



Franchise Business Economic Outlook for 2014

Prepared for:

**International Franchise Association
Educational Foundation**

By:

IHS Economics

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EXECUTIVE SUMMARY

This report presents an update of the *IHS Economics* forecast of the franchise sector of the U.S. economy in 2014. First-quarter real GDP growth was just revised downward to show a decline of 1.0%. The weather was a factor in this poor GDP performance, but a sharp inventory correction and anomalies in investment and exports that boosted fourth-quarter 2013 growth also contributed. The latest economic reports indicate a rebound is underway, and our second-quarter forecast shows 3.5% growth. Full-year 2014 GDP growth is now projected at 2.4% – slightly below the forecast in our March report on the franchise business sector.

Although the macroeconomic outlook is a little weaker in areas (especially housing), the franchise sector appears to be leading the economy's rebound. The Franchise Business Index slowed to a gain of only 0.1% in January and declined by 0.2% in February, but March and April showed increases of 0.4% and 0.5%, respectively, driven by solid employment gains and an improvement in small business optimism. We have revised our forecast of franchise employment growth in 2014 up 0.2% compared to our March report. The franchise output forecast is now 0.1% higher.

Highlights of our forecast for the franchise sector in 2014 are as follows:

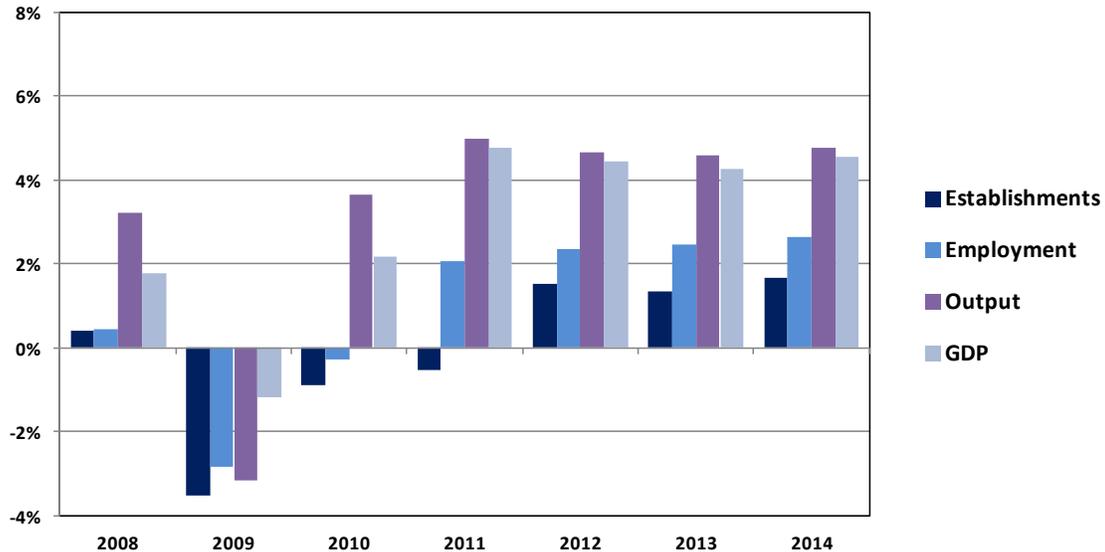
- We expect the number of franchise establishments in the United States to increase by 1.7% in 2014, ahead of the 2013 pace of 1.4%.
- Franchise employment is expected to increase by 2.6%, boosted by gains in business services and both quick-service and full-service restaurants.
- The output of franchise establishments in nominal dollars in 2014 will increase by 4.8% – stronger growth than the 4.6% recorded in 2013.
- The gross domestic product (GDP) of the franchise sector is projected to increase to \$494 billion in 2014. This is approximately 3.1% of U.S. GDP in nominal dollars.

Franchise Business Economic Outlook: May 2014 Forecast

	Estimates							Forecast (May 2014)
	2007	2008	2009	2010	2011	2012	2013	2014
Establishments	770,835	774,016	746,646	740,098	736,114	747,359	757,503	770,069
<i>Percent change</i>		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	8,327	8,548
<i>Percent change</i>		0.4%	-2.8%	-0.3%	2.1%	2.3%	2.5%	2.6%
Output (\$Billions)	675	696	674	699	734	768	803	841
<i>Percent change</i>		3.2%	-3.2%	3.6%	5.0%	4.7%	4.6%	4.8%
GDP (\$Billions)	403	410	405	414	434	453	472	494
<i>Percent change</i>		1.8%	-1.2%	2.2%	4.8%	4.4%	4.3%	4.6%

With the more complete data for 2013 that are now available, we have also revised our estimates of the franchise sector in 2013. Employment and output growth were both revised upward by 0.1% and now show 2013 growth rates of 2.5% and 4.6%, respectively.

Franchise Business Growth by Year, 2008-2014: May 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 3.7% in Retail Food to 5.6% in Real Estate. Other highlights of the industry forecast for 2014 are:

- Business Services will lead the franchise business lines in employment and establishment growth and rank third in output growth.
- Forecasts of the employment and output of the Real Estate business line have been revised downward, given the weaker housing market recovery, but Real Estate businesses will still rank first in output growth.
- Employment and output of the Lodging business line will pick up in 2014, and Lodging businesses will rank second in output growth.
- Table/Full-Service Restaurants – after lagging the Quick-Service Restaurants business line in 2013 – will show stronger output growth in 2014 (up 5.1%) and will post modest employment gains.

Franchise Business Economic Outlook, 2014: May 2014 Forecast

	Establishments		Employment		Output (\$Billions)	
	Amount	Percent	Amount	Percent	Amount	Percent
		Change Over Previous Year		Change Over Previous Year		Change Over Previous Year
Automotive	30,954	1.2%	188,024	2.7%	40.23	3.9%
Business Services	96,201	2.8%	964,640	3.9%	155.72	5.1%
Commercial & Residential Services	63,102	2.1%	366,878	3.2%	54.88	4.8%
Lodging	26,403	1.8%	721,266	2.1%	82.79	5.3%
Personal Services	111,370	1.9%	678,176	2.5%	91.41	3.7%
Quick Service Restaurants	155,418	1.4%	3,241,180	2.8%	220.34	4.9%
Real Estate	89,265	1.7%	314,562	1.9%	52.64	5.6%
Retail Food	61,691	0.8%	496,894	1.8%	40.40	3.7%
Retail Products & Services	98,573	1.2%	498,144	1.7%	40.84	4.2%
Table/Full Service Restaurants	37,092	1.2%	1,077,878	2.4%	62.06	5.1%
TOTAL	770,069	1.7%	8,547,642	2.6%	841.31	4.8%

