THOUGHTS FROM THE FRONTLINE

Tariff-Induced Paralysis

By John Mauldin | April 26, 2025

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In some kinds of surgery, it is necessary to keep the patient extremely still because even small, involuntary movements can cause damage. Anesthesiologists administer "paralytic" drugs so the surgeons can do their work safely. Thus, a condition we would normally dread actually helps restore us to health.

Tariffs can have a similar effect on the economic body if applied judiciously. Like all taxes, they reduce activity and discourage goods from moving efficiently. This can be desirable in some limited circumstances (like emergencies or national security). However, across-the-board tariffs can have a much more serious effect.

This more or less describes where we are now. President Trump's tariffs are inducing paralysis in significant parts of the economy. The harm grows more evident each day. The plan, at least as publicly revealed, is to negotiate better trading terms with other countries and then let the patient move again. President Trump said in a wide-ranging April 25 *Time* magazine interview:

> **TM: I'm just curious, why don't you announce these deals that you've solidified?**
>
> President: I would say, over the next three to four weeks, and we're finished, by the way.
>
> **TM: You're finished?**
>
> President Trump: We'll be finished.

Let's hope that's true, because otherwise the data shows that we could very well be in recession. Let me hasten to say recessions, while painful, aren't the end of the world. We will recover if one happens.

That being said, let me emphasize something: *Almost everyone* agrees the tariffs will cause short-term harm. The president himself has said a recession is possible. Many of my reader comments say this is just something we have to do—go through some temporary pain to reverse an intolerable problem. I have yet to hear any serious person say we can impose this kind of a tariff regime and not have any adverse consequences. The difference is in degree—how bad the pain will be and how long it will persist before the desired benefits appear.

I don't believe the current level of tariffs will be maintained. I think most of them will be walked back, and the country will adapt to, say, a 10% tariff here and there. The Chinese (and a few other countries) tariffs are different in that they will have a more significant impact.

However, unless the tariffs as proposed are ***significantly reduced***, the pain will be severe and will continue for longer than a year, easily outweighing any benefits. I say that as someone who shares many of the president's goals. I want to boost US manufacturing and put global trade on a more level basis. I don't like depending on China or anyone else for critical goods. I want to have a rational immigration policy. I particularly want to see the regulations that are costing US businesses over $1 trillion a year reduced.

We need solutions. These tariffs aren't going to achieve those other goals, and the attempt is going to cause significant economic disruption. If nothing changes, I think the US will be indisputably in recession within a few months, if we are not already in one. We will explore the data as to why I think that is true.

The good news: There are signs the White House is starting to see this. Both President Trump and Treasury Secretary Bessent said this week the 100%+ rates on Chinese imports are unsustainable and need to come down. There are signs the Chinese want to talk. Even though my best sources tell me there is no conversation between China and the US on tariffs today. It doesn't appear that even interns are talking. Maybe a solution is brewing but if so, it needs to happen sooner rather than later.

Today I will show you some of the problems that are developing *now*. We don't have 90 days to wait.

Wait and See

If you want to know what kind of pain the tariffs are causing American businesses, all you have to do is ask them. Corporate leaders have a lot to say—and they're saying it in earnings calls, media interviews, and survey responses.

My friend Peter Boockvar does the unenviable work of listening to these comments, and he's getting an earful lately.

> "With respect to trade, from everything I'm hearing and reading, we are experiencing a Covid 19-type shutdown of global supply chains in response to the tariffs, particularly on China, except we don't have to wear masks nor social distance. Lori Ann LaRocco wrote on CNBC.com last Wednesday that 'Cancellations of Chinese freight ships begin as bookings plummet.' In the piece, 'A total of 80 blank, or canceled, sailings out of China have been recorded by freight company HLS Group. It wrote in a recent note to clients that with the trade war between China and the US leading to a demand plummet, carriers have started to suspend or adjust transpacific services.'
>
> "A real mess, I say, and I fear the large number of small businesses that are not going to make it through this. I'd argue that the extreme tariffs on China, and those on us, are going to hurt the US more than China. And I'll say again, expect empty shelves of certain things in the next 30–60 days."

