Babson's Forecast

1968: Year of Decisions

The coming year threatens to be one of varied and recurring crises. Virtually no area of human activity will be spared . . . social, economic, political, or international. After years of progress and prosperity, the American people will be faced in 1968 with many decisions that will prove difficult to make and even tougher to carry out.

Don't expect the final solution to 1968's many problems to be worked out during the year ahead. But the manner in which our nation tackles its predicament will determine whether the U. S. will be able to strengthen its position as world leader . . . or be toppled during succeeding years and reduced to an inferior standing.

To be without hope is to sin. And we do have hope that our citizens and their government will rise to defeat the many antagonists — inflation, social corruption, greed, crime, fear, and despair — that are pressing upon us as the new year begins. It is said that the Oriental concept of crisis is opportunity. In that sense, we predict without reservation that 1968 will hold opportunities unlimited for our country.

BABSON'S POINT OF VIEW

ECONOMY

1. Now that the pound has been devalued, perhaps our greatest opportunity for the year ahead is to prepare a strong defense for the dollar. We forecast that after some early fumbling both the Congress and the Federal Reserve will move with determination to protect our dollar.

2. The effects of the battle to save the dollar promise to be unpleasant. After an early-year surge to new highs for dollar values and production, business will find the going rougher as the months unfold. Scarcer and more costly money will take its toll of growth.

3. Major stimulation to the economy in the early part of 1968 will come from a scramble by auto and allied lines to make up for production lost in 1967, combined with a stockpiling of steel and aluminum in anticipation of strikes later next year in these activities.

4. Some additional escalation of the Viet war will occur next year. But we have already experienced the major impact on business of the massive buildup in arms outlays; whatever additional procurement comes will not be a determining factor on the course of 1968's business.

VIETNAM

5. President Johnson is torn between a desire to "pour it on" in Vietnam and bring home victory before voting time next autumn and his sincere wish to go down in history as a peacemaker. If recent and prospective tightening of the military vise on North Vietnam fails to bring results by late spring . . . look for spectacular moves toward negotiations. Under these circumstances we feel the chances are 60-40 that 1968 will mark the phase-out of our military operations in Vietnam.

6. But the most decisive conflict next year will not be fought on the battlefields of Southeast Asia. It will be here at home against the one enemy that has the power to destroy the U. S. . . . INFLATION.

7. Contrary to the old adage that Congressmen won't commit political suicide by voting a tax hike in an election year, we do expect a revenue act in 1968. It may include excise imposts as well as income levies.

8. The Administration will be forced to reduce total expenditures for the coming year by $6-to-$10 billion. While the war continues, most of this will have to be lopped off non-defense areas.

9. Congress will remove the 25% gold backing for Federal Reserve notes early in the year.

10. The amount of goods tourists will be permitted to bring into the country duty-free will be reduced to zero in 1968.

11. Further restrictions will be put on foreign investments by U. S. corporations in the coming year; our government will encourage American companies to increase dividend payments by foreign subsidiaries.

12. Rationing of credit by the Administration and the Federal Reserve is a distinct possibility in the months ahead.

13. U. S. outlays for foreign aid will be slashed in 1968.

14. Our money managers will slow down the current high rate of money-supply increase as soon as Congress takes action to curb inflation.

15. But the tremendous outpouring of money during the whole of 1967 will continue, for some months, to exert upward pressures on interest rates and the general price level. It will also have an energizing effect on business. Hence, as money flow is cut back next year, there will be a delayed depressing effect on interest rates, prices, and business . . . probably after midyear.

16. There will be repeated raids on the dollar; but it will not be devalued in 1968.

17. There will, however, be many discussions between financial experts here and abroad to develop a long-range plan for revaluing in terms of gold—on a more realistic basis—the currencies of all of the Free World.

18. The early—1968 uptilt in business volume will give a lift to corporate profits; the fanning out of wage boosts, however, along with rising costs and taxes will later have a squeezing effect on profits.

19. Short-term interest rates will rise faster than long-term in the months ahead.

20. This will have a restrictive impact on the availability and cost of mortgage funds.

21. In turn, the recovery now under way in home building will be restrained and perhaps reversed as 1968 moves along . . . but apartment construction should remain in an uptrend.

22. Inventories will rise — perhaps sharply — in the first half of 1968 . . . taper off later.

23. Business capital expenditures should start the year on a strong note, but as the year advances, prospects for further gains will become dimmer.

LABOR

24. With wage guidelines now definitely junked, there will be a stampede by labor generally to bring contract gains in line with the huge advances made by the United Auto Workers; the annual salary concept for production workers will gain further acceptance in 1968 by a number of American indutsries.

25. A labor feature for the coming year will be widespread stoppages by state, city, and local public employees; the battle on this front will surely be long and bitter.

26. With elections coming in the autumn, Congress will not vote any restrictive labor legislation in 1968. Although we anticipate that credit controls may possibly be invoked in the Administration's struggle with inflation, there is no chance that any serious attempts will be made to impose wage controls.

27. Upward pressures on the cost of living will be intensified during the first half of the new year, with advances tapering as autumn approaches. Over-all, we look for another increase in living expenses of over 3%. . . and it would not surprise us if the toll should rise to the 4% level The "bad boys" will continue to be soaring service costs — especially medical — and upspirals in transportation and finished—goods tags. Food may inch up a little more as processing costs mount further; but prospective plentiful supplies will act as a controlling factor.

28. Total cash receipts from farm marketings should advance moderately over figures for 1967; however, the relentless up-push of costs will take it toll, and farmers' net income will do well to improve even slightly . . . notwithstanding some relief from higher government payouts. Large marketings promise to restrain cattle quotes and hold this source of farm income in its recent low profitability groove. Meat prices, however, propped by bulging expenses, will be well maintained to firmer for the year. The consumer with storage facilities may benefit from time to time by watching carefully for sales and taking advantage of any buying opportunities provided by occasional runs of cattle fed to extra-heavy weights. Apparent determination by growers to cut back on poultry output thretens to edprive the housewife of one of her most prolific sources of reasonably priced meat.

29. Real estate will be a many-sided market in 1968. Prices for single - family homes will continue to advance as construction fails to satisfy rising demands and as all building costs move higher. . . particularly during the first half. Demand for rentals in the middle and lower brackets will gain steadily; however, ability to satisfy these needs will be severely hamstrung by even more costly and scarcer mortgage money. Speculative purchases and the salability of vacant property—especially that in less desirable areas — will suffer from the drying-up of funds to carry such parcels. Broadly, the betterment that set in during the final six months of 1967 will probably not be maintained long in 1968.

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