Franchise Business Index

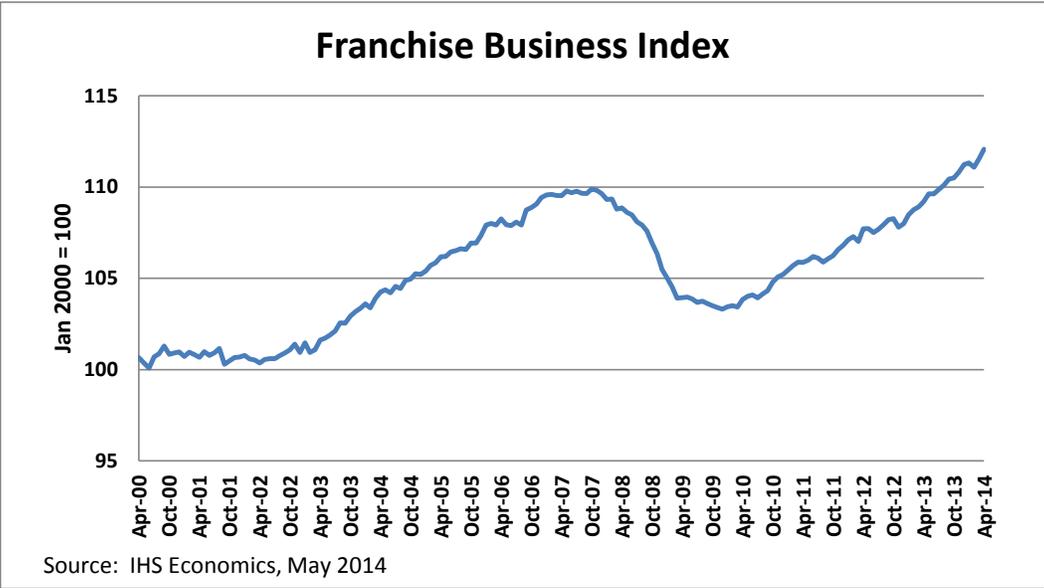
The estimates of output, employment and the number of businesses in the franchise industry reported here provide valuable measures of the size and growth of the industry. But, because the key data inputs required to make these estimates are published only on an annual basis, the estimates are made only 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 Businesses (ADP)
- 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)

Growth of the FBI slowed to 0.1% in January and the February data show a decline of 0.2%, but much of that weakness could have been weather-related. The FBI was up 0.4% in March and 0.5% in April, led by solid employment growth and an improvement in the small business optimism component of the index in both months. The retail sales of franchise-intensive industries were down slightly in April, but this followed a strong rebound in March after weak winter sales.

On a year-over-year basis, the FBI was up 2.6% in April.

	February 2014	March 2014	April 2014	12-month April-April
Franchise Business Index	111.1	111.6	112.1	
Percent Change	-0.2%	0.4%	0.5%	2.6%



This release of the Franchise Business Index reflects the results of a benchmark review and revision of the data sources and methods used to calculate the index. The changes introduced are as follows:

- The employment component of the index for the period April 2011 to the present are now based on data from ADP's monthly *National Franchise Report*, adjusted to exclude estimated employment gains of product distribution businesses, which are not considered business format franchises. Prior to April 2011, this index component continues to be measured by a weighted average of employment in franchise-intensive industries.
- The retail sales component of the FBI was expanded to include restaurant sales.
- The credit conditions component of the FBI, which is drawn from an index published monthly by the NFIB, was revised to incorporate a less volatile form of the published index.
- Weighting of the six components was revised to reflect changes in the volatility of all components and in the subjective assessment of the importance of each component.

These changes affect the entire historical series of the index, January 2000 to April 2014. Complete data on the revised FBI and a more detailed description of these changes is provided in the *Franchise Business Index: Sources and Methods* document.

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 Economics.

The following section presents a summary of the current IHS forecast of 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 2007–13 and an updated forecast for 2014 of:

- Franchise establishments²
- Franchise employment³
- Franchise nominal output⁴

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.

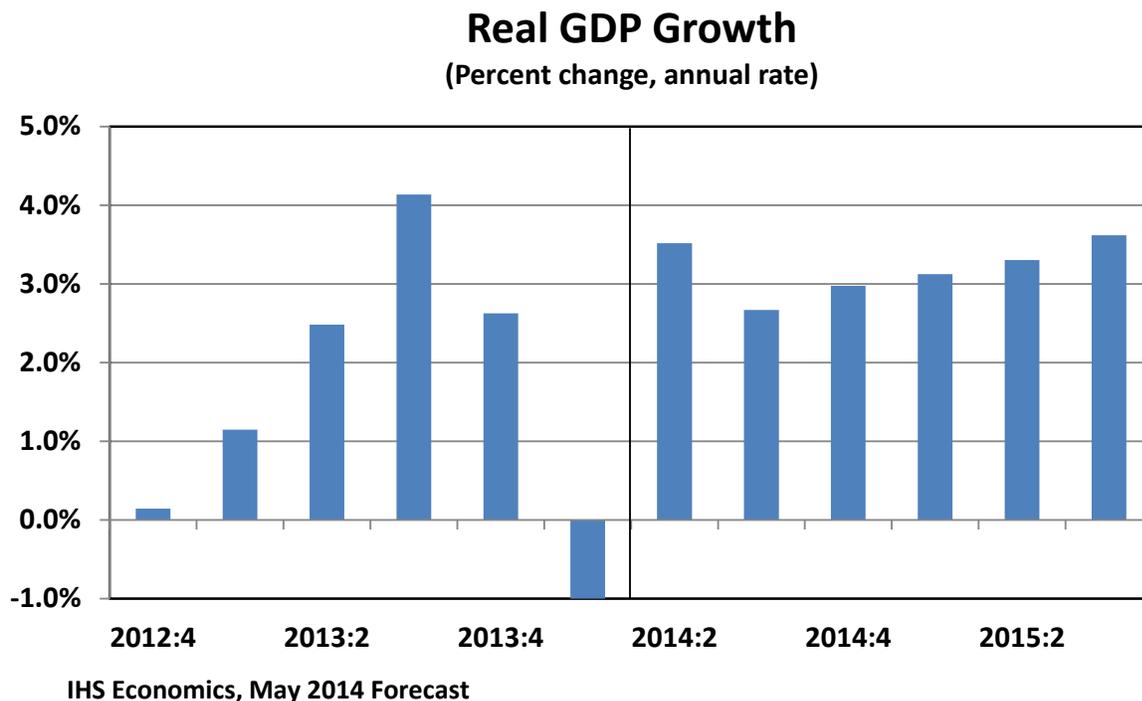
³ Positions filled by part-time and full-time employees or by self-employed individuals.

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."

THE ECONOMIC OUTLOOK

Real GDP is now reported to have declined by 1.0% in the first quarter of 2014. The weather was a factor in the first quarter's poor GDP performance, but data anomalies that boosted fourth-quarter 2013 growth, such as spikes in exports and aircraft investment, also contributed. GDP was dragged down in the quarter by declines in exports, investment (both nonresidential and residential), and state and local government spending. But the largest factor was a sharp decline in inventory accumulation, which subtracted 1.6 percentage points from GDP growth. On the up-side, real consumer spending increased 3.1% – in line with the preceding quarter and ahead of last year's overall growth.

The latest data indicate a rebound is underway, and our second-quarter forecast now shows 3.5% GDP growth. Growth in the second half of 2014 is still expected to average 2.8%, and our full-year 2014 GDP forecast, at 2.4%, is only slightly lower than projected at the time of our March report on the franchise business sector.



