

'Peace And Prosperity' Is '66 Forecast

(Editor's note: The following predictions for business and finance were made by Roger W. Babson, internationally known business commentator and investment advisor. A careful checking of the Babson Predictions made in the Business and Financial Forecast for 1965 upholds the remarkable average of the past years by being almost percent correct. In twenty years his predictions have run from a low of 10 percent accurate to a high of 95 percent.)

"Peace and Prosperity" should continue to be the dominant theme in 1966. President Johnson will push ahead in attempts to capitalize on the already existing peace movement with his Great Society program. However, since 1966 will be a Congressional election year, he may find the going less easy than it was this past year; the Congressmen and Senators who are up for reelection will likely think twice

before being so generous with the taxpayers' money. I do not see a complete turning of the tide to optimism in this forecast, but my more than 60 years of experience in predicting trends has taught me that unexpected events are more dangerous than conditions are bright. The health of world leaders may be a prime factor in 1966. These include President de Gaulle, Mao Tse-tung, and even President Johnson.

Perhaps the biggest threat in 1966 will come from abroad. There is evidence that the coalition leadership in Russia may be centralizing into the hands of a strongman, something not seen since the Khrushchev era. Moreover, Africa could again hold the spotlight in the shifting pattern of the "cold war."

I do not look for war with Russia during 1966. Russia is still greatly concerned with trying to bring prosperity to her own people, and is especially troubled about the lag in farm productivity.

THE STRUGGLE for power within Russia may come to a head in 1966. If the strongman is anti-West, he could try to put on a good show by beating up the "cold war," but this should constitute no more than threatening gestures and hold talk.

The Berlin crisis is not likely to be a major issue in 1966, though there could be some nuisance events to "try our patience."

I do not foresee all-out war with Red China in 1966. Mao is not yet ready to risk major confrontation. His lagging farm and industrial programs still loom as major problems, and the task of extending Red China's nuclear progress is a heavy burden.

The foremost task for Red China is to get a seat in the United Nations. While Southeast Asia is an attractive plum, territorial expansion may well have to wait in Red China's timetable, as a peace profile on her part would make gaining a seat at the UN easier. UN admission, of course, would greatly enhance Red China's prestige in dealings with the Afro-Asian nations.

Despite talks of a prolonged struggle in Vietnam, I forecast that it will be increasingly clear that the balance has swung our way. This should encourage our leaders to step up our commitment in Vietnam in 1966 in order to force a "peace conference."

I foresee no crisis over Cuba in 1966. The agreement Castro has made to allow more Cuban refugees to enter the U.S. underscores the problem he has in feeding his people.

The Vietnam situation and the Dominican Republic incident have convinced the Administration that the military might of our nation must be maintained at a "ready" basis. This means stepped-up defense spending, which should add another drop to the economy.

While such defense spending will focus heavily upon conventional military equipment, our space program will not be neglected. Having come from behind in the space race, the Administration is not likely to falter and allow Russia to open another wide gap.

The increase in defense spending notwithstanding, I forecast that the economy will be hard pressed to match the fantastic achievements of the past four years. Threats of major labor strikes have been playing an important role in stimulating inventory accumulation from time to time to look for industrial production to edge to a new high. However, fear the peak will come before midyear and taper off thereafter. On the whole, the business climate in 1966 may well prove to be one of high-level stability rather than of vigorous expansion.

Business capital expenditures, which have been a key factor in prolonging the boom, should remain a strong bolstering influence. However, I predict that they will not provide as much in the way of upthrust for the economy as in the past two years.

Business inventory accumulation, likewise a big factor in the boom, should also be less vigorous expansionary force. Perhaps fears of inflationary price increases will encourage businessmen to maintain a healthy volume of threats intensify. I see no need to pile up much more in inventory.

Consumers will have more money to spend in 1966. I forecast a further upthrust in personal incomes to new high ground. An important influence in this respect is the impact of automatic wage increases which are called for in existing multi-year labor pacts.

gains of the auto and steel workers. I see no radical change in the jobless picture. Let me warn readers, however, that the problem is far from solved, and in coming years we may well have to reckon with it. The draft step-up only temporarily eases things and leaves a false sense of well-being.

Retail trade should enjoy another excellent year. Much of the gain in dollar volume, of course, will come from price rises. Nevertheless, as long as personal incomes, employment, and business hold high, consumer confidence will encourage spending.

Spending for food, apparel, and general merchandise should continue upward; also for leisure time and vacations. Color television is catching on, and I look for continued strong demand in this field.

The automobile business will not be left out in the spending spree. It will enjoy a fairly prosperous year; but I foresee no significant upsurge beyond the high levels of the past two years.

IN VIEW OF THE drain on our gold supplies, the government has been endeavoring to promote domestic travel and vacations. Nevertheless, I forecast further interest in foreign vacations. In one sense, I am happy to see this. I have done considerable foreign traveling, and I feel that such activity is definitely advantageous. Furthermore, I feel that foreign travel can help Americans to wake up to the advantages here at home and make them more thankful for the blessings they enjoy.

