Goldman Sachs | Economics Research

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US Economics Analyst

Corporate Layoffs: A Ripple, Not a Wave (Walker)

- The US labor market has presented a puzzling contrast in recent months: amidst strong job growth and plentiful job openings, there has been a large jump in corporate layoff announcements. We investigate what is driving the rise in layoffs and whether they might be an early warning sign of a broader slowdown in the labor market.
- We find that three characteristics are common to many of the companies that have recently announced a large number of layoffs. First, many are in the technology sector. Second, many hired aggressively during the pandemic—on average, their headcount grew 41%—often because they over-extrapolated pandemic-related trends such as increases in demand for goods or time spent online. Third, they have seen sharper declines in their stock prices, which have fallen 43% from their peaks on average, and in some cases appear to be responding to investor demand to cut costs by shrinking their workforces rather than to a worsening in the demand outlook.
- These characteristics suggest that the companies conducting layoffs are not representative of the broader economy and that many of the recent layoff announcements do not necessarily signal a weaker demand picture that might have wider implications.
- Consistent with this, our more representative real-time estimate of the layoff rate has increased recently but only back to its pre-pandemic rate, which was low by historical standards.
- It is also important to bear in mind that not every layoff translates into a lasting increase in unemployment because most workers find new jobs. In recent months, the job finding rate among unemployed individuals has been high by historical standards.
- One concern that is often raised is that the recent layoffs have been concentrated in particular industries, especially technology, while hiring has been concentrated in other industries, often lower-paying ones. We find, however, that job finding rates are above pre-pandemic rates in most industries (including information, which includes technology companies) and above expansion norms in all major industries, and that job openings rates remain above the pre-pandemic level in every major industry except information.

Jan Hatzius
+1(212)902-0394 | jan.hatzius@gs.com
Goldman Sachs & Co. LLC

Alec Phillips
+1(202)637-3746 | alec.phillips@gs.com
Goldman Sachs & Co. LLC

David Mericle
+1(212)357-2619 |
david.mericle@gs.com
Goldman Sachs & Co. LLC

Spencer Hill, CFA
+1(212)357-7621 | spencer.hill@gs.com
Goldman Sachs & Co. LLC

Joseph Briggs
+1(212)902-2163 |
joseph.briggs@gs.com
Goldman Sachs & Co. LLC

Ronnie Walker
+1(917)343-4543 |
ronnie.walker@gs.com
Goldman Sachs & Co. LLC

Tim Krupa
+1(202)637-3771 | tim.krupa@gs.com
Goldman Sachs & Co. LLC

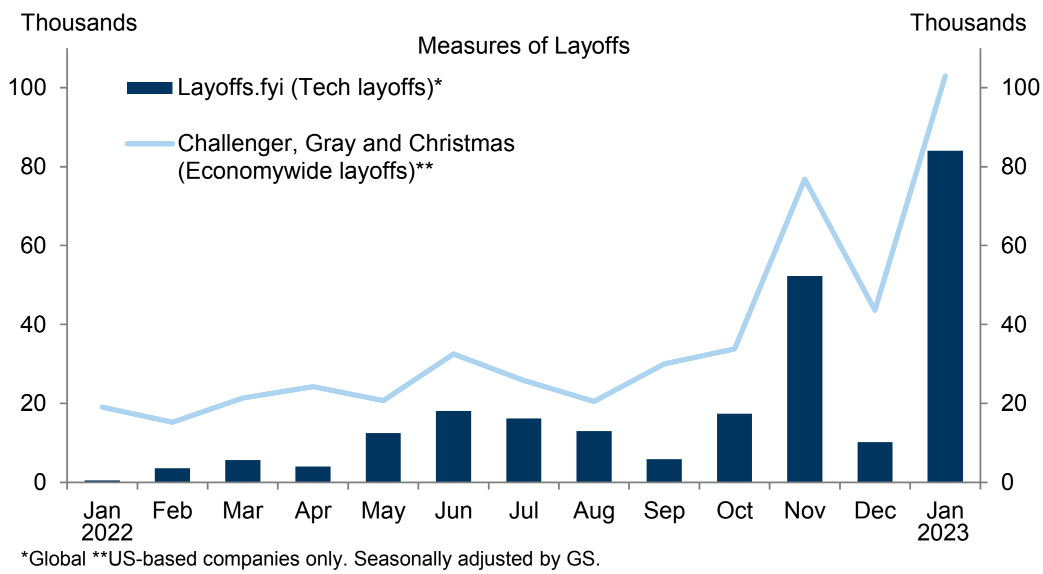
Manuel Abecasis
+1(212)902-8357 |
manuel.abecasis@gs.com
Goldman Sachs & Co. LLC

