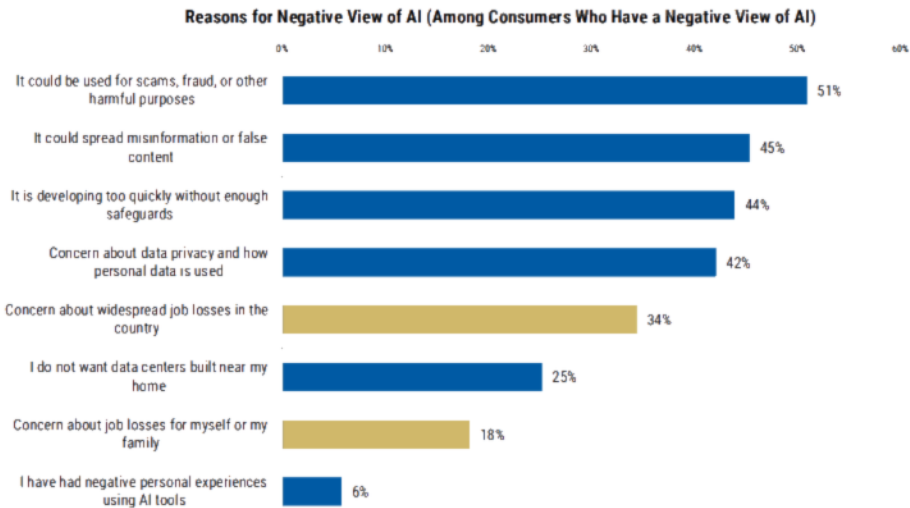
Source: AlphaVise, Morgan Stanley Research

On the most recent wave of our survey, we added a question around sentiment toward AI. **Among survey respondents with a net negative view of AI, concern around job losses was among the lowest ranking issues.** The most common concerns center on misuse, misinformation, speed of development, and data privacy, each cited by 40-50% of respondents. **By comparison, 34% cite concern about widespread job losses in the country, while a smaller 18% cite concern about job losses for themselves or their**

family. This suggests that consumers' labor concerns are more macro-oriented than personal: many are worried about the economy-wide implications of AI, but fewer appear to see direct near-term risk to their own household employment.

Taken together, the consumer and company surveys point to AI as a growing labor market concern, but one that is currently showing up as workforce reshaping, slower replacement hiring, and pressure on junior roles rather than broad-based, near-term job losses across all workers.

Exhibit 48: Reasons for Consumers Having a Negative View of AI



Source: AlphaVest, Morgan Stanley Research

Europe – Key Takeaways

Regiane Yamanari, Marina Zavolock, Rachel Fletcher

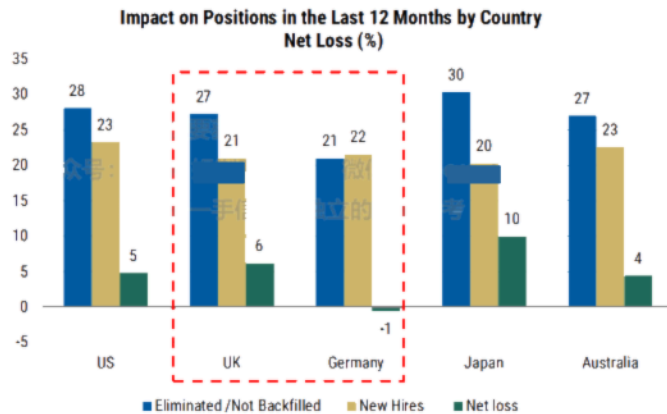
The Wave 2 survey results reinforce our conclusions from Wave 1 that AI is already contributing to net job losses and driving an increase in productivity across sectors and geographies. Most notably for Europe, **the Wave 2 survey results also show the UK reporting a net job loss (6%) higher than the all-country average (5%)** - [Exhibit 49](#). As a reminder, in the Wave 1 survey conducted with five different sectors versus Wave 2, UK companies reported the highest net job loss of 8%, vs the all-country average of 4%. Meanwhile, **German companies reported in Wave 2 a small net gain in positions of 1%**. This compares to a 4% net job loss reported for German companies in Wave 1 of our survey (in line with the Wave 1 average) - [Exhibit 50](#).

At the sector level, in Europe (considering the UK + Germany), survey respondents reported the greatest net losses in Software, with 6% net job loss on average ([Exhibit 51](#)). This is primarily driven by the UK, where Software companies reported the greatest net loss in positions at 11%. **In Germany, Banks reported the highest net job loss at 4%**. Interestingly, our analysis shows that European corporate mentions of AI in relation to headcount have shot up markedly more recently ([Exhibit 52](#)) and the two sectors contributing the most to these mentions year-to-date are Software and Banks - coinciding with the two sectors reporting greater net job losses in Europe according to our AlphaWise survey ([Exhibit 53](#)).

Since the launch of our data-driven sector model, the change in number of employees has been a key input, as we have found that this is an unconventional factor that works particularly well in Europe ([Exhibit 63](#)). Specifically, the top quintile of companies reducing headcount fairly sustainably outperforms the bottom quintile of those companies that are showing relative increases in headcount. We think the fact that this factor has had a particularly high upward slope in the last two years and a Sharpe ratio of 2.1 is a testament to the tightness of labor markets and challenging European demographics today. In addition, we believe that this trend also fits with the AI diffusion theme: those companies that will be able to optimize productivity via AI are likely to outperform.

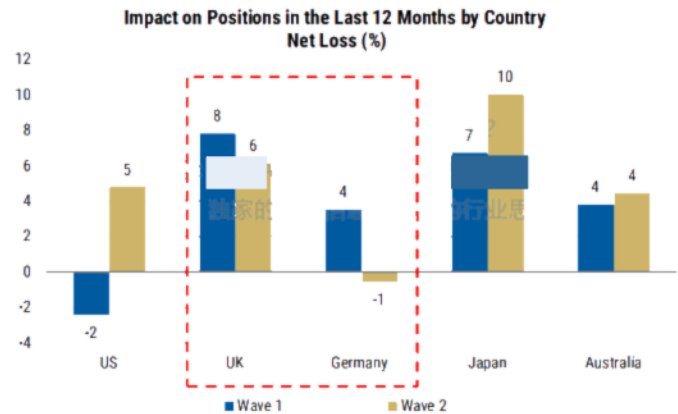
On AI implementation and productivity, UK companies reported the highest productivity gains at 10.3% vs the all-country average of 9.6%. **Meanwhile, German companies reported the lowest productivity gain at 8.4%**, likely reflecting the lower impact on labor among German companies compared to other countries in Wave 2 (). **We continue to note evidence of AI adoption ROI in Europe.** Our analysis shows that the gap in NTM earnings growth between "leading AI adopters" (with at least moderate exposure and neutral/high pricing power) and their respective sectors is widening - we estimate that at the end of 2025 that gap was 3.2p.p. and it seems to be rising ([Exhibit 59](#)). This group trades at an average 23% discount to US equivalents despite similar EPS momentum.

