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nova WORKS

WORKFORCE REVIEW

A monthly review of labor market information for Silicon Valley

Tech sector layoffs explained: What you need to know

Layoffs are making headlines, and most seem to be centered on one job sector: tech.

The tech industry increased its layoffs by 649% in 2022, which is the highest since the dot-com bubble more than a few decades ago, according to "The Challenger Report." More tech employees were laid off in 2022 than in 2020 and 2021 combined.

As of March 2024, more than 200 tech companies have laid off more than 50,800 employees in 2024, according to Layoffs.fyi.

The overall labor sector appeared strong in 2022 and into 2023, but the tech sector layoffs tend to be the most visible. Because the tech giants have many employees, a small percentage of layoffs still translates to thousands of people losing their jobs. Even after the dot-com bubble, the tech industry has been resilient to economic challenges due to its size and growing presence for personal and business use. Most of these large layoffs are from big household-name companies.

There are several factors contributing to tech layoffs, including the economy, inflation, higher interest rates, overhiring and COVID-19 pandemic job correction.

Artificial intelligence (AI)

AI is splitting the tech job market as companies look to hire employees with AI-related skills. Around 10% of U.S. jobs face a risk from AI disruption, according to the Economic Report of the President.

This disruption does not mean job loss but could complement some of these workers and increase productivity. The biggest fear of job loss due to AI is for those who do not learn to use AI.

However, IBM fueled the AI-job-takeover fire, when the company told employees in a meeting that it plans to cut 3,900 jobs in the marketing and communications division -- or 1.5% of its workforce. The company also planned to stop hiring for roles that could be replaced by AI, according to Bloomberg.

Economic downturn

Debates of a U.S. recession started when data from the U.S. Bureau of Economic Analysis showed a shrinking economy in July 2022 for the second straight quarter. Economists are unsure, and the fear of a recession still looms in news reports. Other conditions threaten the economy's health, such as the government debt ceiling, the war in Ukraine, the ongoing pandemic and the rise in interest rates.

Companies turn to layoffs as a survival method to cut costs when revenue and profits get leaner.

Inflation

When inflation hit the economy hard in June 2022, consumers saw price increases of 9.1% compared to the typical annual rate of 2% for steady inflation, according to the Federal Reserve. 2022 saw the highest inflation rate in 40 years, according to the U.S. Bureau of Labor Statistics (BLS). The economy softened as people started buying less to accommodate these higher prices. The cost of living jumped significantly, and people and businesses had to make cutbacks. Technology companies saw price increases for services, so companies had to evaluate and make cuts if necessary.

Businesses look to cut costs to cover their increased expenses due to inflation. Laying off employees is typically one of the first cost-cutting measures because they are one of the largest company expenses. Tech companies lose revenue when businesses cut back advertising. Tech companies, such as Meta, Google, Instagram, Snap and ByteDance, have business models that rely on selling ads.

Higher interest rates

The Federal Reserve raised the interest rates seven times in 2022 and may raise them more in 2023. The Fed raises these rates to slow economic growth and deter both consumers and businesses from spending, which reduces demand to ultimately lower prices.

Higher interest rates affect how much a company wants to borrow due to higher costs. These higher rates directly impact venture capitalists (VCs) and other funding of startups. Companies do not want to invest in riskier areas when the economy's future is uncertain. Economic uncertainties cause companies to reevaluate their hiring and growth strategies.

Investor pressure

Investors want companies to decrease expenses as revenues slow down. VCs are worried that profits will be down this year after the large growth period. For example, TCI Fund Management called on Alphabet, Google's parent company, to reduce head count and take action for improved profitability. Other big tech companies, such as Meta and Microsoft, also faced backlash from investors, saying their head count was too high compared to other companies.

Overhiring during the pandemic

Part of the rise in layoffs is due to correcting the hiring of too many people. During the height of the pandemic, the use of technology grew significantly as everything moved online. People were working remotely, shopping online, ordering groceries to be picked up or delivered, streaming movies at home and taking classes online instead of in person. Many were under quarantine and encouraged to stay home, so people spent more time online.

The surge in online activity brought tech companies record-level profits and started a hiring frenzy to keep up with the demand. Tech companies thought this would be the new normal, expanding their teams and growing quickly.

Meta nearly doubled its employee head count. In March 2020, Meta reported 48,268 staffers and more than 80,000 by September 2022. In November 2022, the company announced it was laying off 11,000 employees.

Now, some work is shifting back to the ways before the pandemic. If people are doing hybrid work schedules, people aren't using tech as much as they were when working from home full time. Instead, they are spending time going into stores, traveling, attending sporting events, going to concerts and dining at restaurants. With the lower demand for tech services, the need for these new hires also decreased.

Post-pandemic reality

Many workers hired during the pandemic were not entry-level employees, but experienced software engineers and developers earning salaries in the six figures with generous benefits. Companies are facing too many employees with redundancy and overstaffing. Companies had high hopes to continue this rate of growth. However, as restrictions lifted, people returned to pre-pandemic lifestyles. With the return to previous work environments, big tech companies are removing the extra layer of employees hired during the height of the pandemic.

Technology for working from home, such as Google Meet, Microsoft Teams and Zoom, are still being used but with lowered numbers since every meeting is no longer only online.

