

# BABSON'S REPORTS

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on public confidence. Overall, we are hopeful that price and wage hikes can be kept to around 6% in the coming year, leaving the normal productivity gain of 3% to 3.5% per annum as a partially counterbalancing influence. The Administration itself will be in the forefront of the inflation battle. While it would be overly ambitious to look for a balanced federal budget in either fiscal 1973 or fiscal 1974 (portions of both fall in the calendar year 1973), the Nixon Administration will aim for a moderate budget deficit by impounding funds allocated for certain purposes.

### INDUSTRIAL PRODUCTION

Allowing for a reasonable labor climate with some disruptions of brief duration, the staff of Babson's Reports feels that industrial production can post a gain of 5% in 1973 over the 1972 average. This would be in terms of physical volume of output and not subject to inflationary factors. This rate of increase would amount to somewhat less than that registered during 1972.

On the other hand, the increase in industrial activity should be spread over a broader base in terms of industries participating. There should also be some shift in leadership. For example, the production of automobiles and trucks which did yeomen's work in pulling

the economy upward these past two years may well level off, but the hitherto laggard capital-goods sector will come on strong. Other lines which are expected to contribute to the advance in industrial production include paper and pulp, containers, instruments and controls, machine tools, apparel, and both military and consumer electronics.

### GROSS NATIONAL PRODUCT

It is the opinion of the Babson staff that through the combination of anticipated higher prices and increased output, the nation's 1973 Gross National Product in current dollars should post an advance approximating 9% over 1972, a gain of about the same magnitude as that seen in the year just ended. In constant dollars (deflated basis), with 1958 as the base period, we expect a year-to-year increase of about 4% compared with 5.5% for 1972. This smaller rate of progress points up the fact that general business in 1973 will tack on further gains but not with the same degree of vigor.

Two aspects of economic activity we think will be prominent in enabling 1973 to chalk up a climb in business, and hence in GNP, are in the private sector of the economy. These are personal consumption expenditures and private domestic investments. However, state

and local demand for goods and services, betterment in the nation's foreign trade balance, and the unavoidable updating of the nation's defense capabilities will also lift the GNP.

### WORLD PEACE AND TRADE

By the time this Annual Forecast is published, there could already be a cease-fire agreement for the Vietnam war. In any case, such a truce should not be far off. How long such a cooling-off arrangement will last, however, is indeterminate. We are hopeful that this forward step can be followed by negotiations leading to a permanent peace treaty. Even if a cease-fire is achieved but fails to hold, any resumption of fighting will presumably take place without American forces. Hopefully, settlement in Vietnam may be only part of a favorable peace package which will incorporate agreements to maintain the integrity of all other Southeast Asian nations.

It is the conviction of Babson's Reports that there will be no World War III in 1973. There may well be more internal strife in the emerging nations of Africa and other underdeveloped countries of the world where the climate for leadership is still a partial vacuum and thus invites struggle for domination. Similar conditions also exist in portions of South and Central America. It is to be hoped, however, that the expected redirection of U. S. foreign policy and assistance will include a shift back to Latin America in time to stave off serious trouble there. In the Middle East no full-scale war is likely in 1973, but the area will unfortunately continue to teeter on the brink of outright conflict.

The commercial transactions achieved between this country and Russia and Red China barely scratch the surface of the trade potential which exists on an international scale. We forecast an increase in foreign commerce for the United States in the new year, involving more industry groups. Stupendous though the potential may be, we can tap only a tiny fraction of the basic markets. Iron-curtain countries simply do not have enough dollar holdings or trade credits. Sales made on a credit basis require tedious negotiations to establish terms for such transactions. Eventually, however, the worldwide revamp of the international monetary system will result in some improvement in this situation. But the solution will

not come in 1973. Nonetheless, there should be a better showing in our foreign trade balance and a less horrendous deficit in our annual international balance of payments.

### GOOD YEAR FOR FARMERS

The step-up in grain exports this past year has stiffened agricultural commodity prices materially, and 1972 is winding up as one of the best years in history for the nation's farmers. Realized net income could reach \$18.8 billion, a total which would outstrip the previous peak of \$17 billion reached back in 1967. Farm income next year should hold near this all-time-record level. Domestic demand for agricultural products will remain strong, while exports are expected to rule on the upside. Farmers are already "champing at the bit" to start tilling and planting 1973's spring crops. The farm-equipment market is booming, and demand for fertilizer and seed will be brisk. Farm real estate prices have also strengthened.

