Human Resources
2026 Midyear Market Outlook

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Introduction

As 2026 unfolds, shifting workforce dynamics are reshaping the priorities of HR professionals and organizational leaders alike. Artificial intelligence (AI) is reshaping how work gets done, automating routine tasks while creating new demands for reskilling and thoughtful workforce planning. At the same time, the gig economy continues to expand, with more workers opting for flexible, nontraditional arrangements and prompting employers to rethink how they attract and structure talent.

Employee burnout remains a persistent challenge, driven by sustained economic pressure and shifting workplace expectations, and its long-term effects are pushing HR leaders to prioritize sustainable engagement strategies. Compounding this, employee confidence in the labor market has reached record lows, as workers grapple with uncertainty about job security and economic stability. Together, these forces are redefining how HR teams support their workforce and drive organizational success. HR leaders play a critical role in helping their organizations stay agile while attracting, developing and retaining talent. Lastly, 2026 presents unique implications for employers that use a biweekly payroll schedule, as this type of pay cycle doesn't align perfectly with the 365-day calendar year.

The middle of the year is a great time to evaluate HR progress and recalibrate any efforts to close the year strong or inform forward-thinking strategies to maintain a competitive edge moving into 2027. This article explores the latest HR trends to watch during the second half of 2026, discusses how they'll likely impact employers and explores how savvy organizations can address them.

AI Reshapes the Labor Market

AI has already made headlines in 2026's labor market, with major employers announcing tens of thousands of job cuts and citing AI adoption as a contributing factor. However, the full picture is more nuanced. The displacement many predicted, which would be sudden or sweeping, hasn't fully materialized. Instead, AI is reshaping the workforce through structural shifts that are quieter and, in many ways, more consequential. Hiring patterns are changing, entry-level pipelines are thinning and the types of roles employers are actively seeking are moving in a clear direction.

How AI Is Driving Both Layoffs and Job Growth

Headlines so far this year have largely focused on AI-attributed job cuts, and the numbers are real. According to outplacement firm Challenger, Gray & Christmas, companies are citing AI as the leading reason for cuts through the first half of 2026.

Most recently, a new study from consulting firm Mercer revealed that virtually every employer is planning to cut jobs due to AI.

> The 2026 Global Talent Trends report, which gathered intel from 825 C-suite leaders and 1,650 HR leaders, found that 99% of those executives expect AI to drive headcount reductions over the next two years.

Nevertheless, economists caution that the bigger story is not displacement, but rather suppression. AI's broader effect may be more subtle, showing up as weaker hiring, especially for junior and entry-level roles. On the other hand, senior roles are generally more sophisticated and considerably harder to replace. Despite layoffs, total job numbers from the U.S. Bureau of Labor Statistics (BLS) are not that abnormal; while some organizations are laying off workers, others are growing.

Adding nuance to these layoffs, some research suggests that companies are cutting workers based on AI's projected capabilities instead of its current performance. In addition, a significant share of those workers may ultimately be rehired, often offshore or at lower wages. OpenAI's CEO has acknowledged there is "AI-washing" in layoff announcements, where companies attribute cuts to AI that they would have made anyway. At the same time, AI's expansion is generating demand in adjacent sectors (e.g., energy infrastructure, data centers and AI development itself), which are all adding jobs as the technology scales. This indicates that the labor market story is one of reallocation as much as reduction.

The Reshaping of Job Demand

The anxiety around AI and jobs is genuine, but the data is more complex than a simple case of mass displacement. What's happening instead is a fundamental reshaping of which skills employers value and which roles they're actively building toward. In fact, an analysis of U.S. job postings between 2019 and early 2025 found that postings for occupations dominated by structured, repetitive tasks dropped 13% after ChatGPT's launch, while postings for roles requiring analytical, technical or creative work rose 20%. These findings demonstrate that AI is not eliminating work uniformly, but rather redirecting it.

Goldman Sachs Research reached similar conclusions. In occupations where AI substitutes for human labor, employment is declining. Yet, in roles where AI augments human workers by automating some tasks while still requiring personal judgment, creativity and interpersonal skills, employment levels are rising. This analysis estimates AI has reduced monthly U.S. payroll growth by nearly 16,000 jobs over the past year and raised the unemployment rate by 0.1%, a modest net drag that falls disproportionately on younger, less experienced workers.

