

Consumer Confidence Drops to Five-Year Low in April

- **Consumer confidence slipped in April to a five-year low.**
- **Then sharp drop was primarily driven by a 12.5-point plunge in the expectations index.**
- **1-year ahead inflation expectations soared to 7.0% in April from 6.0% in March.**
- **Consumers are less optimistic about the outlook for labor market conditions as well as their incomes.**
- **Clarity on trade policy could boost confidence temporarily but consumers are feeling anxious over the haphazard application of tariffs.**
- **A more cautious consumer suggests weaker near-term economic growth.**

Policy uncertainty is weighing on consumers. Consumer confidence fell to 86.0 in April from an upwardly revised 93.9 in March. The decline was led by a 12.5 plunge in the expectations component to its lowest level since 2011, suggesting consumers are worried the trade war will derail the economic expansion. The present situation component fell a much more modest 0.9 points. The index is down 19.3 points over the last three months. Whenever the index has dropped 20 or more points in a three-month period, a recession has ensued. Not surprisingly, more than seven in 10 respondents in the survey think a recession is coming within the next year.

Inflation expectations rose again in April. Consumers' average 1-year ahead inflation expectations climbed to 7% in April from 6% in March, the highest since November 2022 when consumer price inflation was over 7.0% year-on-year. Spending plans also took a hit with fewer consumers planning to purchase an auto or home over the next six months. Consumers' assessment of the availability of jobs fell somewhat in April. The share of consumers stating that jobs were "plentiful" declined from 33.6% in the prior month to 31.7%, and the share of consumers reporting that jobs were "hard to get" was 16.6%, up from 16.1% in March. Consequently, the labor market differential, or the difference between those saying jobs are plentiful relative to hard to get, slipped from 17.5 in March to 15.1 in April.

A more cautious consumer suggests weaker economic growth in the near term since consumer spending has been a big support to growth over the past several years. While clarity on trade policy might provide a temporary boost to confidence, the haphazard application of tariffs has clearly left consumers feeling anxious.

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