Exhibit 49: In Wave 2, UK companies reported a 6% net job loss and German companies reported a 1% net gain in jobs vs the all-country average of 5%



Source: AlphaSense, Morgan Stanley Research

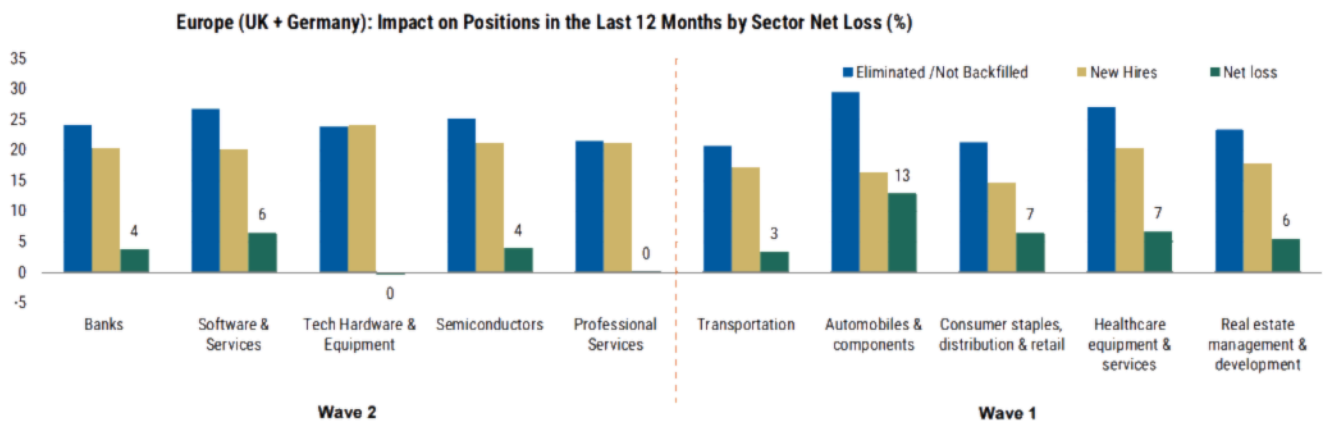
Exhibit 50: Compared to Wave 1, the UK remains among the most impacted in terms of net job losses, while Germany appears below average on both surveys



Source: AlphaSense, Morgan Stanley Research

Exhibit 51:

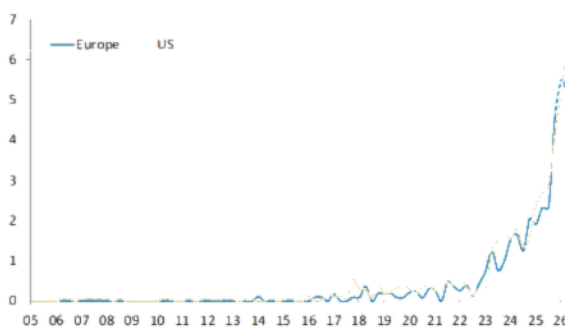
At the sector level, in Europe (UK + Germany), the net job loss was the greatest in Software (6%)



Source: AlphaSense, Morgan Stanley Research

Exhibit 52: European corporate mentions of AI in relation to headcount have shot up markedly...

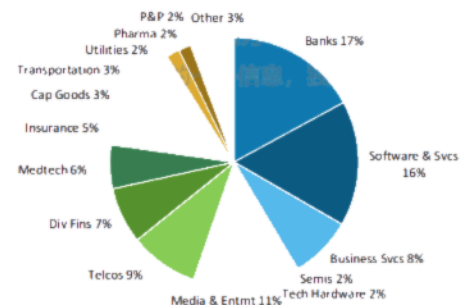
% of corporate transcripts mentioning "Headcount" in relation to AI



Note: Quarterly number of transcripts reduces over long-term history, e.g. 2009 sample size at half of current levels; all metrics are a proportion of relevant sample size at the time; universe is stocks with > \$500m market cap; searches are inclusive of synonyms; dashed lines indicate preliminary Q2/26 data, which may not fully represent the population due to ongoing reporting. Source: AlphaSense, Morgan Stanley Research

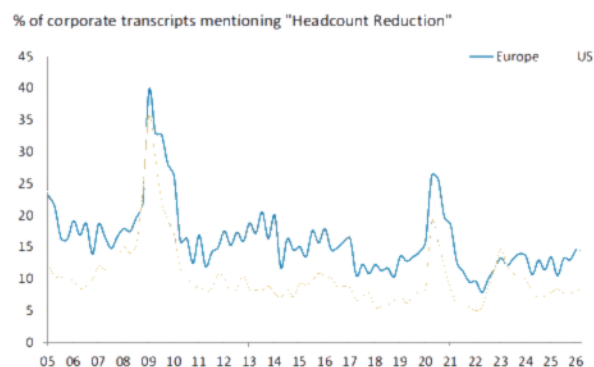
Exhibit 53: ...with sectors surveyed in Wave 2 counting for almost 45% of YTD mentions

Europe: % corporate transcripts mentioning "Headcount" in relation to AI by sector YTD



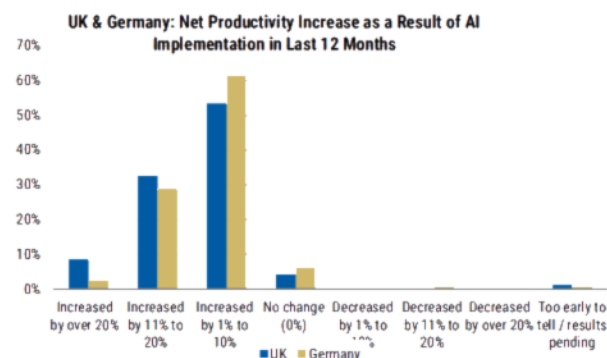
Note: The solid is based on YTD transcripts with a sample size of 123; universe is stocks with > \$500m market cap; searches are inclusive of synonyms. Source: AlphaSense, Morgan Stanley Research

Exhibit 54: The mentions of AI related to headcount are still small compared to the overall regular trend of quarterly headcount reduction...



