

# How Economic Uncertainty Leads to Recession

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## Abstract

*The current global stock market volatility, described as a "Kangaroo" market due to its erratic fluctuations, is largely driven by the unpredictable trade policies of the United States under President Donald Trump. These policies, including the imposition and subsequent reversal of tariffs, have led to significant economic uncertainty, adversely affecting both consumer and business confidence. This uncertainty is compounded by factors such as fluctuating tariffs, federal job cuts, reductions in foreign aid, and volatile stock markets. The resulting economic instability has caused a marked decline in consumer confidence and spending, as evidenced by a 30% drop reported by the University of Michigan Survey of Consumers.*

*The article explores how economic uncertainty influences GDP by affecting consumer behaviour and business investment. As consumers and businesses reduce spending, GDP growth is directly impacted, increasing the risk of recession. Additionally, the article examines the broader implications of uncertainty, such as inflation concerns, fluctuating interest rates, and changes in debt and credit conditions. The erratic nature of Trump's trade policies, including a recent temporary pause on new tariffs, has exacerbated global trade tensions, leading to disrupted supply chains and retaliatory measures from other countries.*

*The long-term impacts of economic uncertainty are far-reaching, affecting infrastructure investment, innovation, government fiscal policy, international relations, and social stability. The potential for a recession looms as market volatility, consumer behaviour changes, and business hesitancy persist. The article underscores the need for stable policy guidance to mitigate the adverse effects of economic uncertainty, noting that persistent unpredictability could stifle economic activities and push the global economy towards a downturn.*

## Introduction

*"May you live in interesting times"  
(Traditional Chinese curse).*

Stock markets are supposed to be either 'Bull' or 'Bear' markets. But as I write, the global markets are behaving like an Australian 'Kangaroo' -jumping up and down!

This due to daily announcements and back-flips done by the USA causing major uncertainties. President Trump's trade policies, such as imposing and then reversing tariffs, have exacerbated the situation, causing both consumer and business confidence to drop significantly.

These two psychological factors, 'Consumer Confidence' and 'Business Confidence' are being significantly impacted by today's unprecedented levels of economic uncertainty. When people feel unsure about the future, they tend to hold back on spending, even if their personal financial situation has not immediately changed. Similarly, uncertainty affects business leaders' confidence, making them reluctant to pursue growth initiatives or expand operations.

The key factors contributing to this uncertainty include fluctuating tariffs, job cuts by the federal government in the USA, cuts in foreign aid and volatile stock markets. The University of Michigan

Survey of Consumers reported a 30% decline in consumer confidence since November 2024, and that consumer spending fell for the first time in two years in January (Survey of Consumers, 2025).

During times of high uncertainty, people become more sensitive to further “uncertainty shocks,” which can amplify cautious behaviour. Businesses are postponing investments and adopting defensive strategies due to tariff concerns, despite temporary pauses in policy changes. Delta and FedEx have both expressed concerns about economic uncertainty affecting their revenue forecasts. Warner Bros. Discovery has advised its staff to cancel non-essential travel. The National Federation of Independent Businesses in the USA reported a decline in small-business optimism due to heightened uncertainty (Semuels, 2025).

This article highlights how experiences of individuals and businesses reacting to unstable economic conditions and pulling back on spending can collectively lead to a recession.

## Impact on GDP of Uncertainty

Economic uncertainty affects businesses’ ability to plan and adjust to trends, leading them to reduce spending and delay major decisions. Consumers also postpone big purchases due to concerns about job security, mortgage rates, and investment portfolios. This collective pullback in spending can result in negative GDP growth, potentially leading to a recession. In global trade, uncertainty in trade policies can affect exports and imports, leading to trade imbalances and affecting domestic industries reliant on global markets.

When both consumers and businesses reduce spending, it directly impacts GDP growth. Continuous decline in GDP over two consecutive quarters is technically defined as a **recession**.

Further, there is a ‘multiplier effect’ in that reduced spending has a ripple effect through the economy. For instance, if a company cuts production due to falling demand, it can lead to job losses, further reducing consumer spending. Furthermore, there will be serious inflation concerns:

Uncertainty can also lead to fluctuating inflation rates. If inflation rises unpredictably, it can erode purchasing power and complicate monetary policy decisions.

