Trump Bows to Economic Reality With Tariff Delays and Exemptions

With prices still high, the Trump administration is heeding the risks of fanning inflation with import duties.

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Reporting from Washington

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A month ago, President Trump announced that he would impose sweeping tariffs on imports from Canada and Mexico before reaching a last-minute deal to delay them for 30 days.

This week, after markets revolted when the tariffs were put in place, Mr. Trump watered them down with a monthlong reprieve for automakers.

And then on Thursday, he opened up even broader exemptions for many other products that are imported from America’s neighbors to the north and south after intense lobbying from business groups that warned of rising prices.

Mr. Trump has spent the last month or so bouncing between imposing sweeping tariffs on imports from Canada and Mexico and delaying them because of last-minute deals.

“There will,” he said, “always be changes and adjustments.”

Despite Mr. Trump’s insistence that “tariff” is among his favorite words, the waffling over import duties reflects the reality that steep import taxes are not an antidote for every policy problem facing the nation.

Mr. Trump's economic advisers continue to contend that the tariffs are part of a broader agenda that will not damage the economy. However, the delays and loopholes reveal that they are beginning to see the risks of taking tariffs too far at a time when the economy is showing signs of strain and consumers are still reeling from inflation.

Mr. Trump himself has begun acknowledging as much. "There could be some disturbance, a little bit of disturbance," Mr. Trump said on Friday.

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"The allure of tariffs as a potent tool to achieve a range of economic and geopolitical objectives is coming up against the harsh reality that tariffs cause domestic production and supply disruptions, drive up prices and could hurt economic growth," said Eswar Prasad, a trade policy professor at Cornell University.

"Trump is being forced, no doubt reluctantly, to recognize that tariffs inflict harm not just on U.S. trading partners but have significant adverse effects on the U.S. economy and financial markets as well."

The U.S. stock market was headed for one of its worst weeks in months on Friday after the series of dizzying policy shifts on tariffs from the White House. The S&P 500 was on course for its third consecutive week of losses and its worst week since September.

Despite solid employment figures on Friday, other economic indicators of consumer and business confidence have been shaky in recent weeks because of uncertainty about tariffs and fears that they could fuel inflation.

Economists at Goldman Sachs updated their economic growth forecasts on Friday and said that they were still anticipating higher tariff rates, which would weigh on growth. Mr. Trump has said repeatedly that more tariffs are on the way, despite his latest suspension.

"Larger tariffs are also likely to hit G.D.P. harder through their tax-like effect on disposable income and consumer spending and their effect on financial conditions and uncertainty for businesses," the economists wrote.

Jerome H. Powell, the chair of the Federal Reserve, suggested on Friday that tariffs would not only hit exporters and importers, but also retailers and consumers.

Typically, the central bank tends to "look through," or not react to, a one-off increase in prices stemming from tariffs, but Mr. Powell hinted that a series of shocks might warrant a different response.

Also influencing their decision is the fact that inflation is still stuck above the Fed's 2 percent target, following a surge in prices after the pandemic. Given this uncertainty, Mr. Powell said the Fed was in no hurry to make changes to interest rates, which stand at 4.25 percent to 4.5 percent.

Mr. Trump is expected to enact reciprocal tariffs on imports from countries around the world on April 2. He has already imposed an additional 20 percent tariffs on all Chinese imports and he has suggested that products from the European Union are next.

The Trump administration received significant pushback from industry this week on its tariffs. Farmers, metal makers, and textile companies have all protested the levies. On Tuesday, the executives of General Motors, Stellantis and Ford told Mr. Trump in a conference call that putting tariffs on cars and parts from Canada and Mexico would erase their profits by putting billions of dollars of new costs on them.

Mr. Trump said he suspended his tariffs because of that request, but seemed unrepentant about his plans to impose more. "They're very happy about what's happening," he said on Friday about automakers. "They won't have to go across borders." He added: "We don't want that. We want it made here."

Scott Lincicome, the vice president for economics and trade at the Cato Institute, said that the Trump administration was bowing to the fact that the tariffs are taxes that hurt American manufacturers that make products in Canada and Mexico that are purchased by U.S. consumers.

"Everyone talks about American consumers getting hurt by protectionism," Mr. Lincicome said. "This is finally starting to get through to the administration."

Mr. Trump's top economic aides put on a brave face to defend the tariffs this week even as they debated how to curb them in the face of market backlash.

Speaking at the Economic Club of New York on Thursday, Treasury Secretary Scott Bessent argued that "access to cheap goods is not the essence of the American dream," and said that the tariffs could cause a "one-time price adjustment." Mr. Bessent has previously called for Mr. Trump's tariffs to be phased in to give businesses time to adjust.

The nominee to be Mr. Bessent's deputy, Michael Faulkender, echoed Mr. Bessent's remarks at his confirmation hearing on Thursday. He argued that currency fluctuations and price reductions by Canadian exporters would blunt some of the impact of the tariffs on American consumers.

"Some of it may find its way into prices in a one-time adjustment," Mr. Faulkender told Senator Peter Welch, Democrat of Vermont. "If the Canadian government were to make changes such that the president releases those tariffs, then you would not see it show up in prices."

Mr. Trump's willingness to soften his tariff threats at the last minute has offered investors and analysts hope that he might continue to show restraint on future trade measures in the face of pressure from lobbyists and swooning markets.

However, Kevin Hassett, the director of the White House's National Economic Council, downplayed the idea that Mr. Trump would squander his tariff leverage.

"He really doesn't like the word 'exemption,'" Mr. Hassett said outside the White House on Friday. "If I walk in and offer an exemption, then I'll probably get kicked out of the office. We'll see how it goes."

Ana Swanson and Colby Smith contributed reporting.

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