Corporate Layoffs: A Ripple, Not a Wave

A flurry of headlines about corporate layoffs—which totaled over 100k lost jobs in January alone—had raised questions about whether the labor market had already entered a downturn (Exhibit 1). The past week of labor market data answered that question with a resounding "no": nonfarm payrolls grew 514k in January, the unemployment rate edged down to a 54-year low, job openings increased by 572k in December, and initial jobless claims fell for the fourth time in five weeks.

What should we then make of this spike in layoffs, many of which have come at the country's most technologically sophisticated companies? Are they an indication that while there is still plenty of demand for workers in a few industries, the labor market is much weaker in other industries, especially higher-paying ones? Or an early warning sign about deteriorating demand at some companies that could soon spread to others too? In this week's *Analyst* we dig into what these companies are seeing that others are not in order to solve the puzzle of a spike in layoffs amidst a booming job market.

Exhibit 1: Many High-Profile Companies Have Announced Layoffs Over the Last Few Months



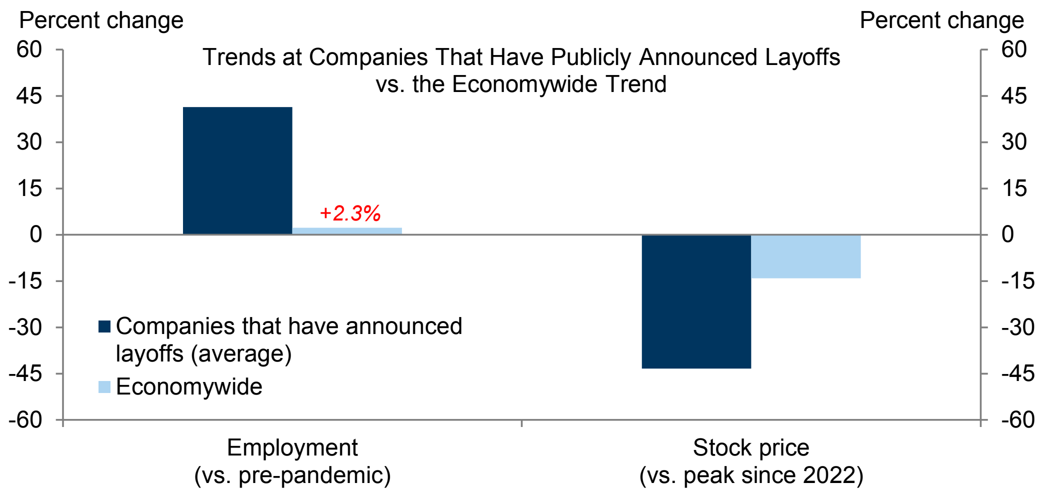
Source: Layoffs.fyi, Challenger Gray & Christmas, Goldman Sachs Global Investment Research

When we wrote about the initial surge in corporate layoff announcements last fall, the layoffs were almost entirely confined to the technology sector. Since then, layoff announcements have continued to be concentrated in tech but have broadened somewhat, spreading to finance and a few industrial companies.

Exhibit 2 shows that in addition to being in the technology sector, two additional characteristics distinguish most of the public companies that have made layoff announcements, each of which potentially hint at a root cause of the layoffs. First, those companies hired aggressively over the last few years. Headcount at these companies is now 41% above pre-pandemic levels, on average, while economywide payroll employment has only grown by 2% over the same period. Corporate commentary indicates that some of these companies have conducted layoffs to right-size their workforce after over-extrapolating pandemic-related trends that ultimately proved more fleeting than expected, such as the preference for goods over services or spending more time online.