Measures of consumer mood have been mixed and variable in recent months, trading off increases and declines about the current situation and expectations for the future. The April Reuters/University of Michigan's Consumer Sentiment Index showed improvement, but the mid-May data showed a decline of 2.8%. Consumers are more optimistic about their current financial situations than their outlook for the future. The Conference Board's Consumer Confidence Index declined in April but rebounded in May. However, both measures are moving toward their pre-recession highs.

Consumers escalated their debt levels in March by the largest total in more than a year, consistent with the strong month for retail sales. Total nonmortgage debt now stands at its highest level ever relative to disposable income. Revolving debt growth, mostly credit cards, remains subdued as consumers work to keep their personal finances in order following the recession. But non-revolving debt continues to increase relative to disposable income, propelled largely by rising student-loan debt.

Since our March report on franchise businesses, we have boosted our forecast of total employment growth in 2014 slightly, and with it the growth of real consumer spending. Employment is now expected to increase by 1.8% and consumer spending by 2.7%. Spending on durables should make a good comeback in the second quarter, and services will be strongest in the second half of the year.

An important element of the somewhat softer GDP growth forecast for year is reduced expectations for housing market performance. Recent data show that new and existing home sales remain weak, as do housing starts. Moreover, this weakness is seen in parts of the United States that had “good” winter weather, eliminating the weather as the sole causal factor.

There are several possible factors delaying the housing recovery: higher input prices for builders; stringent lending standards put in place by mortgage lenders, reducing the potential customer pool; a relative lack of distressed properties for sale, which had helped drive sales in recent years; and a reduction in job mobility, as the rate of employment growth remains subdued. We now project a small decline instead of a small increase in existing home sales in 2014, and the forecast for housing starts for the year has been reduced to just over 1 million.

The Economic Outlook for 2014

(Annual percent change)	2010	2011	2012	2013	2014
Real Gross Domestic Product	2.5	1.8	2.8	1.9	2.4
Total Nonfarm Employment	-0.7	1.2	1.7	1.7	1.8
Accommodations and Food Services	-0.2	2.7	3.2	3.5	2.5
Personal Services	-0.7	0.6	1.3	0.6	0.8
Real Disposable Income	1.1	2.4	2.0	0.7	2.0
Real Personal Consumption	2.0	2.5	2.2	2.0	2.7
Food Services	1.4	4.1	3.4	2.5	1.6
Accommodations	2.4	3.6	4.7	4.7	3.8
Personal Services	0.7	0.9	1.5	-1.1	0.8
Retail Sales (nominal dollars)	5.5	7.5	5.1	4.2	3.2
Existing Home Sales	-3.4	2.3	8.9	8.9	-2.2
Com'l & Indus. Loans Outstanding, Com'l.Bank:	-5.4	9.3	13.0	7.3	8.5

IHS Economics, May 2014 Forecast

OUTLOOK FOR FRANCHISE BUSINESS

Outlook Summary

Although franchise business activity in the first two months of the year was likely constrained by poor weather, more recent data indicate that the pace of hiring by franchise businesses has picked up and small business confidence is improving. We have boosted our forecasts of employment and output growth of the franchise sector in 2014 by 0.2% and 0.1%, respectively. By most measures, the franchise sector continues to grow at rates that exceed the economy-wide growth of industries where franchises are concentrated.

With the more complete data for 2013 that are now available, we have also revised our estimates of the franchise sector in 2013. Employment and output growth were both revised upward slightly and now show 2013 growth rates of 2.5% and 4.6%, respectively.

We continue to project 2014 to be a stronger year than 2013 for the franchise sector, and franchises will continue to outperform within their industries.

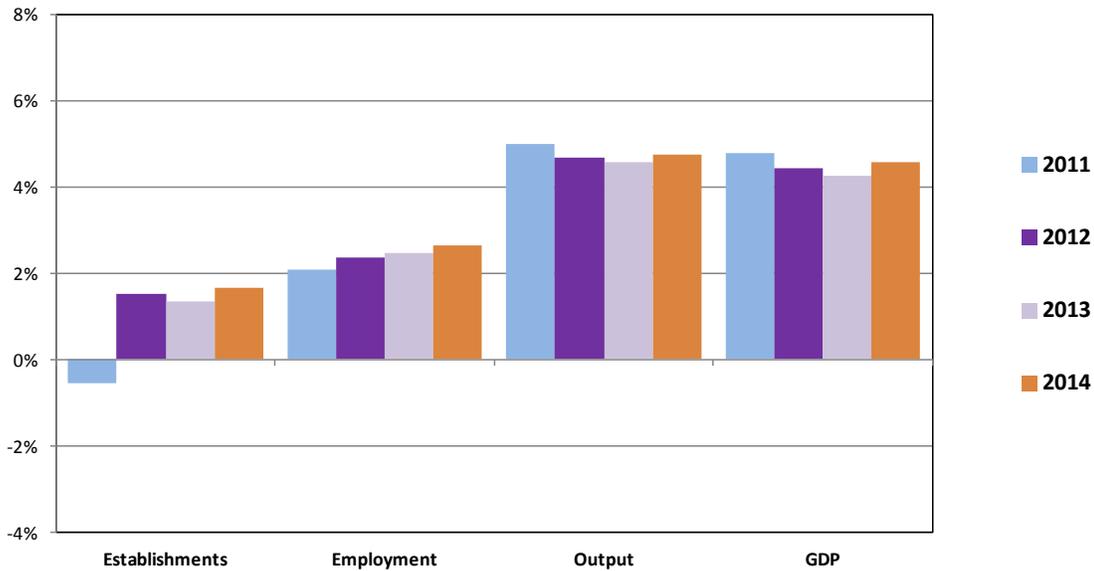
- We expect a 1.7% increase in the number of franchise businesses in 2014, which is in line with the growth of overall business formation across the economy.
- We expect employment in franchise establishments to increase 2.6% in 2014 – exceeding the 2013 pace. Total private sector employment is projected to rise 2.1% in 2014.
- The output of franchise establishments in nominal dollars will increase 4.8% in 2014 – up from 4.6% in 2013.

Franchise Business Economic Outlook: May 2014 Forecast

	Estimates							Forecast (May 2014)
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Establishments	770,835	774,016	746,646	740,098	736,114	747,359	757,503	770,069
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GDP (\$Billions)	403	410	405	414	434	453	472	494
<i>Percent change</i>		1.8%	-1.2%	2.2%	4.8%	4.4%	4.3%	4.6%

The chart below shows how the franchise economy has fared over the last three years, along with our 2014 forecast, by various measures. Growth rates of output and GDP are in nominal dollars.