### BRIGHT CONSUMER PSYCHOLOGY

All told, the nation's consumers can look forward to a good year in 1973. There will be some dissatisfaction over prices as well as occasional tremors among workers unsettled by labor-management confrontations, but the overall atmosphere will be heartening. Employment should move above the record rate already achieved during 1972. Already the "Help Wanted" newspaper sections are reflecting an increase in numbers of job openings. On the other hand, unemployment will shrink only a trifle from the current 6% of the civilian labor force, possibly reaching the Administration's target of 5.5%. This is scarcely satisfactory to labor leaders, but it must be recognized that it is difficult to reduce jobless totals--even when employment is on the rise--if there is a massive influx into the labor force of young people and mothers seeking part-time or full-time work. And this will be the case during 1973.

As we said earlier, wage rates will climb further in the year ahead. The pattern for raises and fringe benefits for the ensuing three years may well be determined by contracts linked in the key trucking, auto, and construction industries in the new year. With multiyear agreements usually calling for the lion's share of the overall

increase in the first year, average wage rates in American industry will show a significant rise in 1973, tempered somewhat by whatever controls are in effect. All of this will mean an upward push in both gross and disposable personal incomes.

### SPENDING WILL RISE

The combination of full employment, soaring wage rates, and new highs in personal income will, of course, put consumers in a spending mood. For that reason the staff of Babson's Reports looks for a substantial rise in consumer spending for 1973. The continuing advance in consumer expenditures will be spurred to some degree by a decline in the rate of savings. The trend toward putting away a smaller percentage of disposable income has been in evidence since the third quarter of 1971, after hitting a peak in the preceding quarter when consumers channeled 8.6% of their disposable income into savings. For the full year 1971 the savings rate was 8.2%, but we estimate the 1972 figure will prove to have been reduced to 6.6%.

With little chance for much reduction in food prices and with consumption per capita still climbing, a fair portion of the increase in personal incomes will go for food and beverages. Consumers will also spend more for eating away from home. With new housing starts in 1972 holding up longer than was earlier expected, furniture and home furnishings are likely to remain strong areas of buyer interest. Purchases of new autos were extremely heavy during the bulk of the past year, and there is no indication that this tendency will soon be reversed. It should be noted, however, that we look for considerably less of an upward fillip in home furnishings and auto sales in 1973 than was seen in 1972. In both instances, it is getting late in the upward phase of the selling cycle. We do expect, however, quite positive gains in consumer spending for leisure-time activities and products, and for apparel and accessories.

### CAPITAL EXPENDITURES

Business capital expenditures will help to stimulate the economy during 1973, but not with the same potency as in previous business booms. It is probable, in fact, that a good chunk of capital spending will be not for increased productive capacity but for items of high social priority. Most firms will be laying out more money to comply with anti-pollution regulations, and companies in the oil and gas industry will expend huge sums in the search for new reserves. Major gas distributors are so hard-pressed for fresh supplies of natural gas that they are advancing millions of dollars to help pay for exploration and development costs in exchange for the right to purchase a major part of the entire output of a given area. All in all, business capital expenditures in 1973 could show a gain just about matching the 10% marked up during the past year.

### INTEREST RATES--BOND MARKET

Since the consumer will be spending more and business will be building up inventories and pouring out more funds for capital-equipment programs, there will inevitably be some upward pressure on interest rates. But we stress once more that we do not anticipate another traumatic credit crunch such as occurred during the closing years of the 1960s. The brunt of any interest-rate rise is likely to come at the short end of the money-rate scale, with only a moderate firming of long-term rates. Keep in mind that the total of new housing starts will probably ease a bit in 1973. Moreover, corporations are generally in good

financial condition after building up their resources over the past two years with the aid of the investment tax credit. The Babson staff looks for corporate profits after taxes to go up about 12% in the new year compared with 16% in 1972. Even this smaller gain, however--coupled with the freeze on corporate dividend disbursements--will enhance business liquidity.

