



Just as spiking inflation, high gas prices, rising interest rates, and poor housing affordability all fueled the “vibecession”; their at least partial reversal has contributed to its apparent ending. (UBS)

“Vibecession” ? - The paradox between hard data and sentiment

06 February 2024, 6:55 pm CET, written by UBS Editorial Team

The term “vibecession” was coined in 2022 by Kyla Scanlon to describe how a lot of people were feeling pessimistic about the economy, despite strong GDP growth and job gains. In this note, we discuss the paradox between hard data and sentiment.

Such gloominess was understandable when real spending power was falling because inflation was nearly 10%, the average price of a gallon of gas was USD 5, interest rates were rising, and housing affordability was the worst in generations.

In economics, among the many data sets we use, there is a particular type referred to as: sentiment indicators. These are generally obtained via surveys and attempt to gauge the “feeling” – or for the purposes of this note the “vibe” – that economic agents have about their situation and potential future decisions.

As such, the “vibe” toward consumption or investment, provides economists and policymakers with an idea on whether the outlook is positive or negative, which in turn is then embedded in macroeconomic forecasts.¹

Note that this differs greatly from “hard data”, such as real GDP or industrial output, which are truly quantifiable measures: (1) nominal - in current US dollars; and (2) real - in terms of volume, as they are corrected to avoid inflation distortions.

Hence, consumer confidence is based on your sentiment (a survey); but, personal consumption is what you are truly spending in dollar terms (your credit card bill).

The pandemic's aftermath has been challenging on the "vibes"

In economics, as in life, what we feel is not necessarily always accurate. This has been specially true in terms of consumer sentiment in recent years. For instance, relative to 4Q19 (a pre-pandemic benchmark), private consumption was 10% higher in 4Q23; yet, consumer confidence's headline index level was 20% lower. In fact, despite the strong performance of the economy over the past few years, so far consumer confidence has not been able to reach the level it had before the COVID-19 shock.

But the feelings are changing

Yet, as has often been the case the past two years, a specific data point can be the catalyst to flip the narrative. The University of Michigan Consumer Sentiment Index recent results seem to have been the harbinger of good tidings. The index jumped in January from its December level—and is now well off its lows of mid-2022.

Just as spiking inflation, high gas prices, rising interest rates, and poor housing affordability all fueled the "vibecession"; their at least partial reversal has contributed to its apparent ending. Accounting for January's stronger than-expected payrolls figures, the solid 4Q23 GDP data, and the potential for Fed easing this year, it is safe to say that the mood looks likely to keep improving.

Could we be entering into a "vibespanion"? It appears we might.

Please see the CIO blog, [Vibe check](#), published 4 February, 2024.

¹The recession that seemingly never arrived, was partly underpinned on econometric models which – accounting for weak sentiment data and an inverted yield curve – estimated a high probability of an economic contraction.

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