►On Target

Martin Spring's private newsletter on global strategy

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Britain: a Culture Hostile to Growth

This month Liz and I have had the fascinating experience of visiting the places where Winston Churchill – Britain's wartime leader and its best-known statesman -- grew up, lived and became famous, including Blenheim Palace, the Houses of Parliament and the Cabinet War Rooms, with his grand-daughter Celia Sandys as our guide.

It's easy to forget the breadth of his experience of high office before he became prime minister – he had served in various governments as minister for the navy, the colonies, trade, internal affairs and finance.

What a contrast to Britain's current premier, David Cameron, who had no ministerial experience – and not much business experience either – before taking power two years ago.

It shows in the shambolic way the country has been run since. Anthony King, professor of government at Essex University, says he "increasingly gives the impression of being an amateur doing a professional's job."

Apart from periodic mis-steps – the latest being a plan to cut tax benefits on donations to charity in a foolish populist ploy to punish wealthy tax avoiders -- some of his policies are extraordinary. They include:

► A big boost for foreign aid – much of it wasteful and promoting corruption – to a mindboggling £11½ billion a year by 2015, encompassing a period of savage cuts in almost all types of domestic spending, including policing and higher education;

► Refusal to allow expansion of the hugely-important Heathrow airport, which has only two runways, or provide any alternative to address worsening congestion in the airways of Southeast England, while committing the country to a hugely-expensive high-speed rail link to cut 20 minutes on the journey time between London and Manchester;

► Scrapping the Royal Navy's only remaining aircraft carrier, while planning that its replacement now under construction will have no aircraft to fly from it for its first eight years in operation (and without provision for the support vessels and crew that will be essential).

The government's finance minister, Chancellor George Osborne, who has its toughest job, also seems to be increasingly prone to mistakes. There are ominous signs that the period of office of these two young and inexperienced leaders will be seen as ending in political and economic failure.

They did come to power in the most difficult circumstances facing any new British government since the Second World War:

In this issue: Britain's economy □ Gold □ Investment strategies □ Money printing □ Obama's rewards □ Yen shock forecast □ US rental property

► An economy plunged into recession by the global financial crisis, weighed down by the additional burden of a bloated state sector consuming half the nation's annual output (the highest proportion in Europe). Two major drivers of economic growth and sources of both employment and tax revenues – financial services and real estate – have been devastated by the recession.

► A soaring national debt fuelled by government over-spending. In the last year of the previous government the fiscal deficit financed by borrowing rose to more than 10 per cent of GDP – the largest-ever in peacetime, and one of the worst in Europe – and it hasn't fallen much since (now about 8 per cent).

► Failure of the Conservatives to gain an election victory giving them a parliamentary majority forced them into a coalition, obliging them to make major concessions to their "soft Left" partners, the Liberal Democrats.

The "Tory twins" were told there was a grave threat that, if they did not act immediately to address the state's haemorrhaging finances, investors would flee UK government bonds (known as "gilts"). Interest rates would soar, sterling would crash again, and the economy would plunge from recession into depression.

The Bank of England (central bank) governor, Mervyn King – who privately said that whoever took power after the election would be accepting a poisoned chalice – apparently promised rock-bottom interest rates and easy money if the incoming government took tough action to stop the haemorrhaging.

So, on taking power, Osborne opted for an austerity plan of spending cuts and tax increases designed to eliminate annual fiscal deficits within five years. On completion of the plan, the average household will be £5,000 a year worse off through higher taxes, and loss of services and other benefits provided by the state.

It's even worse than the Thirties

Two years down the track, where do things stand?

Lots of pain is being experienced, without much gain. Inflation – largely a consequence of a 25 per cent fall in sterling's exchange rate in the global financial crisis – has soared.

Households have suffered the biggest squeeze on their disposable incomes for more than 30 years, reflecting a nasty combination of poor earnings growth and high inflation, the latter a consequence of higher cost of imports and tax rises.

Pensioners, current and future, are being devastated by higher living costs and the effects of the central bank's easy-money policies, including £325 billion of "printing." Pension funds have seen their value cut by about £120 billion, according to industry estimates.

Unemployment is rising towards the 3 million level, with young people most affected (although things are far worse in some European countries, such as Spain).

Public services are being cut back savagely. Hundreds of thousands of the elderly have been deprived of necessary help at home. To free hospital beds, patients are being discharged and sent home in the middle of the night. After-school provision for children of working parents has been abolished. Because of cutbacks in

immigration staff, foreigners arriving by air have to queue for up to three hours to enter the country.

