

BABSON'S FINANCIAL-BUSINESS FORECAST

Agricultural Outlook
The skyrocketing prices of grain, beef, and more recently sugar make it vital for Mother Nature to smile on us in 1975. Given normal weather in the coming crop year, American farmers can produce much-needed grain and livestock supplies in quantities that can help ease some inflationary pressures. A bountiful farm output is needed, too, for export to food-short nations—in the process improving our balance-of-payments situation. Fertilizer and in some cases seeds are inadequate for maximum acreage plantings even with the best of weather and farm operating costs have by no means escaped inflation. We are hopeful, nevertheless, that there will be a record farm output in 1975. As to individual major crops, the picture is further clouded by the question of how much acreage will be sown to soybean, corn, sorghum, or sugar beet, since all involve extremely high prices.

Building and Construction
New housing starts were hurt severely in 1974, exceeding the anticipated decline. Our forecast of 1.3 million seemed unduly pessimistic at the start of 1974 in contrast to the 1.8 million projected by most economic forecasters. But preliminary figures indicate that we were pretty close to dead center! We now expect 1975 to show some turn-around. Initially, housing starts may slip close to the 1-million mark, since building permits are still on the way down. But a brighter climate for building and construction can emerge as 1975 moves along. Easier monetary conditions and more consumer emphasis on savings have had some positive effects at savings and loan institutions and banks. While mortgage money is still far from flush, at least a beginning has been made in this key sector. At best, however, the mortgage money supply is not likely to support more than a moderate betterment in 1975 housing starts—our guess is 1.6 million units.

Business Profits
1974 was a year of better profits for much of American

business, but few realize that the seemingly astronomical gains resulted from comparing earnings little better than normal (and some cases of abnormal earnings, as in oil and sugar) with profits restrained by price controls in parts of 1972 and 1973. In the second half of 1973 and in 1974, price markups to compensate for brisk cost advances made many year-to-year profits comparisons look better than they were. Progress will be slowed in 1975, and indeed quarterly figures showing earnings below this year's may even predominate. While business is contending with a sagging economy, it is especially difficult to offset the pinch of rising costs through price increases. Still the substantial business profits of 1974 have strengthened the financial standing of many companies which had been skirting close to disaster. Nevertheless, the economic climate will make things difficult, and despite cost-cutting efforts the slower pace of business will probably lop off some 12% from corporate profits versus the 1974 total. As profits sag, there are bound to be some dividend casualties, but by and large established dividend rates will be held. There will be no spate of extra disbursements, but neither will there be a rash of cuts or omissions.

Domestic Politics—International Affairs
The clear domination of Democrats effected in the 1974 presidential nomination elections and the resultant strong liberal bias have unnerved many businessmen and investors. Bear in mind, however, that the wide-open race for the 1976 Democratic presidential nomination could bring about some fragmentation of what now appears to be a veto-proof Congress. The drive will be on, of course, for more social programs, including a national health plan and a consumer protection agency. If the recession induces Congress to push the panic button, there will be heavy pressure for spending well beyond the Administration's intentions. But the free spenders must reckon with the federal budget deficit, which could approximate \$25 billion in the fiscal year ending June 30.

On the international front, the Babson's Reports staff looks for the detente in Soviet-American relations to be maintained, though the degree of harmony must be expected to vary. The Middle East remains center stage, of course, as arms buildups and rash talk paint an incendiary backdrop. Danger of renewed Arab-Israeli fighting is grave but we are hopeful that outright war can be averted in 1975.

Stock and Bond Outlook
The letdown in economic vitality has already caused a weakening in interest rates, with consequent beneficial effects on bond prices. The greater decline has been in short-term rates, with long-term rates less responsive because of still hefty demand for long-term capital needs and concern over inflation. In 1975 this pattern is likely to persist, particularly as the Federal Reserve moves more positively to ease credit in response to mounting fears of recession. At this juncture, therefore, income-oriented investors still have a good opportunity to acquire top-quality bonds, as well as preferred stocks, at especially advantageous yields.

In view of the desultory business outlook for most of 1975, the stock market would appear to have little chance of making any appreciable headway over the next twelve months. However, investors should keep in mind two vital considerations: (1) The stock market anticipates things to come, and having discounted much bad news it may now be simply waiting to signal a turn for the better; and (2) the prices of vast numbers of stocks and convertible securities have already been hammered down to levels where they represent excellent values. Thus, for investors who are in a position to risk being a trifle early there are plenty of opportunities for timely investments at present. It would be wise to begin considering the filtering of at least small parts of liquid reserves into equity-oriented investments, making certain, of course, to weigh carefully the basic needs of an individual portfolio. In short, this is the time to set one's portfolio in a position to benefit fully from the next major market advance, the start of which will doubtless emerge in 1975 from what is now a base-building phase. Symptomatic of any bottoming-out process is the market's propensity to bob around. But when this high volatility and low readings for both individual issues and leading market averages combine against a gloomy background, conditions are auspicious for eagle-eyed bargain hunters to start moving in—sensibly, carefully, patiently, for maximum long-term capital gains and rewarding income.

