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Powell: Tariffs are likely to raise inflation, slow growth

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ARLINGTON, Va.>> The Trump administration's expansive new tariffs likely will lead to higher inflation and slower growth for the U.S. economy, Federal Reserve Chairman Jerome Powell said Friday.

Powell said the tariffs, and their likely impacts on the economy and inflation, are "significantly larger than expected." He also said the import taxes probably will lead to "at least a temporary rise in inflation," but he added that "it is also possible that the effects could be more persistent."

"Our obligation is to ... make certain that a one-time increase in the price level does not become an ongoing inflation problem," Powell said in remarks delivered to a conference of the Society for Advancing Business Editing and Writing.

The S&P 500 lost 6% on Friday, closing its worst week since March 2020, when the pandemic ripped through the global economy.

The Dow Jones Industrial Average plunged 2,231 points, or 5.5%, and the Nasdaq composite tumbled 5.8% to pull more than 20% below its record set in December.

Powell's focus on inflation suggests that the Fed will likely keep its benchmark interest rate unchanged at about 4.3% in the coming months, rather than cut them anytime soon. Higher borrowing costs can help slow the economy and cool inflation. Wall Street investors, meanwhile, now expect five interest rate cuts this year, a number that has increased since President Donald Trump announced the tariffs Wednesday. *

Powell also emphasized that the full impact of the tariffs on the economy aren't yet clear, and the Fed will stay on the sidelines until it has more clarity about the economy. He acknowledged that many businesses have said they are holding off on new investments until they get a better sense of the tariffs' impact.

"There's a lot of waiting and seeing going on, including by us," Powell said during a question and answer session. "And that just seems like the right thing to do in this period of uncertainty."

Trump, separately, urged Powell to cut rates, citing lower inflation and energy prices on his social media platform, Truth Social.

"This would be a PERFECT time for Fed Chairman Jerome Powell to cut Interest Rates," Trump wrote. "CUT INTEREST RATES, JEROME, AND STOP PLAYING POLITICS!"

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Economists expect that the tariffs will weaken the economy, possibly threaten hiring, and push up prices. In that scenario, the Fed could cut rates to bolster the economy, or it could keep rates unchanged — or even hike them — to combat inflation. Powell's comments suggest the Fed will mostly focus on inflation.

Powell's remarks come two days after Trump unveiled sweeping tariffs that have upended the global economy, prompted retaliatory moves by China, and sent stock prices in the U.S. and overseas plunging.

Powell's description of the impact of tariffs was more negative than just last month, when he said that any inflation resulting from the tariffs would likely be temporary.

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Weaker growth and higher prices are a tricky combination for the Fed. Typically the central bank would reduce its key interest rate to lower borrowing costs and spur the economy in the event of slower growth, while it would raise rates — or keep them elevated — to slow spending and combat inflation.

"The Fed is in a tough spot with inflation set to accelerate and the economy poised to slow," said Kathy Bostjancic, chief economist at Nationwide.

The Fed is required by law to seek maximum employment and price stability, which it defines as yearly inflation of 2%. Powell acknowledged that the tariffs, which could cause job losses and raise prices, could make both those goals harder to achieve.

"The two goals ... are in tension — or they may be," he said.

Powell said the economy and hiring remain solid, for now, but he noted that consumers and businesses have become more pessimistic about the future.

He also said inflation has fallen sharply from its peak in 2022, but said that recently progress toward the central bank's 2% target "has slowed."

Some positive news arrived Friday when the government reported that hiring accelerated in March, with 228,000 jobs added, though the unemployment rate ticked up to 4.2%, from 4.1%.

Yet those figures measure hiring in mid-March, before the scope of the duties became clear. The tariffs have also raised uncertainty about how the economy will fare in the coming months, which could limit businesses' willingness to invest and hire.