The *FT* reports that the UK is now suffering “a longer and costlier depression – a period when output remains below the previous peak – than it did in the 1930s.”

Yet there is a lot more distress coming. Osborne warned in his November Budget statement that families will suffer more years of economic pain in the form of falling living standards, rising unemployment, and a series of further public spending cuts.

In the first two years of austerity the government made cuts in annual expenditure of £23 billion and raised annual taxes by £18 billion. But only a quarter of the planned spending cuts have taken place so far.

Britain continues to run a huge fiscal deficit of about £120 billion a year, financed by ever-greater borrowing. National debt, already around £1 trillion, is expected to reach £1.4 trillion in three years’ time.

Sluggish investment and consumer spending

The austerity plan has achieved its initial purpose, in that capital markets remain confident about British government bonds. Despite fiscal deficits as bad as those of troubled Eurozone nations such as Portugal, yields on gilts are almost as low as on German bunds. For fixed-income investors, the UK is viewed as a safe haven.

However the plan is failing in a much more important way.

Treasury experts told Osborne that it would stimulate business confidence. Companies would boost their investment to expand production, jobs, the economy… and of course tax revenues.

It hasn’t happened. Instead of the 2.3 per cent economic growth originally forecast for last year, there was an outcome of less than 1 per cent. The Office for Budget Responsibility forecasts growth of just 0.8 per cent this year, while the current consensus of non-government economists is for a lower figure of 0.6 per cent.

There are striking weaknesses in both investment and consumer spending.

Businesses are reluctant to invest in expansion because demand is weak, and they fear it may become much weaker. Half Britain’s goods exports go to Europe, which is plunging into recession. Most of the rest also go to mature economies, all of which struggle to regain reasonable growth – and even then, their growth will remain well below that of emerging economies.

Companies are sitting on a mountain of cash – some £750 billion – which they are reluctant to invest. Especially as they are not sure about the future supply and cost of bank credit. British banks are dangerously exposed to the developing crisis in Europe through their heavy lending.

Consumer spending is less than 1 per cent above its recessionary trough, and still 5 per cent below pre-crisis levels. Household debt carried forward from the boom years is still very high. With employment prospects so bleak, consumers are inclined to hold back on spending, save more and reduce their debts. “Never before have we had a recovery in which spending has stayed so weak,” says the well-known commentator David Smith.

The economy is also getting surprisingly limited benefit from the 25 per cent fall in sterling's effective exchange rates between mid-2007 and early 2009. Since then the volume of goods exports has risen 21 per cent – but imports are also up 16 per cent.

One possible reason is that after the long hollowing-out of UK manufacturing, many imported goods cannot be replaced by local production, and much reliance has developed on component supplies outsourced from foreign factories.

Another is that manufacturers long ago learned to compete on brand and quality rather than price, so even big changes in the exchange rate are fairly meaningless as a stimulant to sales.

As economic growth is turning out to be so much worse than the Treasury told the government to expect when it designed its austerity plan, Osborne has already been forced to extend by two years, to 2017, the period it's assumed will be needed to reduce the annual fiscal deficit to a more acceptable 3 per cent of GDP a year. And many independent economists argue that even that target assumes an unrealistically strong recovery.

Those on the Left unsurprisingly argue against the scale of government spending cuts. But there are other experts who argue that such a policy is foolish because it is so damaging to domestic demand, and therefore to economic growth. Without strong growth, tax revenues cannot rise enough to fix the problem of bloated deficits and consequent soaring national debt.

Those on the Right have an understandable obsession with cutting back the bloated welfare state, which ballooned under the Blair-Brown regime, promoting an entitlement mentality, widescale benefit fraud, and nearly a million extra public-sector jobs with little or no consequent improvement in public services.

Low growth, not welfare extravagance, is the problem

However, the huge size of the fiscal deficits and consequent need to borrow hundreds of billions to finance them is not primarily due to permanent welfare commitments, but to the catastrophic impact of economic recession.

In 2007, at the peak of the Blair-Brown welfare-state expansion, the public sector's net annual borrowing was only about £25 billion. That soared to nearly £160 billion in 2009, and it's still running at more than £120 billion a year. Tax revenues are much weaker, there has been profligate aid to rescue zombie banks, and there is an increased burden of welfare payments such as unemployment benefit.

