

US Rates Strategy

Joseph Abate
joseph.abate@smbcnikko-si.com
1 212 893-1592

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Can workers be AI-retrained?

Monetary policy is ill-suited to address structural unemployment caused by AI. While fiscal policy in the form of job retraining works better, historical program results are mixed.

- Estimated job losses from AI are very uncertain ranging from an 1-2% to as much as 23% of the labor force.¹
- **Cutting interest rates to bring down structural unemployment is ineffective.** Lower interest rates might instead stoke inflation already fueled by heated investment and consumer spending.
- **Fiscal policies designed to “upskill” workers into AI-complementary jobs are more effective.** Hyman et al find that AI-retraining pays off.²
- **But while 25-40% of workers in high AI-exposure jobs may be retrainable, the largest payoffs will come to those who target low AI-exposure jobs.**
- **Retraining program outcomes vary widely; a meta-analysis of the results of 40 different programs found the probability of finding a new job after retraining increases by 2.6%.³**
- **Most retraining studies, however, focus less on the quality of the job match;** simply finding a new job is different from replacing a job with similar skill and educational requirements.

Job losses...

High potential productivity gains from AI point to significant future job losses. Estimates are quite varied because of differences in the construction and underlying study assumptions. Some, like Wang et al put losses at 23% over a 5y period while others suggest *gross* job losses might be on the order of 1-2% over a 20y period.⁴ Actual losses may be smaller as the gross figure does not account for job-shifting and re-hiring in different roles. **That said, even at the low end of estimates, some 1.6 to 3.2m workers may become technologically unemployed.** Data from CFO surveys suggest job losses could begin as

¹ See our report, “Job AI-nxieties”, May 5, 2026.

² See “How Retractable are AI-exposed Workers?”, B. Hyman, B. Lahey, K. Ni, and L. Pilossoph, Federal Reserve Bank of New York, August 2025.

³ See, “Workforce Retraining: The Effectiveness of Adult Retraining, Evidence from a Metanalytic Review”, M. Busso, J. Cristia, P. Garofalo, and J. Messina, InterAmerican Development Bank, August 2022.

⁴ See “Artificial Intelligence and Technological Unemployment”, P. Wang, and T. Wong, Federal Reserve Bank of Richmond, August 2025 and “Shaping the Future of Work”, MIT Stone Center, 2024

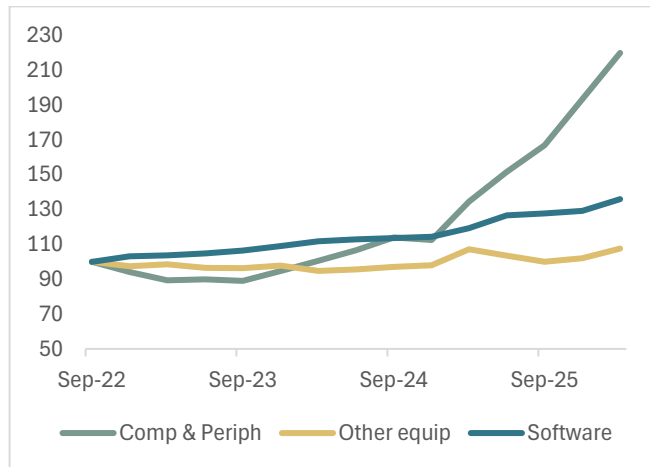
soon as next year with an estimated 0.4% of the labor force (approximately 500,000 workers) being replaced with AI.⁵

...and a monetary policy dilemma

AI-related technological unemployment creates a dilemma for the Federal Reserve because the response to a cyclical increase in joblessness is different from one caused by structural change. Moreover, the ability to discern one from the other in real time is difficult; particularly as the increase in the unemployment rate can reflect both sources.

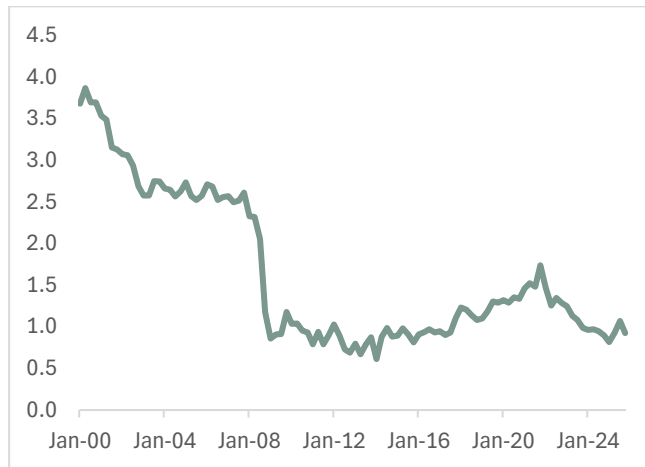
Jobs replaced by AI may not return regardless of the level of interest rates. The economy's equilibrium unemployment rate may be permanently higher. Instead, the rate reduction could add to inflation pressure – especially as the demand for investment capital to finance AI expansion is already robust (Figure 1). At the same time, workers not replaced by AI are likely to see their productivity increase as the technology replaces low value tasks and frees their time for higher value activity. This in turn boosts their current and expected income, which increases their spending and lowers savings. Economywide, the combination of increased investment demand and lower savings pushes the economy's long-run equilibrium interest rate, r^* , higher (Figure 2).⁶ Separately, strong demand for electricity and the chips used in AI was already pushing input prices higher before the Iran conflict.⁷ **As a result, cutting interest rates to address AI-related unemployment may be inappropriate.**

