Franchise Business Economic Outlook: May 2013

Prepared for:

International Franchise Association Educational Foundation

By:

IHS Global Insight

May 31, 2013

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For more information, contact:

John Reynolds
President, IFA Educational Foundation
jreynolds@franchise.org

Alisa Harrison
Vice President, Communications and Media Relations
aharrison@franchise.org

James Gillula
Managing Director, Consulting, IHS
James.Gillula@ihs.com

For press information, contact:

Jim Dorsey
Senior Manager Media Relations, IHS
Jim.Dorsey@ihs.com

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EXECUTIVE SUMMARY

This report presents an update of IHS Global Insight's forecast of the franchise sector of the U.S. economy in 2013, prepared for the International Franchise Association Educational Foundation. Our view of the outlook for the franchise sector has changed little since our March 2013 report for IFA. We continue to expect that the economy is headed for another "spring swoon," this time brought on by the federal government's spending sequester. The biggest impact of the spending cuts will be felt in the second quarter of this year. Growth will then gradually accelerate over the year. Our forecast for full-year real GDP growth of 1.8 percent is unchanged from our March report.

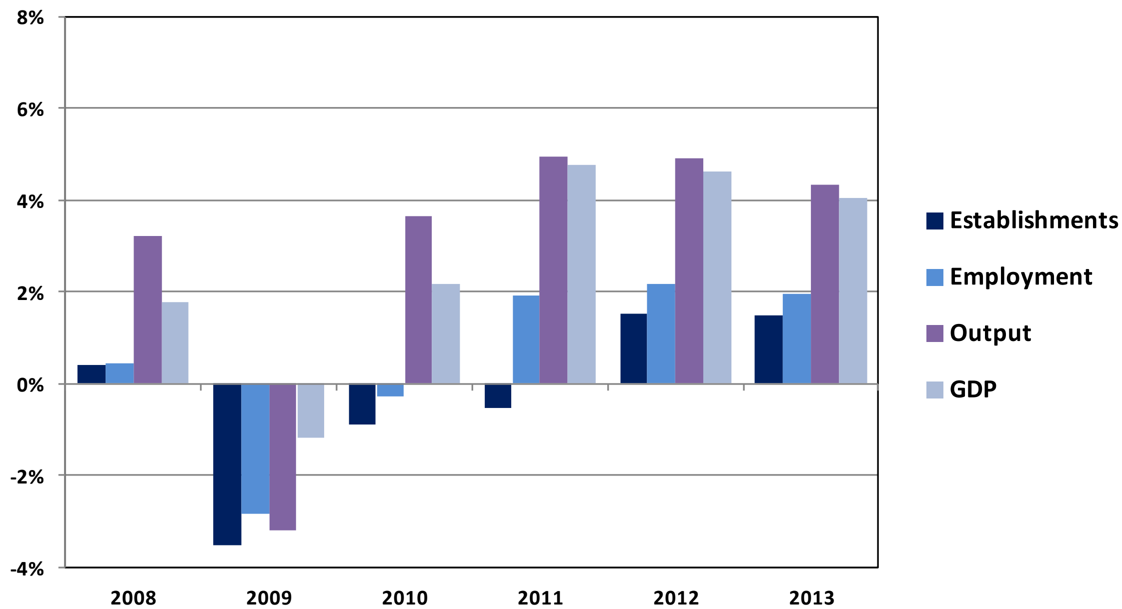
Our forecasts of basic indicators of the franchise sector in 2013 also show little change from our March report. The primary sources of the expected slow pace of GDP growth in 2013 will have a less direct impact on the franchise sector, and we expect the franchise sector to continue to outperform the economy as a whole in 2012 as it did last year.

- We expect the number of franchise establishments in the United States to increase by 1.5 percent in 2013.
- We expect employment in franchise establishments to increase 2.0 percent in 2013, following a gain of 2.2 percent in 2012.
- The output of franchise establishments in nominal dollars in 2013 will increase 4.3 percent. Output growth was 4.9 percent in 2012.
- The gross domestic product (GDP) of the franchise sector is projected to increase to $472 billion in 2013. This is approximately 3.4 percent of U.S. GDP in nominal dollars.

Franchise Business Economic Outlook: May 2013 Forecast

	Estimates						Forecast (May 2013)
	2007	2008	2009	2010	2011	2012	2013
Establishments	770,835	774,016	746,646	740,098	736,114	747,359	758,399
Percent change		*0.4%*	*-3.5%*	*-0.9%*	*-0.5%*	*1.5%*	*1.5%*
Employment ('000)	7,994	8,028	7,800	7,780	7,930	8,101	8,260
Percent change		*0.4%*	*-2.8%*	*-0.3%*	*1.9%*	*2.2%*	*2.0%*
Output ($Billions)	675	696	674	699	733	769	803
Percent change		*3.2%*	*-3.2%*	*3.7%*	*5.0%*	*4.9%*	*4.3%*
GDP ($Billions)	403	410	405	414	434	454	472
Percent change		*1.8%*	*-1.2%*	*2.2%*	*4.8%*	*4.6%*	*4.1%*

Franchise Business Growth by Year, 2008-2013: May 2013 Forecast



The employment picture has been a recent bright spot. The April payroll jobs gain of 165,000 was better than expected. Perhaps the best news in the April report was an upward revision of 114,000 to the February and March estimates. These were substantial upward revisions. The average monthly increase in payroll jobs from February to April was 212,000, compared with 205,000 for the prior three months. That said, the full impact of the sequester cuts is yet to be felt, and some weakness in government employment in the coming months should not come as a surprise.

Our analysis is based on a grouping of franchise businesses in 10 broad business lines. The growth outlook differs among the groups, with output growth in 2013 ranging from a low of 1.7 percent in Automotive to 8.1 percent in Real Estate. Other highlights of the industry forecast are:

- Business Services and Commercial & Residential Services will rank as the top two sectors in both franchise employment growth and growth of the number of establishments in 2013.
- Real Estate will rank first in output growth and will be among the top three in franchise growth for establishments and employment. Our forecast for the Real Estate franchise sector has been revised upwards since March given the more rapid than anticipated improvement in housing market activity.
- Quick Service Restaurants – the largest franchise business line – will rank third in the growth of output and will see growth rates of employment and new businesses that are at or above the franchise sector average. Growth of full-service restaurant sales industry-wide slowed in the first quarter, and we have revised our 2013 forecast for that franchise business line downward slightly.

Franchise Business Economic Outlook, 2013: May 2013 Forecast

	Establishments		Employment		Output ($Billions)	
	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*
Automotive	30,617	*0.9%*	182,541	*1.0%*	38.12	*1.7%*
Business Services	93,856	*2.3%*	933,879	*2.6%*	149.02	*3.9%*
Commercial & Residential Services	62,170	*2.0%*	356,880	*2.9%*	53.32	*5.4%*
Lodging	25,936	*1.5%*	706,430	*0.9%*	80.22	*4.8%*
Personal Services	109,401	*1.7%*	661,635	*1.9%*	87.56	*2.7%*
Quick Service Restaurants	153,423	*1.5%*	3,077,106	*2.1%*	206.68	*5.1%*
Real Estate	87,945	*2.0%*	304,149	*2.6%*	50.36	*8.1%*
Retail Food	61,201	*0.7%*	489,068	*1.3%*	38.55	*3.1%*
Retail Products & Services	97,307	*0.5%*	488,370	*1.2%*	39.50	*3.4%*
Table/Full Service Restaurants	36,543	*0.9%*	1,060,002	*2.1%*	59.61	*3.9%*
TOTAL	**758,399**	***1.5%***	**8,260,060**	***2.0%***	**803**	***4.3%***

INTRODUCTION

This report presents a forecast of basic indicators of the franchise sector of the U.S. economy in 2013 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 2013, 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 of:

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

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[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.

