Stronger Growth Expected in Second Half

By VICKI M. YOUNG

CHEER UP — it's a new day and the beginning of a new year. What could possibly go wrong?

For pessimists who view the glass as half empty, plenty. A United Nations report published last month called "World Economic Situation and Prospects 2013" said growth in the euro area is predicted to average a 0.3 percent rise this year versus 2012's 0.5 percent contraction. In the U.S., economic growth is expected to decelerate to 1.7 percent this year from an anemic 2.1 percent growth rate in 2012.

For optimists, those projections are merely baseline estimates. The U.N. report also predicted that the world economies will grow in 2013 in spite of the weaknesses in the major industrialized countries due primarily to high unemployment, heightened sovereign risks and fiscal tightening.

According to the report, world output is forecast to grow 2.4 percent this year, up from 2012's rate of 2.2 percent. Growth in world trade is also projected to expand "at a rather tepid pace of 4.3 percent in volume terms in 2013, compared to 3.3 percent in 2012."

As for the U.S., economists and retail analysts in general are expecting modest growth in retail sales and stable consumer confidence in the first half of 2013.

And there even could be better news down the road.

According to The Kiplinger Letter, a forecasting publication for executives, "GDP [gross domestic product] growth in the first quarter isn't likely to exceed an annualized pace of just 1 percent or so." But it's predicting more steam ahead in the second half, when it said growth will rise at close to a 3 percent pace. The firm forecasts that consumer confidence will continue to improve as home prices and employment rise. Furthermore, waning productivity gains will force businesses to "step up hiring and/or business spending on equipment and technology."

Sam Stovall, chief equity strategist at S&P Capital IQ, said at a New York Society of Security Analysts presentation Thursday that with the resolution of the fiscal cliff, there's less of a chance now of a Congress-induced recession, and the economy has a greater "risk to the upside than the downside." His firm's projection is for higher growth in the back end of 2013.

While forecasts can be wishful thinking at best, what do financial executives who view operating data on a regular basis see as the current consumer and business patterns as 2013 begins?

Marc J. Leder, co-chief executive officer of private equity firm Sun Capital Partners, said, "The current overall macroeconomic picture remains broadly the same [as a year ago], as we foresee generally a low- to no-growth environment. However, revenue trends continue to vary meaningfully by industry sector."

Spring looks from Rag & Bone and Sophie Theallet, American brands that could break out this year.

Leder noted that last year, Sun saw the restaurant sector improve from being "mostly flat in 2011 to showing signs of slow growth."

Because Sun invests in a wide range of sectors — it has operating companies in the consumer products, food and beverage, restaurants and retail groups — it gets a fairly good macro picture of what's going on at the business and consumer levels.

As for consumer spending at retail, Leder said Sun doesn't yet have final results for 2012, but its retail companies are "expecting to end the year on a higher note than 2011, with modest holiday season sales growth over last year."

Sun's retail holdings in the U.S. include apparel and home retailer Gordmans, specialty chain The Limited Stores and discounter Shopko Stores.

Ron Friedman, retail practice leader at Marcum LLP, an accounting and consulting firm, said many of his clients were in a good financial position at the start of the holiday selling season. "Corporations in general have better balance sheets than they did a few years back," he said. That's due to lessons learned from the deep downturn that began in December 2007, with many doing more at the same level of sales, but with reduced staff.

"Retailers in general have been operating smarter and maintaining better inventory levels. My clients who supply the retailers at the manufacturing and distribution level have balance sheets that were clean all year. They have been buying closer to the season, and buying smaller quantities," the accountant said.

Friedman expects some pullback on discretionary spending now that consumers will no longer see the benefit of the payroll-tax holiday in their paychecks. That'll mean businesses will continue to plan for growth, but curtail some capital expenditures. For example, retailers may open fewer stores than originally planned. For manufacturers hoping to expand through the creation of a new division, 2013 may not be the year those plans are put into place, Friedman suggested.

Sure, there still are risks ahead, such as a deepening of the European recession and the possibility of a hard landing in China. In the U.S., one reason why many forecasters expect greater growth in the second half is because while resolution of the fiscal cliff has averted many of the tax increases that would have kicked in on Jan. 1, there's still another bout of brinkmanship ahead in two months when U.S. lawmakers will have to deal with the debt ceiling.

