



August 15, 2025

## Consumer Sentiment Slid in August

- **Consumer sentiment slipped to 58.6 in August from 61.7 in July.**
- **The decline was broad-based with the current conditions index and index of consumer expectations both slipping.**
- **Inflation expectations surged after improving for two consecutive months.**
- **Consumer sentiment is likely to remain depressed in the near term amid a great deal of policy uncertainty.**

Consumer sentiment dipped to 58.6 in August from 61.7 in the preliminary reading according to the University of Michigan – the first decline since April. That was below PNC’s projection for a slight improvement to 62.2. Sentiment is down by over 18% since the beginning of the year amid elevated policy uncertainty. The decline was broad-based with the current conditions index decreasing 7.1 points to 60.9 and the index of consumer expectations sliding a more modest 0.5 point to 57.2. The index of consumer expectations has declined for two months in a row.

The report contained bad news on the inflation front. 1-year ahead inflation expectations rose to 4.9% in August after falling for two consecutive months. 5-year ahead inflation expectations – which are typically more stable – rose to 3.9% in August from 3.4% in July. The rise in inflation expectations suggests consumers are becoming increasingly concerned that tariffs will lead to materially higher prices.

While depressed consumer sentiment in the current environment isn’t surprising, the low level of the University of Michigan’s measure isn’t consistent with the rebound in real GDP growth in the second quarter, modest (though slowing) job gains and historically low unemployment. Nonetheless, consumer sentiment is likely to remain depressed in the near term amid a great deal of policy uncertainty. PNC’s forecast is for fed funds rate cuts of 25 basis points each over the next four FOMC meetings, three in the remaining months of this year starting in September, with a fourth rate cut early next year. This would take the fed funds rate to a range of 3.25% to 3.50%.

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