



Franchise Business Economic Outlook for 2015

Prepared for:

**International Franchise Association
Educational Foundation**

By:

IHS Economics

January 2015

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Table of Contents

EXECUTIVE SUMMARY	1
Franchise Business Index	3
INTRODUCTION	5
THE ECONOMIC OUTLOOK.....	6
OUTLOOK FOR FRANCHISE BUSINESS.....	8
Outlook Summary	8
Establishments by Business Line.....	15
Employment by Business Line.....	16
Output by Business Line.....	18
Franchise Businesses' Contribution to GDP	19
Distribution by Sector	19
Output per Employee.....	21
APPENDIX.....	23
Composition of Franchise Business Lines	23
Methodology.....	24

EXECUTIVE SUMMARY

This report presents a forecast of the franchise sector of the U.S. economy in 2015 prepared by IHS Economics for the International Franchise Association Educational Foundation.

As projected in our forecast report at the beginning of the year, 2014 proved to be a year of solid growth for the franchise sector. Overall economic growth picked up sharply in the second and third quarters, boosting real GDP for the year to an estimated 2.4% increase, with payroll employment (including government) up 1.8%, and the acceleration of the franchise sector in 2014 was even stronger, with employment of franchise businesses up 2.8% and franchise output (in nominal dollars) up 4.9%. The Franchise Business Index indicates that momentum was building as the year came to a close. The index showed strong growth in each of the last three months, and in November the index was up 3.1% compared to November 2013 – the biggest year-over-year gain since prior to the 2008-09 recession.

Continued acceleration in the pace of economic activity will create the conditions for another strong year of growth of the franchise sector in 2015. We expect real GDP growth to improve to 3.1% in 2015 on the strength of faster growth of consumer spending and a pick-up in the housing sector. The implications for the franchise sector in 2015 are another strong year of employment and output growth. Based on the fundamentals of the macroeconomic outlook:

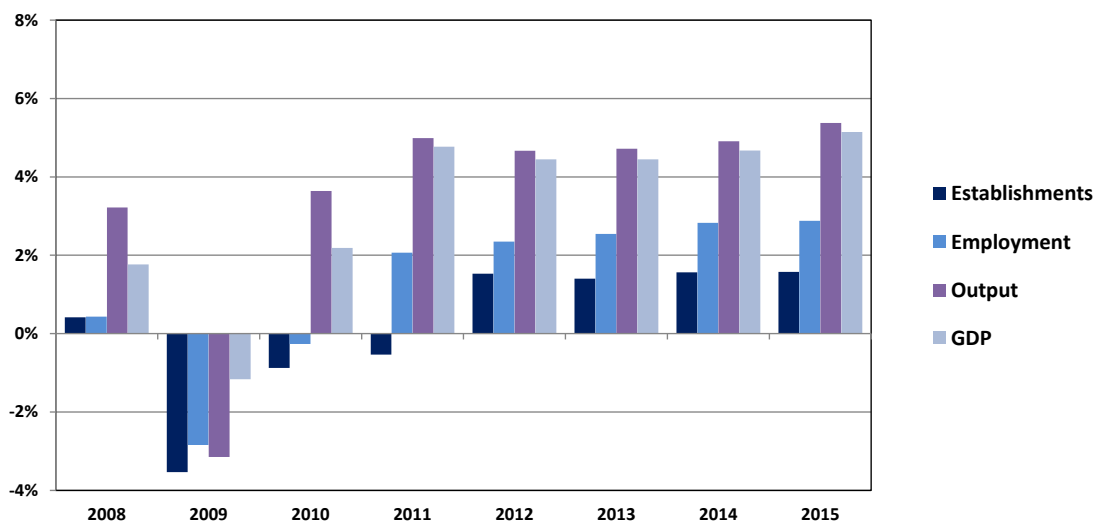
- We expect the number of franchise establishments in the United States to increase by 1.6% in 2015, matching the pace of growth in 2014.
- Employment growth in the franchise sector will continue to outpace the growth of employment in all businesses economy-wide, as it has in each of the last four years. We expect franchise employment to increase 2.9% in 2015, while total private nonfarm employment will increase 2.4%. Over the five-year period, 2011-2015, average annual job growth in the franchise sector, at 2.5%, will be 0.4 percentage points higher than for all businesses economy-wide.
- Growth of the output of franchise businesses in nominal dollars will accelerate to 5.4% in 2015 as output per worker in the franchise sector increases slightly.
- The gross domestic product (GDP) of the franchise sector will increase by 5.1% to \$521 billion in 2015. This will exceed the growth of U.S. GDP in nominal dollars, which is projected at 4.9%. The franchise sector will contribute approximately 3% of U.S. GDP in nominal dollars.

However, this forecast based on the economic fundamentals is presented with a note of caution. A recent ruling by the National Labor Relations Board that was based on the premise that a franchisor can be viewed as a “joint employer” and thus responsible for actions taken by its franchisees, creates a cloud of uncertainty over the franchise sector, which could impede the growth of the number of franchise businesses and, thus, franchise employment and output.

Franchise Business Economic Outlook: January 2015 Forecast

	Estimates								Forecast
	2007	2008	2009	2010	2011	2012	2013	2014	(January 2015) 2015
Establishments	770,835	774,016	746,646	740,098	736,114	747,359	757,857	769,683	781,794
<i>Percent change</i>		0.4%	-3.5%	-0.9%	-0.5%	1.5%	1.4%	1.6%	1.6%
Employment ('000)	7,994	8,028	7,800	7,780	7,940	8,127	8,334	8,569	8,816
<i>Percent change</i>		0.4%	-2.8%	-0.3%	2.1%	2.3%	2.5%	2.8%	2.9%
Output (\$Billions)	675	696	674	699	734	768	804	844	889
<i>Percent change</i>		3.2%	-3.2%	3.6%	5.0%	4.7%	4.7%	4.9%	5.4%
GDP (\$Billions)	403	410	405	414	434	453	473	495	521
<i>Percent change</i>		1.8%	-1.2%	2.2%	4.8%	4.4%	4.4%	4.7%	5.1%

Franchise Business Growth by Year, 2008-2015: January 2015 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 2015 ranging from a low of 3.9% in the retail food business line to 6.3% in lodging and real estate. Other highlights of the industry forecast for 2015 are:

- The quick service restaurants business line will continue to be among the growth leaders, ranking first in employment growth and fourth in output growth – with growth based on both indicators slightly ahead of the table/full service restaurants segment.
- Estimates and projections for the retail products business line have been revised upward. The retail products business line will rank second in employment growth and fourth in establishment growth.

