

the HERALD Outlook

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PUBLISHER
David A. Beattie

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Brian MacLeod

AD MANAGER
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Interest rates up; business confidence is down since 1984

Interest rates are higher and business confidence lower than they have been since 1984. Indeed, business confidence has dropped dangerously close to where it was on the eve of the 1982 recession.

It is useful to step back and look at what was happening the last time interest rates were this high. In July, 1984, the yield on three-month Government of Canada treasury bills stood at 12.73 per cent. The current yield is 12.54 per cent.

points to 11.27 per cent. Five-year mortgage loans jumped a point to 13.25 per cent.

By fall, rates had tumbled. The T-bill rate was down 2.75 points to 8.53 per cent. The mortgage rate was down 1.5 to 11.75 per cent.

In February, 1986, the dollar came under attack on foreign exchange markets. The T-bill rate soared more than three points to 11.55 per cent. By the following spring, it had tumbled 4.75 percentage points to 6.8 per cent, its lowest point in years.

OUT OF WHACK

The five-year mortgage rate held fairly steady during the 1986 dollar crisis, climbing a quarter of a point to 12 per cent. Over the following year, it fell along with the T-bill rate, although not nearly as much. In the spring of 1987, you could get a five-year mortgage loan for 10 per cent. That was the lowest it had been in 10 years.

The bargains did not last long. The low rates fuelled the post-recession housing boom. By the fall of 1987, a five-year loan had bounced back to 12 per cent. It slid again in the spring of 1988, falling by half a percentage point. A year later, it rebounded.

By last spring, the five-year mortgage rate had climbed to 12.75 per cent. The T-bill rate had almost overtaken it, climbing a whopping four percentage points from the spring of 1988.

Since then, the T-bill rate has climbed a further quarter of a point while the mortgage rate has fallen. For the T-bill rate to catch up with the five-year mortgage rate is an unusual situation. Consumers are paying the same for a five-year mortgage as the triple-A-rated federal government is for short-term money.

Either homeowners are getting a good deal or Ottawa is getting a bad deal. To restore the usual upward slope of interest rates, either short-term rates must fall or long-term rates must rise.

Until very recently, it seemed short rates would fall. Then they started climbing in Europe and Japan. U.S. bond yields, a measure of long-term rates, began to creep higher. Despite the economic slowdown, it's doubtful that we'll see 10 per cent mortgage loans again soon.



Diane Maley
Your Business
Thomson News Service

A year earlier, in April, 1983, the T-bill rate was 9.12 per cent. Treasury bills trade on financial markets, so they are a good measure of short-term interest rates. What caused the big runup from 1983 to 1984?

Nineteen-eighty-four was a bad year for the Canadian dollar. It fell from 80 cents (U.S.) at the end of 1983 to 75 cents at the end of 1984. It continued to fall in 1985, ending the year at 71 cents. Early in 1986, it slipped below 70 cents (U.S.) for the first time.

