Franchise Business Economic Outlook for 2014

Prepared for:

International Franchise Association Educational Foundation

By:

IHS Global Insight

January 13, 2014

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EXECUTIVE SUMMARY

This report presents IHS Global Insight's forecast of the franchise sector of the U.S. economy in 2014 prepared for the International Franchise Association Educational Foundation.

As projected in our December 2012 forecast report, 2013 proved to be a year of sub-par growth, with the economy held back by tax increases introduced at the beginning of the year and fiscal drag from the federal government sequester. Our December 2012 forecasts of economy-wide employment growth of 1.6% and real GDP growth of 1.9% in 2013 look to be on target. The performance of the franchise sector in 2013 also appears to have finished the year generally in line with our forecast of a year ago. Growth of the number of franchise establishments (at 1.4%) and franchise output (4.3%) showed gains that were modest but ahead of the overall results for industries where franchises are concentrated. Franchise employment, however, posted stronger than anticipated growth (2.3% versus our December 2012 forecast of 2.0%) boosted by gains in the Quick Service Restaurant segment.

We expect real GDP growth to accelerate to 2.7% in 2014 due to a much smaller federal fiscal drag combined with continued improvements in consumer spending, housing, exports, and business equipment investment. The recent softness in the housing recovery is temporary, although our existing home sales forecast shows slower growth in 2014. We see an acceleration of consumer spending growth from a rate of 2.0% in 2013 to 2.8% in 2014. But we see little acceleration in the pace of employment growth.

The implications for the franchise sector in 2014 are continued gains in employment growth and a modest acceleration of output growth.

- We expect the number of franchise establishments in the United States to increase by 1.7% in 2014, ahead of the 2013 pace of 1.4%.
- We expect employment in franchise establishments to increase 2.3% in 2014, matching the pace of growth in 2013.

Franchise Business Economic Outlook: January 2014 Forecast

				Estimates				Forecast (January 2014)
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Establishments	770,835	774,016	746,646	740,098	736,114	747,359	757,453	770,368
Percent change		*0.4%*	*-3.5%*	*-0.9%*	*-0.5%*	*1.5%*	*1.4%*	*1.7%*
Employment ('000)	7,994	8,028	7,800	7,780	7,940	8,127	8,318	8,510
Percent change		*0.4%*	*-2.8%*	*-0.3%*	*2.1%*	*2.3%*	*2.3%*	*2.3%*
Output ($Billions)	675	696	674	699	734	768	801	839
Percent change		*3.2%*	*-3.2%*	*3.6%*	*5.0%*	*4.7%*	*4.3%*	*4.7%*
GDP ($Billions)	403	410	405	414	434	453	472	493
Percent change		*1.8%*	*-1.2%*	*2.2%*	*4.8%*	*4.4%*	*4.1%*	*4.5%*

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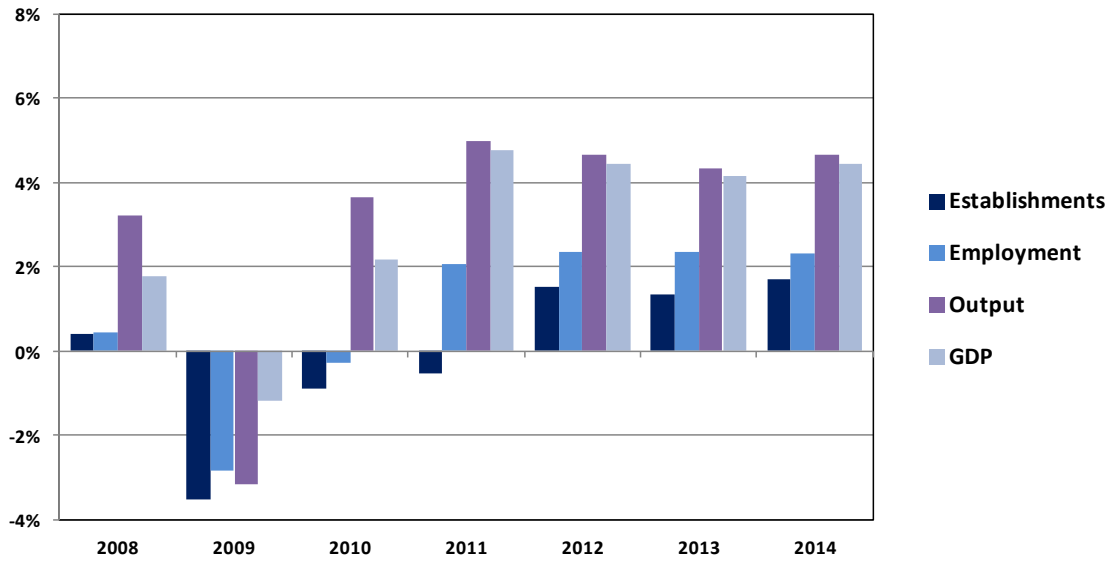
- The output of franchise establishments in nominal dollars in 2014 will increase 4.7% – stronger growth than the 4.3% recorded in 2013.
- The gross domestic product (GDP) of the franchise sector is projected to increase to $493 billion in 2014. This is approximately 3.5% of U.S. GDP in nominal dollars.

Franchise Business Growth by Year, 2008-2014: January 2014 Forecast



Our analysis is based on a grouping of franchise businesses into 10 broad business lines. The growth outlook differs among the groups, with output growth in 2014 ranging from a low of 3.6% in Retail Food to 5.5% in Real Estate. Other highlights of the industry forecast are:

- Business Services will lead the franchise business lines in employment and establishment growth rank third in output growth.
- Real Estate will rank first in output growth, third in establishment growth, and fourth in employment growth.
- Quick Service Restaurants – the largest franchise business line – will rank third in employment growth in 2014 and second in output growth.

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Franchise Business Economic Outlook, 2014: January 2014 Forecast

	Establishments		Employment		Output ($Billions)	
	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*
Automotive	30,923	*1.2%*	184,731	*1.3%*	40.23	*3.9%*
Business Services	96,201	*2.8%*	959,024	*3.8%*	154.67	*5.0%*
Commercial & Residential Services	63,287	*2.4%*	366,523	*3.1%*	54.67	*4.6%*
Lodging	26,403	*1.8%*	720,560	*2.0%*	82.47	*5.0%*
Personal Services	111,370	*1.9%*	670,908	*1.9%*	91.41	*3.7%*
Quick Service Restaurants	155,571	*1.4%*	3,225,448	*2.4%*	220.14	*5.2%*
Real Estate	89,528	*2.0%*	315,796	*2.2%*	52.49	*5.5%*
Retail Food	61,629	*0.7%*	493,965	*1.2%*	40.32	*3.6%*
Retail Products & Services	98,475	*1.2%*	496,673	*1.5%*	40.72	*4.0%*
Table/Full Service Restaurants	36,981	*1.1%*	1,076,835	*2.1%*	61.53	*3.9%*
TOTAL	**770,368**	***1.7%***	**8,510,463**	***2.3%***	**839**	***4.7%***

Franchise Business Index

The estimates of output, employment and the number of businesses in the franchise industry reported here provide valuable measures of the size and growth of the industry. But, because the key data inputs required to make these estimates are published only on an annual basis, the estimates are made only at an annual frequency. A more timely reading of the business environment for franchise operations in the U.S. is provided by the Franchise Business Index (FBI) – a monthly index of franchise activity that was developed for IFA by IHS. The FBI combines indicators of the growth or decline of industries where franchise activity has historically been concentrated with measures of the demand for franchise business services and the general business environment. The components of the Index are:

- Employment in Franchise-intensive Industries (BLS)
- Number of Self Employed (BLS)
- Unemployment Rate (BLS)
- Retail Sales of Franchise-Intensive Industries (Census Bureau)
- Small Business Optimism Index (NFIB)
- Small Business Credit Conditions Index (NFIB)

The FBI was up 0.3% in November as the unemployment rate dropped and retail sales of franchise-intensive store types continued to show modest improvement. The small business optimism component also showed improvement after declining the previous two months.

