

April 2025 | Consumer Sentiment Falls As Tariff Uncertainty Increases



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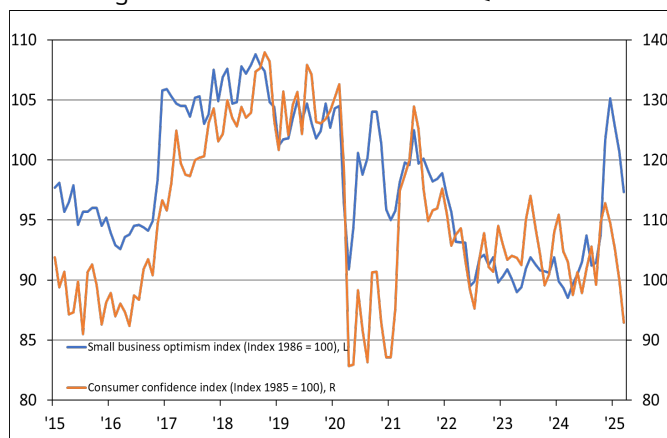
Highlights

- Consumer sentiment fell in April to the second-lowest level on record.
- Economic reports were weaker than expected in the first quarter of 2025.
- Decent consumer fundamentals should allow the U.S. economic expansion to continue through 2025.

Consumer sentiment fell for the fourth straight month in April, according to a preliminary report by the University of Michigan. The consumer sentiment index fell in April to 50.8, near the record-low level of 50 recorded in June 2022, from 57 in March. The report noted that the decline in sentiment was “pervasive and unanimous across age, income, education, geographic region, and political affiliation.” Trade war developments, recession, and inflation were reported as worries for consumers. The interviews for the report were conducted between March 25 and April 8, before President Trump’s reciprocal tariffs were scheduled to take effect.

Year-ahead inflation expectations rose in April for the fifth straight month to 6.7%, the highest rate since November 1981, from 5% in March. The preliminary survey of consumers showed that long-run inflation expectations rose from 4.1% in March to 4.4% in April, the highest rate since June 1991. Higher inflation expectations could lead to faster actual inflation.

Fig. 1: Soft Data Were Weak Last Quarter

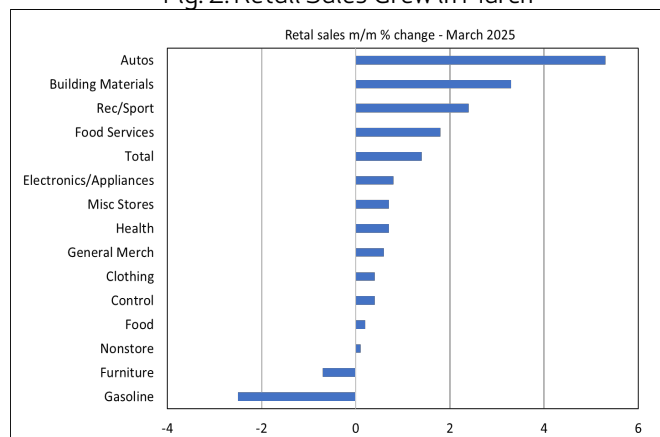


Sources: Conference Board and NFIB

Several consumer surveys show rising inflation expectations, likely driven by new tariffs and tariff policy uncertainty. Financial market measures of long-term inflation expectations are more reassuring. The *5-year, 5-year forward inflation expectation rate*, which captures 5-year inflation expectations 5 years from today, has remained between 2.1% and 2.3% over the past 12 months.

The U.S. economy likely hit a soft patch in the first quarter of 2025 after expanding 2.8% in 2024 (from the 2023 annual level to the 2024 annual level).

Fig. 2: Retail Sales Grew in March



Source: Census Bureau

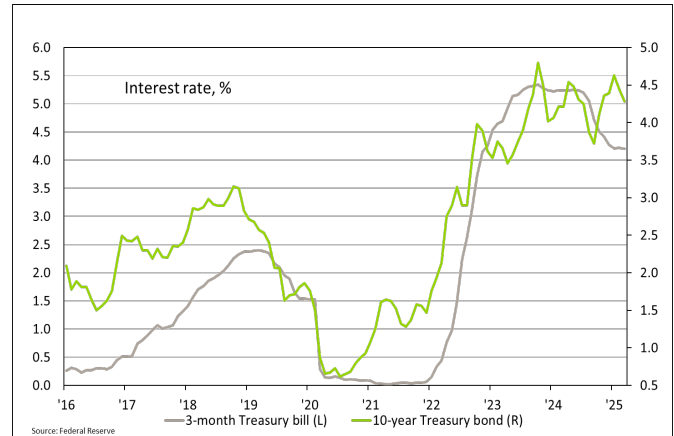
Economic reports were mostly weaker than expected last quarter partly due to California wildfires and extreme weather conditions in many parts of the country. Additionally, a widening trade deficit weighed on the U.S. economy as consumers and businesses rushed to buy goods before tariffs went into effect. Imports, which are a subtraction in the calculation of GDP, increased 10% from December 2024 to February 2025. Exports rose just over 4% over the same period.

