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19 September 2014
Nathan Lim updates Australian Ethical's global macroeconomic assessment

Pockets of optimism evaporated in Australia

The US is powering ahead

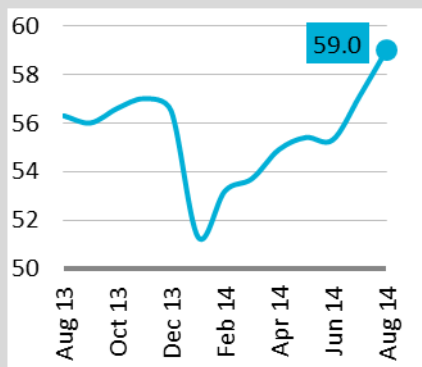
Europe appears to be approaching stalling conditions

While the US has good economic arguments for the rebound that occurred in its stock market over the latter half of August, the same cannot be said for Europe and Japan. The indicators we track suggest Europe is approaching stalling conditions while the economy in Japan post the April sales tax hit is crawling back at best. China remains muted economically as the leadership steers it towards more sustainable, consumption driven growth. In Australia, pockets of optimism evaporated leaving our assessment squarely at Neutral.

United States

Negative

Neutral

POSITIVE
**United States
Purchasing Manager's Index**

source: Bloomberg

The Purchasing Managers Index (PMI) for August made a new three year high which is indicative of the relative strength of the US economy.

US port and airline traffic growth all remain solid but we have seen some moderation in rail traffic as the winter backlog has somewhat dissipated. That said, we are seeing reports of farmers with bumper corn crops unable to find space on trains.

Employment conditions remain modest as job growth is positive but unemployment is still above 6%. Federal tax receipts bounced back modestly up 4.3% from August last year but clearly the government's tax take has moderated.

Overall our assessment for the US remains positive.

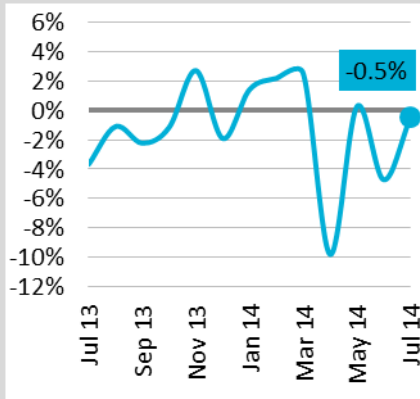
European Union

Negative

Neutral

POSITIVE

Europe Air Cargo Traffic Year-Over-Year Growth



source: Airlines

July airline cargo traffic fell 0.5% versus the same month last year. We have downgraded our assessment on air traffic from Positive to Neutral as clearly there has been an abrupt downshift in activity that was partially masked by the labour protests at Lufthansa that started in April.

Likewise, we downgrade our assessment for the PMI to Neutral as both the German and overall EU readings are approaching contraction levels.

Employment conditions for the EU are directionally supportive but unremarkable. While jobs are being created and unemployment is falling, it can best be described as occurring in slow motion.

While our overall assessment for the EU remains positive, it remains barely so. The region appears poised to stall but might find reprieve if a political solution in the Ukraine occurs quickly and/or the European Central Bank begins Quantitative Easing.

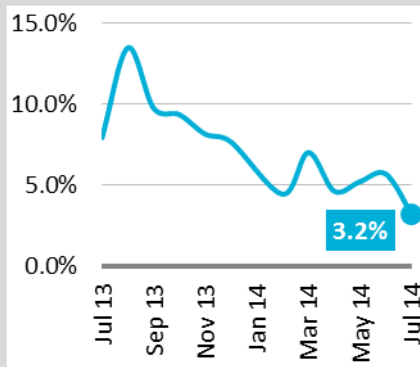
China

Negative

NEUTRAL

Positive

China Electricity Consumption Year-Over-Year Growth



source: Bloomberg

New loan growth moderated after last month's surge. In conjunction with the ongoing deceleration in fixed asset investment, building sales and electricity consumption, these indicators paint a muted economic picture of China.

Even the official and HSBC PMI readings remain directionless hovering just above expansion conditions.

We have also downgraded our shipping traffic to Neutral as traffic is equally directionless.

Nevertheless, July airline cargo traffic remains robust.

Our overall assessment for China remains squarely neutral.

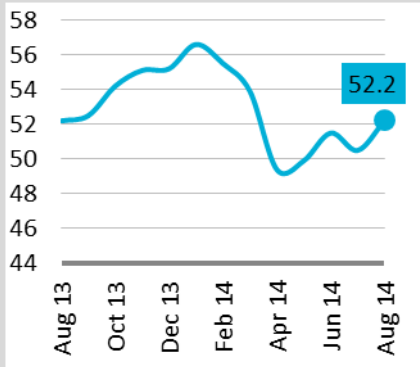
Japan

Negative

Neutral

POSITIVE

Japan Purchasing Manager's Index



source: Bloomberg

Following the economic shock from the sales tax increase in April, Japan's PMI indicator continues to crawl back.

We downgraded our assessment for air cargo traffic to Neutral as the divergence between import and export traffic indicates a marked slowing in domestic conditions.

We also downgraded our assessment for employment conditions in Japan to Neutral as conditions have moderated.

We have not downgraded our economic assessment but, like our view on Europe, our enthusiasm for Japan has been tempered given recent data.

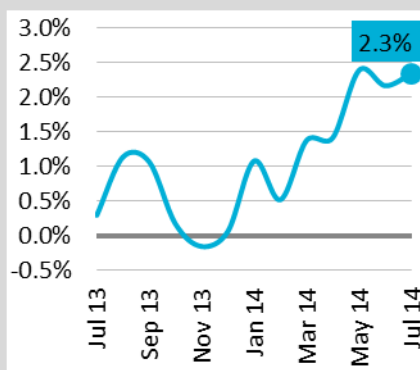
Australia

Negative

NEUTRAL

Positive

Australia Ship Container Traffic Year-Over-Year Growth



source: Port Authorities

Shipping traffic continued to moderate in July.

We were deflated by the PMI completing reversing its gains over the past three months to fall suddenly to 47.3 and marking the resumption of contracting conditions for the manufacturing sector.

Previous pockets of optimism have evaporated but we remain Neutral on Australia's overall economic assessment.

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