HARI — CAUSAL CHAIN PROJECTION

AI-DRIVEN WORKFORCE DISPLACEMENT.

Monthly Structured Briefing

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VERSION 4.0

CONFIDENCE High (composite signal 4.65–4.75 / 5.0; 6 of 6 chain links active or in active transition)

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Executive Summary.

KEY FINDING

All six causal chain links are now active or in active transition, matching the framework's projected end state for the onset of significant displacement. The March BLS print of +178,000 masks structural deterioration: the three-month payroll average is 68,000/month, below population growth threshold. The Q3 2026 projection window is 10 weeks away. Composite signal: 4.65–4.75 / 5.0.

CONFIDENCE SUMMARY

DIMENSION	ASSESSMENT
Projection	Structural AI-driven workforce displacement reaches statistically significant levels by Q4 2026 / Q1 2027.
Consensus View	Labor market "resilient"; AI displacement gradual with retraining absorbing effects; 3–5 years to significant impact.
Our Estimate	68K/month job creation minus 16K/month AI displacement = below population growth threshold. Headline unemployment likely rises by Q4 2026 without a traditional demand-side recession.

Primary Causal Chain.

The chain maps the sequence from AI capital deployment to measurable labor market impact. Six links, each dependent on the prior. Each includes sensitivity and timeline assessments calibrated against current data.

01 Capital Investment

● Active (accelerating) Time: Complete (ongoing) Sensitivity: Low

Hyperscaler capital expenditure for 2026 is projected at $660–690 billion[1], nearly double 2025 levels. Amazon alone is spending $200 billion[2]. This is not speculation. It is capital allocation for capacity that replaces human tasks. The KPMG Q1 2026 AI Pulse survey[3] found 54% of organizations are now actively deploying AI agents, up from 12% in early 2024.

02 Infrastructure Build

● Active (accelerating) Time: Complete (ongoing) Sensitivity: Low

ERCOT interconnection queue at 410 GW, 87% data centers[4]. Microsoft has an $80 billion Azure backlog[5] due to power constraints. McKinsey is running 25,000 AI agents alongside 40,000 human employees[6]. The Federal Reserve estimates that 78% of the American workforce now works at a firm that has adopted AI[7]. Power constraints are the binding constraint, not demand.

03 Executive Strategy Shift

● Active (accelerating) Time: Complete Sensitivity: Low

AI is the number-one cited reason for layoffs for the first time: 25% of March cuts per Challenger[8]. Globally, 47.9% of Q1 tech layoffs were attributed to AI[9]. Block cut 40% of its workforce; stock rose 24%[10]. Profit-per-employee is becoming an operational metric: Block targeting $2M gross profit per employee by 2026[11]. Gartner forecasts[12] new unicorns by 2030 will target $2M ARR per employee.

04 Hiring Demand Shift

● Active Time: Complete Sensitivity: Moderate

Indeed postings at 2017 levels[13]. The February JOLTS report[14] showed a hires rate of 3.1%, matching the COVID-era low[15]. Quits rate locked at 1.9% for eight consecutive months, a decade-low signal that workers feel trapped. An Enhancv survey[16] estimates 27% of all job listings are ghost postings with no intention to hire.

05 Payroll Effects

● Active Time: In progress Sensitivity: Moderate

February revised to -133,000[17]. Three-month average: only 68,000/month. The civilian labor force shrank by 396,000 in March. Discouraged workers spiked 39%, from 366,000 to 510,000. AI-exposed sectors bleeding consistently: financial activities -15,000[18], professional/scientific/technical services -13,500, information -3,000. Healthcare (+89,900, including 35,000 strike returns) and construction (+26,000) prop up the headline. ADP showed only +62,000 private-sector jobs[19], a 116,000 gap from BLS.

06 Unemployment Indicators

● Emerging → Active Time: 3–6 months to headline visibility Sensitivity: High

Headline rate 4.3% masks deterioration beneath. Long-term unemployed (27+ weeks) at 1.8 million, up 322,000 YoY. Average unemployment duration: 25.3 weeks[20], up from 21.4 a year ago. U-6 underemployment: 8.0%[21]. Labor force participation: 61.9% and falling. Consumer sentiment at all-time record low of 47.6[22] in the 74-year history of the survey. Year-ahead inflation expectations surged from 3.8% to 4.8%[23].

