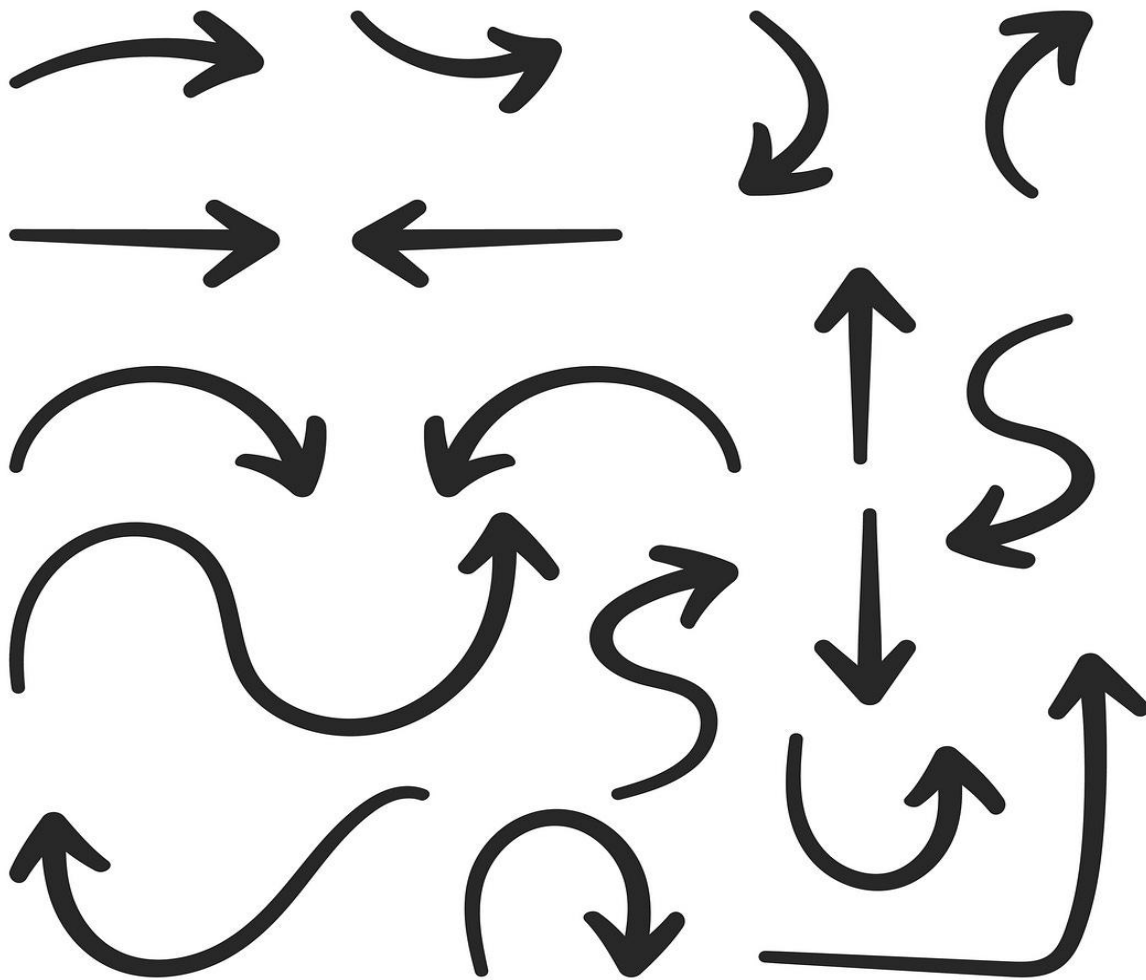


Whiplash Economy

Claudia Sahm

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Credit: Sajith Kumara via Getty Images.

Expect the unexpected has become the most useful rule of thumb for the economy. A series of supply-side shocks—the pandemic, higher tariffs, swings in immigration, conflict in the Middle East—has disrupted the usual patterns and created additional costs for businesses and consumers to navigate. The whiplash is showing up in the data, and it's easy to misread.