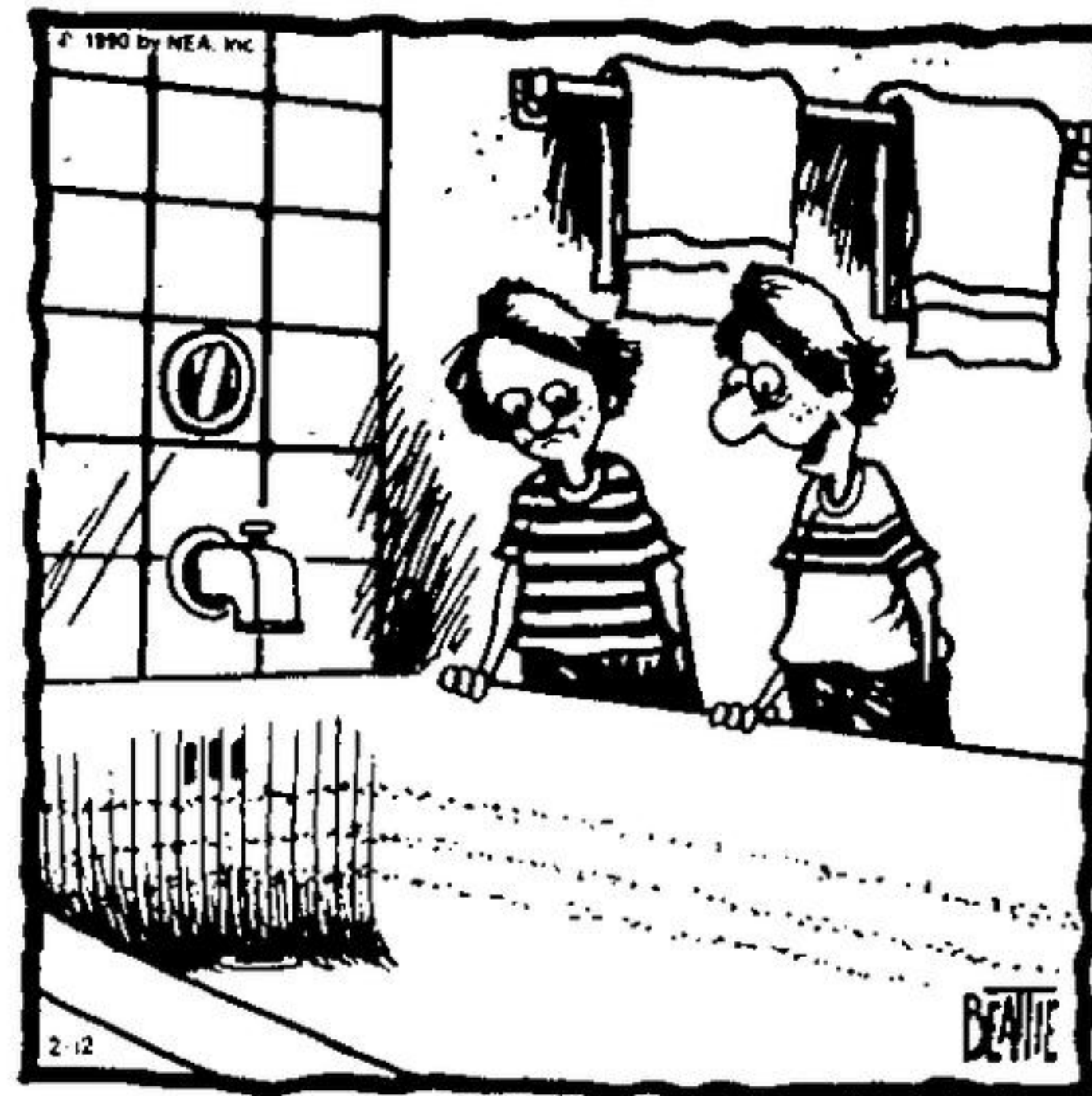
In 1984, the economy was still recovering from the 1982 recession. The brief rise in interest rates in mid-year caused a swift slowdown. By January, 1985, the treasury-bill yield had plunged nearly 3.25 percentage points to 9.50 per cent. This wiped out the 1984 rise.

Long-term rates were less volatile. In April, 1983, for example, a five-year mortgage loan cost 13.25 per cent. By July, 1984, it cost 15.25 per cent. By January, 1985, the rate had fallen three percentage points to 12.25 per cent.

ANOTHER BOUNCE

A month later, in February, 1985, rates bounced back again. The T-bill rate gained more than 1.75

SNAFU® by Bruce Beattie



"It's sort of like a tree. The number of rings tells how long it's been since Mom cleaned."

Canadian farmers are in for a very rocky ride

Kevin Bell

Washington Bureau
Thomson News Service



Canadian farmers are bracing themselves for another rocky ride as U.S. lawmakers begin writing another farm bill that could threaten the livelihood of growers in Canada.

So far, it looks like the ride may be bumpier than anticipated as the United States government prepares to get tough in the international war over agricultural trade.

The Bush administration's proposals for the 1990 Farm Bill, which were delivered to Congress this week, may be just the beginning of a renewed war over farm subsidies that could find Canada's farmers caught in the middle again.

Since the last U.S. farm bill was written in 1985, the United States and the European Community have used massive subsidies in the fight for international markets. The result has been a rapid decline in the price of wheat, forcing Ottawa to help shore up struggling farmers with billion-dollar outlays from the federal treasury.