Franchise Business Growth, 2011-2014: May 2014 Forecast

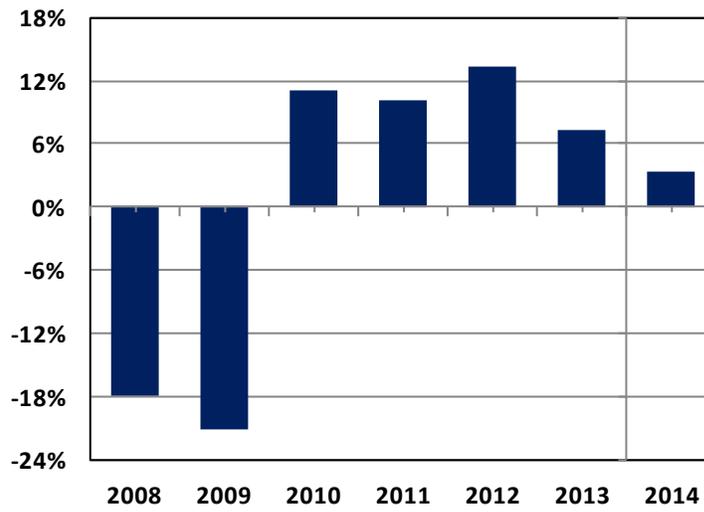


To provide background for our view of how different segments of the franchise sector will fare in 2014, we review IHS forecasts of employment and output in the industries where there is a large concentration of franchise businesses. Key drivers of the franchise economy drawn from our U.S. industry forecast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

Automotive: With the average age of light vehicles at a record high 11 years, replacement and pent-up demand will keep the automotive market robust. Last year light vehicle sales were 15.49 million, up more than 7% from the year before and the highest level since 2007. The outlook for 2014 consumer spending on new autos is expected to increase 6% versus an increase of 5.3% in 2013, while spending on used vehicles is expected to increase less than it did in 2013 (2.7% versus 3.3%, respectively). Besides aging vehicles, the trend in Infotainment technology in autos may be contributing to this trend. This technology is quickly maturing and will make even models that are only a few years old seem obsolete. As overall economic growth continues to increase, a mobile workforce will demand more vehicles equipped with the latest technology that can help them keep up with a connected economy.

An improved job market combined with tough weather conditions in the first quarter that wreaked havoc on roads and vehicles is helping to drive a pick-up in consumer spending on motor vehicle tires, parts and accessories. After only seeing 1.6% growth in sales in 2013, 2014 is on pace for a projected 4.6% increase in annual sales.

Light Vehicles Sales Growth

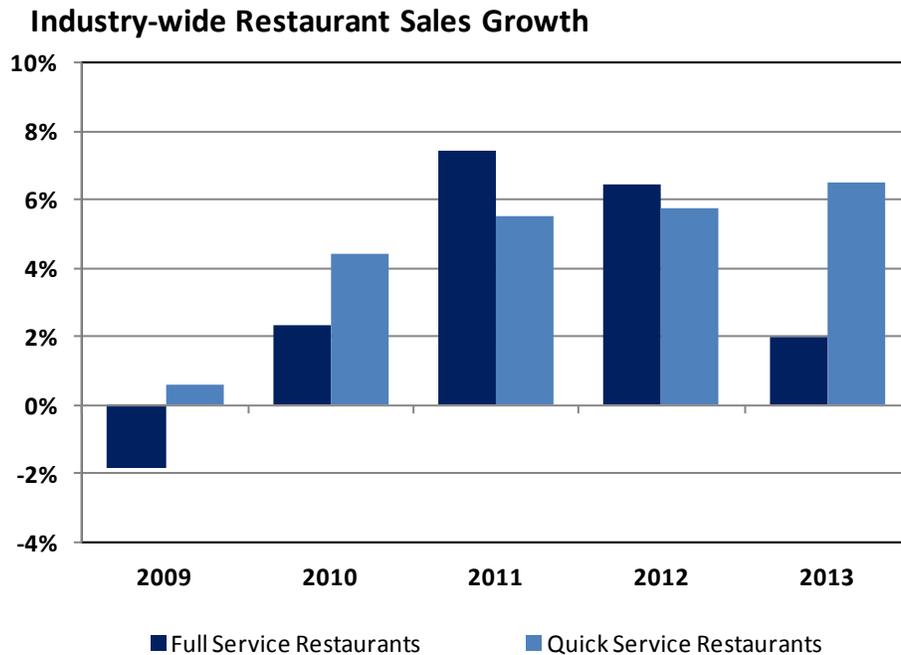


Spending on replacement parts and accessories for commercial vehicles will be limited by efforts to replace an old fleet with new state-of-the art equipment. For major fleets, it just does not make economic sense to continue to run old equipment that costs more and more to maintain, is subject to more 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: Residential construction remains in a strong recovery. Housing starts in 2013 were 929,000 units – up from 783,000 in 2012. The pace of housing starts has slowed, but starts in 2014 are still expected to be up 10% to 1.024 million units. Growth in nonresidential building construction, in real terms, slowed to 1.3% in 2013 from an increase of 12.7% the year before. Look for this year to see a 3.9% improvement. However, construction of commercial structures is expected to grow by 7.2% this year. This will benefit architectural, project management and contracting firms. Once put in place, it will also bolster activity among providers of facility support, building maintenance and repair, and waste disposal services. Because of the strength of the residential and commercial construction market, the output of franchise businesses in the commercial and residential services business line expanded by 4.3% in 2013 and should grow at a faster-paced 4.8% in 2014.

Table/Full Service Restaurants: After strong increases of over 6% in both 2011 and 2012, consumer spending on food services (food consumed away from home) increased by less than 5% in 2013. Full service restaurant sales grew faster than quick service sales during 2011 and 2012, aided by the fact that they cater more to upper-income consumers, who increased their economic position at faster rates relative to middle- or lower-income consumers during these early years of the recovery when the

unemployment rate was still above 8%. However, as the job market has improved at the lower end of the spectrum, higher incomes have helped all consumers spend more on food away from home. In 2013, sales of full service restaurants industry-wide (franchise and non-franchise) were up only 2.0% in 2013, while quick service restaurant sales growth improved to 6.5%.



In 2014, full service restaurants are again expected to grow at a faster pace of 5.2%. This should help sales for franchise full service restaurants, which are projected to grow 5.1% – up from 3.2% in 2013.

Quick Service Restaurants: Although quick service restaurants lagged behind full service establishments in 2011-2012, this reversed in 2013. As the unemployment rate fell to 6.7% by year-end 2013 and payroll employment increased 1.7%, both the output and employment of quick service restaurants increased at a faster rate than full service restaurants. Within the franchise sector, we estimate that quick service restaurant sales increased by 6.5% in 2013, while full service restaurant saw only a 3.2% rise. In conjunction with the improving economy, the fast-growing fast-casual chains helped fuel this trend reversal. These restaurants are meeting the demand for the more upscale food experience of traditional full service restaurants, while still having the time-saving convenience of fast food service.

Employment at franchise quick service restaurants grew 3.5% in 2013, while table service restaurant employment was up 1.6%. We expect the continued modest pace of employment and income growth, particularly at the lower- and middle-income levels, to work in favor of quick service restaurants in 2014. Employment gains in the overall economy should continue at a 1.8% rate in 2014, as the unemployment rate is expected to fall to 6.5%. Franchise quick service restaurant sales in nominal dollars should see an increase of 4.9% in 2014.