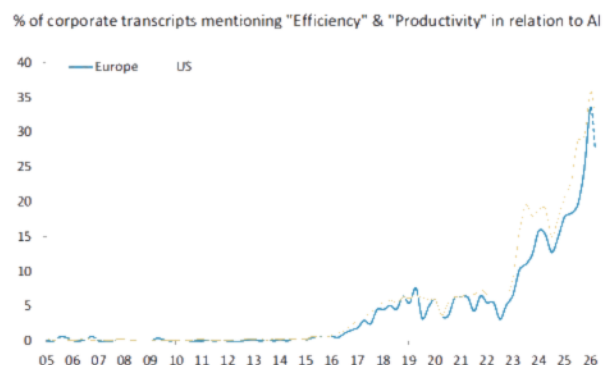
Note: Quarterly number of transcripts reduces over long-term history, e.g. 2009 sample size at half of current levels; all metrics are a proportion of relevant sample size at the time; universe is stocks with > \$500m market cap; searches are inclusive of synonyms; dashed lines indicate preliminary Q2-26 data, which may not fully represent the population due to ongoing reporting. Source: AlphaSense, Morgan Stanley Research

Exhibit 56: UK and German companies reported an average net productivity gain of 10.3% and 8.4% respectively due to AI over the last 12 months



Source: AlphaWise, Morgan Stanley Research

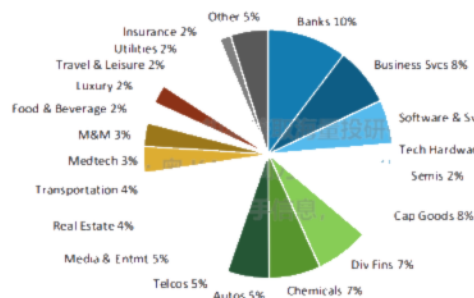
Exhibit 58: European corporate commentary on AI in relation to 'efficiency' and 'productivity' has slightly declined in the latest earnings season, but remains significantly above the last 12M



Note: Quarterly number of transcripts reduces over long-term history, e.g. 2009 sample size at half of current levels; all metrics are a proportion of relevant sample size at the time; universe is stocks with > \$500m market cap; searches are inclusive of synonyms; dashed lines indicate preliminary Q2-26 data, which may not fully represent the population due to ongoing reporting. Source: AlphaSense, Morgan Stanley Research

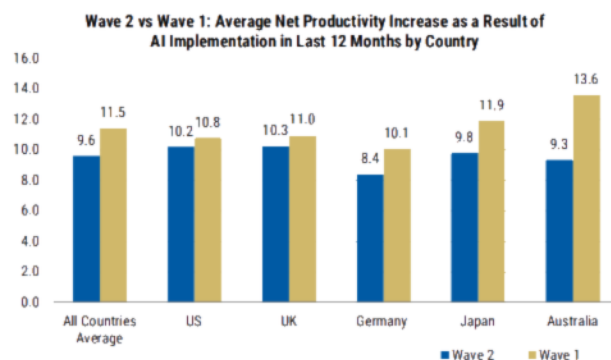
Exhibit 55: ...and these mentions are less concentrated at the sector level

Europe: % corporate transcripts mentioning "Headcount Reduction" by sector YTD



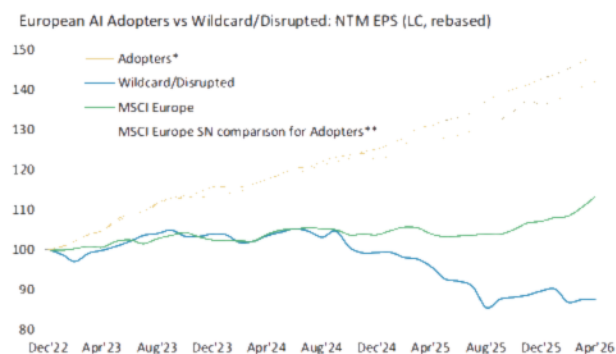
Note: The solid is based on YTD transcripts with a sample size of 129, universe is stocks with > \$500m market cap; searches are inclusive of synonyms. Source: AlphaSense, Morgan Stanley Research

Exhibit 57: In Wave 2, the UK has reported the highest productivity increase compared to other countries, similar levels to the US



Source: AlphaWise, Morgan Stanley Research

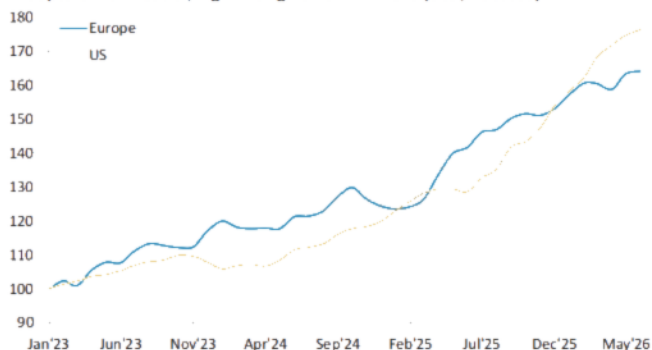
Exhibit 59: The gap between European AI adopters* NTM EPS trend & that of their respective sectors is gradually growing over time



*Note: We consider AI adopters and adopter/enablers with at least 'moderate' AI exposure and neutral to high pricing power. Source: Factset, LSEG Data & Analytics and Morgan Stanley Research

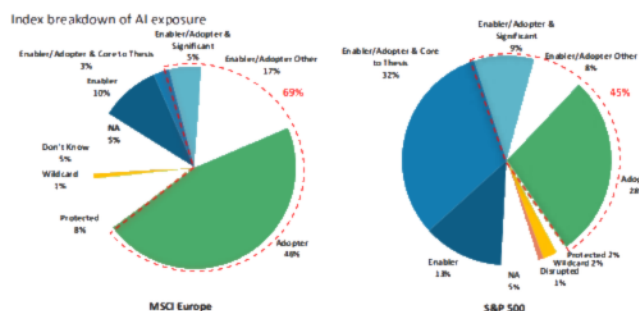
Exhibit 60: European AI adopters' NTM EPS trend is also keeping pace with US equivalents (in USD-terms), on our global AI mapping

AI Adopters with Neutral/High Pricing Power: NTM EPS (USD, Rebased)



Note: We consider AI adopters and adopter/enablers with at least "moderate" AI exposure and neutral to high pricing power. Source: FactSet and Morgan Stanley Research

Exhibit 62: AI adoption is critical for the European index, given a much higher skew of exposure to adoption over enabling relative to the US



*Note: In the highlighted area we consider adopter and adopter/enabler exposure up to the significant level but exclude "core to thesis" adopter/enablers as these tend to be more skewed to enabler exposure in the US. Source: MSCI, FactSet and Morgan Stanley Research

Exhibit 61: Yet, unsurprisingly, European AI adopters trade at a material discount vs their equivalent US AI adoption peers

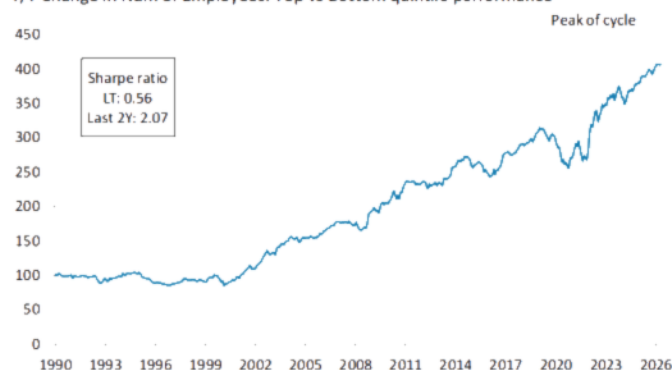
AI Adopters w/ Neutral/High Pricing Power: Europe vs US NTM P/E Discount/Premium



