

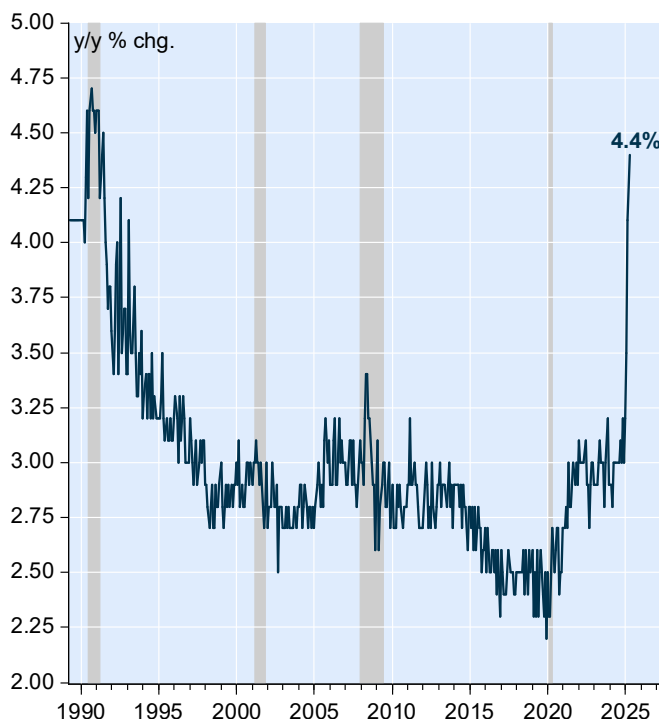
U.S. Watch

By Jocelyn Paquet

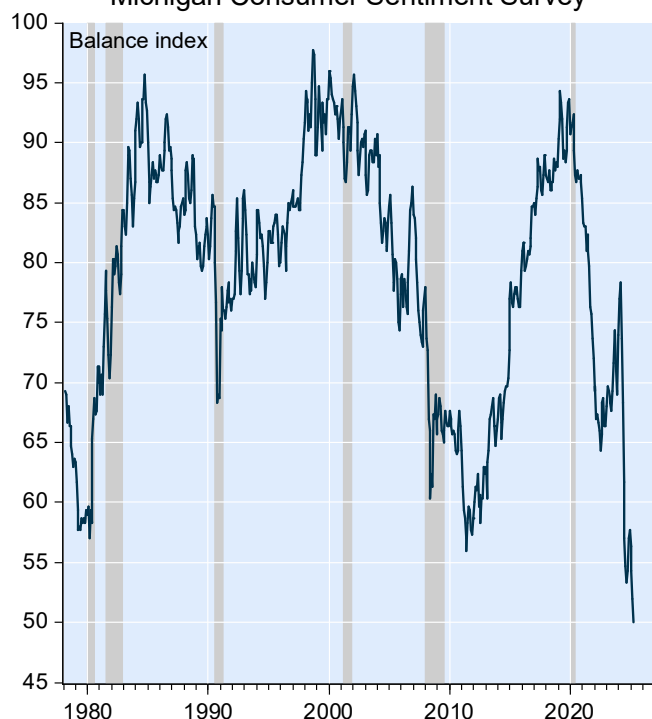
We expected the release of the University of Michigan's April Consumer Sentiment Index to be conducive to the publication of a Hot Chart, but we didn't expect it to be *this* conducive. Almost every element of the report was striking, starting with the headline sentiment index which fell to its second lowest level since data began being compiled in 1978. The expectations sub-index also cratered, to levels not seen since the early 1980s. Meanwhile, the percentage of respondents expecting unemployment to rise over the next 12 months was at its highest level since the height of the 2008-09 Great Recession. As extraordinary as these data points were, they were likely overshadowed in the minds of many traders by the continued upward drift in inflation expectations, which will do nothing to calm what is becoming a rather worrying sell-off in long-dated Treasuries. The median consumer surveyed indeed sees prices rising 6.7% over the next 12 months, the most since October 1981! 5/10-years expectations also drifted higher, to a near 34-year high of 4.4%. The fact that the survey was conducted before the slight de-escalation in the trade war may have made the result look worse, but it remains that it will be difficult for the Fed to continue to ignore such a radical upward shift in inflation expectations (recall that it recently called the U of Mich reading an "outlier"). The impact on the real economy could also be significant. After all, the simultaneous deterioration in the labour market *and* in inflation expectations raises fears of an erosion in consumer purchasing power. Indeed, as today's Hot Chart shows, U.S. households expect the worst deterioration in their real income over the next 12 months in the history of the survey. The impact of the trade war may not yet be visible in the hard data, but we certainly can't tell that much from the soft data.

U.S.: Consumers fear inflation will erode their purchasing power

Consumer 5-10 year inflation expectations, University of Michigan Consumer Sentiment Survey



Real household income expectations over the next 12-24 months*, 3-month mov avg, U of Michigan Consumer Sentiment Survey



*Percentage of respondents who think it will increase - percentage who think it will decrease + 100
NBC Economics and Strategy (data via Bloomberg)



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