I am convinced that those critics are right who say the British government should take much stronger action to promote economic growth, including properly-focused tax cuts, even though that would delay reduction in fiscal deficits. Firm commitments can be made, and preferably locked into law like Switzerland's "debt brake," shifting debt-reduction priority to a later date.

For the moment, that public debt is no problem. The markets are willing to invest in British government stock on yields not much higher than Germany's. That's not only because they are impressed by Osborne's austerity plan. It's also recognition of the UK's fundamental advantages in the European debt crisis:

► Its national debt, although rising fast, is still below the levels of most major nations, and its growth is largely financed out of domestic private savings, not inflows of foreign capital;

► Refinancing – replacing government bonds as they mature and their capital has to be repaid -- poses no immediate problem, because so much of the debt is longdated that relatively little has to be refinanced each year. The average period to maturity for gilts is 14 years, compared to five or six years for the sovereign bonds of other major economies;

► Britain's debt is almost entirely denominated in its own currency, whose supply it controls and "prints" at will, if needs be.

However, I suspect that the markets will become less confident if/when they realize that without strong recovery in economic output, the debt problems of Britain (and of its European neighbours) will continue to worsen. Their focus will be less on fiscal deficits, more on economic growth.

A check-list of the negatives

The UK economy has a number of fundamental weaknesses, including…

► A public sector that is too large relative to the private sector, because policy focus has for far too long been on consumption rather than production. On distribution of wealth rather than its creation. On promotion of "free" services and cash benefits paid for by taxes (a burden on the private sector) and borrowing (storing up trouble for the future).

► Energy supply and cost is an increasing problem. As North Sea oil and gas decline, the UK becomes more dependent on imported fossil fuels. It plans new nuclear power stations, but is slow to actually start building them.

Absurd "green" policies encourage wind turbines and other uncompetitive "renewable" sources, adding greatly to energy costs. By the year 2020 those policies are expected to add 24 per cent to businesses' gas costs, 43 per cent to their electricity, according to official estimates.

► British business is hamstrung by what one commentator has called "a maelstrom of expensive red tape, leaving it paralyzed by regulation and fear of litigation." Entrepreneurship is discouraged, big companies are encouraged to expand their production in other countries.

Much of the over-regulation stems from the bureaucratic mania of the European Union, but British officials are notorious for going to extremes in implementing EU-originated regulation, and British judges for inflexibility in enforcing laws.

► The tax system has become over-complex, arbitrary and inefficient (although the same could be said of many other advanced nations). An important reason is that every time the politicians introduce a concession, for economic or social objectives, detailed rules have to be instituted to prevent abuse of the concession.

► A state education system whose products are devastatingly inferior to those of Britain's competitors, especially in Asia. A while ago I reported a study showing that 30 per cent of 14-year-olds could not multiply 37 by ten.

Almost half of the nation's businesses now have to offer literacy and numeracy tuition to new young employees so they can perform everyday tasks. Even

universities are having to do so – for students they have accepted for higher education!

► Wrong attitudes dominate society. British workers take off twice as many days each year for reasons of sickness as employees in America and Asia, recently estimated to be costing companies about £35 billion a year, even without taking into account loss productivity.

Richard Lambert comments: "Restaurants, hotels and consumer-facing businesses of all kinds seem to have decided in recent years that young British people are just not as good as others when it comes to friendly and reliable service, a serious work ethic – or simply turning up on time and on a regular basis." In the last quarter of 2011 the number of UK nationals in employment fell by 166,000; the number of non-UK citizens in jobs rose by exactly the same figure.

Many of these obstacles could be overcome by radical changes driven by government, and in a few instances the Cameron government is making some positive moves – in education, for example, by decentralizing power from bureaucrats to head teachers and parents. But far too little is done to change a culture that promotes, and rewards, failure.

A check-list of the positives

Nevertheless, despite the current period of pain and pessimism, Britain retains formidable resources…

► It is the most open of the major economies to trade and foreign investment. There is no trickery such as use of health or safety standards to keep out imported goods. Foreigners can buy even big companies without facing xenophobic resistance. It's easy to open a new business, too, without the need for commitments to employ or train local citizens, or the need to bribe local officials for licences.

► Its language is the language of international business. Through its membership of the European Union it has privileged access to the world's biggest market. Its honestly-administered legal system and experienced judges makes it an excellent centre for resolving disputes -- multinational companies and other countries often choose to have contracts drawn on the basis of English law.

