

# Thoughts that count

## Who's buying...

The useful life of a Twitter tweet is now 24 minutes. Similarly, a Facebook post is now regarded as dead after 90 minutes. I know this because research into social media trends has exploded. Social media as a concept is barely a decade old, but to many it is the primary medium for everyday communication. Is this a good thing? I'm not sure. I worry my kids will grow up totally reliant on their gadgets rather than using them as tools to enhance their actual human relationships.

I think most generations believe the cohorts who follow them are inferior in some way. We've all heard the old adage "back in my day..." The truth is it's difficult to foretell if a generational trend is a good thing or not. We cannot know whether things are improving or deteriorating until a great deal of time has passed. It may take a generation or longer to determine whether the constant barrage of data from things like Twitter were ultimately good or bad for us. There is not a reliable immediate feedback mechanism available to us.

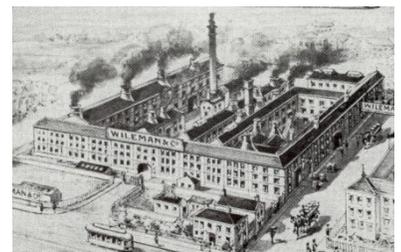
Most areas of our lives are in a constant state of flux. Things are either improving or deteriorating and often it can be hard to discern the difference. Wouldn't it be great if we had access to a model that could help us recognize whether a specific environment today will help us or hurt us in the future?

In 1915, a group of American manufacturers faced a serious challenge because of the uncertainty they faced in their industries. Because production times could be long, the amount of goods they were producing was often not in the quantities demanded by the public at the time they were ready for sale. These manufacturers wanted the ability to make short term business decisions that would be better aligned with future economic conditions. They set out to discover if there were any metrics that could be assembled to help predict the next business cycle's health.

This group figured one of the most important determinates of future economic health was the strength of the individual consumer. In general, the more things people bought, the better the economy. More buying led to more buying. So this group decided to enlist the help of *Purchasing Agents*; the people whose job was to buy the raw materials used in manufacturing. They asked these *Agents* from across the country to respond to a regular survey regarding their current purchasing habits. They would share this information with each other so they could try and predict the overall health of the economy. If the surveys said the *Agents* were purchasing a lot, the economy would improve in the future as demand for goods would increase. Conversely, if goods were not being purchased in large quantities, consumer demand was assumed to be falling and the subsequent economy would suffer.

Remarkably, this group has survived for almost 100 years and the survey they began in the early 20<sup>th</sup> century has expanded dramatically. The current survey, called the *Institute for Supply Management Manufacturing Purchasing Managers Index* (ISM PMI) is among the most widely followed economic indicators. Fundamentally, the survey is very simple. It is based on five indicators: new orders, inventory levels, production, supplier deliveries and employment. Once a month members are asked to state whether their operations are a) improving, b) declining or c) the same. The responses are aggregated and produce a single rating. The magic number for this survey is 50. A reading of 50 indicates an equal number of respondents reporting "better conditions" and "worse conditions". Manufacturers like to see a reading above 50, which means the economy is improving.

The chart on the next page shows the PMI rating by country over the past two years. A rating below 50 (conditions declining) is highlighted in red and a rating above 50 (conditions improving) is highlighted in green. Coming out of the financial crisis in 2008/2009 manufacturing fell off a cliff. What this chart shows is that the Index has moved from mostly declining conditions (red) in 2012 to almost all improving (green) as of Jun 2014. This is good news for the aggregate demand of manufactured goods around the world and for the global economy in general.



