

In my judgment, this consensus still gives an encouraging picture of prosperity ahead for 1967, but not without some obvious problems. For some months, the coming year has seemed to me to be one of "pock-marked prosperity." The standard forecast just given clearly is less buoyant than just a few weeks ago, and general confidence is waning. Once again, we've had a dramatic shift in sentiment within 60 to 90 days—from widespread fears of overheating to rising concern about impending recession.

Private demands for money seem likely to diminish at an irregular pace over the year ahead, but not until the record high second quarter tax payments have been covered. Contributing to slackened private demands will be the creating of plant and equipment expenditures, reduced inventory and receivable build-ups plus some actual liquidations, and lessened need to acquire added funds for financial reserves as well as operating purposes.

Economic trends in Western Europe suggest some cooling there as well as in the United States. In part, this undoubtedly reflects, as here, the inevitable results of restraining monetary policies. There also seems to be some scattered evidence, however, of supply catching up with some of the formerly urgent phases of durable goods demand. The profit margins of foreign enterprises, including those owned or controlled by U.S. organizations, are showing signs of narrowing, abroad as well as at home. Hence, new direct investment overseas in 1967 should continue to drift lower than in the recent past, taking some pressure from the developed countries off the international money market. The developing nations, however, will continue to ask for huge credit accommodations next year to the full limits of available money supply, so no sharp decline in international interest rates seems likely.

In short, the year 1967 will be another rough one for all who are directly or indirectly involved in making public or private financial policy decisions. Flexibility and liquidity must and should dominate most thinking. Tight money will not disappear as a problem next year, although some of its most acute aspects should be gone, and some of the delayed consequences of tight money are still to be felt. The authorities no doubt will make some progress toward achieving a better balance between fiscal and monetary policies in guiding the economy, but monetary policy will still have to carry much of the load.

BUSINESS ROUNDUP: FORTUNE MAGAZINE'S FORECAST FOR THE NEXT 18 MONTHS—JANUARY 1967

The great industrial boom of the last six years, which has lifted factory output by a half and total output by a third, is now coming to an end. From its extraordinarily high level, the U.S. economy is embarking on a new phase, call it pause, readjustment, or even recession. Roundup expects that the FRB index, about 158 in November for the fourth month in a row, will go off five points in coming months and then level out. Real GNP at a \$758 billion rate last quarter, should level out and then edge up (see chart). In current prices (rising 2.5 percent a year), GNP will go up from \$739 billion in 1966 to \$770 billion in 1967, as Roundup in effect forecast last July.

Defense. The spending rate for arms has risen some \$15 billion since 18 months ago, 3 times as much as Roundup was then considering as a possibility, and this, of course, has had a giant multiplier effect on GNP. On present prospects, the next 18 months, and some of that will again represent higher prices.

Budget. Federal fiscal policy, which notably failed to act as a restraint on the boom, does not promise to supply any stimulus now that the economy is turning. The rate of outlays soared by \$23 billion in the past year, to \$150 billion, on the national-income accounting of the budget, which went into deficit last quarter for the first time in a year. Outlays should be going up at only a \$9-billion annual rate over the next 18 months.

On the revenue side, changes in social-security taxes and the suspension of investment incentives are now putting \$2 billion more a year into the till, and the economy would throw off an additional \$10 billion annually if it kept at full employment. A more realistic appraisal of economic and revenue prospects, however, indicates a moderate deficit.

Capital goods. Fixed investment in new plant and equipment has swelled by almost two-thirds or \$30 billion over the past six years, in real terms. But the gains have been diminishing from \$8 billion in 1965 to half that rate lately. And now demand for new capacity is being cramped by the suspension of the invest-