Note: We suppress non-meaningful NTM P/E and virtual stock outliers of >150x in the historical series. Source: MSCI IBIS FactSet and Morgan Stanley Research

Exhibit 63: In Europe, companies reducing headcount on a relative basis vs those adding fairly sustainably outperform, especially in the last 2Y (Sharpe = 2.1)

Y/Y Change in Num of Employees: Top vs Bottom quintile performance

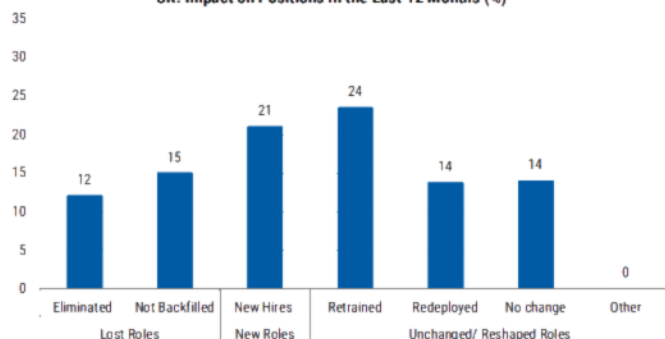


Source: FactSet, Morgan Stanley Research

Additional AlphaWise Survey Charts

Exhibit 64: UK companies reported 12% of roles had been eliminated, a further 15% of positions not backfilled, partially offset by 21% net hires.

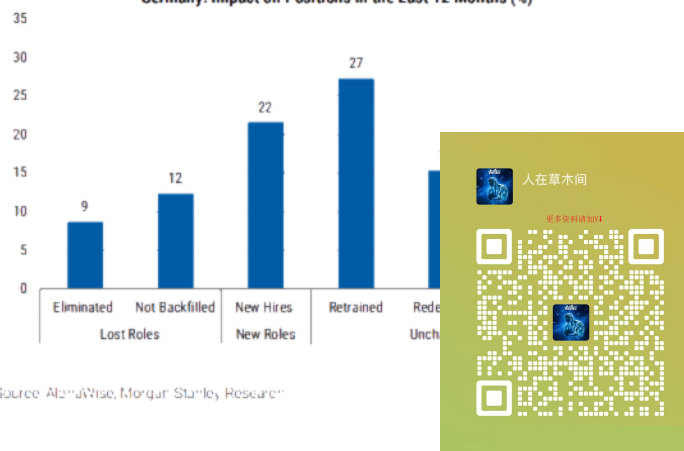
UK: Impact on Positions in the Last 12 Months (%)



Source: AlphaWise, Morgan Stanley Research

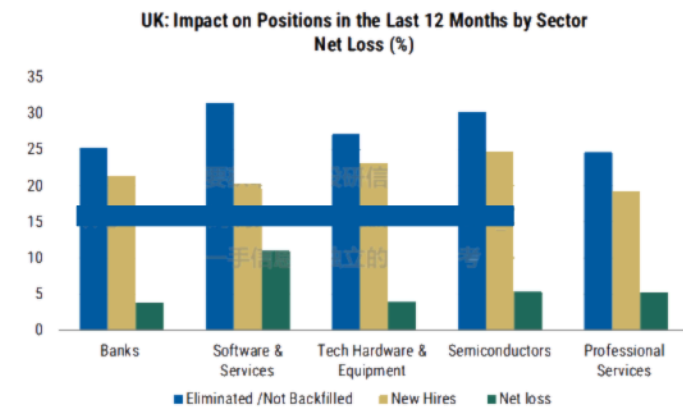
Exhibit 65: German companies reported 9% of roles had been eliminated, a further 12% of positions not backfilled, partially offset by 22% net hires.

Germany: Impact on Positions in the Last 12 Months (%)



Source: AlphaWise, Morgan Stanley Research

Exhibit 66: In the UK, the net loss was greatest within the Software sector...



Source: AlphaWise, Morgan Stanley Research

Exhibit 68: Regarding productivity improvement, software development was the top area of improvement...



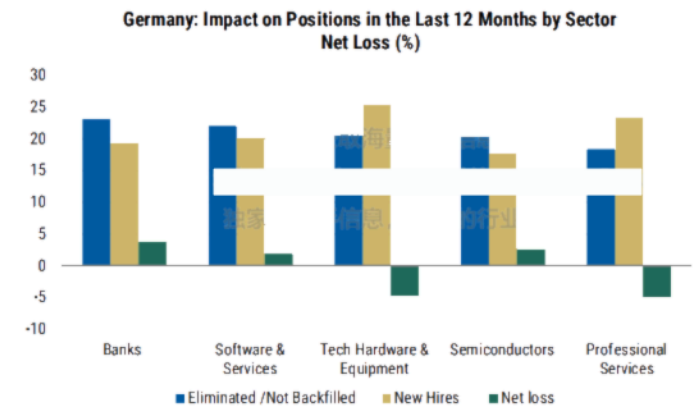
Source: AlphaWise, Morgan Stanley Research

Exhibit 70: Responses suggest that in the UK, roles requiring 2-5 years experience appear most likely to be eliminated...

UK AVERAGE %	Eliminated	Not backfilled	Hired	Retrained	Redeployed
Graduates with no prior work experience	15	14	12	10	11
Non-Graduates with no prior work experience	13	12	9	8	8
< 2 years work experience	17	17	16	15	16
2 to 5 years work experience	18	18	21	20	20
6 to 10 years work experience	15	14	10	18	18
11 to 15 years work experience	10	10	10	11	10
16 to 20 years work experience	7	7	7	8	7
21 to 30 years work experience	4	4	3	5	5
Over 30 years work experience	2	4	3	4	4
Base	130	137	151	146	138

Source: AlphaWise, Morgan Stanley Research

Exhibit 67: ...while in Germany, it was greatest for Banks, with Tech Hardware and Professional Services companies both reporting net gains



Source: AlphaWise, Morgan Stanley Research

Exhibit 69: ...in the last 12 months in both the UK and Germany



Source: AlphaWise, Morgan Stanley Research

Exhibit 71: ... this is also the case for Germany

GERMANY AVERAGE %	Eliminated	Not backfilled	Hired	Retrained	Redeployed
Graduates with no prior work experience	10	11	11	9	8
Non-Graduates with no prior work experience	11	10	6	8	7
< 2 years work experience	17	17	14	14	14
2 to 5 years work experience	19	19	22	19	20
6 to 10 years work experience	16	16	19	20	20
11 to 15 years work experience	11	12	13	15	14
16 to 20 years work experience	8	7	7	8	9
21 to 30 years work experience	5	5	5	5	5
Over 30 years work experience	3	3	2	3	3
Base	139	147	155	152	150

