BY GENE KORETZ

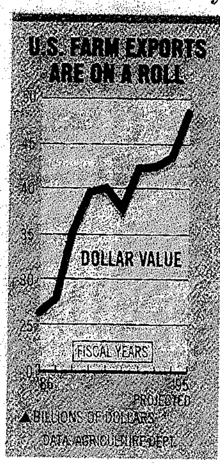
CHINA GIVES THE FARM BELT A HAND

Shortages help lift U.S. crop exports

American farmers are climbing on the export bandwagon. According to Agriculture Dept. projections, U.S. agricultural exports—aided by a sudden reversal in China's trade patterns—will jump by 11.5% in fiscal 1995, to a record $48.5 billion. As a result, the agricultural trade surplus should hit $20 billion, its highest level since 1982.

The pickup couldn't have come at a better time. After producing record crops of corn, soybeans, and livestock last year, U.S. farmers have been whipsawed by falling prices. Lately, though, surging foreign demand has been limiting the price erosion.

In recent years, notes economist Gary L. Benjamin of the Federal Reserve Bank of Chicago, exports of bulk commodities such as grains and cotton have stagnated while exports of "high value," consumer-oriented items such as meats, poultry, dairy products, fruits and vegetables, and snacks and cereals have taken off. Now, farm commodities are rejoining the parade. Corn exports are expected to rise this year by 40%, to $5.3 billion, cotton exports by nearly 50%, to a record $3.4 billion, and wheat exports by 20%, to $4.8 billion.



The biggest catalyst in this turnaround is China, which has sharply curtailed agricultural exports in the wake of food shortages and surging food prices. This year, China will import corn for the first time in five years and cut its own corn exports by about 75%, to less than 120 million bushels. It will also become a net rice importer for the first time since World War II. And it is expected to boost its wheat imports by 250% and quadruple its cotton imports, mostly from the U.S.

Many agricultural observers are betting that the sudden reversal in China's trade pattern will persist. While its grain output has been relatively high in recent years, it has failed to post much growth (BW—Apr. 10), a situation that seems to reflect lagging agricultural investment. More important, China's industrial growth and expanding middle class are fueling demand for a greater variety of agricultural products.

The pattern is similar in many other Asian markets. With China currently out of the running as a corn exporter, for example, U.S. sales to South Korea—a mere 20 million bushels last year—have already surpassed 190 million bushels.

HANDICAPPING A SOFT LANDING

History says it could be delayed

Signs are multiplying that the economy has slowed from its heady 4.1% advance in 1994. But before one concludes that 1995 will see a soft landing, economist Samuel D. Kahan of Fuji Securities Inc. in Chicago advises a look at the historical record.

In the past 40 years, notes Kahan, the U.S. has experienced just 14 years of growth exceeding 4%. In half of those 14 years, growth in the following year also topped 4%, and in 10 it exceeded 2.5%. Thus, the historical record suggests there's just a 30% chance that growth will slow to 2.5% this year and an even bet that it won't slow much at all. "Once the economy develops a head of steam," warns Kahan, "it can take a year or so for things to cool off."

FOGGY CRYSTAL BALLS

Newsletters are no market timers

It's a well-known fact that market timing—the ability to move in and out of the stock market in anticipation of market shifts—can pay off big. Indeed, hundreds of investment newsletters specialize in recommending allocations of cash and equity holdings to capitalize on just such pending market shifts.

To assess the value of such advice, economists John R. Graham of the University of Utah and Campbell R. Harvey of Duke University reviewed asset allocation recommendations made by 237 investment letters over the period 1980-1992. They found that 75% of the letters underperformed buy-and-hold portfolios based on the Standard & Poor's 500-stock index—and some gave remarkal poor advice. For example, the high-prof *Granville Market Letter-Traders* pr duced an average annual loss of 1% ov the 13 years studied, compared with 15.9% average gain for the S&P.

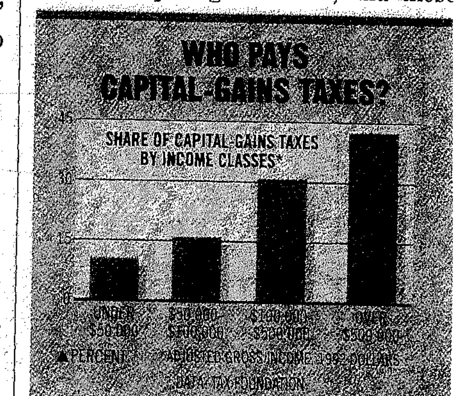
The researchers also found little ev dence that the letters' recommende equity weights increased before marke upturns or declined before downturns. a letter's advice beat the market fo two years running, it stood less than 50% chance of doing so for a third yea But if it performed poorly for two year it had a 70% chance of doing so again.

"There are undoubtedly some excel lent market timers out there," sums u Harvey, "but unfortunately most o them don't seem to write newsletters.

GAINERS FROM CAPITAL GAINS

Guess where a tax cut would land

Who will benefit most from a capital gains tax cut? If you said th wealthy, you're on target. Based on a analysis of tax data for 1990-92 by th Tax Foundation, taxpayers with adjuste gross incomes above $500,000 a yea coughed up 42.3% of the $31.7 billion average annual capital-gains tax burden i those years. Those with incomes o $100,000 to $500,000 supplied nearly a third of capital-gains taxes, and those



earning under $100,000, around 26%.

Although they filed only a tiny fraction of taxable returns (0.002%), over 60% of taxpayers with adjusted gross incomes exceeding $500,000 paid capital-gains taxes, as did over a third of the 3.7% of taxpayers with incomes between $100,000 and $500,000. By contrast, capital-gains taxes were levied on only one out of seven of the 17% of taxpayers with incomes between $50,000 and $100,000 and only 5.9% of the nearly 80% of filers with adjusted incomes under $50,000.

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