

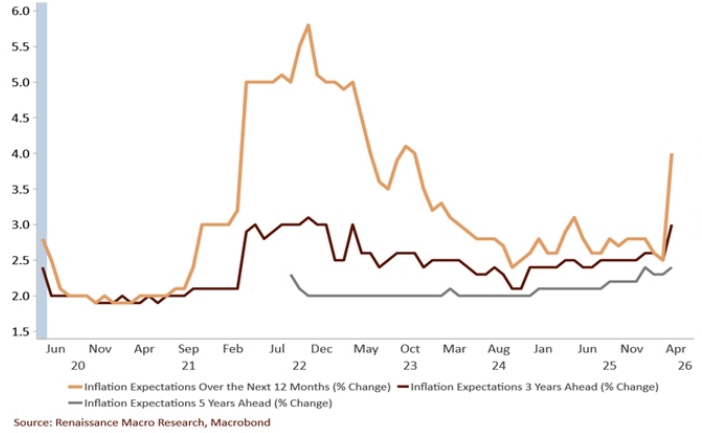
Dutta's Economic Daily

Confidence holds up for now

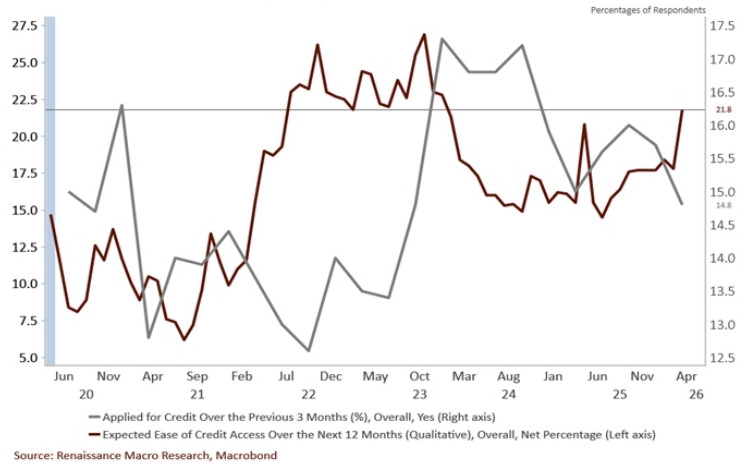
Inflation expectations are rising in the euro-zone

- From Bloomberg News, “Inflation expectations among euro-area consumers jumped across the board in March, a worrying sign for European Central Bank as it assesses the knock-on effects of the Iran war. Prices were seen soaring 4% over the next 12 months — up from 2.5% in February, according to the ECB’s monthly survey of consumers, released Tuesday. Expectations for three years ahead increased to 3.0% from 2.5% — just below the 3.1% peak reached at the height of the last price spike in October 2022. The outlook for five years rose slightly to 2.4% from 2.3%, moving further away from the ECB’s 2% medium-term inflation target.”
- Unlike the Fed, the ECB does not have a formally defined dual mandate; price stability is its main goal. The upward drift in household inflation expectation is pushing up ECB rate hike expectations this year with futures pricing in close to 3 hikes in 2026. That’s probably keeping the euro from falling even further. That said, if these surveys are anything like the ones in the US, their track record in predicting realized inflation is spotty and the bank will likely await information to see if higher expectations feed into wages and prices across the euro area before doing anything. Indeed, the March survey showed tightening credit conditions: the net percentage on “expected easing of credit access over the next 12 months” rose to 21.8, the highest since December 2023. That ought to keep a lid on growth in the Euro area.

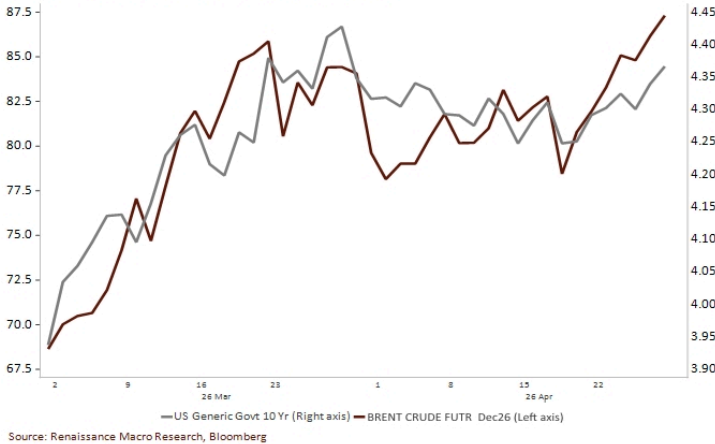
Euro area inflation expectations climbing



Euro area credit conditions tightening



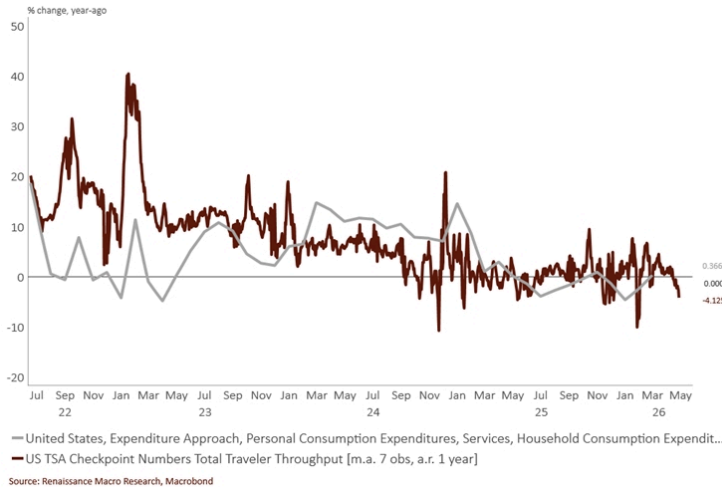
Oil prices and Treasury yields moving in tandem



Not good for US households

- The primary release valve for higher oil prices in the financial markets appears to be interest rates. Our nearby figure plots 10Y Treasury yields against December 2026 Brent crude oil futures. Both are moving in tandem. Risk assets, by contrast, seem relatively sanguine with stocks near records and credit spreads tight. I am not sure how long the market can continue fading downside growth risks here. Higher oil prices and interest rates will weigh on US households and consumers' spending. In Q1, real personal consumption expenditures are tracking just 1.5 percent SAAR. In Q2, the story will likely be the flattening out of tax refunds against the stickiness of retail gasoline prices. I'd add that higher longer-term interest rates likely puts US housing back into the penalty box for a time.

