Dispatch Business

Exchange Rates

JOHANNESBURG – Yesterday's closing exchange rates, as supplied by Standard Bank: (R/, R/ and R/US, other rates per rand.) These are the banks selling rates yesterday.

R/ £	15.20
R/ à	12.10
R/US $	7.55
R/AUS $	7.40
R/CAN $	7.55
R/NZ $	5.80

Moz identifies hydro projects

THE Mozambican government has identified 100 new hydro electric projects which could generate up to 14 000 megawatts.

Antonio Saide, director for new energy projects in the ministry of energy, told daily Noticias that the new sites were located in the central province of Manica and northern provinces of Tete and Niassa. Within three months a strategic draft on the projects would be produced and implementation would begin by the end of the year. Mozambique produces 2 500mw, mainly from the Cahora Bassa hydro electric project on the Zambezi River. — *Sapa*

Back Office

State should subsidise export freight

By LUYTON DRIMAN
Bradmanton Consulting

HAVING watched the spikes and the dips of the rand and the fuel price over the last few months an old favourite topic of mine came back to haunt me.

This is not a new issue for me, but I cannot avoid opening up this can of worms: export freight!

A contentious issue to say the least, but a subject that I hope will evoke some response from readers. Basically, if South Africa deems itself as being the "business hub" or "business powerhouse" of Africa; the government needs to make a greater effort to promote and support every company, from SMME status to Blue Chip status, as far as export freight subsidies is concerned.

We have natural geographical access to sub-Saharan Africa by road, rail, air and sea yet the freight rates out of this country are some of the highest in the world. I cannot understand why the government does not introduce incentives and subsidies like Brazil and China. It is a challenge to remain globally competitive while sourcing components and nurturing one's labour force to develop and manufacture in-demand products for export.

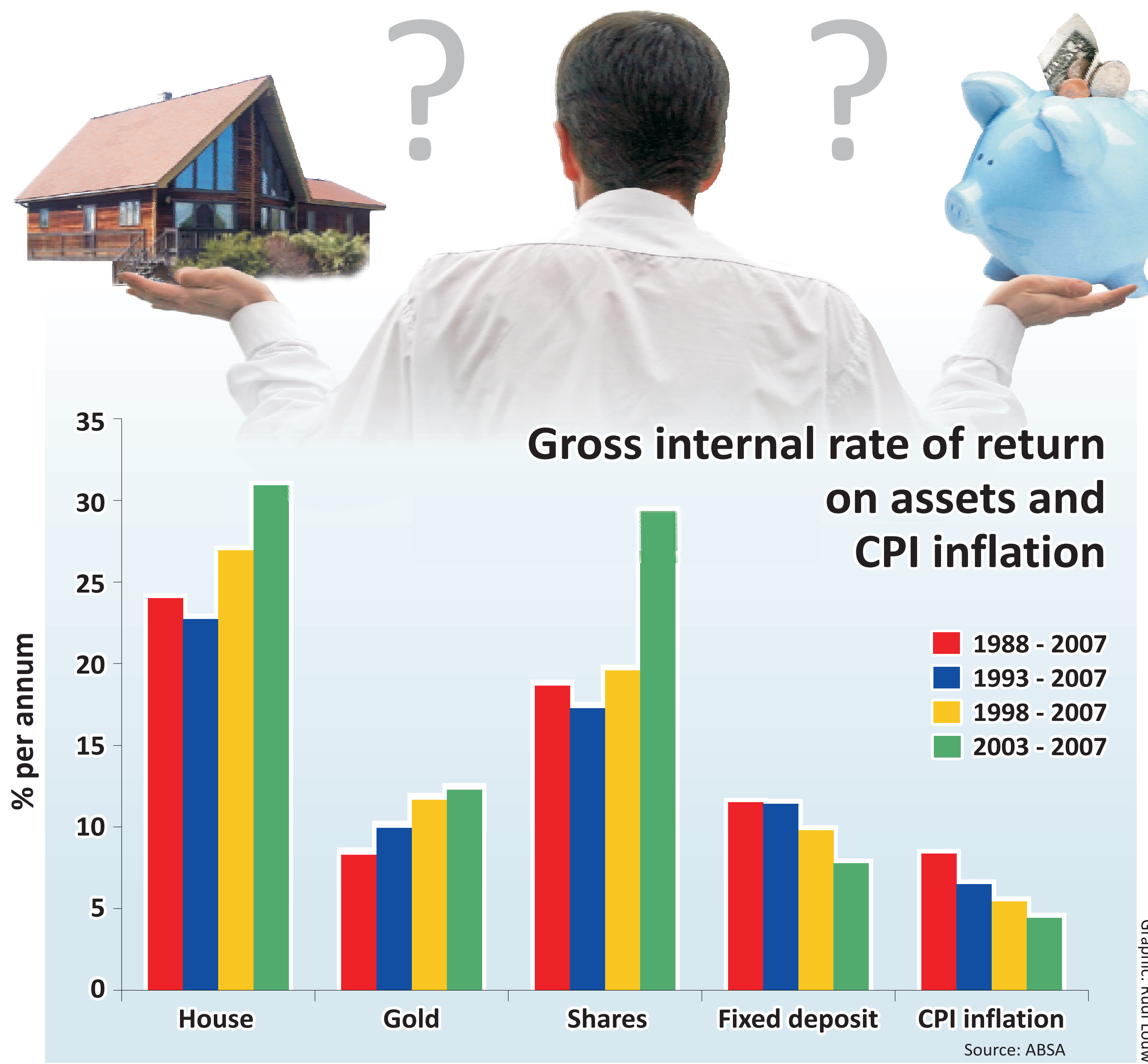
In my opinion, the Department of Trade and Industry, Gauteng Economic Development Agency and the various Chambers of Commerce should draft a "White Paper" proposal to government in order to alleviate this problem. In real terms, if export freight rates were subsidised, volumes would increase, and the whole labour and trade cycle would be in a naturally advantageous position for growth.