- Projected growth in 2014 was also revised upward for the personal services business line. Personal services businesses are expected to be the growth leader in number of establishments in 2015 and rank third in employment growth.
- We project another strong year for the lodging business line, which will rank second in growth of establishments in addition to being a co-leader in output growth.

Franchise Business Economic Outlook 2015: January 2015 Forecast

	Establishments		Employment		Output (\$Billions)	
	Amount	Percent	Amount	Percent	Amount	Percent
		Change Over Previous Year		Change Over Previous Year		Change Over Previous Year
Automotive	31,418	1.3%	192,729	2.6%	41.79	4.3%
Business Services	96,837	1.7%	987,835	2.7%	164.45	5.1%
Commercial & Residential Services	63,671	1.6%	374,227	2.8%	57.18	5.1%
Lodging	26,905	1.8%	746,588	2.7%	89.36	6.3%
Personal Services	113,875	1.9%	703,971	2.9%	97.00	5.3%
Quick Service Restaurants	157,595	1.6%	3,341,694	3.2%	233.36	5.7%
Real Estate	90,320	1.5%	321,794	2.6%	54.91	6.3%
Retail Food	62,740	1.1%	515,848	2.5%	42.30	3.9%
Retail Products & Services	100,897	1.6%	524,264	3.1%	43.32	5.1%
Table/Full Service Restaurants	37,536	1.2%	1,107,011	2.4%	65.36	5.1%
TOTAL	781,794	1.6%	8,815,961	2.9%	889.03	5.4%

Franchise Business Index

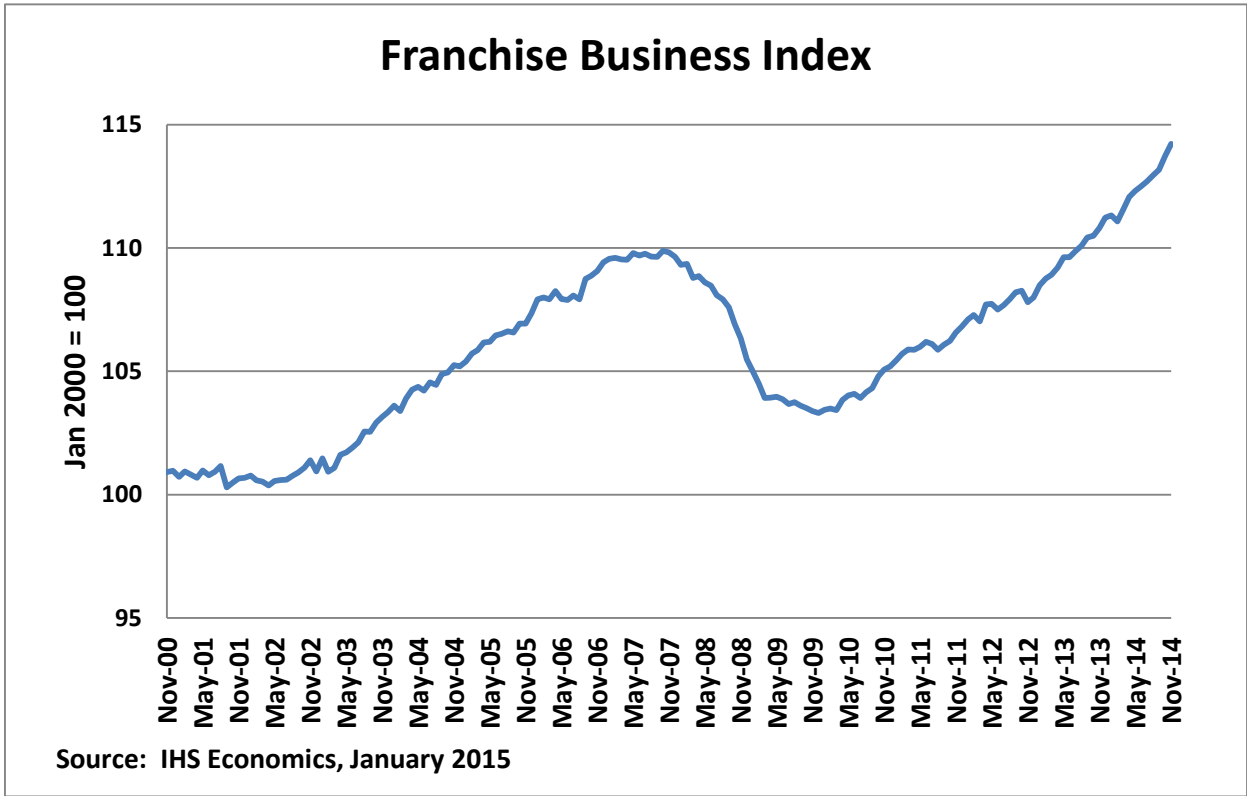
The estimates of output, employment and the number of businesses in the franchise industry reported here provide valuable measures of the size and growth of the industry. But, because most of the key data inputs required to make these estimates are published only on an annual basis, the estimates are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

The Franchise Business Index showed strong growth in each of the last three months, and in November the index was up 3.1% compared to November 2013 – the biggest year-over-year gain since prior to the 2008-09 recession.

The increase in the FBI over the last three months reflected gains in nearly all components of the index. Continued improvement in labor market conditions was accompanied by strong gains in retail sales of franchise-intensive industries. The index has risen over the last two years on the strength of consistent monthly job gains in franchise-intensive industries accompanied by a decline in the unemployment rate. In the last three months, these trends were complemented by a significant upturn in the index of self-employment in the economy.

	<i>September 2014</i>	<i>October 2014</i>	<i>November 2014</i>	<i>12-month Nov - Nov</i>
Franchise Business Index	113.2	113.7	114.2	
Percent Change	0.2%	0.5%	0.4%	3.1%



INTRODUCTION

This report presents an updated forecast of basic indicators of the franchise sector of the U.S. economy in 2015 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 2015, 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 & 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 2013–14 and an updated forecast for 2015 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.

