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WORLD WAR III NOT DUE IN 1957

Home Building to Decline in 1957, Roger Babson Says

BUSINESS AND FINANCIAL FORECAST FOR 1957

By ROGER W. BABSON

Both presidential candidates, in their pre-election speeches, promised PEACE, PROSPERITY, and PROGRESS. They stated that they must do this in order to enforce the Employment Act of 1946. This is the basis of my Outlook for 1957, tempered of course by Russia.

1. World War III will not start in 1957.
2. 1957 will witness gradually increasing inflation.
3. Manufacturers will be faced with higher costs for both materials and labor.
4. All businesses will be confronted by increased competition, both within their own industries and from other industries.
5. More advertising will be necessary in 1957 if profits of manufacturers and retailers are to equal those of 1956.
6. Failures will increase in 1957, both as to numbers and liabilities. Thousands of small concerns will be wiped out. One or two of the largest corporations will face bankruptcy or re-organization.
7. Cost of living will rise slightly during 1957.
8. Most labor unions will hesitate to make public fights for higher wages, but will work for shorter hours, pensions, and "fringes."
9. Europe must pay so much more for oil that it will have less money for purchasing other goods.
10. Unexpected events will occur during 1957; however, as a whole, business will remain fair, but with smaller profits.

MONEY OUTLOOK

11. As foreign countries must pay in gold or dollars for oil, their industries will be handicapped, unemployment will increase, and pressure for aid from the United States will be greater.
12. The Federal Reserve Board will not relax its restrictions so long as we have full employment in the United States; but if unemployment increases we may expect a relaxation. I am very glad Mr. Robert Cutler will again be Mr. Eisenhower's adviser.
13. Owing to the tremendous numbers of employees, suppliers, and retailers dependent upon the large corporations, these will be first to receive bank funds.
14. Many plans for expansions of plants, by both big business and little business, will be postponed. Most corporations will find it difficult to get new short-term money at any price in quantity; while long-term financing will be too expensive.
15. Tight money will cause state, municipal, and town governments to postpone plans for building roads, schools, and hospitals except in cases where the Federal Government pays most of the costs. This will put a damper on many lines of business.
16. Owing to these increased money rates, state, municipal, and town bonds, although tax free, have been declining rapidly in price. Most financial advisers forecast much lower prices for such securities. It is possible that the postponement of such building plans may so diminish demand for such money that these non-taxable bonds will sell at higher prices before the year is out. This postponement may also

reduce the price of steel and other materials.

17. The money managers for each corporation, large and small, will now arrange their financing needs for two years by either securing the necessary funds now or reducing their requests.

18. Prices of corporation bonds will not recover so quickly as the non-taxables. I forecast lower prices for most corporation bonds.

19. Many of the smaller and newer corporations will be much disappointed by their inability to secure funds during 1957, except by selling convertible preferred stocks on terms very favorable to investors. It is well to issue such securities when money rates are low because the advantages continue for many years; but not when money is tight, as such securities then tie up the borrower for a long number of years at high rates.

20. This means that 1957 will be a good year for investors to switch from low-yielding stocks to attractive bond issues.

REAL ESTATE OUTLOOK

21. Home building, corporate expansion, and municipal improvements will decline in 1957. Therefore, it will not be a good year for speculating in real estate.

22. Interest rates on mortgages will be higher in 1957. Loans not "federally" guaranteed will require larger margins.

23. Real estate in large cities will continue inactive with declining prices due to lack of parking facilities.

24. Suburban real estate will continue active, but fewer new houses will be built. Houses will be for sale by executives who have lost their well-paid jobs.

25. Purchasers will give more attention to the size of the lots than to the houses. Better locations can be secured by buying existing houses. Modern kitchens will become a "must."

26. Acreage near proposed shopping centers will be excellent for speculation. The automobile will continue to raise havoc with real estate prices, helping some locations and hurting others.

27. New inventions in connection with heating, lighting, and other features will make most older houses obsolete.

28. Large commercial farms will continue prosperous. Small farms on the fringes of cities will be more valuable. The outlying medium-sized farms will be both expensive to operate and hard to sell.

