

Recession warnings everywhere, except in data

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Americans are spending less at McDonald's. Fewer container ships are expected at the Port of Los Angeles. Procter & Gamble will likely raise prices. Mattel is shifting production out of China.

Evidence for the economic impact of President Donald Trump's trade wars is everywhere — except, for the most part, in economic data itself. Consumer spending hasn't fallen. Layoffs haven't risen. Businesses haven't stopped investing in equipment or buying supplies.

Economists say it is a matter of time before the impact of tariffs and the uncertainty that Trump's on-again, off-again approach to trade policy has created begin to show up in the hard data. But until then, they are left sifting through crumbs of evidence that wouldn't get a second glance in more normal times: customs revenue, hotel bookings in Las Vegas, freight shipments by truck and rail.

It is in some ways a more buttoned-down version of the recent social media trend in which users share gloomy economic omens — some serious, some humorous — under the hashtag #recessionindicator.

"The problem is we don't have much to hang onto at this point," said Marc Giannoni, chief U.S. economist for Barclays. "We have to rely on anecdotes, on indicators that are nonconventional."

Among those hunting for tidbits of evidence are officials at the Federal Reserve, who are trying to figure out how to set monetary policy in an environment where tariff policy can shift multiple times between meetings. Policymakers held interest rates steady Wednesday, in part because of that uncertainty. But they will be watching for signs that the economy is changing direction faster than the usual indicators can capture.

The situation is reminiscent of the early days of the coronavirus pandemic, when economists scoured the internet for alternative measures — restaurant reservations, attendance at Broadway shows, screenings at Transportation Security Agency checkpoints — that could provide hints of the damage to come. Joe Brusuelas, chief economist at the accounting firm RSM, said he has been getting flashbacks from that period.

During the pandemic, however, economists mostly agreed about where to look for evidence and what the likely effects would be. This time, there is more disagreement. Will the tariffs manifest mostly in higher prices or product shortages? Will consumers pull back spending, leading to layoffs? Or will layoffs come first — perhaps in manufacturing and shipping — with spending to follow as workers lose their income?

"In times when there's a lot of volatility in the economy, and you're waiting for the data to catch up with what's actually going on — because not only does it take time for consumer behavior to change, but also we see this in the data a month or more after it happened — you want to watch these anecdotes to get a sense of where things might be headed," said Andrew Hollenhorst, chief U.S. economist at Citigroup.

Tariffs have already shown up in the economic data in one way: Consumers and businesses have raced to import goods before new duties take effect. That has led to a surge in the trade deficit, which hit a record \$140 billion in March.

But economists disagree about what will happen next. Some argue that as tariffs push up prices, consumers will reduce their purchases, ultimately leading to layoffs and a recession. Others argue that consumers, especially more affluent ones, are in strong enough financial shape that they will be able to keep spending, allowing businesses to pass on their higher costs and pushing up inflation. And of course, it is possible that Trump will roll back tariffs or that they will prove less damaging than many economists expect.

Measures of consumer sentiment have plummeted since Trump took office, suggesting that shoppers are in little mood to stomach higher prices. But economists have grown more skeptical of such measures in recent years after they failed to predict consumer behavior during and after the pandemic.

"What we learned over the pandemic is that vibes can look bad, and yet consumers will still spend," said Ernie Tedeschi, director of economics at the Budget Lab at Yale.

Hence the focus on anecdotes, which forecasters hope might provide an early indication of which direction the economy is headed.

The trouble is that anecdotes, too, are sending mixed messages. Airline executives have been issuing dire warnings. Southwest Airlines' CEO recently said that a recession had already begun in his industry, yet hotel occupancy rates have held up so far. McDonald's and Chipotle reported declining sales last quarter, but Yum Brands — owner of Pizza Hut, KFC and Taco Bell — saw sales rise despite what its chief financial officer called a "complex consumer environment." Companies have told varying stories about when and to what extent they will pass on the cost of tariffs to consumers.

Anecdotes and alternative data sources can also be easy to misinterpret. When visits from international tourists plummeted in March from a year earlier, many observers took it as a sign that foreigners were avoiding the United States because of Trump's policies. But that drop now appears to have been mostly the result of a late Easter: Tourism rebounded in April. *

The conflicting signals pose a problem for the Fed as it weighs when to cut interest rates. The central bank is attuned to mounting concerns that the economy is on the cusp of slowing dramatically under the weight of Trump's tariffs. But the risk that they could also unleash a wave of higher consumer prices at a time when inflation is stubbornly sticky has raised the bar for it to take action.

As a result, the Fed will likely need more than just anecdotes. Officials will at least need to see tangible signs that layoffs are on the horizon. Spiking unemployment or slowing consumer spending would give them even greater assurance that they can lower interest rates without worrying about inflation reigniting. But waiting for either to happen raises the risk that they will be late and forced to do more to shore up the economy.

"The anecdotes are really important for the context, but ultimately it will be the hard data that drives Fed action," Hollenhorst said.