Source: AlphaWise, Morgan Stanley Research

Asia – Key Takeaways

Daniel Blake, Kristal Ji

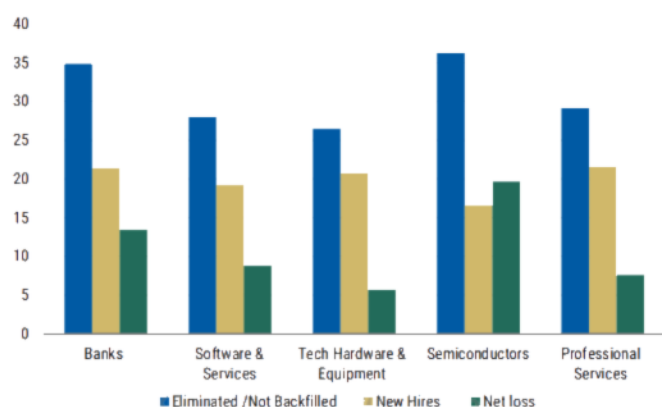
Sizing the Impact on Workforces

Surveyed companies are already seeing net reductions in staffing

We again flag up front the scope of the survey, which only included companies that have been adopting AI systems for at least a year. As such, the results below represent those at the more leading edge of potential labour market impacts, which was a deliberate choice as we aim to look down the road. In terms of sector coverage, for Wave 2, we move into the large-employment base sectors of Financial Services, Professional Services and Software, as well as Semiconductors and Tech Hardware.

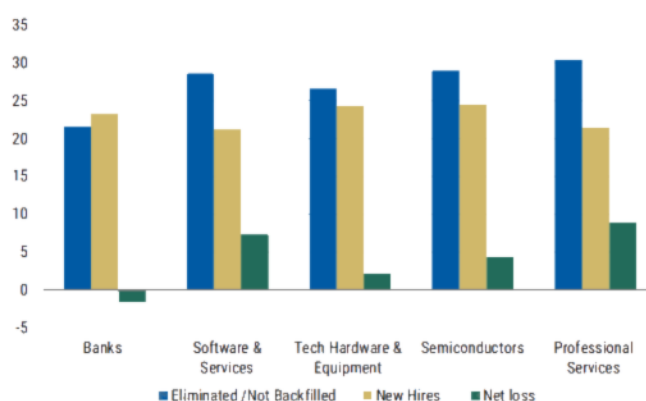
Strikingly, survey respondents in Japan reported a net 10% reduction of staffing as a result of AI adoption in the past 12 months, the highest among the five countries surveyed. This was focused in Banks (13%), but Software (9%) and Professional Services (8%) also reported material reductions in staffing. Australian survey respondents flagged a 4% net loss of positions, with Professional Services (9%) and Software (7%) having the highest net reductions. Interestingly, respondents amongst the Australian banks indicated that a net 2% points of positions were added, as a result of new jobs created versus those eliminated or not backfilled.

Exhibit 72: Japan - Net Loss % of Positions in the Last 12 Months by Sector



Source: AlphaWise, Morgan Stanley Research

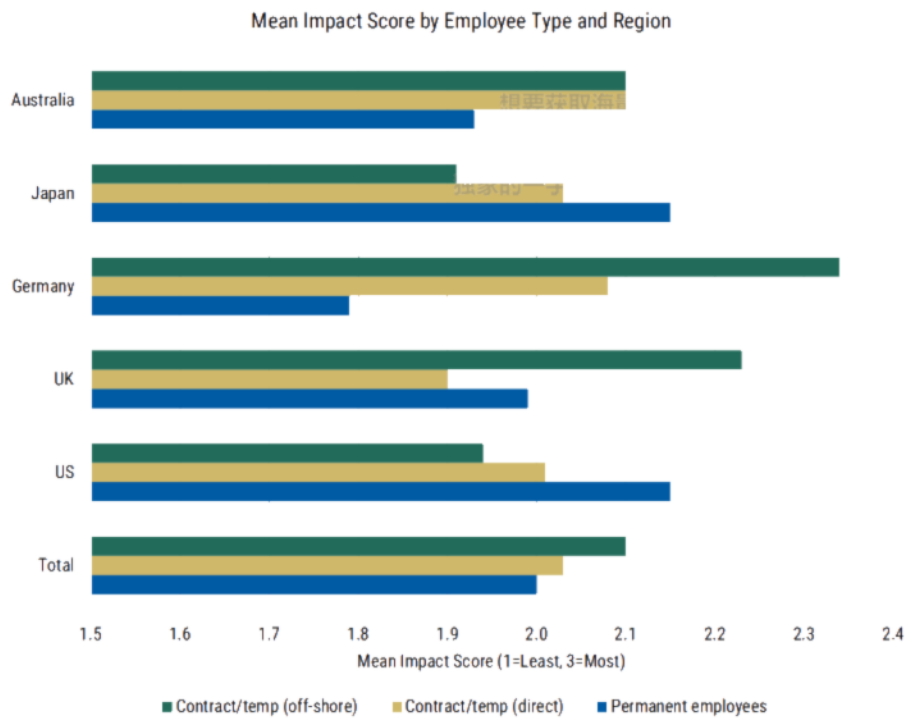
Exhibit 73: Australia - Net Loss % of Positions in the Last 12 Months by Sector



Source: AlphaWise, Morgan Stanley Research

Overall across the five countries covered by the survey, **offshore contract/temporary employees** have been the most negatively impacted in the past 12 months by AI deployment, while permanent employees have seen a relatively lower score (less impact). However, Japanese and US companies in fact have identified more acute negative impacts on full-time employees compared to other types, as shown in [Exhibit 74](#).

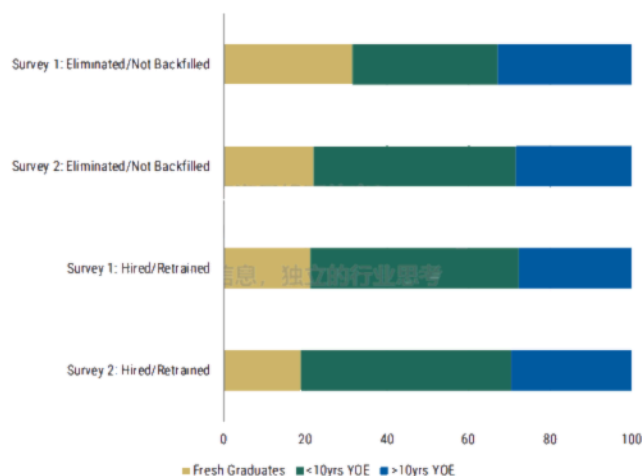
Exhibit 74: Mean Impact Score by Employee Type and Region (Higher score means most negative impacts) - Offshore contract/temp employees have seen the most negative impacts on employment in the past 12 months in Australia, while permanent employees have faced more headwinds in Japan (alongside US).