29. The nearness to schools, churches, stores, and bus routes will become a more important factor in the re-sale of homes.

30. Those wishing to own a well-located home to occupy will find 1957 a good year to buy or build; but a dangerous year for speculation.

STOCK MARKET OUTLOOK

31. It is foolish for anyone to now forecast the stock market for 1957. The Dow-Jones Industrial Average, now around 490, may decline to 400 or advance to 600 during '57.

32. All investors will want "safety," but wise investors will first decide whether they also want "income" or "profit." Only by luck can you obtain all three features with certainty during 1957.

33. Investors can buy, during 1957, well-seasoned pre-

ferred stocks (preferably cumulative) which will give, with safety, a yield of near 6%. I will gladly send, free of charge, a list of such to any reader so requesting.

34. During 1957 good utility stocks should be attractive for yield and marketability. The demand for electricity will continue to increase throughout 1957.

35. The above two recommendations apply to those in moderate income tax brackets. The investor in medium or high brackets will buy during 1957 non-taxable state, municipal, or town bonds carrying "full faith and credit." Taxes will gradually increase during 1957, and non-taxable bonds will be more in demand from wise investors.

36. I am not now prepared to advise readers who do not care for income, but only for profit. As above stated, the Dow-Jones Industrial Average may approach, during 1957, either 400 or 600. It will be very easy to make a mistake by either buying or selling stocks at this time, except for intelligent switches. I am willing to say, however, that readers should not get panicky and sell their oils. Even Gulf Oil, which has the largest interests in the very rich Middle East fields, should not be sold.

37. All sensible investors will carry good bank balances and reserves during 1957 so as not to be caught, whatever happens.

38. There should be no panic in the stock market during 1957. Stocks will either fluctuate near their present levels or else will gradually slide downward or upward. It will be risky to borrow money to buy stocks in 1957; rather, one might sell stocks to get out of debt.

39. The way to make money in the stock market is: (1) Confine your purchases to the stocks of the leading companies in each industrial try; (2) Diversify moderately and do not try to pick out winners, remembering that, whether you buy or sell, someone (probably as smart as you) is doing the opposite at the same time; (3) Store up cash when most people are bullish; use this cash to buy stocks when most people are bearish.

40. We are no longer on the Gold Standard but on a Political Standard. Although the Law of Action and Reaction will ultimately rule, yet periods of prosperity can artificially be extended by manipulating money rates, subsidies, and other financial props.

41. Every reader should have a little stock in one of the local banks in which he has his account. Bank stocks should make money during 1957, whatever the "blue chips" do.

INTERNATIONAL AND OTHER AFFAIRS

42. During 1957 the Administration will do everything possible to keep us out of war. It certainly will not get us involved with England, France, Israel, or their allies.

43. So long as President Eisenhower is in good physical condition (as Commander-in-Chief), he will back the United Nations with our Army, Navy, and Air Force. This is the only way in which he will be tempted ever to enter World War III.

44. The United States will not use the A-Bomb or H-Bomb during 1957 or give these bombs to any other nation. However, to save the United Nations, President Eisenhower will give that organization all the bombs it wants.

45. 1957 should be a good year to make tax-exempt gifts to colleges, hospitals, and other worthy causes. You, however, should give a stock which shows you a profit, and let the beneficiary do the selling. 1957 should be an especially good year for such institutions to make drives for funds.

46. Household items will avoid making unnecessary purchases on installments until the international situation clears. Several feasible plans are being considered, one of which is to have a very small tax on every gallon of oil moving through the Canal with the understanding that the

money will be used for financing the Great Dam on the Nile River which the Egyptians so much need. This would make unnecessary any expropriation of the rich Middle East oil reserves and any re-negotiations. Either expropriations or re-negotiations will scare our investors out of making further foreign investments.

47. The big thing that Russia wants is not so much the oil fields as freedom to pass through the Dardanelles. This will be an important feature of a settlement of the Suez Canal problem. I further forecast that the Republic of Panama will attempt to undo the "steal" which we perpetrated in 1904, in order to build the Panama Canal.