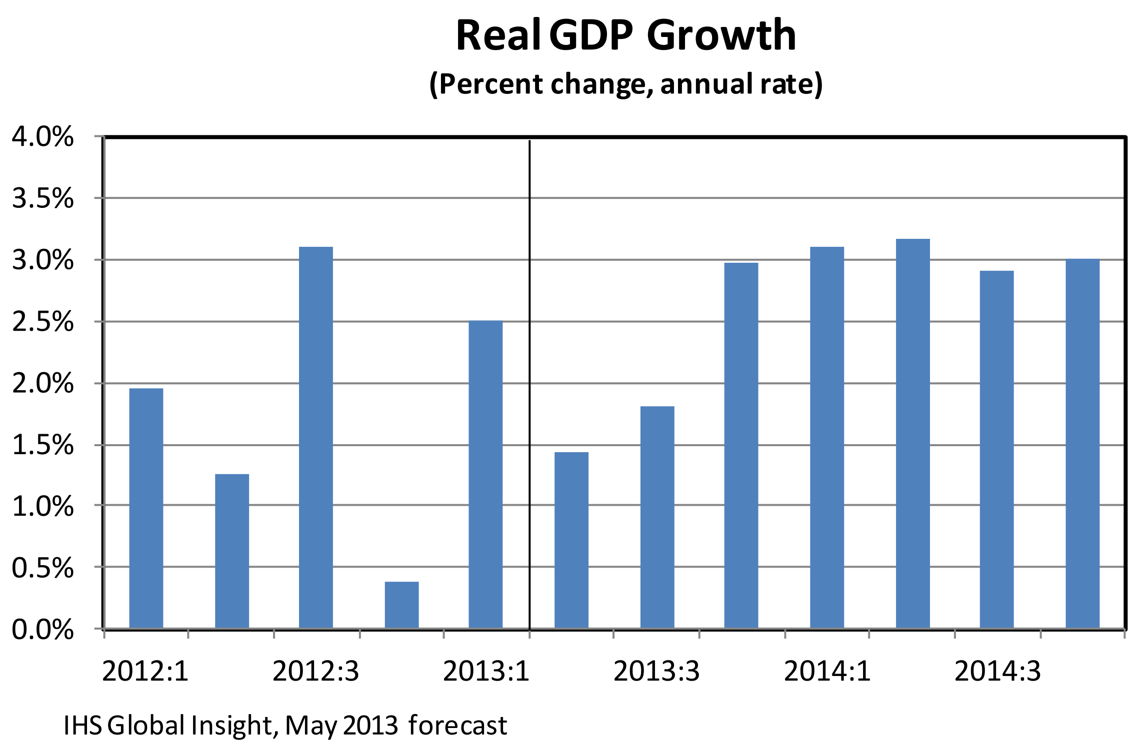
[3] Positions filled by part-time and full-time employees or by self-employed individuals.

[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

Recent economic reports continue to reflect the halting progress the economy is making. Over the past two weeks the Conference Board's index of leading economic indicators jumped by 0.6 percent and the Reuters/University of Michigan Consumer Sentiment Index rose to its highest level in the last 12 months as stock market indexes surged to new highs. However, initial unemployment insurance claims spiked up, industrial production declined again, and the Philadelphia Federal Reserve's survey of business conditions turned negative. Housing permits in April cracked one million for the first time since June 2008, but housing starts fell.

First quarter results showed stronger growth of consumer spending than we expected in the wake of the reinstatement of the full payroll tax on January 1. Real consumer spending increased 3.4 percent, contributing to a 2.4 percent gain in real GDP. But this spending surge came at the expense of a sharper-than-expected drop in the saving rate and cannot be sustained. We continue to expect that the economy is headed for another "spring swoon," this time brought on by the federal government's spending sequester. The biggest impact of the spending cuts will be felt in the second quarter of this year. Growth will then accelerate gradually to reach a 3 percent pace in the fourth quarter.



The housing recovery is picking up steam. Household formation is reviving, and the recovery in demand is spreading from rental units to the owner-occupied sector. We expect starts to improve 26 percent in 2013, to 987,000, and existing home sales will increase 8.5 percent. Both projections are slightly ahead of the forecasts underlying our March 2013 report on the franchise business outlook.

The housing recovery is supporting consumer spending (through its effect on wealth and on housing-related purchases), and is probably one of the reasons for the strong consumer spending in the first quarter despite the drag from the loss of the payroll tax cut. We doubt that this pace can be maintained, though, since it would be far ahead of the 1.0 percent growth rate that we expect for real disposable incomes this year. Households still face too many headwinds to allow a robust consumer spending recovery – a loss of about 1 percent of disposable income due to the ending of the payroll tax cut, high (though falling) debt burdens, modest employment growth, and a lack of confidence in the government's ability to make things better. Overall, we expect consumer spending to rise 2.0 percent in 2013, unchanged from our March forecast. Light-vehicle sales are a bright spot thanks to pent-up demand and favorable credit conditions. We expect sales of 15.3 million units for 2013, up from 14.4 million in 2012.

The Economic Outlook for 2013

(Annual percent change)	2010	2011	2012	2013
Real Gross Domestic Product	2.4	1.8	2.2	1.8
Total Nonfarm Employment	-0.7	1.2	1.7	1.5
Accommodations and Food Services	-0.2	2.7	3.0	2.9
Personal Services	-0.7	0.6	1.4	0.6
Real Disposable Income	1.8	1.3	1.5	1.0
Real Personal Consumption	1.8	2.5	1.9	2.0
Food Services	1.9	3.4	3.2	2.7
Accommodations	6.2	5.3	4.6	4.9
Personal Services	0.3	0.7	0.4	1.2
Retail Sales (nominal dollars)	5.5	8.0	5.0	3.3
Existing Home Sales	-3.4	2.3	9.0	8.5
Com'l & Indus. Loans Outstanding, Com'l.Bank:	-5.5	10.2	13.0	6.8

IHS Global Insight, May 2013 Forecast

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 will also see another year of modest growth. All basic indicators of the health of the franchise sector will show growth rates near their 2012 pace. Yet the franchise sector will continue to outperform within many of the industries where franchises are concentrated.

We expect a 1.5 percent increase in the number of franchise businesses in 2013. This will continue to outpace the growth of overall business formation across the economy. We project 1.2 percent growth for total (non-franchise as well as franchise) establishments in the 10 business lines where we track franchise performance.

We expect employment in franchise establishments to increase 2.0 percent in 2013, following a 2.2 percent gain in 2012. Total private sector employment will rise 1.9 percent in 2013.

The output of franchise establishments in nominal dollars will increase 4.3 percent in 2013 – down from 4.9 percent last year. We expect continued downward pressure on prices for many businesses, which will hold down sales growth in nominal dollars.

