Consumer Sentiment Improved Slightly in February

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Headlines

- **Consumer sentiment improved to 57.3 in the preliminary February release, bucking expectations for a decline**.
- **The slight improvement was due to an increase in the present situation index with the expectations index slipping**.
- **One-year ahead inflation expectations** dropped to 3.5% in February from 4.0% in January**.**
- **The historically low level of consumer sentiment** is consistent with an elevated level of policy uncertainty, affordability challenges, and a rapidly weakening labor market.
- **PNC's forecast is for the FOMC to cut the fed funds rate by 25 basis points in July and September**.

Details

Consumer moods continued to brighten in February. Consumer sentiment increased to 57.3 from 56.4 in January according to the University of Michigan – the third successive improvement. That was above the consensus forecast for a decline to 55.0. Despite the improvement, sentiment is down by 11.4% from a year earlier amid elevated policy uncertainty, still elevated prices, and a cooling labor market. The improvement was due to an increase of 2.9 points in the present conditions index. The expectations index slipped 0.4 point.

The overall improvement was broad-based across the stock wealth distribution with sentiment in the top tercile rising 4.4 points to 68.3. Sentiment in the middle tercile increased 3.1 points while sentiment in the bottom tercile climbed just 1.4 points. Sentiment for those who do not own stock was 46.7. Consistent with the recent trend, there was a significant difference in sentiment across political parties which was much higher among Republicans (93.6) compared to Democrats (46.7) and Independents (48.7).

There was a noteworthy improvement in inflation expectations in February. One-year ahead inflation expectations dropped to 3.5% (Figure 1). That is the sixth consecutive improvement and one-year ahead inflation expectations are at the lowest level since January 2025 (3.3%). Five-year ahead inflation expectations – which are usually more stable – rose to 3.4% in February from 3.3% in January. Despite the small increase, inflation expectations are lower than they were in the fall, suggesting consumers' concerns about tariffs appear to be diminishing.

Despite three straight improvements in consumer sentiment for the first time since late-2024, the index remains at a historically low level and is consistent with a high level of policy uncertainty, affordability challenges, and a rapidly cooling labor market. As a result, consumer sentiment is expected to remain depressed in the near term. PNC's forecast is for the FOMC to cut the fed funds rate by 25 basis points in July and September, lowering the rate to a range of 3.00%-3.25%.

Figure 1: One-Year Ahead Inflation Expectations

Source: University of Michigan

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