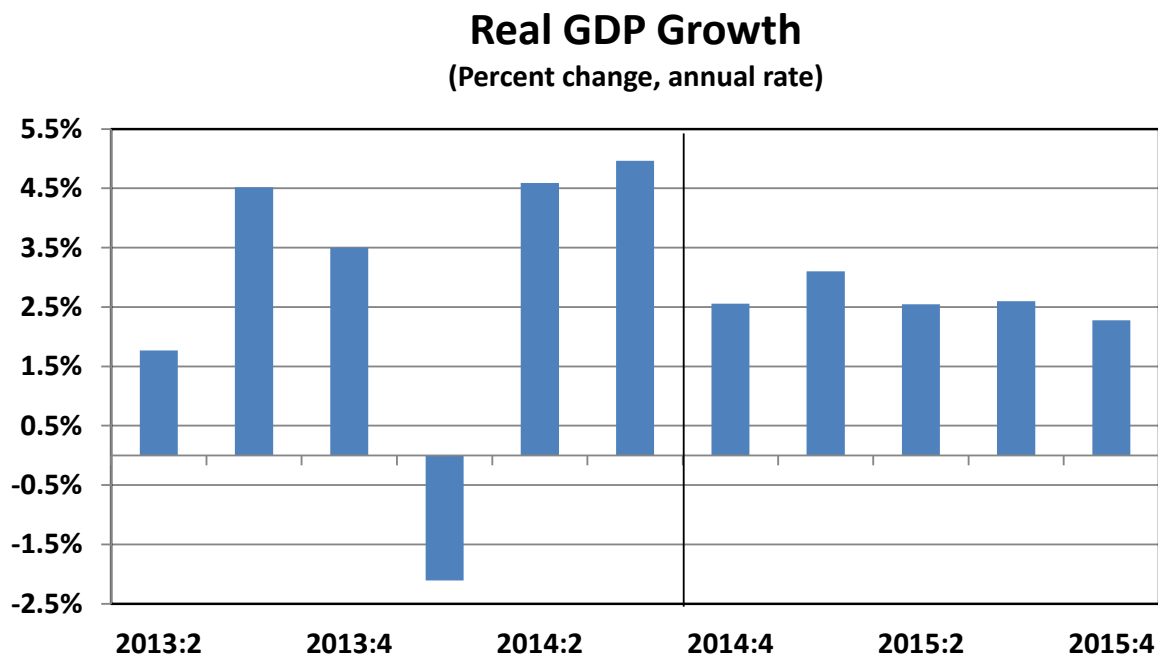
² An establishment is a single physical location at which business is conducted or services or industrial operations are performed. A business may consist of more than one establishment. An establishment may be owned by the franchisor or the franchisee.

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 surged by 5.0% in the third quarter of 2014 after increasing by 4.6% in the second quarter, but special factors explain much of this above-trend growth. The second quarter saw a rebound from a decline in the first quarter that was due largely to severe weather and a sharp inventory correction. Third-quarter growth benefitted from a one-time surge in defense spending, and the latest GDP release showed an upward revision due largely to changes in healthcare services consumption, for which the ultimate payers may be governments or insurance companies as well as individuals. Despite expectations that holiday-season consumer spending was strong, we expect that fourth-quarter GDP growth slowed to 2.6% as government spending subtracted from growth. This put full-year GDP growth at an estimated 2.4%.



IHS Economics, January 2015 Forecast

The recent decline in oil prices has stimulated numerous adjustments to our macroeconomic forecast. We see the current oil glut as long term, with \$100-plus prices not being reattained until the end of the decade. This implies gasoline prices will fall well below \$2.50/gallon by early next year. The resulting consumer gasoline dividend will bolster spending in 2015. Comparing the prior four quarters with the next four, consumer spending on gasoline will be about \$92 billion less, or around \$750 per household. However, by the second half of 2015, as gasoline prices stabilize, the impact of this dividend will be fully baked into the economy.

Separately, we have increased our forecast for the inflation-adjusted dollar exchange rate by about 2% in 2015 and an additional 1-2% in 2016. The stronger dollar will widen the trade deficit, as sales

contracts get renegotiated and supply chains get reconfigured. In nominal terms, the decline in oil prices will reduce the United States' imported oil bill from \$388 billion in 2014 to \$215 billion in 2015. The current account deficit in 2015 will be a meager 1.6% of GDP – the lowest since 1997.

The decline in oil prices will also affect the demand for drilling investment in 2015-16. Whereas this investment added an average 0.1 percentage point to real GDP annually between 2010 and 2014, it will subtract 0.1 point in 2015. The net effect of these changes is that a significant portion of the economic growth that is added from lower oil and gasoline prices is mitigated by the effects of a higher dollar, slower foreign economic growth, and reduced investment in energy drilling equipment.

We continue to expect a gradual acceleration of wage growth that – in combination with further employment gains – will support stronger consumer spending in 2015. Real consumer spending growth of 3.4% in 2015 (up from 2.5% in 2014), together with modest improvement in housing market activity, will boost real GDP growth to 3.1%.

The Economic Outlook for 2015

(Annual percent change)	2011	2012	2013	2014	2015
Real Gross Domestic Product	1.6	2.3	2.2	2.4	3.1
Total Nonfarm Employment	1.2	1.7	1.7	1.8	2.0
Accommodations and Food Services	2.7	3.2	3.5	2.7	2.5
Personal Services	0.6	1.3	0.6	0.9	0.8
Real Disposable Income	2.5	3.0	-0.2	2.4	3.3
Real Personal Consumption	2.3	1.8	2.4	2.5	3.4
Food Services	2.4	2.3	1.7	2.8	5.1
Accommodations	3.3	4.3	5.2	4.1	3.3
Personal Services	1.3	2.1	0.6	0.5	3.8
Retail Sales (nominal dollars)	7.5	5.1	4.2	4.1	3.1
Existing Home Sales	2.3	8.9	8.9	-3.0	10.3
Com'l & Indus. Loans Outstanding, Com'l.Bank	9.3	13.2	6.9	12.8	6.7

IHS Economics, January 2015 Forecast

OUTLOOK FOR FRANCHISE BUSINESS

Outlook Summary

The Franchise Business Index signals that franchise business activity was gaining momentum as the year came to an end. We estimate that employment growth in the franchise sector accelerated to 2.8% in 2014 (from 2.5% in 2013). Growth of franchise output and the number of franchise establishments also picked up in 2014. By most measures, the franchise sector continues to grow at rates that exceed the economy-wide growth of industries where franchises are concentrated.