One area of danger in the money-rate picture may be traced to the government's doorstep. The U. S. Treasury is slated for fairly active refinancing in 1973, and the unusual and unexpected tax receipts that have come in during 1972 through overwithholding will not be seen in the new year. Whether the Treasury's debt-management efforts will pose a problem depends on inflation prospects. If, as now seems to be increasingly accepted, the general public feels that inflation is being restrained, the federal refinancing projects are likely to occur without undue pressure on interest rates.

Hence, bond prices will probably show sporadic signs of softness in the short to intermediate sectors of the maturity scale. But on the long-term end prices should be generally well maintained. In general, 1973 should offer ample opportunity to make selected purchases of bonds and preferred stocks of good quality for investors who need to nail down a fair amount of fixed income from their investments. Wherever possible, however, some inflation hedge should be sought, even to the point of sacrificing a little income on a portion of investment capital. This part of investment funds can be placed in some attractively priced convertible debentures and convertible preferred stocks.

### BIGGER TAX BITE?

The outcry for tax reform, the staggering projected federal budget deficit, and the need for help at state and local levels indicate that somewhere along the line in 1973 there must be a heavy tax wallop. The staff of Babson's Reports does feel, however, that by closing tax loopholes of the more glaring sort and putting some restraints on public spending, the federal government can avoid an outright increase in both corporate and personal income taxes in the coming year, over and above the social security tax hike that is already scheduled to take effect January 1, 1973.

### STOCK MARKET OUTLOOK

The stock market during 1973 will have three powerful factors in its corner: (1) The element of peace; (2) the generally healthy economic climate; and (3) the decisive hurdling of the 1,000 mark by the Dow Jones Industrial Average which is whetting the investment appetite. These are considerations that tend to stiffen investment confidence substantially. On the assumptions that corporate profits can post another gain during the coming year and that inflation can be prevented from running away, the Dow Jones Industrial Average can be expected to work into still higher territory over the next twelve months. The possibility of a move past the 1,100 mark, to even a challenge of the 1,200 level, should not be ruled out. However, there may not be a smooth jet flight for the stock market, if only because of the overhanging danger of labor troubles which will threaten for virtually the entire year ahead.

Nevertheless, barring an unpredictable major adverse development, many of the stocks which have been in the doldrums will have an opportunity to catch up with the parade. Among the groups that can give a good account of themselves in

1973 are those related to the energy crisis; the reawakening laggards such as steels, chemicals, and insurance issues; and those which stand to benefit most from the increase in business capital spending and stepped-up foreign trade. The intense atmosphere along the labor front in the new year could also attract investors to the stocks of concerns dealing in equipment that would cut back excessive labor costs.

Promising though the stock market outlook may be at this transition period--1972 into 1973--the staff of Babson's Reports is of the opinion that investors should employ a healthy measure of conservatism in their investment moves. Resolve, for instance, not to chase stocks which have already gone whizzing upward; try to operate on a sensible investment game plan. Give due consideration to the fundamental quality of investment selections and to securing at least a reasonable degree of diversification for your portfolio. In addition, keep on hand some investment reserves at all times.

END



**Welcome**

AS THE NEW YEAR'S BELLS ARE RINGING IN THE OLD FAMILIAR WAY, MAY THEY BE RINGING IN A YEAR FOR YOU THAT'S HAPPY EVERY DAY!

**NYSSA INSURANCE AGENCY**  
RALPH G. LAWRENCE

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HAPPINESS  
Success  
JOY  
PROSPERITY  
Peace

**NYSSA TAVERN**

Ring in The New

As joyous bells ring in the New Year, they peal out our best wishes to our friends--for Happiness and Good Cheer.

**DR. DAVID SARAZIN**

Wheel! A jumping New Year is about to begin, but before we push ahead we want to express to you, our deep gratitude for your patronage.

**A VERY HAPPY NEW YEAR**

**SPIC & SPAN CLEANING CENTER**

**HAPPY NEW YEAR**

As the striking clocks and ringing bells usher in a brand new year, we send you cordial greetings and wishes for a year both pleasant and prosperous, with many thanks for favoring us with your business.

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