Second, public companies announcing layoffs have seen outsized declines in their stock prices (-43% from their peak to today vs. S&P 500 -14%). For some of these companies, especially the tech companies, this likely partly reflects the fact that their valuations are particularly sensitive to interest rates. This could mean that some of the announced layoffs were more an effort to improve company valuations by responding to investor demands to shrink workforces that were perceived to have grown too large and expensive, rather than a signal that the demand outlook had worsened.

Exhibit 2: Companies That Recently Announced Layoffs Had Hired Aggressively Over the Last Two Years and Have Seen Sharper Declines in Their Stock Prices

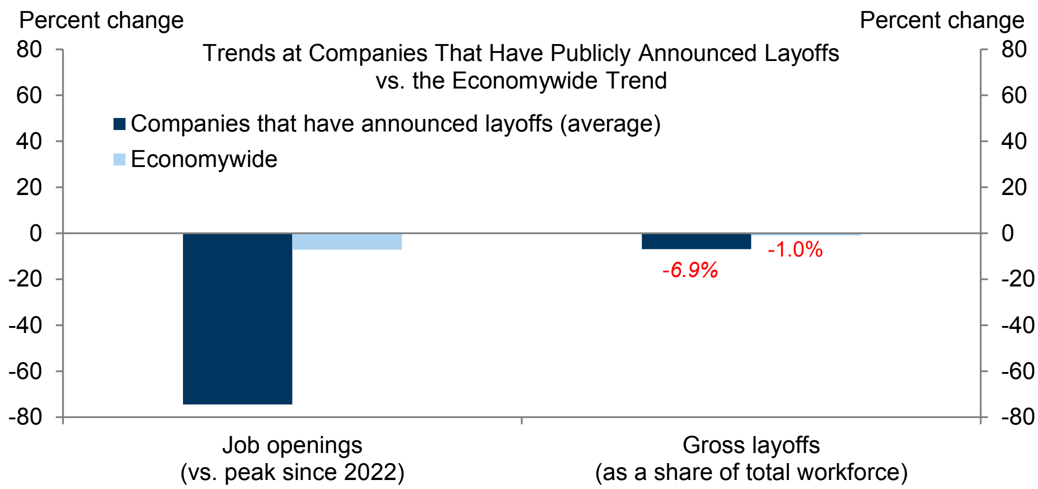


* Includes companies listed in the Wall Street Journal article "The Companies Conducting Layoffs in 2023: Here's the List", accessed Feb. 3, 2023.

Source: Bloomberg, Company filings, Goldman Sachs Global Investment Research

Exhibit 3 shows that the companies that announced a large number of layoffs have simultaneously slashed job openings dramatically. On average, they have reduced their job openings by 75%, while the number of workers they have laid off amount to 7% of their headcount.

Exhibit 3: Those Same Companies Have Also Slashed Job Openings Much More Aggressively

