



Some Lines Better, Some Down in '43, Babson Forecasts

THUMBNAIL OUTLOOK FOR 1943

1. **Total Business:** Defense production will be up sharply (plus 50%); non-defense down sharply (minus 33%), accompanied by a drastic standardization of products.
2. **Employment:** The above also applies to employment, if we do not include the armed forces.
3. **Farm Income:** Will be up 5% in 1943 over 1942.
4. **Dividends and Business Earnings:** Have passed their peaks and will be lower in 1943 than in 1942.
5. **Labor** There will be practically no strikes until the end of the war and wages will gradually become stabilized.
6. **Commodity Prices:** Will strengthen somewhat, especially the prices of manufactured goods. Commodity price indexes will indicate far less than the actual advance.
7. **Taxes:** Will be felt severely, especially by the white-collar group who can expect no pay increases.
8. **Retail Trade:** Will be 12% off in physical volume in 1943 compared with 1942.
9. **High-grade Bonds:** Should decline, but good stocks should sell higher.
10. **Creeping Inflation:** Will continue throughout 1943.

BABSON PARK, Mass., Dec. 31— the armed forces need.

Events are moving at breath-taking speed. Never before has the world been in the midst of such a far-reaching turmoil. Within the next hour news might break that will change the whole course of history. Nevertheless, it is vitally important to keep your perspective. To change your business or investment program with every piece of war news is utmost folly. A good example of this was portrayed when the United States opened up a second front in North Africa. That morning many thousands of self-appointed commentators were convinced that the war was going to last at least five years. Yet by midnight of that same day these same commentators could see nothing but a short war and a quick victory. Let us now, therefore, confine this Outlook to probabilities.

RETAIL TRADE

The first quarter of 1943 should equal the first quarter of 1942; considering the entire year, a decline of 12 percent is probable. Just what will happen depends on two things: first, upon the quantity of goods; and second, to what extent consumers are willing to take substitutes. Washington talks about 300,000 retailers being put out of business; but I believe this is entirely unnecessary. If landlords will be easy on rents, as sensible ones should be, practically all retailers can run on a skeleton force and keep alive until the war is over when business again should be good.

The hope of America lies not with big concerns, but with small men must be protected in order to businessmen. These small business preserve democracy. I go further and say that the preservation of democracy depends on small and so-called inefficient manufacturers and retailers to "clutter up" the economic situation. Large units lead ultimately to tyranny. As this is becoming recognized, I think 1943 will see some real help given the small retailers. Of course, no general forecast will apply to all parts of the country. The industrial and agricultural sections should hold up to 1942 figures; but retailers in certain other sections are bound to suffer. After paying their tax bill in 1943, the American people will have left out of their income \$36 billions more than they had after paying their taxes in 1940. City restaurants and amusements will prosper most; while filling stations, garages, lumber yards, household appliances and hardware stores will suffer most.

LIVING COSTS

COMMODITY PRICES AND

Prices of practically all commodities are at their low with the exception of certain ones that are now imported from India, the Far East and Africa. As we are shipping loads of men and supplies to these points, ships may bring back supplies of cocoa, coffee, olive oil, dried fruits, cork, antimony, lead, manganese, hides and skins, mercury, molybdenum, zinc and other commodities. Throughout 1943 there will be a continued pressure to pierce price ceilings. These ceilings will be kept down fairly well on goods which real estate or farms during 1943.

Besides, there may be legislation requiring the demolition of buildings over 75 years old.

NEW INDUSTRIES

1943 will see the greatest crop of new scientific developments that any year ever witnessed. These may revolutionize agriculture, industry and commerce even to a greater extent than the war will revolutionize governments, politics and human relations. Among the new industries I especially have in mind the SYNTHETICS for making artificial products better than the natural; PLASTICS for displacing metals and wood; FERTILIZERS and PHOTOSYNTHESIS to revolutionize agriculture; PHOTOELECTRIC CELLS to make machines think; PREFABRICATED houses; AIR CONDITIONING; RADIO HEATING which will dispense with all radiators and oil burners; AUTOMATIC TYPING; UNWOVEN TEXTILES; ULTRA-MICRO-SCOPERY which will greatly help in the elimination of disease. NEW ALLOYS with marvelous strength and lightness; HARNESSING THE SUN, TIDES and WINDS; COSMIC RAY to supplant our power houses; AUTOMATIC POWER; NEW MILITARY ARMAMENTS and COMMERCIAL AVIATION. Big profits are possible for alert businessmen and investors.