None of this should surprise us. When your input costs suddenly double or more, the prudent move is to slam on the brakes. This shows up in shipping traffic. Fewer ships mean fewer American port, truck, and railroad jobs.

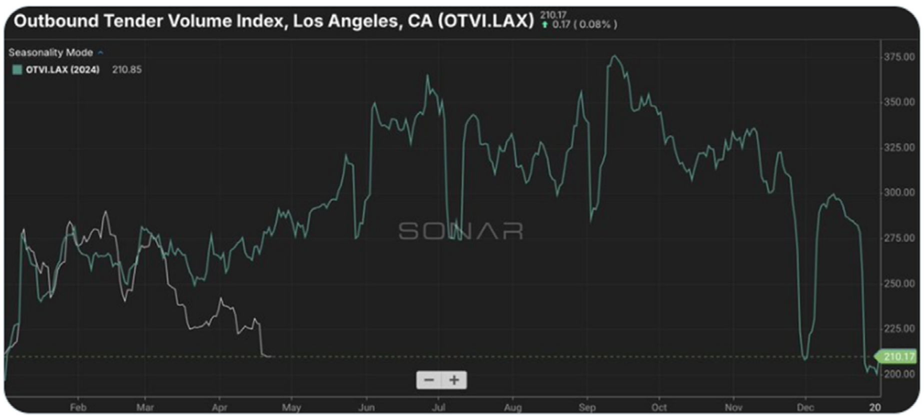
Craig Fuller at FreightWaves is somebody we should all pay attention to when it comes to freight tracking and shipping. Here is his tweet Thursday:

Craig Fuller 🛩🚛🚂⚓
@FreightAlley

Year-over-year trucking activity out of Los Angeles down 23%.

It will likely drop to 50% in the coming weeks if there isn't trade war resolution.

Massive layoffs coming to the West Coast trucking sector



11:09 PM · Apr 23, 2025 · **117.5K** Views

Source: Craig Fuller

David Bahnsen writes this week:

> "One of the issues most missed by those trying to think about the impact of tariffs on US interests is the fact that so many of our imports are not finished goods, but intermediate goods ***used by US manufacturers in their production of finished goods***. Fully 37% of all imports from China are intermediate products, so the US manufacturer that we are told tariffs are supposed to be helping is paying more for their own inputs. 40% of all world imports in the US are things our own *domestic manufacturers* are buying to finish the manufacturing of a good.
>
> "My frequent line is that even if tariffs helped domestic manufacturers, it comes at a cost to US exporters and US consumers, who are also US economic actors. But the first part of that sentence—the concession itself—is also patently false. The very domestic manufacturers we are talking about are, almost all the time, also the very importers, incurring the additional cost."

According to the Small Business Administration, most US manufacturing is done by small businesses, which collectively hire 4.8 million workers. David's statistics show that 40% of those small business manufacturing companies need imported inputs from either China or somewhere else to make their product. Can they change to another supplier? In some cases, sure, though often at higher prices. But many products simply can't be manufactured in the United States for logistical and economic reasons. Many small manufacturing businesses use machines that come from Europe and other parts of the world. They are simply not made in the US. All those businesses are in serious trouble.

