

Microsoft is latest to jump on the tech layoffs bandwagon

Article

The news: Microsoft is laying off 5% of its staff, affecting 10,000 employees mostly from its engineering divisions, while it is refocusing heavily on artificial intelligence, per [Bloomberg](#).

Layoffs could foreshadow a wider pivot to AI: Microsoft, which [cut about 1,000 of its employees](#) in October, will take a \$1.2 billion loss in Q2 related to “severance costs, changes to our hardware portfolio, and the cost of lease consolidation.”

- Microsoft is already adding **ChatGPT** in various products, including **Azure**, **Bing Search**, and **Microsoft Office**, which could be the impetus for laying off engineers.
- The company eliminated open positions and **slowed hiring** in May in reaction to decelerating market conditions.

Why it's worth watching: The timing of the layoffs comes a week after **Microsoft committed to investing \$10 billion in OpenAI**, the company behind the transformative ChatGPT AI.

- Plummeting personal computer sales and an **11% YoY revenue growth** in Q3 2022—the weakest in over five years—likely led Microsoft to view the job cuts as a necessary tradeoff to secure its **AI ambitions**.
- The cuts could help appease Wall Street and justify the massive investment in generative AI, which we predict will fuel **an AI funding trend**.
- Though **expected to be lucrative**, AI comes with significant **uncertainty about effective commercialization** and potential legal fallout.
- With Microsoft's planned expansion of its **Azure OpenAI Service**, CEO **Satya Nadella** said he expects generative AI to yield **\$7 billion** in cloud revenue within three years.

An alarming time for the tech sector: The **deluge of layoffs** in the tech sector is expected to continue and could affect nearly every company in the segment.

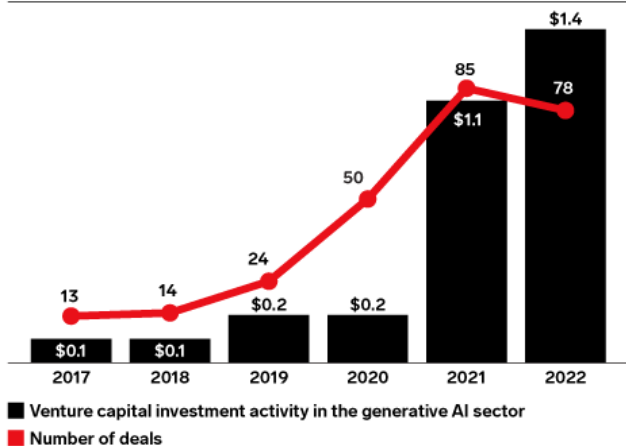
- A report from outplacement firm **Challenger, Gray & Christmas** found US **tech layoffs were up 649% YoY in 2022**, versus a 13% uptick in job cuts in the overall economy during the same period.
- Gartner predicts that **70% of organizations will implement structured automation by 2025**, per **VentureBeat**. And workers are aware: 61% of 32,500 employees surveyed around the world by PwC are worried that automation is **putting people's jobs at risk**.

Our take: The Cambrian explosion of widely available generative AI tools during an economic upheaval could result in reduced hiring and increased layoffs, but AI is not foolproof and could potentially **introduce problems that AI alone can't solve**.

But given a void of government oversight of the technology, expect companies like Microsoft to continue a cavalier approach as the **legal system catches up**.

US Venture Capital Investment Activity in the Generative AI Sector, 2017-2022

billions and number of deals



Source: PitchBook, Jan 1, 2023

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