Roles most exposed to AI substitution tend to be those centered on routine, rule-based processing or predictable tasks with limited variability. Those with the strongest augmentation potential are leadership and management roles that require human judgment, presence and relational complexity that AI cannot replicate.

What Employers Should Watch

The labor market signal for employers is two-sided. On the cost and efficiency side, AI is delivering real reductions in the scope of work that requires headcount. AI tools (e.g., Claude and Copilot) allow employers to complete mundane tasks more cost-effectively and can help employees be more productive. From a talent perspective, demand is intensifying for workers who can operate alongside AI tools, and those workers command a wage premium. Employers who ignore either side of that equation risk both overstaffing roles that AI can absorb and losing talent that knows how to use it.

Lastly, the entry-level pipeline deserves particular attention. Cutting away at it may generate short-term savings, but it risks undermining the development pathway for future midlevel managers and experienced employees. Employers who invest in reskilling now and prepare workers to operate in AI-augmented roles will be better positioned for a labor market where the competitive divide between AI-capable and AI-excluded workers is only expected to intensify. As AI capabilities continue to expand through the back half of 2026 and into 2027, organizations that have already built internal fluency with these tools will hold a meaningful advantage, both in operational efficiency and in their ability to attract workers who expect AI to be part of how they do their jobs.

Gig Workers Transform the Workplace

The gig economy, built on short-term contracts, platform-based work and independent contracting, has long been dismissed as a fringe labor arrangement. That framing is increasingly hard to sustain.

According to Upwork's 2026 The Future Workforce Index, 39% of all U.S. workers freelance, which is an increase of 4% from 2025. Furthermore, analysts project that freelancers will make up more than half of the U.S. workforce by 2027. Several forces are accelerating the shift throughout this year, including rising cost-of-living pressures, worker preferences, a changing market for full-time or conventional roles, and a generational shift in how workers define success, with real implications for employers.

Gen Z Is Leading the Charge

No group is embracing gig work more visibly than Generation Z (Gen Z), those born between 1997 and 2012. Over half of Gen Z workers (57%) have a side hustle, compared to just 21% of boomers, and more than half of young professionals say a traditional 9-to-5 is no longer essential to achieving financial success.

> A Harris Poll report describes Gen Z as America's first true "side hustle generation."

That trend is playing out in real time this summer. Workers ages 17 to 25 are the fastest-growing demographic on major gig platforms so far in the second quarter of 2026, with registrations up 8.4% year-over-year (YoY). On-demand delivery service GoPuff saw the steepest jump, with a nearly 98% YoY surge in sign-ups among young workers. Entry-level postings are down drastically, and AI is absorbing routine white-collar tasks, leaving many young workers, including recent college graduates, with fewer traditional starting points.

A Two-track Labor Market

Not all gig work is the same. Research from ADP found that independent contractors and temporary (short-term W-2) workers together accounted for 27% of all jobs held in 2024, but the two groups have very different experiences. Independent contractors (e.g., freelance designers, consultants or IT professionals who market specialized skills directly to clients) earn a median of $25 per hour, while temporary employees (e.g., seasonal workers, administrative workers on short-term assignments or warehouse workers placed through a staffing agency) earn $15, below the $23 median for all U.S. workers. Both groups work roughly 20 hours per week on average.

The composition is shifting, too. Demand for independent contractors has grown, while short-term W-2 work has been tapering off since the COVID-19 pandemic. Workers are also spreading across platforms rather than committing to a single platform. Many active gig workers juggle multiple apps simultaneously, with more than half of users on smaller platforms, such as Shipt, Lyft and GoPuff, also active on DoorDash.

What This Means for Employers

Employers are navigating this landscape from two directions at once: as potential users of gig labor and as employers competing against it for talent. In addition, many of their own employees are likely doing gig work on the side, whether they allow it or not. On the opportunity side, gig platforms can provide access to specialized skills, enable cost flexibility and support project-based staffing (e.g., deliveries, IT projects or marketing campaigns). But they introduce compliance exposure. Worker misclassification under the Fair Labor Standards Act (FLSA) remains a significant risk, with federal, state and local rules creating a complex and uneven regulatory landscape.