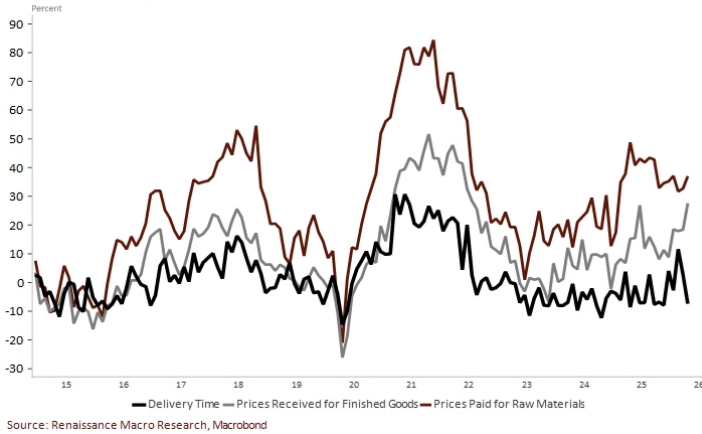
Not taking off



Coming in for a landing

- Service-industry spending might be cooling. Exhibit A: TSA Traveler Throughput has declined roughly four percent against last year. The level of traveler throughput is below the same period in 2024! The weakness appears to have gathered some momentum earlier this month. The weakness makes sense and can likely be distributed across two main factors: (1) capacity is being cut, (2) fares are climbing as jet fuel costs rise, weighing on demand. Lastly, leisure travelers, in particular, tend to book 4-8 weeks ahead on average. Thus, I think we can assume that at least some of the demand weakness predates recent developments in energy markets. On the flip side, perhaps air travel perks up during the summer as the World Cup is in full swing (though to be fair that math will only make sense for me if ticket prices drop).

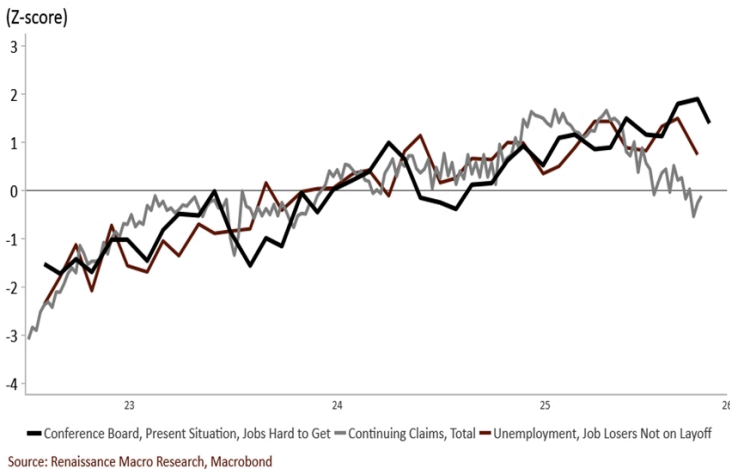
Dallas Fed prices up, delivery times suggest transitory
(Texas Manufacturing Outlook Survey, SA)



Dallas Fed slides a little bit

- The Dallas Fed Manufacturing Activity Index slid to -2.3 in April, a 2.1pt decline from the prior month. The details were encouraging, however, with growth in new orders, production, and shipments. Employment remains muted, standing at -0.9 in April from -1.0 in March. Recall that this Fed District is sensitive to energy output. Price pressures are building for the Dallas Fed District's manufacturers as of April with prices paid climbing to a three-month high and prices received surging to the highest since 2022. However, unlike 2022's run-up, delivery times eased over the month. If delivery times are easing, it implies that factories are having a better go of things moving product out the door, making it less likely the price pressures stick.

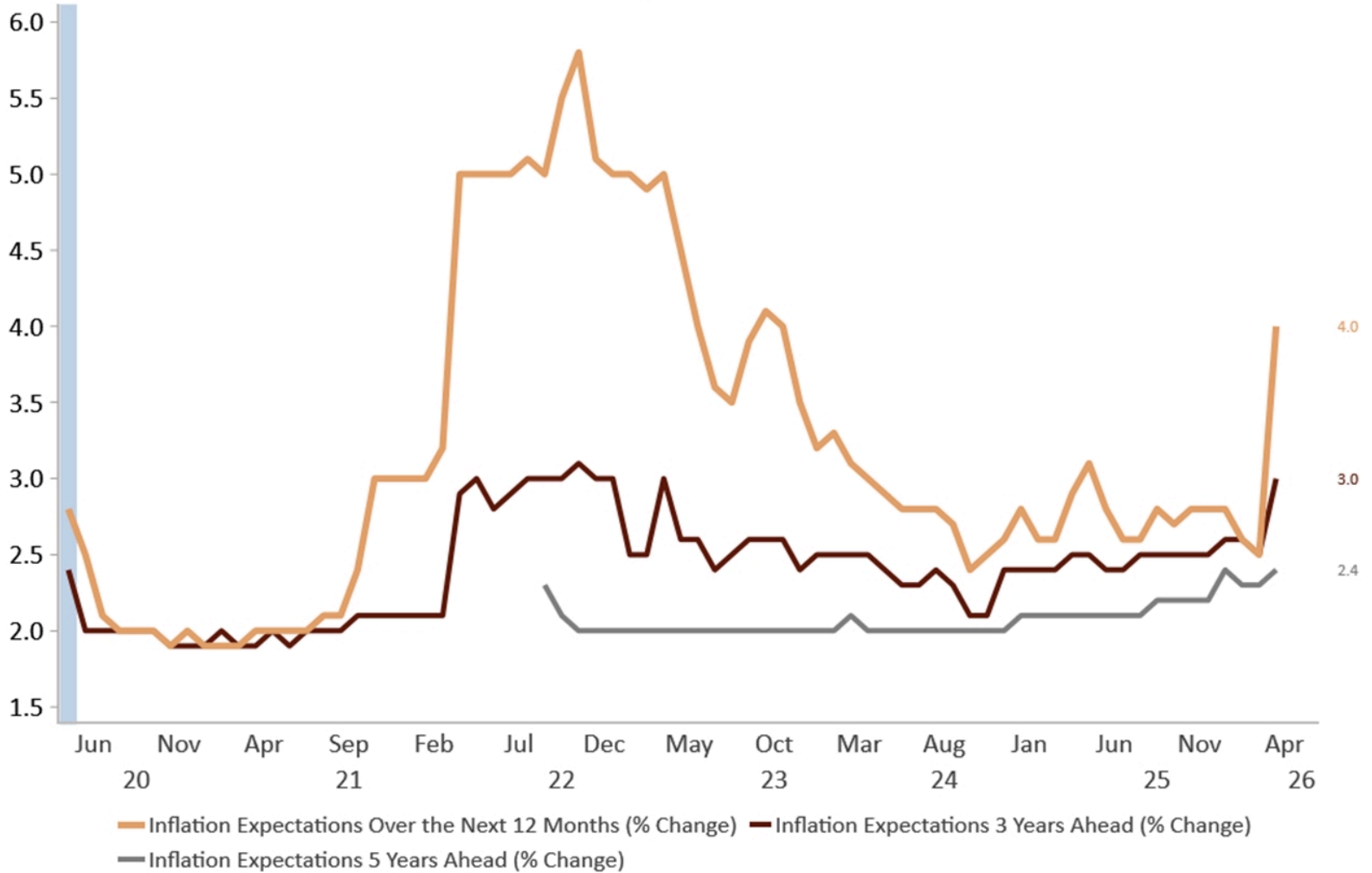
What will consumers say about employment?



