

# Economists Make 1987 Predictions At Hamilton Seminar

LANCASTER — A leading Philadelphia economist and investment counselor told farmers and agribusiness persons here Tuesday that there is no reason for a recession in 1987. Speaking at Hamilton Bank's Agri Education Seminar, James W. Weaver, portfolio manager for Dearden, Maguire and Weaver, Inc., said that all the things that normally happen before a recession have not occurred—low unemployment rates, high capacity utilization, rising inflation and high levels of business inventories. None of these conditions exist," Weaver said. "However, because of the increased business activity during the last half of 1986 to beat the new tax reform laws, we'll have a rather weak economy in 1987," Weaver said. "But I think we will get through 1987 with real growth. Not great growth, but a total growth of about 1½ to 2 percent for the year."

Weaver sees interest rates stable to down a little. And inflation a little worse than 1986 (3½ to 4 percent at the consumer price level). But only because energy prices aren't going down any more.

We still have several major problems in the U.S. according to

Weaver, the budget deficit and the merchandise trade deficits. "Yet even though we are in the fifth year of expansion, the economy still looks rather bright," Weaver concluded.

H. Lewis Moore, Extension economist for Penn State University, said that large grain surpluses will effect commodity prices all year. Cheap grain equals cheap livestock and livestock products. Yet beef men should be able to make a little money in 1987. And the same factors are present in hog production.

Moore showed figures that indicated total red meat production may be down as much as 4 percent from last year. But that broilers and turkey production were up so that we have nearly as much meat total as we had last year.

Dairy production is down from last year. And replacement heifers are still down in the total U.S. picture. But Pennsylvania dairymen have begun the expansion of their replacement heifers.

Larry G. Jenkins, Extension economist at Penn State University, said that we have widened our base of taxation so that though the rates are not as high, yet the total tax dollars will



This crowd of farmers and agribusiness persons gather at the Farm and Home Center in Lancaster for the Hamilton Bank Agri Education Seminar.

be greater. "Some people will pay less taxes," he said. "And about \$120 million was taken from the general public and assessed to businesses. We lost capital gains, and investment credit was repealed."

One thing that especially affects farmers, according to Jenkins, is the preproductive expenses. "Cash farm expenses typically have been

deducted by farmers with no distinction between current operating expense and preproductive expense," Jenkins said. "Preproductive expenses are those cash expenses required on an annual basis to support assets that are not yet producing income. Examples are expenses of raising replacement breeding cattle and developing orchards."

David M. Kohl, associate professor Department of Agricultural Finance, Virginia Tech, gave some warning signs of a problem loan. "Historically agriculture has been considered a strong industry composed of borrowers who repay their loans on time," Kohl said. "But current economic and financial conditions have created payback difficulties for even the most conscientious and honest farm borrower." Ac-

ording to Kohl there are numerous indicators of loan servicing difficulty that lenders and borrowers can use as warning signs. "Among those listed are debt service ratio, farm operating expense-farm earnings ratio, increase in accounts payable, underestimated family living expenses, liquidity and solvency and increasing debt to asset ratio or percent equity can be a forerunner of potential problems," Kohl said.

The annual bank seminar was under the direction of the Hamilton Bank Agri Finance Department whose chairman is Darwin Boyd. Other department members include John Moose, Roger Rohrer, Jeffrey Troutman, Patricia Trout and Lisa Shelly. About 200 persons attended the ag seminar in the Farm and Home Center.

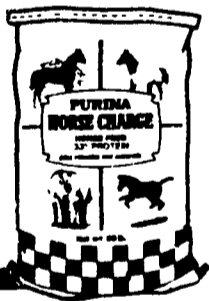
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