

Our Changing Economy

How to Become An Economic Seer

By Philip Stoddard Brown

FORECASTING is easy once you get the hang of it. Let me illustrate one common, beautifully-simple technique.

Start with an official forecast for new construction. The Departments of Commerce and Labor "estimated" in mid-November that expenditures in 1959 will be 7 per cent higher than in 1958. This was based on a lot of assumptions, including that of "a continued rise in the Nation's total output of goods and services," but let's not be pedantic.

This increase will cause the output of lumber, window glass, cement, structural steel and hardware to be greater. Higher payrolls in these industries will lead to more automobile sales . . . and, so one sweeps along from industry to industry, pausing to make an assumption here or there about government spending, exports, etc.



Brown

Typist Can Help

Then the grand finale: "Output of goods and services in 1959 will be 15 per cent higher than in 1958." Some forecasters may think it sounds better to say: "GNP will hit half-trillion." With this framework set, one's typist can fill in some sage remarks about hardgoods and softgoods and the ever-present threat of inflation.

If one wants to arrest attention—and become known as a bold, independent thinker—a good device is to pursue one's lips shrewdly and begin: "Indications point to . . ." Of course, some point up and some down and some don't point. But one may choose to say they point to a poor year for Detroit auto makers and that sales are likely to be well below expectations.

This can produce disappointing sales in a score of industries and have repercussions on others. It can cause a healthy reexamination of inventories, a critical review of capital budgets, questioning of estimated earnings and a technical readjustment in the stock market. Possibly a severe shakeout!

After this warm-up, a sharp drop in the sale of Cadillacs is indicated and the reader can be hustled along to a good gloomy forecast—one that is "neither conservative nor radical."

Some forecasters condemn such non-statistical generalizing about specific industries. They prefer to operate within the framework of national income accounts and are more precise about their assumptions. But, precision doesn't validate an assumption.

The objection to forecasts arrived at by these procedures is that they may prove wrong. There's always the tactless guy with a long memory who will corner the forecaster at a dinner party some day. For this reason, I prefer a different technique.

Simply a Sober Assessment

My own forecast for Washington, and the country as a whole, is not cynically devised to get publicity. It is simply a sober assessment of the outlook now—one that could change if war broke out between United States and Russia. This is it.

1959 will be a good year for many businessmen and most of those who have jobs. However, merchants who can defer until next June any commitment on late spring and summer inventories are advised to do so. By that time the situation in West Berlin and the Middle East will be more easy to assess.

Consumers will go on spending, especially for food. Population, by the way, will increase about 8000 a day. (Most of the babies will be born in 1959 are already in production and others—well, they will come along. Deaths will run a little ahead of last year.) . . . The costs of entering and leaving life may be expected to increase again in the ensuing year.

As for automobiles: output in Detroit may be a little more or less than last year, but the number of cars in use will increase sharply as those recently turned out are divided in two. This split-up will boost payrolls of garages in Washington and elsewhere and create a big demand for blowtorches.

Commodity prices will be mixed. The stock market will be selective. Investors are advised to review their portfolios (that is, the stocks they own) and cull out or sell stocks that are vulnerable, replacing them with "defensive stocks" that others are willing to sell because they regard them as overpriced. . . Those who have over-extended themselves with real estate face an anxious year.

The farm outlook depends not so much on what Ezra Benson does this spring as it does upon the weather in the Latter Days of the growing season.

Observations on Inflation

Everybody wants to know about inflation in the coming year—especially those who have "a deep-seated fear" that it will proceed too slowly—so here are a few original observations that I venture on my own responsibility without committing this newspaper.

Inflation will continue to creep and be a specter in 1959. But since we are all pledged to fight it (tooth-and-nail, of course), there is reason to believe that it will not get out of hand.

Labor, now that it has come of age, must exercise self-discipline and limit its demands to the rewards of its own increased efficiency. Management, too, has a responsibility here.

Every housewife, and teenager too, must fight for sound money to avoid the slow erosion of the dollar's purchasing power. Each of us must refuse to buy goods that are over-priced, except where business would be hurt, or children denied, by doing so.

But the greatest support that Ike and the Fed and Harry Byrd will receive in holding the line against inflation will come from the lines of unemployed. Unemployed persons are very patriotic when inflation threatens.

The above forecast is one behind which I shall stand four square (after a little practice) and one which I am willing to live with—after I get paid for it . . . However, before any reader switches to stocks "with more potential," I should say in all honesty (that is, with only a little guile) that I consider economic forecasting much too complex to be taken seriously . . . Picking horses is different. In horse racing, there are only a few hundred variables to consider and everybody knows that a guy with a right system (and a few "ins") can do O.K.

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