In the absence of anything else you should take advantage of the local industrial development zone. On our doorsteps we have an initiative in place to service all sub-Saharan (and international) countries out of the East London harbour or airport, whether goods are manufactured in the Industrial Development Zone (IDZ) or whether the IDZ is utilised as a transit point for re-export of goods imported from anywhere in the world.

East London is essentially "in the middle" of the coast, meaning it is relatively convenient to access Angola, Ghana, Nigeria and Namibia (West Africa) and all of East Africa and the Indian Ocean islands.

Until the next time, keep searching for those niche market opportunities.

— *luyton@telkomsa.net*



Buyers can benefit from property's fall

But best time to invest is six months away, says expert

By ROUX VAN ZYL
Business Editor

SOME homeowners may think it is crazy to touch property investments at a time house prices are falling, but experts say the best time to invest in this fixed asset is about six months away – when the market is expected to hit rock bottom.

But why would anyone want to buy an asset that is losing value?

"In real terms, property prices have already declined since late last year, which implies that, on average, a property owner who has bought property during the past two years is set to make no profit, or even a loss, if he sells now," said Absa senior economic analyst Jacques du Toit yesterday.

On the back of an economy that is experiencing a slump, Absa forecasts real house price growth to drop by around 6% in 2008 and another 3.3% in 2009.

Du Toit anticipated that the best time to purchase property would be by the second half of this year and early 2009 – especially from an investment and buy-to-let point of view. Marriott Income Specialists chief executive, Simon Pearse, agreed the best time to invest in property would be about six months away, as property prices still had to lose some momentum.

"You need to buy when the interest rate is at its highest and inflation at its most. When no-one wants to buy property, that is the best time to buy ... and then you will make the most money," he said.

Pearse said if property investors did not have cash reserves at this time, they should try to convince their banks to lend them the maximum amount they can afford under the tight conditions – and buy a bargain property. "You are not borrowing for the sake of borrowing, but buying an asset," he said, and the value of the asset would start to rise just as the interest rate started falling.

This effectively created a situation where the investor's bond payments would decline on an asset that is rising in value.

The correct time to exit the property market? The answer is simple – when the interest rate starts rising again, or when everyone at the local pub informs you what a great investment property is, said Pearse.

Taking this into account, Marriott developed the first commercial property fund for private investors in South Africa in 1997, when the property market was at its lowest point over the past two decades.

The fund registered a 200% return on investment between 1997 and 2005 when the property boom started tapering off.

Pearse said property would always be a good long-term investment, because property values and rental income were inflation-linked which meant prices continued to rise over time. During the first half of 2008, East London rentals have jumped 50%, according to the Trafalgar National Rental Index.

But Du Toit cautioned that investors in the residential property market should not expect to achieve positive real capital appreciation during the next 18 to 24 months.

"In view of property being a medium to longer-term investment – five years and longer – property investors should look through the current downward cycle and focus on income returns, with a view of achieving positive real capital appreciation from 2010," he said.

Investing in property

OVER the past 20 years an investment in South African residential property has beaten most other asset classes, as well as inflation, according to Absa Home Loans (see graphic). But this only applies where a house is rented out in order to earn income.

Over the past 20 years the gross internal rate of return (IRR) of a mid-segment house ($80m^2$ to $400m^2$, up to R2.9 million) was 24%. This rate trumped the IRR of gold at 8.3%, stock market shares at 18.6%, fixed deposits at 11.5% and consumer inflation at 8.4%.

Looking at the past five years, however, shares have caught up to property with an IRR of 29.3% versus a a home's 30.9%.

GM forecasts losses for second quarter

GENERAL Motors yesterday warned again of "significant" losses in the second quarter and unveiled a fresh restructuring and cost-cutting programme to battle slumping sales amid soaring gasoline prices.