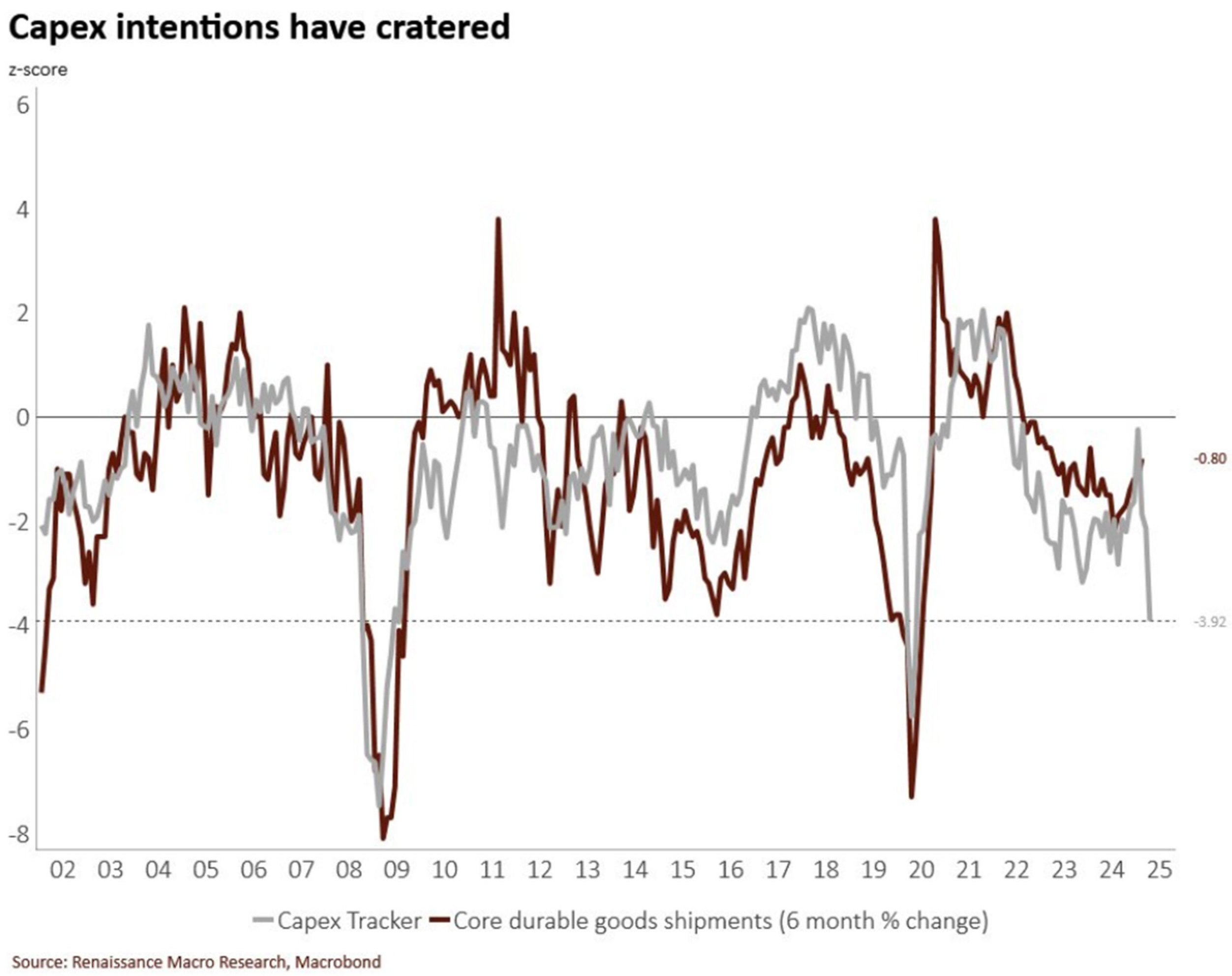
President Trump can exempt Apple iPhones and other technology because they are big and visible. Those small manufacturing companies? They have no visibility whatsoever and they are on their own.

Peter went on to quote from the earnings call of Manpower Group (MAN), the world's third-largest staffing firm.