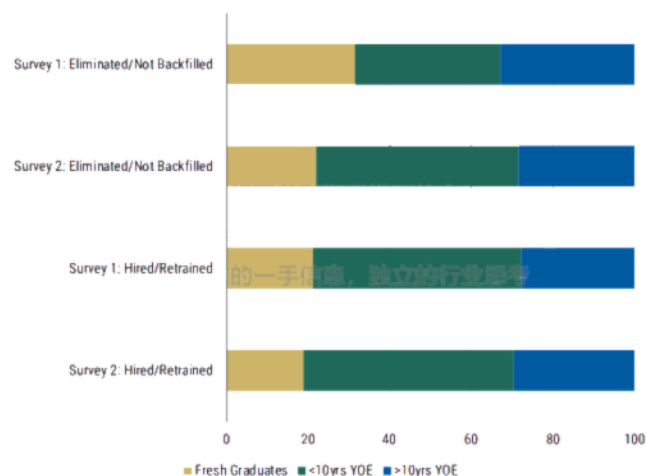
Source: AlphaVee, Morgan Stanley Research

Compared to our previous survey employees with less than 10 years of experience were seen to be more exposed to job elimination, or not backfilled in Japan and Australia. Interestingly, this mid-career cohort was seen to face greater risk than both fresh graduates and highly experienced employees. We will look to better understand this dynamic, but suspect this represents a combination of 1) graduate intake programs having some inertia in terms of quantum and to avoid negative signalling, and 2) the capabilities of the models progressing further into being able to undertake tasks performed by relatively less experienced staff.

Nevertheless, this same cohort also demonstrates the highest potential for retention through hiring and retraining programs, suggesting that while mid-career employees bear higher risks of workforce disruption, they also represent a key focus for organizational reinvestment.

Exhibit 75: Job Impacts in Japan by Employee Experience

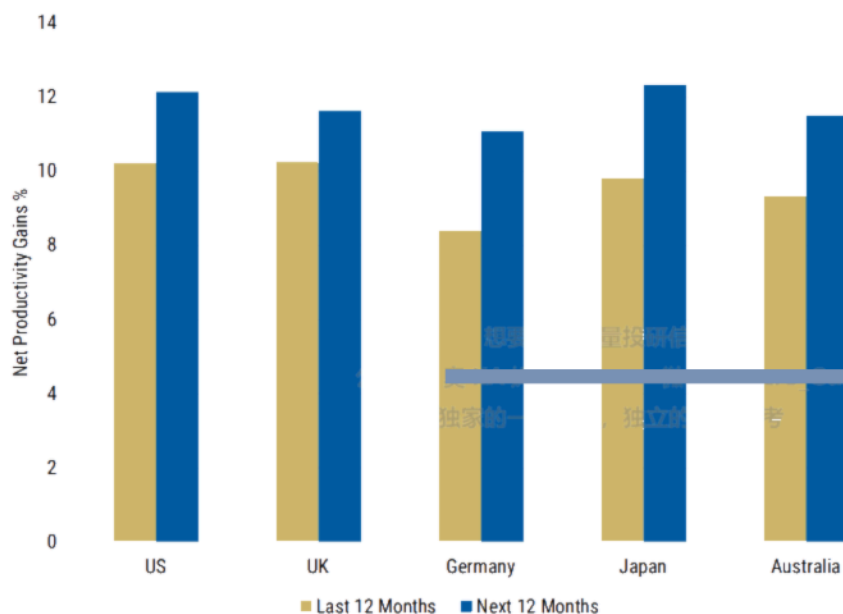
Source: AlphaWise, Morgan Stanley Research

Exhibit 76: Job Impacts in Australia by Employee Experience

Source: AlphaWise, Morgan Stanley Research

What AI Productivity Gains are Companies Seeing?

Japan and Australia respondents both reported a net productivity improvement of approximately 9-10% over the past 12 months through AI adoption, broadly in line with trends observed in the US, UK and Germany. Notably, companies in both markets are anticipating an acceleration in net productivity growth over the next 12 months, with Japan expecting an additional 2.5% and Australia an additional 2.2%.

Exhibit 77: Net Productivity Impacts in the Last 12 Months vs Expectations for the Next 12 Months - Companies are expecting an acceleration in net productivity growth

Source: AlphaWise, Morgan Stanley Research

However, the areas of impact differ between the two markets - Japan saw the most pronounced gains in IT/Software Development, Customer Service/Support, and R&D/Product, reflecting a strong focus on technical and innovation-driven functions.

Meanwhile, Australia has realized productivity improvements across a broader range of functions, including IT/Software Development, Customer Service/Support, Operations/Supply Chain Management, and Finance/FinOps.

Exhibit 78: Japan: Areas of Productivity Improvement in the Last 12 Months



Source: AlphaWise, Morgan Stanley Research

Exhibit 79: Australia: Areas of Productivity Improvement in the Last 12 Months

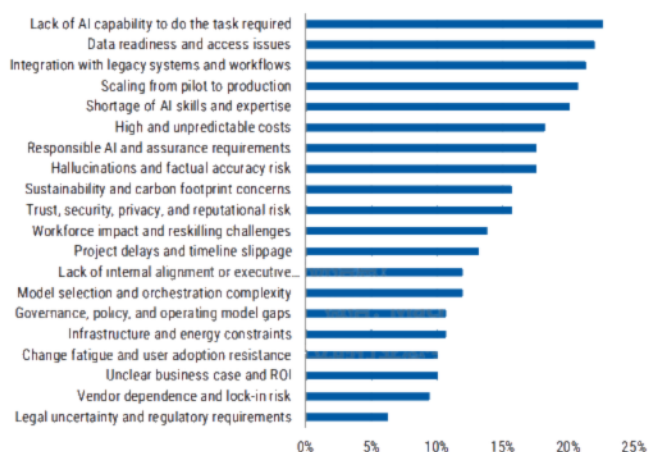


Source: AlphaWise, Morgan Stanley Research

The survey also examined the key challenges companies face in AI adoption. Japanese and Australian companies share several common concerns, including a lack of suitable AI capabilities, data readiness and access issues, as well as a shortage of AI skills and expertise.

However, Japanese companies reported additional, more pronounced challenges - particularly around scaling AI initiatives from pilot to production and managing high and unpredictable costs associated with infrastructure, licensing, and evaluation.

