

BABSON'S POINT OF VIEW

QUARTERLY BUSINESS AND FINANCIAL FORECAST

As we move into the second quarter of 1968 the economy is generally strong. Gross National Product has shown good gains during the last few months, as have employment and personal income, though betterment did not reach earlier sanguine expectations. Looking ahead into the May-June period, we perceive signs of additional gains for the nation's business. Propelled by still rising military procurement for Vietnam, sizeable over-all defense requirements, and heavy federal and other government spending, economic activity promises to move moderately higher.

The supporting factors cited above will likely be augmented by still more bullish activity in the steel industry and well-maintained to possibly somewhat firmer over-all performance in other parts of the private sector of the economy. To put it another way, on balance second quarter business should be quite good, improving on the performance sketched up in the period now drawing to a close. But the rate of increase seems slated to slow down, and the longevity of the rise itself will be coming more and more into question as midyear approaches.

VIETNAM—The war in Vietnam and our military and economic involvement in Southeast Asia are dominating Washington trends in this quarter. While a cessation of hostilities is widely desired and eagerly sought by a number of other governments as well as our own, the respective positions of both sides have hardened since the North Vietnamese Tet offensive which resulted in such heavy casualties to all combatants. Reluctantly but resolutely, the President will probably move toward some further buildup of military strength, but in the second quarter he will not approve anywhere near as large an escalation as the generals are reported to be urging.

MONEY AND INTEREST RATES—We foresee some tightening in money, but certainly no massive crunch. However, the Fed has moved to tighten availability moderately and this will put upward pressure chiefly on short-term interest rates. Long-term rates, on the other hand, will likely change little as a further slackening in business expenditures for new plant and equipment occurs. A tax boost

would push tax-exempt interest costs lower.

THE DOLLAR—The nation's continuing gold drain and unfavorable balance of international payments are extremely serious and will pose new challenges to the government and to the economy itself over coming months. There will, however, be no devaluation of the dollar and no boost in the \$35-per-ounce price of gold in the second quarter.

TAXES—In the wake of the gold crisis, the international bankers are insisting that LBJ pay taxes and cut expenditures. Also the tax surcharge was marked for death, it could now be revived. If the President should conclude that we must again escalate dramatically in Vietnam, higher taxes could come by Midyear, casting their shadows before them.

FEDERAL SPENDING—Uncle Sam was all set to shell out more money with national security expenditures predominating, when the Central European Bankers blew the whistle. Spending at all levels of government will still enter new high ground, pushing the annual rate close to the \$200-billion mark. However, foreign aid funds will be further curtailed by Congress; and new federal programs enacted into law to help cities, advance education, and promote civil rights will not appropriate anywhere near the amounts which advocates of these measures are presently pressing for.

EMPLOYMENT AND UNEMPLOYMENT—As Vietnam and other defense and security efforts place greater demands on manpower, total employment will show a further increase, unemployment will hover near what must be just about an irreducible minimum, and the shortage of skilled labor will become more serious.

LABOR PROSPECTS—Shortage of skilled help will place labor in a still more powerful bargaining position vis-a-vis management, with the squeeze hurting hard as overall economic activity gathers more momentum. However, it is well to remember that wage and price controls are being held in the wings and will be imposed if the economy should become overheated and/or our balance-of-payments situation more severely threatened.

STRIKES—Labor walkouts may not capture quite as many headlines in the second quarter as they have in some past periods, but they are sure to be fairly numerous and to cause some supply-demand dislocations in various sectors of the economy. At this writing, the odds would seem another large troop buildup in Vietnam with all that it would entail, the likelihood of a steel stoppage would fade and anticipated heavy hedge-buying in the April-June period would run well below present expectations.

PERSONAL INCOME—Newly upped minimum wage rates and expanded social security payments will combine with additional generous wage settlements and high interest and dividend payments to lift incomes to new peaks... but

inflation will cut into the gains as prices continue their uptick.

RETAILING—If you're a retailer, your cash registers should be ringing up a heartening increase in dollar sales. However, the boost in actual turnover of goods may amount to not much more than half the gain in dollar volume, owing to price increases. And unless you can manage to exercise strict control over costs, the rise in profits versus the first quarter may well be disappointing.

BUILDING AND CONSTRUCTION—Home building promises to show a seasonal increase over the first quarter, with lower-rental apartment units predominating because of high and still rising land, labor, and material costs. Outbacks of spending for new plant and equipment and of appropriations for public building will put a damper on public and commercial construction, though hospital building will likely show a further good upturn in the period under consideration.

AUTOS—Here the outlook is generally rated as good, though no new boom is in the offing. While we look for improvement to be no more than what might normally be expected on a seasonal basis, the balance of factors does suggest a further boost in profits.

FARM PROSPECTS—Spring plantings of barley, cotton, flaxseed, and rice will be importantly expanded, but there may be some cutback in soybean acreage versus a year earlier as a result of the newly announced regulations disqualifying soybean acreage for direct feed-grain payments. Farmers' expenses are still pointing strongly upward. For the three months just ahead, their gross income should show better gains than in the first quarter, but the boost in net will not keep pace.

(To Be Continued)

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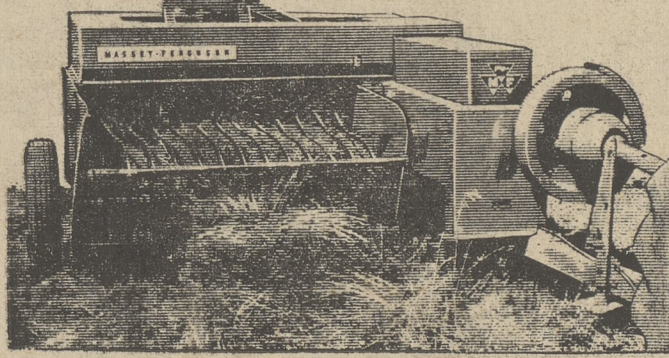
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