U.S. President Donald Trump on April 2 announced new tariffs on the United States’ trading partners. A 10% baseline tariff was imposed on all trading partners while reciprocal tariffs were imposed on 60 key trading partners. Previously announced tariffs on China, Mexico, Canada, steel and aluminum, and autos remained intact. As of early April, the reciprocal tariffs were paused by President Trump until early July. Also, China tariffs were increased to 245%.

Given the everchanging tariff landscape, risks around economic projections are elevated. If the current tariff situation remains unchanged, Huntington Private Bank expects consumer spending growth to moderate this year as inflation, tariff policy uncertainty and a softer labor market weigh on economic activity. Consumer spending accounts for about two-thirds of the U.S. economy, and consumer balance sheets are in decent shape. Increased household wealth, low household debt burdens, and a healthy labor market are all positives for consumers.

The top risks to the U.S. economy are tariffs and tariff policy uncertainty. In the near-term, importers faced with higher prices are likely to pass through some or all the increased prices to consumers. In the long term, reshoring manufacturing from overseas to the U.S. will be a boost to the manufacturing sector, but it could come at a cost. Tariffs and supply chain disruptions could stoke inflation and weaken the U.S. economy. Additionally, a limited labor pool will also put upward pressures on wages, particularly with the retirement of baby boomers and restrictive immigration policies proposed by the Trump administration.

Fig. 3: Fed Remains in Wait-and-See Mode



Source: Federal Reserve

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Fig. 4: Baseline Economic Outlook

	2020	2021	2022	2023	2024	2025*	2026*
Real GDP Annual Growth Rates, 2017 Chained Prices							
Pers. Consumption Expenditures	-2.5	8.8	3.0	2.5	2.8	2.2	2.4
Government Expenditures	3.4	-0.3	-1.1	3.9	3.4	1.6	1.4
Private Investment	-4.5	8.8	6.0	0.1	4.0	2.7	4.0
Exports	-13.1	6.5	7.5	2.8	3.2	2.0	2.5
Imports	-9.0	14.7	8.6	-1.2	5.4	3.5	3.0
Total Real GDP	-2.2	6.1	2.5	2.9	2.8	1.9	2.1
CPI (1982-1984=100), % Change Annualized							
CPI (1982-1984=100), % Change Annualized	1.2	4.7	8.0	4.1	3.0	3.0	2.8
Core CPI (1982-1984 = 100), % Change Annualized							
Core CPI (1982-1984 = 100), % Change Annualized	1.7	3.6	6.2	4.8	3.4	3.5	3.4
PCE Price Index (2017=100), % Changed Annualized							
PCE Price Index (2017=100), % Changed Annualized	1.1	4.2	6.5	3.8	2.5	2.6	2.4
Core PCE Price Index (2017=100), % Change Annualized							
Core PCE Price Index (2017=100), % Change Annualized	1.3	3.6	5.2	4.1	2.8	2.7	2.5
Crude Oil WTI, (\$/barrel)	\$39	\$68	\$95	\$78	\$76	\$65	\$62
Effective Federal Funds Rate, % (Average)	0.37	0.08	1.68	5.02	5.14	4.17	3.69
10-Yr. Treasury Rate, % (Average)	0.92	1.51	3.88	3.88	4.21	4.38	4.20
30-Yr. Fixed Rate Mortgage, %	2.87	3.27	6.66	6.99	6.72	7.20	6.80
Industrial Production (YoY%)	-7.0	4.9	3.4	0.2	0.2	1.0	1.6
Payroll Jobs, Average Monthly Difference, Thousands	-774	606	399	225	168	120	100
Unemployment Rate, Annual Average	8.1	5.4	3.6	3.6	4.0	4.3	4.3
DXY Dollar Index	89.9	95.7	103.5	101.3	104.2	100.0	97.5

*Forecast

Historical data sources: Federal Reserve, BLS, BEA and Bloomberg

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