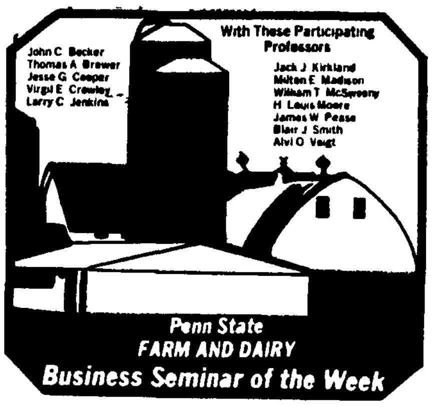

A PEEK INTO THE FUTURE

Economists, stock market enthusiasts and a whole host of people are interested in what the future holds. In fact, just about anyone — who buys or sells anything — thinks to some extent whether the price is the "right price." Most everyone when wanting to buy or sell (a house, a farm, some land, a car, a tractor) wonders "if the time is right" to buy or sell, and, whether it might be better to wait for more favorable circumstances. When people are interested in the future it seems they really would like to know what to expect or how to adjust or control their destiny.

Control Is Slipping Away

Agriculture, when compared with nonagriculture, never really had much control over its destiny. In addition to the uncertainties of weather, insects, disease, and crop and livestock peculiarities, agriculture has always been faced the specter of overproduction. And with only a little overproduction, prices can really drop drastically... unless the government gets into the act to help farmers with propped-up prices by buying and storing or some other manipulations. All of this really hasn't changed much. The government is still involved — to a much larger extent — and even though farm subsidies are monstrous, it seems unlikely that our politicians will significantly reduce farm program assistance.

In all likelihood, efforts will be made to gradually try to wean farmers away from expensive, ineffective and unfair programs. At least one hopes so. But, then, in this regard, how successful have our politicians been in the past? We'd have to 'second' a colleague's observation that we are entering the "funny season" — earlier than usual — because next year is a big election year. So the chances are that political parties and candidates will have Christmas for everyone. So? So, the farm segment of our economy finds that much of their market control and influence exists in Washington. (Gee, no wonder economists have a hard time plying their trade. How does one figure-out what the politicians will or won't do?)

Inflation Ahead?

A new congressional report released in mid-July indicates the recent rise in inflation is a warning signal. The proper response in dampening inflation is with tighter monetary policy but tightening is becoming more difficult because of the huge federal deficit. With a falling dollar and rising oil prices some additional inflation was inevitable.

Now incidentally, most everyone probably knows that the Federal Reserve Board Chairman has been Paul Volcker who recently resigned. Designated to succeed Volcker is Alan Greenspan. Both individuals are top-notch economists. Volcker and his Fed crew were responsible for getting inflation under control, and watching to see that inflation stays in its cage. (The inflation rate was 11.3% in 1979 when Volcker became chairman of the Fed. Last year inflation was 1.9% and this year it's expected to be about 4%) Volcker guided our economy back to moderate inflation after three years of double-digit inflation and he restored a sense of control after a period of rampant price speculation and economic uncertainty.

The Fed, in our humble estimation, has been the major steadying influence for our economy. (In fact we wouldn't mind at all if Congress would expand the Fed's influence, to include fiscal policy (spending and taxing) as well as its monetary policy (money supply) role. Then, the Fed could, for instance, say to Congress and the President that government spending will be x amount of dollars — no more — and allocate it as you will but x amount is all you can have.) So? Even though Alan Greenspan has similar views as Volcker, keep an eye on the Fed because if the Fed has less latitude with the big, and getting bigger, federal deficit, the Fed may not be able to slow inflation by tightening money growth. The major threat, without reductions in the budget deficit, is that the Fed will have a narrower path to travel in attempting to avoid either a recession or inflatin. Be a Fed watcher.

And, the Economic Outlook?

Except a boring outlook. Only modest gains in GNP are expected in the second half of 1987. No boom but no bust. Just steady uninteresting growth. Most forecasters are saying that the economy is sure to continue to expand for the next three months. If that happens our boring outlook will have become the longest peacetime period of recession-free growth in U.S. history. (The longest peacetime expansion went from early 1975 to early 1980 - 58 months; this was still short of the 106-month expansion of 1961-1969 which included much of the Vietnam War. The average expansion is 33 months long for business cycle upswings, peacetime and wartime).

Blue Chip Economic Indicators, a Sedona, Arizona newsletter, regularly polls 51 analysts on what's ahead for business. The latest survey shows Blue Chip economists, in general, expecting a prolonged period of unexciting growth.. predicting real GNP (adjusted for price measures) to be 2.6% in the third quarter, 2.8% in the fourth quarter and 3.1% in the first quarter of 1988 with smaller gains during the rest of 1988.

Interest Rate?

Blue Chip also expects unemployment to remain a triffle above 6%, where it's recently been. Interest rates are expected to rise but only slightly. And a slight pickup is also forseen in the inflation rate.

Yep, dull and uninteresting but we'll take a dull expansion anytime over a less-welcome alternative.