The jobs rollercoaster is a feature, not a bug

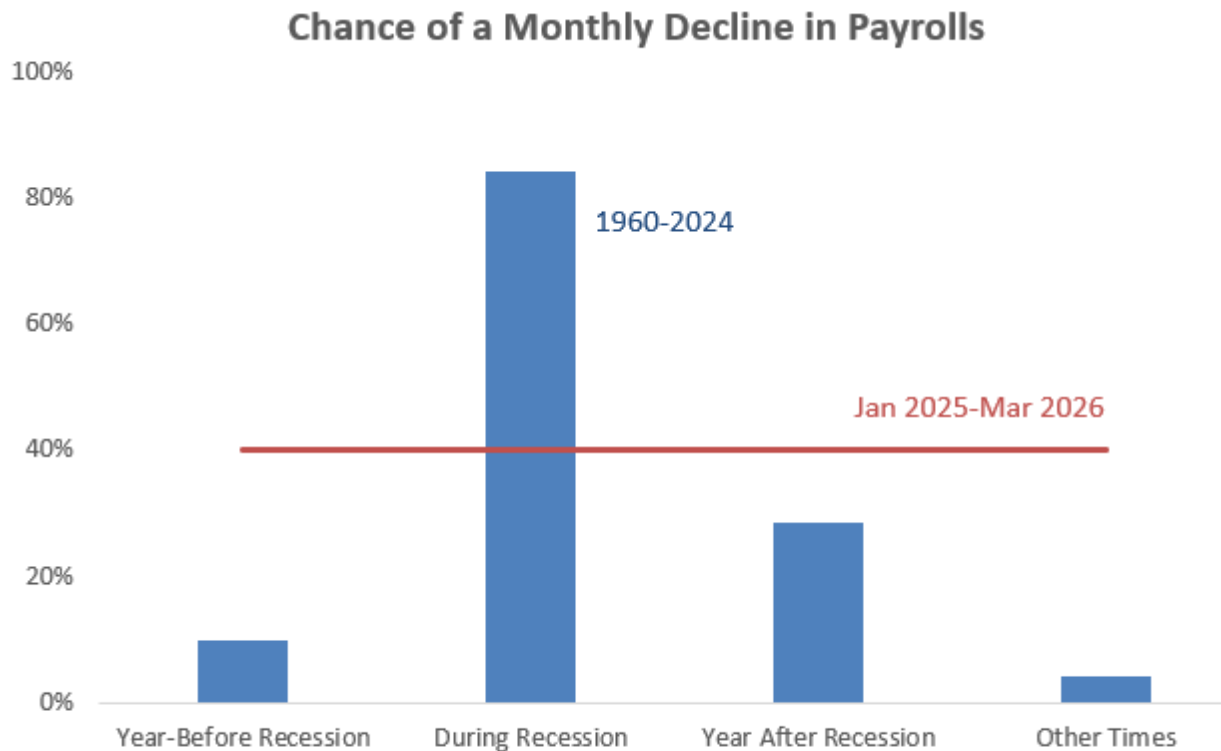
Jobs Day has been a rollercoaster this year: a pop of 178,000 in payrolls in March, after a drop of 133,000 in February and a jump of 166,000 in January. It's tempting to write off that whiplash above and below zero as a data problem, but it's telling us something fundamental about how the economy has changed.

Since the start of 2025, payrolls (orange bars in the chart below) have declined in 40% of months and have alternated between declines and increases since June 2025. Normally, such frequent declines would be a sign of deterioration in the labor market.



Source: Bureau of Labor Statistics.

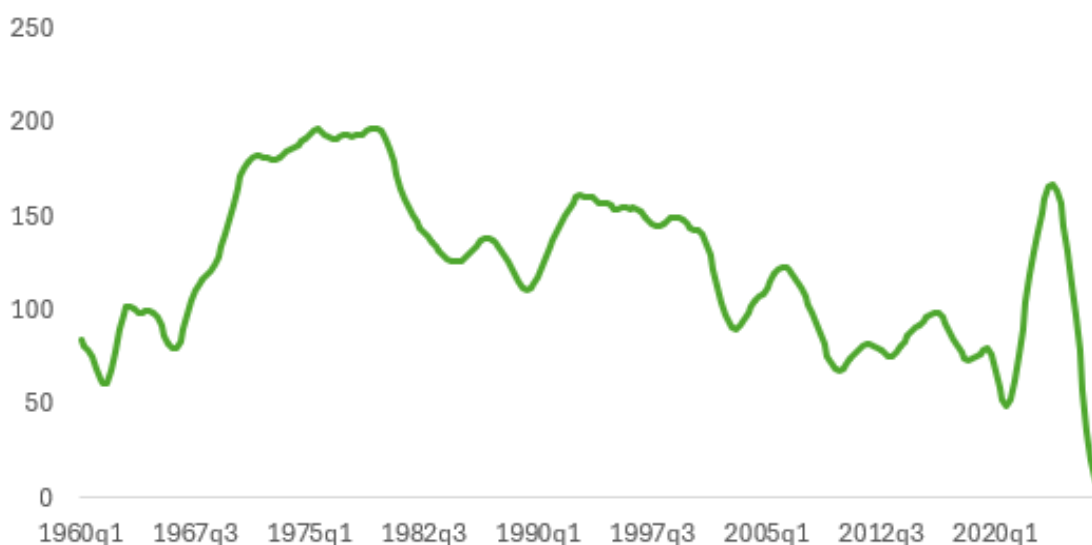
The current rate of payroll declines more closely resembles what we see during or directly following a recession, as the chart below shows. Historically, payroll declines are exceedingly rare, except around recessions. But recession is not the right comparison to now.



