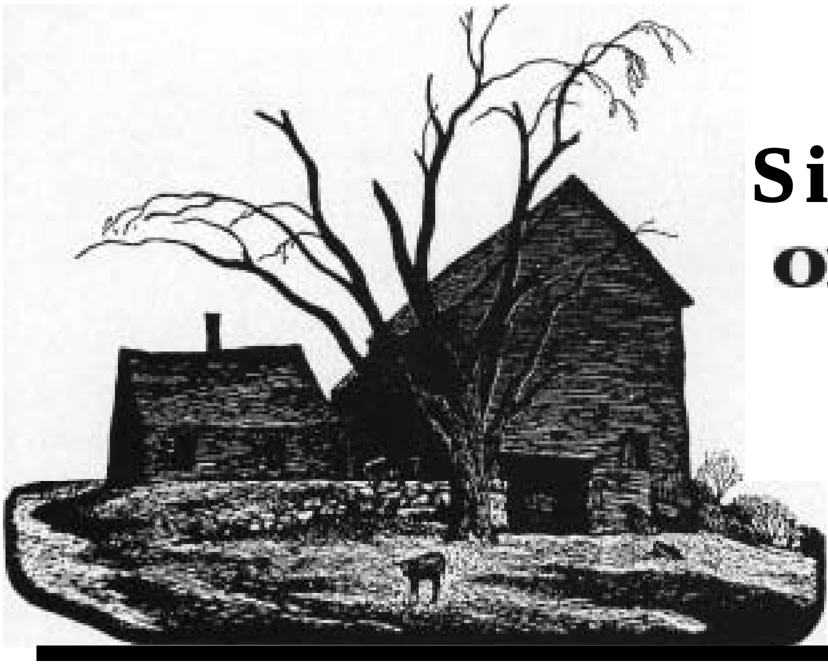

Silver linings or dark days ahead?

By Keith Evans
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The man who predicted the 1980s farm recession and the collapse of farm land values, sees something similar for the rest of the economy within the next few years.

But, unlike the farm and energy recession which sometimes seemed to actually benefit residents of large metropolitan areas, the coming de-flationary recession will produce problems for most everyone, including farmers and ranchers.

These are the opinions of Bill Helming, economist and president of the Helming Group in Overland Park, Kan., who spoke to the Mo-Kan Chapter of the National Agri-Marketing Assn. in Kansas City recently, Helming hasn't changed his opinion about the fate of the U.S. economy since at least 1980. And since the farm recession and drastic reduction farm land values, more people are beginning to pay attention to his economic predictions, unpleasant as some of them are.

This **country has** serious economic excesses, Helming contends, and history tells us that when economic excesses build too high, the market has a way of dealing with them. Usually excesses are handled by recession and this has occurred about every two generations going back some 300 years in Europe. We have had them in the United States in 1779, 1814, 1864, 1920 and 1951.

Helming lists the country's five economic excesses as:

1. Total debt is growing too fast-65 percent of our total debt has accumulated since 1980.
2. Real estate is over-valued.
3. Consumers are living beyond their means. In recent years, debt has grown 3 1/2 times faster than income which has now flattened out.
4. We are today experiencing a credit card created boom.
5. Consumers are saving far to little, between three and four percent today compared with 9 1/2 percent in 1972, and compared with 12 percent today for West Germany and 17 percent for Japan.

The market has two ways of dealing with excess debt, Hehning says, and that is to inflate it away, like what has happened in Brazil, or deflate it away, just as happened in the recent farm crisis. And, he says, history tells us that we will deflate. His rallying cry is, "Fear deflation, not inflation."

While government debt is serious, Helming says that governments have ways of handling it rather than paying up. The real problem is private debt, he says, because individuals eventually must reckon with it.

Private debt, he says, has grown 3 1/2 times faster than income in recent years. Now income is flattening out, even though debt continues to expand. Today's boom is fueled by credit cards, and the boom will continue only as long as consumers are willing and able to take on more debt. In Helming's opinion the consumer won't be able to continue long on the present course. He predicts a recession soon. There is, Hehning says, a 35 percent chance we will be in a recession by the fall of 1989; a 70 percent chance that it will occur by the fall of 1990; and a 95 percent probability by the summer of 1991.

