

# Investment Report – June 2014

For global manufacturing, in April the world Purchasing Managers' Index (PMI) edged down to 52.0 from 52.1. After three consecutive monthly declines, the index is now at its lowest level since August last year. It nonetheless remains slightly above its long-term average of 51.6, suggesting that the overall pace of industrial activity in the world is relatively satisfactory.

The geographical breakdown, however, reveals a growing divide between Asia and the West. In particular, the Japanese PMI experienced heavy losses as a result of the hike in the sales tax there. At the same time, China's PMIs are bottoming out – at mediocre levels – but the outlook for the second largest economy in the world is still rather sluggish. Meanwhile, the eurozone appears to be entering a second phase of the recovery which should see acceleration in growth rates and job gains. In the USA, recent demand indicators have clearly picked up after the setback experienced at the turn of the year.

Overall, the cyclical improvement in the West should outweigh the softness in the East.

## USA

The new jobs created in the economy were announced at 288,000 and the unemployment rate fell to 6.3%, the lowest level since September 2008.

## China

China has set its economic growth target for 2014 at 7.5%, as it looks to continue its efforts to stabilise and rebalance the economy. Most economists now interpret recent statistics to suggest that it will be lower than this. It also set its inflation target at 3.5% pa. In 2013, the economy grew at 7.7%, about the same rate as 2012.

China's consumer price index rose 1.8 percent year-on-year in April, down from a 2.4% increase in March. Analysts attributed the fall in CPI inflation to a slowdown in the Chinese economy, predicting as a result that government and central-bank policies will be more growth-supportive in the coming months.

## Japan

The Prime Minister Abe has pledged to revive Japan's economy by implementing fiscal stimulus and reducing business regulation, while promising structural economic changes and restarting the nation's nuclear industry. He said his focus is to boost Japan's growth while reinstating fiscal soundness.

Japan's economy grew by 5.9% at an annual rate in the first quarter of this year, boosted by consumers rushing to beat the April increase in sales tax.

## Europe

Official figures show that unemployment across the 18-country eurozone is falling as the region continues to recover from its longest-ever recession.

However, the broader investing mood in Europe was dented in May by a warning from the Organization for Economic Cooperation and Development (OECD) about the eurozone's low level of inflation, urging the European Central Bank (ECB) to cut rates immediately. The OECD said the currency union is at risk of slipping into deflation or a period of self-reinforcing price declines unless the ECB acts swiftly, suggesting the main refinancing rate should be cut to zero percent from the current 0.25%.

## Australia

In early May, Australia's Central Bank left its benchmark interest rate unchanged as slowing inflation and anticipated cuts to government spending gave policy-makers room to support economic growth. Governor Glenn Stevens and his board kept the overnight cash-rate target at 2.5% and reiterated borrowing costs are likely to remain steady for a period. A pick up in housing and resilient employment indicated the Central Bank's 2.25 percentage points of rate cuts from late 2011 are helping to avoid a growth gap as mining investment wanes.

In mid May, the Australian Federal Budget saw Treasurer Joe Hockey announce a deficit estimated at AUD\$49.9 billion for the year ending June 30 2014 and a series of spending cuts on welfare and education, an increased fuel levy for motorists and a temporary income tax levy on the rich.

## New Zealand

The economy continues to show good momentum with GDP growth expected to peak around the 4% level by midyear. Despite recent lower dairy prices, commodity prices continue to remain elevated. Moreover, the sharp rise in exports to China over the past year remains a significant boost to the country's growth from the external sector. Domestic activity is supported by robust consumer and business confidence, rising house prices, the earthquake rebuild and swelling migrant numbers.

We have seen an upward revision in the size of the projected surplus for the 2014/15 fiscal year to NZ\$372mn. Moreover, looking further ahead the government expects to bring net core debt back down to 20% of GDP by 2020.

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