The expected improvement in economic conditions indicates that 2015 will be another strong year for the franchise sector. Based on the fundamentals of the macroeconomic outlook:

- We expect a 1.6% increase in the number of franchise businesses in 2015, which is in line with the growth of overall business formation across the economy.
- We expect employment in franchise establishments to increase 2.9% in 2015 – ahead of the 2014 pace. Total private sector nonfarm employment is projected to rise 2.4% in 2015.
- Growth of the output of franchise businesses in nominal dollars should accelerate to 5.4% in 2015 as output per worker in the franchise sector increases in several business lines.
- The gross domestic product (GDP) of the franchise sector will increase by 5.1% to \$521 billion.

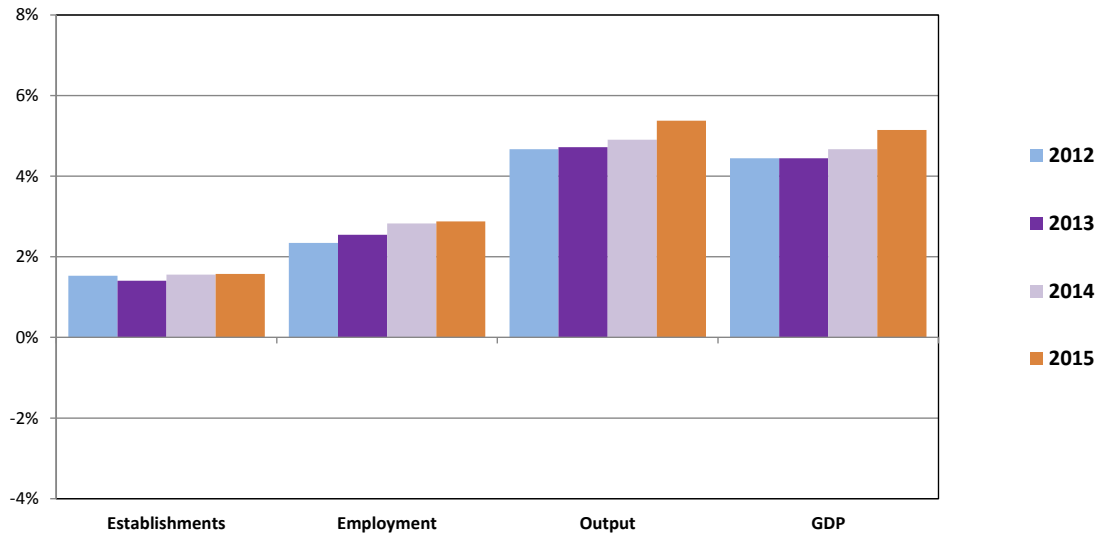
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<i>Percent change</i>		1.8%	-1.2%	2.2%	4.8%	4.4%	4.4%	4.7%	5.1%

However, there is considerable downside risk to this forecast due to the uncertainty created by a recent ruling by the NLRB that considers a franchisor as a “joint employer” with its franchisees. If this ruling survives legal challenges, it will impose additional costs on franchisors associated with the need for more oversight and insurance against risk. Uncertainty about how this issue will be resolved could impede the growth of franchise business formation, employment and output – causing the performance of the franchise sector to fall short of this forecast based on economic fundamentals.

The following chart shows how the franchise economy has fared over the last three years, along with our 2015 forecast, by various measures. Growth rates of output and GDP are in nominal dollars.

Franchise Business Growth, 2012-2015: January 2015 Forecast

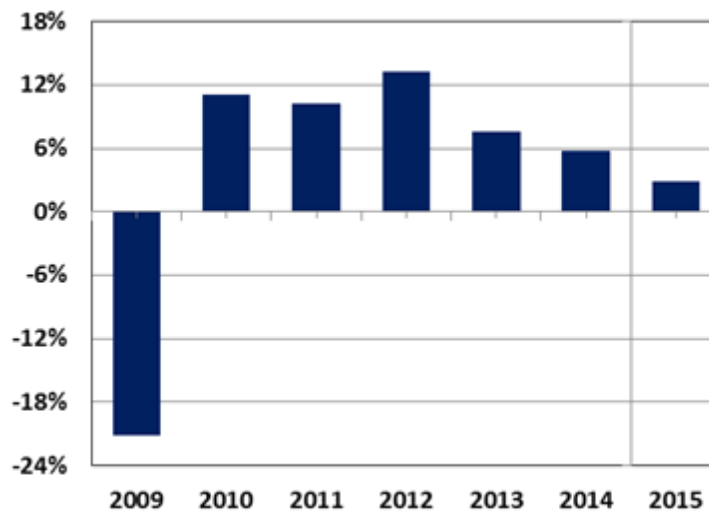


To provide background for our view of how different segments of the franchise sector will fare in 2015, we review IHS forecasts of employment and output in the industries where there is a large concentration of franchise businesses. Key drivers of the franchise economy drawn from our U.S. industry forecast are summarized below.

As this forecast update was prepared, historical estimates of franchise employment, output, and establishments in 2013 and 2014 were revised based on more current source data. In particular, estimates of employment trends in the 10 franchise business lines over the last two years were revised to take into account franchise employment growth by industry as reported by ADP in their monthly National Franchise Report.

Automotive: The growth of light vehicle sales is forecast to slow to 2.9% in 2015, as unit sales have now regained pre-recession levels after five years of solid growth. However, the age of the average vehicle on the road is near record highs, and lower gasoline prices combined with an improving employment and disposable income picture for households will likely encourage more travel for both business and pleasure. The resulting increased wear and tear on vehicles will also contribute to growing demand for automotive repair services. Economy-wide, the growth of consumer spending on auto repair services will increase from 1.9% in 2014 to 4.4% in 2015. Spending on auto parts and tires is projected to grow 2.3% in 2015 (up from the 2.0% growth in 2014).