# Stewart Financial

|                     | 6/30/2012 | 7/31/2012 | 8/31/2012 | 9/30/2012 | 10/31/2012 | 11/30/2012 | 12/31/2012 | 1/31/2013 | 2/28/2013 | 3/31/2013 | 4/30/2013 | 5/31/2013 | 6/30/2013 | 7/31/2013 | 8/31/2013 | 9/30/2013 | 10/31/2013 | 11/30/2013 | 12/31/2013 | 1/31/2014 | 2/28/2014 | 3/31/2014 | 4/30/2014 | 5/31/2014 | 6/30/2014 |
|---------------------|-----------|-----------|-----------|-----------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| JPMorgan Global PMI | 49.5      | 48.6      | 48.6      | 48.7      | 48.9       | 49.6       | 50.1       | 51.4      | 50.8      | 51.0      | 50.2      | 50.4      | 50.4      | 50.6      | 51.5      | 51.6      | 51.9       | 52.9       | 53.0       | 53.0      | 53.2      | 52.4      | 51.9      | 52.1      | 52.7      |
| United States       | 52.5      | 51.4      | 51.5      | 51.1      | 51.0       | 52.8       | 54.0       | 55.8      | 54.3      | 54.6      | 52.1      | 52.3      | 51.9      | 53.7      | 53.1      | 52.8      | 51.8       | 54.7       | 55.0       | 53.7      | 57.1      | 55.5      | 55.4      | 56.4      | 57.3      |
| Canada              | 54.8      | 53.1      | 53.0      | 52.4      | 51.4       | 50.4       | 50.4       | 50.5      | 51.7      | 49.3      | 50.1      | 53.2      | 52.4      | 52.0      | 52.1      | 54.2      | 55.6       | 55.3       | 53.5       | 51.7      | 52.9      | 53.3      | 52.9      | 52.2      | 53.5      |
| Mexico              | 55.9      | 55.2      | 55.1      | 54.4      | 55.5       | 55.6       | 57.1       | 55.0      | 53.4      | 52.2      | 51.7      | 51.7      | 51.3      | 49.7      | 50.8      | 50.0      | 50.2       | 51.9       | 52.6       | 54.0      | 52.0      | 51.7      | 51.8      | 51.9      | 51.8      |
| U.K.                | 48.4      | 45.2      | 49.5      | 48.1      | 47.3       | 49.2       | 51.2       | 50.5      | 47.9      | 48.6      | 50.2      | 51.5      | 52.5      | 54.8      | 57.2      | 56.3      | 56.5       | 58.1       | 57.2       | 56.7      | 56.2      | 55.8      | 57.3      | 57.0      | 57.5      |
| Eurozone            | 45.1      | 44.0      | 45.1      | 46.1      | 45.4       | 46.2       | 46.1       | 47.9      | 47.9      | 46.8      | 46.7      | 48.3      | 48.8      | 50.3      | 51.4      | 51.1      | 51.3       | 51.6       | 52.7       | 54.0      | 53.2      | 53.0      | 53.4      | 52.2      | 51.8      |
| Germany             | 45.0      | 43.0      | 44.7      | 47.4      | 46.0       | 46.8       | 46.0       | 49.8      | 50.3      | 49.0      | 48.1      | 49.4      | 48.6      | 50.7      | 51.8      | 51.1      | 51.7       | 52.7       | 54.3       | 56.5      | 54.8      | 53.7      | 54.1      | 52.3      | 52.0      |
| Switzerland         | 48.0      | 48.2      | 47.0      | 44.3      | 46.4       | 48.2       | 49.2       | 52.5      | 50.8      | 48.3      | 50.2      | 52.2      | 51.9      | 57.4      | 54.6      | 55.3      | 54.2       | 56.5       | 55.0       | 56.1      | 57.6      | 54.4      | 55.8      | 52.5      | 54.0      |
| Holland             | 48.9      | 48.9      | 49.7      | 50.7      | 48.9       | 48.2       | 49.6       | 50.2      | 49.0      | 48.0      | 48.2      | 48.7      | 48.8      | 50.8      | 53.5      | 55.8      | 54.4       | 56.8       | 57.0       | 54.8      | 55.2      | 53.7      | 53.4      | 53.6      | 52.3      |
| France              | 45.2      | 43.4      | 46.0      | 42.7      | 43.7       | 44.5       | 44.6       | 42.9      | 43.9      | 44.0      | 44.4      | 46.4      | 48.4      | 49.7      | 49.7      | 49.8      | 49.1       | 48.4       | 47.0       | 49.3      | 49.7      | 52.1      | 51.2      | 49.6      | 48.2      |
| Italy               | 44.6      | 44.3      | 43.6      | 45.7      | 45.5       | 45.1       | 46.7       | 47.8      | 45.8      | 44.5      | 45.5      | 47.3      | 49.1      | 50.4      | 51.3      | 50.8      | 50.7       | 51.4       | 53.3       | 53.1      | 52.3      | 52.4      | 54.0      | 53.2      | 52.6      |
| Spain               | 41.1      | 42.3      | 44.1      | 44.6      | 43.5       | 45.4       | 44.6       | 46.1      | 46.8      | 44.2      | 44.7      | 48.1      | 50.0      | 49.8      | 51.1      | 50.7      | 50.9       | 48.6       | 50.8       | 52.2      | 52.5      | 52.8      | 52.7      | 52.9      | 54.6      |
| Ireland             | 53.1      | 53.9      | 50.9      | 51.8      | 52.1       | 52.4       | 51.4       | 50.3      | 51.5      | 48.6      | 48.0      | 49.7      | 50.3      | 51.0      | 52.0      | 52.7      | 54.9       | 52.4       | 53.5       | 52.8      | 52.9      | 55.5      | 56.1      | 55.0      | 55.3      |
| Czech Republic      | 49.4      | 49.5      | 48.7      | 48.0      | 47.2       | 48.2       | 46.0       | 48.3      | 49.9      | 49.1      | 49.5      | 50.1      | 51.0      | 52.0      | 53.9      | 53.4      | 54.5       | 55.4       | 54.7       | 55.9      | 56.5      | 55.5      | 56.5      | 57.3      | 54.7      |
| Hungary             | 53.1      | 52.1      | 49.7      | 52.6      | 50.1       | 52.4       | 49.0       | 55.9      | 54.1      | 55.5      | 51.5      | 47.1      | 50.8      | 49.0      | 51.8      | 54.5      | 51.0       | 52.6       | 50.2       | 57.8      | 54.3      | 53.7      | 54.6      | 53.9      | 51.5      |