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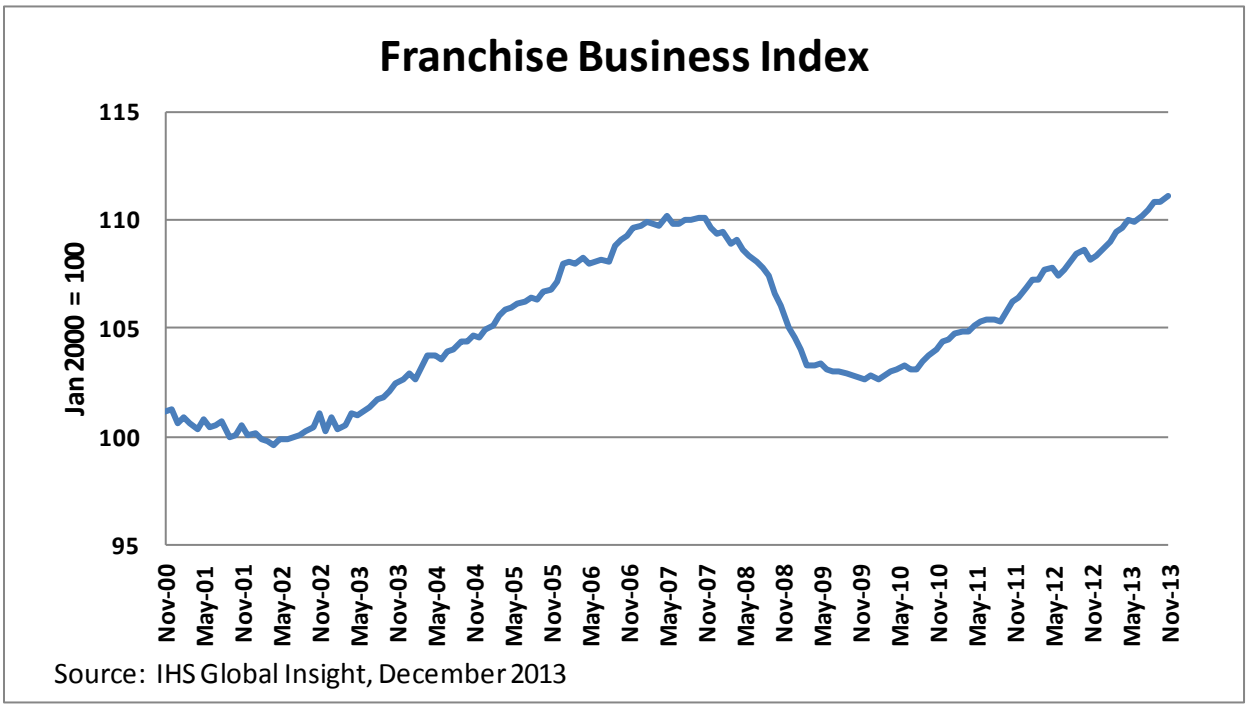
	September 2013	*October 2013*	*November 2013*	12-month Nov - Nov
Franchise Business Index	**110.0**	**109.9**	**110.2**	
Percent Change	**0.3%**	**0.0%**	**0.3%**	**2.7%**

The November FBI was up 2.7% compared to November 2012. The FBI's pace of growth at an annual rate was below 2% at the beginning of 2013, but the year-over-year growth rate has generally improved over the course of the year, signaling the potential for continued gains in 2014.



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INTRODUCTION

This report presents an updated forecast of basic indicators of the franchise sector of the U.S. economy in 2014 prepared for the International Franchise Association Educational Foundation by IHS Global Insight.

The following section presents a summary of IHS Global Insight's current forecast for the U.S. economy in 2014, with attention to economic indicators that relate to sectors of the economy where there is a significant concentration of franchising.

We then present an overview of our estimates and forecasts of franchising for 10 business lines: [1]

1. Automotive
2. Business Services
3. Commercial and Residential Services
4. Lodging
5. Personal Services
6. Quick Service Restaurants
7. Table/Full Service Restaurants
8. Real Estate
9. Retail Food
10. Retail Products and Services

For each of the 10 business format lines, the projections include revised estimates for 2007–12 and an updated forecast for 2013, and an initial forecast for 2014 of:

- Franchise establishments[2]
- Franchise employment[3]
- Franchise nominal output[4]

[1] This report does not include estimates for product-distribution franchises, such as automotive and truck dealers, gasoline service stations without convenience stores, and beverage bottlers.

[2] An establishment is a single physical location at which business is conducted or services or industrial operations are performed. A business may consist of more than one establishment. An establishment may be owned by the franchisor or the franchisee.

[3] Positions filled by part-time and full-time employees or by self-employed individuals.

[4] Nominal output is the gross value of goods and services produced, a concept that is comparable with "sales" for most industries. In government input-output accounts, the output of goods-producing industries is measured by the value of shipments. For most other industries, output is measured by receipts or revenues from goods and services sold. A special case is the output of the wholesale and retail industries, which is measured generally as the difference between receipts or revenues and the cost of goods sold—this difference is referred to as "margin."

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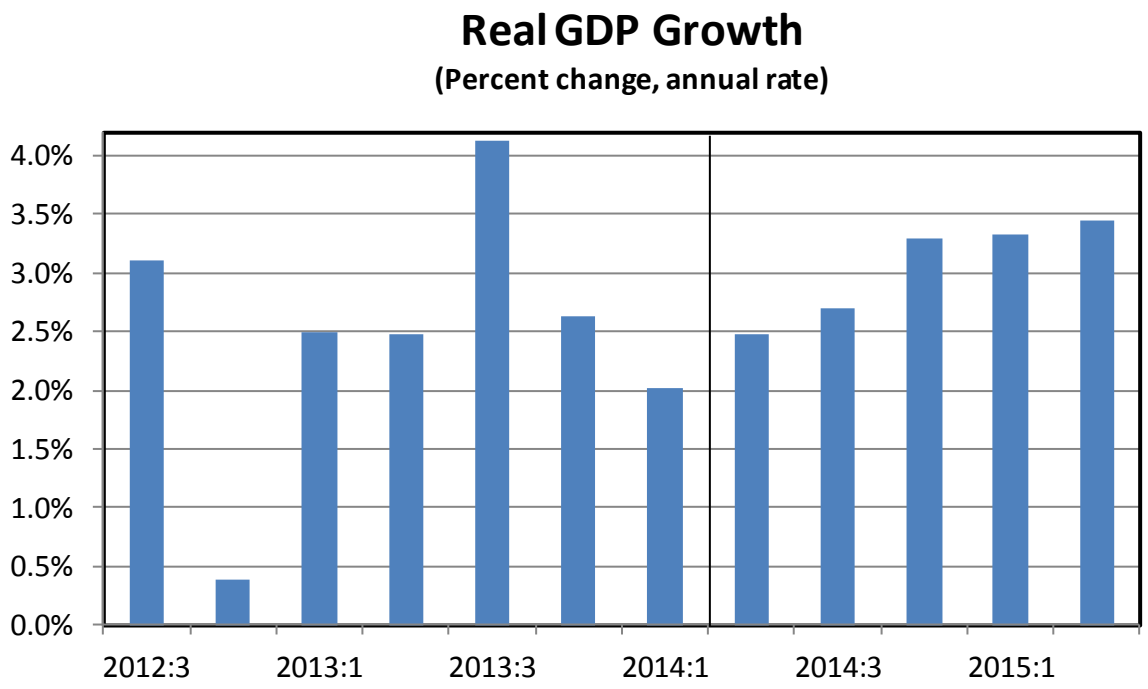
THE ECONOMIC OUTLOOK

U.S. real GDP growth in the third quarter was revised up recently to an impressive 4.1% annual rate. Moreover, this change showed growth in final sales (especially consumer spending) above and beyond the surge in inventories reported earlier. However, we do not expect the strong third-quarter GDP growth to continue into the fourth quarter for several reasons. The bold consumer spending numbers of October and November do not appear to have lasted into December, with its tepid, calendar-shortened holiday spending season. And the large inventory change that was reported for the third quarter will need to be worked off over the next several months. In addition, the economic impacts of the October shutdown will exert a modestly negative impact on inflation-adjusted government output. Thus, our full-year GDP growth forecast for 2013 remains just under 2%.

We expect the pace of economic growth to gradually accelerate through 2014. The economy will not face the same fiscal drag that occurred in 2013 (real government spending fell 2.0% in 2013 but will be down only 0.2% in 2014). The accelerating growth will be led primarily by three factors: improved consumer spending, continued gains in housing market activity, and stronger export growth. The result will be full-year GDP growth of 2.7%.



IHS Global Insight, January 2014 Forecast

On consumer spending, a sizable portion of the expected gains emanates from improved auto sales and durable goods related to additional home sales in the near term. This spending can be attributed to improved household net worth, and improved consumer confidence, since the pace of employment growth is not expected to accelerate.

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Although real GDP growth will accelerate modestly in 2014, we expect the pace of private non-farm employment growth to hold at 2.0% in 2014 – matching the average gains of the past three years. Even in the boom years of 3%+ growth prior to the last recession, annual nonfarm employment growth did not exceed 2%. At the same time, federal government employment is expected to continue to decline in 2014, which will hold down the growth of total nonfarm employment to 1.7%.

On housing, we expect the pace of growth of housing starts to pick up from 19% in 2013 to 25% in 2014, but the growth of existing home sales will slow from 9.1% in 2013 to 4.8% in 2014. Export growth will benefit from a modest acceleration in European growth. In each of the past four months, exports of goods to Europe exceeded (albeit weakly) year-earlier levels. Additionally, export growth to Mexico and China remains solid. Fixed investment will also be a contributor to economic growth in 2014, but this growth will remain subdued relative to cyclical recoveries in the past few decades.