> "We began the year with a sense of optimism for economic growth in the US particularly and a greater acknowledgement among EU policymakers that Europe needed to do more to remain competitive. The last several weeks have impacted this sense of confidence and the mood is significantly more uncertain and cautious as a result of recent trade policy announcements in the US with ripple effects far beyond. At this stage, most of our clients are adopting a wait-and-see approach and it is difficult to provide any concrete assessment of how significantly this might affect demand from our customers in our major markets around the world."

"Wait and see" is another way of saying "We're paralyzed." Major business decisions aren't about next week or next month. Building a new facility, expanding your production capacity, hiring a key employee—these are multi-year commitments. You don't make them unless you have good reasons to expect favorable conditions. Right now, no one knows what imported materials, goods, and components will cost next week, much less next year.

The result is charts like this one. Note the gray line, a measure of capital spending intentions.



Source: Renaissance Macro Research

CapEx intentions are now down to a level last seen in the COVID recession, and before that in the Great Financial Crisis. In most cases this is exactly the right call. Making big commitments when you have no idea what your cost structure and sales outlook will be, and no way to hedge them, would be foolish.

The result of this, unfortunately, will be paralysis. Companies won't buy new equipment, hire new people, build new facilities, etc. Other companies that were expecting to get revenue from that spending will instead get zero. (Yes, I know AI is an exception.)

Once this process gets going, recession is almost inevitable. And the process is well underway.

Surprise: Shipping Takes Time

We saw above that freight out of LA is collapsing. Data shows there are literally hundreds of container ships and tens of thousands of TEUs that have been kept at sea and can't enter port, and most of them are being routed to Mexico and Canada, where they sit in warehouses or on docks. Businesses that bought goods that were shipped before April 2 will have to pay the tariff if they accept the goods. If they prepaid they still owe the tariffs. That means whatever they bought from China is going to cost 150-245% more? That item literally can't come out of the port until the tariff has been paid. Decisions, decisions.

Molson Hart makes another very good point:

> "The White House has put itself and the country in a bad situation but doesn't realize it yet. Around April 10th China to USA trade shut down. It takes ~30 days for containers to go from China to LA. 45 to Houston by sea, 45 to Chicago by train. 55 to New York by sea.
>
> "That means that there are no economic effects of what was done on April 10th until about May 10th. Around that time (it's already started to happen) trucking work is going to dry up. Warehouses will start doing layoffs because no labor is needed to unload containers and some products will be out of stock, reducing the need for shipping labor.
>
> "All this will start in the Los Angeles area. After about 2 weeks, it'll start hitting Chicago and Houston. Let's say the White House, after 3 weeks, changes its mind, on May 31st. 'This isn't working out like we thought it would. Tariffs back to 0.' Let's say China says 'bygones be bygones, we'll go back to how things were.' Let's say every factory in China that got screwed by their orders being cancelled says the same thing 'no problem, we'll make and ship.'
>
> "The problem is, even under the most favorable conditions of China and the factories restarting economic ties as though nothing happened, it will be at least another 30 days before economic activity is revived. And that's just in LA. In Chicago/Houston, you'll need to wait another 45 days."

He goes on but you get the point. Chinese manufacturing starts back up and it takes several weeks to get the product into the container to ship. 40% of US manufacturers need that product in order to start their manufacturing process. Which takes time. We would now be well into the second quarter—and the economic slowdown that implies.