| Poland              | 48.0      | 49.7      | 48.3      | 47.0      | 47.3       | 48.2       | 48.5       | 48.6      | 48.9      | 48.0      | 46.9      | 48.0      | 49.3      | 51.1      | 52.6      | 53.1      | 53.4       | 54.4       | 53.2       | 55.4      | 55.9      | 54.0      | 52.0      | 50.8      | 50.3      |
| Greece              | 40.1      | 41.9      | 42.1      | 42.2      | 41.0       | 41.8       | 41.4       | 41.7      | 43.0      | 42.1      | 45.0      | 45.3      | 45.4      | 47.0      | 48.7      | 47.5      | 47.3       | 49.2       | 49.6       | 51.2      | 51.3      | 49.7      | 51.1      | 51.0      | 49.4      |
| Australia           | 46.0      | 43.2      | 47.5      | 43.0      | 42.8       | 44.3       | 44.3       | 40.2      | 45.6      | 44.4      | 36.7      | 43.8      | 49.6      | 42.0      | 46.4      | 51.7      | 53.2       | 47.7       | 47.6       | 46.7      | 48.6      | 47.9      | 44.8      | 49.2      | 48.9      |
| New Zealand         | 55.7      | 50.0      | 49.5      | 47.5      | 48.6       | 50.9       | 50.1       | 50.5      | 55.1      | 56.0      | 53.4      | 54.9      | 58.8      | 55.1      | 59.4      | 57.1      | 54.3       | 55.7       | 57.0       | 56.4      | 56.2      | 56.5      | 58.4      | 55.2      | 52.7      |
| Japan               | 49.9      | 47.9      | 47.7      | 48.0      | 46.9       | 46.5       | 45.0       | 47.7      | 48.5      | 50.4      | 51.1      | 51.5      | 52.3      | 50.7      | 52.2      | 52.5      | 54.2       | 55.1       | 55.2       | 56.6      | 55.5      | 53.9      | 49.4      | 49.9      | 51.5      |
| China (HSBC)        | 48.2      | 49.3      | 47.6      | 47.9      | 49.5       | 50.5       | 51.5       | 52.3      | 50.4      | 51.7      | 50.4      | 49.2      | 48.2      | 47.7      | 50.1      | 51.2      | 50.9       | 50.8       | 50.5       | 49.5      | 48.5      | 48.0      | 48.1      | 49.4      | 50.7      |
| South Korea         | 49.4      | 47.2      | 47.5      | 45.7      | 47.4       | 48.2       | 50.1       | 49.9      | 50.9      | 52.0      | 52.6      | 51.1      | 49.4      | 47.2      | 47.5      | 49.7      | 50.2       | 50.4       | 50.8       | 50.9      | 49.8      | 50.4      | 50.2      | 49.5      | 48.4      |
| Taiwan              | 49.2      | 47.5      | 46.1      | 45.6      | 47.8       | 47.4       | 50.6       | 51.5      | 50.2      | 51.2      | 50.7      | 47.1      | 49.5      | 48.6      | 50.0      | 52.0      | 53.0       | 53.4       | 53.6       | 55.5      | 54.7      | 52.7      | 52.3      | 52.4      | 54.0      |
| Vietnam             | 46.6      | 43.6      | 47.9      | 49.2      | 48.7       | 50.5       | 49.3       | 50.1      | 48.3      | 50.8      | 51.0      | 48.8      | 46.4      | 48.5      | 49.4      | 51.5      | 51.5       | 50.3       | 51.8       | 52.1      | 51.0      | 51.3      | 53.1      | 52.5      | 52.3      |
| Indonesia           | 50.2      | 51.4      | 51.6      | 50.5      | 51.9       | 51.5       | 50.7       | 49.7      | 50.5      | 51.3      | 51.7      | 51.6      | 51.0      | 50.7      | 48.5      | 50.2      | 50.9       | 50.3       | 50.9       | 51.0      | 50.5      | 50.1      | 51.1      | 52.4      | 52.7      |
| Singapore           | 50.4      | 49.8      | 49.1      | 48.7      | 48.3       | 48.8       | 48.6       | 50.2      | 49.4      | 50.6      | 50.3      | 51.1      | 51.7      | 51.8      | 50.5      | 50.5      | 51.2       | 50.8       | 49.7       | 50.5      | 50.9      | 50.8      | 51.1      | 50.4      | 50.7      |
| India               | 55.0      | 52.9      | 52.8      | 52.8      | 52.9       | 53.7       | 54.7       | 53.2      | 54.2      | 52.0      | 51.1      | 50.1      | 50.3      | 50.1      | 48.5      | 49.6      | 49.6       | 51.3       | 50.7       | 51.4      | 52.5      | 51.3      | 51.3      | 51.4      | 51.5      |
| Brazil              | 48.5      | 48.7      | 49.4      | 49.8      | 50.2       | 52.2       | 51.1       | 53.3      | 52.5      | 51.8      | 50.8      | 50.4      | 50.4      | 48.5      | 49.4      | 49.9      | 50.2       | 49.7       | 50.5       | 50.8      | 50.4      | 50.6      | 49.3      | 48.8      | 48.7      |
| Turkey              | 51.4      | 49.4      | 50.0      | 52.2      | 52.6       | 51.6       | 53.1       | 54.0      | 53.5      | 52.3      | 51.3      | 51.1      | 51.2      | 49.8      | 50.9      | 54.0      | 53.3       | 55.0       | 53.5       | 52.7      | 53.4      | 51.7      | 51.1      | 50.1      | 48.8      |
| South Africa        | 48.8      | 51.1      | 50.8      | 48.3      | 47.1       | 49.5       | 47.4       | 49.1      | 53.6      | 49.3      | 50.5      | 50.4      | 51.6      | 52.2      | 56.5      | 49.1      | 51.5       | 51.6       | 49.9       | 50.3      | 51.5      | 50.2      | 49.4      | 49.7      | 49.5      |
| Saudi Arabia        | 59.7      | 58.1      | 58.3      | 60.3      | 59.8       | 57.0       | 58.9       | 58.1      | 58.5      | 58.9      | 58.0      | 57.3      | 56.6      | 56.6      | 57.5      | 58.7      | 56.7       | 57.1       | 58.7       | 59.7      | 58.6      | 57.0      | 58.5      | 57.0      | 59.2      |
| Russia              | 51.0      | 52.0      | 51.0      | 52.4      | 52.9       | 52.2       | 50.0       | 52.0      | 52.0      | 50.8      | 50.6      | 50.4      | 50.0      | 49.2      | 49.4      | 49.3      | 51.8       | 49.4       | 48.8       | 48.0      | 48.5      | 48.3      | 48.5      | 48.9      | 49.1      |