In Washington, December's Bipartisan Budget Act removed a large element of risk from the forecast by virtually eliminating the possibility of a repeat of October's government shutdown. Over the short run, the deal provides some relief from the spending sequester for the next two years and replaces arithmetically determined budget reductions with more-targeted initiatives. A significantly milder fiscal-policy drag in 2014 is one of the positive aspects of our forecast. Separately, however, we still face another deadline in February for resolving the next debt-ceiling limitation.

The inflation outlook remains very quiet. The tug of war between higher commodity prices and weaker ones has been a seesaw affair, with little net movement for almost three years. The drag from Europe's recession is fading, but any near-term strength in demand will be offset by supplies growing worldwide.

The Economic Outlook for 2014

(Annual percent change)	2010	2011	2012	2013	2014
Real Gross Domestic Product	2.4	1.8	2.2	1.9	2.7
Total Nonfarm Employment	-0.7	1.2	1.7	1.6	1.7
Accommodations and Food Services	-0.2	2.7	3.0	2.9	2.1
Personal Services	-0.7	0.6	1.4	0.9	0.1
Real Disposable Income	1.1	2.4	2.0	0.8	3.3
Real Personal Consumption	1.8	2.5	1.9	2.0	2.8
Food Services	1.4	4.1	3.4	2.5	2.7
Accommodations	2.4	3.6	4.7	4.4	3.9
Personal Services	0.7	0.9	1.5	-1.3	1.5
Retail Sales (nominal dollars)	5.5	7.5	5.3	4.4	3.7
Existing Home Sales	-3.4	2.3	9.0	9.1	4.8
Com'l & Indus. Loans Outstanding, Com'l.Bank	-5.5	9.3	13.0	7.5	5.9

IHS Global Insight, January 2014 Forecast

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OUTLOOK FOR FRANCHISE BUSINESS

Outlook Summary

With the economy struggling in 2013 to achieve the modest pace of growth recorded in 2012, the franchise sector achieved another year of modest growth. However, by most measures the franchise sector continued to grow at rates that exceeded the economy-wide growth of industries where franchises are concentrated. Franchise employment growth picked up in the second half of the year, boosted by gains at Quick Service Restaurants, and we estimate that total franchise employment increased 2.3% in 2013 – ahead of the 2.0% gain in total private industry employment.

In 2014, franchise sector growth will improve in line with the expected overall improvement in economic conditions, and franchises will continue to outperform within their industries.

- We expect a 1.7% increase in the number of franchise businesses in 2014. This will continue to be in-line with the growth of overall business formation across the economy.
- We expect employment in franchise establishments to increase 2.3% in 2014 – matching the 2013 pace. Total private sector employment will rise 2.0% in 2014.
- The output of franchise establishments in nominal dollars will increase 4.7% in 2014 – up from 4.3% in 2013. We expect continued downward pressure on prices for many businesses, including the largest segment of the franchise sector – restaurants – which will hold down sales growth in nominal dollars. Economy-wide CPI inflation will be up only 1.4% in 2014 after rising 1.5% in 2013.

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Percent change		*1.8%*	*-1.2%*	*2.2%*	*4.8%*	*4.4%*	*4.1%*	*4.5%*

The chart on the following page shows how the franchise economy and the U.S. economy in general have fared over the last four years. Growth rates of output and GDP are in nominal dollars.

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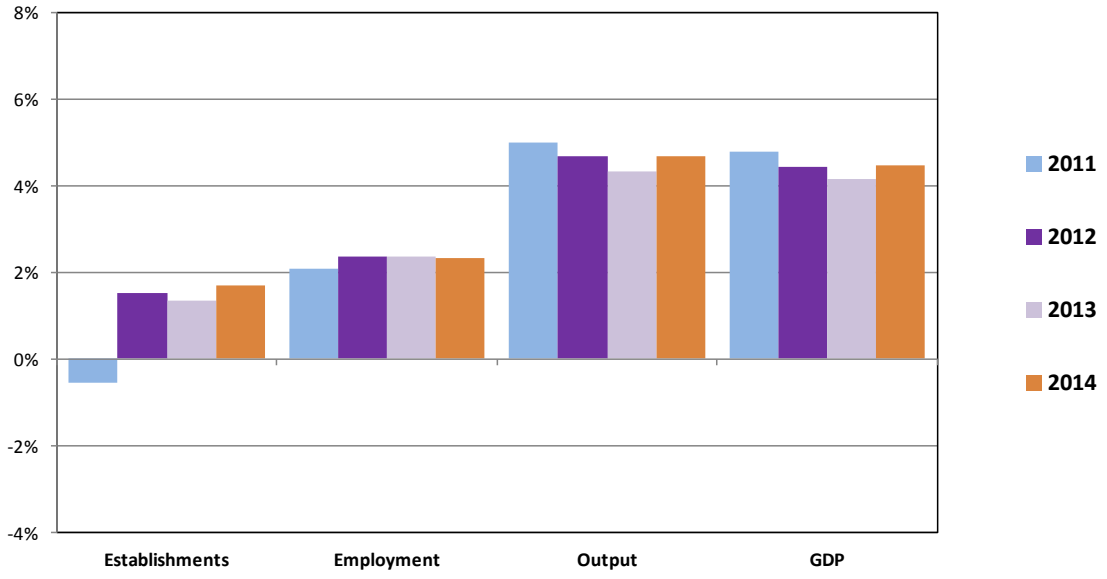
Franchise Business Growth, 2011-2014: January 2014 Forecast



To provide background for our view of how different segments of the franchise sector will fare in 2014, we review IHS Global Insight's forecasts of employment and output in the industrial sectors where there is a large concentration of franchise businesses. Key drivers of the franchise economy drawn from our U.S. industry forecast are summarized below.

Automotive: The auto market has been a stellar performer in a generally lackluster economy. Auto credit quality is outstanding…availability will improve. Industry pricing power will continue to strengthen. The industry has done a great job reducing capacity and cost. Pent-up demand is driving the auto recovery; and unless the economy deteriorates, sales will remain strong. The average age of the light vehicle remains as high as it has ever been at 11 years, with cars at 11.3 years and light trucks at 10.7 years. Longer term demographics will sustain sales. We expect sales to end 2013 at 15.6 million units and rise to 16.0 million in 2014.

Consumer spending on motor vehicle tires, parts and accessories collapsed during the recession and then ramped up by 5.1% in 2010 and 3.7% in 2011, in real terms. However, spending growth slowed to 1.2% in 2012 and an estimated 0.9% in 2013 as the recovery in new light vehicle sales hit its stride. Spending in this category is expected to accelerate to 3.6% in 2014. With new vehicle sales hitting 16.0 million units in 2014, one would expect another year of weakness in the tire, parts and accessories business. However, increased driving tied with a better economic climate is expected to support stronger spending on tires, parts and accessories. At the same time, those vehicle owners who will re-enter the work force in 2014 but not be flush enough to buy a new car or light truck will have to step up their spending on tires, parts and accessories.

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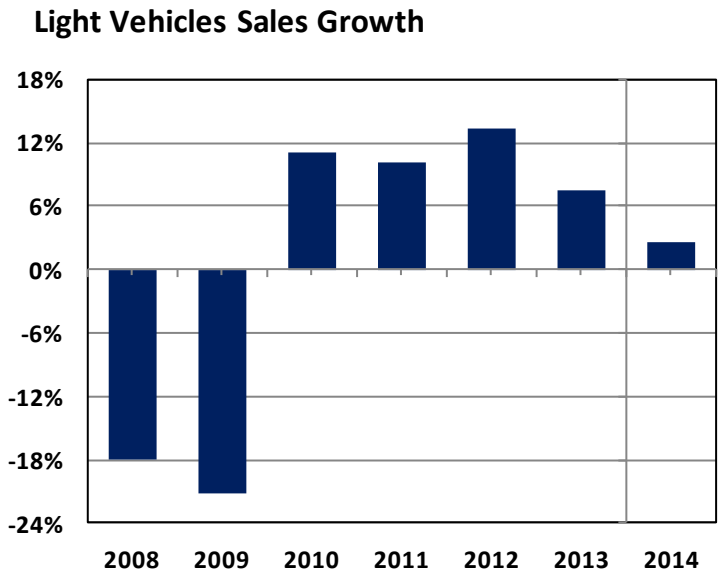

Spending on replacement parts and accessories for commercial vehicles will be limited by efforts to replace an old fleet with new state-of-the art equipment. For major fleets it just does not make economic sense to continue to run old equipment that costs more and more to maintain, is subject to more frequent breakdowns and is less fuel efficient. However, with the economy developing a more favorable tilt and freight flows and vocational market activities increasing, it will also behoove fleets and individual owner operators to step up their equipment maintenance. With this as a backdrop, we expect sales of commercial motor vehicle parts and accessories to expand steadily, albeit modestly, in the years ahead.