Canada was looking for a sign that the subsidy war may be abating, but the proposals for the 1990 Farm Bill show that the United States is determined to clobber the Europeans with even more subsidies.

Considering that Agriculture Secretary Clayton Yeutler and Trade Representative Carla Hills had repeatedly warned that the U.S. would not unilaterally disarm in the subsidy battle, the administration's determination to continue subsidizing grain exports came as no surprise.

GLOOMY

Yeutler is picking up larger and more powerful weapons in the hope that the European Community cannot outgun him on subsidies. However, if the EC does not back

down in the current talks on the General Agreement on Tariffs and Trade (GATT), Canadian grain farmers could be entering another gloomy decade.

Ironically, Yeutler and Hills like to be known as free-market wheeler-dealers, and they persistently preach about the evils of trade-distorting subsidies.

The Bush administration's farm proposals also call for multilateral reform in agricultural trade and a move towards a market system for farm goods with fewer subsidies. But, in the meantime, it appears the United States will fight fire with fire, regardless of who gets burned.

The current GATT talks, known as the Uruguay round, are scheduled to end this year - just when Yeutler proposes that his bigger subsidies kick in. He says he's willing to reduce the level of subsidies if the Europeans co-operate, but there's no guarantee that the United States will back off from its aggressive export program if that happens.

If the talks collapse over the issue of subsidies, a fierce trade war is almost certain to occur.

Although the proposed U.S. farm bill does not list specific spending goals, President George Bush's budget proposals include \$900 million to expand farm exports through the Export Enhancement Program - roughly three times the amount spent on the program last year. Another sign that the U.S. is prepared to play hardball was a recent sale of American wheat to the Soviet Union that was made with the help of a subsidy of \$20.50 (U.S.) a tonne.

In addition to an aggressive program of export subsidies, Yeutler said the U.S. administration also expects that the new farm bill will lead to an increase in production of wheat, which could glut the market. As one Canadian farm leader said: "If you combine that with export subsidies, that is extremely bad news."

PRICESTUMBLER

Yeutler's prediction of expanded wheat production immediately sent wheat prices tumbling on the Chicago Board of Trade.

If there is any good news for Canadian farmers, it comes from Yeutler's refusal to attach any dollar figures to his proposals.

Liberal leader's decency won't allow revenge



Stewart MacLeod
Ottawa
Thomson News Service

It's highly unlikely that John Turner will ever write a book about his nearly six years as Liberal party leader. And, even if he does, it's even more unlikely he would, as they say, let it all hang out.

You see, Mr. Turner is not the type of person to settle scores, or to clutter his mind with resentment about unfair treatment or things like that. He holds to the theory that history will be the judge - as in "history will prove me right on that free-trade agreement" - and that it's not necessary for him to influence these judgments.

That, of course, hasn't stopped others from throwing in their two cents worth of influence. The result could be, one fears, that history won't treat the retiring Opposition Leader with the kindness he deserves.

What he's more likely to be remembered for is presiding over a fractured and feuding caucus; for being the first Liberal leader in history never to win a general election; for serving as prime minister for the shortest period in history; for being creamed by Brian Mulroney in one television debate; for losing the electoral battle over free trade; for failing to hold his caucus together on Meech Lake...

See how easy it will be for history to be so harsh? But the cruel fact is, John Turner was not one of the great success stories when it comes to leading a Canadian political party.

And, if there is one constant in politics, it's the difficulty of finding party insiders who are willing to share the blame with an unsuccessful leader.