Franchise Business Economic Outlook: May 2013 Forecast

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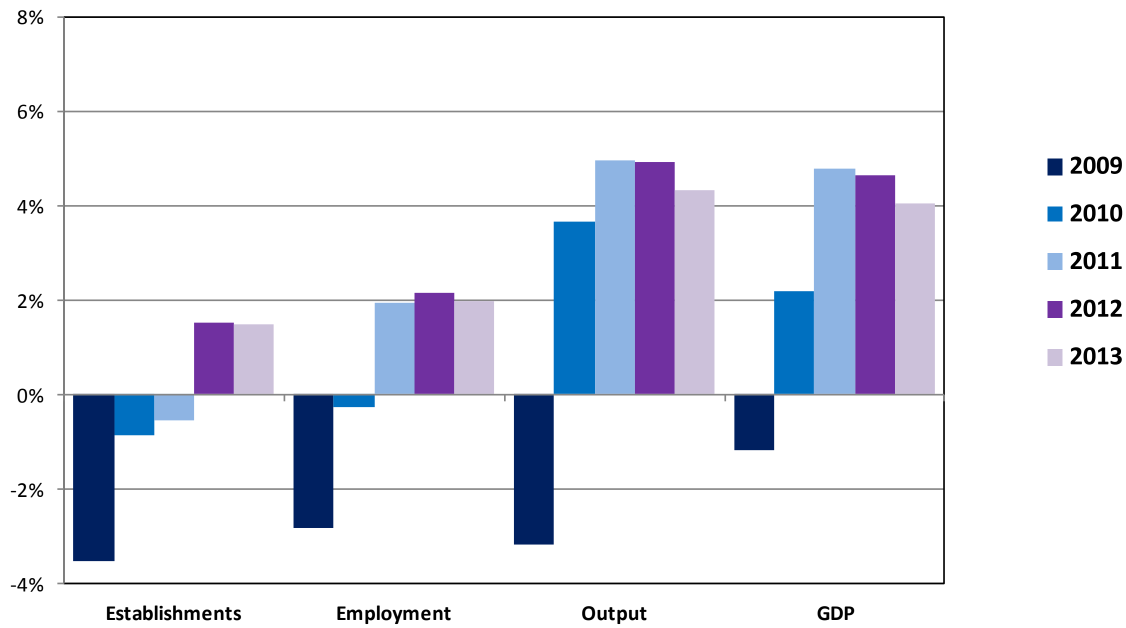
The chart on the following page shows how the franchise economy and the U.S. economy in general have fared over the course of the economic recovery. While output (sales) bounced back more quickly, businesses have continued to control costs and avoid risks for an extended period after the recession. Growth rates of output and GDP are in nominal dollars.

Franchise Business Growth, 2008-2013: May 2013 Forecast

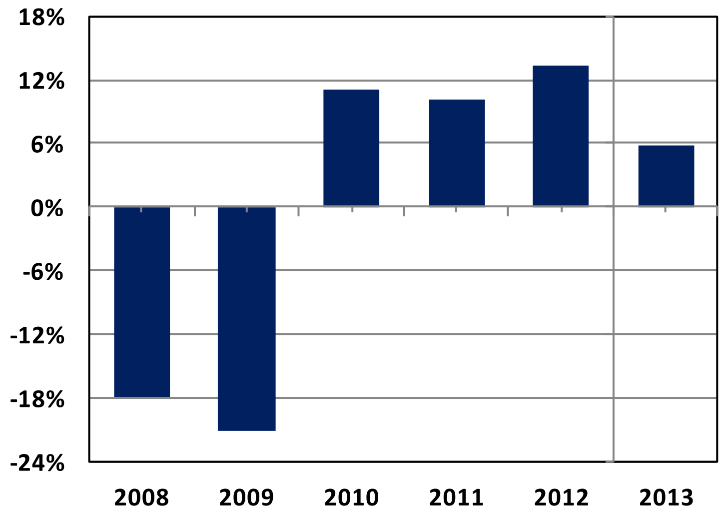


Competition for the financial resources of the consumer will continue to intensify. Following several years of consumer restraint, the pressure to replace older vehicles, household goods and other items is expected to intensify. However, income growth in 2013 will not be strong enough to allow consumers to meet all these needs. To provide background for our view of how different segments of the franchise sector will fare in 2013, we review IHS Global Insight's forecasts of employment and output in the industrial sectors where there is a large concentration of franchise activity. Key drivers of the franchise economy drawn from our U.S. industry forecast are summarized below.

Automotive: With an aged fleet and modest gains in employment and income, the recovery in light vehicle sales is expected to continue. Sales averaged roughly 16 million units for a string of years prior to the recession, before collapsing to 10.4 million in 2009. Sales staged a comeback beginning in 2010 and reached 14.4 million units in 2012. We expect sales to rise 5.8 percent to 15.3 million units this year. As we move beyond 2013, the economy will strengthen and support volume levels that are more normal for the auto industry. There is little chance that the industry will go back to the bad old days of overly aggressive incentives, which did move product but did so while generating a lot of red ink for both the OEM's and dealers. Production and inventories are being kept in line with underlying demand, which is good news for the dealer network.

The recovery in commercial vehicle sales is also expected to continue. Major fleets are pressing ahead with replacement buying programs, and we are starting to see more small business buying as well. Sales of class 4-8 commercial trucks rose 13 percent in 2012 to 345,900 units and are slated to advance another 2% to just under 354,00 this year.

Light Vehicles Sales Growth



Consumer spending on motor vehicle parts and accessories grew by 7.0-7.5 percent per year in 2010 and 2011 in nominal terms as vehicle miles travelled advanced and the fleet continued to age. However, spending growth tapered off to 3.4 percent in 2012 as the recovery in new light vehicle sales gained ground and older vehicles were replaced at a faster rate. With 2013 and 2014 likely to see the influx of more new cars and light trucks, consumer spending on parts and accessories will slow further, rising by only 0.7 percent in 2013. Parts and accessories spending for commercial vehicles will follow the same pattern. Rising business and trucking industry activities have translated into increased usage of the equipment on the road. However, 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.

Commercial and Residential Services: In the most recent reading of the AIA Architecture Billings Index architects in every region and in every industry surveyed reported seeing a pickup in demand, suggesting better days ahead for commercial and residential services providers. There have been eight months of increase in the index up until early spring. The April number showed some softness, but that is likely to be only a temporary lull.

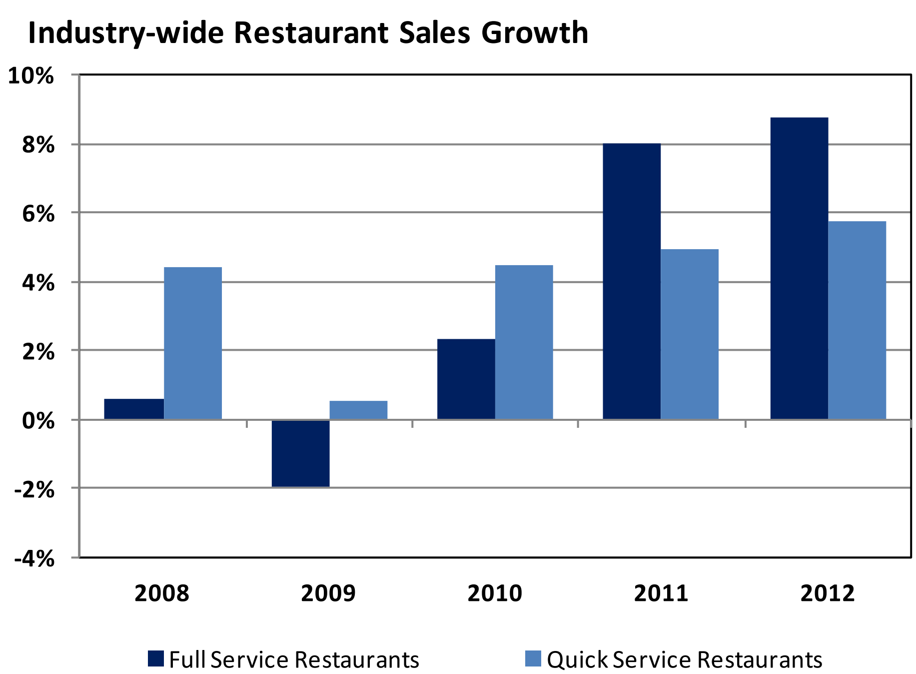
With the accelerating improvement in the housing market, spending on home improvement is also growing more rapidly. Spending on residential additions and alterations as recorded in the investment component of the GDP accounts was up 4.3 percent in nominal dollars in 2012, and we expect a 7.4 percent increase in 2013. Businesses associated with the broadly defined residential housing market can expect 2013 to be a better year than 2012.