The subtler challenge may be retention. As gig platforms make flexible income more accessible, traditional employers face pressure to compete not just on wages, but on flexibility, autonomy and culture. Employers should continue to monitor the labor market for gig competition and consider ways to adapt to the reality that impacts their workforce.

Employers Play Key Role in Addressing Employee Burnout

In 2026, a combination of labor market stagnation, AI-driven job anxiety and sustained post-pandemic stress has pushed employee burnout to a major tipping point. What was once categorized as a wellness concern is now a measurable workforce risk with direct consequences for productivity, retention and healthcare costs. This year's data points squarely at employers as the most important variable in whether burnout is properly addressed or allowed to worsen.

The Scale of Burnout

Spring Health's 2026 Workplace Mental Health Annual Report, which surveyed more than 2,000 HR leaders and employees across five countries, found that 74% of employees have experienced burnout, while 61% of HR professionals say employee burnout has increased in the past year. In response, employers are moving beyond one-time wellness initiatives by investing in manager training, expanding access to employee assistance programs and integrating mental health benefits more directly into year-round benefits communications. Compounding concerns, researchers have noted an increasing prevalence of "silent burnout."

> The Spring Health report revealed that 40% of burned-out employees report being physically present but mentally checked out at work, a condition that generates real organizational costs without triggering the visible signals that typically prompt a response.

In addition, the labor market is worsening the situation. According to a recent poll from Glassdoor, more than half of job seekers (53%) say they've paused their job search entirely to protect their mental health. Burnout mentions in Glassdoor company reviews surged 65% YoY in the first quarter of 2026, a period marked by suppressed hiring, high ghosting rates and limited mobility. Workers feel stuck, and that immobility is exacerbating the exhaustion.

According to the National Alliance on Mental Illness's Workplace Mental Health Poll released in March 2026, 1 in 4 employees have considered quitting their job due to the impact work has on their mental health, and 7% actually did. Burnout-related productivity losses and turnover cost organizations $322 billion annually.

The Disconnect at the Top

The most significant finding in the Spring Health report is not the burnout rate itself. There is a gap between what employers believe they are providing and what employees are actually experiencing. While 89% of HR leaders believe their mental health benefits provide a competitive advantage, nearly two-thirds report an increase in mental health leaves over the past year, with about 1 in 6 organizations seeing such leaves spike by 25% or more. Investment in benefits alone is not enough to close the gap; the missing link is whether employees know those benefits exist and feel comfortable using them.

Among Spring Health's findings, 69% of employees say mental health benefits are very or extremely important to their job decisions, with that figure jumping to 83% among employees ages 18 to 34. Benefits that go unused because employees don't know about them or feel stigmatized in accessing them deliver neither health nor retention value.

Connecting Employees to Purpose

Connecting employees to purpose, helping them understand how their work contributes to organizational goals, is one of the most durable buffers against burnout. According to MetLife's Workforce Trends report, half of employees feel disconnected and undervalued at work, a condition that leads directly to emotional fatigue and disengagement. In response, more employers are turning their efforts to recognition, autonomy and investment in career development to address the underlying drivers.

Employers are also increasingly treating managers as a primary intervention point. These individuals can serve as a bridge between workplace benefits and the employees who need them, which makes it all the more important to equip managers with the skills needed to recognize early warning signs, normalize conversations about mental health and actively connect employees to available support. Where benefits exist but utilization is low, visibility and manager engagement are often the most effective drivers. While Mental Health Month in May may have prompted a renewed focus on these efforts, sustaining that momentum through the remainder of the year is where employers can make the most lasting impact.

Employee Confidence in Labor Market Stays Near Record Lows

Burnout and declining confidence in the labor market are proving to be two sides of the same coin. As employees continue to report chronic, unmanageable stress, that strain is compounding the strain on a labor market where workers increasingly doubt their employer's prospects and their own job security. Employee confidence ticked up slightly in June, rebounding from a record low in May, according to the latest data from the Glassdoor Employee Confidence Index, though sentiment remains down YoY across most industries. A tough hiring market for new college graduates, steep YoY confidence declines among technology workers and growing anxiety about AI's role in hiring are compounding that strain even further. Dropping sentiment is now showing up broadly in how employees view the labor market itself, not just their own workplace.

