

Babson report trends indicate '85 to be good year

Continued from page 1

Report looks forward to a year of slow but steady growth in 1985.

Business Outlook

Recent economic indicators are heartening, but the American economy remains more solid than it generally perceived. Even though public sentiment is not as widespread as it has been when the economic recovery was beginning, there is an widespread sense of optimism. Nor should there be since the trend of economic activity is still upward and employment and income conditions remain generally favorable.

Moreover, the economy has not developed the major excesses which in the past have led to advanced stages of the business cycle. This time, consumers became more selective in their spending, since post-war needs were satisfied. Progress in shifting consumer demand, diminishing inventory excesses, and a variety of other factors are contributing to a more stable economic environment.

In the housing sector, high interest rates in recent years served as a deterrent to the private sector's investment in building. In addition, during this economic recovery, expenditures on new housing have focused capital expenditures upon productivity enhancing equipment and systems, and there has been no slip in the vital task of keeping a close watch on costs.

With the economy on the firm ground, therefore, we look for further growth at a moderate rate well into, and likely through, 1986.

Stock Market Outlook

Although the staff of Babson's Report does not expect 1985 to replicate the rally of 1984, the concentration of major price increases which were prevalent from the second half of 1983 through the first half of 1984 is anticipated. The pace of business during the year should be an improvement over that of the second half of 1984.

The nation's real gross national product (GNP) is expected to show a steady upward at a pace somewhat above the average business growth rate of 1984. The important thing is that the underlying trend will be upward.

Thus, the real GNP's average reading for the four 1985 quarters should be a shade above the 3% mark compared with that of 1984, again well below the estimated 5% increase in 1984 versus 1983.

The Federal reserves index of industrial production, seasonally adjusted, is also expected to climb up moderate gain during 1985. While month-to-month readings are apt to show seasonal swings, the trend will be upward through the year ahead.

It should be the third consecutive year in which the indexes of output of the nation's factories, mines, and utilities will average higher than the preceding year. Since this lattermost indicator is the most volatile, it is expected to show the largest gain in dollar value, the inflation factor is not expected to rise as much as in 1984. The Babson staff does not expect a real advance in 1985.

All in all, Babson's year-ahead forecast of around 3% seems attainable and, in fact, is a conservative estimate.

Consumer and Government Spending

One of the principal causes of the dramatic slowing of the economy's growth rate after mid-1984 was the tightening of consumers' purchasing power. Monthly retail figures during that period were hard to put into perspective since sales took a sharp decline. Although a more moderate pace and industrial production in 1985 will likely average around 3%.

Government expenditures will likely continue to contribute vitality to the economy in 1985 with outlays for defense again a mainstay.

Corporate Profits Outlook

After an impressive first quarter, corporate profits after taxes were disappointing over the balance of the year, with the full year estimated to have been only 2% of the 20% mark compared with the 21.6% advance

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Minor irritations caused by smoke, wind, air conditioning or too humidity can also be relieved by a drop of lens lubricant. It is recommended, however, that these contact drops or soft-lens lubricants not be used more than four times a day. NOTE: These symptoms can also be due to deposits that have formed on the lenses.

There are a variety of solutions on the market that can be used. Your optometrist may have a particular recommendation for your eyes. He knows his reasons; check before you buy!

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Continued on page 8

support program — will expire in 1985. So once again President Reagan will have an opportunity to press for broad changes in the way the federal government levies and collects taxes.

Congress will likely pass such legislation before the end of the year. The President probably will not veto such legislation. It is expected that the President will sign such legislation before the end of the year.

Most individual taxpayers probably will not see a large change in their tax liability during 1985. Babson's Report forecasts that most changes enacted next year will take effect until October 1, or later.

Firm Policy Debate

Firm policy debate could be bitter and frustrating over a final agreement package must take into consideration tax reform and general budget limitations. Hence, 1985 may not see much progress toward reaching debt-reduction targets.

Rate Hikes

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IRS publication provides assistance

The Internal Revenue Service offers five year-round tax tips as well as a thorough guide to filing season tax information in the informative Form 1020-1024.

Arab oil strategy in 1985

An important favorable aspect of the one-year economic update has been the continuation of oil industry pressures. The softening of prices for petroleum products, abundant foreign goods, and only moderate wage hikes held inflationary pressures fairly steady in 1984, but the higher award than in economic activity will undoubtedly cause the consumer price index to make a bit higher, mainly in the second half, averaging in the 4% to 5% range compared with the estimated 4.2% rate for 1984.

Generally adequate supplies of materials will be a restraining factor on the rise in industrial prices in 1985, but prices will trend higher, reflecting wage hikes and rising overall operating costs.

Bank and Bond Outlook

The strict disapproval and indicative stock market behavior during 1984 has left investors "out on confidence and long on doubt" when it comes to prospects for 1985. While the federal budget deficit problem will be agonized over at length and fears of a recession may not fade away, it is Babson's feeling that the negatives have been largely discounted. Thus, with some overall swing on the monetary front likely, investors should be more responsive in 1985 to favorable developments.

For the record, the Dow Jones industrial average can fluctuate within a range of 130 to the lower end and 1300 on the high side, with any significant variance from that range likely to be at the upper end.

Although its progress will not be smooth, the bond market also should show firm to higher price tendencies overall in the year ahead. Therefore, Babson's Report favors adding to both stocks and bonds, particularly in price pullbacks, during 1985. However, the firm should be on equal value and relevance to individual portfolio requirements.

Iranian oil strategy in 1985

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