



Nicholas on disaster list

Nicholas County has been included on a list of adjacent counties to those declared federal disaster areas because of the Dec. 7 flood and county residents who suffered flood damage to real or personal property may be eligible for long-term, low-interest loans from the Small Business Administration.

Bath, Bourbon, Fleming and Harrison counties were among the 33 named as disaster areas. Nicholas is considered an adjacent county and as such is eligible for federal assistance for flood damage.

The loans are available under the

SA's Physical Disaster Loan Program. They are designed to aid in returning flood-damaged property to pre-disaster condition as nearly as possible.

Interest rates on the loans to homeowners, business owners and renters are 7.75 per cent based on the average rate of money to the government.

Maximum maturity of the loans is 30 years with payments based on the borrower's repayment ability.

The Small Business Administration is expected to open at least four disaster centers in Kentucky. The deadline for returning disaster loan applications is

Feb. 13, 1979. For further information flood victims can call the statewide toll-free hotline at 1-800-423-6276.

Sidney Crouch promoted

Fred A. Shinkay, President of Mercantile Trust & Savings Bank, Quincy, Ill., has announced that the bank's board of directors has approved the appointment of Miss Sidney D. Crouch to the position of Vice-President and Trust Officer. Miss Crouch has been with Mercantile Bank since July of 1974 in the position of Trust Officer. With the promotion announced today, she will assume managerial responsibility for the Trust Department.

A native of Carlisle, Miss Crouch holds a Bachelor of Science degree from the University of Kentucky, a Masters of Arts degree from the Ohio State University and a law degree from Loyola University of Chicago. Prior to joining the staff of Mercantile, she was employed as an Estate and Gift Tax Attorney for the Internal Revenue Service. Chicago. She has also held positions as Trust Administrator with Continental Illinois National Bank and Trust Company of Chicago and as Assistant Loan Officer with the University of Tennessee at Knoxville and the University of Akron in Akron, Ohio.

In addition to her work at Mercantile, Miss Crouch is active in several



Miss Sidney D. Crouch

community organizations including board memberships at John Wood Community College, the United Way of Adams County, the Adams County Mental Health Association and the Quincy Society of Fine Arts. She holds memberships in the Illinois State Bar Association and the Adams County Bar Association.

Hinkle gets state contract to pave Lakeshore Drive

Hinkle Contracting Corporation of Paris has received a \$2,000 contract to surface one mile of North Lakeshore Drive from Ky. 1406 to Hickory Ridge. Transportation announced last week.

Down the drain

County employee Jim Marwell pours out a bottle of confiscated whiskey last Tuesday at the Nicholas County landfill while Sheriff J. W. Eaton, Jr. and District Judge G. A. Pamular watch. The liquor was part of a cache

confiscated by state police during a recent raid on the '33 Club. More than 2,000 containers of beer and liquor were destroyed or poured out last Tuesday. — Photo by Jeff Kerr

The Carlisle Mercury

Our 111th year, No. 52

Carlisle, Kentucky, 40311, Thursday, December 28, 1978

20 cents per copy

The Babson Report

Upward business cycle may slow in '79

Predicted recession may be 'no-growth' period instead

Babson's Business and Financial

Forecast for 1979.....
By Babson's Reports Inc., Wellesley Hills, Mass., Dec. 28, 1978. A year ago, our forecast for 1978 anticipated further progress on the business front. Despite a long coal strike, an advance to peak levels of interest rates, and the appalling decline in the value of the U.S. dollar against the stronger currencies of the world, general business did actually display more staying power than had seemed attainable. Unfortunately, the specter of inflation — about which we had warned — also made its presence felt during the past year. This crucial "hidden tax" proved to be a dual-edged sword. On the one hand, the inflation psychology prompted buying of durable goods and homes in expectation of higher prices, thus helping to sustain the powerful business pace; on the other hand, inflation was instrumental in generating the flight from the dollar and the consequent poor performance of the stock market. So, 1978 saw public confidence undermined by anxiety over the twin forces of inflation and soaring interest rates, even while there were healthy advances in industrial activity, employment, personal income, and corporate profits.

1979 — Some Letdown for Business
As 1979 makes its debut, the present uptrend in the business cycle is already considerably longer than the average life span of this nation's expansion phases. This does not automatically — and of itself — mean that a trend reversal is imminent, but a cyclical upturn which has lasted 44 months is obviously vulnerable. After careful consideration of all relevant factors, the staff of Babson's Reports predicts that the American economy will slip into a recession in 1979. Until early fall, it appeared that enough business vitality existed to sustain the economic upturn through the better part of 1979, or at least to avert a recessionary setback in the course of the year.

The situation was changed, however, when the Administration and the Federal Reserve took radical measures to dampen the forces of inflation and to arrest the weakness of the dollar. The chief steps were the further boost in interest rates and the tightening of credit, plus the implication there might be further moves if necessary. With interest rates extremely high, prospects are obviously unfavorable for such economic barometers as inventory accumulation, home building and general construction, business capital expenditures, and consumer purchases of automobiles and other high-priced items.

Deep, Prolonged Recession Unlikely
Though a recession is now more a distinct likelihood than a mere possibility, its probable severity is a matter of debate. A good deal will depend not only on how much additional pressure the nation's leadership will bring to bear upon inflationary forces but also on its degree of determination. To back off too soon or to fail to administer enough pressure could allow inflation to regain momentum quickly, perhaps necessitating subsequent measures far more harmful to the economy than a job properly done at this time.