On the commercial side of the business, vacancy rates in retail, industrial and commercial building continue to drift down, and there has been investment in new building construction as well as remodeling and retrofitting of existing facilities. Following a three year 45.5 percent collapse, construction of nonresidential nonfarm buildings rose 10.8 percent. Growth in spending is expected to slow to 4.7 percent in 2013 but then ramp up steadily to reach a double digit pace in 2016.

The output of franchise businesses in the Commercial and residential services business line expanded by 4.9 percent in 2012 and should grow by another 5.4 percent in 2013.

Table/Full Service Restaurants: Upper income households, who have a higher propensity to dine at full service restaurants, have fared better to date during the course of the economic recovery, and business travel spending has been increasing, which also boosts full-service restaurants. Full-service restaurants have more than made up the ground they lost during the recession, with sales growth accelerating to 6.0 percent in 2011 and 7.0 percent in 2012. However, growth slowed to 3.7 percent on a year-over-year basis in the first quarter, and we expect a more modest gain in full-service restaurant sales in 2013. Full-service restaurants are past their "cyclical recovery" phase. At the same time, higher-income consumers are facing a little more pressure due to tax increases implemented as part of the resolution of the "fiscal cliff," and the uncertain economic climate is expected to make Corporate America a little more cost-conscious. With this as a backdrop, we believe business travel growth and related expenditures, while still growing, will do so at a more modest pace in 2013. Overall consumer spending on food services grew by 6.2 percent in 2012, but we expect growth to slow to 5.2 percent in 2013.

Franchise full-service restaurants posted increases in sales of 6.0 percent in 2011 and 7.0 percent in 2012. We expect their sales growth to slow to 3.9 percent in 2013.



Quick Service Restaurants: Last year proved to be one of modest growth in employment and income and we expect more of the same in 2013. We are anticipating the creation of over 2.2 million jobs in 2013, but personal income will increase by only 2.7 percent. The unemployment rate is falling, but the number of people unemployed and under-employed remains large. This gradual improvement in the economic situation that has kept lower-income consumers focused on the need to allocate their limited financial resources has been beneficial for quick service restaurants. QSR sales growth has averaged 5 percent over the last three years, with small improvements each year. In a very competitive environment, quick service restaurants have continued to adjust their offerings to lure back customers and boost sales. Sales among quick service franchise restaurants rose by 5.2 percent in 2012, and we expect a similar 5.1% increase in 2013.

Retail Food: The overall demand for food remains relatively inelastic, but consumers alter their buying habits and gravitate toward the best deals and lower-priced items during bad economic times and then swing back to "normal" buying patterns when good times return. We have seen slow progress on the employment and income front since we emerged from the recession, and 2013 will see more of the same. Consumers remain very price conscious and are not yet ready to swing back to their pre-recession purchasing patterns. We expect overall consumer spending on food and beverages for off-premises consumption to rise 2.2 percent in 2013 following an increase of 2.3 percent in 2012. Franchise sales in the Retail Food business line increased 2.5 percent in 2012, and we expect a 3.1 percent increase in 2013.

Lodging: The lodging industry posted an increase in sales of 5.1 percent in 2012 following growth of 7.7 percent in both 2010 and 2011. Increases in both business travel and consumer spending on lodging contributed to this growth. There is every reason to expect another up year for the lodging industry in 2013, but growth will be slower than in 2012. The prospects for business travel and lodging spending remain favorable, but uncertainty about the near-term path for the economy will make Corporate America a bit more cautious. The prospects for consumer travel in 2013 also remain favorable, but competition for the consumer's disposable income will intensify as the recoveries in light vehicles and housing continue, which will limit the growth in lodging industry sales.

Real Estate: The real estate recovery is well underway. We expect sales of new single family homes to increase 27.0 percent in 2013, building on a 20 percent increase recorded in 2012. Sales of existing single-family homes, coops and condos are expected to be up 8.5 percent in 2013 after an increase of 9.0 percent in 2012. Both of these forecasts have been revised upward slightly since our March report for IFA. Rental activity is also improving, and the rental vacancy rate is expected to fall to 7.8 percent this year from 8.7 percent in 2012. On the non-residential side, vacancy rates for retail, commercial, and industrial properties have been coming down as the economy continues to gain ground. New building construction expanded by 10.8 percent in 2012 and will increase another 2.9 percent in 2013 before ramping up at double-digit rates beginning in 2014. Real estate industry employment finally turned the corner in 2012, expanding by 1.1 percent. Growth in 2013 is expected to be stronger and easily exceed 2.0 percent.

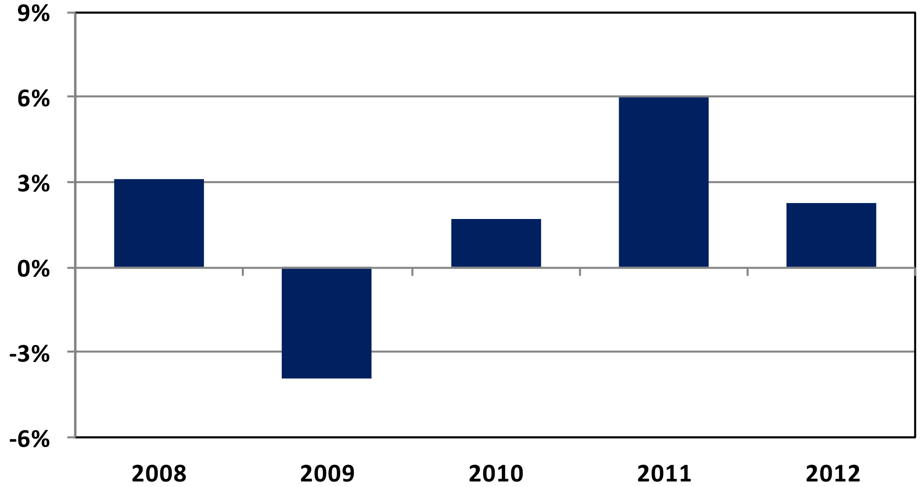
Sales among franchise businesses in the real estate business line turned positive in 2011 with a slight 1.5 percent increase. Sales rose 8.8 percent in 2012 and are set to rise another 8.1 percent in 2013 – again the growth leader among the 10 franchise business lines.