► Its manufacturing base is still formidable in many specialized sectors, including infotech, engineering, luxury goods and entertainment media. Although now only the world's seventh biggest in industry, it has shed most of those that need to compete on price, focusing on inventiveness and quality. There is still a strong scientific base.

► Although Labour eroded benefits of the Thatcherite reforms it inherited – the curb on labour-union power, privatization of most of public-sector enterprise, liberalization of the labour, forex and property ownership markets – it did not destroy them. Somewhat muted, the strengths remain.

► And although Labour seriously mishandled immigration, leading to a backlash that the Conservatives now struggle to contain, the highly-motivated and often well-educated arrivals from abroad have added to the competitiveness of the private-sector and provided role models for the local population.

Although rules are tightening (sometimes unwisely), immigration is still relatively easy, as is citizenship for those who want to stay.

► The City of London is still one of the world's greatest financial centres, and is certain to remain so. It's the biggest in cross-border bank lending and marine insurance. It accounts for two-fifths of global turnover in forex – more than New York and Tokyo combined. It's second only to America in hedge funds and private equity.

In the first half of last year the trade surplus of the financial sector was 2.6 per cent of GDP, with related services such as law, accountancy and consulting adding a further ½ per cent.

► Despite the general shoddiness of state education, Britain has many outstanding private schools, including several of the world's best universities. In 2009 it was estimated they attracted a third-of-a-million students from abroad, earning the economy £10 billion a year.

China's newly-wealthy now send a third as many of their sons and daughters to complete their education in the UK as they do to the much larger US.

► The government is able to act promptly and decisively, even in the face of hostile public opinion, because power is centralized. That's different to Europe, where most power rests in the hands of 27 governments and parliaments, or the US, where power is spread among the presidency, Congress, the Supreme Court and 50 states.

Forecast: weak growth, weaker sterling

This is a strong basis on which to build… but so much needs to be done.

The ERA Foundation, whose mission is to promote a stronger manufacturing sector, says Britain needs a "greenhouse" of factors – genuine government commitment, improved technical skills at all levels, competitive energy costs, a bank for industry, higher investment allowances, better-targeted research and development, tax credits… but above all a change of culture.

My forecast is that economic growth will continue to disappoint because of:

► A social and political culture hostile to its priorities and obsessed with wealth distribution, ideological concerns and residual class envy;

► Poor stimulus from a global economy that will continue to struggle, with debt-burdened sluggishness in the UK's main export markets offsetting the vigour of developing Asia;

► Persistence of critical weakness in both business investment and consumer demand;

► A dysfunctional government strained by the compromises of coalition and pressured by rising voter hostility as public spending cuts bite harder, as well as increasingly militant resistance from the vested interests of public-sector labour and other privileged classes.

Chances are, the government will be forced into easing back on its austerity plan, especially as the next general election – scheduled for 2015, if the coalition holds together for that long -- approaches.

The principal means of adjustment in any future crisis will again be a major fall in the value of the pound, because that will be the least painful of the unpleasant options.

Investors should position themselves accordingly. If you wish to invest in Britain, buy the shares of well-managed large and midsized companies that mainly receive their earnings from abroad.

A J-Curve Forecast for Gold

The price of gold is not likely to fall far, or for too long, says *Daily Telegraph* commentator Ambrose Evans-Pritchard, even though "it has reached a half-century high against a basket of indicators – equities, Treasuries, homes, workers' pay."

The root cause of the troubles of the world economy remains – "the deformed structure of globalization, with a $10 trillion reserve accumulation by the emerging powers, and an investment boom in manufacturing to flood Western markets, disguised by debt bubbles in the Anglo-sphere and Club Med."

Indeed, in some respects things are worse.

Consumer demand is an even smaller proportion of the Chinese economy, having shrunk to 37 per cent of GDP compared to 48 per cent a decade ago.

"The mercantilists (chiefly China and Germany) are still holding on to trade surpluses through rigged currencies… exerting a contractionary bias on the deficit states."

There is still over-supply in the global economy, as there was in the Great Depression years.

If the central banks keep printing money, the Asian surplus powers, as well as Russia and the Gulf states, will have to find somewhere to park their growing foreign reserves. Those countries won't want to accumulate more of the deficit countries' paper promises.

Russia is raising the gold share of its reserves to 10 per cent. China is known to be considering acquiring large gold reserves to boost its currency, the renminbi, as an international rival to the dollar.