Retail Food: Retail food sales overall (franchise and non-franchise) slowed from 3.2% growth in 2012 to 3.0% growth in 2013. This year an improving economy as well slightly higher food prices will see retail food sales grow at an annual 3.8% clip. In line with sales forecast, top-line consumer spending on food to be consumed at home increased 3.6% in 2012, but during 2013 it saw a significantly slower 2.4% growth rate. Better economic conditions that provide consumers with a bit more disposable income (increasing 2.0% in 2014 after growth of only 0.7% in 2013) will help an increasingly health conscious population afford a product mix that favors food choices that are often slightly higher priced. Total spending on retail food is expected to increase by 3.8% during 2014.

Similarly, after increasing 3.2% in 2013, franchise sales in the retail food business line should grow by 3.7% in 2014.

Lodging: Consumer spending on accommodations increased 7.0% in 2012 and 6.2% during 2013. Current low interest rates, an improving economy and traveler demand for more amenities while on the road has spurred investment in hotels in recent years. This increase in supply should help mute overall price increases and encourage travelers, who increasingly need to travel for business in a global economy, to spend more in total on lodging. Consumer spending on lodging is slated to expand by 7.4% in 2014.

Similarly, after increasing 3.7% in 2013, sales of the Lodging franchise business line should grow by 5.3% in 2014.

Real Estate: Existing home sales were 4.7 million units in 2012, an 8.9% increase from the year before. During 2013 5.1 million units were sold – another 8.9% increase. Single family new home sales were 368,000 during 2012, 20% higher than the year before. Last year, sales reached 430,000 – nearly 17% more. Additionally, average existing single family home prices rose 5% in 2012 and more than 8% in 2013. New single family home prices rose over 8% during 2012 and 12% in 2013. These statistics reflect a solid recovery of the real estate market. But since early fall of 2013, the pace of recovery has slowed significantly, and growth rates of both sales volumes and prices are expected to be more moderate this year. We expect new homes to see healthy growth of 8.6% in sales and 1.8% in average prices. However, average existing home prices are expected to rise only 3.7%, and the volume of existing homes sold is expected to contract 2.2% this year. Both of these indicators have been revised downward since our March forecast.

In line with this slowdown of the housing market recovery, we expect sales of franchise businesses in the Real Estate business line to slow from a pace near 8% in 2012-2013 to 5.6% in 2014.

Retail Products and Services: The Consumer Sentiment Index continues to improve from 76.5 in 2012 to 79.2 in 2013 and is expected to be at 85.5 for 2014. This rise in consumer confidence in the economy should help bolster the retail products and service sector. However, the rise in sentiment will bolster the automotive retail and full-service retail sectors the most in 2014. Department store chains will continue to struggle, contracting 2.4% in 2014 after a 4.5% decline in 2013, as more and more retail purchases are made online.

Sales among franchise businesses in the Retail Products and Services business line – after slowing a bit from 4.2% growth in 2012 to 3.3% in 2013 – are expected to return to 4.2% growth in 2014.

Business Services: Cash balances are strong for most major corporations, but businesses remain cautious when it comes to spending on both equipment and services. However, with economic growth picking up, outdated equipment will feel the strain. Microsoft's discontinuance of support for its XP operating system this past spring, along with the growth in the Cloud service technology sector, will also help accelerate demand for equipment and service upgrades, rather than continuing to take a wait-and-see approach. Additionally, with the modest expansion in manufacturing and other business activities anticipated for this year, and expectations for capital expenditure programs to pick-up, there should be a wide range of business services set to see gains. Services, such as legal, accounting, architectural and engineering, computer systems design, management and technical consulting, scientific research and development and advertising and related services, should all see a pick-up in growth this year. Those businesses servicing the residential construction, motor vehicle, and unconventional energy industries are likely to post the strongest sales gains in 2014.

Franchise business services output grew 3.9% in 2013, following a 3.8% increase in 2012. Output growth is slated to jump to 5.1% in 2014.

Personal Services: Employment and income are the primary drivers behind the demand for personal services. Despite a slow recovery in these areas, encouragement exists in the fact that growth still continues to improve at a steady pace. Unemployment averaged 7.4% last year – still high, but a marked improvement from 2010, when unemployment hovered around 10%. Employment this year is expected to grow by 1.8%, 0.1 percentage points faster than last year. Additionally, personal income is expected to grow 3.8% this year after growing 2.8% last year. These trends will help increase demand for personal services as more individuals shift from producing their own services to working away from home and contracting with others for those services. The housing market and durable goods (e.g., autos) have captured most of the attention of the consumer during the recovery, while consumer spending on services, on a current dollar basis, grew at a slower rate in 2013 – 3.8% in 2012 and 3.2% during 2013. We expect top-line consumer services spending to increase by 4.8% in 2014. Spending on many categories of personal services economy-wide fell in 2013 but will share in the improved growth outlook for 2014.

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.

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 the initial years of a recovery. With continued gradual improvement in the economy, this growth rate has begun to pick up.

We estimate that the number of franchise establishments grew modestly in all 10 business-format lines in 2012 and 2013. The Business Services sector was the growth leader in 2013, expanding at 2.0%, followed closely by Real Estate, which grew 1.8%.

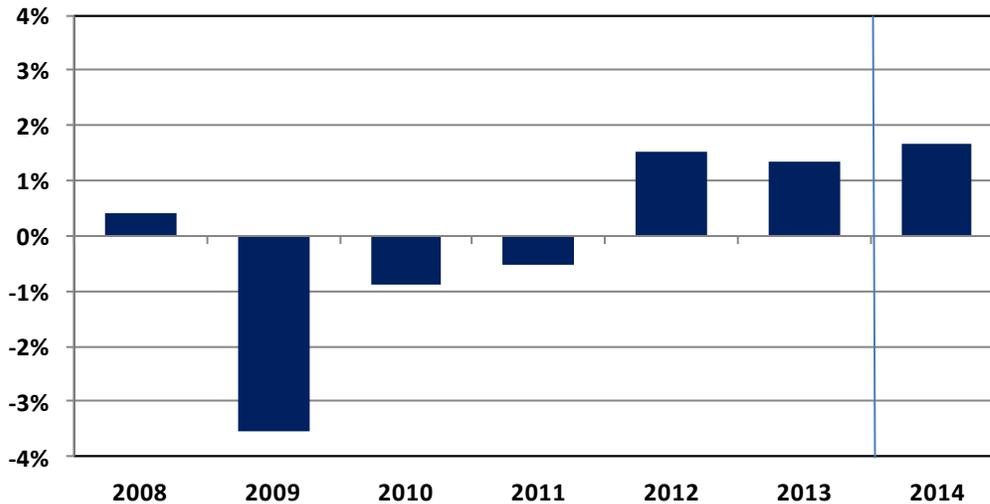
We expect Business Services and Commercial & Residential Services to be the growth leaders in number of business establishments in 2014. Both are expected to show above 2%. The Retail Food business line will post the slowest growth rate at 0.8%.

In comparison with our March 2014 forecast of the franchise business sector, given reduced expectations for housing market performance in 2014, we have revised downward, by 0.3%, the growth of the number of establishments in the Real Estate business line. Forecasts of the number of establishments in the Automotive, Retail Food, Quick Service Restaurants and Table/Full Service Restaurants business lines are all slightly higher.

