

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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INFLATION, TV GAMING, AND GROWTH

Press reports seem to suggest that United States (US) senators have reached some kind of a bipartisan agreement about President Jo Biden's infrastructure proposal. Although the details are yet to be finalized, it seems the proposal will include upwards of \$579 billion in additional infrastructure spending over the next couple of years. A welcome sign to markets that will have to get used to less free money from the United States (US) Federal Reserve (Fed). Most analysts expect the Fed to announce tapering in August or September, although the Fed will most likely only start to reduce the amount of monthly asset purchasing in quarter one of 2022. All eyes will be on the upcoming Jackson Hole symposium for more guidance as inflation in the US continues to surprise to the upside. After April's 4.2% shock, headline inflation rose to 5% in May. This higher than the prices of a year ago. US headline inflation has now reached its highest level in nearly 13 years whilst core inflation, which excludes the more volatile food and energy prices, rose by 3.8% compared to a year ago. This is the largest increase since 1992. Despite much higher inflation prints, it seems markets have already priced in the bad news as neither the equity nor bond markets reacted much to the news. Higher inflation rates are being boosted by low base effects from last year when the global economy came to a virtual standstill and prices consequently plummeted due to collapsing demand. For this reason, many maintain that higher prices are only transitory.

In Europe, price increases are much more muted. Even though the European Central Bank (ECB) revised its growth and inflation outlook upwards, they noted that core inflation will remain subdued at 1.4% until the end of their forecast horizon in 2023.

As the pandemic helped shift consumer demand towards using the cloud to work and even socialize from home, Microsoft is busy with a first-of-its-kind shift in the gaming industry. They aim to allow gamers to play Xbox games through internet-connected televisions without any extra hardware. Xbox, Microsoft's gaming console, is also building its own streaming ecosystem that will allow cloud gaming to be accessible on any TV or monitor without the need for a console. Through this expansion, Microsoft is building on their strategy to attract casual gamers; those who would typically find a game to play on most other platforms, like smartphones. As part of the appeal to gamers, Xbox plans to release at least one new, first-party game through their Game Pass subscription every quarter, as more than 23 studios worldwide are creating games for the platform.

In South Africa (SA), the GDP rose by 4.6% during the first quarter of 2021, measured against the fourth quarter of 2020. Although many different figures get reported, this is the one that matters. It shows that the South African economy has continued its uninterrupted recovery since the pandemic took hold in 2020. The economy grew despite tightened mobility restrictions during the first couple of months in 2021 and came in much higher than the 3.2% median forecast of 16 economists surveyed by Bloomberg. The highest contributions to GDP came from finance (33% contribution), mining (25% contribution) and trade (18% contribution). Miners also continue to benefit from higher commodity prices. A third COVID wave, Eskom power cuts, and continued global supply chain disruptions can sour the annual growth expectations. For now, many analysts have increased their annual growth forecasts from 4.2% to 4.7%.