Retail Products and Services: Sales among franchise businesses in the retail products and services arena grew by 6.5 percent in 2011 and 4.9 percent in 2012. We expect growth to slow further to 3.4 percent in 2013. 2013 will be another year of modest gains in employment and income, and while consumer confidence has improved recently, it remains well below pre-recession levels. The housing market revival should boost the sales of home furnishings and hardware store franchises. But discretionary spending at a broad spectrum of miscellaneous retail franchise businesses will be negatively affected this year by the higher taxes that resulted from the "fiscal cliff" settlement.

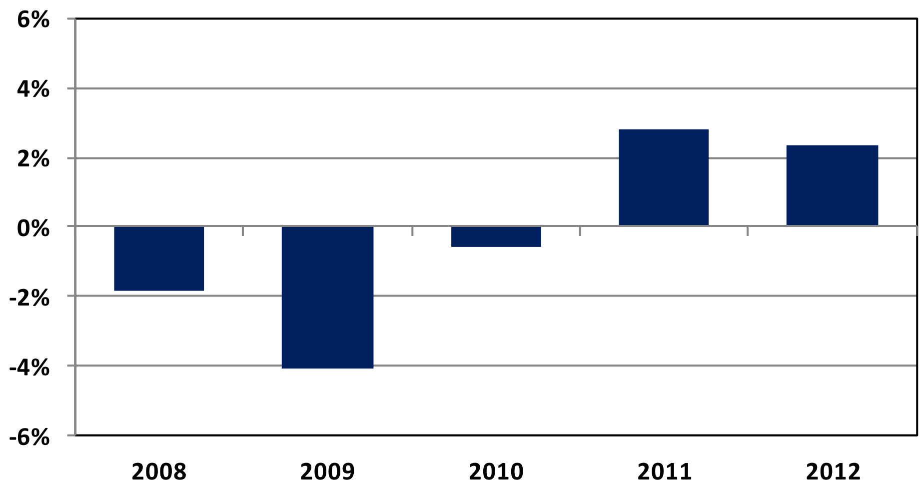
Business Services: Corporate America continues to do well. Corporate after-tax profits as estimated by the Bureau of Economic Analysis increased at an average annual rate of 13 percent over 2009-2012, including a 16.6 percent increase in 2012. This contributed to steady growth of demand for franchise business services providers over the last three years, leading to output growth averaging 3.7 percent. While corporations are flush with cash, economic uncertainty and concern about how we will deal with the deficit, future tax policy, the regulatory climate and health care legislation is forcing them to keep a relatively tight grip on the purse strings. Small businesses, in particular, continue to express apprehension about the near term lay of the land. Nonetheless, looking at 2013, increased manufacturing and other business activities and accompanying capital expenditure programs will have a positive impact on a broad range of business services, which will support continued growth of franchises in this sector. We expect franchise business services' output growth in 2013 of 3.9 percent.

Personal Services: Franchise-operated personal services businesses posted revenue growth of 5.7 percent in 2011 and 3.6 percent in 2012. However, given the modest growth of employment and income we expect in 2013, and the greater pressure on discretionary spending resulting from higher taxes, there is little reason to expect a pickup in personal service related business in 2013. Consumer spending on health care will rise 3.8 percent in 2013, the same as in 2012. Growth of spending on recreation services is expected to slow to 3.8 percent in 2013 from 4.0 percent in 2012. Spending on a broad range of other personal services is expected to increase from 3.1 percent in 2012 to 4.1 percent this year. Thus, we expect franchise-operated personal service business revenue to expand by only 2.7 percent in 2013.

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



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



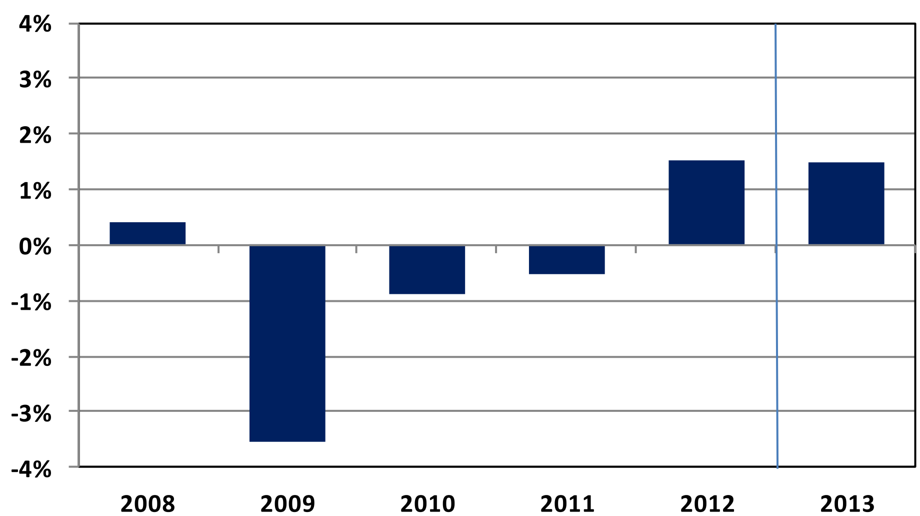
Establishments by Business Line

The total number of franchise establishments across the 10 business-format franchise lines is expected to increase 1.5 percent in 2013. This increase will be above the growth of total (non-franchise as well as franchise) establishments in those business lines (1.2 percent). Historically, total U.S. establishments have exhibited growth of 1 to 2 percent in recovery years, followed by a more moderate 0.7 to 1.3 percent increase in other expansionary years. While challenging economic conditions slow the growth of business formation, with franchise activity more focused in the services sectors of the economy, the growth rate is slightly above the U.S. average.

Most of the 10 business-format franchise lines experienced declines in the number of establishments during the 2009–2010 period. In 2011 only 3 of the 10 business-format franchise lines saw an expansion of business establishments. In 2012, however, we estimate that all 10 business-format lines grew modestly. Lodging and Quick Service Restaurants were the growth leaders in 2012, each expanding at 2.2 percent, followed closely by Table/Full Service Restaurants and Personal Services, each growing to 2.0 in 2012. Six out of the ten business-format franchise lines are expected to show growth of 1.5 percent and above in 2013.

We expect Business Services, Real Estate, and Commercial & Residential Services to be the growth leaders in number of business establishments in 2013. The Retail Food and Retail Products & Services business lines will post the slowest growth rates, although in each of these two business lines the growth of establishments will represent an improvement over growth in 2012.