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

	Estimates						Forecast (May 2014)	
	2007	2008	2009	2010	2011	2012	2013	2014
Automotive	31,307	31,653	30,012	29,687	29,984	30,344	30,587	30,954
<i>Percent change</i>		1.1%	-5.2%	-1.1%	1.0%	1.2%	0.8%	1.2%
Business Services	102,370	96,289	89,691	89,147	90,035	91,746	93,581	96,201
<i>Percent change</i>		-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	63,102
<i>Percent change</i>		0.9%	-4.1%	-2.2%	-1.8%	1.3%	1.4%	2.1%
Lodging	25,830	26,572	25,588	25,410	25,003	25,553	25,936	26,403
<i>Percent change</i>		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
<i>Percent change</i>		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	153,272	155,418
<i>Percent change</i>		1.1%	-1.0%	-0.5%	-1.1%	2.2%	1.4%	1.4%
Real Estate	96,848	94,599	88,372	86,153	84,947	86,221	87,773	89,265
<i>Percent change</i>		-2.3%	-6.6%	-2.5%	-1.4%	1.5%	1.8%	1.7%
Retail Food	60,935	62,247	60,374	60,173	60,474	60,776	61,201	61,691
<i>Percent change</i>		2.2%	-3.0%	-0.3%	0.5%	0.5%	0.7%	0.8%
Retail Products & Services	94,966	98,527	97,519	96,921	96,630	96,823	97,404	98,573
<i>Percent change</i>		3.7%	-1.0%	-0.6%	-0.3%	0.2%	0.6%	1.2%
Table/Full Service Restaurants	36,145	36,221	35,614	35,688	35,507	36,217	36,652	37,092
<i>Percent change</i>		0.2%	-1.7%	0.2%	-0.5%	2.0%	1.2%	1.2%
Total		774,016	746,646	740,098	736,114	747,359	757,503	770,069

Franchise Business Establishments Growth: May 2014 Forecast



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. Total franchise employment in 2013 was revised up by 0.1%, primarily due to upward revisions in the Business Services and Personal Services business lines. We estimate total franchise employment grew 2.5% in 2013, and we expect a 2.6% increase in 2014. As the chart on the following page depicts, franchise employment growth has gradually accelerated over the last three years.

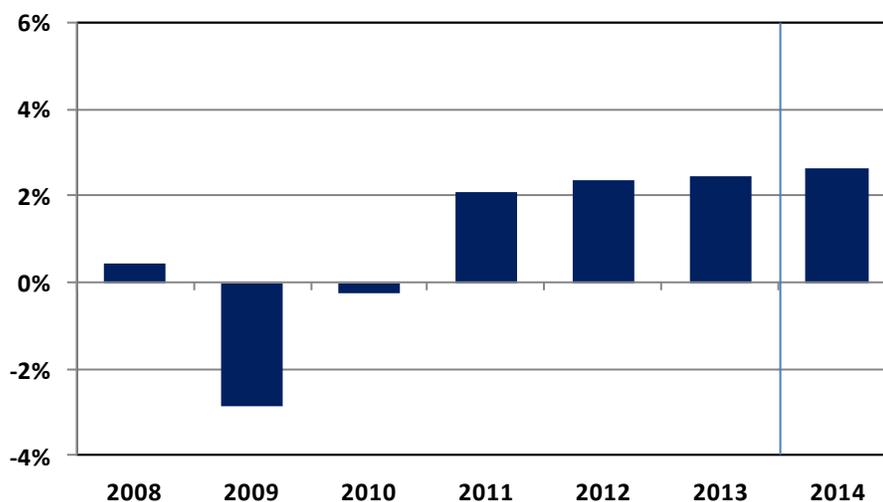
The Quick Service Restaurants business line led franchise employment growth in the last two years, with 3.2% growth in 2012 and 3.5% in 2013. We expect QSR employment growth to slow to 2.8% in 2014 and be surpassed by both the Business Services (3.9%) and Commercial and Residential Services (3.2%) business lines. Employment growth in the Table/Full Service Restaurants business line slowed to 1.6% in 2013, but we expect its employment to pick up to 2.4% in 2014.

We have revised our 2014 forecast of employment growth in the Real Estate business line downward by 0.3%. But recent employment trends have led us to boost 2014 growth rates compared to our March forecast for several business lines, including Automotive, Business Services, Retail Food, and both restaurant business lines.

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

	Estimates							Forecast (May 2014)	
	2007	2008	2009	2010	2011	2012	2013	2014	
Automotive	181,845	184,826	174,889	173,546	177,885	180,198	183,081	188,024	
<i>Percent change</i>		1.6%	-5.4%	-0.8%	2.5%	1.3%	1.6%	2.7%	
Business Services	1,016,222	955,080	889,721	874,087	883,702	903,143	928,431	964,640	
<i>Percent change</i>		-6.0%	-6.8%	-1.8%	1.1%	2.2%	2.8%	3.9%	
Commercial & Residential Services	354,940	357,475	343,531	336,317	342,034	347,849	355,502	366,878	
<i>Percent change</i>		0.7%	-3.9%	-2.1%	1.7%	1.7%	2.2%	3.2%	
Lodging	677,744	696,878	671,702	674,953	691,827	699,437	706,431	721,266	
<i>Percent change</i>		2.8%	-3.6%	0.5%	2.5%	1.1%	1.0%	2.1%	
Personal Services	623,315	642,204	618,069	622,864	635,321	647,392	661,635	678,176	
<i>Percent change</i>		3.0%	-3.8%	0.8%	2.0%	1.9%	2.2%	2.5%	
Quick Service Restaurants	2,888,554	2,919,701	2,887,550	2,882,638	2,951,821	3,046,279	3,152,899	3,241,180	
<i>Percent change</i>		1.1%	-1.1%	-0.2%	2.4%	3.2%	3.5%	2.8%	
Real Estate	323,974	316,969	295,954	290,329	294,974	301,168	308,697	314,562	
<i>Percent change</i>		-2.2%	-6.6%	-1.9%	1.6%	2.1%	2.5%	1.9%	
Retail Food	472,945	483,138	468,868	468,172	473,790	481,844	488,108	496,894	
<i>Percent change</i>		2.2%	-3.0%	-0.1%	1.2%	1.7%	1.3%	1.8%	
Retail Products & Services	452,929	468,973	464,036	468,883	476,385	483,531	489,817	498,144	
<i>Percent change</i>		3.5%	-1.1%	1.0%	1.6%	1.5%	1.3%	1.7%	
Table/Full Service Restaurants	1,001,184	1,003,208	985,999	988,044	1,012,745	1,036,038	1,052,615	1,077,878	
<i>Percent change</i>		0.2%	-1.7%	0.2%	2.5%	2.3%	1.6%	2.4%	
Total	7,993,651	8,028,452	7,800,319	7,779,833	7,940,484	8,126,879	8,327,216	8,547,642	

Franchise Business Employment Growth: May 2014 Forecast



Output by Business Line

All 10 franchise business lines posted output gains in each of the last three years, led by Real Estate which had an average annual increase of 7.9% in 2012-2013. We have revised our 2014 output forecast for the Real Estate business line down 0.2% compared to our March forecast, but it remains the output growth leader in 2014 with a 5.6% gain. The Lodging and Business Services business lines are both expected to see a pick-up in growth in 2014, and they will rank second and third, respectively, in output growth.