Commercial and Residential Services: The recovery in new residential construction has continued in 2013, with housing starts set to end the year at 931,000 units – up from 783,000 in 2012. Housing starts in 2014 are pegged at 1.162 million units, an increase of 25%. Growth in nonresidential building construction slowed to an estimated 1.2% in 2013 following an increase of 12.7% in 2012, as growth slowed or declined in all categories of facilities. We expect modest improvement in 2014, with growth of 1.6%. Architectural, project management and contracting firms can expect continued improvement in business as we move into 2014. The growth we expect in both residential and nonresidential construction should support an increase in special trade contractor employment of 4.0% in 2014, up from 2.9% in 2013. The increases we anticipate in new residential, commercial and industrial building construction, coupled with a more favorable business climate, will bolster activity among providers of facility support, building maintenance and repair, and waste disposal services.

The output of franchise businesses in the commercial and residential services business line expanded by an estimated 4.1% in 2013 and should grow by another 4.6% in 2014.

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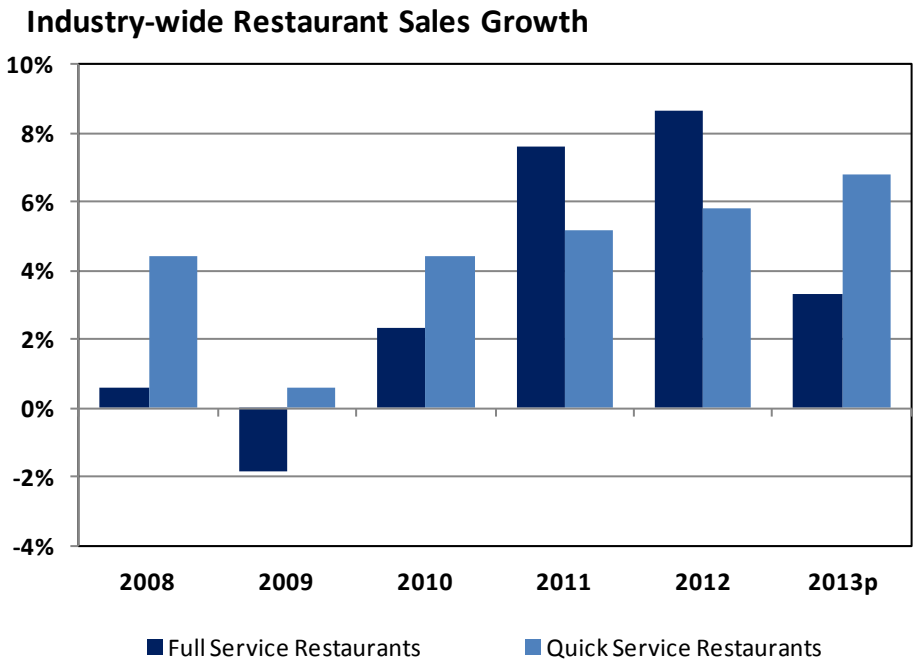
Table/Full Service Restaurants: After two years of strong growth in 2011-2012, we estimate that industry-wide sales at full service restaurants (franchise and non-franchise) slowed to less than 4.0% in 2013.



Full service restaurants are well past their "cyclical recovery" phase, and future growth will reflect prevailing economic conditions. Upper-income consumers, the driving force behind activity at table/full restaurants have done reasonably well over the past year and should continue to do so in 2014. There is nothing in the cards to suggest a reversal of fortune for the stock market, and home prices should head higher as the housing recovery continues. The rising tide associated with a stronger economy in 2014 will inevitably lift all boats, but "upper" income consumers will continue to outperform the rest of the buying public. At the same time, continued weak gains in food prices in 2014, including at food service establishments, will hold down the growth of restaurant sales in nominal dollars. The annual increase in food service prices is expected to slow from 2.2% in 2013 to 1.7% in 2014. Thus, we expect only modest improvement in franchise full service restaurant sales growth in 2014. Sales in nominal dollars are projected at 3.9% – up from 3.5% in 2013.

Quick Service Restaurants: The employment and sales growth of quick service restaurants trailed the full service segment in 2011 and 2012. But a turnaround emerged in 2013. Within the franchise sector, we estimate that quick service restaurant sales increased by 6.1% in 2013, while full service restaurant sales growth slowed to 3.5%. Employment at quick service restaurants grew 2.6%, while table service restaurant employment was up 1.7%.

For quick service restaurants the sluggish performance of employment and income growth can cut two ways. The large number of long-term unemployed, under-employed, and lower-income consumers has

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had to allocate their limited financial resources, keeping them away from even relatively low-price quick service restaurants. At the same time, the sluggish gains we have seen in employment and income has prevented many consumers from moving upscale from quick service restaurants to more expensive restaurants. In 2011-2012 improvements in employment and income were sufficient to shift the balance of these forces in favor of more spending at quick service restaurants.

We expect the continued modest pace of employment and income growth projected for 2014 to continue to work in favor of quick service restaurants. Employment gains will continue in 2014, but the pace of overall employment growth will not pick up. The unemployment rate is expected to continue to decline, but only gradually – in part due to a further decline in the labor participation rate. At the same time, the sales growth of quick service franchise restaurants will be affected by the slower growth of food prices referenced above. On balance, while franchise quick service restaurant sales in nominal dollars are estimated to have risen by 6.1% in 2013, we expect an increase of 5.2% in 2014.

Retail Food: Top-line demand for food remains relatively inelastic, but consumers do adjust their buying habits as economic conditions ebb and flow. When the economy is weak and financial resources are strained, consumers gravitate to lower-priced sales items and private brands and an increase in the use of coupons. While we have seen progress on the employment and income fronts, that improvement has left something to be desired. Income gains have been anemic and the number of people unemployed and under-employed remains high. Financially pressed consumers have remained wedded to cheaper generic and store brands, coupons and sales items. There is also evidence that consumers have become wedded to store/regional brands and, thus, we will never go back completely to a pre-recession product mix. Top-line consumer spending on food and beverage grew by only 1.3% in both 2012-13, in real terms. Better economic conditions should allow consumer buying patterns to tilt more towards their pre-recession mix with total spending in real terms increasing 2.0%.

Prices for food and beverages off-premises will face even more downward pressure in 2014 than restaurant prices – with an increase of only 0.6%. Franchise sales in the retail food business line increased an estimated 3.1% in nominal dollars in 2013, and we expect a 3.6% increase in 2013.

Lodging: Modest growth in employment has provided enough of an income stream to support expansion in consumer spending on lodging. Consumer spending on lodging in nominal dollars increased 6.6% in 2011, 7.0% in 2012, and an estimated 5.9% in 2013. Competition for the consumer's disposable income will intensify as the recoveries in light vehicles and housing hit their stride, which could limit the growth in lodging industry sales, even as the growth in disposable income accelerates next year. Consumer spending on lodging is slated to expand by 4.9% in 2014. The prospects for business travel and lodging spending are more favorable, as we expect the overall business climate to improve as 2014 progresses. Franchise sales in the lodging business line increased 3.6% in 2013, and we expect a 5.0% increase in 2014.

Real Estate: The residential market has turned the corner with existing home sales exceeding 5.0 million units in 2012 and an estimated 5.5 million in 2013. Signs of life also emerged in the commercial real estate market with vacancy rates coming down and rental rates increasing modestly.

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The steady, albeit modest, improvement in the employment and income situation is helping propel the housing recovery forward and contributing to the pickup in home prices. Existing home prices rose 5.2% in 2012 and an estimated 9.5% in 2013. Prices of new homes increased 8.4% in 2012 and an estimated 11.8% in 2013. Sales of new and existing homes are slated to rise to almost 6.0 million units in 2014, an increase of 7.6%. New and existing home prices are slated to rise 4.0% and 6.2%, respectively. Employment in the real estate, rental and leasing industry fell 11% over the five years from 2007 to 2011. Employment picked up by 1.3% in 2012 and appears headed for a 1.9% increase in 2013. With residential and nonresidential construction gaining additional ground in 2014, employment is set to expand by another 1.8%.

Sales among franchise businesses in the real estate business line rose 7.8% annually in both 2012 and 2013. As the pace of existing home sales growth slows in 2014, we expect franchise real estate businesses' sales growth to slow to 5.5%.

Retail Products and Services: Sales among franchise businesses in the retail products and services arena continue to expand, mirroring the modest progress we have seen on the employment and income fronts. More of the same is expected in 2014. U.S. retail and food service sales in nominal dollars increased an estimated 4.4% in 2013, following gains of 7.5% in 2011 and 5.3% in 2012. Top line sales growth in 2014 is put at only 3.7%, with growth in nominal dollars held down in part by lower energy prices.

Sales among franchise businesses in the retail products and services business line rose 4.2% in 2012 and an estimated 3.2% in 2013. Sales are set to rise 4.0% in 2014.

Business Services: Corporate America continues to generate profits but continues to remain cautious when it comes to spending on both equipment and services. While 2014 looks like a better year than 2013, corporations still have concerns about the economy, tax policy, the regulatory climate, the long-term budget/debt situation and health care legislation. Small businesses, in particular, continue to express apprehension about the economic climate. Nonetheless, even modestly expanding manufacturing and other business activities and the accompanying capital expenditure programs will have a positive impact on a broad range of business services such as warehousing and storage, data-processing, office administration, employment services, tax preparation, heavy equipment leasing, cleaning services, and office coffee and food service distribution. Service providers tied to the residential construction, motor vehicle, and unconventional energy industries are likely to post the strongest sales gains in 2014.