NOT BITTER

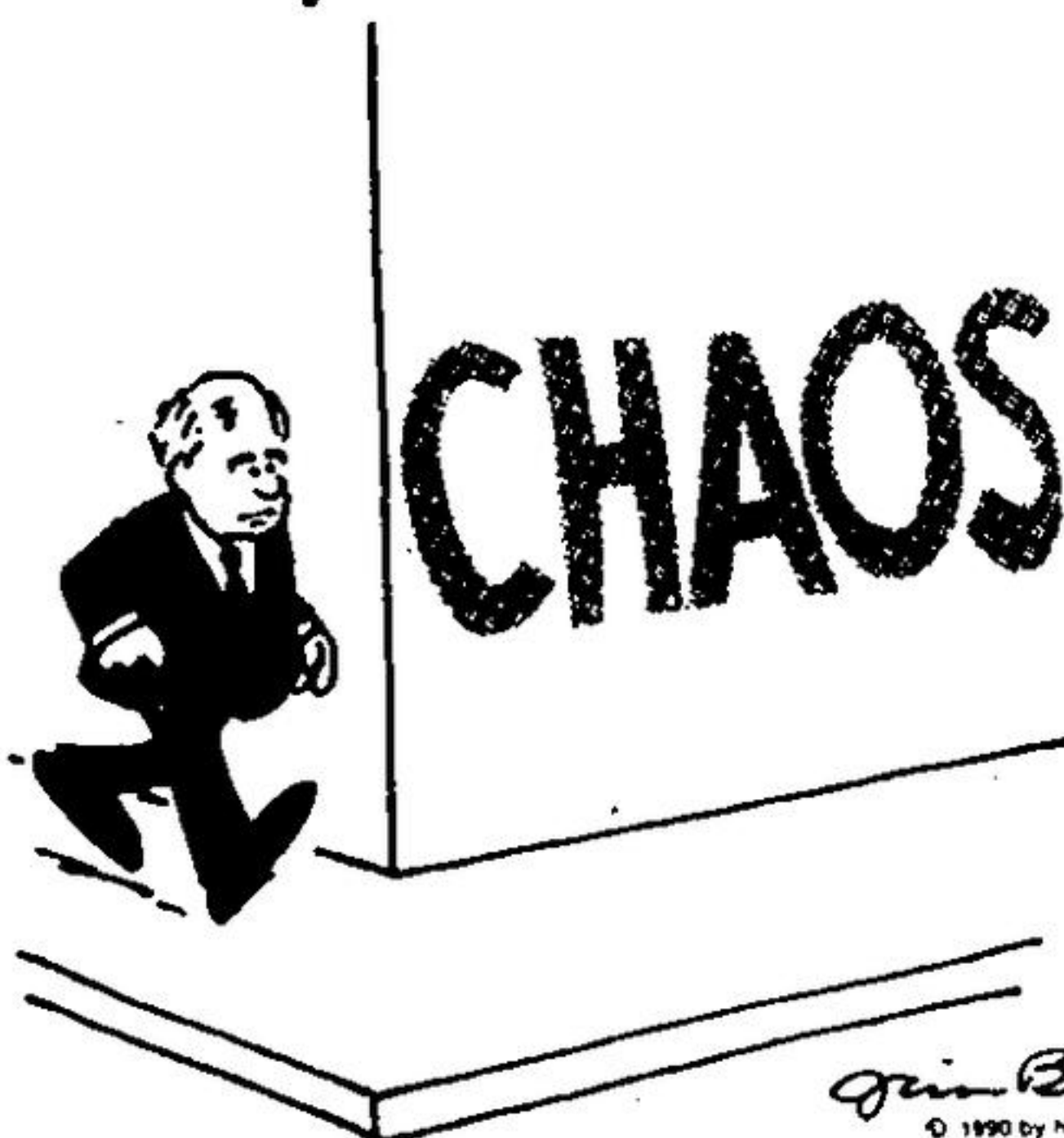
Mr. Turner is the only one who could put it all in perspective, but unless he is subjected to unbearable pressure from publishers, we'll probably never know what he endured as Liberal leader. We do know that when he took over the party in 1984, it was in shambles. But we don't really know the full extent of these shambles.

Nor do we know how he felt about all those behind-the-scenes power struggles, the attempted coups, the assorted acts of disloyalty, the failure of the party apparatus in times of need, and other tribulations that would drive a political leader up the wall.

Trouble with Mr. Turner is that he has this inherent streak of decency that seems to inhibit his views from time to time. It's not necessarily a great virtue in politics - except upon retirement when other leaders, such as the NDP's Audrey McLaughlin, can refer to the departing Opposition Leader as "a fine man, an honorable politician and a great Canadian."

Even Prime Minister Mulroney, never one to lead the Turner fan club, was unstinting in praising "a man of strong conviction and courage, a man who smiled in the face of adversity and who never

Berry's World



JUST AROUND THE CORNER?

Jim Berry
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