Sasha Opel of Orsus Consult expects Beijing to boost its holdings by "several thousand tons" over the next five years to match America's 8,000 and the Eurozone's 11,000.

HSBC's James Steel says $1,450 is a natural floor for the gold price as that is now the marginal cost of mining additional metal, and "peak gold" is a closer reality than "peak oil." World output has been stuck for a decade at around 2,700 tons a year, despite a fourfold increase in investment. No great find – another Witwatersrand – is in prospect.

The consultancy Thomson Reuters GFMS reckons the immediate outlook for gold is a "rough patch" taking prices below $1,600.

Then several factors could rekindle investment interest in the yellow metal such as the debt crisis in the Eurozone, looser policy from the US central bank such as

money printing ahead of the November presidential election, a let-up in China's tighter-money policy, a jump in oil prices raising fears of runaway inflation.

Together, such factors could trigger a fresh wave of interest in gold, boosting investment demand to nearly 2,000 tons, worth more than $100 billion, surpassing the 2009 record of 1,922 tons, and taking prices to a new record above $2,000 in the next 12 months.

Investment Strategy Ideas from Experts

Investors are stuck in a financially repressive environment that reduces future returns for all financial assets, argues the chief of PIMCO, the world's biggest bond fund manager, Bill Gross.

The most likely outcomes of central banks' massive money creation running into trillions of dollars will be accelerating global inflation and slower economic growth.

Investments with the potential to deliver the most return with the least amount of risk are:

► Real as opposed to financial assets – commodities, land, buildings, machines and the knowledge inherent in an educated labour force.

► Financial assets such as bonds – favour higher quality, shorter duration and inflation-protected securities.

► Financial assets such as shares – favour companies with strong balance sheets that are exposed to higher real growth, predominantly focused on emerging economies, and consistent dividend payers as opposed to growth stocks.

► Assets that benefit from favourable policies by both central banks and governments.

► Assets which are not burdened by excessive debt, or could be subject to future "haircuts" (forced restructuring producing capital losses).

Here are the themes favoured by respected British technical analysts David Fuller and Eoin Treacy that they say "should provide protection" against adverse investment markets over the next five years:

Autonomies (multinational companies which lead their sectors)
Dividend aristocrats (listed firms that have consistently increased their payouts over 25 or more years)
Information technology
Asian-led growth markets
Central and South American-led resources markets
Supply inelasticity themes such as energy and water
Global infrastructure development
Gold and other monetary metals
Industrial resources (mainly via shares which mine or produce them)
Agricultural commodities (trading opportunities only)

However, they warn that you should use price charts to judge the right time to buy into any of these assets.

Growing Hostility to Money Printing

Governments of growth economies are becoming increasingly angry at the adverse impact on them of prodigious money creation by mature economies such as the US, Eurozone and Britain.

India’s prime minister Manmohan Singh said after a recent meeting of leaders of the BRICS – the five most powerful: “Excessive liquidity from the aggressive policy actions taken by central banks to stabilize their domestic economies has been spilling over into emerging-market economies, fostering excessive volatility in capital flows and commodity prices.”

Brazil’s president Dilma Rousseff accused Western countries of causing a “monetary tsunami” by adopting aggressive expansionist policies such as low interest rates.

Although massive “money printing” by the European Central Bank, providing three-year, low-cost loans on a lavish scale to the Eurozone’s troubled banks, has been good for their liquidity – deflating market fears that they could soon go bankrupt – it has potentially damaged their solvency, argues *FT* commentator John Plender.

They’ve used the money to stuff their balance sheet with the sovereign bonds of their countries’ government, ones that are increasingly boycotted by investors outside those countries.

However, fund manager Jonathon Ruffer argues, any threat of default or economic weakness will be met by governments and central banks of major nations through even more digital money creation (“quantitative easing”), where they have unlimited firepower.

That’s the path to inflation and “backdoor” destruction of the debt burden – with lots of pain on the way for those largely innocent of being part of the irresponsibility for the mess.

Because of its impact on annuity rates, Britain’s quantitative easing has typically cost members of defined contribution schemes future retirement income of £2,750 a year, according to figures drawn from the Alexander Forbes National Pensions Index.

Had the £325 billion already created to finance government spending instead been given to the public, every household in the country would have enjoyed a windfall of £10,000 – which undoubtedly most of them would have spent.

That would have been a far better way to distribute wealth and stimulate economic activity than channelling it through the notoriously inefficient bureaucracy.