Consumer Confidence beats in April

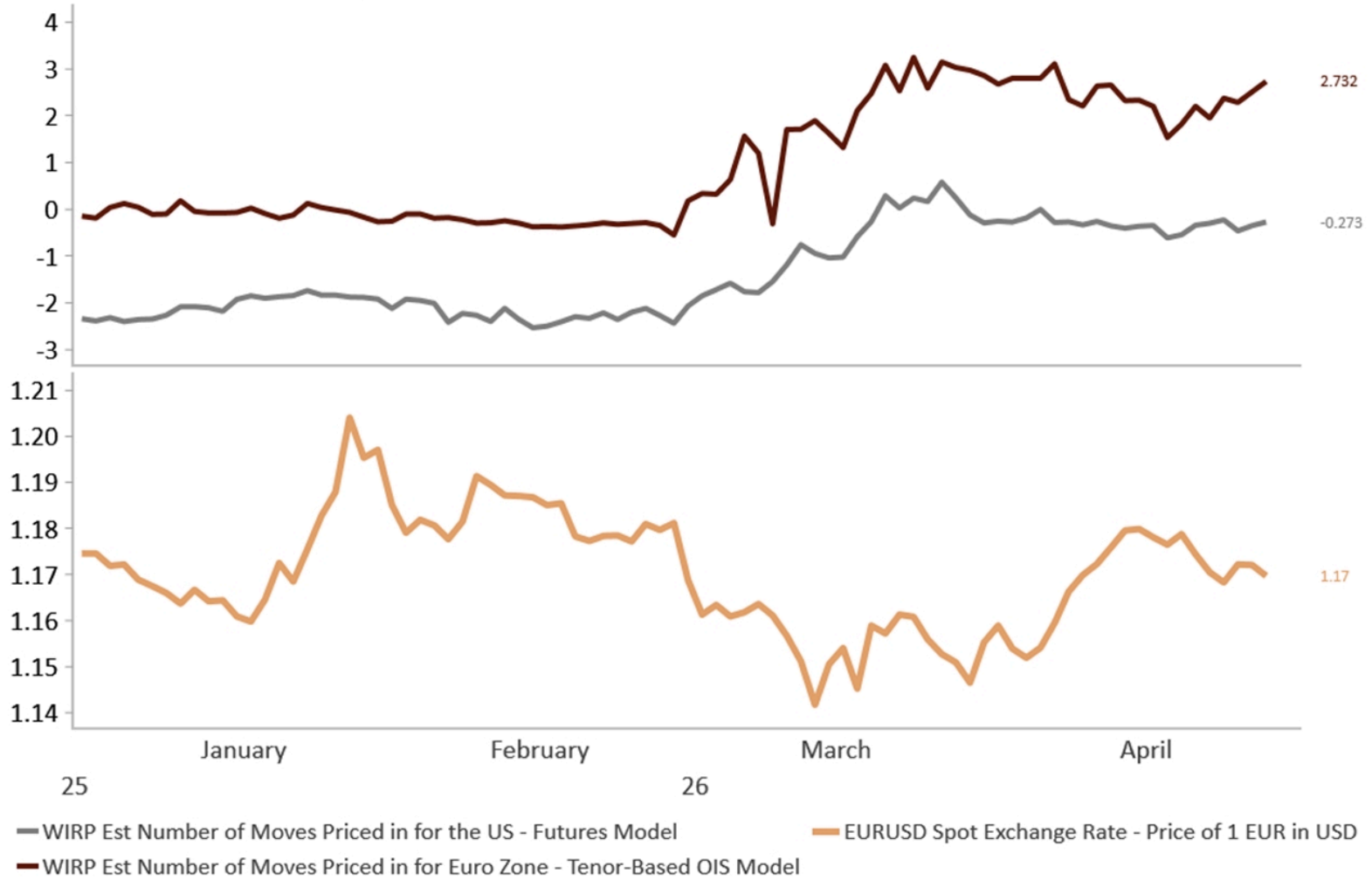
- Consumer confidence remains surprisingly resilient as labor market conditions stabilizing. In April, the Conference Board's Labor Differential improved to a four-month high of +7.5 as fewer workers reported jobs as hard to get. Interestingly, despite the run-up in gasoline prices, median inflation expectations for 12 months hence declined 0.1pt. Moreover, home, and auto buying intentions strengthened, which is notable given the elevated level of interest rates. In the case of homebuying intentions, plans to buy a new home in six months are at odds with builder reports on buyer traffic. Stepping back, it is encouraging to see the Conference Board Consumer Confidence Index standing at 92.8, the best level all year. However, note that the cut off date for these results was April 22. Since then, retail gasoline prices have jumped by roughly 15 cents per gallon on average nationwide.