A Market Defined by Both Stress and Stagnation

Glassdoor data revealed that less than half (44%) of employees reported a positive six-month business outlook for their employer in June 2026, a slight improvement from 43.7% in May's record low. Even with the uptick, confidence remains historically weak and down YoY in most industries, as economists point to rising energy prices tied to geopolitical instability and a sluggish hiring market. That slowdown also shows up in BLS data. The U.S. economy added just 57,000 jobs in June 2026, a sharp slowdown from the downwardly revised 129,000 added in May, and the unemployment rate ticked down to 4.2%, though the decline largely reflected workers leaving the labor force rather than new hiring. May's JOLTS report showed job openings climbing to a two-year high of roughly 7.59 million even as hires slipped to 5.17 million, a sign that open positions aren't converting into offers as quickly as they once did. Additionally, Glassdoor data revealed that burned-out employees applied for 45% fewer external jobs in 2025 than employees who gave positive reviews, meaning many workers are staying in roles that are actively wearing them down rather than risking a job search in a stagnant market.

> Confidence declines are not universal, and it's become apparent amid graduation season.

For example, entry-level workers experience the sharpest declines in confidence of any career stage during a difficult market. According to hiring site ZipRecruiter, unemployment among recent college graduates has climbed to roughly 5.6%, well above the overall rate, as employers lean on experienced hires and, in some cases, lean on AI to absorb entry-level tasks. This dynamic for entry-level workers has not been seen since the early days of the COVID-19 pandemic.

In addition to seniority, confidence levels vary by industry as revealed by June Glassdoor data:

- **Construction, repair and maintenance services:** 52.4% (a YoY decrease from 54.9% in June 2025)
- **Healthcare:** 47% (a YoY decrease from 50.8%)
- **Information technology:** 44% (a YoY decrease from 51.6%)
- **Nonprofit and nongovernment organizations:** 38.4% (a YoY decrease from 43.2%)
- **Retail and wholesale:** 36.4% (a YoY decrease from 37.9%)

Metrics across other industries ranged from 33%-55%, but in general, they are trending down.

Why Confidence Is Down

Even with June's uptick, confidence remains historically weak. Several forces are still weighing it down:

- Hiring has slowed even as unemployment stays steady, leaving fewer places for job seekers to land.
- Layoff anxiety is outpacing actual layoff activity, as fear becomes disconnected from hard data.
- Wage growth is softening, cutting workers' leverage to negotiate raises or switch jobs.
- Entry-level and mid-level employees face the sharpest squeeze between AI's absorption of junior tasks and leaner management layers.
- Rising energy costs are adding pressure on consumer-facing industries.

Together, these pressures explain why one month's rebound doesn't erase months of strain, and why confidence remains fragile heading into the second half of the year.

Rebuilding Trust in a Stagnant Market

General labor metrics show a relatively stable employment economy; however, worker sentiment shows a different picture. In fact, disengagement and a lack of confidence can negatively impact productivity and culture even when turnover numbers look fine on paper. Employers may gain more traction by focusing on what's within their control rather than trying to offset forces they can't influence.

Confidence isn't rebuilt through a single policy, perk or benefit. It's rebuilt through consistent signals that employees can trust their employer and their place within it, and that starts with transparency. Clear communication and better training can meaningfully ease workers' worries about job security, even when the broader economic picture stays uncertain. Trust also grows when employees have genuine input into how they work, as greater autonomy is linked to lower burnout and stronger engagement. Employers should be careful not to mistake quiet retention for genuine stability, since employees who feel stuck rather than confident may simply be waiting out a difficult market rather than truly committed.

As organizations plan for the second half of 2026 and into 2027, rebuilding trust one consistent message at a time may do more for retention than any single new benefit or program. Lastly, treating burnout and confidence as connected problems may be a realistic starting point for an employee retention and engagement strategy.

Employers Plan for Extra Biweekly Payroll Period

Biweekly is one of the more common payroll cycles, with 43% of employers following this cadence, according to the BLS. While many employers run payroll on a biweekly schedule, that cadence creates an unusual situation in 2026. Because Jan. 1, 2027, falls on a federal holiday, many employers that use Friday pay dates will need to shift their final payday to Thursday, Dec. 31, 2026. The result: 27 pay periods instead of the typical 26.