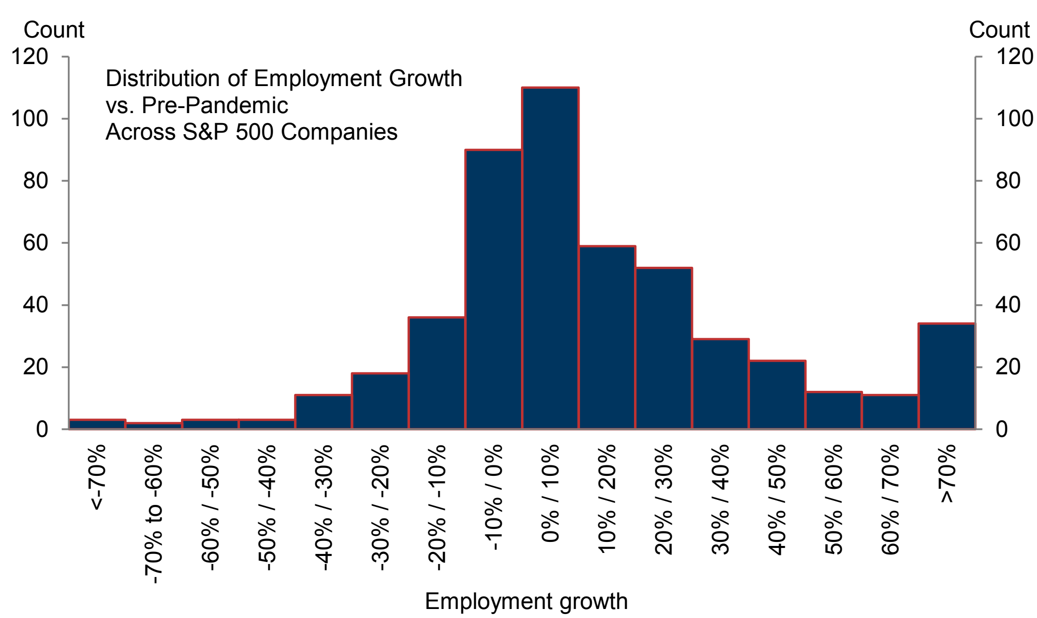


* Includes companies listed in the Wall Street Journal article "The Companies Conducting Layoffs in 2023: Here's the List", accessed Feb. 3, 2023.

Source: LinkUp, Department of Labor, Goldman Sachs Global Investment Research

We see two takeaways—one negative and one positive—for the labor market outlook from this analysis. First, on the negative side, there could be additional layoff announcements yet to come from other large companies, as roughly 15% of companies in the S&P 500 have seen headcount increases of 40% or more since the start of the pandemic (Exhibit 4), and only one-fifth of them have announced layoffs so far. Second, on the positive side, similar to the rebalancing seen so far in the broader labor market, even these companies that have announced layoffs have reduced their total demand for workers overwhelmingly by reducing job openings rather than by conducting layoffs.

Exhibit 4: Roughly 15% of S&P 500 Companies Have Grown Headcount by 40%+ During the Pandemic