We expect franchise business services output growth in 2013 of 3.3%, following a 3.8% increase in 2012. Output growth is slated to expand by 5.0% in 2014.

Personal Services: For personal service providers their sales have reflected the modest gains achieved in employment and income. The economy has remained saddled with a huge number of unemployed and under-employed, which has kept the expansion of personal services industry activities in check. Pent-up demand for durable goods, such as autos, and housing, has been capturing a larger share of

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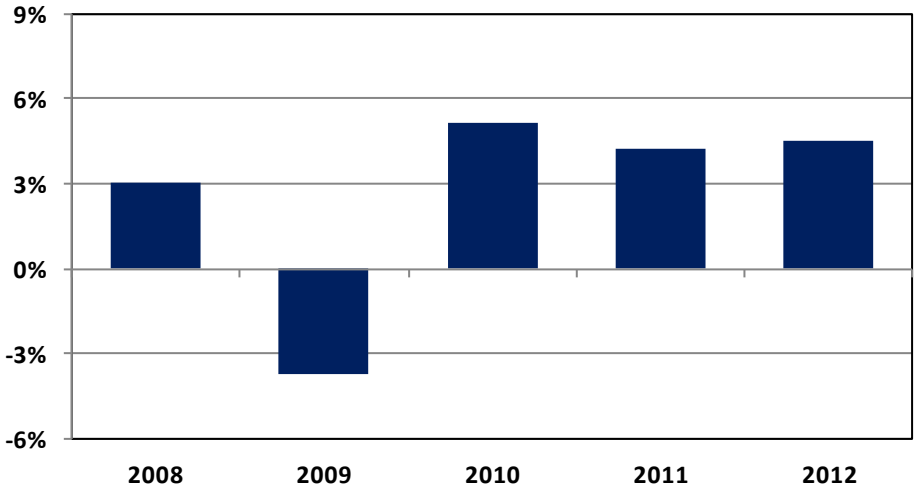
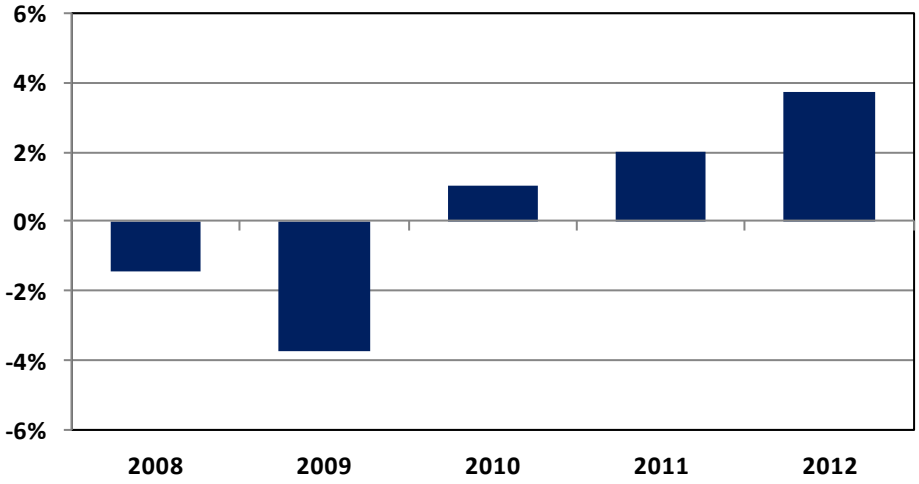
consumer financial resources. Top-line consumer spending on services probably expanded 3.0% in 2013 – down from 3.8% in 2012. We expect top-line consumer services spending to increase by 4.1% in 2014 as employment continues to gain ground and disposable personal income growth accelerates to 3.3% from 0.8% in 2013. Consumer spending on health care is set to rise 4.9% in 2014, compared to 3.3% in 2013. Transportation services spending will expand 5.3% versus 2.4% in 2013.

We estimate that franchise-operated personal service business revenue expanded by 3.2% in 2013, following a 3.8% increase in 2012. Revenues are set to expand by 3.7% in 2014.

Consumer Spending on Personal Care Services Economy-wide
(annual percent change)



Consumer Spending on Laundry & Dry Cleaning Economy-wide
(annual percent change)



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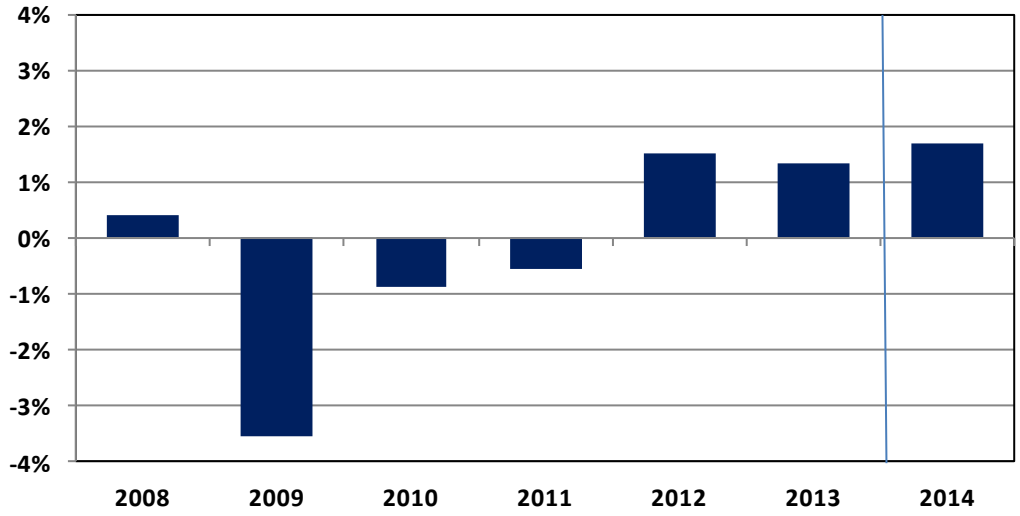
Establishments by Business Line

The total number of franchise establishments across the 10 business-format franchise lines is expected to increase 1.7% in 2014. Historically, total U.S. establishments have exhibited growth of 1 to 2% in recovery years, followed by a more moderate 0.7 to 1.3% increase in other expansionary years. With gradual improvement in the economy, this growth rate has begun to pick up.

In 2012 and 2013 we estimate that the number of establishments grew modestly in all 10 business-format lines. The Business Services sector was the growth leader in 2013, expanding at 2.0%, followed closely by Real Estate, which grew 1.8%. Three out of ten business format franchise lines are expected show growth of 2% and above in 2014

We expect Business Services and Commercial & Residential Services to be the growth leaders in number of business establishments in 2014. The Retail Food and Retail Products & Services business lines will post the slowest growth rates, although in the latter the growth of establishments will represent an improvement over growth in 2013.

Franchise Business Establishments Growth: January 2014 Forecast



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Franchise Establishments by Business Line, 2007-2014: January 2014 Forecast

	Estimates						Forecast (January 2014)	
	2007	2008	2009	2010	2011	2012	2013	2014
Automotive	31,307	31,653	30,012	29,687	29,984	30,344	30,556	30,923
Percent change		*1.1%*	*-5.2%*	*-1.1%*	*1.0%*	*1.2%*	*0.7%*	*1.2%*
Business Services	102,370	96,289	89,691	89,147	90,035	91,746	93,581	96,201
Percent change		*-5.9%*	*-6.9%*	*-0.6%*	*1.0%*	*1.9%*	*2.0%*	*2.8%*
Commercial & Residential Services	64,715	65,325	62,650	61,272	60,169	60,951	61,804	63,287
Percent change		*0.9%*	*-4.1%*	*-2.2%*	*-1.8%*	*1.3%*	*1.4%*	*2.4%*
Lodging	25,830	26,572	25,588	25,410	25,003	25,553	25,936	26,403
Percent change		*2.9%*	*-3.7%*	*-0.7%*	*-1.6%*	*2.2%*	*1.5%*	*1.8%*
Personal Services	107,428	110,696	106,510	106,100	105,463	107,572	109,293	111,370
Percent change		*3.0%*	*-3.8%*	*-0.4%*	*-0.6%*	*2.0%*	*1.6%*	*1.9%*
Quick Service Restaurants	150,291	151,887	150,316	149,547	147,902	151,156	153,423	155,571
Percent change		*1.1%*	*-1.0%*	*-0.5%*	*-1.1%*	*2.2%*	*1.5%*	*1.4%*
Real Estate	96,848	94,599	88,372	86,153	84,947	86,221	87,773	89,528
Percent change		*-2.3%*	*-6.6%*	*-2.5%*	*-1.4%*	*1.5%*	*1.8%*	*2.0%*
Retail Food	60,935	62,247	60,374	60,173	60,474	60,776	61,201	61,629
Percent change		*2.2%*	*-3.0%*	*-0.3%*	*0.5%*	*0.5%*	*0.7%*	*0.7%*
Retail Products & Services	94,966	98,527	97,519	96,921	96,630	96,823	97,307	98,475
Percent change		*3.7%*	*-1.0%*	*-0.6%*	*-0.3%*	*0.2%*	*0.5%*	*1.2%*
Table/Full Service Restaurants	36,145	36,221	35,614	35,688	35,507	36,217	36,579	36,981
Percent change		*0.2%*	*-1.7%*	*0.2%*	*-0.5%*	*2.0%*	*1.0%*	*1.1%*
Total		**774,016**	**746,646**	**740,098**	**736,114**	**747,359**	**757,453**	**770,368**

Employment by Business Line

All 10 business-format franchise lines posted gains in employment over each of the last three years, and we expect this pattern to continue in 2014. We estimate total franchise employment grew 2.3% in 2013, and we expect a 2.3% increase in 2014.