Exhibit 80: Top Challenges for Japanese Companies in AI Adoption and Rollout of Generative AI



Source: AlphaWise, Morgan Stanley Research

Exhibit 81: Top Challenges for Australian Companies in AI Adoption and Rollout of Generative AI



Source: AlphaWise, Morgan Stanley Research

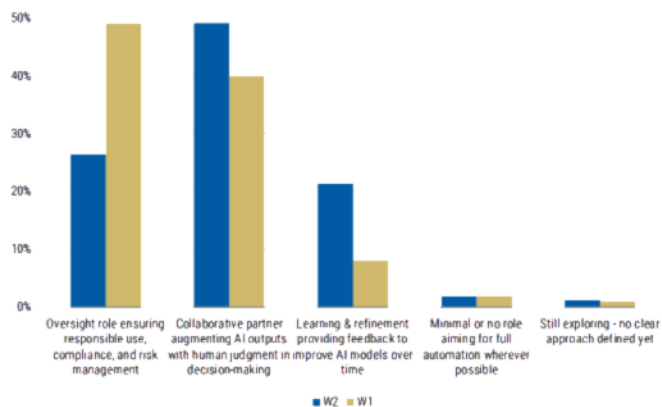
Humans remain in the loop, for now

In terms of the role of humans in AI adoption, both Japan and Australia show similar patterns - approximately half of companies (49-50%) view humans as collaborative partners who augment AI outputs with human judgment in decision-making.

In Japan, there has been a notable shift in human-AI dynamics between survey waves. While the oversight role remains significant, it has declined substantially from 49% in Wave 1 (W1) sectors to 26% in Wave 2 (W2). This shift is accompanied by a growing emphasis on "learning and refinement" roles - where humans provide feedback to improve AI models over time - which jumped from 8% to 21%. This trend suggests Japanese organizations are increasingly comfortable letting AI operate with less direct supervision while redirecting human effort toward continuous AI improvement. The change in sector composition in W2 (now more skewed toward services) may also contribute to this greater focus on iterative model enhancement.

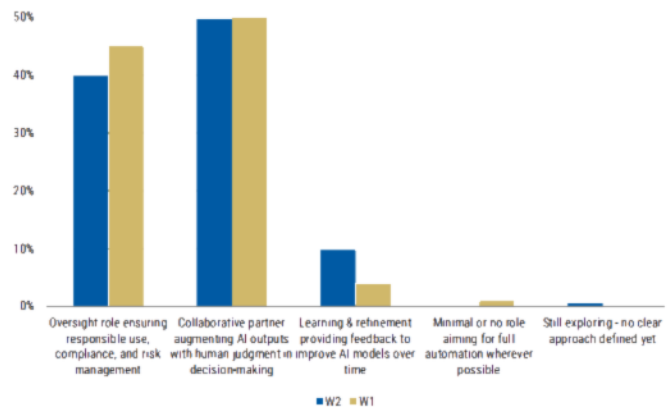
Australia, by contrast, maintains a more cautious, compliance-focused stance toward AI deployment. While half of Australian companies (50%) view humans as collaborative partners, Australia also shows the highest preference for maintaining an oversight role (40% in W2) among all countries surveyed. The emphasis on "learning and refinement" remains relatively low at 10%, suggesting Australian organizations prioritize governance and risk management, according to the companies we surveyed.

Exhibit 82: Human-in-the-loop strategy for Japanese companies



Source: AlphaWise, Morgan Stanley Research

Exhibit 83: Human-in-the-loop strategy for Australian companies



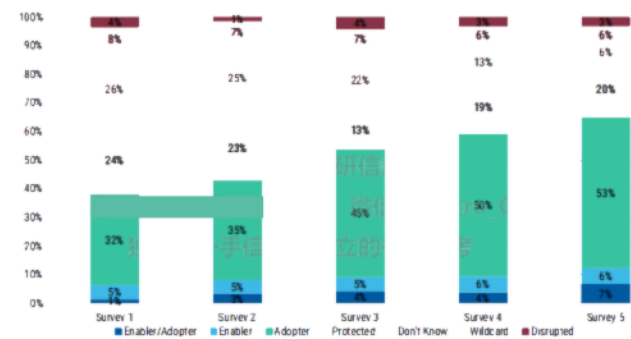
Source: AlphaWise, Morgan Stanley Research

Broadening AI Adoption

Across our five editions of AI adoption surveys, we have observed a significant broadening out of AI adoption in Australia. In our latest survey (conducted in January 2026), 53% of MS-covered companies were identified as AI adopters, up substantially from earlier editions. The combined share of AI Enabler/Adopters and pure Enablers has also grown notably, rising from 6% in our first survey (January 2024) to 13% in the most recent edition.

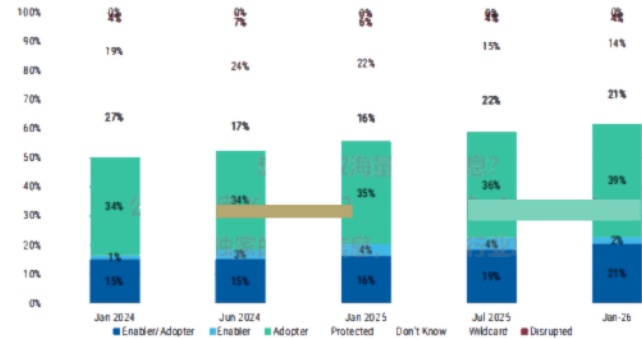
In Japan, the proportion of AI Enabler/Adopters and pure Enablers is even higher, reaching a combined 23% in the latest survey. Additionally, the share of AI Adopters across our coverage has expanded from 34% to 39% over the five editions.

Exhibit 84: Japan Distribution of AI Exposure in Morgan Stanley AI Mapping Surveys



Source: AlphaWise, Morgan Stanley Research

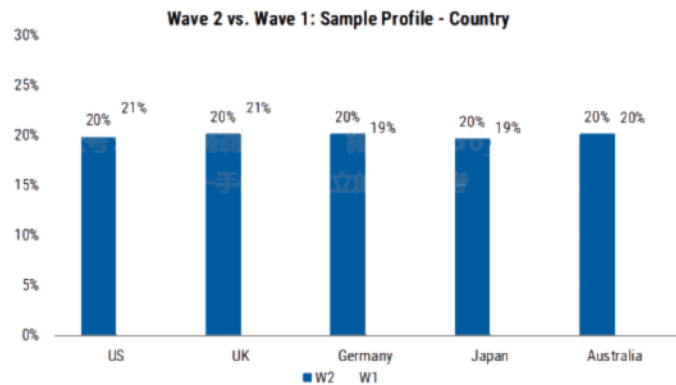
Exhibit 85: Australia Distribution of AI Exposure in Morgan Stanley AI Mapping Surveys