A few notes about this chart.

- The top line in the chart (JPMorgan Global PMI) is an aggregate of all the countries listed below. The current reading is a healthy 52.7 worldwide (last number on the top right of the chart). This means manufacturing activity around the world is expanding which is good for economic growth. This is a much stronger reading than a few years ago.
- The US has shown strong numbers since 2011. The Index rating in the US is now 57.5. This is a very strong level, however a reading over 58 can signal that the top of the cycle is near. This is not to say the economy has peaked, but that we are closer to the end of the cycle than we are to the beginning.
- From an investment point of view, the optimal time to be investing in the stock market is during the recovery from poor (red) numbers to solid (green) numbers. This is generally because during the recovery, many investors remain fixated on the weak environment and assume it will never improve. Similarly, when the numbers reach a peak, it is time to be cautious as strong growth will not last forever either.
- The Emerging Markets are slowing. China has a current reading just over 50. This is a major shift from a few years ago. This may have a negative impact on Canada as recently China has been a large buyer of Canadian resources.
- This is a good visual reminder of why it is important to always be diversified. You will note there is never a time when all colours across the various geographies are identical.

The first six months of the year have continued last years trend of positive momentum, but as noted in the last quarterly update, it is time to be slightly more cautious than in recent past. There are still opportunities, but they are becoming harder to find. As manufacturing activity has improved, so has the overall economy. We will be very watchful if these numbers drop below their current readings. I am thankful to the *Purchasing Agents* who have given the broader public a helpful view into the ongoing trends in the overall economy.

Your happy the summer weather finally arrived investment advisor,



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