Is Reacceleration in the Economy Sustainable?

BY DARLENE GUEDEA, president

Oceanside, CA – Where have all the consumers gone? This question stands in stark contrast amid the plethora of encouraging economic reports recently. The cascade started with the big rebound in Second Quarter GDP, continued with a solid July jobs report, accelerated when various manufacturing reports all came in positive, and was supported by falling food and energy prices.

“The mystery among forecasters is how retail sales growth can be declining since the end of March and basically flat lined in July when all other data are improving,” asked Frank Chow, chief economist for Trade Show Executive Media Group. Could this be a warning that the good economic news may not be sustainable?

“After a shocking First Quarter drop in GDP by a revised (2.1)%, the U.S. economy rebounded strongly to a 4% gain in the Second Quarter, surpassing expectations,” Chow said. Consumer spending on automobiles, furniture and recreational goods helped bolster GDP, along with state and local government expenditures. “But the biggest factor was a sharp rise in inventory at warehouses and store shelves as businesses anticipated higher spending. The rate at which businesses stock their shelves can be volatile, and the second half of the year could falter if consumers don’t start to spend,” Chow warned.

In July, the Labor Department reported nonfarm payrolls increased 209,000 after surging by 298,000 in June. Although job growth was a bit below economists’ expectations, it marked the sixth straight month exceeding 200,000 net jobs created, a signal of strength last seen in 1997. Also, data for May and June was revised to show 15,000 more jobs than previously reported.

Moreover, the unemployment rate rose slightly to 6.2% in July from 6.1%, but for the right reason, said Chow. “More people entered the labor market, an indication of confidence in job prospects,” he said. This was a reversal from the first six months of the year. The labor force participation rate — the share of working-age Americans employed or looking for a job — inched up to 62.9% after holding at 62.8% for three consecutive months. “The job market has moved from a ‘fake recovery,’ with unemployment falling due to people abandoning the labor force, to a real recovery of steady 200,000-plus payroll gains,” said Ethan Harris, global economist at Bank of America Merrill Lynch.

Several manufacturing reports revealed the economic momentum that started in the Second Quarter continued into the Third Quarter:

- The Institute for Supply Management reported July factory activity rose to its highest level in more than three years, driven by a surge in orders and hiring.
- The Federal Reserve said factory production jumped 1.0% in July after rising...
An Insider’s Perspective

How is the economy impacting the exposition industry? This month, eight industry experts give you projections and early warning signs based on registration patterns, exhibit space commitments, long- and short-term bookings, and discussions with peers and customers. Together with the rest of TSE’s Exposition Forecasting Board, they have insider knowledge about the true performance of the majority of U.S. trade shows. And just like economists, they don’t always agree. Their diverse opinions, however, provide valuable insights to help you formulate your plans.

Darlene Gudea, President
TSE Media Group

Frank Chow, Chief Economist
TSE Media Group

Nancy Walsh, President, North America
Reed Exhibitions

David Loechner, President
Emerald Expositions

2014 Very Strong; International Challenges May Impact Future Sales

“The momentum of better-than expected results early this year and the continued steady growth in the economy is translating into a very successful 2014 for our exhibitions, led by significant attendance gains and impressive financial results. Exhibit space sales and attendee interest for our 2015 shows continue this positive trend. However, our enthusiasm from this year is tempered a bit for 2015 as some key industry sectors are forecasting lower sales due to challenges in key international markets.”

Dennis Slater, President
Association of Equipment Manufacturers

Trade Show Growth is on a Roll

“It is painfully clear that from 2010 to late 2013, event results have been negatively impacted by challenging economic influences. For 46 consecutive months, core event results — NSF, exhibitor count and attendee presence — were consistently unstable. However, beginning in November 2013, event performance has been positive for nine consecutive months. Look for modest growth to continue in the months ahead.”

Jack Chalden, Dir. of Business Development
bxb Online
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- Florida, West Palm Beach, Palm Beach County Convention Center
- Kentucky, Owensboro, Owensboro Convention Center
- North Carolina, Durham, Durham Convention Center
- North Carolina, Fayetteville, Crown Complex
- Oklahoma, Enid, Enid Event Center
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TRENDING & SPENDING

If History Repeats Itself, Second Half of 2014 Will Downshift a Bit
“Looking at trade show performance from 2010 to current data in 2014, it is interesting to note that the years 2011 and 2012 seemed to be stronger overall than 2013 and 2014, at least for NSF and exhibitors. The trend is mostly down over the full span, although the numbers seem to be holding steady and on the positive side of the chart.

“In general, it appears that the long-term trend in exhibitor participation over that time span has been relatively flat. This could be a sign of a maturing industry — we have largely tapped the available set of prospective exhibitors. You could also argue that we have saturated the various markets with shows although that is not reflected in this data. The implications are that significant growth could be harder to come by in the future.

