

Babson's Forecast For 1967



Roger W. Babson

BUSINESS AND FINANCIAL FORECAST FOR 1967

The close of 1966 marks the seventieth consecutive month in the life span of the longest business boom of all time for the American economy. However, "trees do not grow to the sky." Already, signs of deterioration in the expansive vigor that characterized the earlier phase of the business upswing have been increasing in 1966. Hence, the outlook for business and finance in 1967 is of greater-than-usual importance.

Let readers of this column be tempted to "push the panic button", however, let me state that it would be unwise to expect a major depression in 1967. Our greatly expanded economy still has a considerable degree of momentum. The spotlight on 1967, therefore, should focus upon those factors which are likely to cause a breathing spell in economic activity. Politicians and labor leaders have a phobia against even a hesitancy in business, and rush headlong into measures designed to treat a case of pneumonia when cold pills would be more appropriate.

1. Although business and financial problems loom large in the prospects for 1967, I must first warn readers that the greatest danger for the year ahead does not exist on the domestic front. Surely it will be developments abroad that will hold the gravest threat to our country. These could be economic as well as military or political.

2. I foresee no war between the United States and Russia in 1967. However, tensions between the two world leaders may reach to reach the breaking point as the Kremlin "goes all out" to create divisions to our efforts in Vietnam. Look for Moscow to throw salt on festering wounds in the Middle East, Africa, and Germany.

3. I am hopeful that a direct clash between Red China and the U.S. can be avoided in 1967. Internal dissensions are rampant throughout Mainland China, and a great scrambling for power is in full swing. Sabre-rattling may help to unify the people; but pressing problems of low productivity, plus the demands of her nuclear program, should restrain Red China from direct attack upon the United States.

4. The struggle for leadership of the Communist world camp will continue unabated throughout 1967. Full political attack will be mounted by the Kremlin against Peking. It will be touch and go, however, whether Russia can persuade her wavering satellites to sign a final manifesto reading Red China out of the Party.

5. Recent elections in West Germany have formed the embers of nationalism into a tiny flame. This has surely thrown a scare into Russian leaders. I predict that they will take a harder line against Germany in 1967 than in some time. I feel that we should particularly watch General de Gaulle, who is slaying closer and closer to Moscow from month to month.

6. Heavily armed with Soviet weapons, the Arabs of the Middle East—squared off against Israel—present a grave threat to world peace. Nevertheless, I do not believe that Russia or the United States can afford a direct confrontation at this time; hence my forecast that the smoldering conflagration there will not erupt into World War III.

7. While all reasonable people are hoping for a genuine peace in Vietnam, I predict that the issue will not be resolved in 1967. Though the tide of battle is swinging in our favor, we may be forced to in-

crease our commitment in order to retain this upper hand.

8. I predict, therefore, that military spending will be raised in 1967. This can help soften the impact of any easing in the private sector of the economy.

9. Turning now to domestic conditions, I foresee a definite deceleration in business activity in 1967. The fantastic boom is in need of a rest. Instead of the strong up-trend of recent years, I look for a high level of industrial production early in the year; but unless some new stimulus is introduced, I fear that a cresting-over pattern is likely to develop as 1967 progresses.

10. I forecast a continuation of the tug of war between inflation and deflation in 1967. Tight credit, and increased productive capacity resulting from the flood of business capital expenditures in recent years, are deflationary. However, I can see no substantial relief from the inflation in labor and other operating costs. In short, we have "cost-push" inflation co-existing with deflation.

11. A key factor in the business and financial outlook for 1967 is taxes. With defense outlays climbing, I look for a rise in corporate and personal taxes in 1967. Moreover, I forecast that various levies at the state and local levels will continue to increase.

12. The tightening tax squeeze on all fronts will worsen as the year advances. And there will be rising complaints from both businessmen and employees that social security taxes are becoming unbearable.

13. Results of the recent elections indicate that the heading run of the Great Society Program must take a breather along with the economy. Gains scored by the Republicans have altered the balance of power sufficiently to force a more sober look in public spending.

14. One of the primary reasons for expecting a deceleration in the economy is the likelihood that business capital expenditures may ease. Tight credit, suspension of accelerated depreciation guidelines, and suspension of the tax credit on business capital outlays will be tough obstacles to surmount.

15. Except in defense industries, I look for an abrupt switch during 1967 from a business policy of inventory accumulation to one of inventory liquidation.

16. I forecast that scarcity of credit will continue to be a problem with which business must contend in the early part of 1967. The money managers should keep enough credit available for legitimate business needs, but I expect no early radical easing of credit.

17. However, I do foresee enough of an easing in credit to permit more orderly monetary conditions. If the economic situation falters badly, money rates will, of course, move downward sharply.

18. I predict that commercial and industrial building will trend lower in 1967, reflecting the tapering off in capital outlays.

19. Mortgage money should remain scarce in 1967. Hence, residential building should see another disappointing year.

20. 1967 opens with the building of single homes in a state of crisis. Starts are down over 40% from year-earlier levels. As a result, I forecast that the Administration will leave no stone unturned to stimulate construction of houses as soon as possible. At best, however, it may be midway or after this important part of our economy can contribute much strength to over-all business.

21. Although new housing starts may remain in the doldrums for most of 1967, I confidently forecast that the year will see the beginning of a great boom in the construction of new, modern nursing homes.

22. Despite President Johnson's request for cutbacks, public construction should enjoy a fairly good year; the emphasis will be on dams, bridges, and water and sewer systems.

23. The expected declines in residential building and in commercial and industrial building notwithstanding, I forecast that waterfront property will remain a good inflation hedge.