Light Vehicles Sales Growth



On the commercial vehicle side, capacity in the trucking industry is tight and getting tighter. As the economy continues to recover and grow, the demand for shipping has roared back. Capacity utilization rates are expected to rise to 86% in 2015 from 79% in 2014. Trucking companies will need to make investments in new fleet capacity as well as try to maintain the current fleet. Thus, it will also behoove fleets and individual owner operators to step up their equipment maintenance.

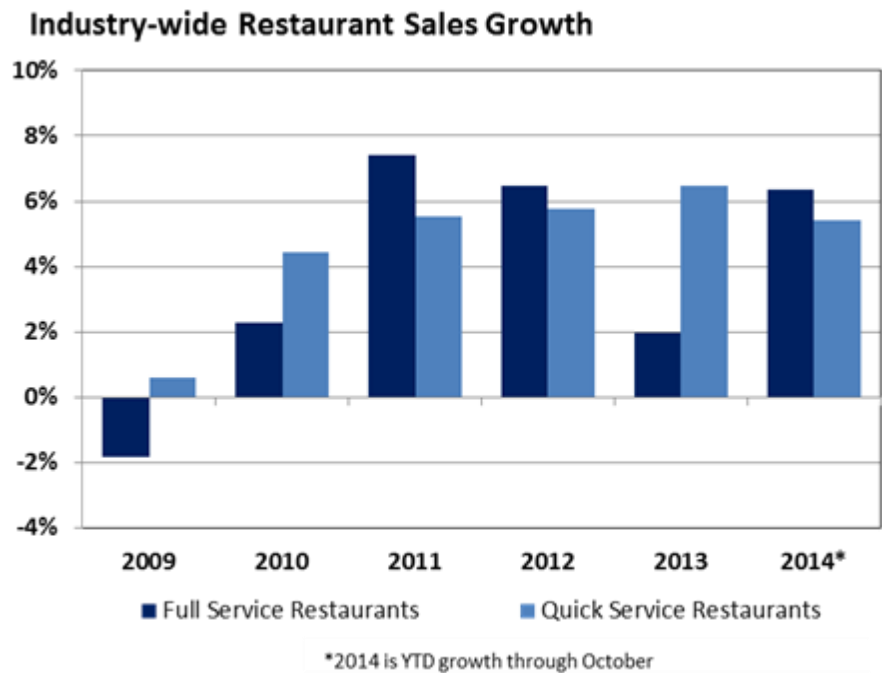
We have revised our estimate of franchise employment in the automotive business line in 2013 upward slightly, but projected growth in 2014 has been reduced compared to our September forecast. Both years now show increases near 2%. We expect franchise automotive employment and output growth to accelerate in 2015 in line with the faster growth of spending on auto parts and repair services cited above. We expect total output of the automotive business line to be up 4.3% in 2015 after a 3.5% increase in 2014. However, the automotive business line will remain among the slowest growing of the 10 franchise business lines.

Commercial & residential Services: Real residential construction spending slowed to an increase of only 1.5% in 2014, and existing home sales are expected to end the year below 2013 levels. With the failure of the residential market to rebound, we have revised downward our 2014 forecasts of employment and output of the commercial & residential services business line. However, both indicators cited above are expected to rebound to double-digit growth in 2015. This will benefit architectural, project management and contracting firms and boost the business of special trade contractors. The overall faster pace of economic growth will also bolster activity among providers of facility support, building maintenance and repair, and waste disposal services. With this rebound in the drivers of the commercial & residential services market, we expect the output of franchise businesses in this business line to increase by 5.1% in 2015 compared to 3.9% growth in 2014.

Table/Full Service Restaurants: 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 began to improve at the lower end of the spectrum, higher incomes helped all consumers spend more on food away from home in 2013, and full service restaurant sales growth lagged the QSR segment. In 2014, sales of both segments of the restaurant industry showed strong growth, with the table service segment again gaining a slight edge in sales growth.

Employment growth in the two segments of the restaurant industry has not always tracked these year-to-year swings in output growth. Over the 2011-2012 period, the full service segment achieved its higher sales growth with slower growth of employment than the QSR segment experienced. Thus, sales per worker increased faster in the full service segment during these two years.

Continued strong growth of U.S. employment as well as acceleration of wage growth in 2015 should help fuel demand for both full service and quick service restaurants again. Within the franchise full service restaurant business line, we expect a 2.4% increase in employment and 5.1% sales growth in 2015 – both figures just ahead of the business line’s 2014 performance.

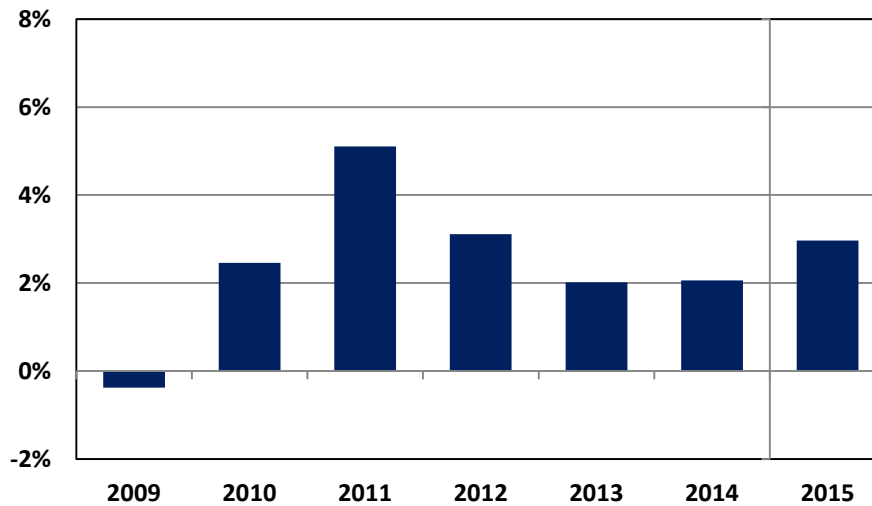


Quick Service Restaurants: Strong employment and wage growth in the overall economy is good for the restaurant industry and especially for QSR restaurants, as time for meals becomes crunched with more people working and spending time commuting. As reported above, we expect total nonfarm employment growth of 1.9% in 2015 – up from 1.8% growth in 2014. Real disposable personal income is forecast to grow 3.3% in 2015 compared to 2.4% in 2014. This should further boost the sales of quick

service restaurants. We estimate the number of QSR establishments increased by 1.5% in 2014, and we expect this to tick up to 1.6% growth in 2015. We expect the QSR business line to lead the franchise sector in employment growth in 2015 with a 3.2% increase. Franchise QSR sales growth is projected at 5.7%.