Euro area inflation expectations climbing



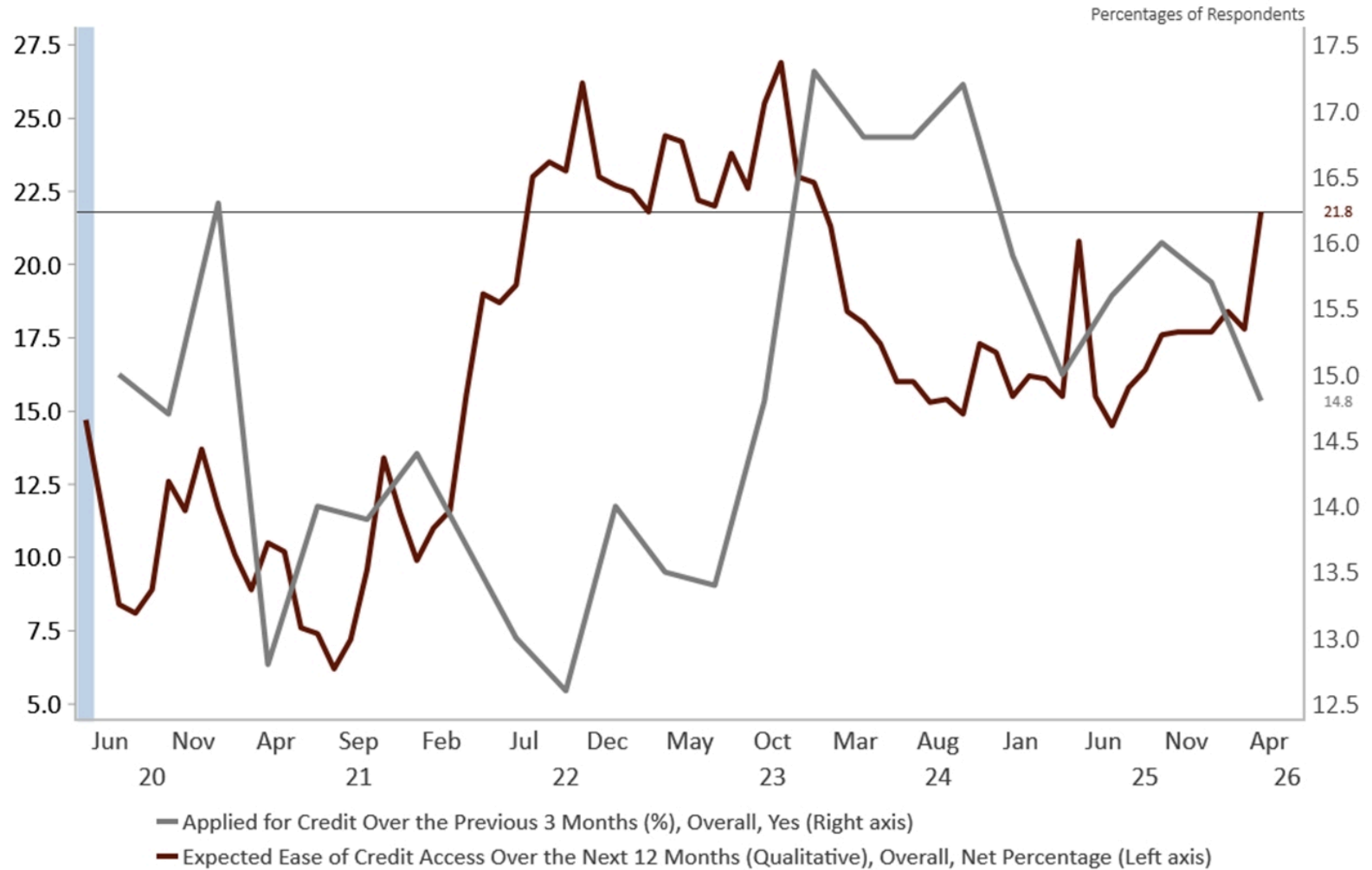
Source: Renaissance Macro Research, Macrobond

Euro area inflation expectations climbing



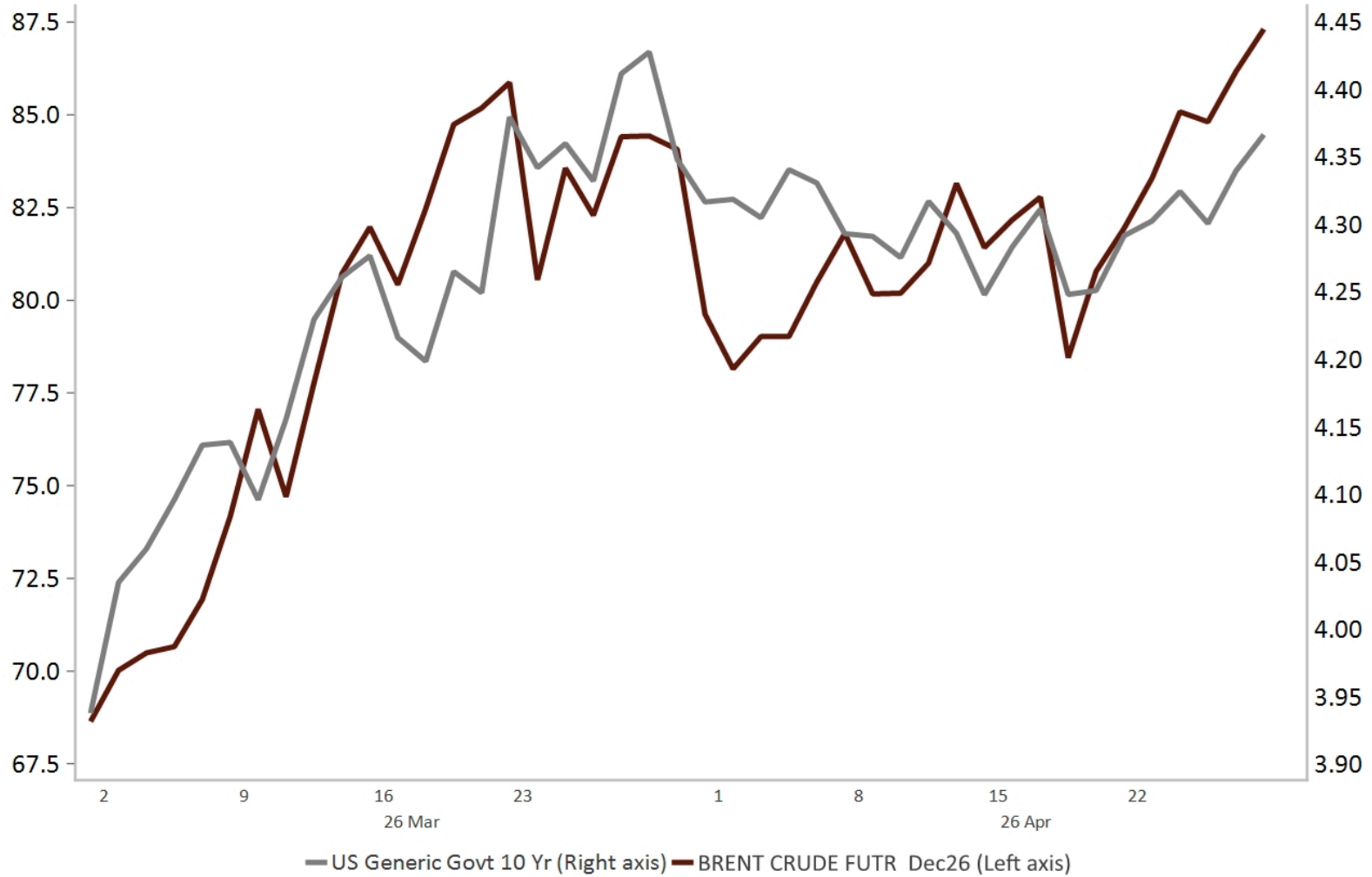
Source: Renaissance Macro Research, Macrobond

