Consumer Sentiment Dropped Slightly in October

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Headlines

- **Consumer sentiment unexpectedly slipped to 53.6 in the final October print**.
- **The drop was broad-based** with both the present situation and expectations indexes falling.
- **One-year ahead inflation expectations slipped to 4.6% in October** from 4.7% in September.
- The dip in consumer sentiment in October is consistent with slowing economic growth and a rapidly weakening labor market.
- **PNC's forecast is for fed funds rate cuts of 25 basis points at each of the two remaining FOMC meetings this year, with a third rate cut of 25 basis points early next year.** This would take the fed funds rate to a range of 3.25% to 3.50%.

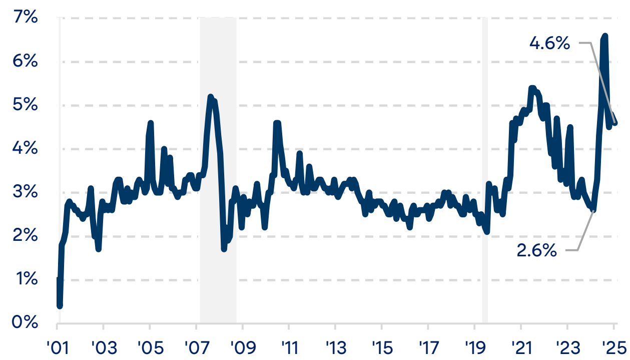
Details

Consumers are becoming increasingly gloomy. Consumer sentiment unexpectedly dipped to 53.6 in October from 55.1 in September in the final reading according to the University of Michigan – the third consecutive decline. That was well below PNC's projection for an improvement to 55.5. Sentiment is down by over 25% since the beginning of the year amid elevated policy uncertainty. The decline was broad-based with the present conditions index slipping 1.8 points to 58.6 – the lowest since August 2022 – and the expectations index falling a more modest 1.4 point to 50.3. The index of present conditions has declined for three months in a row.

The report contained somewhat encouraging news on inflation. One-year ahead inflation expectations slipped to 4.6% in October from 4.7% in September but are up from 3.0% in December of 2024 (Figure 1). Five-year ahead inflation expectations – which are typically more stable – rose to 3.9% in October from 3.7% in September. Still high inflation expectations suggest consumers are becoming increasingly concerned that tariffs will lead to materially higher prices.

The drop in consumer sentiment in October is consistent with slowing economic growth and a rapidly weakening labor market. As a result, consumer sentiment is likely to remain depressed in the near term amid continued policy uncertainty, slower job growth and rising unemployment. PNC's forecast is for fed funds rate cuts of 25 basis points at each of the two remaining FOMC meetings this year, with a third rate cut of 25 basis points early next year. This would take the fed funds rate to a range of 3.25% to 3.50%.

Figure 1: One-Year Ahead Inflation Expectations



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