Consumer Sentiment Slipped in October

Headlines

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- Consumer sentiment slid to 46.3 in the preliminary October print from 48.1.
- The decline in sentiment was entirely due to a sharp drop in the current conditions index.
- One year ahead inflation expectations edged up to 4.7% in October.
- Five-year ahead inflation expectations ticked up to 3.5% in October, the highest since May.
- The long stretch of depressed consumer sentiment reflects a highly uncertain geopolitical backdrop, the recent surge in long term interest rates and elevated gas and energy prices.

Details

Higher gas prices and surging long-term interest rates are weighing on consumer confidence. Consumer sentiment fell to 46.3 in October in the preliminary print according to the University of Michigan (Figure 1). This was below PNC's forecast of 47.8 and the third straight drop. Sentiment is down 1.8% month-on-month and is 13.6% lower than a year ago.

The decline in sentiment was due to a decline of 6.2 points in the current conditions index to an all-time low of 44.7 (Figure 2), implying that households' assessment of their present financial and economic situation deteriorated. The future expectations index rose 1.0 point to 47.3.

Sentiment was mixed across the political spectrum with increases among Republicans (+6.8 points to 84.0) and Democrats (+1.7 points to 37.3 but still low). Sentiment fell 8.8 points among Independents.

There was a drop in sentiment in all stock ownership categories, with sentiment falling the most for the bottom (-3.5 points) and top (-3.6 points) terciles. Sentiment for the middle income tercile fell a more modest 1.3 points.

The elusive end to the conflict in the Middle East and the increase in energy prices pushed inflation expectations higher. One year ahead inflation expectations edged up to 4.7% from 4.6% in September (Figure 3). That is the second straight increase and the highest since May 2026.

Long-term inflation expectations – which the FOMC views as crucial to achieving price stability – ticked up to 3.5% from 3.4%. Despite the slight rise, long-

term inflation expectations are well below the 3.9% reading in May.

In a special question, only 31% of consumers expect to continue spending as usual in the next 12 months on items that have had significant price increases. Conversely, 54% said they would cut back spending on those items, while 16% said they would stop spending on those items altogether.

The long stretch of depressed consumer sentiment reflects a highly uncertain geopolitical backdrop, the recent surge in long term interest rates and elevated gas and energy prices. Consequently, sentiment is expected to remain depressed in the near term unless the conflict in the Middle East is resolved.

Figure 1: University of Michigan consumer sentiment

Sources: University of Michigan, PNC

Figure 2: University of Michigan current conditions

Sources: University of Michigan, PNC

Figure 3: One year ahead inflation expectations

Sources: University of Michigan, PNC

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