Here's why. Real wages and salaries, adjusted for inflation are $15,000 per household, Helming says, and this hasn't changed much since 1986-87. Moreover, 30 percent of all workers are part-time, and their wages have actually been declining. All tolled, some 50 percent of families have less income today, in real dollars, than they did 12 years ago. "The middle class," he says, "is being eliminated." The only time debt has been as high in this country, compared with gross national product, was in the pre-depression years of 1927-28-29.

It's obvious to Helming that consumers will be forced to stop spending and borrowing to pay off their debts, which would bring on the economic crunch. Today consumer spending accounts for 68 percent of the gross national product. So it won't take much of a spending reduction to have a dramatic effect upon

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industry profits, Helming says. For example, a five percent reduction in consumer spending will affect corporate profits by 35 percent, he says, and a 10 percent spending reduction on the part of consumers would impact profits by 50 percent. And these are modest spending cuts. They could be much larger, Helming warns.

When the predicted recession comes, real estate and the service sectors of the economy will be most vulnerable. He sees a 25 percent to 50 percent reduction in commercial real estate values. This will affect not only savings and loans, but commercial banks and insurance companies as well who are heavily invested in real estate. He figures that two trillion of the eight and one-half trillion dollar private debt will be written off before the process ends.

Unemployment will increase, but not as much as one would expect, Helming says, because of the shrinking of our work force caused by the aging baby boomers. Wages and income will decline, and this means fewer taxes collected by the government which in turn means budget reductions.

Helming expects government farm programs to be drastically reduced if not eliminated. The good news, he says, is that government will be forced out of farming, for the most part. The bad news is that grain prices will decline.

Grain farmers in recent years have depended heavily on farm supports for their profits. In 1987, some 54 percent of net farm profits in Illinois came from government payments. In Iowa, 50 percent of profits came from government payments. Missouri, on the other hand, which is second in the nation in beef cow numbers received only 30 percent of its income from government checks in 1987.

As support prices are reduced, Helming expects the following to happen:

1. More acreage would be brought into production.
2. Grain prices will be reduced with corn selling for $1.50 a bushel.
3. Lower grain prices will bring on more demand for livestock. Livestock feeding will increase in the Midwest.
4. Farmland values will lose what they have gained since the recent decline.

The high in cattle prices for the next seven years should come before May 15, 1989, Helming said. However, he sees little basic change in the cow/calf business over the next decade. Despite consolidation in poultry and pork, Helming believes that small producers will continue to dominate the cattle business.

Even in cattle production, and especially in other areas of farming, Helming believes that the survivors will be the low cost producers.

Financially, Hehning is recommending that people and businesses reduce their investments in real estate and common stock. He figures that the prime interest rate could top out at 12 to 13 percent this year before starting on a long decline, to five or six percent somewhere between 1995 and 1997. As a result, he said, 1989 is the best time to lock in high long-term interest investments. Long-term U.S. government bond yields will likely peak this year at just under 10 percent, he thinks, and may even hit 10 percent briefly. Assuming inflation stays at around four percent, which he expects, and that interest rates drop, as he also expects, the interest rate on government bonds combined with their appreciation in value would provide investors with the highest real interest income in history.

On the **other** side of the coin, Helming recommends borrowing with variable rate financing.

A few other Hehning observations:

-Fear deflation, not inflation.

-Be bullish on bonds.

-Be bearish on stocks. The Dow should decline to the 1200 to 1500 range in three years or so. When that happens take money out of bonds, put it into stocks, and ride the market up again.

-Don't be surprised by a collapse of the Japanese markets. Japanese companies are highly leveraged, their stock market prices are inflated, and many companies derive much of their profits from speculating in their own stock market. Nisson, he said, derived 63 percent of it profits last year by stock market speculation.

Won't the government save the country from this recession and devaluation? "No", says Hehning. The government is in a poorer position to deal with a downturn in the economy than it has been in the last fifty or sixty years.

Besides, Helming said, the government didn't keep farmland prices or energy prices from decline. They couldn't keep the price of gold from going up. They couldn't keep the stock market from plunging or the many savings and loans from going broke.

"The market deals with excesses, not the government", Hehning says.

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