Chain Progression.

PROJECTED VS. ACTUAL TRACKING

CHAIN LINK	AUG 2025	AUG 2025 PROJECTED	FEB 2026	APR 2026	TRACKING
1. Capital Investment	● Active	Ongoing	● Active (accel.)	● Active (accel.)	Ahead
2. Infrastructure	● Active	Ongoing	● Active (accel.)	● Active (accel.)	Ahead
3. Executive Strategy	● Active	6–12 mo	● Active (accel.)	● Active (accel.)	Ahead
4. Hiring Shift	● Emerging	6–12 mo	● Active	● Active	Ahead

CHAIN LINK	AUG 2025	AUG 2025 PROJECTED	FEB 2026	APR 2026	TRACKING
5. Payroll Effects	● Emerging	12–18 mo	● Emerg.→Active	● Active	Ahead
6. Unemployment	○ Not Yet	18–24 mo	● Emerging	● Emerg.→Active	On schedule

COMPOSITE SIGNAL: 3.8 (Aug 2025) → 4.57 (Feb 2026) → 4.65–4.75 (Apr 2026)

Q3 2026 WINDOW: 10 weeks away. Five of six links ahead of the base case.

The Regret-Rehire Oscillation.

The regret-rehire cycle is real. Forrester reports 55% of employers who made AI-attributed layoffs already regret the decision[24]. More than one in three spent more on restaffing than they saved. HBR found that 60% of global executives cut headcount in anticipation of AI, but only 2% because AI was actually performing in production[25].

This is a damped oscillation within a reinforcing loop. Klarna is the canonical case: workforce from 7,000 (2022) to 3,400 (2024), partial rehire after repeat contacts jumped 25%, and now targeting roughly 2,000 by 2030 through natural attrition[26]. Each cycle (cut, regret, partial rehire, cut again with more precision) settles at lower headcount. The companies in their second or third cycle are cutting with better information. This is not a reversal. It is noise within a reinforcing loop.

The Evaporation Layer.

Bottom-up displacement runs simultaneously with top-down layoffs. GPT-4-level intelligence cost $30 per million tokens in 2023; it costs roughly $0.06 today[27]. A 500x cost collapse in 16 months. At these prices, automating a $60,000/year knowledge-worker task is trivially positive. Freelance marketplace spend fell from 0.66% of corporate spend (Q4 2021) to 0.14% (Q3 2025)[28]. Every $1 reduction in freelance spend corresponded to only $0.03 in AI spend, a 25x cost savings.

The entry-level pipeline is collapsing. 36% of firms expect to stop hiring entry-level workers by year-end 2026[29]. Entry-level postings for AI-exposed roles have fallen more than 40% from 2023 levels[30]. Stanford data[31]: 22–25-year-old software developer employment down roughly 20% from the late 2022 peak. Only 30% of 2026 graduates are securing full-time employment[32]. The apprenticeship crisis: junior roles being eliminated are not just jobs; they are the training pipeline that produces senior professionals. Firms optimizing for quarterly margins are consuming seed corn.

The Compound Fracture.

Tariffs and AI are compressing opposite ends of the labor market simultaneously. Since the April 2025 tariff announcement, the economy has shed an estimated 89,000 manufacturing jobs and 123,700 transportation/warehousing jobs[33] through February 2026: 189,600 blue-collar jobs lost to trade disruption. Simultaneously, AI is taking white-collar knowledge work in finance, tech, legal, and professional services. Manufacturers are responding to tariff-driven cost pressure by accelerating AI investment[34]. 98% of manufacturers reported exploring AI automation at the American Manufacturing Summit[35]. There is no sector simultaneously gaining from both tariff protection and AI immunity.

Leading Indicators.