This happens roughly once every 11 to 12 years, due to the mismatch between 365-day years and 14-day pay cycles. Even though this occurrence is rare, the implications are real, spanning FLSA compliance, benefits contributions, tax withholding and budgeting.

Compliance Impact: FLSA Salary Thresholds

An estimated 40%-45% of U.S. workers are salaried, according to the BLS. As a result, an additional payroll period may have significant implications for employers—particularly regarding exempt employee compensation, benefits calculations and overall compliance. Under the FLSA, employees classified as exempt under executive, administrative and professional exemptions must be paid at least $684 per week. Dividing an annual salary across 27 pay periods instead of 26 can inadvertently push per-paycheck amounts below that threshold.

Being paid on a salary basis means the employee regularly receives a fixed amount of compensation each pay period, typically on a weekly or less frequent schedule. This amount cannot be reduced due to variations in the quality or quantity of work performed. With limited exceptions, exempt employees must receive their full salary for any week in which they perform any work, regardless of the number of days or hours worked.

Consider an employee earning $36,000 annually. Across 26 pay periods, they receive $1,384.62 per check—$692.31 per week—above the federal minimum. Divide the same salary by 27, and the weekly pay drops to $666.67, which is below the threshold, potentially voiding their exempt status. Employers operating in states with different salary thresholds face even greater exposure.

Financial Impact: Overpayment and Benefits

Employers who issue a 27th paycheck at the normal amount could pay salaried employees up to an extra 3.85% in 2026. For large organizations, that unplanned cost can be substantial. Even for smaller employers, the added payroll expense can strain annual budgets.

Benefits deductions add another layer of complexity. An extra pay cycle can affect health insurance, health savings account and flexible spending account contributions, retirement account deductions and voluntary benefits. Given the complexity of benefits deductions, adding an extra cycle risks overfunding or requiring employers to withhold contributions in the 27th cycle.

> Generally, even employers planning for 27 payroll cycles in 2026 complete benefits deductions for the first 26 paychecks. For example, some major employers like Microsoft have publicly stated that the last paycheck will not include benefit deductions.

Common Payroll Strategies

Employers with a biweekly payroll cadence are generally approaching this in one of two ways:

1. **Pro-rated adjustment**—Divide the annual salary by 27, issuing smaller equal paychecks throughout the year. This avoids overpayment but reduces per-period take-home pay for employees.
2. **Pay cycles as usual**—Issue the standard 26-period amount each cycle, with a 27th check added Dec. 31. Straightforward for employees, but it increases total annual payroll costs.

Independent accounting and advisory firm Moore Colson says the first option is the most common because it is financially prudent, keeping total salary expense constant. However, it requires clear communication with employees to explain why their paychecks are lower throughout the year. Conversely, the second option is favored by employees. While administratively simpler and often well-received by employees, this method increases the company's annual payout to salaried staff for that fiscal year, which could impact cash flow.

How Payroll Vendors Are Preparing

Some major payroll platforms are planning for 26 pay periods, while others allow employers to choose between 26 and 27. The responsibility for confirming and configuring the correct pay period count rests with the employer. This is why savvy employers are taking a proactive approach, if they have not already, to work with their payroll provider.

How Employers Are Preparing

If they haven't already, employers should review their 2026 payroll calendar to confirm whether 26 or 27 pay periods apply. From there, key actions include auditing benefits deductions to avoid exceeding annual limits, updating payroll software for accurate tax withholding, communicating changes to employees before they appear in paychecks and confirming configurations with payroll vendors.

Notably, changing between 26 and 27 cycles midyear can create compliance and employee relations issues, so decisions made now should hold through year-end. Before making adjustments to payroll, employers should check federal, state and local requirements for notifying employees before adjusting pay frequency or amounts. Due to the patchwork of rules for both single-state and multistate, it's wise for employers to seek local legal counsel.

Employer Takeaway

Midyear is a great time to evaluate progress on HR efforts and pivot or amp up efforts to finish 2026 on a strong note. Employers should expect the work environment to continue to change quickly. No organization is immune to developments driven by AI adoption, shifting workforce arrangements, employee well-being pressures, declining workforce confidence and payroll calendar quirks. As such, savvy employers are always monitoring the latest workplace trends and resonating with the workforce.

Contact us today for more information.