Retail Food: In line with the macroeconomic conditions that are providing consumers with a bit more disposable income that is fueling growth in other industries, the retail food industry should see growing sales in 2015 as well. Consumer purchases of food for off-premises consumption (franchise and non-franchise) are projected to grow a healthy 3.2% in 2015 (versus 2.0% growth in 2014). Retail sales of food stores of all types (including their sales of non-food items) increased by 2.9% in each of the last two years and are expected to be up 3.3% in 2015.

Growth of Consumer Spending on Food (Excluding Restaurants)



We estimate that franchise employment and output within the retail food business line have more than kept pace with these industry-wide growth trends. However, the retail food business line remains one of the slowest growing parts of the franchise sector. We expect franchise retail food sales growth of 3.9% in 2015, with a 2.5% increase in employment.

Lodging: The lodging industry has posted several years of solid growth, with sales gains continually outpacing the annual increase in employment. Recent data on the lodging industry from the ADP National Franchise Report indicate that the franchise segment of the industry has shared in these trends. We have revised upward our estimate of franchise lodging employment growth in 2013 and our projections for 2014 growth. We estimate that franchise employment in the lodging business line increased 2.5% in 2014, and we expect a 2.7% increase in 2015. This employment growth supports output (sales) gains of 6.1% in 2014 and 6.3% in 2015, which makes lodging co-leader among the 10 business lines in 2015 output growth.

Real Estate: As noted above in discussing the commercial & residential services business line, the rebound in existing home sales expected in 2014 never materialized, as tight mortgage credit and weak household formation restrained home sales. We estimate that total existing home sales for the year were 4.92 million units – 3% below their 2013 level. However, with continued improvements in employment and wages, and the improving consumer confidence this will bring, we expect existing home sales to increase by 10.3% to 5.43 million units in 2015. Expectations of the Federal Reserve increasing interest rates in the second half of 2015 could fuel an increase in demand for homes prior to the increase.

In line with this resumed pick-up in the housing market recovery, we expect sales of franchise businesses in the real estate business line to increase 6.3% in 2015 compared to 4.8% growth in 2014.

Retail products & Services: The Consumer Sentiment Index continues to improve from 79.2 in 2013 to 84.1 in 2014 and is forecast to rise to 91.2 in 2015. This rise in consumer confidence in the economy should help bolster sales of the broad range of retailers that are included in the retail products & services business line. To date, the increase in consumer confidence spurred by the recovery in the overall economy has not benefited all of these specialty retailers. For example, real consumer spending on clothing and footwear in 2014 only grew by 1.0% in 2013 and 0.8% in 2014. However, 2015 will see the convergence of an improving employment and wages picture combined with lower gas prices. This should fuel consumer demand for retail products. Across the full range of retailers included in this business line, industry-wide sales growth is expected to improve to 5.6% in 2015 compared to 3.7% in 2014.

Employment data from the ADP National Franchise Report indicate that the franchise segment of the retail products & services industry has outperformed the industry as a whole. We have revised upward our estimate of franchise employment growth in this business line in 2013 and our projections for 2014 growth. We estimate that franchise employment in the retail products & services business line increased 2.9% in 2014, supporting a 4.7% increase in sales. We expect sales growth in the retail products & services business line to accelerate to 5.1% in 2015.

Business Services: The business services industry has been one of the leaders in job growth over the past two years, with employment gains of nearly 5% in 2013 and 6% estimated for 2014. Based on data from the ADP National Franchise Report, we estimate that employment in franchise business services firms has grown at a slightly slower pace of 3.4% in 2013 and 3.0% in 2014. With a wide range of businesses seeing improved growth prospects in 2015, the demand for business services should continue to grow. But we do not expect the rapid pace of growth seen in 2014 to carry over to 2015. We project franchise business services employment to increase 2.7% in 2015, which will support output growth of 5.1%.

Personal Services: The personal services business line includes a diverse array of services such as educational services, health care, entertainment and recreation, personal and laundry services, and selected financial activities. Industry-wide, employment in these activities posted a strong gain of 4.1% in 2013, but we project that it slowed to 2.9% in 2014.

Data from the ADP National Franchise Report indicate that franchise personal service businesses did not experience this slowdown, and we have revised upward our projection of employment in this business line in 2014. With estimated growth of 3.4%, personal services now ranks first among all business lines in 2014 employment growth. The personal services business line was also the leader in the growth of new franchise establishments in 2014, and we expect it to rank first again in 2015 with a 1.9% increase in the number of establishments.

As the economic recovery matures and total consumer spending growth accelerates, the composition of total spending will shift from consumer durables to an increased share of spending on services. The growth of spending on all services will increase by 5.1% in 2015 (in nominal dollars) compared to 4.3% growth in 2014. In many areas served by the industries listed above, growth will be much stronger. We project growth in the consumer spending category that encompasses personal care and laundry/dry cleaning services to increase 5.7%. Based on projected consumer spending growth in various categories, we expect the output (sales) of franchise personal services businesses to increase 5.3% in 2015.

Establishments by Business Line

We estimate that the number of franchise establishments grew modestly in all 10 business-format lines in 2013 and 2014. The business services sector was the growth leader in 2013, expanding at 2.0%, and the personal services business line ranked first in 2014, with growth of 2.2%.