During 1943 our wives will begin to use dried eggs, dehydrated vegetables, frozen meats and other innovations. This does not mean that canned goods will be displaced, but I do forecast a revolution in connection with prefabricated houses, using plywood, aluminum, plastics and rubber; the buying, preserving and use of foods. There will be more experiments in national planning with government guarantees, but with the return of the Republicans to power after this Global war, we shall see less, rather than more, rationing, price fixing and regulations. Some time it will dawn upon the American voters that the government cannot give the people anything that it does not first or last take away from them. There can not be a leveling of living standards without a lowering of living standards.

FURTHER RATIONING

1943 will see more changes in civilian life than any year since the Revolutionary war. Wise those who are first to prepare for these changes. When one studies the tremendous purchases which the government is making, they make one shudder. For instance, the army recently purchased 30 million pounds of salt, 4 million pounds of mustard and 2 million pounds of black pepper simply to fill a few month's requirements. Dried fruits are bound to be short in 1943, especially apricots and prunes; while the kibosh typewriters, hardware and rubber will still be on stoves, bicycles, goods. I should not be surprised to see the rationing of dairy products, certain furniture, paper supplies, manufactured foods, farm equipment and possibly clothing and shoes during 1943. Some of my associates think there will be rationing of eggs, cheese and meats, but present statistics do not indicate the necessity of this. Certainly, there will be no rationing of cereals, citrus products and fresh fruits that cannot be shipped.

What is most needed is the rationing of labor union leaders and a lengthening of the working week as the labor week now averages only 42.5 hours even after overtime payments. Of course, this is a hot potato that the administration does not like to touch. I forecast, however, that 1943 will see a real step in this direction. The power of the War Labor Board will either be curbed or the Board will become much more conservative. Manpower (including women) will be allocated. Private recruiting of labor may be curtailed. Farmers, manufacturers and other employers may be obliged to go to the U. S. employment service when desiring additional help while employees may be subject to the same regulations when desiring to change jobs.

POLITICAL SITUATION

Certainly we are entering 1943 with a much better political situation than existed a year ago. This does not mean that the new congressmen are conservative — some are more radical in certain ways

than their predecessors—but they too, of labor and of communities will combine with the conservative in general. This means hardships Southern Democrats on questions for management and for the men women workers. Some communities now doing well will become ghost towns; while other sleeping cities will become busy beehives.

Taking all in all, industrial production should climb into new high during 1943, averaging about 210 percent of the 1935-39 level. This would leave only about \$70 billions for domestic consumer goods, compared with about \$78 billions in 1942. This meant that only about 10 percent of the output of the durable goods industry and 60 percent of the output of the non-durable goods industry will be available for civilian use in 1943. This estimate is on a per unit basis with no allowance for price inflation.

FAILURES

Business failures in 1942 amounted to \$105 millions and I fear these will be increased during 1943. If so it will be due to manufacturers being unable to secure necessary raw materials or substitutes and merchants being unable to get a supply of goods. In addition to the normal casualties and those additional ones due to the war, I expect a certain "birth control movement" in business. The government may require new businesses, farmers desiring to increase acreage and especially employers desiring to increase their sales forces to get permits. Sales organizations would be the first to be treated to "birth control." We may expect to see in 1943 experiments in "zoned markets" by limiting the distance that goods can be shipped.

The paid leaders of the farm groups are fighting ceiling prices on farm products but I believe the farmers would be willing to have a ceiling provided they could also be assured a floor. I am certain that farmers are more reasonable and far more patriotic than the lobbyists in Washington who pretend to represent them. There will be no decline in purchasing power. Men, and especially women, in the farming and munitions districts, will have more money even after the payment of taxes than they have ever had before. The delivery of goods should be easier in 1943 than in 1942 due to an improved tire and gasoline situation.

WAR OUTLOOK

It must be realized that a great movement in the resources of the Axis powers has taken place during 1942. Where they were short of raw materials they now—with the exception of a very few commodities—have a surplus supply. For instance, in 1939 the Axis powers had no rubber and today they have 90 percent of the world's supply; in 1925 they had only 25 percent of the bauxite, 7 percent of the iron ore, 9 percent of the tin ore, 10 percent of the manganese ore, 8 percent of the lead ore and 6 percent of the world's flax. Today the Axis powers have 66 percent of the bauxite, 44 percent of the iron ore, 73 percent of the tin, 35 percent of the manganese, 21 percent of the lead, 35 percent of the flax and a large percentage of the world's oil. These figures show that time is not necessarily on our side. The success of the United Nations depends more on making every sacrifice.

The best opinions are that Germany will be brought to her knees, probably through the lack of oil, in late 1943 or early in 1944 and that it will take another year to finish Japan. As Germany does not want to see Japan a world power, she may endeavor to join the United Nations in putting Japan back where she was forty years ago. This would mean not only cleaning the Japanese out of China, the Philippines and the Dutch East Indies, but also making them give up Manchukuo, Korea and Formosa.

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