The Quick Service Restaurants line has led franchise employment growth in the last two years, with 3.2% growth in 2012 and 3.4% in 2013. The Table/Full Service Restaurant business line ranked second in employment growth in 2012 at 2.3%, but its employment growth slowed to 1.8% in 2013. The Real Estate sector also outperformed the franchise business average in 2013 with employment growth of 2.6%.

With the strong increase in the number of Business Services establishments projected in 2014, we expect the Business Services business line to be the employment growth leader in 2014 with an increase of 3.8%. The other sectors that are expected to show employment growth above the overall franchise average of 2.3% are Commercial & Residential Services (3.1%) and Quick Service Restaurants (2.4%).

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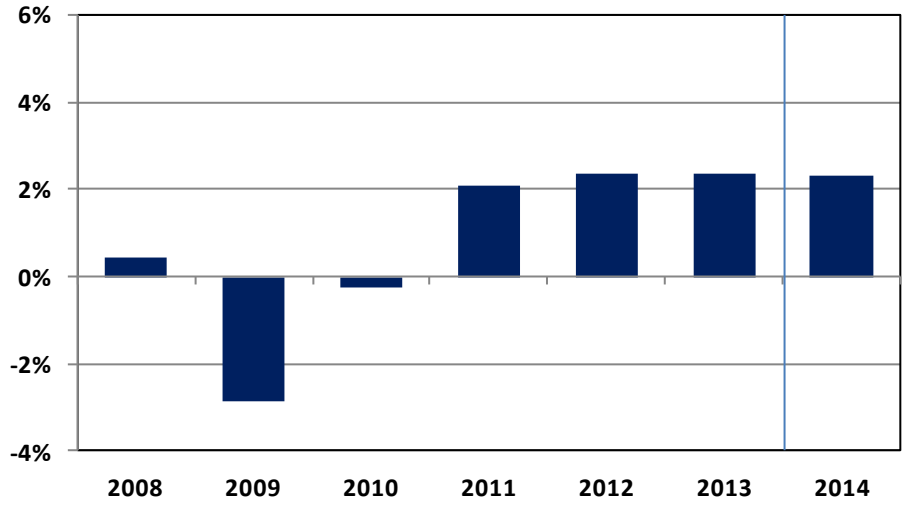
Franchise Employment by Business Line, 2007-2014: January 2014 Forecast

	Estimates						Forecast (January 2014)	
	2007	2008	2009	2010	2011	2012	2013	2014
Automotive	181,845	184,826	174,889	173,546	177,885	180,198	182,360	184,731
Percent change		*1.6%*	*-5.4%*	*-0.8%*	*2.5%*	*1.3%*	*1.2%*	*1.3%*
Business Services	1,016,222	955,080	889,721	874,087	883,702	903,143	923,915	959,024
Percent change		*-6.0%*	*-6.8%*	*-1.8%*	*1.1%*	*2.2%*	*2.3%*	*3.8%*
Commercial & Residential Services	354,940	357,475	343,531	336,317	342,034	347,849	355,502	366,523
Percent change		*0.7%*	*-3.9%*	*-2.1%*	*1.7%*	*1.7%*	*2.2%*	*3.1%*
Lodging	677,744	696,878	671,702	674,953	691,827	699,437	706,431	720,560
Percent change		*2.8%*	*-3.6%*	*0.5%*	*2.5%*	*1.1%*	*1.0%*	*2.0%*
Personal Services	623,315	642,204	618,069	622,864	635,321	647,392	658,398	670,908
Percent change		*3.0%*	*-3.8%*	*0.8%*	*2.0%*	*1.9%*	*1.7%*	*1.9%*
Quick Service Restaurants	2,888,554	2,919,701	2,887,550	2,882,638	2,951,821	3,046,279	3,149,852	3,225,448
Percent change		*1.1%*	*-1.1%*	*-0.2%*	*2.4%*	*3.2%*	*3.4%*	*2.4%*
Real Estate	323,974	316,969	295,954	290,329	294,974	301,168	308,998	315,796
Percent change		*-2.2%*	*-6.6%*	*-1.9%*	*1.6%*	*2.1%*	*2.6%*	*2.2%*
Retail Food	472,945	483,138	468,868	468,172	473,790	481,844	488,108	493,965
Percent change		*2.2%*	*-3.0%*	*-0.1%*	*1.2%*	*1.7%*	*1.3%*	*1.2%*
Retail Products & Services	452,929	468,973	464,036	468,883	476,385	483,531	489,333	496,673
Percent change		*3.5%*	*-1.1%*	*1.0%*	*1.6%*	*1.5%*	*1.2%*	*1.5%*
Table/Full Service Restaurants	1,001,184	1,003,208	985,999	988,044	1,012,745	1,036,038	1,054,687	1,076,835
Percent change		*0.2%*	*-1.7%*	*0.2%*	*2.5%*	*2.3%*	*1.8%*	*2.1%*
Total	**7,993,651**	**8,028,452**	**7,800,319**	**7,779,833**	**7,940,484**	**8,126,879**	**8,317,584**	**8,510,463**

Franchise Business Employment Growth: January 2014 Forecast



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Output by Business Line

All 10 franchise business lines have posted output gains in each of the last three years, led by the Real Estate industry with an average annual increase of 5.7%. We estimate that the Real Estate industry, stimulated by the housing market recovery, was the output growth leader in 2013 with a 7.8% gain. The Table/Full Service Restaurant franchise business was a strong performer in 2011 and 2012, with growth averaging over 6%, but the Quick Service Restaurant business line moved ahead in 2013 with output growth of 6.1%.

Real Estate is expected to continue to be the output growth leader in 2014, but its growth will slow to 5.5%. Eight of the 10 franchise business lines will show an acceleration in output growth in 2014 compared with the expected results for 2013. In addition to the slowdown in Real Estate, the Quick Service Restaurant business line is also expected to slow slightly to 5.2% growth in 2014, largely related to lower price increases as discussed in the previous section.

Franchise Output by Business Line, 2007-2014: January 2014 Forecast

	Estimates						Forecast (January 2014)	
($billions)	2007	2008	2009	2010	2011	2012	2013	2014
Automotive	30.21	33.59	31.16	33.56	36.32	37.62	38.72	40.23
Percent change		*11.2%*	*-7.2%*	*7.7%*	*8.2%*	*3.6%*	*2.9%*	*3.9%*
Business Services	131.77	134.09	128.62	132.61	137.38	142.60	147.31	154.67
Percent change		*1.8%*	*-4.1%*	*3.1%*	*3.6%*	*3.8%*	*3.3%*	*5.0%*
Commercial & Residential Services	45.00	48.42	46.32	46.55	48.23	50.20	52.26	54.67
Percent change		*7.6%*	*-4.3%*	*0.5%*	*3.6%*	*4.1%*	*4.1%*	*4.6%*
Lodging	65.26	67.98	62.79	67.62	72.83	75.82	78.55	82.47
Percent change		*4.2%*	*-7.6%*	*7.7%*	*7.7%*	*4.1%*	*3.6%*	*5.0%*
Personal Services	74.29	76.18	74.43	77.85	82.29	85.42	88.15	91.41
Percent change		*2.5%*	*-2.3%*	*4.6%*	*5.7%*	*3.8%*	*3.2%*	*3.7%*
Quick Service Restaurants	164.67	171.41	173.55	179.51	187.48	197.23	209.26	220.14
Percent change		*4.1%*	*1.2%*	*3.4%*	*4.4%*	*5.2%*	*6.1%*	*5.2%*
Real Estate	52.62	49.12	44.83	42.18	42.82	46.16	49.76	52.49
Percent change		*-6.7%*	*-8.7%*	*-5.9%*	*1.5%*	*7.8%*	*7.8%*	*5.5%*
Retail Food	31.80	34.66	31.92	34.12	36.47	37.75	38.92	40.32
Percent change		*9.0%*	*-7.9%*	*6.9%*	*6.9%*	*3.5%*	*3.1%*	*3.6%*
Retail Products & Services	30.11	31.59	31.89	34.19	36.41	37.94	39.16	40.72
Percent change		*4.9%*	*1.0%*	*7.2%*	*6.5%*	*4.2%*	*3.2%*	*4.0%*
Table/Full Service Restaurants	48.79	49.20	48.78	50.64	53.48	57.22	59.22	61.53
Percent change		*0.8%*	*-0.8%*	*3.8%*	*5.6%*	*7.0%*	*3.5%*	*3.9%*
Total		**696.24**	**674.30**	**698.84**	**733.71**	**767.97**	**801.31**	**838.67**