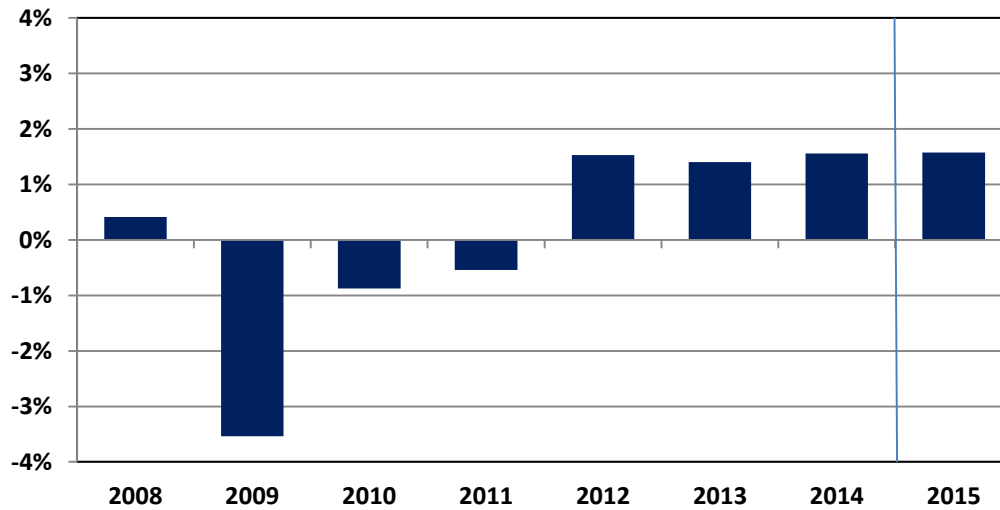
The total number of franchise establishments across the 10 business-format franchise lines is expected to increase 1.6% in 2015. Historically, total U.S. establishments have exhibited growth of 1 to 2% in the initial years of a recovery and then accelerated. However, during the current recovery business formation has lagged, as has growth of the number of establishments. IHS estimates that growth of the number of establishments economy-wide has held steady around 1.5% since 2012.

We expect personal services to lead growth in the number of business establishments again in 2015 with a 1.9% increase. Growth in commercial & residential services and personal services will accelerate to grow 1.6%. The retail food business line will post the slowest growth rate at 1.1%.

Franchise Establishments by Business Line, 2008-2015: January 2015 Forecast

	Estimates						Forecast (January 2015)	
	2008	2009	2010	2011	2012	2013	2014	2015
Automotive	31,653	30,012	29,687	29,984	30,344	30,648	31,000	31,418
<i>Percent change</i>	1.1%	-5.2%	-1.1%	1.0%	1.2%	1.0%	1.1%	1.3%
Business Services	96,289	89,691	89,147	90,035	91,746	93,581	95,265	96,837
<i>Percent change</i>	-5.9%	-6.9%	-0.6%	1.0%	1.9%	2.0%	1.8%	1.7%
Commercial & Residential Services	65,325	62,650	61,272	60,169	60,951	61,804	62,669	63,671
<i>Percent change</i>	0.9%	-4.1%	-2.2%	-1.8%	1.3%	1.4%	1.4%	1.6%
Lodging	26,572	25,588	25,410	25,003	25,553	25,987	26,429	26,905
<i>Percent change</i>	2.9%	-3.7%	-0.7%	-1.6%	2.2%	1.7%	1.7%	1.8%
Personal Services	110,696	106,510	106,100	105,463	107,572	109,293	111,697	113,875
<i>Percent change</i>	3.0%	-3.8%	-0.4%	-0.6%	2.0%	1.6%	2.2%	1.9%
Quick Service Restaurants	151,887	150,316	149,547	147,902	151,156	152,970	155,189	157,595
<i>Percent change</i>	1.1%	-1.0%	-0.5%	-1.1%	2.2%	1.2%	1.5%	1.6%
Real Estate	96,848	94,599	88,372	86,153	84,947	86,221	87,687	90,320
<i>Percent change</i>	-2.3%	-2.3%	-6.6%	-2.5%	-1.4%	1.5%	1.7%	3.0%
Retail Food	62,247	60,374	60,173	60,474	60,776	61,323	62,058	62,740
<i>Percent change</i>	2.2%	-3.0%	-0.3%	0.5%	0.5%	0.9%	1.2%	1.1%
Retail Products & Services	98,527	97,519	96,921	96,630	96,823	97,840	99,308	100,897
<i>Percent change</i>	3.7%	-1.0%	-0.6%	-0.3%	0.2%	1.1%	1.5%	1.6%
Table/Full Service Restaurants	36,221	35,614	35,688	35,507	36,217	36,724	37,109	37,536
<i>Percent change</i>	0.2%	-1.7%	0.2%	-0.5%	2.0%	1.4%	1.0%	1.2%
Total	752,873	742,317	737,320	746,085	756,391	768,411	781,794	

Franchise Business Establishments Growth: January 2015 Forecast



Employment by Business Line

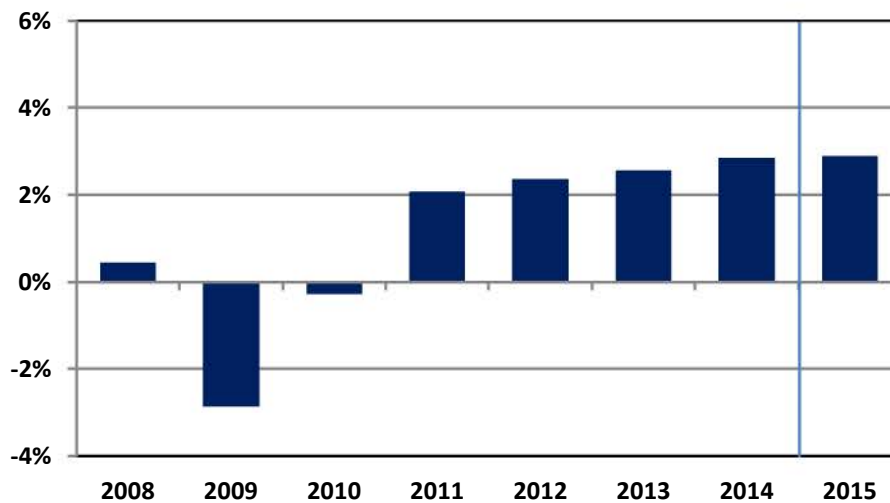
All 10 business-format franchise lines posted gains in employment over each of the last four years, and we expect this pattern to continue in 2015. There were no changes to our franchise employment estimates prior to 2013. However, employment estimates for most business lines were revised as this report was done, based on growth trends for the sample of franchise businesses covered by the National Franchise Report published monthly by ADP since mid-2013. We estimate total franchise employment grew 2.5% in 2013 and we project a 2.8% increase in 2014. As the chart on the following page depicts, franchise employment growth has gradually accelerated over the last three years.