GM said it "anticipates it will report a significant second-quarter loss, driven in part by the previously disclosed negative impact of the American Axle and local union strikes in North America, as well as the continued weakness in the US car market and adverse vehicle segment mix".

These losses will be deepened as a result of "significant charges" GM expects to report in the second quarter related to a massive restructuring programme initiated in 2005, recently announced plans to cut North American truck capacity, a new labour contract with Canadian workers, and other one-off costs. "We are responding aggressively to the challenges of today's US auto market," GM chairman and chief executive Rick Wagoner said.

"We will continue to take the steps necessary to align our business structure with the lower vehicle sales volumes and shifts in sales mix."

GM said it planned to cut more white-collar jobs and further reduce truck production as part of a plan to improve its cash flow by $10 billion by the end of 2009. Sales of assets and fresh borrowing will boost liquidity to $15bn by 2009, GM said.

The car manufacturer said it was also assuming its US market share would fall to 21%, with total industry sales falling sharply to 14 million vehicles in 2008 and 2009.

GM said it expected crude oil prices to remain in the $130-150/barrel range through 2009. "Today's actions, combined with those of the past several years, position us not only to survive this tough period in the US, but to come out of it as a lean, strong and successful company," Wagoner added.

GM did not say how many non-union jobs it would eliminate but said it would cut its salaried employee costs by 20% through attrition, the elimination of executive bonuses and health care coverage for retired workers over 65, and other measures.

GM has already cut its US workforce by more that 40 000 employees as it shuttered plants in the wake of losses which have topped $54bn since 2005.

In South Africa, the carmaker is poised to cut 520 jobs at its Port Elizabeth plant. — *Sapa-AFP*

Lack of skills sees SA lag behind in growth rate

SOUTH Africa's growth rate trailed those of the most dynamic emerging economies such as Indonesia, Chile, India, Russia and China, according to a report released in Johannesburg yesterday.

Moreover, the faster rate of growth in the past four years had been accompanied by only a modest decline in SA's unemployment, read the Organisation for Economic Co-operation and Development's (OECD) report.

The government's development strategy, the Accelerated and Shared Growth Initiative for SA (AsgiSA) foresaw further increases in growth rates to an average of 6% a year between 2010 and 2014 in order to halve unemployment and poverty.

"The most disappointing aspect of post-apartheid economic performance is the emergence and persistence of extreme levels of unemployment, particularly for less-skilled younger blacks, together with the continuation of widespread poverty."

The failure to bring unemployment down decisively was probably "the greatest source of popular discontent" about the government's economic policies.

The report read that this was recognised by government, which aimed to promote more employment-intensive growth.

The report added that AsgiSA had identified a number of constraints to growth, including State organisation, capacity and strategic leadership, along with high cost and low efficiency of the national logistics system and some infrastructure.

The economy was rightly seen as suffering from a shortage of skilled labour, read the OECD report.

The report concluded that while the policy interventions set out by AsgiSA were each aimed at addressing one or more of the constraints identified, in some cases the linkage between the constraint and the policy solution was weak. — *Sapa*

Firms challenged to safeguard Earth

By ANTON FERREIRA

CORPORATE governance guru Mervyn King urged company directors yesterday to protect the Earth – not just for the feel-good factor, but to help their financial bottom lines.

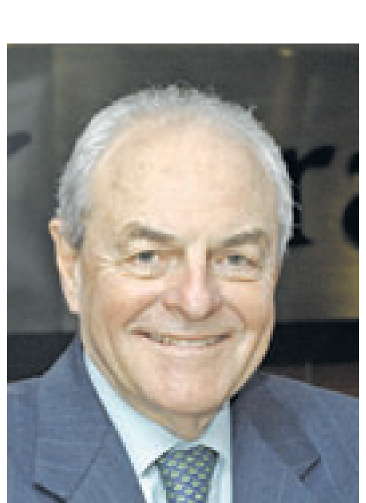
King, a former judge who has held a series of company directorships, is chairperson of a committee that has issued two reports on corporate governance bearing his name.

A King III report is due to be published soon.

He told a conference on business ethics in Cape Town that corporate governance included the "moral obligation to do something about the quality of the Earth".

He said: "We have created a quality of Earth that we cannot leave to our children."

He cited Coca-Cola and Procter and Gamble as multinational companies that had accepted their responsibility to protect the environment.



MERVYN KING

"The book value of Coca-Cola on the New York Stock Exchange a few weeks ago was 13 percent of its price – its brand is the other 67 percent," he said. The duty of the company's directors, King said, was to protect the goodwill represented by the brand value.

"Tangible assets are inextricably linked with ethics."

He said company directors needed to be more transparent and to build the trust and confidence of their stakeholders.

"Is this just the do-good factor? No, it is good, hard-headed business.

"Those of us who achieve it can raise capital more quickly and have a more sustainable business."

King said the private sector had become the most powerful agent for change in the world.

"Of the 100 greatest economies today from a gross revenue point of view, 51 are multinational companies and 49 are governments," he said.

C M Y K