Franchise Business Establishments Growth: May 2013 Forecast



Franchise Establishments by Business Line, 2007-2013: May 2013 Forecast

	Estimates						Forecast (May 2013)
	2007	2008	2009	2010	2011	2012	2013
Automotive	31,307	31,653	30,012	29,687	29,984	30,344	30,617
Percent change		*1.1%*	*-5.2%*	*-1.1%*	*1.0%*	*1.2%*	*0.9%*
Business Services	102,370	96,289	89,691	89,147	90,035	91,746	93,856
Percent change		*-5.9%*	*-6.9%*	*-0.6%*	*1.0%*	*1.9%*	*2.3%*
Commercial & Residential Services	64,715	65,325	62,650	61,272	60,169	60,951	62,170
Percent change		*0.9%*	*-4.1%*	*-2.2%*	*-1.8%*	*1.3%*	*2.0%*
Lodging	25,830	26,572	25,588	25,410	25,003	25,553	25,936
Percent change		*2.9%*	*-3.7%*	*-0.7%*	*-1.6%*	*2.2%*	*1.5%*
Personal Services	107,428	110,696	106,510	106,100	105,463	107,572	109,401
Percent change		*3.0%*	*-3.8%*	*-0.4%*	*-0.6%*	*2.0%*	*1.7%*
Quick Service Restaurants	150,291	151,887	150,316	149,547	147,902	151,156	153,423
Percent change		*1.1%*	*-1.0%*	*-0.5%*	*-1.1%*	*2.2%*	*1.5%*
Real Estate	96,848	94,599	88,372	86,153	84,947	86,221	87,945
Percent change		*-2.3%*	*-6.6%*	*-2.5%*	*-1.4%*	*1.5%*	*2.0%*
Retail Food	60,935	62,247	60,374	60,173	60,474	60,776	61,201
Percent change		*2.2%*	*-3.0%*	*-0.3%*	*0.5%*	*0.5%*	*0.7%*
Retail Products & Services	94,966	98,527	97,519	96,921	96,630	96,823	97,307
Percent change		*3.7%*	*-1.0%*	*-0.6%*	*-0.3%*	*0.2%*	*0.5%*
Table/Full Service Restaurants	36,145	36,221	35,614	35,688	35,507	36,217	36,543
Percent change		*0.2%*	*-1.7%*	*0.2%*	*-0.5%*	*2.0%*	*0.9%*
Total	**770,835**	**774,016**	**746,646**	**740,098**	**736,114**	**747,359**	**758,399**

Employment by Business Line

All 10 business-format franchise lines posted gains in employment over each of the last two years, and we expect this pattern to continue in 2013. We estimate total franchise employment grew 2.2 percent in 2012 and we expect a 2.0 percent increase in 2013.

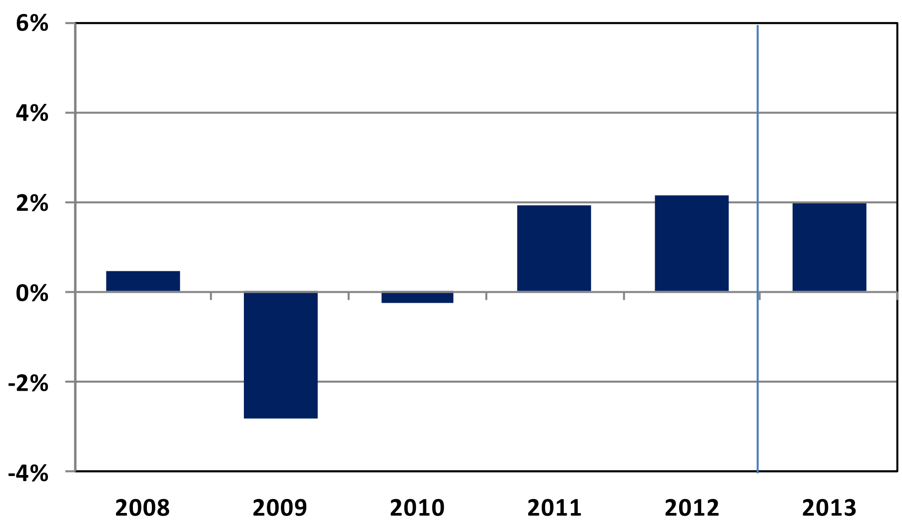
Business Services, which ranked ninth out of the ten business lines in employment growth since 2008, saw an acceleration to become the growth leader, at 3.0 percent, in 2012. Table/Full Service Restaurants are estimated to have grown 2.7 percent in 2012, followed closely by Personal Services and Quick Service Restaurants at 2.2 percent each.

We expect Commercial & Residential Services to be the growth leader in 2013, with an increase of 2.9 percent, up from 1.7 percent in 2012. The other sectors that are expected to show employment growth above the overall franchise average of 2.0 percent are Business Services, Real Estate and the two restaurant sectors.

Franchise Employment by Business Line, 2007-2013: May 2013 Forecast

	Estimates						Forecast (May 2013)
	2007	2008	2009	2010	2011	2012	2013
Automotive	181,845	184,826	174,889	173,546	177,538	180,734	182,541
Percent change		*1.6%*	*-5.4%*	*-0.8%*	*2.3%*	*1.8%*	*1.0%*
Business Services	1,016,222	955,080	889,721	874,087	883,702	910,213	933,879
Percent change		*-6.0%*	*-6.8%*	*-1.8%*	*1.1%*	*3.0%*	*2.6%*
Commercial & Residential Services	354,940	357,475	343,531	336,317	341,025	346,822	356,880
Percent change		*0.7%*	*-3.9%*	*-2.1%*	*1.4%*	*1.7%*	*2.9%*
Lodging	677,744	696,878	671,702	674,953	691,827	700,129	706,430
Percent change		*2.8%*	*-3.6%*	*0.5%*	*2.5%*	*1.2%*	*0.9%*
Personal Services	623,315	642,204	618,069	622,864	635,321	649,298	661,635
Percent change		*3.0%*	*-3.8%*	*0.8%*	*2.0%*	*2.2%*	*1.9%*
Quick Service Restaurants	2,888,554	2,919,701	2,887,550	2,882,638	2,948,939	3,013,816	3,077,106
Percent change		*1.1%*	*-1.1%*	*-0.2%*	*2.3%*	*2.2%*	*2.1%*
Real Estate	323,974	316,969	295,954	290,329	291,200	296,442	304,149
Percent change		*-2.2%*	*-6.6%*	*-1.9%*	*0.3%*	*1.8%*	*2.6%*
Retail Food	472,945	483,138	468,868	468,172	473,790	482,792	489,068
Percent change		*2.2%*	*-3.0%*	*-0.1%*	*1.2%*	*1.9%*	*1.3%*
Retail Products & Services	452,929	468,973	464,036	468,883	475,447	482,579	488,370
Percent change		*3.5%*	*-1.1%*	*1.0%*	*1.4%*	*1.5%*	*1.2%*
Table/Full Service Restaurants	1,001,184	1,003,208	985,999	988,044	1,010,906	1,038,200	1,060,002
Percent change		*0.2%*	*-1.7%*	*0.2%*	*2.3%*	*2.7%*	*2.1%*
Total	**7,993,651**	**8,028,452**	**7,800,319**	**7,779,833**	**7,929,695**	**8,101,025**	**8,260,060**