Figure 1: Fixed investment (Q3 22=100)



Note: Indexed to the quarter before the introduction of ChatGPT.
Source: BEA, SMBC Nikko

Figure 2: r^* (%)



Source: Federal Reserve Bank of New York, SMBC Nikko

⁵ See, "Artificial Intelligence, Productivity, and the Workforce: Evidence from Corporate Executives", S. Baslandze, Z. Edwards, J. Graham, T. McClure, M. Sparks, B. Meyer, S. Ravindranath Waddell, and D. Weitz, Federal Reserve Bank of Atlanta, March 2026

⁶ See, "What Will Artificial Intelligence Mean for the Labor Market and the Economy?", Federal Reserve Governor Barr, NABE, February 17, 2026.

⁷ See, "Will Mounting Supply Chain Strains Hamstring the AI Investment Boom?", H. Clark, J. Dawson, and S. Turney, Liberty Street Economics, Federal Reserve Bank of New York, May 11, 2026.

Job training

Instead, fiscal policies designed to upskill workers displaced by AI may have better outcomes although the results from job training are very mixed.

One recent study suggests that returns to AI retraining are positive and large.⁸ In a matched worker study, Hyman et al compare workers who received AI training and job search help against those that received only search assistance. Retrained workers earned about \$1500/q (14%) more than those who just got job search help. But while the effect is large and significant it is sensitive to the job targeted by the worker. This is true of retraining studies more generally. Those targeting occupations with high levels of AI exposure earned about \$400/q less than workers who went into jobs with low AI exposure. That said, they still earned more than those who opted only for job search help. Hyman et al note that between 25-40% high AI exposure jobs are retrainable – that is, where returns to retraining are positive.

Other studies suggest that job training outcomes are more mixed.⁹ Busso et al compare 40 different international job training studies across two dimensions – the probability of finding a job and how much the worker's earnings increase. **On average across the studies, job training increased the probability of finding a job by 2.6%.** Earnings also increased. They break down the training programs by their characteristics – length, type, and who is providing the training among other dimensions. The results suggest that “more is better” – or more accurately, combining different aspects of training yields better outcomes than singly. For example, classroom combined with on-the-job training yields better outcomes than either individually. That said, while more intensive training produces better outcomes, workers may not have the time or income to be able to attend this training. Not surprisingly, apprenticeships where workers are earning and training simultaneously tend to have higher attendance and better results than classroom training. Similarly, training organized by the private sector has higher job probabilities than government-sponsored programs. This makes intuitive sense as the private sector may have a better sense for labor demand and thus will only spend money on training programs that fill the gaps in their hiring needs. Unsurprisingly, technical or vocational training yields higher job probabilities and earnings than training programs that focus only on soft skills.

The New York Fed study and others highlight a key limit of job retraining – **outcomes may depend more on the target job than the characteristics of the retraining program.** Outcomes *may* be better if workers avoid targeting jobs in the same AI-exposed sector that they are leaving. For example, AI retraining is unlikely to benefit workers seeking new jobs as customer service representatives and cashiers. But it might help them transition more easily into other jobs – although this, too, is uncertain. For example, Jacobs notes that while workers who participated in the Trade Adjustment Assistance (TAA program)¹⁰ had lower unemployment than matched non-participants, they were more likely to be under-employed with lower earnings.

This highlights a key issue with the results of job training studies. **Increasing the probability of finding a new job is different from finding one that matches the worker's skills and education.** Vertical mismatching occurs when workers are overeducated for their job while a horizontal mismatch occurs when the new job's tasks do not match the skills the worker has trained for. Both reflect inefficient worker allocation even if the worker's post-training hiring probability increases. Grunau and Lang use a unique

⁸ See Hyman et al. August 2025

⁹ See, “AI Labor Displacement and the Limits of Worker Retraining”, J. Jacobs, Brookings Institute, May 16, 2025

¹⁰ The TAA program provided training (classroom and apprenticeships) together with job search allowances and even (for older workers) income assistance for workers forced to accept lower paying jobs because of increased foreign imports or outsourcing.

database of German training program registrations to examine the quality of job matching.¹¹ They find that retrained workers were more likely to take up jobs that required their degree or in occupations for which they received training. That is, training reduced job/worker mismatch. Interestingly, like other studies, they report a strong tendency of retrained workers taking up jobs in the same occupation.

¹¹ See, "Retraining for the unemployed and the quality of the job match", P. Grunau and J. Lang, Journal of Applied Economics, May 22, 2000.

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