

STEVE FORBES

The 2005 Economic Forecast

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LAST SUMMER, AT THE JA JEWELRY SHOW IN NEW YORK CITY, A CAPACITY CROWD OF luxury jewelers appeared to be clinging on to every word of their Tuesday morning keynote speaker. At the end of the presentation, one by one, many of jewelry retail's leaders cued up to greet their guest orator to say hello, shake his hand—perhaps even procure an extra tidbit of information to help their business.

The speaker was Steve Forbes. Amiable and accommodating, he acknowledged each attendee in the steadily growing line, while his daughter, Moira—one of Forbes' five daughters—politely waited for her “celebrity” dad to complete his speaking engagement obligations in the courteous fashion he's known for. (Forbes is of Scottish heritage, after all, and the Scots have a universal reputation for good manners and hospitality—remember the Highlander custom of leaving a portion of food on a hill for “the chance guest”?)

Anyhow . . . back to that day in July, with jewelers queuing up to talk with Forbes. The expanding line of admirers wasn't surprising—he is one of the most widely respected economic prognosticators of our day. As president and CEO of Forbes and editor in chief of *Forbes*, the nation's leading business magazine, he's in the business of business. Forbes has built a reputation for taking strong positions on moves by the Federal Reserve Board, which in the last several years he's been known to refer to in his *Forbes* editorial column as “Greenspan & Co.” He is the only writer to have won the highly prestigious Crystal Owl Award four times—a prize formerly given by U.S. Steel Corporation to the financial journalist whose economic forecasts for the coming year proved most accurate.

Forbes rose to a different level of celebrity, however, when, in 1996 and 2000, he campaigned vigorously for the Republican nomination for presidency. These days, the renowned executive continues to energetically promote his former campaign agenda—among other things, a flat tax and a new Social Security system for working Americans. As further evidence of a man who cares deeply about his country, in 1999, he authored a book, *A New Birth of Freedom*, about ideas for the new millennium.

Clearly, Steve Forbes' days are busy. Still, he manages to serve on numerous boards, among them, the Ronald Reagan Presidential Foundation, the Memorial Sloan-Kettering Cancer Center, the Heritage Foundation, and the Foundation for the Defense of Democracies.

An active schedule notwithstanding, he recently took some time for an exclusive interview to speak with us about the 2005 economy.

What effect will the Bush re-election have on consumer spending?

Forbes: There's still a lot of uncertainty out there, with rising oil prices, increasing interest rates, and worries about Iraq. But, still, the Bush re-election will prove to be helpful. People feel they have more, so they'll spend more. I think we're in an era now of prosperity. You know, it's only when the era is over that people realize they were in an era of prosperity. After the late 1990s, there was still a lot of caution out there. Not until 1996 did they feel confident and put the troubles of the late '80s and '90s behind them and get into the new mood.

Historically, interest rates still remain low. What can we expect in 2005 in this regard?

Forbes: First, the economy is going to exhibit a very decent growth in the first half of the year. Both short-term and long-term interest rates will move up, with a series of quarter-point and half-point increases. I think the Federal Reserve will tighten, which will mean slower growth in the second half, but less inflation. Truthfully, the dollar crisis could end tomorrow if the Fed wanted it to, but they tend to move cautiously. So, not until spring will they get this thing under control.

What does this mean for jewelry?

Forbes: The mild inflation will be good for the jewelry industry because people will be looking more to buy hard assets—jewelry being a hard asset.

What does this mean for consumer spending in general?

Forbes: It means that it will be a respectable year and, as time goes on, people will buy and, when they do, they will look for quality.

Don't people always look for quality?

Forbes: It depends on their mood. If their moods are not completely exuberant, then they really look for quality because then they don't feel guilty about spending a lot.

How is the top echelon of consumers spending money differently than four years ago?

Forbes: First, remember that disposable incomes are still going up. Despite the uncertainty in the world, people still want to buy things and do good things for themselves. Which is why I think that the luxury goods and luxury travel market in 2005 should continue to exhibit very good growth. As far as the really rich, how they set themselves apart depends on a person's individual style. Some people, like Donald Trump, for example, like to be ostentatious, while others prefer to stay off the radar screen. We see this individual style in politics, too. In the old days, the rich were supposed to be Republicans, but now many of the rich are Democrats.

We've been hearing a lot about prices rising for contemporary art. In fact, to quote from the Forbes December 27, 2004, issue: “The ‘gotta have it’ impulse has ruled the contemporary art world for at least five years, immunizing it from the dot-com crash, September 11 and other vagaries of the larger economy.” Is collecting art a trend going forward?

Forbes: Well, collectibles, in general, are coming back, everything from modern art to George Harrison's guitar. That was our December 27th cover story, “2005 Annual Guide: Collecting Smart.” Collecting is in a growth phase. And this is a trend that helps the high-end market.



Forbes, December 27, 2004