DIRECTIONAL SIGNAL TRACKING

INDICATOR	READING	DIR	SIGNAL
Hyperscaler CapEx (2026 projected)	$660–690B	▲	Nearly 2x 2025; acceleration
Knowledge worker postings (Indeed)	2017 levels	▼	Sustained structural decline
JOLTS Hires Rate	3.1%	▼	COVID-era low; frozen labor market
AI-cited layoffs (Challenger)	25% of March cuts	▲	First time as #1 cited reason
Consumer Sentiment (UMich)	47.6	▼	All-time record low (74-year history)
3-month payroll average	68K/month	▼	Below population growth threshold
Entry-level posting volume	–40% from 2023	▼	Pipeline collapse accelerating
Initial claims (4-wk avg)	209,500	—	Stable; genuine counter-signal
Labor force participation	61.9%	▼	396K left workforce in March
AI agent deployment (KPMG)	54% of orgs	▲	Up from 12% in early 2024

Alternative Chains.

A Productivity-Led Growth Absorbs Displacement

PROBABILITY: 15–20%

If AI-driven productivity gains materialize at macro level, GDP growth could generate enough new demand to absorb displaced workers into newly created roles. Currently no evidence in BLS productivity data: +1.8% annualized, no AI signature[36]. Would require productivity surge to begin within 2 quarters.

B Policy Intervention Decelerates the Curve

PROBABILITY: 10–15%

The Economy of the Future Commission Act[37] will not produce recommendations until Q2 2027. Current DOL retraining capacity: 60,000/year[38] against 55,000–120,000 annual tech sector displacement. No near-term policy mechanism exists to meaningfully alter the trajectory.

C Demand-Side Recession Confounds the Signal

PROBABILITY: 30–40%

Goldman Sachs raised recession probability to 30%[39]. Moody's Analytics: 48.6%[40]. Polymarket: 31%[41]. If a traditional recession hits, AI displacement becomes impossible to separate from cyclical job losses. The structural thesis does not change, but the ability to measure it degrades. Tariff-driven stagflation is the most likely trigger.

Historical Analogues.

Mobile banking and bank teller employment (2010–2018). Mobile banking adoption surged starting in 2010, but bank teller employment did not decline for roughly 18 months. Branch expansion programs masked the trend. By the time the decline became visible in aggregate data, the displacement was already structural. The initial false stability signal is precisely analogous to what healthcare and construction expansion are doing to the March 2026 headline.

Cloud computing and on-premise IT (2012–2020). The migration from on-premise data centers to cloud infrastructure eliminated tens of thousands of IT operations roles, but through hiring freezes and natural attrition rather than mass layoffs. The displacement was real but never produced a Challenger-style headline event. This is the mechanism operating in the "evaporation layer": roles that never get posted rather than roles that get cut.

Current analogue. Healthcare and construction expansion are masking AI-exposed sector contraction (finance -15,000, professional services -13,500, information -3,000 in March alone). This is the same false stability signal observed in prior technology displacement cycles. The headline aggregates them. The structure separates them.

Counter-Indicators.

1. Claims Data Stability

PROBABILITY: 20–30%

Initial claims 4-week average 209,500[42], continuing claims at 1,794,000[43], the lowest since May 2024. The 75% non-filing rate hypothesis explains this, but it could mean displacement is genuinely slower than other indicators suggest.

WHAT WOULD CHANGE OUR CONFIDENCE: *If claims rise above 250K for 3 consecutive weeks while payroll remains positive, the structural displacement thesis strengthens.*

2. AI Washing / Attribution Noise

PROBABILITY: 25–35%

Sam Altman acknowledged: "There's some AI washing where people are blaming AI for layoffs that they would otherwise do"[9]. The NBER CFO Survey[44] found over 80% of firms report no measurable AI productivity impact.

Signal is real but noisier than headlines suggest.

WHAT WOULD CHANGE OUR CONFIDENCE: *If the Challenger AI-attribution percentage falls below 15% for 2 consecutive months, we would downgrade Link 03 sensitivity.*

3. Productivity Data Absence

PROBABILITY: 15–20%

BLS Q4 2025 nonfarm productivity at +1.8% annualized, no AI signature. If AI were genuinely transforming productivity at scale, this figure should be moving. It is not.

WHAT WOULD CHANGE OUR CONFIDENCE: *If Q1 2026 productivity data shows a break above 2.5% annualized with concurrent displacement indicators, the "displacement without productivity offset" scenario (more concerning) becomes the base case.*

4. Regret-Rehire Amplitude Larger Than Modeled

PROBABILITY: 20–30%

Gartner predicts[45] half of AI-attributed cuts reinstated by 2027. If the oscillation is wider, net displacement through 2026 is lower.