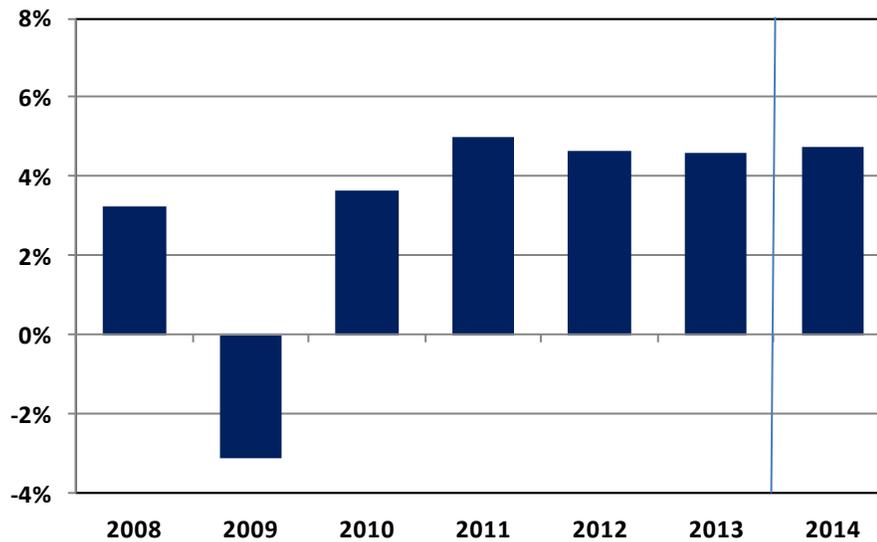
The Table/Full Service Restaurants franchise business line was a strong performer in 2011 and 2012, with growth averaging over 6%, but the Quick Service Restaurants business line moved ahead in 2013 with output growth of 6.5%. We do not expect the QSR business line to repeat this rapid output growth in 2014, although its employment gains will continue to be strong. We now expect both franchise restaurant business lines to have output growth near 5% in 2014.

Eight of the 10 franchise business lines will show acceleration in output growth in 2014 compared with 2013, with growth slowing only in the Real Estate and Quick Service Restaurants business lines.

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

(\$billions)	Estimates							Forecast
	2007	2008	2009	2010	2011	2012	2013	(May 2014)
Automotive	30.21	33.59	31.16	33.56	36.32	37.62	38.72	40.23
<i>Percent change</i>		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	148.16	155.72
<i>Percent change</i>		1.8%	-4.1%	3.1%	3.6%	3.8%	3.9%	5.1%
Commercial & Residential Services	45.00	48.42	46.32	46.55	48.23	50.20	52.36	54.88
<i>Percent change</i>		7.6%	-4.3%	0.5%	3.6%	4.1%	4.3%	4.8%
Lodging	65.26	67.98	62.79	67.62	72.83	75.82	78.62	82.79
<i>Percent change</i>		4.2%	-7.6%	7.7%	7.7%	4.1%	3.7%	5.3%
Personal Services	74.29	76.18	74.43	77.85	82.29	85.42	88.15	91.41
<i>Percent change</i>		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	210.05	220.34
<i>Percent change</i>		4.1%	1.2%	3.4%	4.4%	5.2%	6.5%	4.9%
Real Estate	52.62	49.12	44.83	42.18	42.82	46.16	49.85	52.64
<i>Percent change</i>		-6.7%	-8.7%	-5.9%	1.5%	7.8%	8.0%	5.6%
Retail Food	31.80	34.66	31.92	34.12	36.47	37.75	38.96	40.40
<i>Percent change</i>		9.0%	-7.9%	6.9%	6.9%	3.5%	3.2%	3.7%
Retail Products & Services	30.11	31.59	31.89	34.19	36.41	37.94	39.19	40.84
<i>Percent change</i>		4.9%	1.0%	7.2%	6.5%	4.2%	3.3%	4.2%
Table/Full Service Restaurants	48.79	49.20	48.78	50.64	53.48	57.22	59.05	62.06
<i>Percent change</i>		0.8%	-0.8%	3.8%	5.6%	7.0%	3.2%	5.1%
Total		696.24	674.30	698.84	733.71	767.97	803.12	841.31

Franchise Business Output Growth: May 2014 Forecast



Franchise Businesses' Contribution to GDP

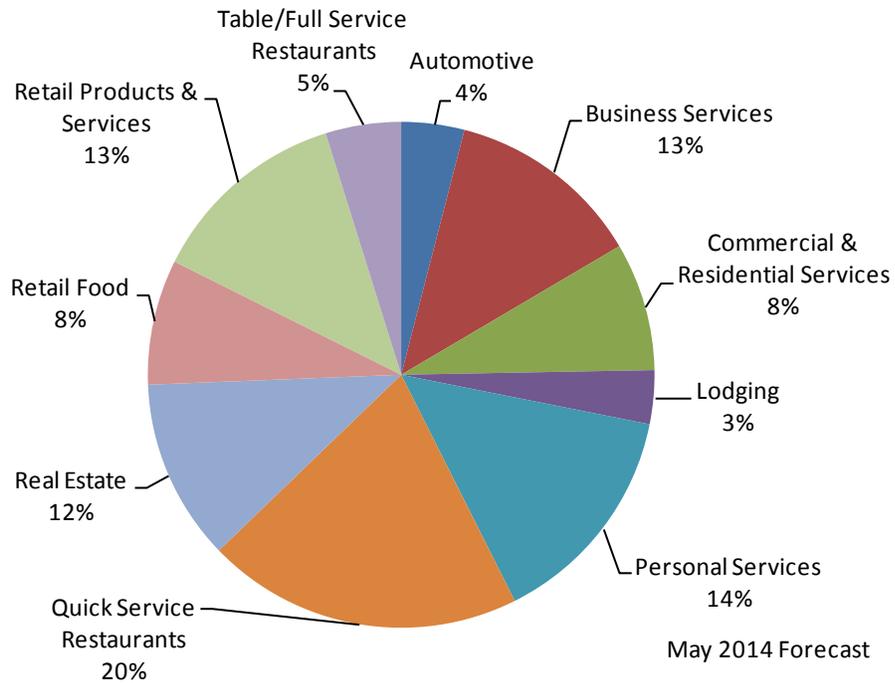
By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Economics developed estimates of the contribution to U.S. GDP by the franchise sector as a whole. We estimate that franchise businesses accounted for approximately 3.0% 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 4.6% to \$494 billion, or 3.1% of GDP.

