

Pro-AV Business Index

Released January 2017

Pro-AV Business Index Remains Stable to Close 2016

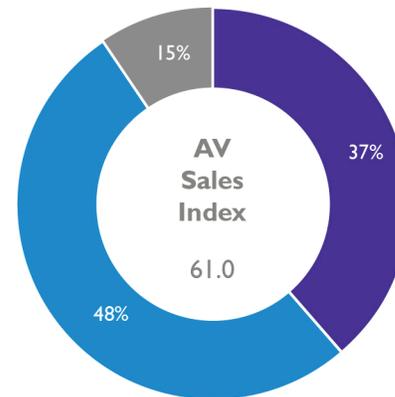
Closing out 2016, the Pro-AV Business Index measures remain steady. The December AV Sales Index indicates sentiment was largely unchanged from the previous month (see the section “What’s Different?” for a change in methodology). This overall strong showing follows general economic indicators for the U.S., which are similarly—basically—quite positive. Both indexes, including the AV Employment Index, continued to stay well above 50, and the majority of AV service providers indicated a steady or positive month.

Although this is good news, uncertainty persists for both U.S. and international AV service providers about what the change in U.S. administration will bring. As expected, in December the Federal Reserve Board raised short-term interest rates during its most recent meeting and anticipates three more increases in 2017. This action is warranted by the strength of the U.S. economy, and the Pro-AV Business Index has reflected this strength since its inception in September.

The final AV Sales Index of 2016 revealed more than one-third of respondents indicating an increase in sales/billings from the previous month and another half mentioning that business is stable. The diffusion index is calculated based on the positive response frequency (37.0) plus half of the neutral response (48.0) giving a value of 61.0 for this month’s index (Figure 1).

Figure 1. AV Sales Index, December 2016

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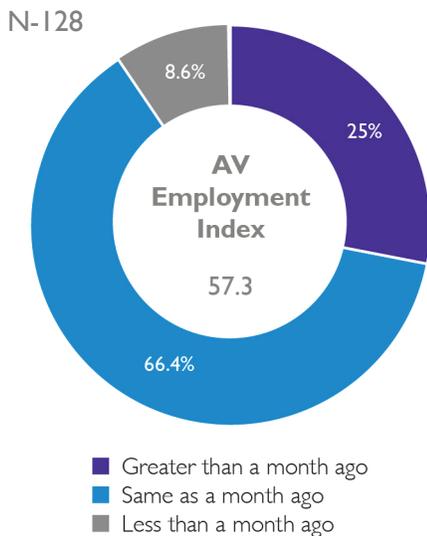
- Increased significantly (5 percent or more)
- Remained unchanged
- Decreased significantly (5 percent or more)

“Based on previous years, we would normally predict slight to moderate growth, but again, there is lot of uncertainty in the federal space at the moment.”

– Systems Integrator, North America

At the national level, the overall U.S. jobs market posted solid gains in 2016 and the unemployment rate in November was 4.6 percent, its lowest since August 2007, just before the recession hit. The AV Employment Index remains strong at 57.3 in December. Less than one in 10 (8.6 percent) of the respondents indicated a decrease in employment at their office, while one quarter (25.0 percent) said employment grew (Figure 2).

Figure 2. AV Employment Index, December 2016



What's Different?

For the latest index report, we have modified slightly our methodology in response to panel and user feedback. We have removed certain responses from our calculation of the AV Sales and AV Employment Indexes in preparation for a new, third index to launch in the coming months. The new index will measure sentiment relative to AV purchasing trends at end-user/customer organizations.

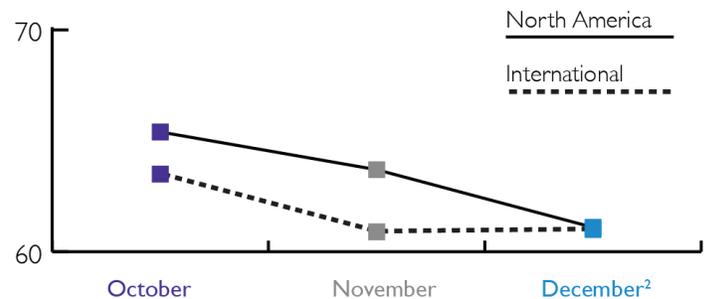
The result of this methodology change is marginally higher AV Sales and AV Employment Index figures than would have resulted from the prior methodology. Because of this, we have not compared the December 2016 indexes with those of prior months, though informally, sentiment is in-line with last month's figures. As we alluded to for the November 2016 indexes, a year-end slowdown in certain sectors of the AV business had settled the measures at current levels, although in all cases an index above 50 continues to indicate positive overall sentiment.

In this, our fourth Pro-AV Index Report, we continue to improve and refine our work, with the help of industry feedback. We believe the additional index will provide an even more complete picture of industry sentiment on both the buy and sell side of the channel.

