

Consumer Sentiment Falls to Record Low Amid War in Iran

Consumer sentiment fell below the previous month's record low as higher gasoline prices exacerbated shoppers' concerns about the U.S. economy, according to the initial reading from the University of Michigan's monthly survey.

The University of Michigan's consumer-sentiment index fell to 48.2 in May, from 49.8 in April. Analysts polled by The Wall Street Journal were expecting a reading of 49.7. A preliminary reading in April recorded the lowest figure in the survey's history, but was revised slightly higher.

The numbers are based on interviews with consumers conducted between April 21 and May 4. The survey will publish a final May reading later this month.

Middle East developments are unlikely to meaningfully boost sentiment until supply disruptions have been fully resolved and energy prices fall, said the survey's director, Joanne Hsu.

As consumers spend more of their income on higher gas prices, perceptions of price increases in the nearterm have picked up. Year-ahead inflation expectations fell to 4.5% from 4.7% last month. Meanwhile, long-run inflation expectations inched down to 3.4% in May from 3.5% in April. Longer measures of inflation expectations matter for policymakers, because expectations can be self fulfilling.

As the war in Iran continues, the survey highlights a growing disconnect between a relatively solid economic backdrop and households' perception of the economy. Despite growing AI investment among firms and fiscal policy tailwinds, recent readings of consumer sentiment have darkened to levels worse than the surging postpandemic inflation seen in 2022.

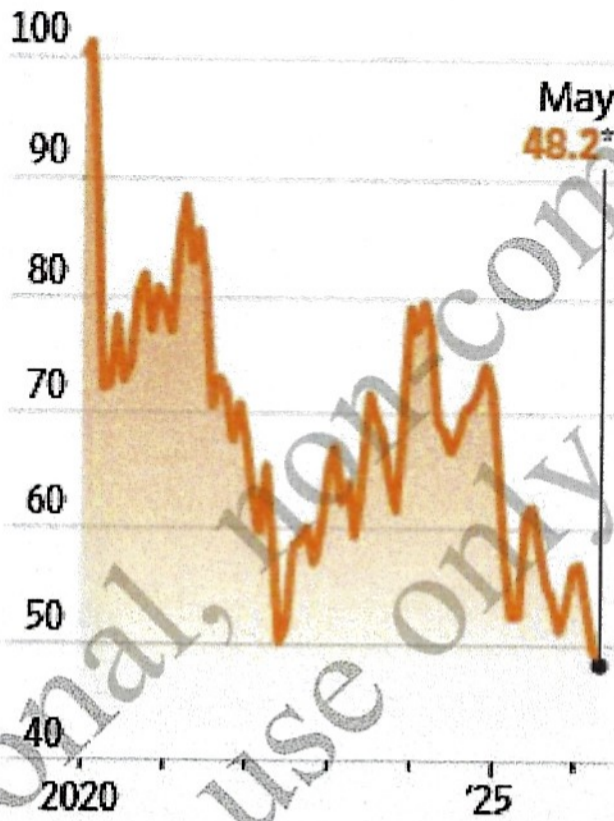
—Jessica Coacci

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University of Michigan consumer-sentiment index



*Preliminary Source: University of Michigan

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