WHAT WOULD CHANGE OUR CONFIDENCE: *If rehire rates exceed 60% in the next Forrester survey, we would widen the oscillation band and extend the displacement timeline by 2–3 quarters.*

5. DOGE Federal Cuts Confounding

PROBABILITY: N/A

The 355,000 federal job decline is policy, not AI. Separating these signals is important and difficult. Federal agencies are rehiring in some cases[46]. Not a probability assessment; a data quality caveat.

Decision-Triggering Thresholds.

ACCELERATION SIGNALS (chain progressing faster than projected)

- April BLS prints below 80K (confirms 68K/month trend as structural, not noise)
- Challenger AI-attribution exceeds 30% for a second consecutive month
- JOLTS hires rate falls below 3.0%
- A Fortune 100 company outside tech announces >15% AI-driven workforce reduction
- Consumer sentiment remains below 50 for 2 consecutive months

STABILIZATION SIGNALS (chain decelerating)

- Three consecutive months of payroll above 150K with positive revisions
- Initial claims rise above 250K (paradoxically bullish: means traditional displacement channels are engaging, making the problem measurable and addressable)
- Quits rate rises above 2.3% (workers feel confident enough to change jobs)
- Entry-level posting volume reverses decline for 2 consecutive quarters

SCENARIO IMPLICATIONS FOR CAPITAL ALLOCATION

SCENARIO	PROB	6-MONTH OUTLOOK	IMPLICATION
Base: displacement accelerates	55–65%	Headline unemployment rises to 4.6–4.8% by Q4 2026. AI-exposed sectors continue bleeding.	Reduce exposure to knowledge-work-heavy companies without AI efficiency narratives. Increase exposure to AI infrastructure and companies demonstrating profit-per-employee gains.
Moderate: slower than projected	25–30%	Payroll stabilizes at 80–120K/month. Claims remain stable. Headline stays 4.2–4.5%.	Current portfolio positioning adequate. Monitor Q2 earnings for breadth of AI efficiency language.
Disruption: recession compounds	10–15%	Recession layers on structural displacement. Unemployment rises above 5% by Q1 2027.	Defensive positioning. AI displacement becomes unmeasurable in cyclical noise but continues underneath.

Forward Projection: Q3 2026 and Beyond.

The structural math: a labor market generating 68,000 jobs per month while absorbing 16,000 net AI-driven losses produces a net of approximately 52,000, below the roughly 100,000–120,000 monthly pace needed for population growth. Goldman Sachs estimates[47] AI is erasing approximately 16,000 net U.S. jobs per month (25,000 substitution minus 9,000 augmentation). The NBER/Duke CFO Survey[48] projects AI-driven job cuts at roughly 502,000 in 2026, a ninefold increase over 2025.

Q2 earnings season (July) will likely show the broadest adoption of AI efficiency language yet. Every company watching Block's stock rise 24% on a 40% workforce reduction is learning the same lesson. The entry-level hiring collapse will likely spread from tech into financial services, healthcare administration, and legal support. KPMG data[3] shows 57% of leaders say AI agents have already changed their approach to entry-level hiring. The service-sector multiplier[49], estimated at 3–5 service jobs at risk per tech job lost, operates on a 2–4 quarter lag.

Headline unemployment would begin to rise meaningfully by Q4 2026 or Q1 2027, even without a traditional demand-side recession. The chain is tracking ahead of the base case on five of six links. Q3 2026 is 10 weeks away.

Methodology Note.

Hari Causal Chain Projection Framework v3.0. Designed to be roughly right rather than precisely wrong. All confidence levels and probability estimates are informed inference. The framework maps the specific sequence of events required for structural displacement to reach measurable levels, then tracks each link against incoming data. This analysis draws on the March 2026 Employment Situation Report (BLS), JOLTS February 2026, ADP National Employment Report, Challenger Gray & Christmas job cut data, Federal Reserve FEDS Note on AI Adoption, KPMG Q1 2026 AI Pulse Survey, Stanford Digital Economy Lab employment studies, University of Michigan Consumer Sentiment Survey, Goldman Sachs Research, and current reporting from Fortune, Bloomberg, Forbes, CNBC, and Tom's Hardware.

Next review: May 2026 (post-April BLS release)

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