With the economy at its present extremely high level, the anti-inflation game plan will not produce traumatic consequences. Babson's forecast, instead, is a winding down in the business tempo of sufficient intensity and duration to qualify technically as a recession — that is, at least two successive calendar quarters of backtracking in national output. We look for the real gross national product (output of goods and services less inflation

to record slippages in the second and third quarters of 1979 after a fairly decent opening quarter, with a recovery beginning sometime in the final three months. Should the scenario work out this way, the 1979 recession could as well be described as a "no growth" period, mild in comparison with other recessions in our past history. Of course, there is bound to be some disruption, but this would be a small price to pay compared with what might happen if inflation were allowed to run unchecked.

Plenty of Worries — Hopes Too
There may be as many reasons for public uneasiness in 1979 as there were in 1978. Prices will rise further — though not as sharply as in the past year — and there will naturally be concern about the effectiveness of the battle against inflation. Also, the diminution of business vitality will spawn fears about possible layoffs, reduced job openings and less hefty pay checks because of curtailments in overtime and shorter workweeks. In a year chock full of key labor contract bargaining, the threat of strikes will be much in evidence. There could, of course, be some optimistic influences. If anti-inflation efforts make some headway, for example, the status of the dollar could improve, lifting the confidence of exporters and businessmen.

Gross National Product
Gross national product — on the basis of current dollars — will undoubtedly trend higher, owing principally to inflation. But the gain will be substantially less than that of 1978. Activity in the credit-dependent sectors of the economy will slow, and government spending for most of the twelve months ahead will be more restrained than in past recessions, reflecting the new-found concern of the electorate with paying public spending and achieving tax relief. How long this attitude will last under recession pressures remains to be seen... and especially the effects upon the country's legislators at all levels. Though the economy may stutter during some of 1979, the real GNP (with inflation factored out) still ought to be able to outpace a diver of an increase of about 2 percent for the year as a whole.

Industrial Production
Despite price inflation along a broad front and the sequence of steps in borrowing costs in 1978, the urge to set before prices advanced even further brought sales of cars and houses last year to a higher level than one would have thought likely. Since consumer demand in these — and a number of other — fields represented at least to some degree an advance signaling from 1979 markets and the incurring of debt in the process, the task of duplicating last year's results seems formidable. With interest rates now even higher and credit supplies tighter, the task for the next twelve months will be even more arduous. Babson's forecast for industrial production in 1979, therefore, is for a moderate — around 2 percent — backslide from 1978 levels. Strong showings in output of transportation equipment, military goods, and computer equipment — plus a rebound in coal mining — should help to prevent a more painful slump in total industrial production.

Business Inventories
The economy will not receive any upward impetus from business inventory accumulation during much of 1979. Management's thinking on this matter will reflect the high cost of borrowed money, while the need to stockpile will diminish as industrial activity slackens. There are, of course, bound to be sporadic inventory build-ups owing to possible labor disputes, but these will give way to liquidation once the danger is over. For the coming year, the key consideration is that the country will not be confronted with an economic adjustment either caused by or intensified by top-heavy inventory positions. The need to liquidate redundant inventory

holdings has spawned many a cyclical business down-phase in the past. But during the last three and a half years, businessmen have by and large kept their investment positions lean. So, while inventory policies will not impart much stimulus to business in '79, neither will they drag it down.

Business Capital Expenditures
Business outlays for new plant and equipment lagged markedly in the early stages of the economic advance that began in the spring of 1975. This was perfectly normal since there was an abundance of productive capacity at that time. Over the past two years, however, capital expenditures have gained momentum as declining production rates have increasingly eroded plant facilities. Rising operating costs and the exigencies of complying with environmental quality regulations have also spurred spending for more efficient equipment. But the upturn in the cost of borrowed funds has adverse implications for capital investments. For 1979, the staff of Babson's Reports expects only a modest increment instead of another smart increase — perhaps amounting to three percent in real terms and about ten percent with inflation included. Yet, outlays will still run at a brisk tempo, sustained by hefty backlog.

The Labor Front
1979 faces a busy schedule of labor negotiations involving a number of important industries such as petroleum, trucking, auto, electric products, and rubber. The voluntary wage price restraints will undergo stern tests in these bargaining sessions. Labor groups have expressed disapproval of the seven percent ceiling on wage hikes and fringe gains combined. They will acquiesce only if the deal is applied to direct wage increments alone and if living costs are restrained. It is too early to rate our formal controls on pay rates and prices.

Building and Construction
Residential building enjoyed a banner year in 1978. Generally available mortgage credit — though at costly rates — kept housing starts extremely high. Added to the need for shelter (dictated by population pressures) was the impetus to home building stemming from the inflation psychology. Now that mortgage rates have reached levels making home ownership more difficult, and tighter bank credit has adversely impacted mortgage money supplies, home building faces a slower year. Babson's is forecasting a decline from around 2 million units in the private sector for 1978 to some 1.6 million for 1979.

In heavy construction there will be little real growth. Government and corporate budgets are under stress, and building costs have risen significantly. A sharp slowdown, however, is not anticipated.

Corporate Profits — Dividends
Business profits recovered from an opening-quarter loss owing principally to the effects of the cost strike, and the balance of 1978 experienced excellent operating results. But 1979 will not see a repeat of the past year's outstanding achievement in corporate profits. Militating against it will be further cost advances, slower business conditions, the restraints on price boosts, and the widespread repercussions of the seemingly unavoidable OPEC hike in oil prices. Babson's is projecting for 1979 as a whole only a slight upshifting in corporate profits after taxes, and even this will be mostly the result of the slight prying of federal corporate income taxes. Still, by historical comparisons, the 1979 profit level will look good.

Strengthening corporate financial positions over the past three years will permit well-maintained dividend payments, and there can still be a goodly sprinkling of rate step-ups.

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