Many readers—especially those retired and living on pensions and social security—are worried about the threat of inflation during 1966. The Administration is committed to "non-inflationary progress." However, some price increases appear unavoidable.

I predict that the greater danger will lie in credit inflation, rather than in price inflation. With the rise in defense spending and the cost of legislation for the Great Society, the federal budget will suffer a sizable deficit. In addition, states and municipalities are unable and unwilling to live within their means. Consumers will also go further into debt.

Look for new increases in the cost of living index. The government may try to head off substantial price hikes in key areas, but selective price rises will occur.

Industrial commodity prices should remain firm to higher, particularly in the first half of 1966. The primary bulwark against a price runaway is competition, which should be basically more effective than government influence.

I look for an increase in domestic competition in 1966. This should become more evident as the business upthrust tapers off. Also, we must not forget foreign competition. With many nations feeling the pinch of a dollar shortage, they will work to remedy this by increasing their sales here.

Business in 1966 need fear no major labor upsurges. Strikes, however, may well be numerous among the secondary labor units.

I look for business failures to increase, both in numbers and in dollar liabilities. This will be due to keen competition, excessive debt and inventory accumulations, unwise credit extensions, and careless management.

OF GREATER concern to me is the steady climb in non-farm real estate foreclosures. I expect a further rise in 1966. Business profits in 1966 will not advance as sharply as in the past two or three years. The squeeze is on in profit margins; hence I look for a tapering off in the rise of corporate profits, although I foresee no drastic slump while activity holds near peak.

Looking at the farm sector, I see no radical change from the excellent 1965 year. Barring a crop failure, or severe drought, farm prices, at worst, should shade only slightly lower.

Farm equipment manufacturers should enjoy good business in 1966. This goes also for fertilizer and pesticide producers.

The important building and construction lines should hold their own in 1966, but their dollar volume may be due largely to price and cost inflation. The Great Society program is a plus factor for construction, including urban renewal and highways.

Private home and apartment building could show slight improvement, but the real boom in residential building will not register significantly in 1966.

I forecast that real estate conditions will remain selective. Well-located sites for homes and industrial and commercial complexes will do well, but study of local conditions is imperative.

I predict a further increase in farm land values in 1966. With costs still rising, the physical size of farms must expand so operators can benefit from mechanization. This placeland in the important and larger agricultural regions.

THE STEADY ADVANCE toward fuller automation should make further progress in 1966. With costs still rising, the helping industry to cope with rising operating costs and a shorter work week.

Trees do not grow to the sky; neither does the stock market rise unendingly. While I forecast that the stock market—as measured by the Dow Jones Industrial—can surpass the high mark of 1963, I anticipate a volatile 1966 market with a good-sized drop-off a real possibility sometime during the year.

Even though the stock market may push to new highs, any further advance may be lukewarm percentage-wise. If business and corporate profits show a tendency to taper off, the fundamental basis for a worthwhile advance will be removed.

Speculative enthusiasm and inflation fears can be expected to figure prominently in the stock market during the course of 1966. The urge to make a quick buck is increasingly evident.

I forecast that 1966 will not be the time for illogical speculation and gambling in the stock market. Above all, let me remind readers of the dangers of using borrowed money to buy stocks. Those who "go off the deep end" may well regret it before very long.

Those who invest (not speculate) on the basis of growth will also be high. I have in mind the expanding population, rising incomes, scientific advances, greater leisure, and above all the impact of the Great Society.

Investors should be pleased with cash dividend payments in 1966. I forecast they will show another increase. I would also expect a rash of stock dividends and stock splits.

particular in the first half of the year.

IF BUSINESSMEN, consumers, and investors do not act voluntarily to keep inflationary pressures and speculation from getting out of hand, the monetary authorities may be forced to raise margin requirements on stock purchases, and perhaps tighten credit further.

Look for somewhat lower bond prices in 1966. Although we are not in immediate danger of credit exhaustion, the banking system is under some strain from the rapid expansion of credit in recent years. My advice is to buy bonds which mature in five years or less. The time to buy good longer-term bonds will come when the yields on shorter-term bonds exceed those on long-term issues.

The dollar will not be devalued in 1966. Possibility of devaluation of the British pound will undoubtedly come to the fore again, but additional effort will probably be made to keep the pound from "going under."

I fear, however, that all this is only "buying time" . . . that devaluation of the pound may be inevitable.

I foresee no cure for the outflow of gold from America's shores in 1966. However, in view of the importance of the U.S. in international trade and world military considerations, foreign bankers will be reluctant to withdraw their gold en masse. Bear in mind also that there is no country that can match our industrial and military might . . . and that, among the leading nations, the United States has suffered least in terms of the ravages of inflation and political instability.

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