Euro area credit conditions tightening



Source: Renaissance Macro Research, Macrobond

Oil prices and Treasury yields moving in tandem



Source: Renaissance Macro Research, Bloomberg

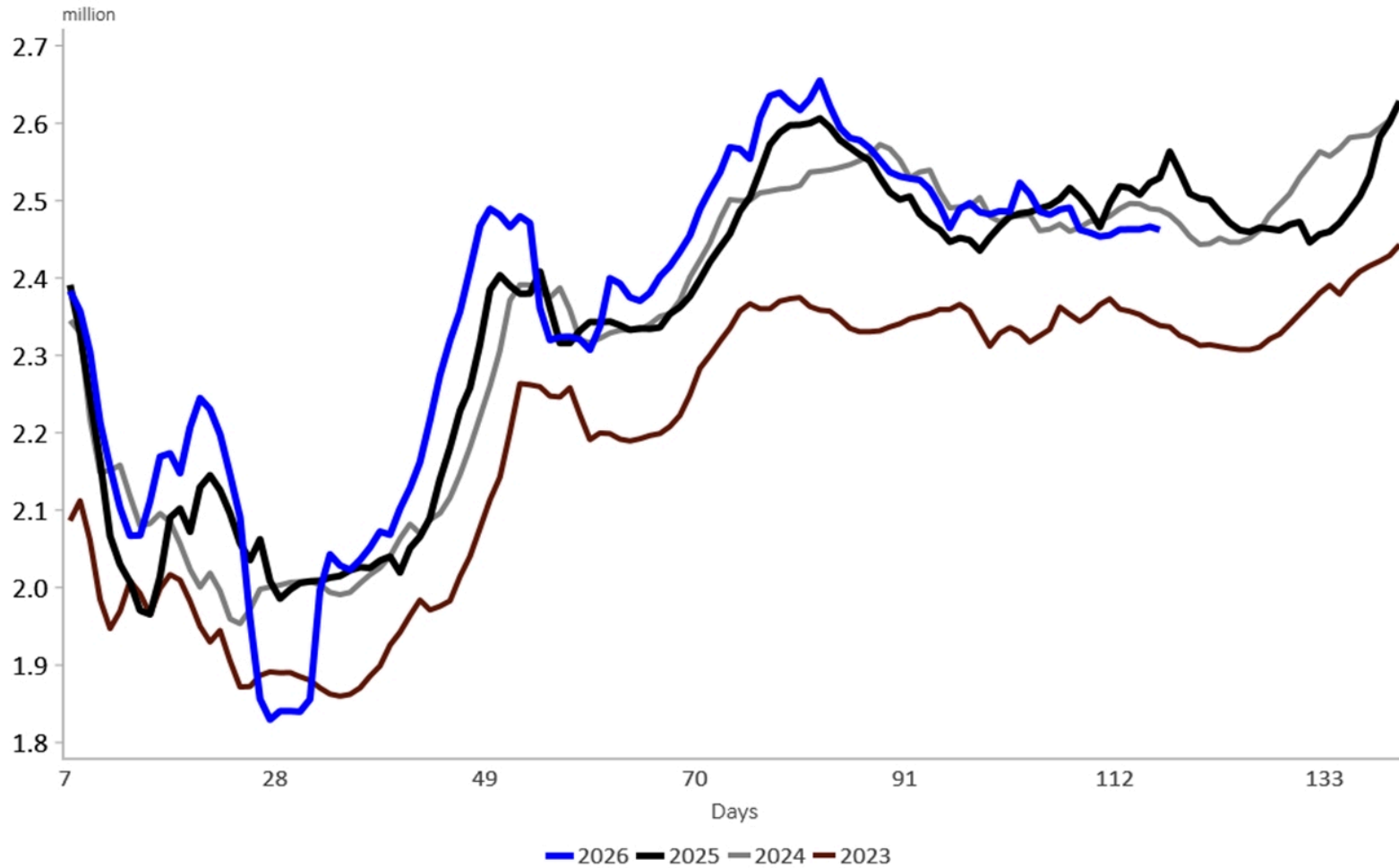
New car financing costs tracking Treasury yields



