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One economist called the report 'horrific,' citing uncertainty as one cause.

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Consumer Sentiment Sours

Uncertainty around the economy, tariffs, funding cuts and jobs begins to take a toll

BY JUSTIN LAHART AND ED FRANKL

Consumer sentiment in the U.S. sank this month, as worries intensify over what the tariffs, government layoffs, funding cuts and immigration restrictions that President Trump has introduced might mean for the economy.

The University of Michigan's closely watched index of consumer sentiment nosedived another 11% to 57.9 in mid-March from 64.7 last month, continuing a downward trend that has taken hold since Trump took office.

That marked the lowest level since November 2022, and was much weaker than the 63.2 that economists polled by The Wall Street Journal expected. Compared with a year earlier, consumer sentiment is down 27%.

Pantheon Macroeconomics economist Samuel Tombs called the report "horrific" in a research note, adding that "elevated economic policy uncertainty and the sharp drop in stock prices have greatly undermined consumers' confidence."

Stocks have been falling for much of the past several weeks as investors try to parse

out the administration's backand- forth tariffs plans. Wall Street is worried the trade uncertainty could push the U.S. into a steep downturn.

The Trump administration has argued that the economy might need a "detox" period and that falling stock values shouldn't be a big concern.

Trump, a Republican, spooked markets when he sidestepped a question about whether a recession is on the horizon in a recent * interview. The market reaction has been swift. The S& P 500 on Thursday entered correction territory, meaning it was down at least 10% from a recent high. Just last month, it had hit a record.

On Friday, markets took the report in stride. All three major stock indexes rose, with the Dow Jones Industrial Average climbing 675 points, or 1.7%, to 41488. The S& P 500 added 2.1% to close at 5639, while the Nasdaq Composite led the way with a 2.6% gain, ending at 17754. News that the government might avoid a shutdown appeared to outweigh concerns about the U.S. consumer, at least temporarily.

Economists have been marking down their estimates for the economy, but they still expect it to grow. On Friday, for example, JPMorgan Chase economist Mike Feroli said he now expects gross domestic product to grow at a 1% annual rate in both the first and second quarters before picking up. That was down from the start of the year, when he forecast GDP would grow at a 1.8% rate in the first quarter and 2% in the second.

While drops in consumer sentiment don't necessarily lead to declines in consumer spending, they can be potent warning signs. Particularly worrisome was a decline in the expectations component of the sentiment index, which fell 15%. Economists have found that the Michigan expectations index, based on how consumers expect the economy to progress during the next year, can help predict future spending.

One danger is that if consumers pull back, consumerfacing businesses will as well, hurting the job market and further weighing on the economy.

Many consumers cited the high level of uncertainty around policy and other economic factors, said Joanne Hsu, director of the survey.

"Frequent gyrations in economic policies make it very difficult for consumers to plan for the future, regardless of one's policy preferences," Hsu added.

Inflation expectations for the year ahead jumped to 4.9% from 4.3% last month, the highest reading since late 2022, according to the survey.

For Federal Reserve policymakers, that poses a problem, since inflation expectations can feed into prices. In other words, if people expect higher inflation, they might go ahead and demand higher wages, and businesses might go ahead and raise prices —which means that higher inflation becomes a self-fulfilling prophecy. *

A rise in longer-run inflation expectations could lead more Fed officials to conclude that they shouldn't cut interest rates to pre-empt an economic slowdown.

"How should the [Fed], or any central bank, respond to a scenario in which the labor market weakens while inflation remains elevated or rises?" asked St. Louis Fed President Alberto Musalem in a recent speech. "I would look closely for assurance that inflation expectations are remaining well anchored over the medium to longer run" when considering how to manage the trade-off between fighting inflation and shoring up growth.

Elevated inflation expectations in the 1970s "were a key reason why bringing inflation under control was so much more costly at that time than it has been since 2022," Musalem said. "That is why I would be especially concerned if I saw evidence suggesting inflation expectations were becoming unanchored today."

Inflation did cool in February, the Labor Department reported Wednesday, but that might be the last calm reading for a while. Economists expect that Trump's tariffs will raise prices on a number of goods in the months ahead.

The Trump administration imposed this week 25% tariffs on steel and aluminum imports to the U.S., prompting retaliatory measures from trading partners.

The University of Michigan index showed that sentiment slipped across all groups by age, education, income, wealth and geographic region.

Whether a person's political party is in the White House has a lot to do with how they might feel about the economy. Not surprisingly, Democrats felt much worse than Republicans in the latest survey.

However, both Republicans and Democrats were in agreement that the outlook has weakened since February, albeit with varying intensity. The survey's expectation index dropped more than 20% for Democrats. But it also declined 10% for Republicans.

While current economic conditions were little changed, expectations for the future deteriorated across many aspects of the economy, including personal finances, labor markets, inflation, business conditions, and stock markets, Hsu said.