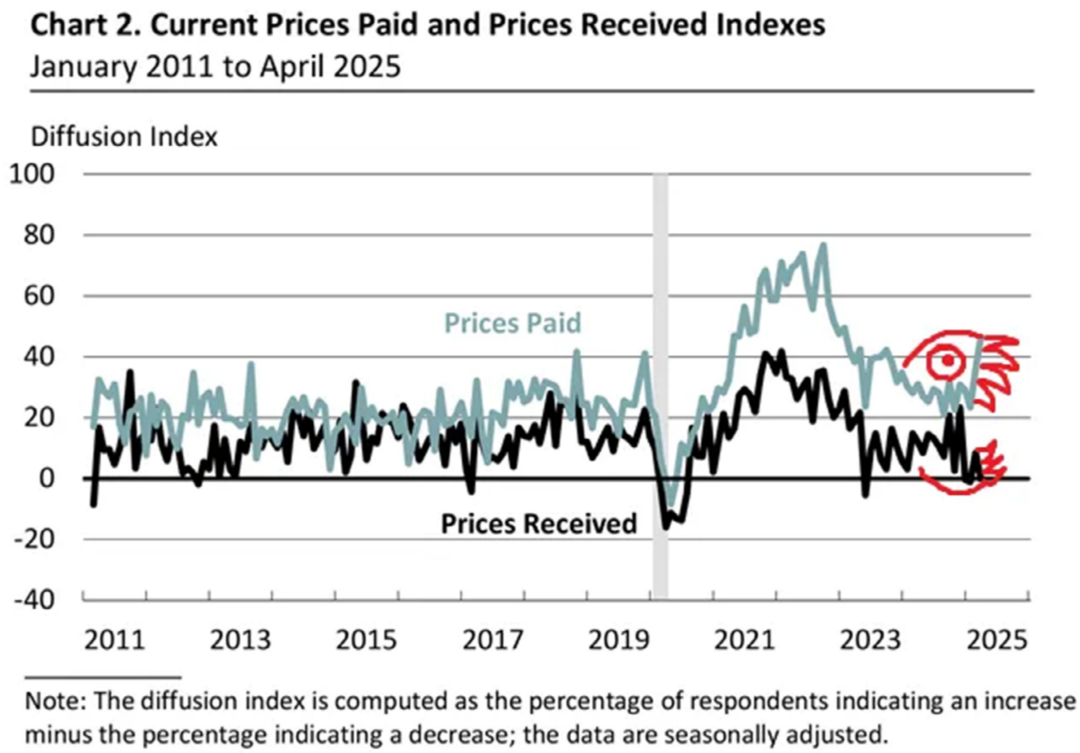
Jaws of Death

One objection to this conclusion is that we're looking at "soft data," i.e., what people are subjectively saying vs. their concrete actions. That's fair; we just went through a period when persistently negative sentiment barely dented employment and GDP growth. Maybe the tariff damage is all talk?

Joe Wiesenthal had a good response to this in his Bloomberg letter.

> "In a note to clients yesterday, Neil Dutta of Renaissance Macro Research says that the recession is already here, and it's only a matter of time before it really starts showing up in hard economic activity. He writes:
>
> > 'To summarize, recent hard data in the US, mostly for March, are overstating activity and it's worth noting that conditions were not especially strong to begin with. The collapse across a range of survey-based measures of activity suggest that actual activity will continue to slow down, in a potentially abrupt manner. Recession may already be here.'
>
> "To my mind, even if you had zero access to the survey data, there would be good reasons to think this is an economy heading into recession. For one thing, Trump just unilaterally instituted a massive tax hike (and there are possibilities of more tax hikes on the way). This is fiscal tightening. It does not look like the Federal Reserve is about to engage in rapid easing in any way that can offset that fiscal tightening. Financial conditions have tightened considerably. Stocks are lower. Rates are higher. Spreads are higher.
>
> "So again, even if you didn't have access to any sentiment data, and were just looking at actual things that have happened, you would have good reason to worry, to think that US economic growth would go negative.
>
> "Then layer in all of the uncertainty, and physical disruption of the distribution of goods, and the dour outlook across every sector, and things really start to look bleak.
>
> "Now as for sentiment, we got a fresh raft of horrible surveys today from the Philadelphia and Richmond Fed branches. And I do want to pull out one interesting chart.

“The chart shows what non-manufacturing (services) businesses in the Philly Fed’s region expect when it comes to pricing. As you can see, companies are seeing a big cost in prices paid (what they paid for goods) while seeing no similar uptick in prices received (what they charge for goods).