Franchise Business Employment Growth: May 2013 Forecast



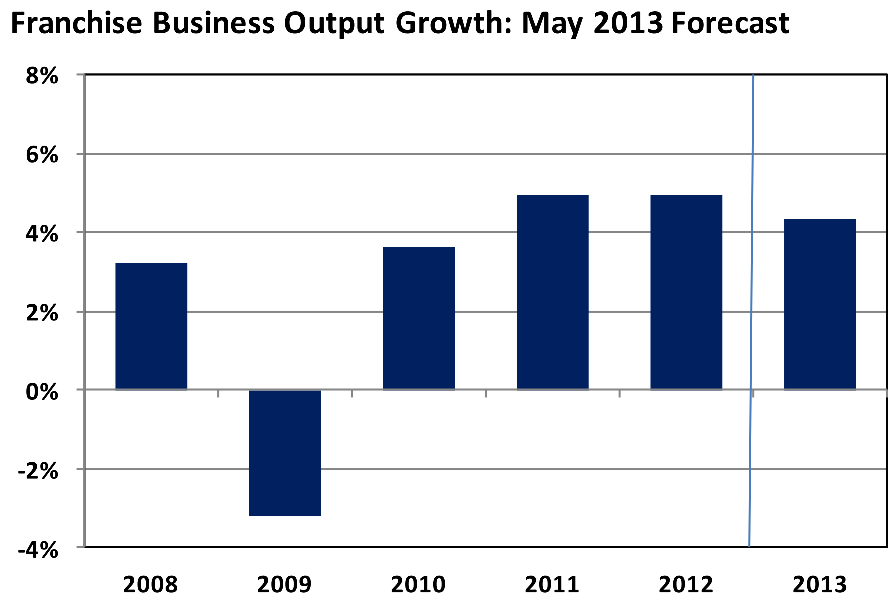
Output by Business Line

All 10 franchise business lines have posted output gains in each of the last two years, led by the Table/Full Service Restaurant and Lodging industries with average annual increases near 6.5 percent. We estimate that the output growth leader in 2012 was Real Estate, with an 8.8 percent gain stimulated by the housing market recovery. Both segments of the franchise restaurant industry, as well as Lodging, also posted above average output growth in 2012.

Real Estate is expected to continue to be the output growth leader in 2013, increasing 8.1 percent. Eight of the 10 franchise business lines will show a slowdown in output growth in 2013 compared with the results from last year. Commercial & Residential Services and Retail Food are each expected to show somewhat stronger growth rates in 2013 when compared to last year.

Franchise Output by Business Line, 2007-2013: May 2013 Forecast

	Estimates						Forecast (May 2013)
($billions)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Automotive	30.21	33.59	31.16	33.56	36.32	37.48	38.12
Percent change		*11.2%*	*-7.2%*	*7.7%*	*8.2%*	*3.2%*	*1.7%*
Business Services	131.77	134.09	128.62	132.61	137.38	143.43	149.02
Percent change		*1.8%*	*-4.1%*	*3.1%*	*3.6%*	*4.4%*	*3.9%*
Commercial & Residential Services	45.00	48.42	46.32	46.55	48.23	50.59	53.32
Percent change		*7.6%*	*-4.3%*	*0.5%*	*3.6%*	*4.9%*	*5.4%*
Lodging	65.26	67.98	62.79	67.62	72.83	76.54	80.22
Percent change		*4.2%*	*-7.6%*	*7.7%*	*7.7%*	*5.1%*	*4.8%*
Personal Services	74.29	76.18	74.43	77.85	82.29	85.25	87.56
Percent change		*2.5%*	*-2.3%*	*4.6%*	*5.7%*	*3.6%*	*2.7%*
Quick Service Restaurants	164.67	171.41	173.38	179.43	186.93	196.65	206.68
Percent change		*4.1%*	*1.2%*	*3.5%*	*4.2%*	*5.2%*	*5.1%*
Real Estate	52.62	49.12	44.83	42.18	42.82	46.58	50.36
Percent change		*-6.7%*	*-8.7%*	*-5.9%*	*1.5%*	*8.8%*	*8.1%*
Retail Food	31.80	34.66	31.92	34.12	36.47	37.39	38.55
Percent change		*9.0%*	*-7.9%*	*6.9%*	*6.9%*	*2.5%*	*3.1%*
Retail Products & Services	30.11	31.59	31.89	34.19	36.41	38.20	39.50
Percent change		*4.9%*	*1.0%*	*7.2%*	*6.5%*	*4.9%*	*3.4%*
Table/Full Service Restaurants	48.79	49.20	48.72	50.57	53.62	57.37	59.61
Percent change		*0.8%*	*-1.0%*	*3.8%*	*6.0%*	*7.0%*	*3.9%*
Total	**674.54**	**696.24**	**674.07**	**698.70**	**733.30**	**769.48**	**802.92**



Franchise Businesses' Contribution to GDP

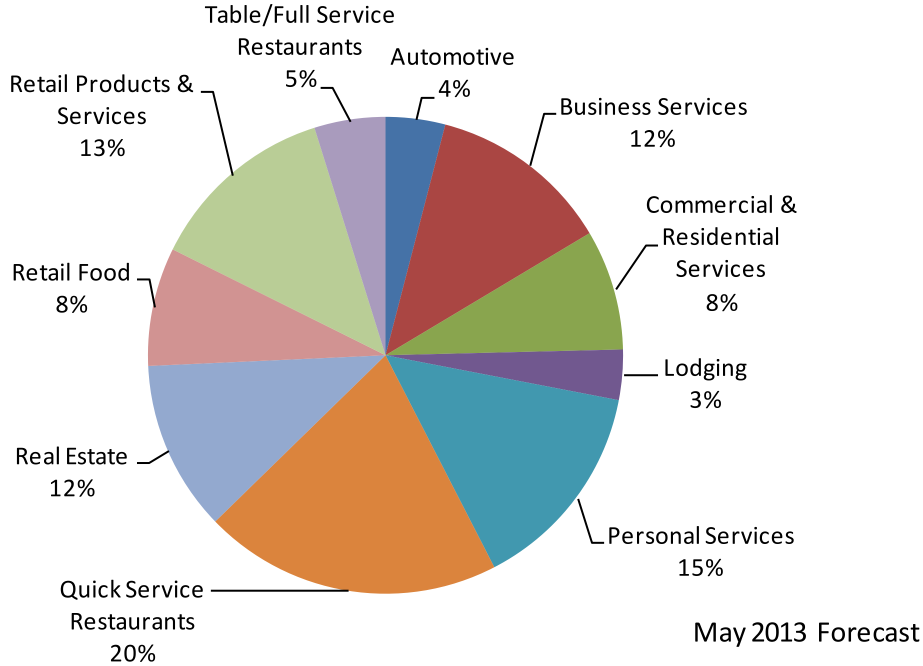
By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Global Insight developed estimates of the contribution to U.S. GDP by the franchise sector as a whole. We estimate that franchise businesses accounted for more than 3 percent of U.S. GDP or a total of nearly $454 billion in 2012. Based on our employment and output forecasts for franchising in 2013, we project that nominal GDP of the franchise sector will increase by 4.1 percent to $472 billion in 2013.