Source: Renaissance Macro Research, Haver Analytics

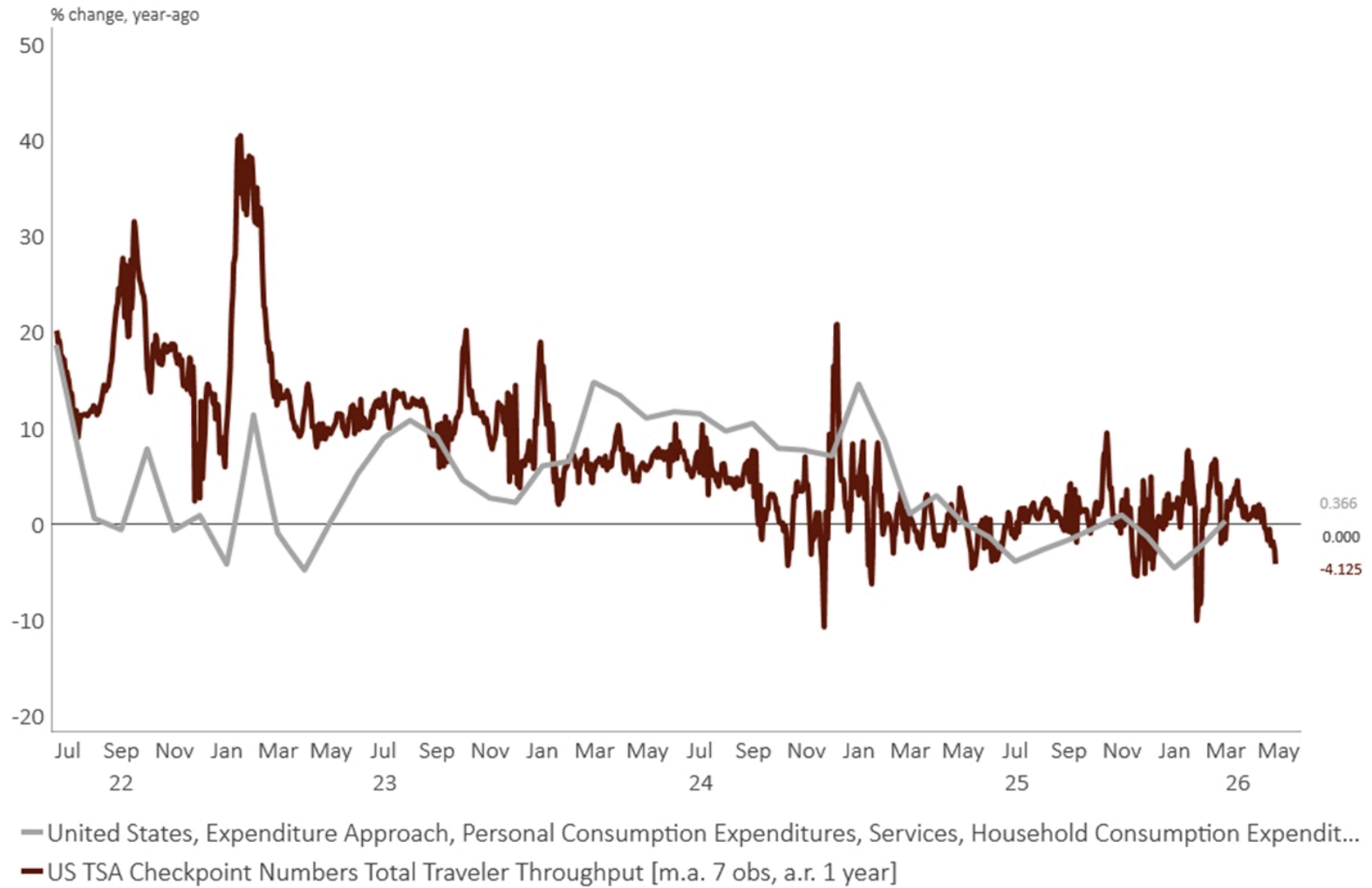
Air travel running lower than 2024

7-day moving average

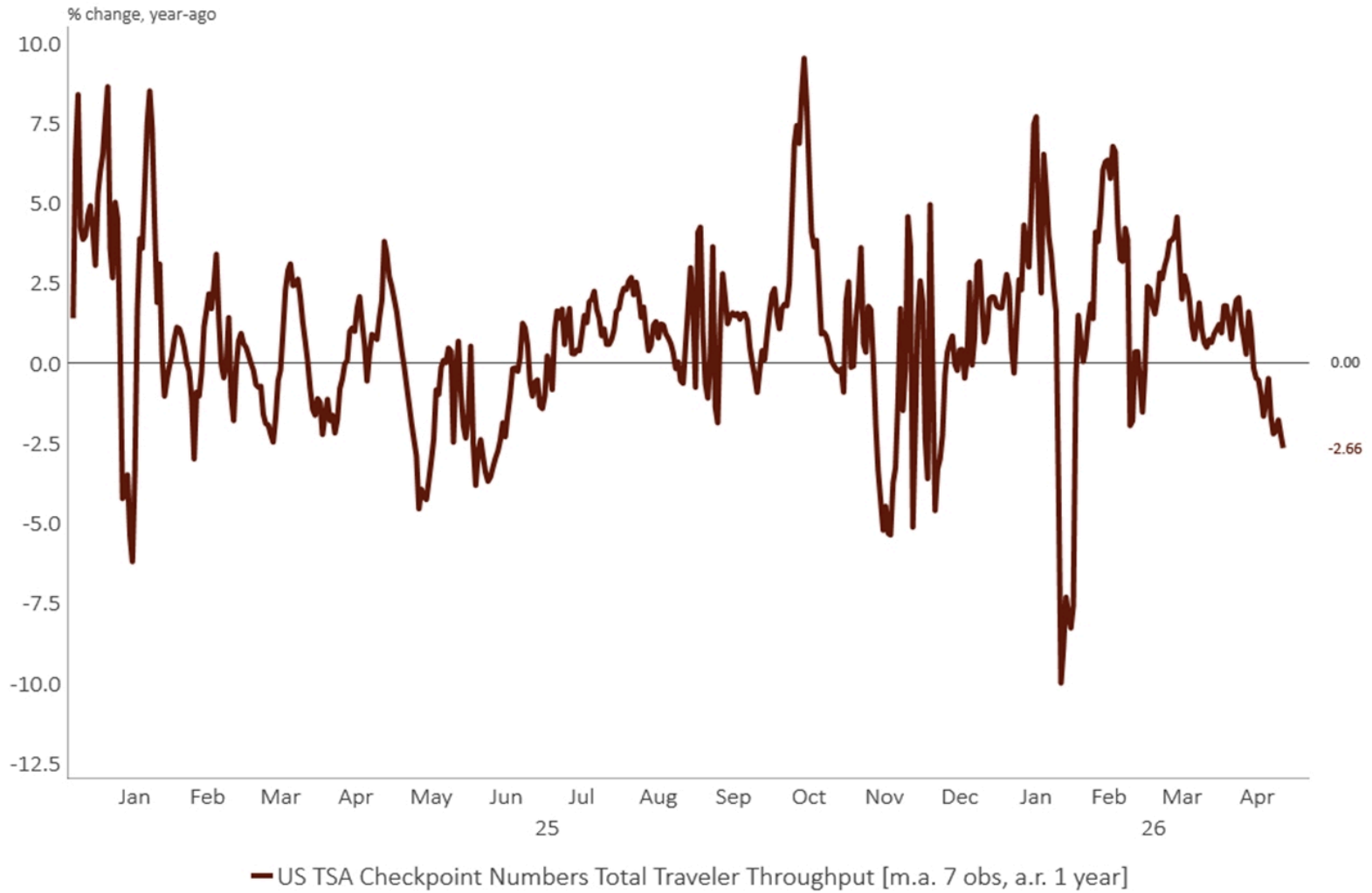


Source: Renaissance Macro Research, Macrobond

Not taking off



Real spending on air travel is down