Source: Bureau of Labor Statistics.

A supply shock is playing out in the labor market: the large increase in net [immigration](#) following the pandemic has more than fully reversed over the past year and a half. Population aging is also pushing down labor force participation. Researchers at the Federal Reserve Board [estimate](#) that the potential labor supply will be basically flat in 2026. That's well below the one-percent growth in labor supply in 2023-24 at the peak of immigration. It's also slower than the half-percent growth before the pandemic. If the supply of workers isn't increasing, very little job creation is needed to keep unemployment steady. In their analysis, only 35,000 payrolls per month are sufficient in the first quarter of 2026 (green line).

Job Growth to Keep Unemployment Rate Steady (thousands, monthly)



Source: Murray and Vidangos (2026). "Labor force growth, breakeven employment, and potential GDP growth."

With this breakeven pace close to zero, payroll declines become more common. Weather, strikes, issues with seasonal adjustment, and the usual imprecision in survey estimates create variation around zero, so some months are up, and some are down. Regular declines in payrolls are not a sign of a recession or a problem with the data—they are a sign that labor supply growth is very low. Get used to the whiplash on Jobs Day. It's a feature now.

I also spoke on Bloomberg Radio about the broader implications of low labor supply. Hint: it should also reshape our views on what's a good GDP print.

Supply shocks: bad luck, bad policy, or both?

Inflation has also been whiplash-inducing over the past five years. A series of supply shocks has pushed up inflation: snarled supply chains during the pandemic, commodity disruptions due to Russia's invasion of Ukraine in 2022, tariff increases throughout 2025, and now disruptions in the Strait of Hormuz.

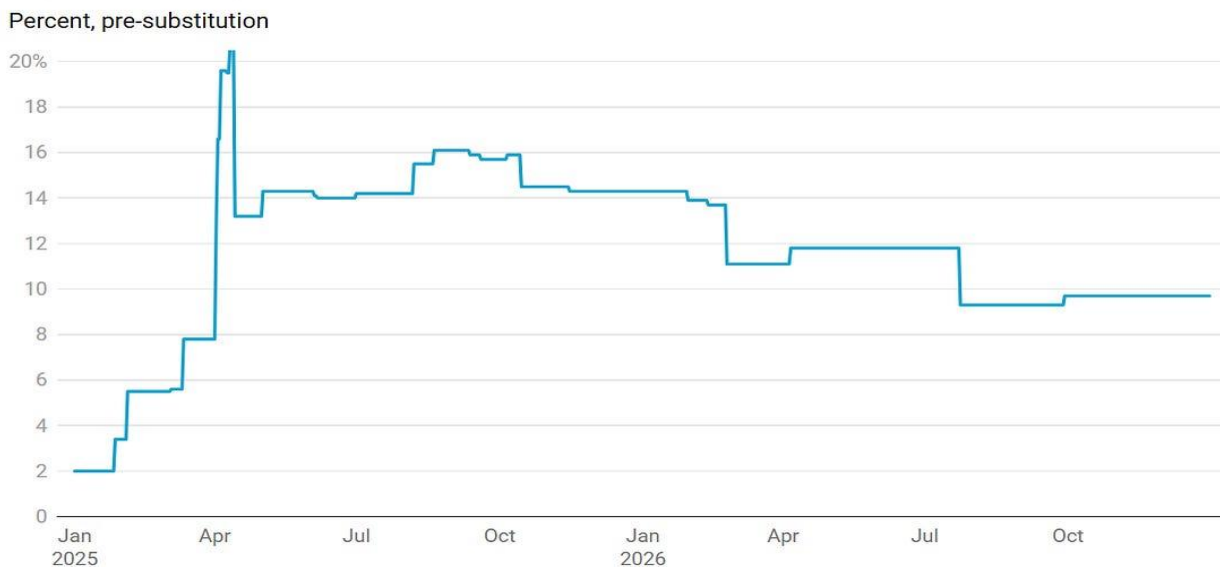
In March 2026, Fed Chair Powell was [asked](#) whether that sequence was "bad luck, or has something changed in the world that makes supply shocks more common." Powell emphasized the one-time, unrelated nature of the shocks:

You know, we did go through a long period where the shocks were all demand shocks, and so we've had a lot of practice thinking about supply shocks in the last four or five years, for

sure ... But has the world changed? I mean, COVID is a one-time thing, right? This energy supply shock is a one-time thing. It's not—it's not because of some broad tendency or anything ... I don't know that the world has changed in a way that there'll be more supply shocks.

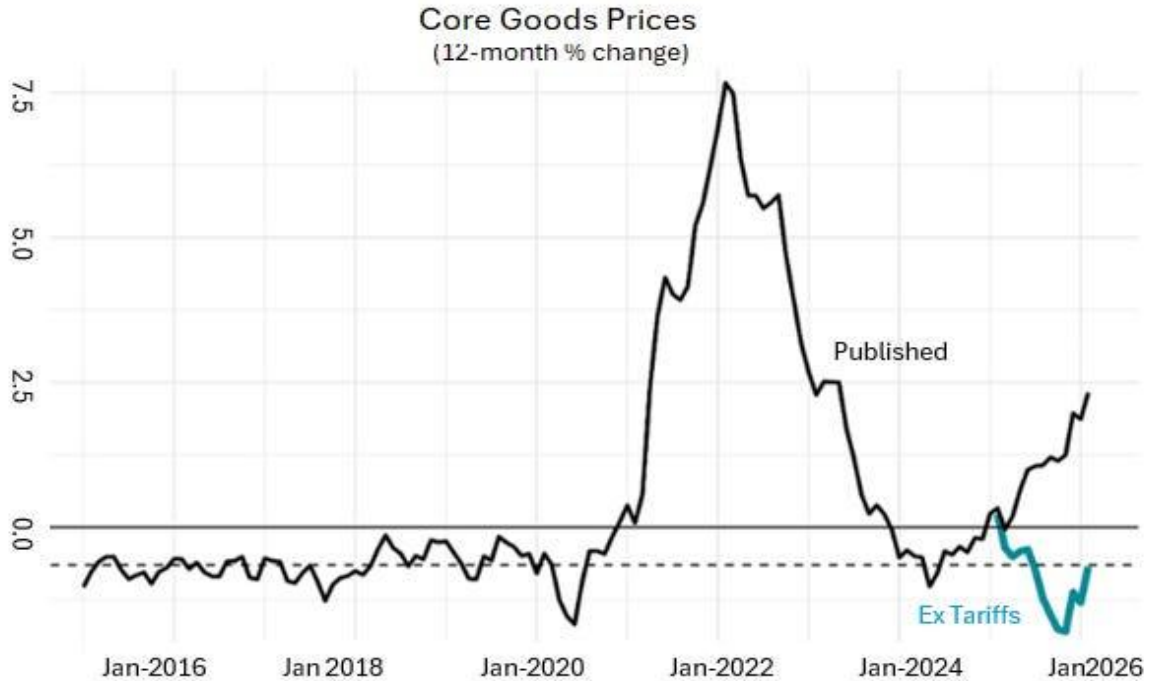
While the world may not have changed, the series of one-time shocks has contributed to *five* years of inflation above the Fed's 2% target. The shock-and-awe approach of the current administration so far has led to larger policy shifts and heightened uncertainty. The evolution of tariffs during the past year is a good example. An analysis from the [Yale Budget Lab](#) documents the large, uneven increases in the effective tariff rate (blue line below) in the first half of 2025. Since late 2025, there have been more tariff exemptions, and in February 2026, the Supreme Court struck down a large portion of the tariffs, which the White House is reconstituting under alternate trade authorities.