“Finally, if the 2010 to 2014 span represents the pattern, then the second half of the year is traditionally a bit softer than the first half.”

Chris Brown
EXECUTIVE VP
CompuSystems, Inc.

Subdued Growth
“Moderate growth continues, though slightly slower compared to the first half of the year and most of last year. Worldwide unrest and macroeconomic malaise continue to drag on an otherwise robust business environment. We expect continued growth for 2014 and 2015, though at a more subdued pace than recent months.”

Aaron Bludworth
PRESIDENT & CEO
Fern Exposition & Event Services

Same Old, Same Old
“Based on the data we have seen in comparable event results, we are predicting that the future will look very much like the present. Now there are certainly some outliers in any given month that are encouraging, but until we see stronger sustained progress across most sectors, we will continue to see more of the same low single-digit growth.”

John Kimball
PRESIDENT & CEO
Convention Data Services

Clouded by Global Incidents
“The U.S. economy continues to methodically move along like a persistent turtle. As growth continues in most industry sectors, we continue to be influenced by global incidents that put a small cloud of negativity over our desires for a more robust growth.”

David DuBois
PRESIDENT
IAEE

Expanding Staffs and Development Budgets
“Overall, our customers seem happy with their 2014 results. Shows are doing well, and they are expanding their staffs and development budgets. Though we seem to be living in a time where there’s always economic uncertainty inside the U.S. as well as outside, our client base appears to have a level of security relative to their events. Strategies appear more offensive than defensive.

“In the last two months, exhibitor spend was off a bit, but those were slow months and we don’t believe they are a strong indicator of 2014’s overall results. We remain bullish on the year.”

Chris Williams
SENIOR VP
CompuSystems, Inc.

Business Confidence is Up
“I think the overall improvement to the economy in general is bringing back a level of confidence in spending. That combined with the recovery of our prior job loss and the ongoing growth in NSF, exhibitors and attendees is creating a lot of optimism for 2014 and beyond.”

Shura Garnett
REGIONAL VP
Global Spectrum

John Kimball
PRESIDENT & CEO
Convention Data Services
0.3% in June — the largest gain since February and reflected increases across all major categories.

- U.S. industrial production edged higher in July, led by a surge of 10.1% in auto and related parts, the biggest rise since July 2009. There were stout gains in machinery, computers and electronic goods, which economists believe hints at a pick-up in business investment this quarter.

- The Empire State Manufacturing Survey for August fell to 14.7 from 25.6 in July, but a reading above zero still indicates expansion. The manufacturing outlook from all Federal Reserve Districts was positive in July.

- Industrial capacity utilization, a measure of how fully firms are using their resources, hit its highest level in July since February 2008.

In contrast, sales at U.S. retailers in July surprised analysts by having the weakest growth in six months, ticking up 0.1%, excluding autos. Separately, automakers reported that July sales increased 9.1% from a year ago but fell (0.2)% from June. Sales also dropped at department stores, furniture and home furnishings stores, electronics and appliance stores and Internet retailers.

“The retail report from the Commerce Department provided fresh evidence that consumers have yet to shed doubts about the economy despite recent job gains,” Chow pointed out. Retail sales are a major component of consumer spending, which is about two-thirds of the U.S. economy. A string of weak retail sales reports could depress wider economic growth, noted Jennifer Lee, senior economist at BMO Capital Markets.

In previous columns, we have discussed the possible causes of weak spending from the low-paying nature of the jobs added to the lack of wage gains and income inequality. “The fact remains that consumer spending and business investment have not performed as expected this year and will likely remain stubbornly cautious,” Chow said.

However, consumer spending power should be boosted by falling gas and food prices for the next few months, Chow said. The Food and Agriculture Organization (FAO) Global Food Price Index has declined for five straight months as of July. Even Russian President Vladimir Putin unwittingly contributed to lower prices when he banned chicken imports in retaliation to U.S. trade sanctions, causing food prices to spiral down. “This is benefiting millions of American consumers,” Chow said.

Chow said his favorite jobs survey, JOLTS, has been signaling a tighter labor market for months on multiple fronts.

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Frank Chow,
TSE’S CHIEF ECONOMIST

Here are the highlights for June:

- Monthly resignations hit 2.53 million, the most since 2008, a good sign because workers leave their jobs when they have confidence in the economy.
- Job openings rose to 4.67 million, the most since early 2001.
- Hires increased to 4.83 million, the most since 2008 and close to the 5 million when the recession began.
- Layoffs and firings remained low at 1.62 million, down from 1.79 million when the recession started.

“If the economic improvement continues for the rest of the year, households and businesses may change their spending habits and spark the type of recovery we’ve all been waiting seven years for,” Chow said. “In the meantime, be happy for any kind of growth.” TSE