Source: AlphaWise, Morgan Stanley Research

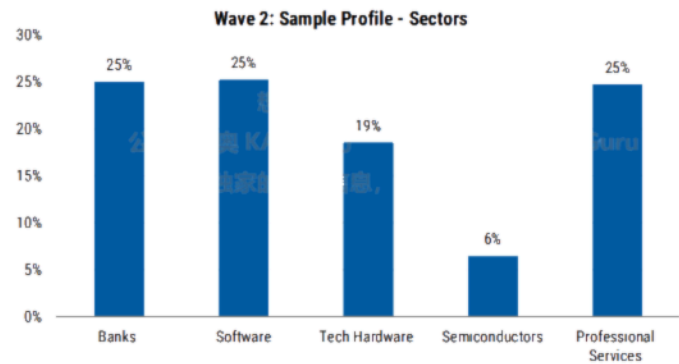
Sample Profile

Exhibit 86: Country



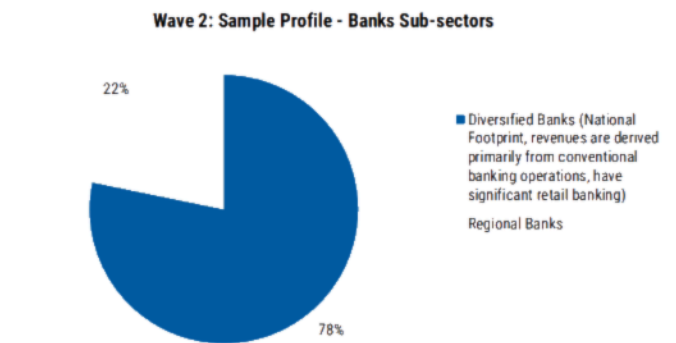
Source: AlphaWise, Morgan Stanley Research

Exhibit 87: Sectors



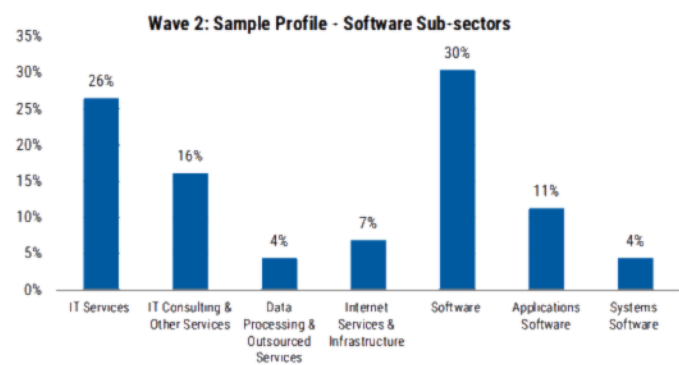
Source: AlphaWise, Morgan Stanley Research

Exhibit 88: Banks Sub-sectors



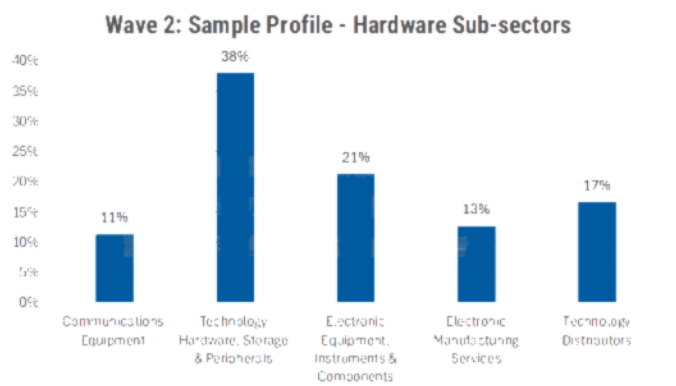
Source: AlphaWise, Morgan Stanley Research

Exhibit 89: Software Sub-sectors



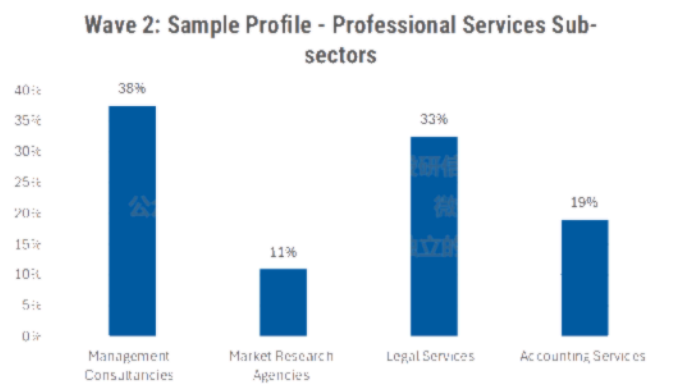
Source: AlphaWise, Morgan Stanley Research

Exhibit 90: Hardware Sub-sectors



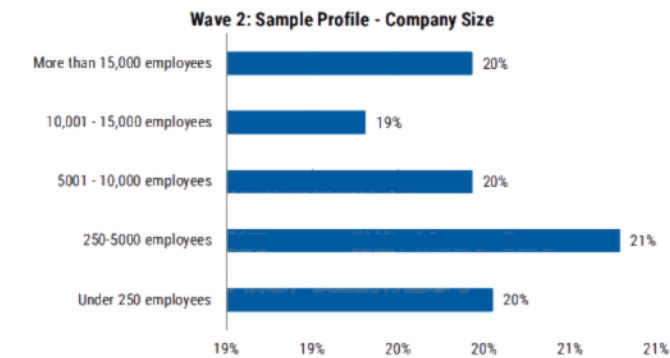
Source: AlphaWise, Morgan Stanley Research

Exhibit 91: Professional Services Sub-sectors



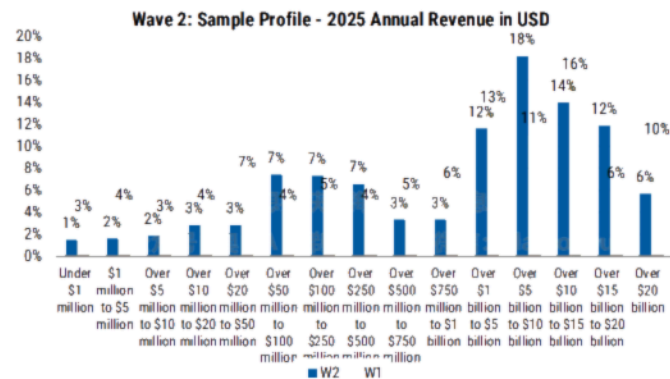
Source: AlphaWise, Morgan Stanley Research

Exhibit 92: Company size



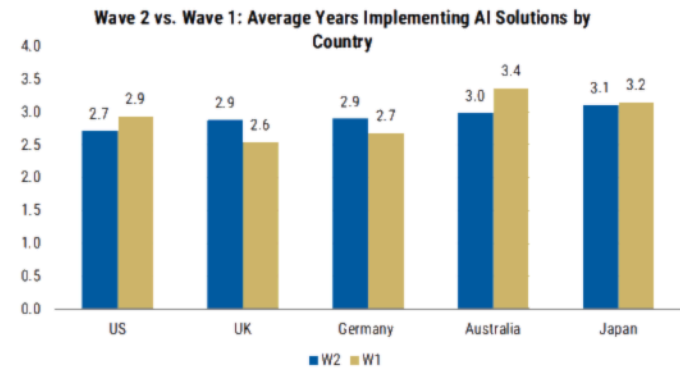
Source: AlphaWise, Morgan Stanley Research

Exhibit 93: 2025 Annual Revenue



Source: AlphaWise, Morgan Stanley Research

Exhibit 94: Average Years Implementing AI Solutions by Country



Source: AlphaWise, Morgan Stanley Research