Figure 2. Daily Effective Tariff Rate



Source: The Budget Lab Analysis • Created with [Datawrapper](#)

The tariff increases have raised importers' costs, and businesses have passed at least some of these costs along to consumers via higher prices. [Research](#) from the Federal Reserve Board finds that tariffs can fully explain the surge in core consumer goods prices (which exclude food and energy). Absent the tariffs (blue line below), they estimate core goods prices would have fallen in 2025, similar to their pre-pandemic pattern. Instead, these prices rose sharply (black line).

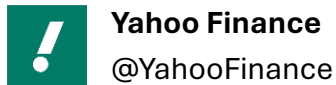


Source: Mnton et al. (2026). "Detecting Tariff Effects on Consumer Prices in Real Time – Part II"

The pickup in core goods inflation kept overall inflation stuck near 3% in 2025, offsetting slowing housing inflation. These same researchers argue that the “passthrough” of tariffs to the consumer price level is essentially complete, so core goods inflation should return to normal. That’s a reasonable prediction, but the Fed wants evidence of inflation moving toward 2% before cutting rates.

The Fed was already in wait-and-see mode when the latest supply shock struck: the sharp rise in gasoline and diesel prices in March 2026 was the front edge of disruptions from the war in Iran. Since the temporary ceasefire began in early April 2026, global oil prices have fallen substantially, though they remain higher than before the war. Even under the best-case scenarios, it will take several months to fully resolve the disruptions to energy markets. Those disruptions will push up inflation, even if only temporarily. Given the uncertainty, it’s another reason for the Fed to wait for data showing lower inflation. A whiplash economy makes it harder to act on forecasts.

On Yahoo Finance, I talked about how the March CPI showed signs of whiplash:



"We're kind of living through a whiplash economy," New Century Advisors chief economist @Claudia_Sahm says on CPI data, adding: "We're still looking to see the end of that tariff passthrough."



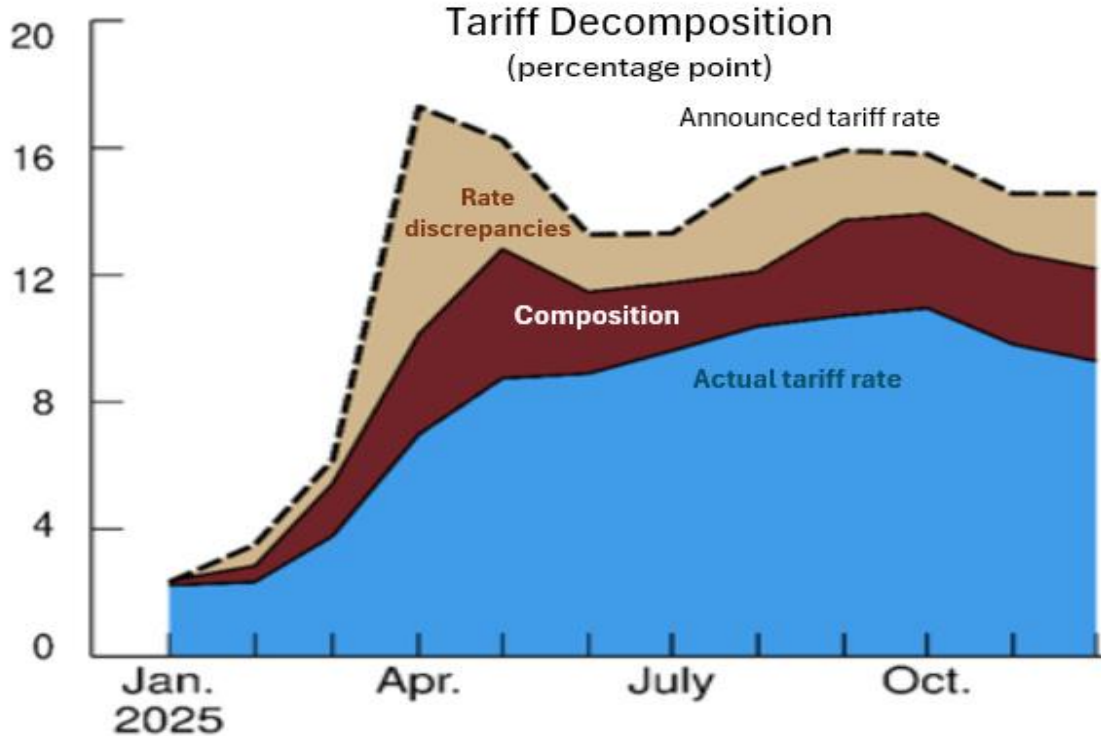
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Trying to avoid costs comes at a cost.