Source: Bloomberg, Company filings, Goldman Sachs Global Investment Research

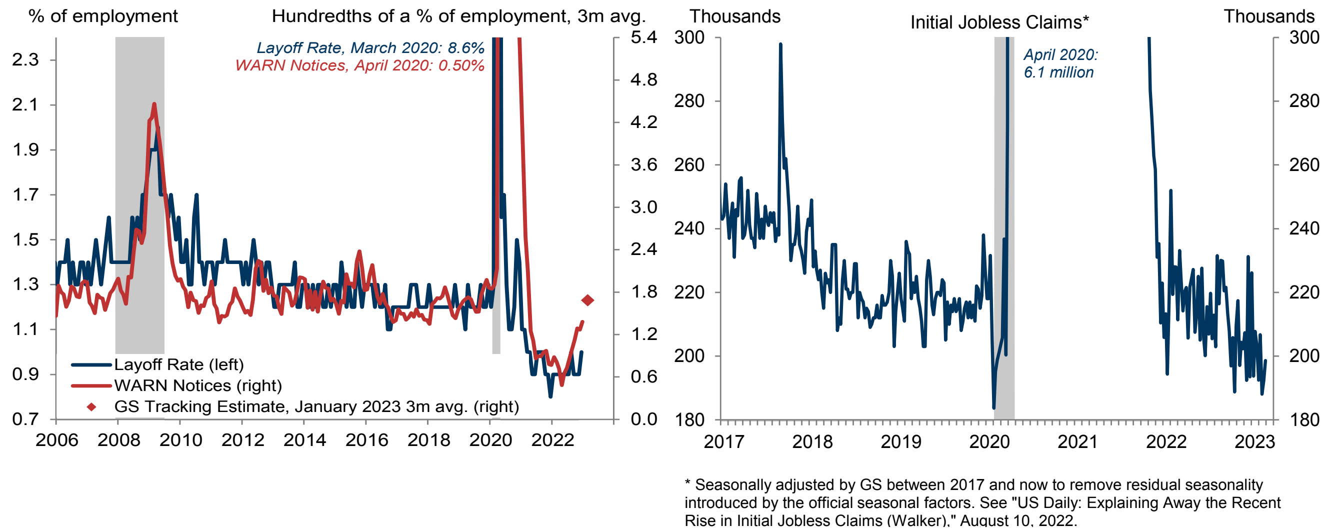
Layoffs Don't Always Mean Unemployment

At first glance, it might seem surprising that there hasn't been a spike in the most-followed measures of job loss, the JOLTS layoff rate and initial jobless claims. However, the total number of announced corporate layoffs is small relative to the typical number of total economywide layoffs (there are typically more than two million layoffs each January on a not-seasonally adjusted basis) and the characteristics highlighted above for the companies that are conducting layoffs suggest that they are not representative of the broader economy.

Consistent with this, our real-time, representative estimate of the layoff rate based on advance layoff notices filed under the Worker Adjustment and Retraining Notification (WARN) Act has increased recently but is now in line with the already historically low pre-pandemic rate, as shown on the left of Exhibit 5.

We believe that residual seasonality explains most of the recent decline in initial jobless claims, but even an adjusted version of the series indicates that a historically low number of individuals are filing jobless claims (Exhibit 5, right).

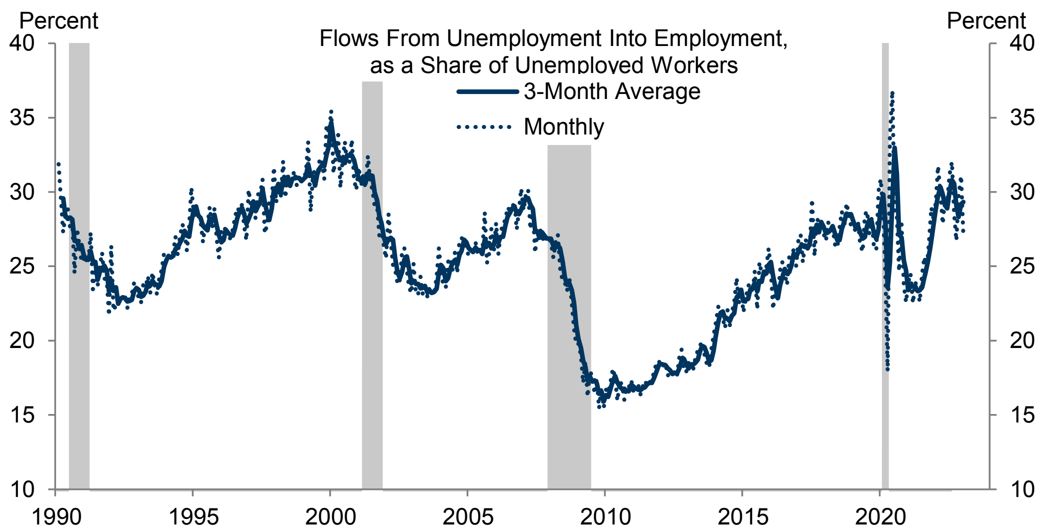
Exhibit 5: Our Timely Measure of WARN Notices Suggests Economywide Layoffs Are Approaching Pre-Pandemic Norms; Initial Jobless Claims Remain at Historically Low Levels



Source: Federal Reserve, Department of Labor, Goldman Sachs Global Investment Research

It is the case that some of the layoffs that have been announced have yet to be implemented, but it is also appears that strong job finding prospects allow individuals affected by the announced layoffs to be reemployed before ever filing. Exhibit 6 shows that unemployed workers have recently managed to find new jobs at a healthy pace.

