EFFICIENT GROUP

ECONOMIC COMMENTARY
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STRONG GLOBAL DEMAND AND A HAWKISH FED

Airbnb, an online marketplace focussed on short-term homestays and experiences, reported its highest quarterly profits ever, confirming that the travel industry continues its pandemic recovery in the face of historic inflation. This, in turn, confirms that global demand is still strong and that central banks will need to do more to curb demand and the upwards effect that it has on high inflation. The home rental platform saw its net profits climb 46% year-on-year. Trips to non-urban areas "are here to stay as millions of people have newfound flexibility in where they live and work". The company further noted that the number of new "hosts", people listing properties on its site, is also rising, just like during the great recession in 2008 when Airbnb started. As interest rates and the cost of living increase, people are again interested in earning extra income through hosting. Overall, more global travel and more income opportunities indicate that the global economy is strong, and that demand has not been reduced sufficiently enough to curb inflation.

Asian markets recovered somewhat last week after weeks of bad news kept downward pressure on them. An unverified note circulated on social media claimed that the Chinese authorities were planning to re-open China from their harsh COVID-19 restrictions. Among others, China seems to be planning on re-opening their borders early next year, as well as removing the penalty on airlines who bring infected individuals into China. Emerging market equities were further supported by a short sell off among United States (US)-listed equities after the US Federal Reserve (Fed) pushed back against expectations of a softer approach to monetary tightening. This news stunned traders and ramped up fears about a global recession.

US Fed Chair, Jerome Powell, told a news conference last week that, while the size of increases would likely come down, they would top out at a higher level than expected. He was quite aggressive in his message, stating that: "We will stay the course, until the job is done". Other major central banks have signalled that they will tone down their hawkishness, even in the face of decades- or record-high inflation. Most of these central banks are too concerned with the short-term pain inflicted by the process of creative destruction that re-allocates scarce capital more effectively and allows economies to grow healthier in the future. Unlike the US, they choose a slower approach that runs the risk of creating a zombie-like economy that never gets rid of underperforming corporations and state-owned enterprises. They also run the risk of 'inflating' the problem, which can lead to a more catastrophic outcome.

After recently increasing interest rates for a fourth consecutive time by 0.75%, to a range of 3.75% to 4.00%, we expect that the Fed will increase interest rates by another 0.50% in December. A key reason for not changing their rate-hiking strategy is the still strong US labour market, which added 261 000 new jobs in October, higher than the Dow Jones estimate of 205 000. This was the slowest pace of job gains since December 2020 and the unemployment rate was 3.7%, higher than the expected 3.5%. Powell also warned that there would be a lot of volatility still ahead. Something that we doubt that investors are looking forward to, seeing as their nerves have been tested since January.

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