Source: Bloomberg

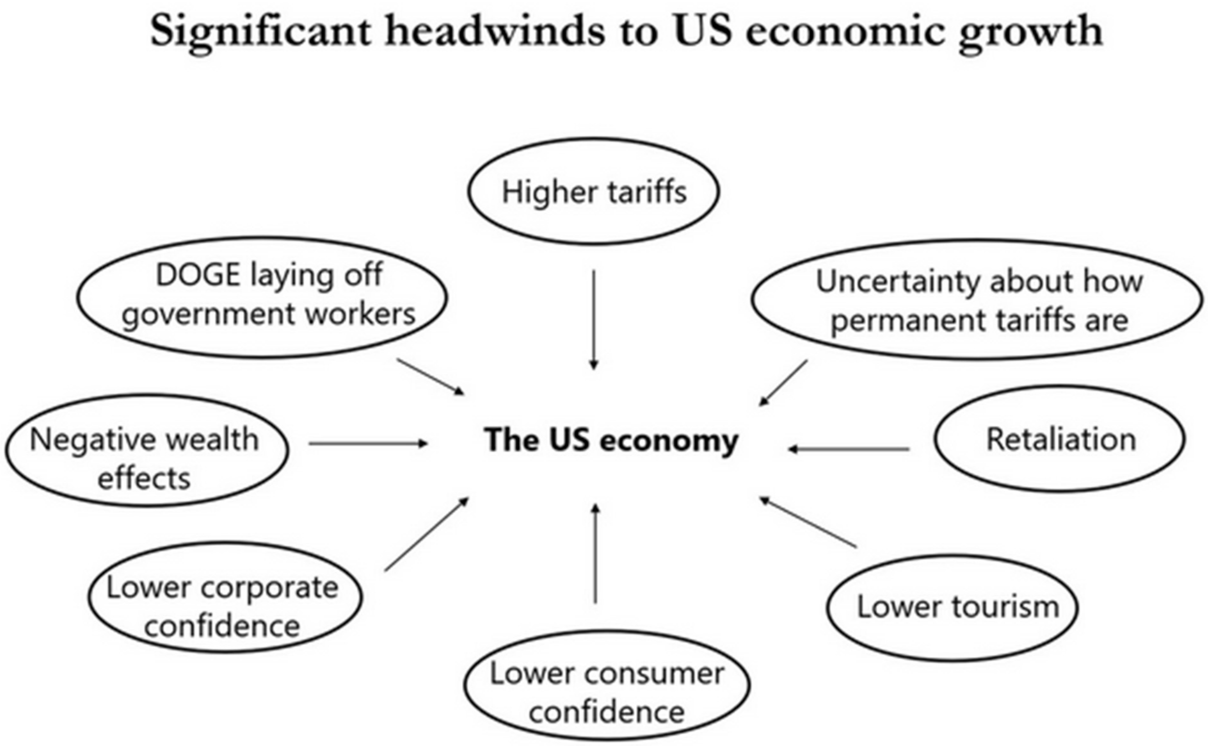
“Costs going up without pricing power going up? That’s a recipe for getting your profit margins eaten alive if nothing changes. (Tracy, our *Odd Lots* in-house MS Paint wizard, has kindly drawn monster jaws onto the chart for me).

“These are the jaws coming for your margins.”

Joe said elsewhere we are in a slower-moving version of the COVID economic crisis, but without the accompanying stimulus programs. I have to say this fits. The effect on supply chains will be similar for sure. Employment won’t collapse like it did in 2020, but we will see an impact.

Global Temporary Patchwork

Frankly, I really don't see how we avoid recession at this point. We were likely already approaching one and the tariff drama is only raising the odds of a second-quarter recession. Torsten Sløk recently shared this handy graphic breaking down all the economic headwinds.