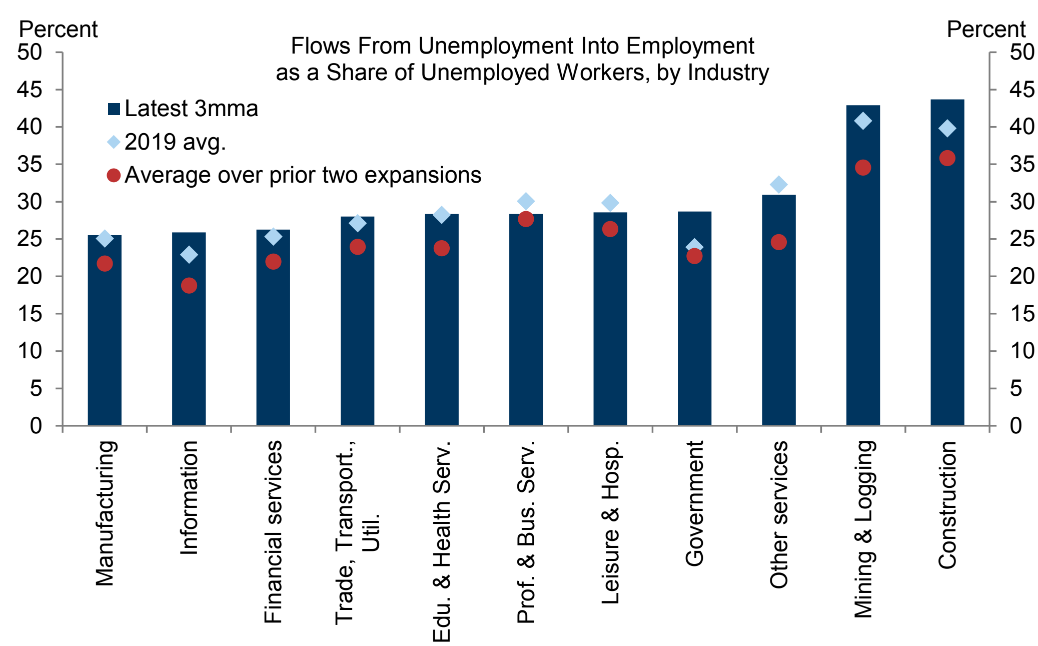
Exhibit 6: Workers Who Become Unemployed Are Finding New Jobs at a Healthy Pace



Source: Department of Labor, Goldman Sachs Global Investment Research

One concern that is often raised is that the recent layoffs have been concentrated in particular industries, especially technology, while hiring has been concentrated in other industries, often lower-paying ones. But Exhibit 7 shows that most industries (8 out of 11) have reemployment rates above pre-pandemic levels, including the information sector (the sector of most major tech companies), and that all of them have reemployment rates that are above the recent expansion average.

Exhibit 7: Job Finding Rates Across All Industries Are Above the Historical Expansion Average



Source: Department of Labor, Goldman Sachs Global Investment Research

We would become more concerned about undue labor market deterioration if we began to see elevated layoffs in industries where job finding rates were particularly low. In such a scenario, the increase in the amount of time that it takes unemployed individuals to find a new job would weigh on consumer spending and as a result spill over to other parts of the economy. For now, this is not a major concern because the job openings rate remains above the pre-pandemic level in every major industry outside of information.

Ronnie Walker

The US Economic and Financial Outlook

THE US ECONOMIC AND FINANCIAL OUTLOOK

(% change on previous period, annualized, except where noted)