Source: Renaissance Macro Research, Macrobond

Dallas Fed prices up, delivery times suggest transitory

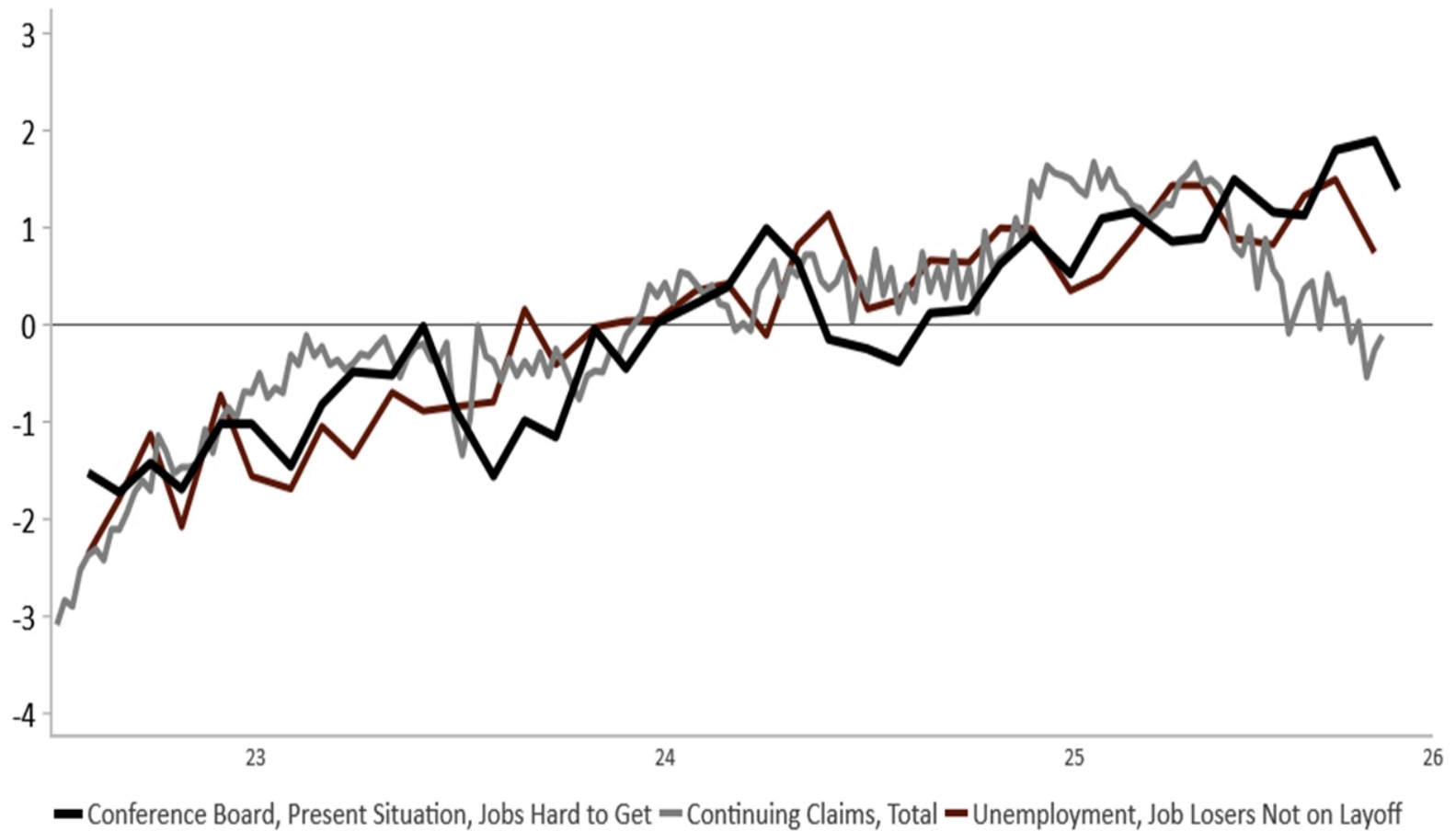
(Texas Manufacturing Outlook Survey, SA)



Source: Renaissance Macro Research, Macrobond

What will consumers say about employment?

