

## Consumer Sentiment Plunged in April; Inflation Expectations Surged to the Highest Since 1981

- **Consumer sentiment plunged to 50.8 in the preliminary April reading, the lowest since June 2022.**
- **The decline was broad-based with both the expectations and current conditions indexes falling.**
- **1-year and 5-year ahead inflation expectations rose again in April; 1-year inflation expectations are the highest since 1981.**
- **The share of consumers expecting unemployment to increase in the year ahead rose for the fifth straight month and is the highest since 2009.**
- **PNC still expects the Federal Open Market Committee (FOMC) to cut the fed funds rate by a total of 50 basis points this year.**

Consumer sentiment plunged to 50.8 from 57.0 in the preliminary April reading according to the University of Michigan – the fourth consecutive decline. That was slightly below PNC’s projection for a drop to 52.0 and the lowest reading since June 2022 (50.0). Sentiment is down by nearly a third since December 2024 amid growing worries about tariffs, sliding stock prices and the rising probability of recession. The decline was broad-based with the current conditions index falling 7.3 points to 56.5 and the index of consumer expectations slipping a more modest 5.4 points to 47.2. Moreover, the decline was pervasive across age, income, education, geographic region, and political parties.

In a worrisome development for the FOMC, inflation expectations surged yet again. 1-year ahead inflation expectations cascaded to 6.7% from 5.0% in March, the highest reading since 1981 and the fourth straight monthly increase. 5-year ahead inflation expectations jumped to 4.4% from 4.1% in March. The results of the survey suggest consumers are convinced tariffs will result in sharply higher prices. The anticipated slowdown in job growth is also a concern. The share of consumers expecting unemployment to increase in the year ahead rose for the fifth month in a row and is the highest since 2009.

While sliding consumer sentiment in the current environment is hardly shocking, the astonishingly low level of the University of Michigan’s measure isn’t consistent with still-solid economic growth and historically low unemployment. Nonetheless, consumer sentiment is likely to remain depressed in the near term amid a great deal of policy uncertainty. PNC is calling for two 25 basis point cuts in the fed funds rate from the FOMC in 2025 – a reduced pace of easing that considers the impact the tariffs are likely to have on inflation in the near term.

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