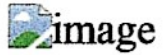


WSJ Print Edition

Small businesses could get particularly slammed.



Hiring Bucks Trade Turmoil, But Economic Clouds Loom

BY JEANNE WHALEN AND JUSTIN LAHART

The world's most powerful economy is showing remarkable resilience in the face of enormous pressure.

Employers added 177,000 jobs in April, more than many economists expected, and the low unemployment rate held steady, the Labor Department reported Friday. While the U.S. economy contracted in the first quarter, the result was distorted by a rush of imports that offset generally solid demand. The stock market rallied off its April lows, with Friday's gains marking nine straight increases for the Dow Jones Industrial Average and the S&P 500.

Yet real turmoil is threaten-ing that strong foundation. President Trump's ever-changing tariff policies, government cuts and immigration restrictions are disrupting trade and sparking deep unease among consumers, businesses and investors. Trump's 145% tariffs on Chinese imports are causing cargo shipments from China to plummet, prompting major retailers to warn of likely price hikes and even shortages of some goods. In early April, economists forecast the likelihood of a recession in the coming year to be twice as high as it was at the start of the year.

At the moment, however, things are still looking surprisingly good.

"For another month, the actual data coming from a key U.S. jobs report failed to justify the bad vibes and anxiety that preceded it," said Cory Stahle, an economist at Indeed Hiring Lab. "Against most expectations, the U.S. labor market stayed strong in April, seemingly immune to mounting uncertainty and tariff-related volatility."

The pace of job creation has been steady, with the economy adding an average of 155,000 jobs over the past three months, only marginally lower than 2024's average monthly gain of 168,000 jobs. Hiring has slowed, but businesses have so far been reluctant to cut workers, and the level of initial jobless claims remains low.

The first-quarter contraction in gross domestic product, by an annualized 0.3%, was largely caused by importers rushing to bring goods to the U.S. ahead of tariffs. But demand remained solid. Consumer spending, the largest source of demand in the economy, slowed to the lowest pace since mid 2023, but still grew at a 1.8% rate over the previous quarter.

Spending by the federal government fell, driven by a decline in defense-related purchases, but business spending was robust.

With economic data hanging tough, investors have pushed back expectations for when the Federal Reserve will lower interest rates. Interest-rate futures now imply there is a little less than a 40% chance Fed policymakers will cut rates by their June meeting, down from nearly 70% a month ago. The Fed is almost certain to leave rates on hold at its meeting in the coming week.

well stated

GDP?

1

Still, worries about tariffs, job security and possible price increases are causing some consumers to tighten their belts. American Airlines and Delta Air Lines said domestic leisure travel has softened, with the most price-sensitive travelers in particular cutting back. Pampers maker Procter & Gamble and OxiClean maker Church & Dwight reported that U.S. sales growth slowed in the first quarter. Restaurant chains including Chipotle Mexican Grill and Starbucks have experienced slower U.S. sales. McDonald's said firstquarter sales at U.S. locations that have been open more than a year fell by 3.6% from a year earlier.

"Low- and middle-income consumers, in particular, are being weighed down by the cumulative impact of inflation and heightened anxiety about the economic outlook," McDonald's Chief Executive Christopher Kempczinski said on an earnings call.

Uncertainty over Trump's policies has prompted many big companies to yank their profit forecasts for the year, and to step up cost cutting. General Motors said this week tariffs will wipe out up to a quarter of its net profit this year. Apple warned that current tariff plans would add \$900 million to costs this quarter, and said that figure could rise.

Without the resources of their larger counterparts, small businesses could get particularly slammed by scarce or higher-cost goods, worries Apollo Global Management chief economist Torsten Slok. "The important statistic in that context is that 80% of employment in the U.S. economy is in businesses with less than 500 workers," he said. *Note*

Surveys of consumers and businesses are flashing red. The Conference Board said its index of consumer confidence fell to its lowest level last month since May 2020. People are deeply worried about the job market, with 65% of Americans surveyed by the University of Michigan saying last month they expect unemployment to rise over the next year. Manufacturing and service firm surveys conducted by regional Federal Reserve banks show companies expect to rein in capital spending.

As Trump entered office, many manufacturers "were emboldened or bullish at first, with the potential for tax reform, permitting reform and regulatory reform on top of what was a pretty decent economy at the time," said Mark Denzler, chief executive of the Illinois Manufacturers' Association. "And then the tariff issue came and created a real whack of uncertainty."

One German company in Illinois was getting ready to buy an expensive piece of manufacturing equipment from China that would have created new jobs in its factory. But now because of the extra import tariff cost, it isn't moving ahead with the purchase, Denzler said.

Many manufacturers are stuck in similar paralysis. *Note term usage*

The Institute for Supply Management said on Thursday that manufacturing activity contracted for a second month in April, with businesses reporting they have been rattled by tariffs.

Tourism-related measures have also taken a hit. There were 7.8% fewer visitors to Las Vegas in March than a year earlier, according to the Las Vegas Convention and Visitors Authority. Canadians, long the top source of international visitors to the U.S., are boycotting U.S. vacations to protest Trump's threats to their sovereignty. Fewer travelers from Europe are coming to the U.S.

A preliminary reading on retail sales from the Chicago Fed suggests that spending moderated last month following a pre-tariff flurry. Based on measures including foot traffic and card transactions, retail sales excluding autos fell by an inflation-adjusted 0.5% in April from the previous month, after rising 1% in March.

Worries about a recession were rising sharply as of early last month, when economists polled by The Wall Street Journal put the probability of a downturn occurring within the next year at 45%, versus 22% in January. The survey concluded April 8, the day before Trump suspended some tariffs for 90 days while ratcheting up levies on China. *Note*

Those odds aren't as high as the 63% economists predicted in October 2022—a forecast that didn't come true. But JPMorgan Chase economist Mike Feroli reckons the economy is in greater peril now and that many economists are simply nervous about getting another recession call wrong.

"Absent the experience of 2022 and 2023, I think people would say, 'Oh, we're definitely going into a recession,'" he said.

Gregory Daco, chief economist at EY-Parthenon, has lowered his recession odds from 60% in early April to 45%. That isn't because of anything he has seen in the recent economic data, but because he believes the White House will ratchet back tariffs against China and reduce levies against other countries.

While concerns about Fed interest rate increases fueled economists' concerns in 2022, the economy still had a head of steam coming out of the pandemic, with government stimulus and an end to lockdowns fueling fierce demand.

Much of that post-Covid rocket fuel has worn off, leaving today's economy more exposed to shocks.

Copyright (c)2025 Dow Jones & Company, Inc. All Rights Reserved. 5/3/2025

Powered by TECNAVIA

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

Saturday, 05/03/2025 Page .A001

Copyright (c)2025 Dow Jones & Company, Inc. All Rights Reserved. 5/3/2025

For personal, non-commercial use only.