48. I would be unfair to readers of this Forecast not to mention the great importance of Mr. Eisenhower's health. In connection with any building, business, investment, or other program, it should be continually kept in mind.

49. Better fed and more intelligent populations, both in the United States and elsewhere, will continue to increase. Important new discoveries and inventions will take place. Twenty years ago we were enjoying the prosperity brought on by the Electrical Era. Then followed the Motor Car and Oil Eras which we have recently been enjoying, plus a Chemical and Building Boom. These coming together account for the great prosperity of the last ten years. Some time we will witness a business readjustment, but it will be followed by a new Electronic and Nuclear Era. Therefore, be optimistic.

50. In closing, I urge my friends to read the 8th Chapter of the Bible Book Deuteronomy, which was written 3000 years ago and is as applicable today as ever. Incidentally, it mentions Egypt, which even then was an important factor in world events.

Babson Rates Tops As Business Expert

American business has no more inspiring personality than Roger W. Babson, internationally known business commentator and investment adviser. An outstanding feature of his philosophy has been his lifelong insistence on the importance of both religion and advertising in business.

Born and reared in an old-fashioned atmosphere of hard work and hustle on a farm in Gloucester, Babson went to the Massachusetts Institute of Technology. Upon graduating, he turned instinctively to financial and business activities in which his father was engaged.

Good As Dead
His exertions, however, undermined his health; he contracted tuberculosis and he was sent West "as good as dead!"

It was while he was convalescing from this dread malady that he worked out some of the possibilities and problems of business forecasting. His weekly releases are used by over 400 newspapers and his financial reports by 20,000 corporations and estates. His research work is carried on by a large staff of experts.

Founded Schools
Babson founded Babson Institute for Men; and in cooperation with the late Mrs. Babson, developed Webber College for Women—both nationally known educational institutions. Here young men and women may concentrate on the fundamentals of honest and efficient business administration.

Later, he founded a Midwest Institute of Business Administration, located in Eureka, Kas., the center of the United States. He has been active also in the establishment of other mediums of service to the public, such as the Gravity Research Foundation, located at New Boston, N.H.

Babson has probably done more than any other man to create among his millions of newspaper readers an interest in simple business problems, and to instill a broader vision in businessmen, enabling them to meet the ups-and-downs of the business cycle.

U. S. Steel Announces Pay Raise
United States Steel Corp. recently announced that effective during the first pay period of the new year a three cents per hour cost-of-living increase will be required under the three-year labor agreements signed Aug. 3 by the corporation and the United Steelworkers of America, and under agreements with unions having similar provisions.

The cost-of-living adjustment is based on the Bureau of Labor Statistics Consumer Price Index and calls for an increase of one cent per hour if the index rises over 116.6; two cents per hour if the index registers 117.1; three cents per hour if the index reaches 117.5 and four cents per hour if it reaches the level of 118.0.

The index was 116.2 on June 15, advancing to 117.8 on Nov. 15, bringing about the upward wage adjustment.

Under the agreement, changes in cost-of-living adjustments, whether upward or downward, are applied each six months during the three-year contract.

Behind the Scenes

By REYNOLDS KNIGHT

An alarming portent for the new year came out of the just-ended hearings by Rep. Alme J. Forand's House subcommittee, dealing with repeal of the so-called wartime and Korean emergency excise taxes. This was the statement, made to the subcommittee by the Internal Revenue Service staff, that "these taxes are now considered a permanent part of the revenue structure."

Anyone who can remember back to late 1941—or troubles himself to read the debates in Congress on those taxes—knows that permanence was the one characteristic these taxes weren't to have. Several members of the House objected that this or that levy had unwholesome side effect. Each time the majority insisted that the taxes would expire with the emergency, and the ill effects would die with them.

One example of these whimsical injustices of these levies is the tax on water heaters. There are 38,000 items in a comprehensive plumbing supply catalog, and all of them go tax-free except the water heater. But because some zealous planner, 15 years ago thought water heaters used copper and steel and labor that might go more directly into

preparedness items for looming World War II, the water heater user must pay nearly 10 per cent more than he otherwise would.