Distribution by Sector

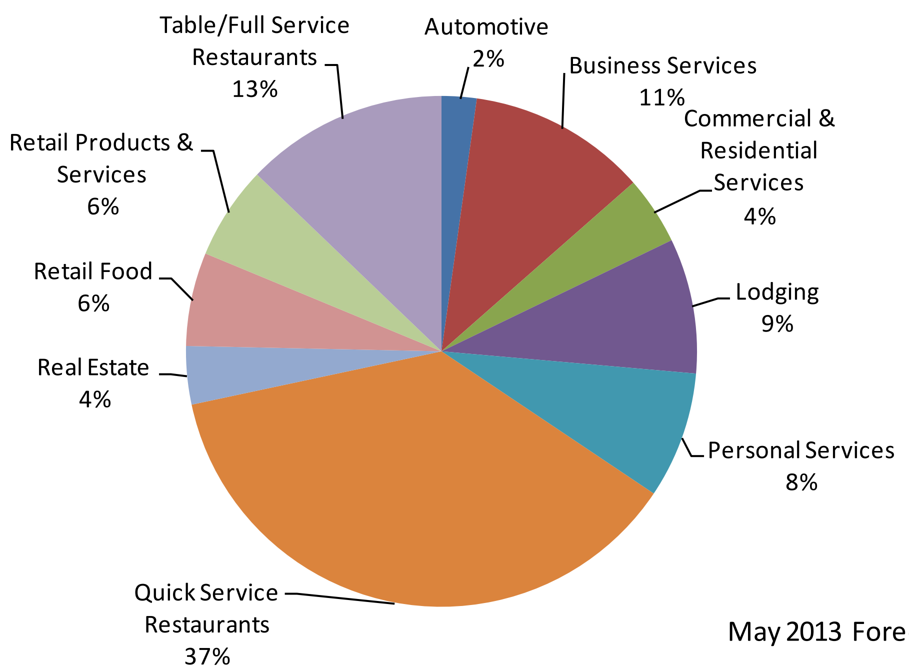
This section focuses on the distribution of the 10 franchise business lines in terms of the number of establishments, employment, and output, based on our forecast for 2013. The Quick Service Restaurants business line is the largest category, with 20 percent of all franchise establishments, and accounts for 37 percent of franchise employment. This business line also is forecasted to contribute 26 percent of total output in 2013. Second in size in terms of the number of establishments is the Personal Services line, with 15 percent of the total. However, these are generally smaller businesses. The Personal Services group will account for only 8 percent of franchise employment and 11 percent of output.

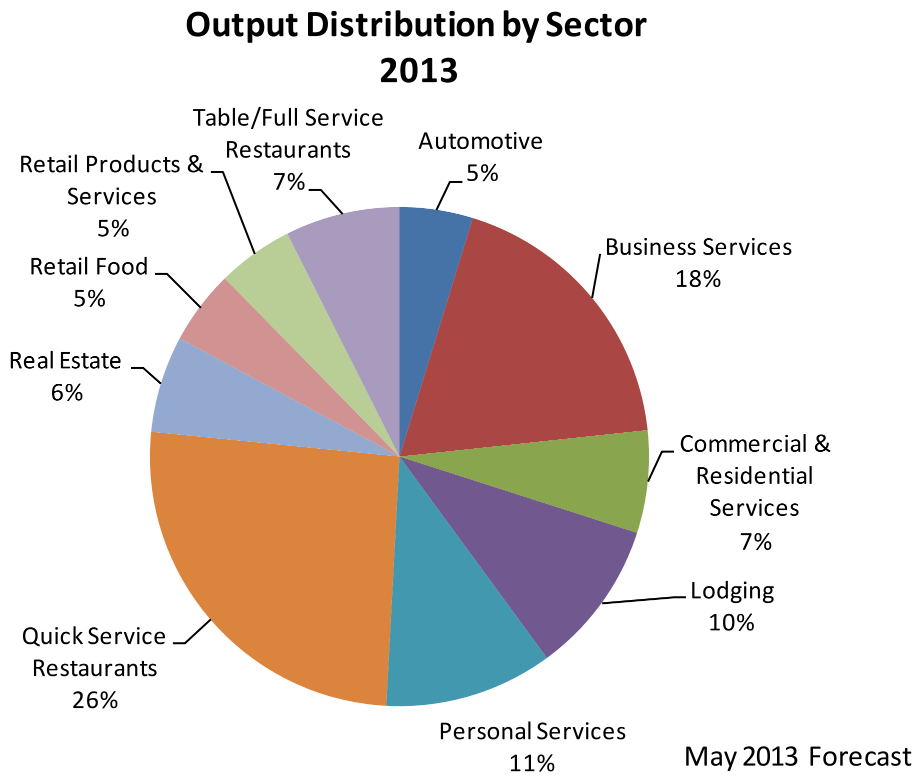
The Table/Full Service Restaurants group occupies the second-largest share of employment, accounting for 13 percent of the total. The Business Services segment, which has higher ratios of output per establishment and per employee, is the second-largest contributor to the value of output in the franchise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

Establishments Distribution by Sector 2013



Employment Distribution by Sector 2013





Output per Employee

On average, output per employee in franchise businesses is estimated to be $94,986 per worker in 2012 and forecasted to grow to $97,205 in 2013. This output-per-worker ratio varies within the 10 franchise business lines from a low of $56,235 (Table/Full Service Restaurants) to a high of $208,808 (Automotive) in 2013.

The average output per worker in the franchise sector has grown since 2007, and will continue to rise through 2013, increasing at a compound annual growth rate of 2.4 percent 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 the workers only slowly. In 2009, the average productivity remained flat amidst the global recession, but then rose by nearly 4 percent in 2010. We estimate that franchise sector productivity gained 3.0 percent in 2011 and 2.7 percent in 2012. Productivity growth will continue to slow to 2.3 percent in 2013.

The Automotive and Business Services business lines are the fastest-growing segments in terms of output per worker, with compound annual gains of 3.9 percent and 3.5 percent, respectively, during the period 2007-2013. The Real Estate sector recovered the slowest through 2011, but is projected to achieve annual productivity gains of 6.9 and 5.4 percent in 2012 and 2013, respectively.

Franchise Productivity by Business Line, 2007-2013: May 2013 Forecast

	Estimates						Forecast (May 2013)
(Dollars per worker)	2007	2008	2009	2010	2011	2012	2013
Automotive	166,120	181,720	178,197	193,404	204,557	207,370	208,808
Percent change		*9.4%*	*-1.9%*	*8.5%*	*5.8%*	*1.4%*	*0.7%*
Business Services	129,668	140,397	144,563	151,710	155,461	157,574	159,571
Percent change		*8.3%*	*3.0%*	*4.9%*	*2.5%*	*1.4%*	*1.3%*
Commercial & Residential Services	126,786	135,461	134,835	138,416	141,419	145,869	149,413
Percent change		*6.8%*	*-0.5%*	*2.7%*	*2.2%*	*3.1%*	*2.4%*
Lodging	96,285	97,543	93,477	100,190	105,273	109,330	113,555
Percent change		*1.3%*	*-4.2%*	*7.2%*	*5.1%*	*3.9%*	*3.9%*
Personal Services	119,192	118,627	120,430	124,994	129,528	131,302	132,333
Percent change		*-0.5%*	*1.5%*	*3.8%*	*3.6%*	*1.4%*	*0.8%*
Quick Service Restaurants	57,009	58,707	60,044	62,245	63,388	65,249	67,166
Percent change		*3.0%*	*2.3%*	*3.7%*	*1.8%*	*2.9%*	*2.9%*
Real Estate	162,432	154,972	151,469	145,293	147,032	157,142	165,566
Percent change		*-4.6%*	*-2.3%*	*-4.1%*	*1.2%*	*6.9%*	*5.4%*
Retail Food	67,241	71,730	68,074	72,879	76,984	77,438	78,814
Percent change		*6.7%*	*-5.1%*	*7.1%*	*5.6%*	*0.6%*	*1.8%*
Retail Products & Services	66,485	67,368	68,733	72,920	76,588	79,153	80,874
Percent change		*1.3%*	*2.0%*	*6.1%*	*5.0%*	*3.3%*	*2.2%*
Table/Full Service Restaurants	48,736	49,042	49,414	51,183	53,040	55,261	56,235
Percent change		*0.6%*	*0.8%*	*3.6%*	*3.6%*	*4.2%*	*1.8%*
Total	**84,384**	**86,721**	**86,416**	**89,809**	**92,475**	**94,986**	**97,205**

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 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 at year-end 2009, 2010 and 2011. 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).