End



Ring out the old, ring in the new... may all life's blessings come to you! Have a real great New Year!

Eastman Insurance Agency



Your ship's in... tugging along our best wishes to one and all.

Owyhee Dist. Co.



We wish you joy and serenity, happy hearts and happy homes all through the coming year...

Malheur Memorial Hospital



As the sands of time give way to a brand New Year, we wish you all the happiness it has to give. We hope each day fills your world with gladness.

Nyssa Rexall Pharmacy



Get this message: jump for joy! Have a year that can't be beat for just plain old-fashioned glee! Go ahead... Live it up!

The Olympic

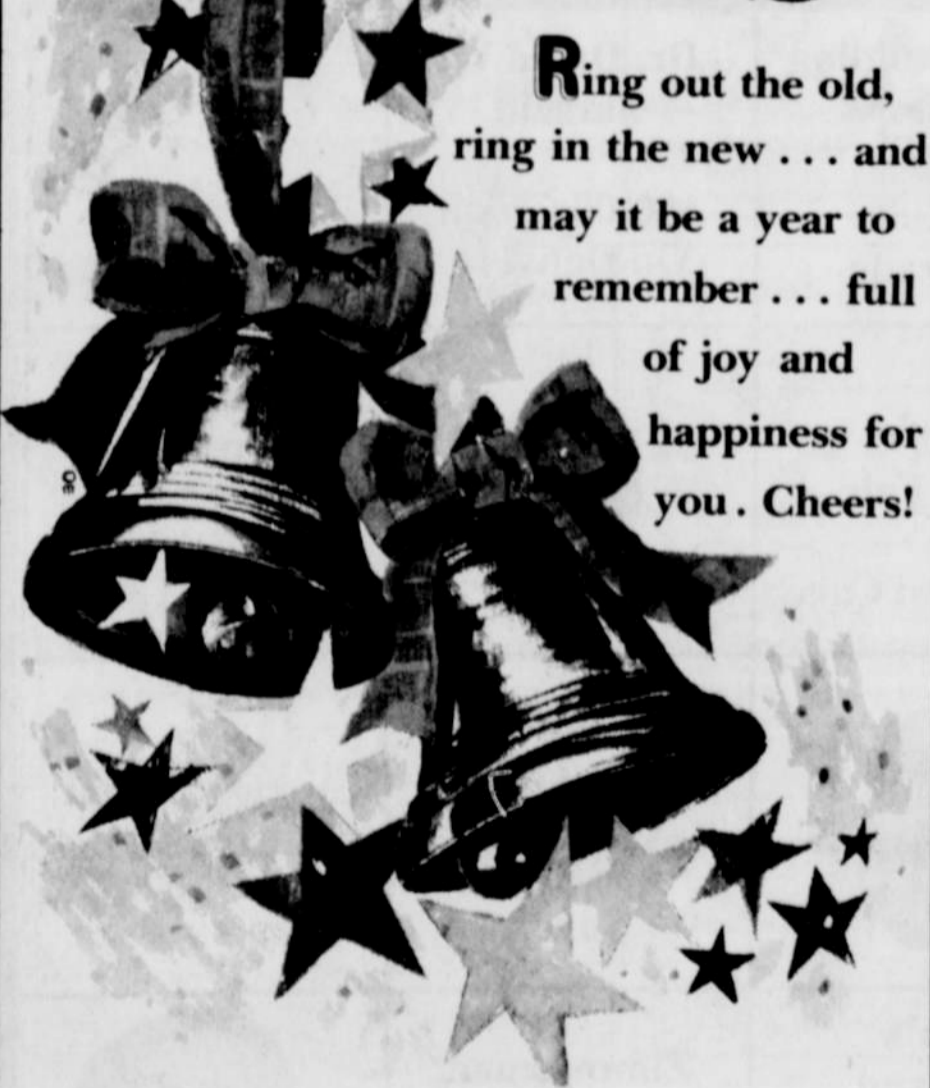


The hands of time just won't stand still. They want to push forward into a bright New Year. We hope it's the best ever.

Steer Inn Drive Inn

New Year GREETINGS

Ring out the old, ring in the new... and may it be a year to remember... full of joy and happiness for you. Cheers!



Farmers Feed & Seed Co.



The world is waiting for the dawn of a bright new day: new hopes, new goals, new dreams. May yours come true this year!

Nyssa Auto Parts