

Morning Market Tidbits

Consumer sentiment: sending good vibes

In focus

Recently, the word “vibecession” has been a hot topic, referring to a period of strong economic data but lackluster consumer sentiment. The latest surge in the January preliminary consumer sentiment data suggests that consumers are beginning to feel more confident about the economy, but it remains well below pre-pandemic levels.

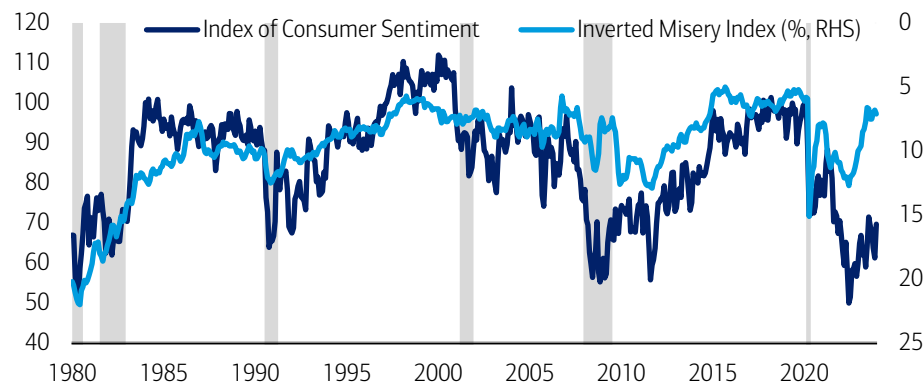
This phenomenon of lower-than-expected sentiment can also be seen through a simple comparison with the Misery Index (Exhibit 1). The Misery Index is calculated by taking the sum of unemployment rate and the year-over-year percentage change in inflation: key factors that affect consumer confidence. Historically, the Misery Index and consumer sentiment have shown a clear negative correlation.

Nevertheless, we can see from Exhibit 1 that the inverted Misery Index and consumer sentiment have not been tracking each other as closely as before. The degree to which sentiment has picked up has been far less than that of the inverted Misery index—taking us back to the concept of “vibecession”. However, we think that term may have run its course, and sentiment should ease further as inflation continues to cool and Fed begins to cut interest rates.

Indeed, the details of the preliminary consumer sentiment data for January showed broad-based improvement. Sentiment was up across all age and income groups, geographical regions and education levels, and political affiliations. Furthermore, there was improvement on the inflation front with both 1-year and long-run inflation expectations cooling to 2.9% and 2.8% respectively, all supporting our view that the Fed will begin its cutting cycle in March. There may be some bumps along the road from financial market volatility and developments from Washington D.C., but overall we look for consumer sentiment to continue to improve this year.

Exhibit 1: Consumer sentiment and inverted Misery Index

The degree to which sentiment has picked up has been far less than that of the inverted Misery Index



Source: BLS, UMich, Haver

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(Continued on next page)

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12650104

Timestamp: 24 January 2024 08:23AM EST

24 January 2024

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Market Action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Nikkei and the Korean Kospi fell 0.8% and 0.4% respectively. On the flipside, the Indian Sensex, the Shanghai Composite and the Hang Seng rose 1.0%, 1.8% and 3.6% respectively.

As of 7:00 am ET, aggregate European stocks are up 0.9% and S&P500 futures are up 0.4%. In the bond markets, 10-year Treasury yields are down 2bp to 4.11% and German Bund yields are down 2bp to 2.33%. The dollar index is down \$0.46 to \$103.16. WTI crude oil prices are \$0.16 lower at \$74.21/bbl, and gold prices are at \$2033.50/oz.

Data previews

January 24

S&P Global US manufacturing and services PMI

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
1/24/24	9:45	S&P Global US manufacturing PMI	Jan P	46.5	48.0	47.9
1/24/24	9:45	S&P Global US services PMI	Jan P	50.5	51.0	51.4

Source: BofA Global Research, Bloomberg

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US GDP Tracking

Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

Our 4Q GDP tracking estimate is up two-tenths to 1.5% q/q saar, largely due to higher than expected December retail sales, housing starts and permits, and import prices

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
1/11/24	CPI	1.3	2.0	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.5
1/12/24	PPI	1.3	2.0	1.9	-0.2	3.6	2.8	2.5	2.3	2.2	2.2	-935.5	27.0
1/17/24	Retail Sales	1.4	2.1	2.0	0.2	3.6	2.8	2.5	2.3	2.2	2.2	-935.5	27.0
1/17/24	Industrial Production, Business Inventories	1.3	2.1	2.0	0.2	3.5	2.5	2.5	2.3	2.2	2.2	-935.5	26.3
1/17/24	Import and Export Prices	1.4	2.1	2.0	0.2	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
1/18/24	Housing Starts and Permits	1.5	2.1	2.0	0.6	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
	GDP tracking	1.5	2.1	2.0	0.6	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
	Contribution to GDP growth (pp)				1.3	0.1	0.1	0.1	0.4			0.0	-0.7
	BofA official GDP forecast	1.5	2.5	2.0	1.0	3.5	2.5	2.5	2.0	2.5	2.0	-929.0	29.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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