International Outlook May Depend on Policy Plan Details

How does industry sentiment vary based on where in the world companies do business? The AV Sales Index for companies inside and outside North America are at parity — 61.1 and 61.0, respectively (Figure 3). In this month's index report, 28 percent of respondents were reporting from outside the U.S. and Canada (Figure 3).

Figure 3. Global Region Sales Index¹, December 2016



Global regional indexes are three-month moving averages (based on prior, forward and current months) due to relative small sample size.

Whereas the North America economy ended 2016 on a positive note, it has been a turbulent year internationally, with Brexit, China missing its economic targets, and uncertainty about the new U.S. administration's future trade policies contributing to the headwind. The U.S. election

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¹International – regions include Europe, Latin America, Middle East/Africa, Asia-Pacific

²December 2016 index is preliminary based on the average of Nov. 2016 and Dec. 2016 and will be final with Jan. 2017 data in the next report.

supercharged the country's stock market rally, with companies expecting business-friendly policies, such as tax cuts, relaxed regulations and fiscal stimulus. However, proposals to levy taxes on U.S. companies with foreign businesses, rising interest rates and a strengthening dollar could be an impediment to future international growth. The European market is still in flux as the result of Brexit in June. UK Prime Minister Theresa May announced recently that her country plans to implement a full exit, which dampens the thought of a potential partial withdraw.

“Currency fluctuations are making the country less attractive for business activities, economic forecasts leading to uncertainty, political uncertainty over increased taxes.”

– AV Service Provider, Asia-Pacific

“This could be a good year for the AV industry. There is a need for the products and services we offer. The only thing that could change our forecast is [U.S. administration] policies that could destabilize our economy.”

– Distributor, Latin America

Future AV Business Conditions

The U.S. economy grew at 3.5 percent during the third quarter and the job market ended the year on solid footing. The U.S. economy looks bright in the near future as the Federal Reserve Board raised short-term interest rates during its last meeting in December. This is warranted by the strength of the economy and, if it continues, it is very foreseeable more increases will ensue in 2017.

The sentiment of the panel follows suit, with the majority of index survey respondents still positive about future revenue and workforce conditions: 61 percent indicated that revenue/turnover and 60 percent said workforce conditions would trend positively in the next six months (Figure 4).

Figure 4. Industry Conditions for Next Six Months

How would you assess the AV workforce conditions for your organization in the next 6 months?



How would you assess your revenue/turnover conditions for your organization in the next 6 months?



Figure 5. Overall Business Conditions for the AV Industry (sentiment cloud)

The AV Index Sentiment Cloud is based on verbatim answers to questions about business conditions (Figure 5). The answers are put through a computer system and a cloud is generated based on the frequency of words used in respondents' answers. The cloud is a visual representation of how AV organizations describe the industry at a point in time.

Looking beyond six months at the 2017 forecast, companies remain positive but also realistic about the dynamics that could instigate a downturn in the industry. The new administration may be a significant factor, and uncertainty remains about whether global economic and trade policies will collide or unite.



Pro-AV Business Index

Methodology

The survey behind the InfoComm Pro-AV Business Index was fielded to 480 members of the InfoComm AV Intelligence Panel (AVIP) between Jan. 3 and Jan. 10, 2017. A total of 187 AVIP members completed the survey. Only respondents who are not end users and said they were “moderately” to “extremely” familiar with their companies’ business conditions were factored in Index calculations. The AV Sales and AV Employment Indexes are computed as a diffusion index, with the monthly score calculated as the percentage of firms reporting a significant increase, plus half the percentage of firms reporting

no change. Comparisons are always made to the previous month. Diffusion indexes, typically centered at a score of 50, are used frequently to measure change in economic activity. If an equal share of firms report an increase as report a decrease, the score for that month will be 50. A score above 50 indicates that firms in aggregate are reporting an increase in activity that month compared to the previous month, while a score below 50 indicates a decrease in activity.

$$\text{Index} = 1.0 \times \% \text{ of positive responses} + 0.5 \times \% \text{ of neutral responses}$$

About the InfoComm International AV Intelligence Panel

The InfoComm AV Intelligence Panel (AVIP) is a research community of industry volunteers willing to share their insights on a regular basis to create actionable information. Members of the panel are asked to participate in a short, two-to-three-minute monthly survey designed to gauge business sentiment and trends in the AV industry. Surveys may be taken via your phone or computer.

In return for their time and effort, InfoComm AV Intelligence Panel members will be eligible to:

- Earn points toward Amazon online gift cards
- Preview the survey results prior to public release
- Attend a recognition reception at InfoComm trade shows
- Include select questions of their own in panel surveys

The InfoComm AV Intelligence Panel is designed to be a global community, representative of the entire commercial AV value chain. InfoComm invites AV integrators, consultants, manufacturers, distributors, resellers, live events professionals and AV technology managers to get involved. If you would like to join the panel, enjoy benefits and share your insights with the AV industry, please apply at infocomm.org/AVIP.