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Economy Shows Swagger As Tariff Fears Ebb

Consumers resume spending, helping to fight off worst-case scenarios of impact

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When President Trump slapped tariffs on nations across the globe this spring, many economists feared higher prices and spending cuts would flatten the economy.

Consumer sentiment collapsed. The S&P 500 stock index fell by 19% between February and April. The world held its breath and waited for the bottom to drop out.

But that didn't happen. Now businesses and consumers are regaining their swagger, and evidence is mounting that those who held back are starting to splurge again.

The stock market is reaching records. The University of Michigan's consumer-sentiment index, which tumbled in April to its lowest reading in almost three years, has begun climbing again. Retail sales are up more than economists had forecast,

and sky-high inflation hasn't materialized—at least not yet.

"We've been surprised again and again by consumers," said Jonathan Millar, senior U.S. economist at Barclays. In April, Millar predicted that the U.S. economy would likely go into recession this year. He now expects it to keep growing, albeit at a slow pace.

As soon as Donald Trump was elected, Tyler Ahn decided she wasn't going to take any chances with the possibility of tariffs—or, worse, a broader economic collapse. The 46-year-old product manager stocked up, buying survival gear (flashlights, window-breaking devices and water-purification tablets), a mop bucket and a case of French rosé.

Throughout the rest of the winter and early spring, Ahn sat tight, trying to spend as little as possible while attempting to follow Trump's evolving tariff threats.

But recently, she gave up. "I decided, well, it is what it is, my money will buy what it will buy," said Ahn, based in Portland, Ore. "What am I going to do? I've got to live."

She just got back from a two-week trip to Italy and France. Even with a weaker dollar, she said she spared no expense on hotels, meals and gelato.

There are still signs of turbulence in the U.S. economy. Growth has been subdued. Inflation, while down from pandemic peaks, is still higher than the Federal Reserve would like. Manufacturing activity shrank for the fourth straight month in June, and immigration raids are damping spending among Hispanic consumers.

Trump has repeatedly delayed the higher tariffs for many countries he threatened in April, and the risk of fallout from steeper levies still looms. This month, he threatened 30% tariffs on imports from the EU and Mexico starting Aug. 1.

Still, companies and consumers have brightened their outlook from earlier this year.

JPMorgan Chase reported unexpectedly strong earnings last week, and said the bank's economists are no longer expecting a recession.

"After the initial shock of tariff policy changes, everyone kind of went on hold," said Jeremy Barnum, the bank's chief financial officer. But "at a certain moment, you just have to move on with your life. And it does feel like some of that is happening just because you can't delay forever."

The bank said card spending grew 7%. Elsewhere, Bank of America, Citigroup and Goldman Sachs reported rising profits, while United Airlines noted improved travel demand. A busy slate of earnings in the coming weeks will help create a fuller picture.

In a July survey of 1,267 U.S. small-business owners by digital marketing platform Constant Contact, 44% of respondents said demand for services and products is higher than they anticipated in January. A third were extremely optimistic that their business would be performing better in the next three months, and just under a third believed they would add more employees by then.

There are signs of weakness in the labor market, where hiring by private employers has been sluggish. But the unemployment rate, 4.1% in June, remains low by historical standards because employers have also been reluctant to cut jobs.

Spring is traditionally the busiest season for new-client enrollment at Command Education, a college admissions consulting firm for high-schoolers based in New York City. Not this year. Chief Executive Christopher Rim said the firm logged more sign-ups during the first week of July than in any full month since January. The reason: Wealthy clients who saw their stock portfolios shrink in March and April weren't about to drop \$85,000 minimum on a year of services. "The market was so iffy, they were like, 'Let me just see how this plays out,'" Rim said. "Now, they are ready."

Two new employees joined Command's existing staff of 49 last week, and another new hire starts soon. Rim hopes to fill five additional full-time roles before summer's end.

Consumers' spring pessimism reflected expectations for a tariff-fueled inflation surge. Those fears have since eased. Respondents in this month's University of Michigan's survey said they expect inflation of 4.4% in the coming year. In April, they expected 6.6% inflation.

But even with delays on some of Trump's threats, he still has pushed overall effective tariff rates to the highest level in more than a century.

The effect of tariffs could still be on the way. During the first Trump administration, tariff increases announced in 2018 didn't show up in capital spending until the second half of 2019, said Michael Feroli, chief U.S. economist at JPMorgan. "Some of these things take a while."

Inflation ticked up slightly in June and prices of tariff-sensitive items such as toys, clothes and furniture rose, a sign that businesses are starting to pass the cost of the levies on to customers.

Christian Reed, who launched his Boston-based tools business as the Covid-19 pandemic took off, said this spring was even more chaotic. He paused new product manufacturing then because of tariff threats because his business, Reekon Tools, works with factories in China, Thailand and other affected countries.

By early July, Reed said he had two revelations. Extreme upheaval in prices and consumer spending wasn't happening. And he was sick of waiting for certainty that seemed like it would never arrive.

His outlook as a consumer began to shift, too. He and his wife, who have a second child due in October, were holding off on upgrading their Mazda CX5 to a larger sport-utility vehicle that could more comfortably fit two car seats, plus their black lab and Italian greyhound.

"There was all the hyperbole that cars are going to go up 10,000%," Reed said. "But it seems like none of that has really happened."

They are planning to buy a Lexus or Volvo SUV in August.

4.4%

Expected inflation in the coming year, a University of Michigan survey shows

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