Source: Torsten Sløk

Tariffs are really two different issues. The higher rates are problematic in themselves, especially on trade with China which is effectively frozen. Businesses can adapt, though. Never underestimate the creativity of entrepreneurs. They will find clever solutions in even the darkest times.

But the uncertainty makes adaptation *far* more difficult. Solving a problem when the problem itself can morph into something entirely different at any moment is tough. Smart people will look at the situation and decide the best response is "wait." That's individually rational, but it adds up to a paralyzed economy. It's somewhat akin to the Paradox of Savings. What is good for the individual may not be good for the economy as a whole.

Let's say the president makes deals with some countries before his 90-day postponement period ends in July. Where does that leave all this?

It will certainly help but still leaves a problem. None of those deals will be [legally binding] (a link worth reading for those interested in the historical and legal issues of tariffs) on the US side unless Congress ratifies them. That would be a long process at best, and special interests could easily derail it. Particularly if a recession is happening in the background.

Many governments will quickly cut a deal. But some, knowing this technical side, will be reluctant to commit themselves to the kind of concessions Trump wants.

The previous trade arrangement wasn't great. Replacing it with a global patchwork of country-specific deals that everyone knows will change again as soon as Trump leaves office (if not before) won't provide the certainty businesses need. Unless of course, Congress ratifies those tariffs.

To avoid that fate, we need Trump to a) stop listening to Peter Navarro and b) start over with a better plan, which can be seen as part of ongoing negotiations. It can easily be spun as being part of the plan all along. Part of the *Art of the Deal*. I know some people say he would never do that. I disagree. He is a supremely flexible survivor. ***Changing deals that are not working is his superpower.*** Now would be a great time to do it.

Then again, in that *Time* interview Trump doubled down on tariffs. Quoting (emphasis mine):

> "TM: If we still have high tariffs, whether it's 20% or 30% or 50%, on foreign imports a year from now, will you consider that a victory?
>
> "President Trump: ***Total victory."***

I will admit I have a different idea of what total victory is.

Then again, I am probably wrong. *The Economist* has had three cover stories in a row about the crisis in the US. They are notoriously wrong, which could mean the US is getting ready to come back strong. Nobody will be happier to be wrong than I will.

April 24 | April 17 | April 10

Source: The Economist

SIC Update

The Strategic Investment Conference starts in two weeks. It is easily the best conference faculty we have ever had and, amid this uncertainty, is certainly something you want to join. We specifically left a few spots open for last-minute additions to the faculty. I'm very excited about the discussions we are having with people you want to hear from, on topics that are meaningful today.

The conference is May 12–21, every other day, and is virtual. You can watch it live, review the presentations at your convenience or read the transcripts. We typically have transcripts up within the day. We have made the agenda open to the public and you can click here and see why you really want to be part of this year's SIC.

Don't procrastinate. Join me in getting a better handle on the world in these uncertain times.

DC, DC, and Dallas

I am flying to Washington, DC, today and will have dinner tonight with friends including old friend Steve Moore and his wife. Lots to talk about there. The next night will see my partners Ed D'Agostino and Olivier Garret joined by some of our readers and friends, with special guest Mark Mills who will be speaking at the SIC. I then fly back to Puerto Rico for a few days and then back to DC the next Monday for a private conference. Then I am in Puerto Rico until the end of SIC, and the next trip after that will be to Dallas and then West Palm Beach and DC again.

I am reading a book on artificial intelligence and then will begin to do a deep dive on top of everything else I'm doing to learn how to use it in my life. I can clearly see its adaptability and necessity, not to mention how it will increase my productivity, but this old dog is going to have to learn a lot of new tricks first. Thankfully, I have some friends who are helping me by pointing out which AI programs work for what purpose, and how I can train my own personal assistants. When I have finally figured out that journey, I will likely write my own short essay helping those of you who wish to learn how to do the same.

It is time to hit the send button. Have a great week and don't forget to follow me on X!

Your hoping Trump proves me wrong analyst,

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