Obama Rewards His Mates

A new analysis confirms how poorly targeted the Obama administration’s stimulus plan has turned out to be.

Instead of being focused on where it would do most to spur the economy and create employment while doing least damage, a suspiciously high proportion of the stimulus went to interests favoured by the Democrats, labour unions and billionaire supporters.

$504 billion of federal contracts, grants and loans were awarded under the stimulus programme between February 2009 and December 2011.

States hit hardest by the recession got least money, those least affected got the most.

States with higher incomes per person got higher allocations -- $86 more for every $1,000 above-average income per capita. Those with higher bankruptcy rates got $67 per person less than the average. Those with lower mortgage default foreclosures received $59 per person more than average.

Right-to-work states, hated by the labour unions, received far fewer stimulus dollars. About three-quarters of all loans and grants given to companies went to those owned and/or run by well-known Obama supporters.

Handouts were highly correlated to which political party controlled a state, not economic distress, as they ought to have been. Those states controlled by the Democrats got more, and the stronger their vote went to Obama in his election, the better they did.

Commentator John Lott argues: “For all the concern about Democrats helping the poor, they were merely in it to help themselves. The stimulus was simply a massive partisan wealth transfer – the largest… in American history.”

Coming… a Yen Shock

There is likely to be a sudden and massive devaluation of the Japanese currency – 30 to 40 per cent – predicts the well-known Asia-based economist Andy Xie. Although he doesn’t suggest when that will happen, he clearly believes its occurrence can’t be long delayed.

The world’s third largest economy is in serious trouble, he says, with GDP contracting. The unprofitability of major exporters and emerging trade deficits suggest that the “unsustainable path” of a strong yen and deflation is coming to an end.

Japan has “lost competitiveness in a swathe of industries that it used to dominate” such as automobiles and electronics. The public debt bubble continues to inflate and is expected to reach 215 per cent of GDP this year. But when markets awaken to how bad things are, they will flee, and the yen will collapse.

Such a plunge in the yen “will be a big shock to Japan’s neighbours” such as South Korea and China and “distant competitors like Germany.” But it will lay the foundation for recovery in Japanese industries.

Rental Property Boom in the US

Historically it has been about 10 per cent cheaper to rent an apartment than to buy one, but now it costs about 15 per cent more, according to Deutsche Bank analyst Nishu Sood.

The rental market is booming, forcing up rents, because after the sub-prime bust, which has plunged a quarter of mortgaged home-owners into negative equity – their asset is worth less than the balance they owe – many Americans are wary of committing themselves to ownership, preferring to rent.

Demand is so strong that there is a booming market in buy-to-let deals, with investment groups purchasing thousands of properties for that purpose.

Foreigners are also buying a lot of condos and houses in the US as holiday homes, or as safe-haven investments.

However, the residential property market as a whole is still in the doldrums, with foreclosures rising sharply now mortgage banks have resolved their legal problems over seizure processes, and average values continuing to slide. Average prices are now 34 per cent below their peak in the credit-bubble era.

Tailpieces

Dodging the bullets: It's been revealed that, using sophisticated international tax planning – basically, accruing profits in subsidiary companies operating in low-tax jurisdictions such as Ireland and the British Virgin Islands – Apple has paid only $1¾ billion in corporation tax to foreign governments on profits of $46 billion, a rate of 4 per cent. In Britain the company paid tax of only £10 million on sales of £6 billion.

The *Sunday Times* reports that Amazon, the online retail giant, has generated turnover of £7.6 billion in Britain over the past three years without paying any company tax.

Asian equity values: The universe of 855 companies in the Asia Pacific ex Japan region covered by investment bank CLSA Asia-Pacific are now trading on a forward earnings ratio of 11.3 times, assuming average earnings growth of 6 per cent this year. This is well below the average for trailing earnings since 1995 of 14 times, so stocks are relatively cheap.

Silver: Its price is likely to fall as low as $28 in the coming months before climbing back above $40 towards the end of the year, predicts the Thomson Reuters GFMS consultancy.

UK dottiness diary: Among the "ridiculous" decisions that have led to establishment of a panel of experts to bring some commonsense to application of health-and-safety regulations: trapeze artists told to wear hard hats when they perform, graduates banned from throwing their hats in the air to celebrate passing exams, and children told to wear clip-on ties in case they strangled themselves with traditional knotted versions.

Martin

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