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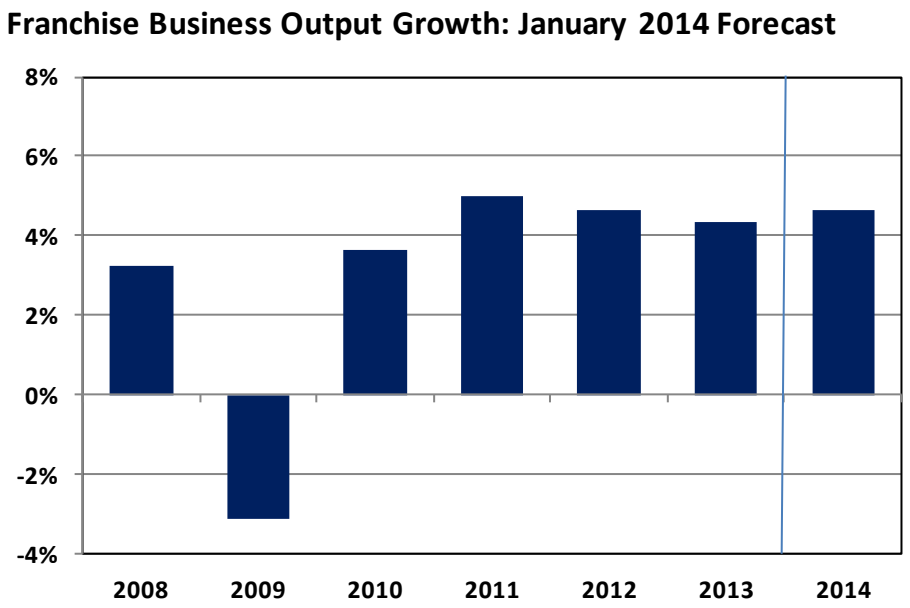

Franchise Businesses' Contribution to GDP

By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Global Insight developed estimates of the contribution to U.S. GDP by the franchise sector as a whole. We estimate that franchise businesses accounted for approximately 3.5% of U.S. GDP or a total of $472 billion in 2013. Based on our employment and output forecasts for franchising in 2014, we project that nominal GDP of the franchise sector will increase by 4.5% to $493 billion.

Distribution by Sector

This section focuses on the distribution of the 10 franchise business lines in terms of the number of establishments, employment, and output, based on our forecast for 2014. The Quick Service Restaurants business line is the largest category, with 20% of all franchise establishments, and accounts for 38% of franchise employment. This business line also is forecasted to contribute 26% of total output in 2014. Second in size in terms of the number of establishments is the Personal Services line, with 14% of the total. However, these are generally smaller businesses. The Personal Services group will account for only 8% of franchise employment and 11% of output.

The Table/Full Service Restaurants group occupies the second-largest share of employment, accounting for 13% of the total. The Business Services segment, which has higher ratios of output per establishment and per employee, is the second-largest contributor to the value of output in the franchise sector, with 18% of the total.

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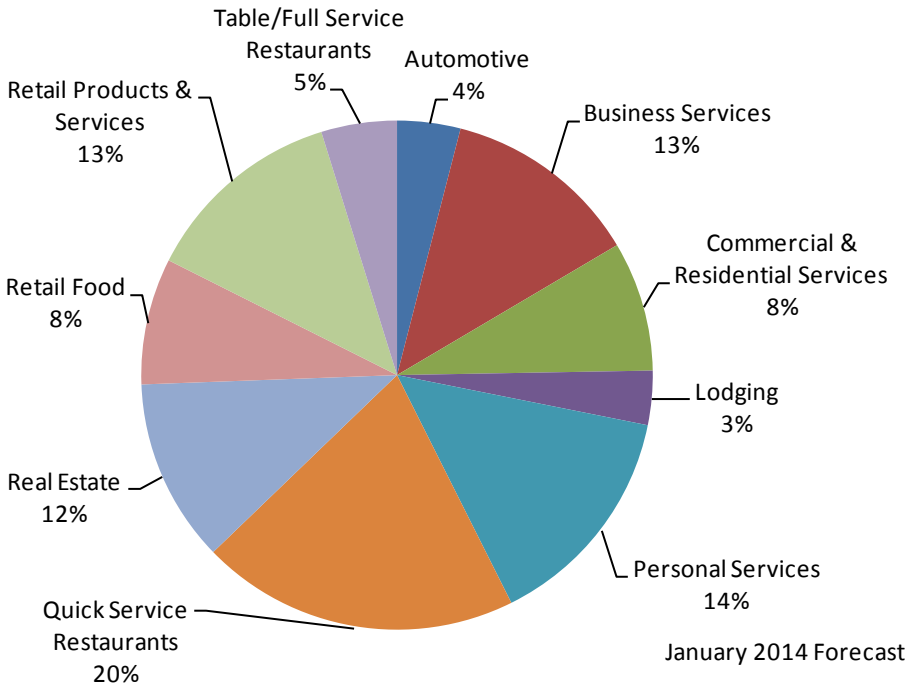
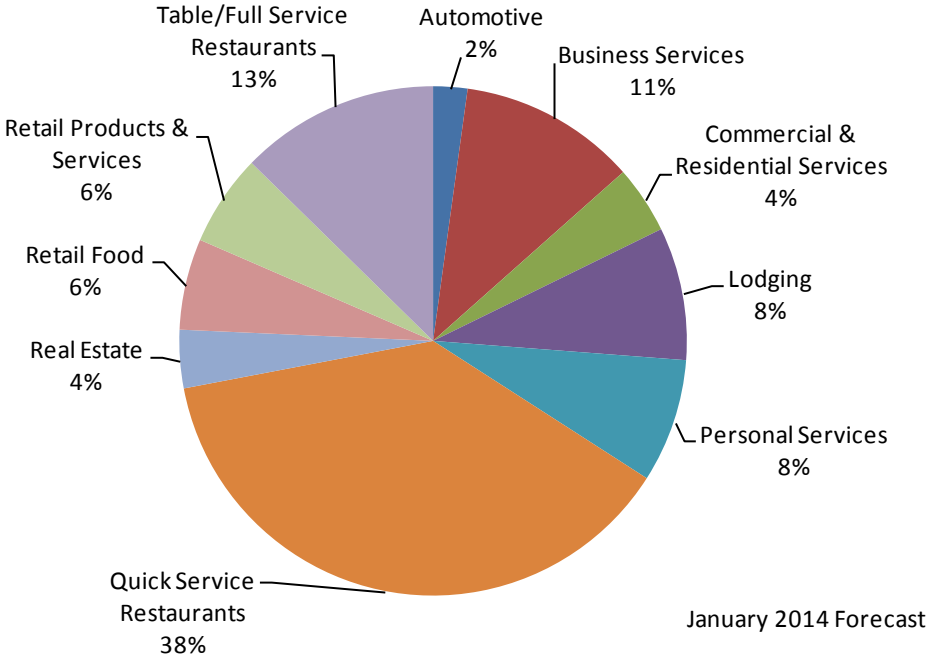
Establishments Distribution by Sector
2014



Employment Distribution by Sector
2014



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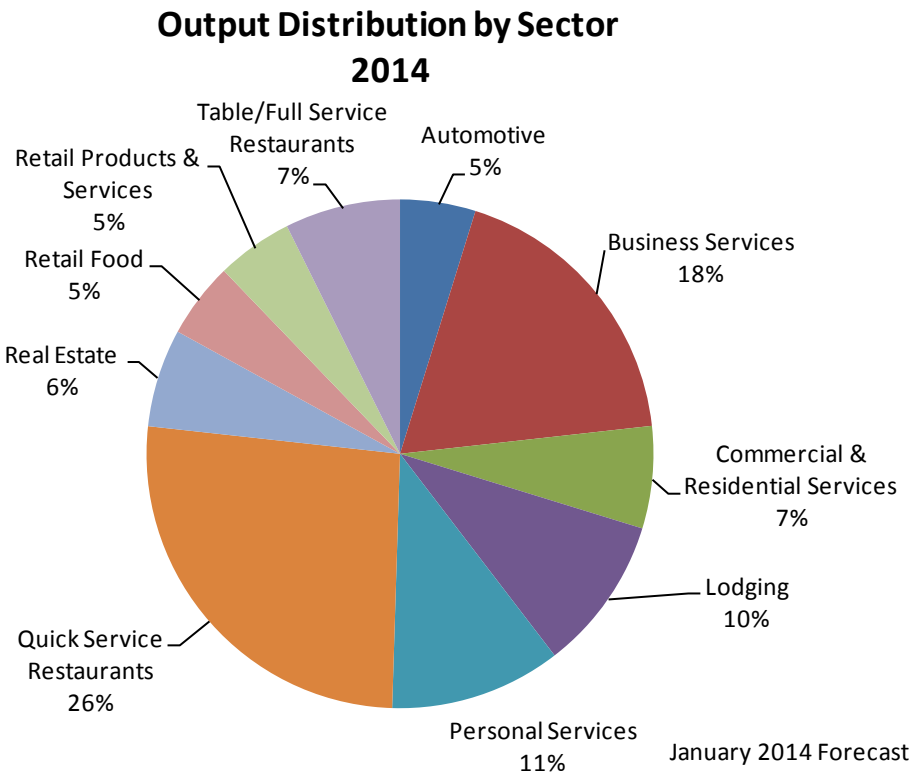