	2020	2021	2022 (f)	2023 (f)	2024 (f)	2025 (f)	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
OUTPUT AND SPENDING														
Real GDP	**-2.8**	**5.9**	**2.1**	*1.5*	*1.7*	*1.9*	**-1.6**	**-0.6**	**3.2**	**2.9**	*0.4*	*1.3*	*1.3*	*1.3*
Real GDP (annual=Q4/Q4, quarterly=yoy)	**-1.5**	**5.7**	**1.0**	*1.0*	*1.9*	*1.9*	**3.7**	**1.8**	**1.9**	**1.0**	*1.5*	*1.9*	*1.4*	*1.0*
Consumer Expenditures	**-3.0**	**8.3**	**2.8**	*1.8*	*1.8*	*1.9*	**1.3**	**2.0**	**2.3**	**2.1**	*1.9*	*1.5*	*1.5*	*1.5*
Residential Fixed Investment	**7.2**	**10.7**	**-10.7**	*-14.7*	*1.0*	*3.0*	**-3.1**	**-17.8**	**-27.1**	**-26.7**	*-10.5*	*-7.5*	*-2.5*	*0.0*
Business Fixed Investment	**-4.9**	**6.4**	**3.6**	*2.1*	*3.3*	*3.6*	**7.9**	**0.1**	**6.2**	**0.7**	*1.2*	*2.2*	*2.4*	*3.0*
Structures	**-10.1**	**-6.4**	**-7.4**	*-2.7*	*2.4*	*3.0*	**-4.4**	**-12.7**	**-3.6**	**0.4**	*-6.8*	*0.0*	*1.0*	*2.0*
Equipment	**-10.5**	**10.3**	**4.2**	*1.6*	*2.6*	*3.0*	**11.4**	**-2.1**	**10.6**	**-3.8**	*2.3*	*1.5*	*1.5*	*2.5*
Intellectual Property Products	**4.8**	**9.7**	**8.7**	*4.9*	*4.3*	*4.5*	**10.8**	**8.9**	**6.8**	**5.3**	*4.0*	*4.0*	*4.0*	*4.0*
Federal Government	**6.2**	**2.3**	**-2.5**	*3.2*	*0.8*	*0.0*	**-5.3**	**-3.4**	**3.7**	**6.2**	*3.0*	*3.0*	*3.0*	*1.5*
State & Local Government	**0.4**	**-0.5**	**0.6**	*1.4*	*1.0*	*1.0*	**-0.4**	**-0.6**	**3.7**	**2.3**	*0.8*	*1.0*	*1.0*	*1.0*
Net Exports ($bn, '12)	**-923**	**-1,233**	**-1,355**	*-1,235*	*-1,271*	*-1,288*	**-1,489**	**-1,431**	**-1,269**	**-1,232**	*-1,242*	*-1,219*	*-1,230*	*-1,250*
Inventory Investment ($bn, '12)	**-55**	**-19**	**123**	*79*	*66*	*60*	**215**	**110**	**39**	**130**	*90*	*75*	*75*	*75*
Industrial Production, Mfg.	**-6.3**	**5.7**	**3.1**	*0.2*	*2.6*	*3.2*	**3.6**	**2.9**	**-0.4**	**-2.6**	*-0.1*	*1.2*	*1.9*	*2.2*
HOUSING MARKET														
Housing Starts (units, thous)	**1,395**	**1,605**	**1,555**	*1,332*	*1,409*	*1,525*	**1,720**	**1,647**	**1,450**	**1,403**	*1,450*	*1,362*	*1,272*	*1,244*
New Home Sales (units, thous)	**831**	**769**	*642*	*573*	*679*	*795*	**776**	**609**	**580**	**605**	*571*	*574*	*568*	*579*
Existing Home Sales (units, thous)	**5,638**	**6,127**	**5,094**	*4,001*	*4,276*	*4,593*	**6,057**	**5,373**	**4,770**	**4,177**	*3,871*	*3,958*	*4,045*	*4,131*
Case-Shiller Home Prices (%yoy)*	**9.5**	**18.8**	*7.1*	*-2.6*	*0.9*	*2.3*	**20.0**	**19.6**	**13.1**	*7.1*	*0.5*	*-4.7*	*-4.3*	*-2.6*
INFLATION (% ch, yr/yr)														
Consumer Price Index (CPI)**	**1.3**	**7.1**	**6.4**	*3.3*	*2.5*	*2.5*	**8.0**	**8.6**	**8.3**	**7.1**	*5.6*	*4.0*	*3.1*	*3.0*
Core CPI **	**1.6**	**5.5**	**5.7**	*3.1*	*2.7*	*2.5*	**6.3**	**6.0**	**6.3**	**6.0**	*5.4*	*4.6*	*3.6*	*3.2*
Core PCE** †	**1.5**	**5.0**	**4.4**	*2.9*	*2.4*	*2.2*	**5.3**	**5.0**	**4.9**	**4.7**	*4.2*	*3.8*	*3.3*	*3.0*
