Babson's Business and Financial Forecast for the Year 1977

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in the 1950s and 1960s, even though President-elect Carter's game plan for revitalizing the economy will likely incorporate some measure to stimulate business capital investment.

Corporate Profits

Business profits in 1976 scored a sizable increase over the year before. This reflected generally favorable raw materials costs, selected price increases, and high levels of operations. We anticipate another good increase in 1977, but the tempo of advance will doubtless be considerably slower than that of 1976. On the strength of the projected further climb in business, a 10% gain in business profits for 1977 over those for 1976 should be attained. This will appear pale compared with the estimated 25% rise for 1976, but there will be plenty of room for more liberal divident disbursements in the coming year now that corporate liquidity has been materially improved. It is more than likely, however, that the biggest year-ago gains in corporate profits will occur in the first two quarters of 1977.

Another Busy Labor Year

With the spotlight on the steel industry's negotiations over new union contracts, 1977 promises to be another year of brisk activity on the labor front. Though not quite as numerous as in 1976, major labor pacts expiring in 1977 will still involve close to 3 million workers. In addition to steel, other sectors facing contract talks include communications, aluminum, clothing, and facets of the construction field. There could be trouble in the coal fields again, with a repeat of the wildcat walkouts of 1976. And infighting for the top spots of several unions could produce some unwanted work stoppages.

Despite labor's support for President-elect Carter in the 1976 presidential race, there will probably be a strong appeal from the White House for moderate, noninflationary demands in contract talks. But union negotiators will almost certainly press for all the traffic will bear in direct wage increases and a wide variety of fringe benefits, spurred by the inflation-eroded purchasing power of take-home pay over much of the past three years and goaded anew by fears of additional inflationary spasms in the years just ahead. At this time, however reimposition of wage-price-profits controls does not seem likely, though the threat of such action might be subtly used to fashion peaceful and moderate union settlements.

Building and Construction

From a low point in early 1975 of a seasonally adjusted annual rate of well below a million units, new private housing starts commenced a recovery which continued during 1976. The climb was erratic and fell far short of the feverish peak range in excess of two million units marking parts of 1971-1973, but the late summer and fall weeks of the past year experienced notable strength With mortgage money adequate-to-ample and with mortgage interest rates far less prohibitive than they were in the credit crunch not too long ago, Babson's Reports forecasts another rise in new housing starts for 1977, aided by the perkier pace of multi-family housing construction late in 1976. However, with high building costs, burdensome property taxes, and restrictive conservation, environmental, and zoning regulations acting as strong deterrents to large-scale speculative building, it is unlikely that 1977 can reach the 2-million-units mark for the year as a whole. A goal of 1.8 million starts seems more realistic at this juncture, compared with about 1.5 million for 1976. Industrial and commercial construction will make only modest gains in the coming year.

Employment--Personal Income--wages

1977 prospects for employment and personal income favor new record levels for both of these vital economic sectors. Employment in manufacturing and services should be augmented by a quickening in the building field which has been lackluster over the past two years. The average factory work week should lengthen somewhat. Thus, with improvement in wage rates and salaries, the outlook for personal income in 1977 is for a climb of some 12%. Transfer payments and investment income should also provide some uplift. But net after taxes will not rise commensurately with gross personal income. Also, unemployment will remain a sticky problem, around 7%.

Consumer and Government Spending

Total consumer spending is expected to rule stronger in 1977 than was the case in 1976. While this will be due in part to higher prices, the unit volume of purchasing should also be up by a comfortable margin. Increased employment and rising income levels will make public confidence more positive. Consumers, however, are extremely sensitive to the threat of inflation, and rising prices could bring about spells of resistance.

Public expenditures at all levels of government will increase in 1977, a result of both inflation and a plethora of assistance and social programs. State and local governments will be forced to make some trade-offs because of budget and debt squeezes, plus mounting demand by irate taxpayers for spending curbs. As for the federal government, higher spending is already assured by the present budget which will cover the first nine months of calendar 1977 and by still heavier defense allocations for fiscal 1978 which will be in effect over the final three months of 1977. Federal outlays may be lifted further if efforts to stimulate business and reduce unemployment should take a more ambitious tack than now seems likely.

Farm Outlook

American agricultural prowess was again displayed in 1976 by the third-best crop year on record. This was surpassed only by 1975's peak and the second-best effort racked up in 1973. Going into 1977, there will be good carryovers of most farm commodities. This would seem to imply planting curtailments and/or changes in the crop mix of plantings in the coming year, but the steadily worsening world food gap suggests government pressure and incentives to sustain all-out effort in food production. This may well take the shape of some plan for a food bank.

Washington--Foreign Affairs

The new Administration will have a favorable initial rapport with Congress, but how long the honeymoon lasts remains to be seen. Differences in the degrees of liberalism between President-elect Carter and Members of Congress as well as divergences among Congressmen themselves indicate that the platform of the Democratic Party cannot be taken as fiat accompli. Initially, efforts will be made to spur consumer spending--probably through a $50 tax rebate--and to create jobs. Since most other objectives will take time, national health insurance, reorganization of the government, and a national energy policy may not materialize in 1977. One good thing, however, is that there should be less political rhetoric poor-mouthing the economy in such a way as to upset consumers and investors.

Unless something unexpected forces international affairs into top spot, domestic matters will hold the spotlight at the White House for a while. Regardless of pre-election comments, foreign policy under Carter may differ little from Ford's approach, except for the Mid-east situation and the "fly at any time" tactic of recent years. Though Carter is ostensibly more jealous of U. S. interests in Sino- and Soviet-American relations, the spirit of detente will not be written off. Granted, with the ongoing ferment in the world's trouble spots 1977 will undoubtedly have its share of near-conflagrations, but Babson's predicts there will be no World War III outbreak in the year ahead.

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