Output per Employee

On average, output per employee in franchise businesses is estimated to be $96,339 per worker in 2013 and forecasted to grow to $98,546 in 2014. This output-per-worker ratio varies within the 10 franchise business lines from a low of $57,144 (Table/Full Service Restaurants) to a high of $217,750 (Automotive) in 2014.

The average output per worker in the franchise sector has grown since 2007, and will continue to rise through 2014, increasing at a compound annual growth rate of 2.2% since 2007. The productivity pattern of franchise businesses during and after the recession is consistent with other U.S. industries, where revenues initially fell at a greater rate than worker lay-offs, and later rose at a faster pace because employers started to rehire workers only slowly. In 2009, the average productivity dipped slightly amidst the global recession, but then rose by nearly 4% in 2010. We estimate that franchise sector productivity gained 2.9% in 2011 and 2.3% in 2012. Productivity growth will continue to show modest gains in 2013 and 2014 at 1.9% and 2.3%, respectively.

The Automotive business line is the fastest-growing segments in terms of output per worker, with a compound annual growth rate of 4.2% during the period 2007-2013. The Real Estate sector recovered the slowest through 2013, but gained 5.6% in 2012 and 5.1% in 2013.

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Franchise Productivity by Business Line, 2007-2014: January Forecast

	Estimates						Forecast (January 2014)	
(Dollars per worker)	2007	2008	2009	2010	2011	2012	2013	2014
Automotive	166,120	181,720	178,197	193,404	204,158	208,793	212,301	217,750
Percent change		*9.4%*	*-1.9%*	*8.5%*	*5.6%*	*2.3%*	*1.7%*	*2.6%*
Business Services	129,668	140,397	144,563	151,710	155,461	157,895	159,439	161,282
Percent change		*8.3%*	*3.0%*	*4.9%*	*2.5%*	*1.6%*	*1.0%*	*1.2%*
Commercial & Residential Services	126,786	135,461	134,835	138,416	141,002	144,329	147,012	149,151
Percent change		*6.8%*	*-0.5%*	*2.7%*	*1.9%*	*2.4%*	*1.9%*	*1.5%*
Lodging	96,285	97,543	93,477	100,190	105,273	108,397	111,187	114,457
Percent change		*1.3%*	*-4.2%*	*7.2%*	*5.1%*	*3.0%*	*2.6%*	*2.9%*
Personal Services	119,192	118,627	120,430	124,994	129,528	131,943	133,889	136,254
Percent change		*-0.5%*	*1.5%*	*3.8%*	*3.6%*	*1.9%*	*1.5%*	*1.8%*
Quick Service Restaurants	57,009	58,707	60,102	62,273	63,514	64,745	66,436	68,252
Percent change		*3.0%*	*2.4%*	*3.6%*	*2.0%*	*1.9%*	*2.6%*	*2.7%*
Real Estate	162,432	154,972	151,469	145,293	145,151	153,254	161,022	166,221
Percent change		*-4.6%*	*-2.3%*	*-4.1%*	*-0.1%*	*5.6%*	*5.1%*	*3.2%*
Retail Food	67,241	71,730	68,074	72,879	76,984	78,347	79,739	81,630
Percent change		*6.7%*	*-5.1%*	*7.1%*	*5.6%*	*1.8%*	*1.8%*	*2.4%*
Retail Products & Services	66,485	67,368	68,733	72,920	76,437	78,470	80,021	81,992
Percent change		*1.3%*	*2.0%*	*6.1%*	*4.8%*	*2.7%*	*2.0%*	*2.5%*
Table/Full Service Restaurants	48,736	49,042	49,477	51,248	52,805	55,231	56,154	57,144
Percent change		*0.6%*	*0.9%*	*3.6%*	*3.0%*	*4.6%*	*1.7%*	*1.8%*
Total	**84,384**	**86,721**	**86,445**	**89,827**	**92,401**	**94,497**	**96,339**	**98,546**

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APPENDIX

Composition of Franchise Business Lines

1. Automotive: Includes motor-vehicle parts and supply stores, tire dealers, automotive equipment rental and leasing, and automotive repair and maintenance.

2. Commercial and Residential Services: Includes building, developing, and general contracting; heavy construction; special trade contractors; facilities support services; services to buildings and dwellings; and waste management and remediation services.

3. Quick Service Restaurants: Includes limited-service eating places, cafeterias, fast-food restaurants, beverage bars, ice cream parlors, pizza-delivery establishments, carryout sandwich shops, and carryout service shops with on-premises baking of donuts, cookies, and bagels.

4. Table/Full Service Restaurants: Establishments primarily engaged in providing food services to patrons who order and are served while seated (i.e., waiter/waitress services) and pay after eating

5. Retail Food: Includes food and beverage stores; convenience stores; food-service contractors; caterers; retail bakeries; and beer, wine, and liquor stores; as well as gas stations with convenience stores.

6. Lodging: Includes hotels, motels, and other accommodations.

7. Real Estate: Includes lessors of buildings, self-storage units, and other real estate; real estate agents and brokers; and property management and other related activities.

8. Retail Products and Services: Includes furniture and home furnishings stores, electronics and appliance stores, building-material and garden-equipment and supplies dealers, health and personal-care stores, clothing and general merchandise stores, florists and gift stores, consumer-goods rentals, photographic services, and book and music stores.

9. Business Services: Includes printing, business transportation, warehousing and storage, data-processing services, insurance agencies and brokerages, office administrative services, employment services, investigation and security services, tax-preparation and payroll services, and heavy equipment leasing.

10. Personal Services: Includes educational services, health care, entertainment and recreation, personal and laundry services, veterinary services, loan brokers, credit intermediation and related activities, and personal transportation.

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Methodology

The statistics in this report were derived from various published sources as well as IHS Global Insight propriety databases. The primary source for the report was the *2007 Economic Census Franchise Report.* This report provides U.S. estimates of establishments, employment, and annual payroll and output from business with paid employees by detailed sector for 2007. Data were aggregated to the 10 Business Format Lines.

The *2007 Economic Census* only covers businesses with paid employees; the data were integrated with other data sources to include franchise businesses without paid employees. Other data sources were:

- The *2007 Survey of Business Owners* – The U.S. Census Bureau publishes the *2007 Survey of Business Owners* (SBO). From this data source we were able to determine the number of franchised businesses for businesses without paid employees.
- *2007 Nonemployer Statistics* –The U.S. Census Bureau publishes the *2007 Nonemployer Statistics* (NES). NES includes the number establishments and total annual receipts by industry of businesses without paid employees that are subject to federal income tax. Most often, nonemployers are self-employed individuals. IHS Global Insight determined the total number of businesses without paid employees and combined it with the SBO data to derive franchise businesses without paid employees and the number of independent contractors working out of franchised establishments owned by others.
- *IHS Global Insight's Business Market Insights* (BMI) – This is a database that is based on the Census Bureau's *County Business Patterns*. It contains information on establishments, employees, and sales at the country level at six-digit North American Industry Classification System (NAICS). The data were integrated with the SBO to determine the number of businesses with paid employees in NAICS 55, which was not included in the *2007 Economic Census Franchise Report.*

To develop our estimates and forecasts, we reviewed and replicated previous studies done by PWC, which had made estimates of franchise businesses for 2007-2010. Our estimates were largely in agreement with theirs. We present our revised estimates, which are based on our work with the 2007 Economic Census and more up-to-date data from the Survey of Business Owners and Nonemployer Statistics.

We also acquired and reviewed data from Dun & Bradstreet on the number of franchise businesses in various years. These data did not cover all franchise establishments, but in some cases could be used to assess recent growth in the number of franchise establishments.

IHS Global Insight estimated econometric models to create forecasts for establishments, employment, and output of each of the 10 business lines. The models include both macroeconomic (credit availability) and industry-specific variables, using a nested modeling approach (i.e., franchise establishment formation affects employment requirements, which further influences output forecasts).

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