## Art of the Deal?

President Trump’s original plan (seemingly) was to directly engage in trade negotiations over the next three months, with a ‘shock and awe’ announcement of a range of tariffs from a maximum of 50% to a minimum of 10%. However, there was immediately much uncertainty both in Washington and globally about the equation used to calculate the tariffs. The White House published what might look like a complicated mathematical formula (US Trade Representative, 2025). But if you unpick the formula, it boils down to simple maths: take the trade deficit for the US in goods with a particular country, divide that by the total goods imports from that country, and then divide that number by two.

A trade deficit occurs when a country buys (imports) more physical products from other countries than it sells (exports) to them.

Some senators, like Mark Warner, expressed frustration over seemingly illogical tariffs, such as those on countries like Australia, with whom the U.S. has a trade surplus, but were still imposed a minimum 10% tariff. The tariffs prompted retaliatory measures from China and Europe, further complicating global trade dynamics. Some of Trump’s allies, including Senator Ted Cruz and podcaster Ben Shapiro, cautioned that tariffs effectively act as taxes on American consumers.

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he bottom line is that Trump's policy unpredictability and sudden regulatory shifts have impacted not only the global economies but also industries in the US unevenly, causing some sectors to contract while others might face unexpected costs. Fluctuating government policies, like tariffs and taxes, further exacerbate uncertainty as businesses struggle to plan long-term strategies without stable policy guidance.

Global trade tensions, caused by these illogical tariff impositions, have already disrupted global supply chains, increased costs for businesses, and led to retaliatory measures from other countries, and would ultimately result in 'Trade Wars' (Ratnatunga, 2025).

## Trump Blinks

President Donald Trump's recent (April 10, 2025) 'temporary 90-day pause' on most of the new 'reciprocal' tariffs announced on tariff 'Liberation Day' (April 2, 2025) caused further global economic turmoil with markets swinging widely. Simultaneously, he increased tariffs on China to 125% and maintained a 10% tariff on most goods from other countries, including Mexico and Canada. This move is interpreted as a partial retreat rather than a complete withdrawal.

In other words, despite previous assertions of steadfastness, 'Trump blinked.'

Such 'see-sawing' policies left global leaders and businesses uncertain about the stability of these new trade policies and how they should prepare their economies in response.

Most trade experts have highlighted the challenges that will need to be overcome in negotiating new deals and the potential consequences if Trump's tariff policies remain unchecked. The situation remains fluid, with markets and policymakers awaiting Trump's next move. The overarching sentiment is one of uncertainty, with many hoping for a resolution but preparing for continued unpredictability (Elliott, 2025).

## The Path to a Recession

Economic uncertainty can significantly affect the health of an economy and potentially lead to a recession. Here is how it could unfold:

**Market Volatility.** The first signs, which we are already witnessing, is significant stock market instability. Economic uncertainty most often leads to volatile stock markets when investors react to uncertainty by selling off stocks, leading to market downturns, which can affect consumer wealth and confidence. Uncertainty can cause investors to withdraw from riskier investments, seeking safer assets. This can reduce the availability of capital for businesses looking to grow. The extreme concern we now see in this latest round of volatility is that the traditionally safest asset, 'US Treasury Bills,' are no longer considered safe. With foreign demand for Treasuries in question and investor confidence in US leadership waning, the asset once deemed the ultimate haven is under increasing scrutiny (Cingari, 2025).

**Consumer Behaviour Changes:** When uncertainty looms, consumers tend to cut back on spending. They might delay big-ticket purchases like cars, homes, or appliances, fearing job loss or income instability. Simultaneously, people often increase their savings as a precaution against future financial difficulties. This behaviour reduces the money circulating in the economy, slowing down economic growth.

**Business Investment Declines:** There is much hesitation to spend money on both investments and operational expenses. Businesses may postpone investments in new projects, equipment, or hiring due to unclear economic conditions. This hesitation can halt expansion plans and innovations. In

terms of operations, companies often adopt a defensive approach in uncertain times, cutting costs and preserving cash. This includes freezing hiring or reducing staff, which impacts overall employment levels.

**Labour Market Impacts:** Businesses' defensive strategies lead to job market instability as they result in layoffs or hiring freezes, leading to higher unemployment rates. This reduces overall income and spending power within the economy. With economic uncertainty, wages may stagnate as businesses look to cut costs, further limiting consumer spending.