The costs of a whiplash economy extend beyond the shocks themselves. Adapting to them imposes costs, too. People and businesses work to reduce their exposure to the shocks. Adaptation buffers some of the cost shocks but also creates others.

The tariffs illustrate costly adaptation. The actual tariff rate paid by US importers — total tariffs collected divided by the total value of imported goods — has been well below the announced rate. According to economists at the Federal Reserve Board, the announced [tariff rate](#) (dashed line in the chart below) was almost 15% by December 2025, while the actual tariff rate was 12% (blue area). The gap between the two was even larger directly after Liberation Day in the spring of 2025.



Source: Eck et al. (2026). "Mind the Gap: Announced versus Implied Tariff Rates in Recent Trade Policy Episodes."

The gap reflects two things. First, a composition effect (red area)—importers shifting the mix of imports toward lower-tariffed products. Second, rate discrepancies (tan area)—importers finding ways to lower the tariff rate on the imported products. These two adjustments cover a range of behaviors, such as frontloading imports before tariffs took effect, altering supply chains so that more production occurs in lower-tariffed countries, certifying US-Mexico-Canada (USMCA) trade compliance to receive a tariff exemption, and using bonded warehouses or free trade zones to delay paying tariffs.

Some of these are temporary ways to reduce tariff payments, and some are permanent, but they all require additional effort and [money](#) compared to before the tariff increases. The adaptation to tariffs in 2025 occurred more rapidly than to the tariffs in 2018-19, which could be a sign of learning, as the researchers suggest:

Many firms have had experience diversifying suppliers after the 2018—2019 U.S.-China tariff hikes and the COVID pandemic, leading to more agile supply chains. Furthermore, the size of the tariff hikes in 2025 is much more significant, and thus, the cost of paying higher tariffs is more likely to outweigh the substantial cost of finding new suppliers.

It's harder to measure the indirect costs of adjusting to tariffs than the direct costs of higher tariff duties. But the sharply negative tone in business surveys over the past year almost certainly reflects some of the indirect adjustment costs.

Uncertainty is another cost of a whiplash economy that's hard to quantify. It complicates decision-making at every level. In March 2026, with the start of the war in Iran, small business optimism (per the [NFIB](#) index) fell below its historical average, repeating a pattern last seen in April 2025 after Liberation Day tariffs. Uncertainty also rose, as this [comment](#) from a retailer in Iowa reflects:

The overall state of my business is good at the moment, however with all the uncertainty in the economy (tariff surcharges, high freight charges, skyrocketing insurance rates, and the war with Iran), I feel to cover the increased cost I may price myself out of the market.

Lowering prices is only an option if prices of inputs come down and that doesn't look like it will happen in the near future.

That retailer, like many businesses, looks good on paper now, but the whiplash economy is wearing. Even if everything works out in the long run, the near-term costs and the uncertainty are a burden.

Costs of whiplash are piling up.

Consumer sentiment in early April 2026 hit an [all-time low](#), but that's not simply a reaction to the war in Iran and higher gasoline prices. It's the cumulative reaction to a long series of unexpectedly higher prices and disruptions since the pandemic.

In the latest survey, over half of families said that they were worse off than a year ago due to higher prices. That's a record high—but higher prices have been a persistent source of strain. The share of families saying they are worse off due to higher prices has been above 40% in most months since mid-2022.

CHART 7A: HIGHER PRICES AS REASONS FOR WORSE PERSONAL FINANCES



Source: University of Michigan. Surveys of Consumers.

Just as businesses adapt to higher costs, households may feel "worse off" partly because of the effort they put into managing these unexpectedly higher prices. The effort of adapting, like hunting for deals and switching brands, may be seeping into how people assess their finances, even if they don't cut back on spending.

In closing.

We are living in a whiplash economy, and it's rewiring basic relationships in the data. Large swings in labor supply have scrambled the usual recession signals. Repeated supply shocks have kept inflation elevated, and the cost of adapting to them falls on businesses and consumers. Uncertainty is high, and decision-making is harder for everyone, including the Fed. It may end up being just a run of bad luck, but it's our reality for now.