Nigel Gault, chief U.S. economist for IHS Global Insight, expects a deal will be struck at the last minute to increase the debt ceiling and replace the sequester with tax increases through limits on deductions.

The sequester involves automatic steep government spending cuts put into effect in 2011 to prevent the U.S. from defaulting on its debt, and is aimed at allowing the federal government to spend only what it gets in revenues.

Those uncertainties, such as how the U.S. will increase its revenue receipts, can make some firms want to hold off on certain expenditures, such as adding to their staffing needs.

David Freschman, a certified public accountant turned venture capitalist and ceo of FashInvest, cautioned that the financial issues facing lawmakers aren't necessarily the same ones companies should be focusing on.

"You don't worry about it because you could be completely wrong in your guess," he said.

His advice instead is on focusing on what is known, such as the likelihood of tax increases. "Companies should run business to maximize profits, not focus on minimizing taxes. You know paying taxes are inevitable, so companies should plan around it," he said.

Possible Key Trends in 2013

DISCUSSIONS WITH market and financial sources on fashion and retail trends last year raised some interesting ideas on what is percolating in the marketplace. The following are a few that were mentioned that could show some strong legs in 2013, with the impact of having everyone rethinking what 2014 could bring. — V.M.Y.

OVERSEAS FIRM TO KEEP AN EYE ON: Rakuten Inc., a Japanese Internet service firm founded in 1997, provides a B2B2C marketplace platform that is shop-centric, compared with competitors that are product focused. Three years ago, the firm decided to grow beyond its domestic borders and in 2010 acquired the Aliso Viejo, Calif.-based Buy.com for $250 million through Rakuten USA. Mark Kirschner, vice chief marketing officer, said, "Because Rakuten's e-commerce operation is a business marketplace platform, we act as a facilitator and, unique among our competitors, allow the individual businesses to customize their own storefronts on our site." Look for Vau.lt, now in beta testing, to launch early this year, the latest U.S. direct-to-consumer site under Rakuten's umbrella. In addition, Derek Wall, Vau.lt's chief executive officer, said Rakuten will launch a Rakuten user ID early next year that will allow each holder to access any Rakuten-operated site anywhere in the world. Rakuten in May also led a consortium that invested $100 million in Pinterest. EBay and Amazon will still be megaplayers, but Rakuten's B2B2C platform could be where the action is this year.

PERSON TO WATCH: Yehuda Shmidman joined Sequential Brands Group as its new chief executive officer in November. The former chief operating officer at Iconix Brand Group was involved in many mergers and acquisitions initiatives, and helped grow the small five-fashion brand firm when he joined in 2005 to a company with more than 25 brands generating more than $360 million in licensing revenues. Sequential last month acquired Heelys Inc. for $63.2 million, and Shmidman is on the prowl for more deals.

CONSUMER CREDIT AT RETAIL: Conns, a home goods and electronics retailer, offers a variety of proprietary credit options that make it easier for many subprime consumers to buy what they need. According to David Galper, managing director at KeyBanc Capital Markets who is also head of the retail and apparel investment banking group, said, "This credit expertise is a significant competitive advantage as it drives loyalty and profitability." While some retailers such as Kmart reinstituted a related concept called the layaway plan, Conns allows working middle class consumers to actually take their purchases home while making low monthly payments on an installment plan.

BRAND MANAGEMENT WARS: In the last few years, Iconix Brand Group had the lock as leader in the brand management category. Sequential Brands Group and Authentic Brands Group are the latest entrants in the new category of acquirers with an eye on licensing. Last month, Sequential acquired the intellectual property assets of Heelys Inc., while Authentic bought the brands under the former HMX Group umbrella that includes Hart Schaffner Marx and Hickey Freeman. While all three are looking for new deals, the new entrants might have the advantage — as upstarts, they don't need big deals to move the needle.

AMERICAN FASHION IN VOGUE: Is 2013 the year for the American designer in fashion? Financial and creative sources say yes, as the American aesthetic features wearable and versatile apparel that can go from day to night at affordable price points. Think Rag & Bone and Sophie Theallet. And while overseas aspirational consumers used to first hit the high-end European luxury brands, accessibility to information online via e-commerce sites has broadened their horizons at a far faster pace than ever before. In particular, Asian consumers who want to express their own unique identities no longer want to wear what their next-door neighbors are wearing. So it may be the American designers who win market share in 2013.