**Interest Rates and Monetary Policy:** The central banks of all global economies are now facing challenges in uncharted territory. Central banks often grapple with setting interest rates during uncertain times. They may lower rates to encourage borrowing and spending, but this can have limited effectiveness if confidence remains low and policies change daily.

**Debt and Credit Conditions:** In times of economic uncertainty, financial institutions may become more conservative in their lending practices, making it harder for businesses and consumers to access credit. High levels of uncertainty can worsen debt burdens, especially if businesses and individuals struggle to meet existing debt obligations due to reduced income or sales.

**Sector-Specific Vulnerabilities:** There will certainly be industry-specific shocks. Certain industry sectors may be more susceptible to uncertainty, such as manufacturing or exports, especially if they rely heavily on international trade. This also includes supply chain disruptions. Uncertain trade policies or geopolitical tensions can disrupt supply chains, affecting production timelines and costs for businesses. This can lead to uneven economic impacts.

**Global Financial Interconnections:** In a globally interconnected economy, uncertainty in one major economy can spill over into others, affecting international financial markets. In this case, when the largest economy, the USA, starts acting erratically, it can lead to severe currency fluctuations, as we have seen in the past week. The economic uncertainty has led to volatile currency exchange rates, which have already affected import and export competitiveness and pricing.

## Long-term Economic Impacts

**Infrastructure Investment:** Uncertainty can lead to reduced investment in infrastructure projects as governments and private investors become cautious. This can hinder long-term economic development and competitiveness.

**Innovation and R&D:** Companies might scale back research and development efforts due to uncertain returns on investment, potentially slowing technological advancement and productivity growth.

**Government Fiscal Policy:** Governments will have no option but to impose budget constraints. Economic uncertainty can reduce tax revenues as economic activities slow down, limiting government budgets and potentially leading to cuts in public spending and services. Governments also will have to increase borrowing to stimulate the economy during uncertain times, which can lead to higher national debt levels and future fiscal constraints.

**International Relations and Trade Agreements:** With all Trade Agreements currently disrupted, there is uncertainty if future negotiations can take place. Trump has opened the doors to unilateral negotiations and claimed that leaders are lining up to "Kiss my ass". With such sentiments, many are sceptical if there can ever be bona-fide renegotiation of international trade agreements, so that smooth global trade flows can resume and bring about economic stability.

**Social Implications:** The current heightened geopolitical risks, often exacerbated by economic uncertainty, will undoubtedly result in income inequality leading to social unrest. Economic uncertainty can exacerbate income inequality, as those with lower incomes are often more vulnerable to job losses and economic downturns. Prolonged uncertainty and economic hardship can lead to social unrest, as seen in various regions where economic grievances have fuelled political and social movements.

**Environmental and Climate Considerations:** In this period of global trade shocks, the momentum for sustainability investments has been replaced by companies scrambling to secure new export markets at any cost. Economic uncertainty can divert attention and resources away from environmental and sustainability initiatives, delaying progress on climate goals. Industries reliant on natural resources may face additional pressures from uncertain regulatory environments, affecting sustainable resource management.

**Technological and Digital Transformation:** Businesses may also delay adopting new technologies due to uncertainty about future market conditions and potential returns on investment. This is especially so if technology platforms from the USA are now seen as “working for the enemy”. This can widen the digital divide as companies and individuals with fewer resources struggle to invest in digital infrastructure and skills.

## Summary

Heightened geopolitical risks, brought about by President Donald Trump’s illogical tariffs, have exacerbated significant economic uncertainty and created significant barriers to international trade and investment. This economic uncertainty has already had far-reaching effects across multiple dimensions of most global economies, leading to cautious behaviour from consumers and businesses, disruptions in investment and trade, and potential long-term impacts on growth and development. When these factors converge, they can create a feedback loop that amplifies economic slowdowns, ultimately increasing the risk of a recession.

The article emphasises that persistent uncertainty, exacerbated by erratic policy shifts, can stifle economic activities, potentially pushing the economy towards a recession as both consumers and businesses adopt a defensive financial posture.

As the Buddha said, “Change is never painful, only resistance to change is painful.”

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