Distribution by Sector

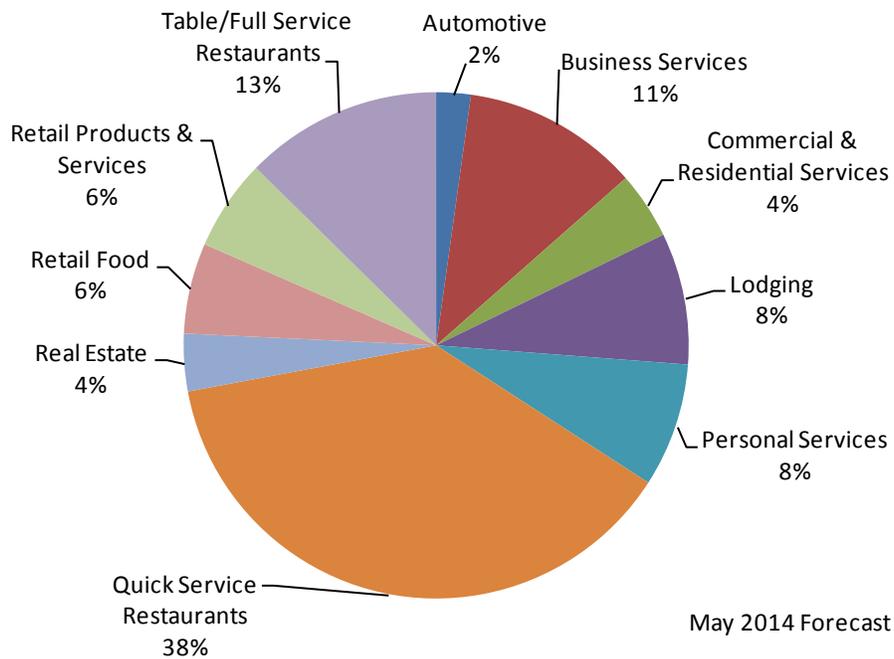
This section focuses on the distribution of the 10 franchise business lines in terms of the number of establishments, employment, and output, based on our forecast for 2014. The Quick Service Restaurants business line is the largest category, with 20% of all franchise establishments, and accounts for 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.

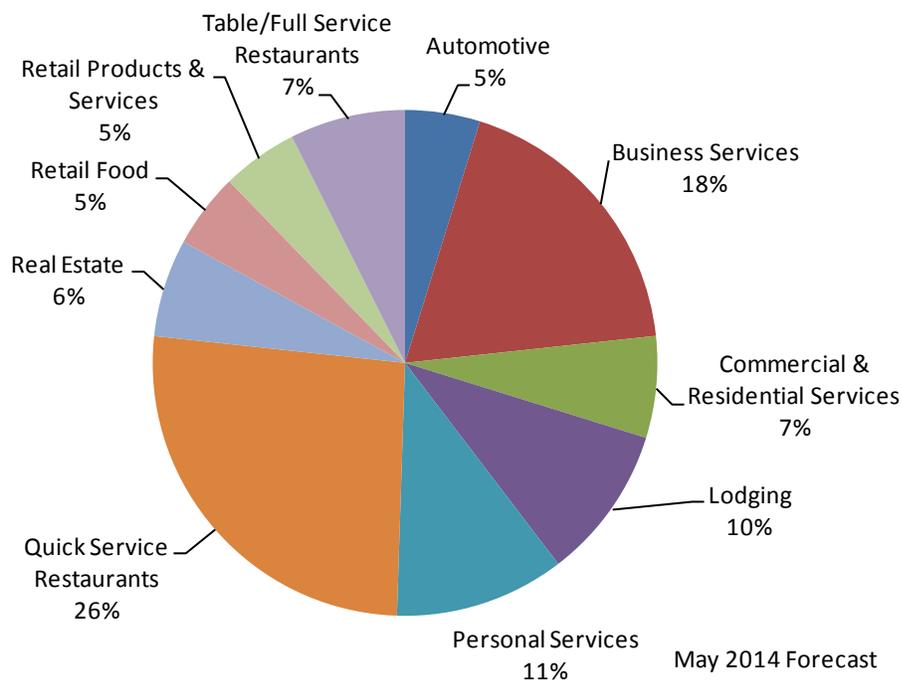
Establishments Distribution by Sector 2014



Employment Distribution by Sector 2014



Output Distribution by Sector 2014



Output per Employee

On average, output per employee in franchise businesses is estimated to be \$96,446 per worker in 2013 and is forecast to grow to \$98,426 in 2014. This output-per-worker ratio varies within the 10 franchise business lines from a low of \$57,580 (Table/Full Service Restaurants) to a high of \$213,936 (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 continued to show modest gains in 2013 with a 2.1% increase, and is forecast to grow 2.1% in 2014. The Automotive business line is the fastest-growing segment in terms of output per worker, with a compound annual growth rate of 4.1% during the period 2007-2013. The Real Estate sector recovered the slowest through 2013, but gained 5.6% in 2012 and 5.4% in 2013.

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

(Dollars per worker)	Estimates						Forecast (May 2014)	
	2007	2008	2009	2010	2011	2012	2013	2014
Automotive	166,120	181,720	178,197	193,404	204,158	208,793	211,465	213,936
<i>Percent change</i>		9.4%	-1.9%	8.5%	5.6%	2.3%	1.3%	1.2%
Business Services	129,668	140,397	144,563	151,710	155,461	157,895	159,585	161,428
<i>Percent change</i>		8.3%	3.0%	4.9%	2.5%	1.6%	1.1%	1.2%
Commercial & Residential Services	126,786	135,461	134,835	138,416	141,002	144,329	147,295	149,578
<i>Percent change</i>		6.8%	-0.5%	2.7%	1.9%	2.4%	2.1%	1.6%
Lodging	96,285	97,543	93,477	100,190	105,273	108,397	111,294	114,782
<i>Percent change</i>		1.3%	-4.2%	7.2%	5.1%	3.0%	2.7%	3.1%
Personal Services	119,192	118,627	120,430	124,994	129,528	131,943	133,234	134,794
<i>Percent change</i>		-0.5%	1.5%	3.8%	3.6%	1.9%	1.0%	1.2%
Quick Service Restaurants	57,009	58,707	60,102	62,273	63,514	64,745	66,622	67,983
<i>Percent change</i>		3.0%	2.4%	3.6%	2.0%	1.9%	2.9%	2.0%
Real Estate	162,432	154,972	151,469	145,293	145,151	153,254	161,478	167,341
<i>Percent change</i>		-4.6%	-2.3%	-4.1%	-0.1%	5.6%	5.4%	3.6%
Retail Food	67,241	71,730	68,074	72,879	76,984	78,347	79,816	81,306
<i>Percent change</i>		6.7%	-5.1%	7.1%	5.6%	1.8%	1.9%	1.9%
Retail Products & Services	66,485	67,368	68,733	72,920	76,437	78,470	80,019	81,986
<i>Percent change</i>		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	56,101	57,580
<i>Percent change</i>		0.6%	0.9%	3.6%	3.0%	4.6%	1.6%	2.6%
Total	84,384	86,721	86,445	89,827	92,401	94,497	96,446	98,426

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.

Methodology

The statistics in this report were derived from various published sources as well as IHS Economics 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 Economics 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 Economics 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 Economics 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).