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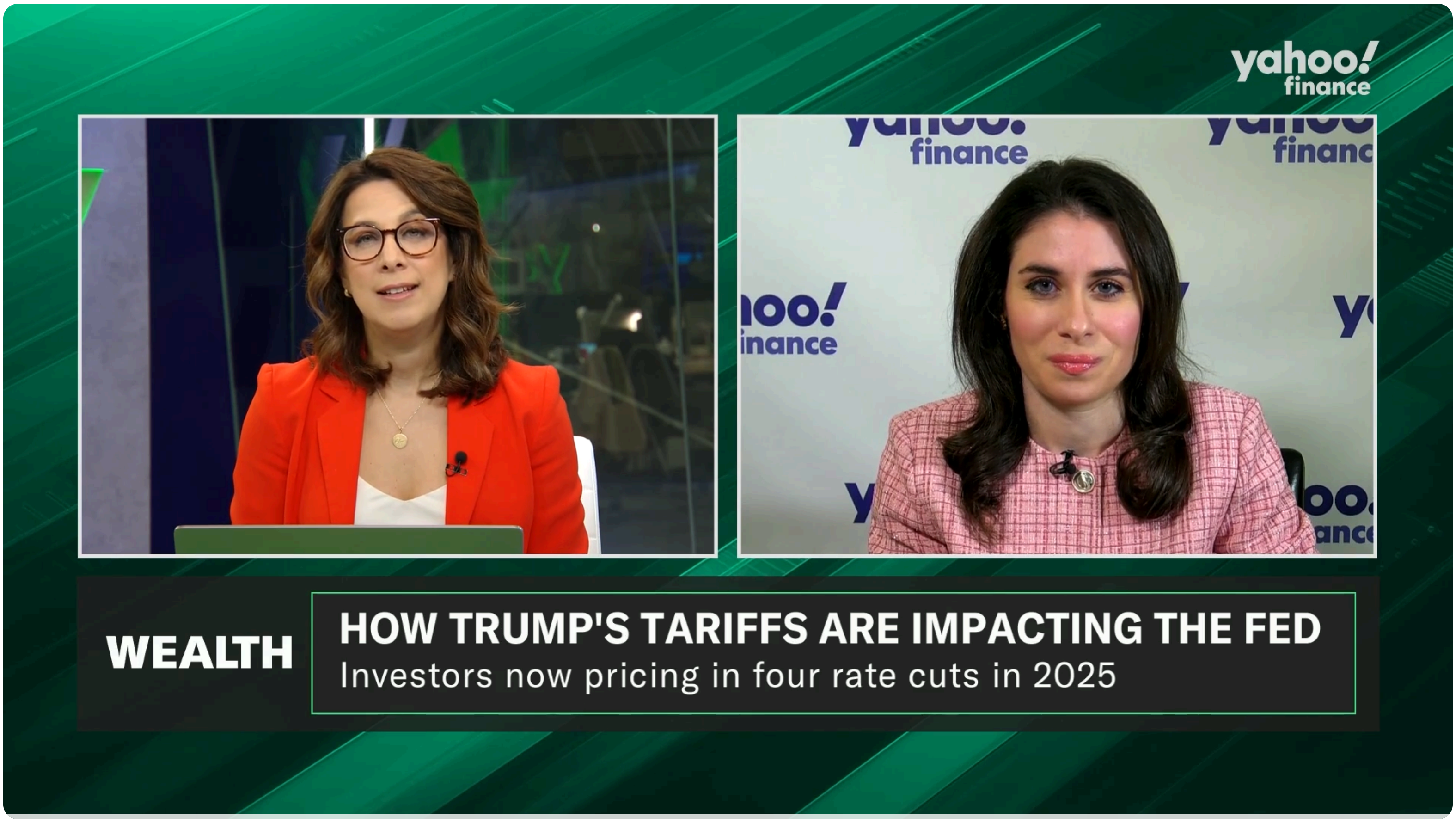
JPMorgan becomes the first Wall Street bank to forecast a US recession following Trump's tariffs



Josh Schafer · Reporter
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JPMorgan believes the US economy will enter a recession in the back half of 2025 as the impact of President Trump tariffs takes hold in the economy.

The firm's chief US economist Michael Feroli sees a two-quarter recession occurring in the back half of 2025 as GDP contracts by 1% in the third quarter of the year and by 0.5% in the fourth quarter. For the full-year 2025, Feroli's team projects GDP will fall by 0.3%.

"We now expect real GDP [gross domestic product] to contract under the weight of the tariffs," Feroli wrote in a note to clients on Friday night.

Feroli added that a "recession in economic activity" will push the unemployment rate up to 5.3%. New data from the Bureau of Labor Statistics released on Friday showed the unemployment rate stood at 4.2% in March. While other economists have noted the risks to recession are rising, JPMorgan marks the first major Wall Street research team to forecast a recession as Trump's tariffs weigh on economic growth.

"The pinch from higher prices that we expect in coming months may hit harder than in the post-pandemic inflation spike, as nominal income growth has been moderating recently, as opposed to accelerating in the earlier episode," Feroli wrote. "Moreover, in an environment of heightened uncertainty consumers may be reluctant to dip too far into savings to finance spending growth."