24. Labor stands at the crossroads as the new year opens. Things never looked better for nailing down record wage and fringe gains; however, neither the public nor the Congress is in any mood to tolerate long, costly, and inconvenient shutdowns. I freely predict that there is more likelihood in 1967 of restrictive labor legislation than at any time since Taft-Hartley was put on the books. Union chiefs are aware of this, and they may act with more strike restraint than most people now expect.

25. 1967 promises to be a year in which many managements will be fighting a "rear-guard" action to control climbing labor costs. The defense buildup will maintain hiring pressure in some industries; but even more activities will be wielding the paring knife. I forecast that the net result will be a rise in unemployment next year.

26. I do not look for price and wage controls in 1967, unless our defense expenditures rise far above what is now contemplated.

27. An encouraging aspect of the 1967 outlook is the affluence of consumers. I forecast a further upward trend in personal incomes, due to higher wage rates. However, if taxes are raised, take-home pay may not show a rise commensurate with the gain in gross pay.

28. Retail trade held up well in 1966, but there was a note of lethargy throughout the year. The pattern is not expected to show much change in 1967... with gains in dollar volume largely reflecting price inflation. Though consumers will have more money to spend, tight credit, high borrowing costs, and higher price levels could cause some tightening of purse strings.

29. Spending for food, apparel, and general merchandise should be greater in 1967. Also, consumers will devote a goodly portion of their spending budget for leisure activities, vacation, and travel.

30. Durable goods may fare so well. Demand for home appliances, color TV sets, and furniture may be hampered by tight credit and high borrowing costs, plus the lethargy in new home building.

31. I forecast a decline in new auto sales. However, with the increase in the population of driving age, and with the record rate of personal income, new car sales could hold within 10% of 1966's.

32. Soaring living costs will hit the headlines more often in 1967. Ire will be directed most strongly at runaway service expenses—especially medical—and at advancing red meat prices.

33. Despite new highs in the cost of living, I predict there will be many signs of deflation in the midst of inflation. Chief among these will be sliding profits, rising bankruptcies and foreclosures.

34. Industrial commodity prices should be firm to slightly higher. Selective price markups will be necessary to offset wage hikes.

35. Profits began to wobble in the final half of 1966. I am convinced that hesitancy will give way to decline during the year ahead. Big squeeze on margins will come from soaring costs, especially labor.

36. But profits results will also vary widely from one company and one industry to another, as sales volumes sag, hold, or advance. For example, I am willing to "stick my neck out" and say that oil companies will enjoy a sales rise, but that the auto makers will be struggling with a volume slump all year.

37. The combination of less vigorous business, pinched profit margins, and stringent credit conditions points to an increase in business failures, shaking out the financially weak and inefficient.

38. Collections may be more dif-

ficult in 1967 on business accounts, consumer installment and charge accounts, and mortgage debt. I forecast a further rise in nonfarm real estate foreclosures.

39. Barring crop failure, I forecast another good farm production year. Farm prices should rule firm to slightly higher in 1967, but higher costs may result in a slight drop in net realized farm income.

40. Nevertheless, farm equipment manufacturers should enjoy good business. Sales of fertilizers and insecticides should post gains.

41. 1967's stock market promises to be one of vicious selectivity. I am expecting the old aristocracy of the blue chips based on past performance to be replaced by a new aristocracy of super-able management based upon hopes of good future performance.

42. I forecast, however, that 1967 will still hold many dangers for the speculator. I urge readers not to borrow money to buy stocks, and I urge investors to buy for growth and basic investment values.

43. The safest kind of long-term bonds are available now at prices affording very close to the highest income returns of the century. It is a good bet that there will not be so many top-grade issues on the bargain counter at the end of 1967. Should the 90th Congress boost income taxes, tax-exempt bonds will put on the best performance.

44. World opinion on the future price of gold has blown hot and cold many times in recent years. Though lately in the shade, I predict that gold will again be in the spotlight before 1967 is out.

45. I forecast that the dollar will not be devalued in 1967, but the pound will continue shaky.

46. Certainly, Congress will become more and more critical of the looting going on under cover of the Administration's War on Poverty. The whole program will be subjected to tighter supervision.

47. As 1967 wears along, the high hopes for more constructive conservative action by the 90th Congress will give way to increased doubts as a legislative stalemate develops. Republicans will have enough strength to stop the most liberal Administration bills, but not enough to launch a program of their own.

48. There will be a lot of talk in 1967 about the economy's "still growing". But I warn readers to examine carefully the advance in Gross National Product which I am forecasting here. Biggest part of the increase will come from higher prices and wages.

49. I foresee that a breathing spell in the economy can prove helpful. The prolonged prosperity has bred waste, laxness, and inefficiency. These can be corrected only by a return to fundamentals. Just as the human body requires adequate rest in order to enjoy proper health, so too the economy, and the stock market as well, must undergo periodic resting phases.

50. As the economy cools off in 1967, readers should beware of reassurances that our problems are only temporary and will soon be followed by a decade of boom conditions. The promised land may be only across the river, but it is always wise to test the depth of the water before wading in. That is behind my forecast that 1967 will be a good year for businessmen and investors to have strong confidence for the future, but to proceed with caution and restraint until the uncertainties just ahead have been resolved.

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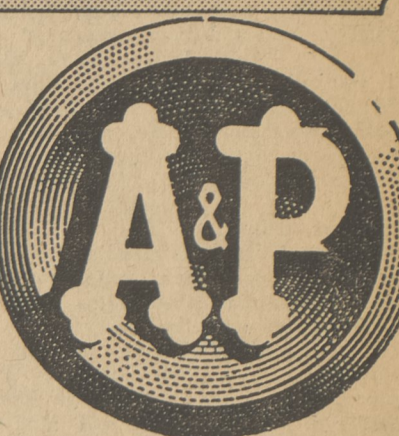
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