L. R. Mendelson, chairman of the tax committee of the Gas Appliance Manufacturers, went down to Washington for the hearings, to protest continuance of the levy on the ground of the disparity of treatment between water heaters and other equipment. Congress meets next month, and will act on a report by Rep. Forand.

Small Miracles — The nation's largest manufacturer of semi-conductors predicts that the making of these tiny electronic miracles will be a \$300-million-a-year business by 1960. Semi-conductors — variously called transistors, diodes and rectifiers—take the place of vacuum tubes.

Largest maker of these little devices is Hughes Aircraft Co. Recently Joseph S. O'Flaherty, division manager, explained that the company got into semi-conductors because of the high standards of performance required in the electronic armament control systems it provides for the Air Force. The semi-conductor di-

vision has grown from that beginning to where it now employs 1300 persons working two shifts a day in six buildings covering 135,000 square feet.

Things To Come—A coffee vendor for factories brews by puncturing the can and forcing hot water through the holes. . . . You can mark metal objects permanently with a stainless steel-and-plastic hand stamp. . . . A 1/4-ounce flashlight has a snap switch, so it will stay lighted while you fumble for keys, etc., with both hands. . . . You can now spray a plastic bandage, containing an antibiotic, from an aerosol container onto the area of a burn, minor cut or scratch. . . . Imported from Germany is a vacuum cleaner that attaches to the exhaust of your car. Run the engine and suck the dirt off the upholstery.

Sugar Surplus Gone — Producers of sugar in Cuba and the lesser Caribbean supplying countries are rejoicing that the sugar surplus which had troubled them ever since the end of World War II appears to be past. Actually, the surplus has moved from the pro-

ducing regions into the inventories of large-scale users. Even that is a gain for the raw-sugar regions.

This year began with a total-use quota for the United States, under the Sugar Act of 1948, set at 8,350,000 tons. Secretary of Agriculture Benson raised this a little bit at a time to 9 million tons, the final figure. For 1957, it is reported, he will start the quota at 9 million tons and leave it there.

Reason the users have the sugar is that refiners raised prices four times during the year. Each time they gave enough advance notice that large bakers, bottlers and candy makers could stock up. With a 3-million-ton quota, they will have less cause to do so in the coming year.

Bits o' Business — Freight rates increase 7 per cent the day after Christmas on Eastern railroads. . . . Livestock production this year was 112 per cent of the 1947-49 average. . . . Treasury short-term borrowing grows more costly by the week. Latest issue drew 3.331 per cent interest. . . . Paper output this year will surpass last year's by 5 per cent or a little more.

VEHICLE REGISTRATION STATEMENTS IN MAIL

Vehicle Registration 2-24 saw six million vehicle registration statements are in the mail today for delivery to California motorists.

They are ready for submission by registered car owners at over 400 service points in the state, including 120 Department of Motor Vehicles permanent offices, 125 temporary stations in metropolitan area banks, places served by traveling registration crews, and auto club and association offices authorized to serve their members.

Official opening of the application period is Jan. 2, and fees may be paid without penalty through Monday, Feb. 4. Renewal insignia for 1957 features a reflectorized red sticker to be attached to the rear license plate.

Check Accuracy
Paul Mason, director of motor vehicles, asks all owners to read the cards carefully to check accuracy of name and

address, and description of the vehicle. He urges each applicant to help speed the department's service by typing or printing his name and address on the blank lines of the right hand stub of the familiar statement card.

He warns that the stub must not be detached from the main body of the card.

Bank Service
He pointed to the bank service which starts Jan. 2 as an outstanding contribution for the convenience of the public. Renewals at the bank stations, he emphasized, are limited to applications which can be processed by submitting the fees with the pre-punched statement cards mailed by DMV.

Persons who fail to receive statements are still responsible for their registrations, and may apply at regular DMV offices by presenting last year's cards or white slips.