Second-Lowest Consumer Sentiment Ever in September With High Gas Prices

Headlines

- **Consumer sentiment fell in September to its second-lowest level ever. A big jump in gasoline prices over the month drove the index lower.**
- **The drop in the expectations index over the month was larger than the drop in the current conditions index.**
- **Consumer spending continues to increase despite extremely low sentiment.**
- **Consumers expect higher inflation in the near term, but inflation expectations are down from the spring.**

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Details

Consumer sentiment fell in September to its second-lowest reading ever, behind only May of this year, as high energy prices remain a drag. Sentiment, as reported from a survey by the University of Michigan, fell to 48.1 in September from 51.7 in August; the all-time low was 44.8 in May. The index goes back to 1951. The final number for September was up from the preliminary reading for the month of 47.8. The measure is indexed to 100 in the first quarter of 1966.

Consumer views on current and future economic conditions both weakened over the month. The drop in future conditions was larger, falling to 46.3 in September from 51.5 in August. This was the second-lowest reading ever for the future conditions index, behind May's 44.1. The current index was 50.9 in September, down from 51.9 in August. Although the current conditions index was historically weak in September, it was even lower in mid-2026 and the end of 2025.

High gasoline and diesel prices are a huge drag on consumer sentiment in the fall of 2026. The price of a gallon of gasoline, after seasonal adjustment, jumped 5% in September from August, although this is slightly below the all-time high in mid-2022. **Consumers are feeling stretched with energy prices up sharply entering the fall. But at least until now, consumers' actions have belied their feelings.** Consumer spending, adjusted for inflation, has continued to rise steadily since energy prices surged in the wake of the U.S. conflict with Iran and stronger inflation. And retail sales jumped a very strong 1.2% in August without adjusting for price changes, and were up 1.1% after taking out the boost from higher spending on gasoline.

Consumer spending has steadily grown since the pandemic even as consumer sentiment has been historically weak. High inflation has consumers reporting that they are pessimistic, although their spending habits don't reflect that. And **September's**

drop in confidence is likely another false signal, given that the labor market continues to hold up and the strong stock market is supporting spending by high-income households.

It is possible, however, that the most recent jump in energy prices could be the straw that breaks the camel's back for consumers. In addition, home heating oil and diesel are very closely related and their prices move in tandem. So if high diesel prices persist into winter, heating oil-using households will be facing much higher costs this season, taking an additional toll.

One-year ahead inflation expectations jumped to 4.6% in September from 4.0% in August as gasoline prices rose over the month. But one-year inflation expectations are lower than they were in April and May. And five-year inflation expectations are holding up better, rising to 3.4% in September from 3.3% in August. Five-year expectations are also lower than they were in the spring.

Figure 1: University of Michigan consumer sentiment index

Sources: University of Michigan, PNC

Figure 2: University of Michigan index of consumer expectations

Sources: University of Michigan, PNC

Figure 3: One-year-ahead inflation expectations (%)

Sources: University of Michigan, PNC

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