Broadly, economists have agreed that Trump's reciprocal tariffs — which include broad 10% duties and further levies on select trading partners — will spike inflation and hamper economic growth. In Feroli's base case, core PCE, the Fed's preferred inflation gauge, would end 2025 at 4.4%. The February reading of core PCE showed prices increased 2.8%.

Feroli's forecast projects a "stagflationary" environment, where prices increase while growth slows. Given the Fed's dual mandate for maximum employment and price stability, this could put the central bank in a quandary. As of Friday, markets had priced in four interest rate cuts from the Fed amid growing concerns about the trajectory of the US economy.

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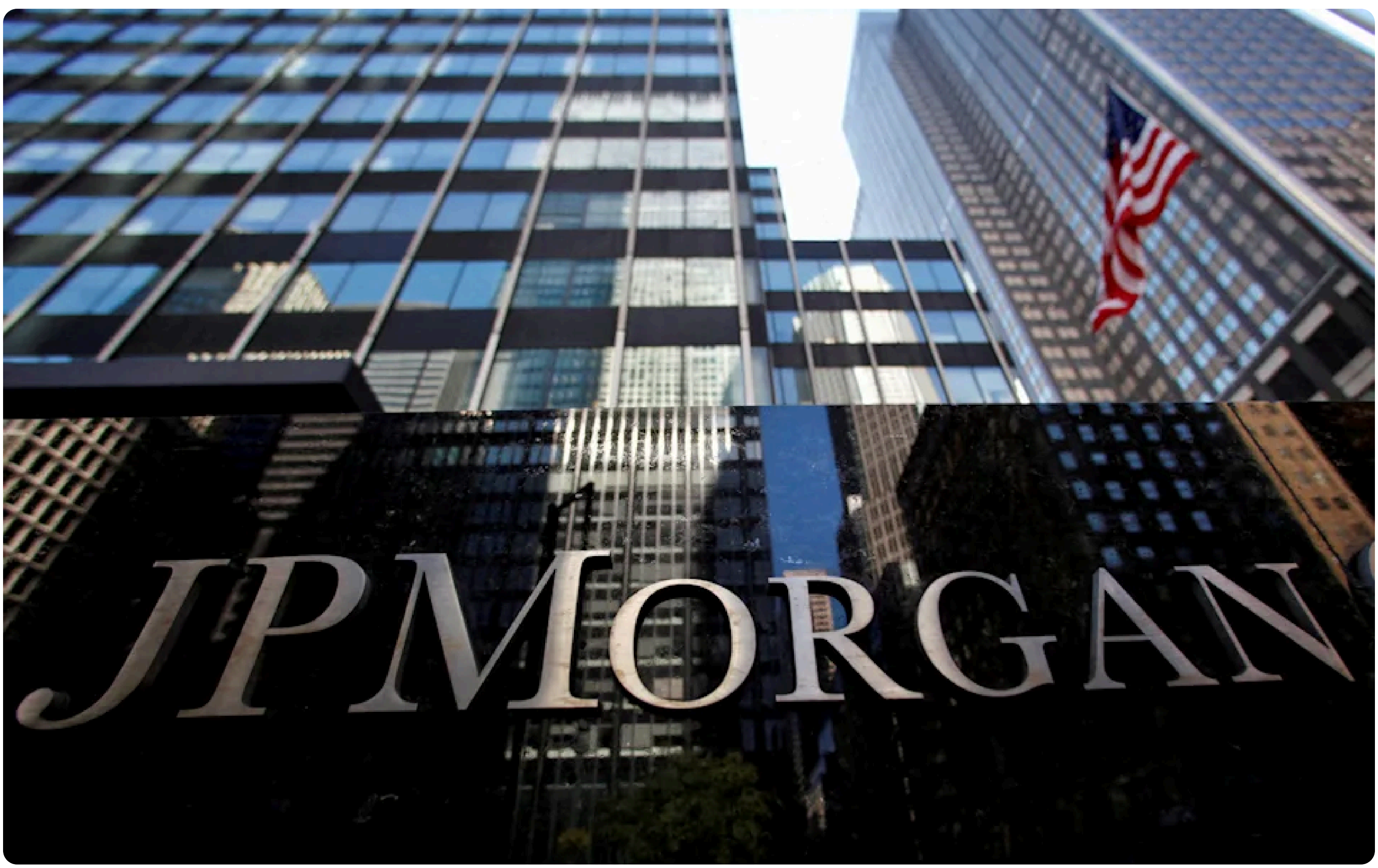
"If realized, our stagflationary forecast would present a dilemma to Fed policymakers," Feroli wrote. "We believe material weakness in the labor market holds sway in the end, particularly if it results in weaker wage growth thereby giving the Committee more confidence that a price wage spiral isn't taking hold."



FILE PHOTO: A sign outside the headquarters of JP Morgan Chase & Co in New York, September 19, 2013. REUTERS/Mike Segar/File Photo · REUTERS / Reuters

After Fed Chair Jerome Powell reiterated a patient approach to adjusting monetary policy during a speech on Friday, Feroli noted a "risk" is the Fed doesn't feel confident enough in the slowing

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