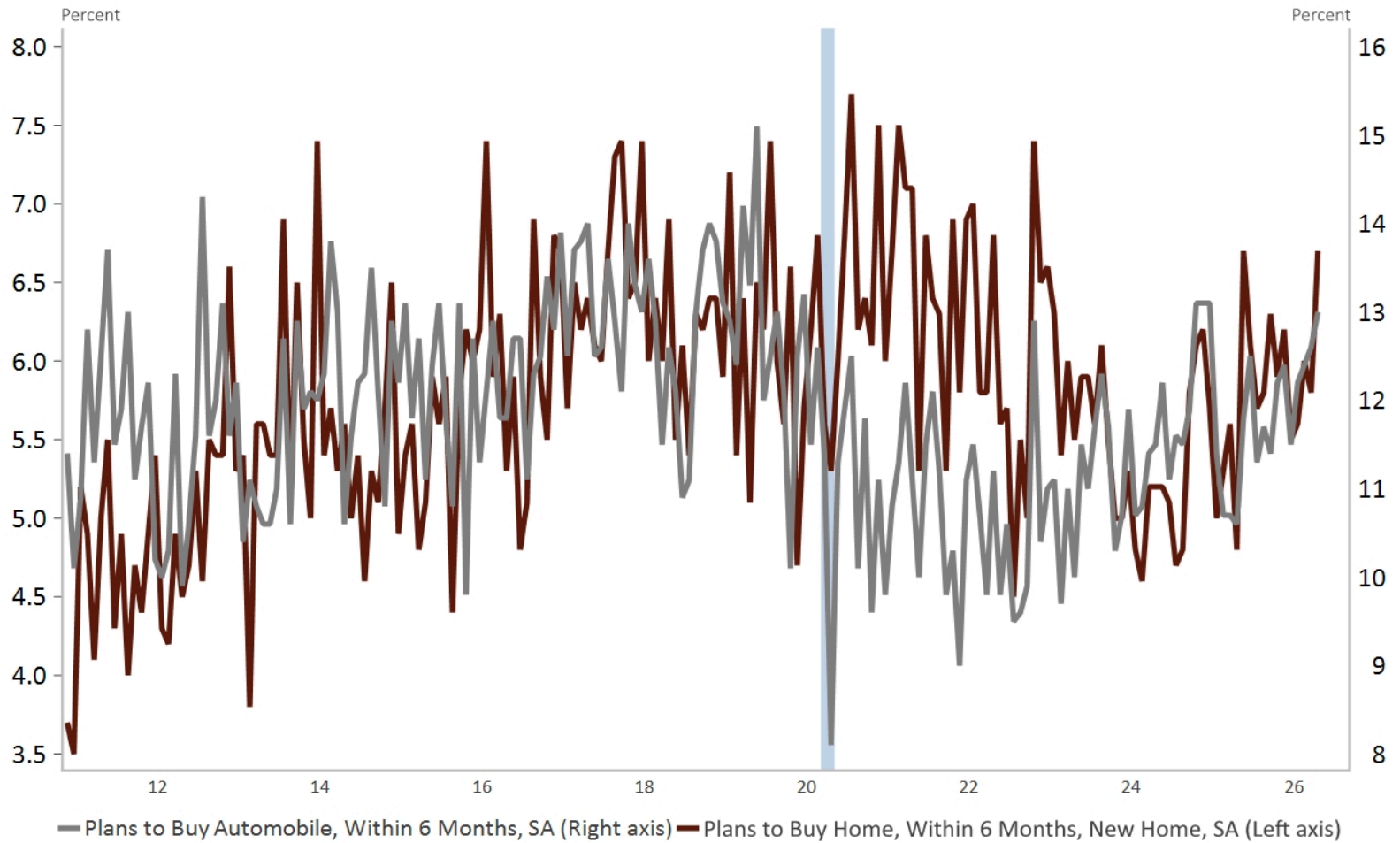
(Z-score)



Source: Renaissance Macro Research, Macrobond

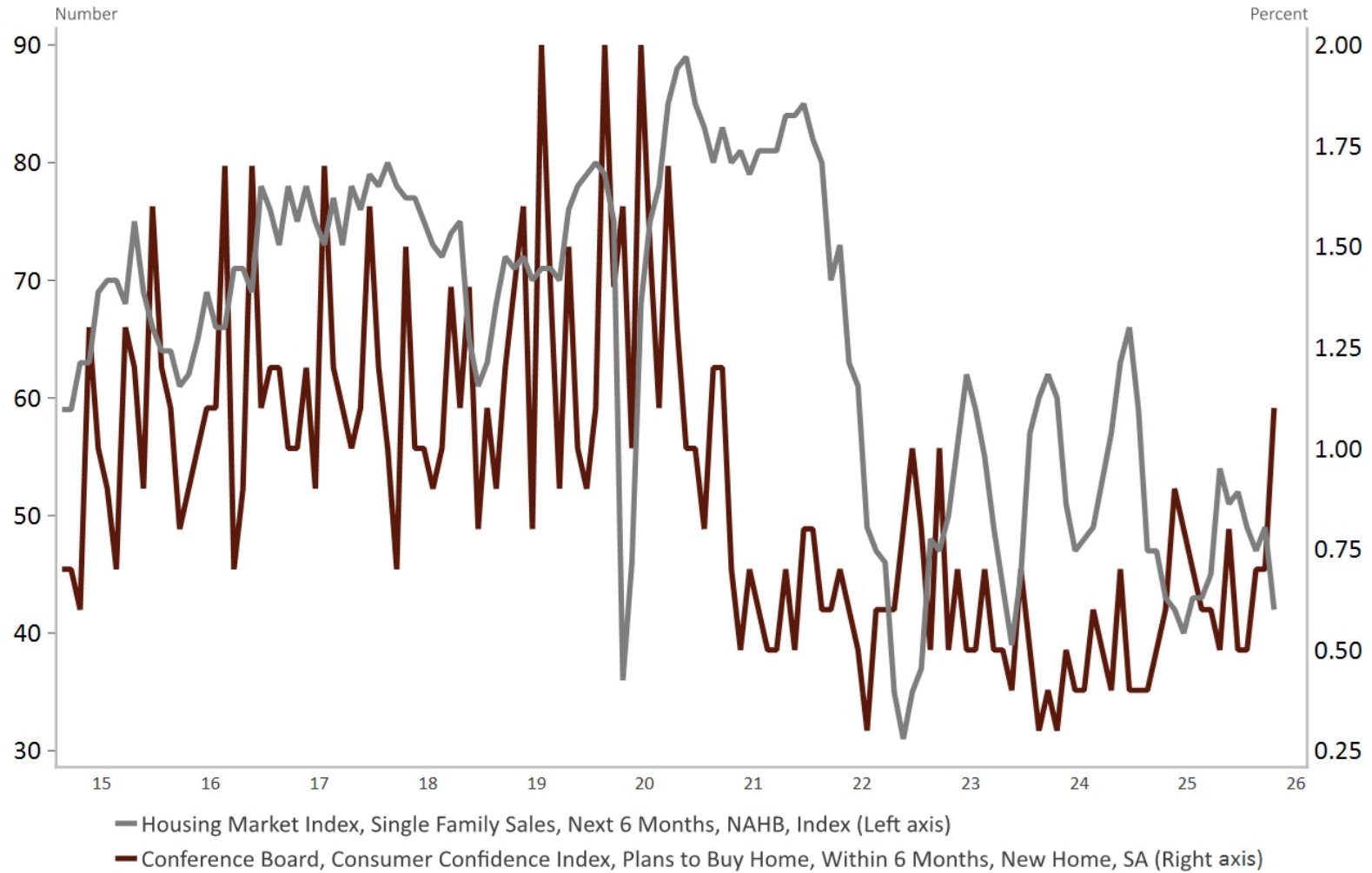
Home and auto buying intentions strengthening despite elevated rates

(Conference Board Consumer Confidence Index)



Source: Renaissance Macro Research, Macrobond

New home buying plans diverging from builder traffic



Source: Renaissance Macro Research, Macrobond

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