Article continues at link below

Source: ***TechTarget Network*** (04/01/2024)
https://bit.ly/nova-wr-20240425

APRIL 2024

UNEMPLOYMENT

Region	March 2023	February 2024	March 2024	Percentage Point Change 1 month	Percentage Point Change 12 months
San José–Sunnyvale MSA	3.2%	4.5%	4.2%	– 0.3	+ 1.0
San Francisco MD	2.8%	3.8%	3.6%	– 0.2	+ 0.8
California	4.7%	5.6%	5.3%	– 0.3	+ 0.6
United States	3.6%	4.2%	3.9%	– 0.3	+ 0.3

INDUSTRY EMPLOYMENT

Sector — March 2024	San Jose MSA	San Francisco MD	Combined Region	Percentage Change (Combined Region) 1 month	Percentage Change (Combined Region) 12 months
Total Nonfarm	**1,156,200**	**1,156,100**	**2,312,300**	**+ 0.3%**	**– 0.4%**
Construction	51,400	40,600	92,000	+ 1.4%	– 1.3%
Manufacturing	175,400	34,700	210,100	– 0.2%	– 2.4%
Retail Trade	73,100	64,200	137,300	– 0.1%	– 0.1%
Information	92,100	107,700	199,800	– 0.8%	– 9.3%
Professional & Business Services	245,600	292,200	537,800	0.0%	– 2.1%
Educational Services	97,800	86,700	184,500	+ 0.9%	+ 2.1%
Health Care & Social Assistance	154,200	130,100	284,300	+ 0.2%	+ 6.3%
Leisure & Hospitality	101,100	126,300	227,400	+ 1.6%	+ 3.0%
Government	101,700	142,600	244,300	+ 1.5%	+ 3.1%

Note: San José MSA (San José-Sunnyvale-Santa Clara Metropolitan Statistical Area) = Santa Clara and San Benito Counties
San Francisco MD (San Francisco-Redwood City-South San Francisco Metropolitan Division) = San Mateo and San Francisco Counties

Source: California Employment Development Department, LMID

LABOR FORCE & ANNUAL CHANGE

Labor Force by Metropolitan Statistical Area *(U.S. High-Tech Regions)*

	LABOR FORCE			UNEMPLOYMENT			UNEMPLOYMENT RATE		
	March 2023	March 2024	*Change*	March 2023	March 2024	*Change*	March 2023	March 2024	*Change*
United States	**166,784,000**	**167,960,000**	**+ 0.7%**	**6,043,000**	**6,604,000**	**+ 9.3%**	**3.6%**	**3.9%**	**+ 0.3**
Austin, TX	1,449,782	1,478,938	+ 2.0%	48,138	51,652	+ 7.3%	3.3%	3.5%	+ 0.2
Boston, MA	2,845,267	2,800,431	– 1.6%	92,597	90,346	– 2.4%	3.3%	3.2%	– 0.1
New York City, NY	4,179,300	4,208,200	+ 0.7%	215,500	188,800	– 12.4%	5.2%	4.5%	– 0.7
Seattle, WA	1,810,737	1,792,853	– 1.0%	56,647	73,398	+ 29.6%	3.1%	4.1%	+ 1.0
California	19,386,600	19,409,300	+ 0.1%	904,100	1,036,700	+ 14.7%	4.7%	5.3%	+ 0.6
San Diego	1,607,100	1,603,100	– 0.2%	56,900	70,800	+ 24.4%	3.5%	4.4%	+ 0.9
San Francisco	1,023,900	1,002,300	– 2.1%	28,900	35,900	+ 24.2%	2.8%	3.6%	+ 0.8
San José	1,079,600	1,070,200	– 0.9%	34,600	44,600	+ 28.9%	3.2%	4.2%	+ 1.0
NOVAworks Region	*786,600*	*774,100*	*– 1.6%*	*21,500*	*27,500*	*+ 27.9%*	*2.7%*	*3.6%*	*+ 0.8*

Note: NOVAworks Region consists of seven cities in Northern Santa Clara County and the entirety of San Mateo County

Source: California Employment Development Department, LMID

REGIONAL LAYOFF ACTIVITY

March 2024 Layoff Events

Company	Location	# Affected
Activision Blizzard	Foster City	76
Del Monte Capitol Meat Company	Brisbane	92
Google	Multiple cities	596
Marvell Semiconductor	Multiple cities	66
Nevro Corporation	Redwood City	63
Pixelberry Studios	Los Altos	120
Riot Games	Multiple cities	336
SMTC Corporation	Milpitas	14
Sony Interactive Entertainment	San Mateo	118
The Ronin Project	San Mateo	131
Trove Recommerce	Brisbane	60
Wayfair	Mountain View	74
	Total	**1,746**

WARN SUMMARY

Events YTD†: **68**

Individuals Affected YTD: **4,241**

Individuals Previous YTD‡: **5,955**

* **WARN:** Worker Adjustment and Retraining Notification *(notice of mass layoff or closure)*

† **YTD:** Year to Date *(Calendar year: January 1–Present)*

‡ **Previous YTD:** *(Same date range as YTD, one year prior)*

Note: Layoff data are preliminary and should be considered an estimate of monthly regional activity

Source: California EDD, CalJOBS: WARN Data