LABOR MARKET														
Unemployment Rate (%)^	**6.7**	**3.9**	**3.5**	*3.9*	*4.1*	*4.2*	**3.6**	**3.6**	**3.5**	**3.5**	*3.5*	*3.6*	*3.8*	*3.9*
U6 Underemployment Rate (%)^	**11.7**	**7.3**	**6.5**	*7.6*	*7.9*	*7.9*	**7.0**	**6.7**	**6.7**	**6.5**	*6.8*	*7.0*	*7.3*	*7.6*
Payrolls (thous, monthly rate)	**-774**	**606**	**401**	*123*	*75*	*66*	**561**	**329**	**423**	**291**	*262*	*80*	*75*	*75*
Employment-Population Ratio (%)^	**57.4**	**59.5**	**60.1**	*59.8*	*59.5*	*59.4*	**60.1**	**59.9**	**60.1**	**60.1**	*60.1*	*60.0*	*59.9*	*59.8*
Labor Force Participation Rate (%)^	**61.5**	**62.0**	**62.3**	*62.2*	*62.1*	*61.9*	**62.4**	**62.2**	**62.3**	**62.3**	*62.3*	*62.3*	*62.3*	*62.2*
Average Hourly Earnings (%yoy)	**4.9**	**4.2**	**5.3**	*4.2*	*3.6*	*3.3*	**5.6**	**5.6**	**5.3**	**4.9**	*4.5*	*4.3*	*4.1*	*3.9*
GOVERNMENT FINANCE														
Federal Budget (FY, $bn)	**-3,132**	**-2,775**	**-1,375**	*-1,250*	*-1,350*	*-1,600*	--	--	--	--	--	--	--	--
FINANCIAL INDICATORS														
FF Target Range (Bottom-Top, %)^	**0-0.25**	**0-0.25**	**4.25-4.5**	*5-5.25*	*4.25-4.5*	*3.5-3.75*	**0.25-0.5**	**1.5-1.75**	**3-3.25**	**4.25-4.5**	*4.75-5*	*5-5.25*	*5-5.25*	*5-5.25*
10-Year Treasury Note^	**0.93**	**1.52**	**3.88**	*4.20*	*4.00*	*4.00*	**2.32**	**2.98**	**3.83**	**3.88**	*3.65*	*4.10*	*4.25*	*4.20*
Euro (€/$)^	**1.22**	**1.13**	**1.07**	*1.07*	*1.15*	*1.15*	**1.11**	**1.05**	**0.98**	**1.07**	*1.04*	*1.02*	*1.03*	*1.07*
Yen ($/¥)^	**103**	**115**	**132**	*129*	*125*	*125*	**121**	**136**	**145**	**132**	*131*	*133*	*134*	*129*

* Weighted average of metro-level HPIs for 381 metro cities where the weights are dollar values of housing stock reported in the American Community Survey. Annual numbers are Q4/Q4.
** Annual inflation numbers are December year-on-year values. Quarterly values are Q4/Q4.
† PCE = Personal consumption expenditures. ^ Denotes end of period.
Note: Published figures in bold.

Source: Goldman Sachs Global Investment Research

Economic Releases

Date		Time (ET)	Indicator	Estimate GS	Estimate Consensus	Last Report
Tue	**Feb 07**	**8:30**	**Trade Balance (December)**	**-$68.0bn**	**-$68.5bn**	**-$61.5bn**
Thu	**Feb 09**	**8:30**	**Initial Jobless Claims**	**175k**	**195k**	**183k**
		8:30	Continuing Claims	n.a.	n.a.	1,655k
Fri	**Feb 10**	**10:00**	**UMich Consumer Sentiment (February preliminary)**	**64.0**	**65.0**	**64.9**
		10:00	**5-10 Year Inflation Expectations (February preliminary)**	**2.8%**	**n.a.**	**2.9%**

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, CFA, Joseph Briggs, Ronnie Walker, Tim Krupa and Manuel Abecasis, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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