Eight months in decline

BELINDA MERHAB
MANUFACTURING

AUSTRALIA'S manufacturing industry has continued its struggle as the high local currency increases import competition and hurts demand for locally made products.

Manufacturing has been in decline for eight consecutive months, the Australian Industry Group revealed yesterday.

It said the rebound in the Australian dollar, currently at US94.55c, was causing more pain, with softening sales of locally made products.

The performance of manufacturing index dropped 0.3 points in June to 48.9 points — below the 50-point level that separates contraction from expansion.

Ai Group chief Innes Willox said there were some positive signs in June with a lift in food and beverage exports. Removing the carbon tax would also help manufacturing, he said.

"Respondents from import-competing businesses, in particular, noted the adverse impacts of the renewed strength of the Australian dollar," Mr Willox said.

"It is clear that there are ongoing pressures facing manufacturing and there is a continuing need to improve cost-competitiveness and productivity across the sector."

The only sub-sectors to expand in June were food and beverages, and wood and paper products.

The metal, machinery and equipment, and petroleum, coal, chemicals and rubber sub-sectors all contracted.

By contrast, manufacturing in China expanded in June at its fastest pace this year, providing more evidence that government stimulus measures were hitting the mark.

The country's purchasing managers' index hit 51 for the month — up from 50.8 in May.

AAP, AFP


Innes Willox

Rail terminal win for west

COMMERCIAL PROPERTY
OLGA GALACHO

THE transitioning of container freight from Victorian roads to rail was one big step closer to reality yesterday after Victorian Ports Minister David Hodgett officially opened a new terminal built by Salta Properties at Altona.

Global shipping giant Maersk will move from Yarraville to become the first tenant at Salta's $1.5 billion Nexus Industrial Intermodal park, which was built to allow container freight to be transported between the Port of Melbourne and the Altona terminal on rail.

Maersk's operations will cover 5ha of the 40ha park, and include a 20,000-litre container wash bay and fully equipped 2500 sq m repair workshop.

Salta executive chairman Sam Tarascio Snr said the development was significant because it would shift the equivalent of 60 truckloads of containers off the congested roads around the port for every freight train used.

The Intermodal rail network was conceived by former Salta subsidiary Westgate Logistics 10 years ago. The project has been supported by state and federal governments in a bid to ease the increasingly gridlocked transport infrastructure west of the CBD that has resulted from an explosion in shipping activity.

"No other developer has succeeded or is likely to succeed in linking an industrial park directly with the tracks around the port because of the difficulty in acquiring land to build a terminal near existing rail freight infrastructure," Mr Tarascio told *BusinessDaily*.

He said that each year two million containers move in and out of the port on trucks and this was forecast to grow to five million within seven years. Without rail freight solutions, the increased volumes would have created dire traffic bottlenecks in the western suburbs.

Salta is also developing an inland shipping terminal in Dandenong that will be connected to rail.

Maersk Australian head Nicolaj Noe said at the launch yesterday that the Altona terminal will not only improve safety and amenity for Maersk employees, it will also enable "superior turn times" that significantly boosted productivity.


An artist's impression of the new PwC building at 2 Riverside Quay.

PWC, MIRVAC DEAL ON NEW BASE

BUSINESS consultancy PricewaterhouseCoopers has committed to a pre-lease deal that will allow developer Mirvac Group to fast-track a new, 12-storey tower at 2 Riverside Quay, Southbank.

Understood to have been scaled back from an original 22 storeys to gain planning approval, the building will go up over an existing eight-level Wilson Parking car park and be set in a revamped public space.

The deal is for an initial 12 years and will cover 17,200 sq m or more than 80 per cent of the proposed lettable space.

PwC's Melbourne headquarters will move from the nearby Freshwater Place. The shift is part of a national program to move staff into open-plan spaces where desks are shared and executives forfeit offices.

The tower will be built with a five-star green star office rating and 4.5-star National Australian Built Environment Rating System.

It is part of Mirvac's $3.1 billion pipeline of office developments.

OLGA GALACHO

Investors wary of gold

COMMODITIES

IT'S considered the classic defensive play — but investors aren't getting carried away with the latest rally in the gold price.

While gold's appeal as a haven has been boosted amid tensions in Ukraine and Iraq, that isn't translating into more buyers and as such, the gains will be temporary, according to analysts at Barclays' investment banking arm.

The price of gold has climbed 10 per cent since the start of the year to $US1324.90 a fine ounce, but is coming off a low base.

The US economy's expected recovery and easing of fears over inflation in America were keeping investors wary of going too defensive, investment strategists said.

"Gold is pretty much unloved because investors seem to be mesmerised by other assets," Pension Partners chief investment strategist Michael Gayed said. In a report released early yesterday, Barclays analysts said the recent gains in gold were unlikely to persist long-term. Prices will average $US1250 an ounce in the third quarter according to a median of 15 estimates.

BLOOMBERG

To paraphrase Oates, our cash may be out for some time


THE SHORT CUT
with ROGER MONTGOMERY

THIS is a frustrating market for value investors. Like many of our ilk, we are struggling to find high-quality companies trading at prices that we consider attractive.

As a result, we now hold significant cash balances in our funds waiting for opportunities to emerge.

There is a deluge of IPOs hitting the market that one can sift through in search of gems, and to be fair, we are finding some of these to be attractive.

The fact that so many vendors are jumping through the IPO window at the moment is another reminder that listed market valuations are higher than they have been for some years.

Holding cash in a rising market is painful, but that is the nature of long-term investing. Being willing to endure some pain in the short term is one of the requirements for longer-term success, and so we suffer (somewhat) gladly.

The suffering ends when valuations again become cheap and we can put the cash to good use.

To get a sense of how much suffering may lie ahead of us, we did some indicative valuation analysis this week, which showed we should not expect relief any time soon. Indeed, after reviewing the results we began to look to the example of Antarctic explorer Lawrence Oates for inspiration.

What we did for the analysis was select a group of large listed companies that have delivered a reasonably steady performance over a period of 10 years (which makes them easier to value).

We then asked our valuation models to estimate the value for each company at two-month intervals over the past 10 years. The appeal of this analysis is that the valuation models are objective and consistent, and can take into account a wide range of factors including financial performance, balance sheet condition and growth prospects.

While the valuations might not be completely accurate for each company, the average of the group provides a pretty reliable measure of average value.

As expected, we found the current market to be on the expensive side of fair value. The model indicated an overvalue in the order of 10 per cent, relative to the 10-year average. However, we can also see from the analysis that the market has gone above this level before, and has stayed at high levels for extended periods of time. The peak was around 23 per cent overvalued in 2007 just ahead of the GFC, and at this time valuation had appeared expensive on average for more than three years.

The current market "feels" unduly expensive but this may be because valuations have generally been cheap in the years since the crisis.

It is impossible to predict what the market will do in the short term, but the longer-term implications are easier to understand. At some point we should expect to see prices return to the cheap side of the chart and when that happens, having some cash set aside will be very welcome.

This could happen tomorrow for reasons that nobody can foresee today, but market cycles can be very slow and it is more likely it won't happen for some time.

We aim to make good returns for our investors and missing share price gains is painful, but the first part of our job is to avoid losing investor capital. This means taking money out of the market when the long-term picture is not sufficiently compelling.

We still have a majority of our funds in the market but, unable to find that compelling home, a substantial portion has now left for the sidelines. It may be some time.

ROGER MONTGOMERY IS FOUNDER OF MONTGOMERY INVESTMENT MANAGEMENT