

## *January Commentary*

### Is This Time Really Different?

*From Labor Hoarding to AI Efficiency - How a Shifting Workforce Is Redefining Economic Signals and Market Expectations*

I've chosen to begin this month's newsletter with one of the most overused and perhaps scariest phrases in investing: "things will be different this time." But all too often, things aren't. Based on how things have been going over the last couple of years, it is obvious that the job market is changing, which could very well prove challenging for the economy, businesses of all sizes, and investors. When the Bureau of Labor Statistics (BLS) released the September jobs report one week after the excruciatingly lengthy government shutdown ended on November 13, 2025, it showed the unemployment rate moving up to 4.4%. Investors were anxiously awaiting to see if the labor data, which had proven resilient since the end of the COVID-19 pandemic, had finally begun to weaken. Well, they got an answer, sort of.

*A pessimist complains about the noise when opportunity knocks. "History doesn't repeat itself, but it often rhymes" – Mark Twain*

In the past, a recession and a decline in economic activity have nearly always coincided with rising unemployment rates. However, in recent years, we have seen an unusual mix of gradually rising unemployment in the United States alongside solid economic growth and high corporate profits. And who can argue with the stock market returns that

investors have experienced over the last three calendar years? So, is it different this time? Based solely on the current labor market dynamics, I would contend that it is at this point. The unemployment rate has slowly and steadily risen from a low of 3.4% in April 2023 to this January's reading of 4.3%. This kind of upward tendency has traditionally meant unwelcome news and rough times for the economy. But if you look back to 1970, the unemployment rate often goes up quite quickly before slowly going down again until the economy enters a new recessionary period.

Typically, higher unemployment indicates an expected reduction in earnings for businesses, large and small. Why, you ask? It stands to reason that consumers cut back on spending when they are unemployed or lose confidence in their job security. Or said differently, they should if common sense prevails. They stay at home and play video games, watch YouTube TV, eat out less, don't take vacations, and reduce their discretionary spending. Assuming that to be true, a reduction in spending usually has an adverse effect on business earnings and the economy as a whole.

Interestingly, for the last 30 months or more, this has not been the case. The economy and consumers have held up well despite the ongoing

rise in the unemployment rate. Then why is it different this time? First off, the April 2023 unemployment rate of 3.4% was the lowest rate since September 1953. On a side note, one of the blockbuster movies that year was "Peter Pan", and no, I wasn't around to see it! Additionally, given that the average unemployment rate over the last 50 years has been over 6.1%, the current jobless rate, hovering in the mid-4% range, is still remarkably low. Essentially, the unemployment rate has risen over the last few years from a historically low level to a more "normal" but still exceptionally low level compared to the historical average.

If you recall, during the COVID-19 pandemic, many Americans found that staying home was a more practical option than seeking a ["9 To 5"](#) job, thanks to the government's stimulus payments and enhanced unemployment benefits. And when the economy finally began to reopen, vast numbers of companies struggled to find workers to show up and fill positions. As a result, between 2021 and 2023, the economy expanded so rapidly that conventional corporate concerns about labor efficiency were not a priority. The economy took off like a rocket, boosted by the cash doled out to consumers and spending the greenbacks we saved while being trapped at home for an extended period. Restaurants, hotels, entertainment venues, and the like were busting at the seams, and business owners weren't overly concerned about overpaying the employees they had on the payroll. You may even remember that many economists started referring to companies that over-hired and/or overpaid the available and willing labor force as "labor hoarding." In fact, companies paid up to keep current employees (and attract new ones) during the post-pandemic reopening, to the tune of a staggering 15.4% increase in pay. The wage growth rate has since fallen precipitously from that astonishingly high rate in late 2021 to a more normal 4.86% in late 2025.

As the impact of the COVID era fades in the rearview mirror, the concern that businesses cannot retain and acquire enough personnel has also waned, and a renewed emphasis on efficient workforce levels has emerged. A compelling argument can be made that the increase from the

record low unemployment rate of 3.4% witnessed in recent years is partially due to the unraveling of the "labor hoarding" phenomenon of 2021–2023. One might easily argue that the transition away from the over-exuberant labor policies toward more efficient workforce levels is contributing to higher corporate profit margins, but this certainly varies by industry and company. I am convinced that this is one of the reasons why corporate earnings and stock prices have risen dramatically since the unemployment rate bottomed in April 2023.

Now, throw in the rapidly evolving and ongoing effects of artificial intelligence (AI) on the labor market. Without a doubt, we are still in the initial stages of AI adoption and have yet to fully comprehend its benefits, consequences, and drawbacks as it integrates into corporate America. As this other-worldly technology becomes more generally recognized and deployed across industries, we may see an acceleration of job losses with many positions becoming entirely obsolete while exciting new AI-centric positions are created. To that end, AI may significantly affect many entry-level white-collar occupations and make it harder for new college graduates to find their first "real job." As with every innovative technology that is meant to make the workforce more productive, artificial intelligence will create a large number of new occupations that don't currently exist. While I believe there will be a gap between jobs becoming useless and when these new AI-centric jobs appear, the sooner employees, both new and experienced, adjust to this changing dynamic, the shorter that interval will be.

As firms gain a better understanding of when and how to use AI within their business models, the potential efficiency gains should help push profitability higher. Additionally, as they begin to implement AI and continue the reversal of the labor hoarding trend that began a few years ago, we may be in the throes of a prolonged period of more "normal" unemployment combined with sustained economic expansion and corporate earnings growth. Whether or not this AI phenomenon gains full traction, continues to improve business efficiency, and subsequently changes employment

trends remains uncertain but highly probable. As with all technological advances, much will depend on a range of unknown societal, economic, and policy factors. Using the phrase "[Time Will Tell](#)" sounds cliché; improving our way of life should be the ultimate arbiter of AI's impact.

By historical standards, the current 4.3% unemployment rate and wage growth of 5% do not indicate a weak economic environment. To be sure, there will be adjustments in the workforce as our economy moves into the much-ballyhooed AI era and away from the dreadful COVID period. A persistently rising unemployment rate may be part of that transition. While I certainly can't promise we won't face a recession at some point in the future, I do strongly feel it will be later rather than sooner. Don't get me wrong; there is always the potential that some unexpected geopolitical incident could negatively affect the economy. But let's leave that for another newsletter in the distant future, I hope.

After nearly four decades in this business, rising unemployment has usually meant an economic slowdown and recession. However, after more than twenty-four months of a steadily rising unemployment rate, this time might be different. It appears right now, this once tried and true recession data point may not be the warning sign it once was, and that, in and of itself, may be an exceptionally good thing.

Until next month—

by David Lackmann

Florida Director of Investment Management



[www.FirstAmBank.com](http://www.FirstAmBank.com)

Illinois | Florida | Wisconsin

Not FDIC Insured | Not Bank Guaranteed | May Lose Value