Our revised estimates show business services as the leader in employment growth in 2013, and the personal services business line ranked first in 2014. The quick service restaurants business line ranked second in both years. We expect the QSR business line to be the employment growth leader in 2015, with a 3.2% increase, followed closely by retail products & services. Employment in the real estate business line will see the biggest jump in employment growth in 2015 with a growth rate that is 0.8 percentage points higher than in 2014.

Franchise Employment by Business Line, 2008-2015: January 2015 Forecast

	Estimates						Forecast (January 2015)	
	2008	2009	2010	2011	2012	2013	2014	2015
Automotive	184,826	174,889	173,546	177,885	180,198	183,802	187,845	192,729
<i>Percent change</i>		-5.4%	-0.8%	2.5%	1.3%	2.0%	2.2%	2.6%
Business Services	955,080	889,721	874,087	883,702	903,143	933,850	961,865	987,835
<i>Percent change</i>		-6.8%	-1.8%	1.1%	2.2%	3.4%	3.0%	2.7%
Commercial & Residential Services	357,475	343,531	336,317	342,034	347,849	355,502	364,034	374,227
<i>Percent change</i>		-3.9%	-2.1%	1.7%	1.7%	2.2%	2.4%	2.8%
Lodging	696,878	671,702	674,953	691,827	699,437	709,229	726,960	746,588
<i>Percent change</i>		-3.6%	0.5%	2.5%	1.1%	1.4%	2.5%	2.7%
Personal Services	642,204	618,069	622,864	635,321	647,392	661,635	684,131	703,971
<i>Percent change</i>		-3.8%	0.8%	2.0%	1.9%	2.2%	3.4%	2.9%
Quick Service Restaurants	2,919,701	2,887,550	2,882,638	2,951,821	3,046,279	3,140,714	3,238,076	3,341,694
<i>Percent change</i>		-1.1%	-0.2%	2.4%	3.2%	3.1%	3.1%	3.2%
Real Estate	316,969	295,954	290,329	294,974	301,168	308,095	313,640	321,794
<i>Percent change</i>		-6.6%	-1.9%	1.6%	2.1%	2.3%	1.8%	2.6%
Retail Food	483,138	468,868	468,172	473,790	481,844	490,035	503,266	515,848
<i>Percent change</i>		-3.0%	-0.1%	1.2%	1.7%	1.7%	2.7%	2.5%
Retail Products & Services	468,973	464,036	468,883	476,385	483,531	494,169	508,500	524,264
<i>Percent change</i>		-1.1%	1.0%	1.6%	1.5%	2.2%	2.9%	3.1%
Table/Full Service Restaurants	1,003,208	985,999	988,044	1,012,745	1,036,038	1,056,759	1,081,065	1,107,011
<i>Percent change</i>		-1.7%	0.2%	2.5%	2.3%	2.0%	2.3%	2.4%
Total	8,028,452	7,800,319	7,779,833	7,940,484	8,126,879	8,333,790	8,569,382	8,815,961

Franchise Business Employment Growth: January 2015 Forecast



Output by Business Line

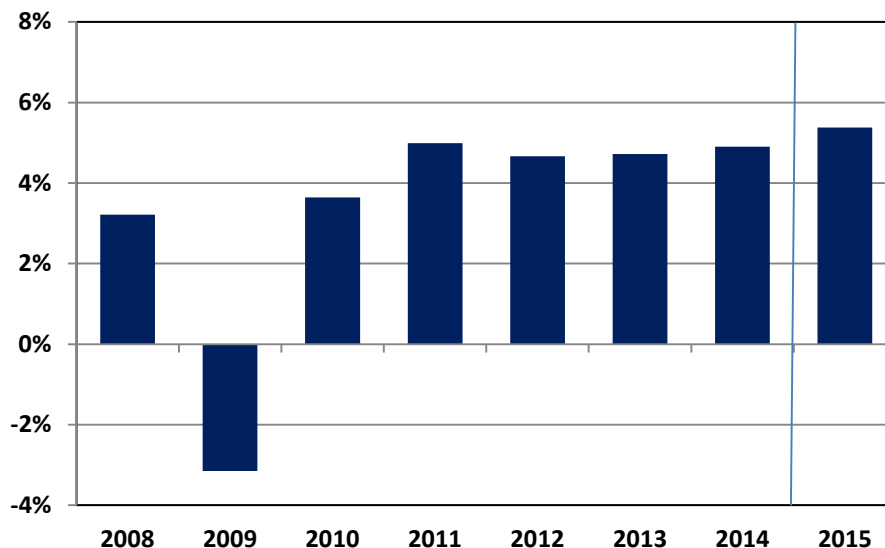
All 10 franchise business lines posted output gains in each of the last four years, led by the lodging business line, which had an average annual increase of 5.6% over this period. Output growth estimates for several business lines in 2013 and 2014 were revised to be consistent with the revisions of employment described in the previous section based on ADP data. Estimates of employment growth in 2013 were revised upward most significantly for lodging and business services. Projections for 2014 were revised upward for lodging and personal services. Projected output growth in 2014 is now lower in real estate and commercial & residential services.

Total output across the business lines is projected to grow 5.4% in 2015. We expect lodging and real estate to be the growth leaders in 2015, each with a 6.3% increase. Quick service restaurants will rank third, with a 5.7% gain. Nine of the 10 franchise business lines will show acceleration in output growth in 2015 compared with 2014, with growth slowing only in the retail food business line.

Franchise Output by Business Line, 2008-2015: January 2015 Forecast

	Estimates						Forecast (January 2015)	
	2008	2009	2010	2011	2012	2013	2014	2015
Automotive	33.59	31.16	33.56	36.32	37.62	38.72	40.07	41.79
<i>Percent change</i>		-7.2%	7.7%	8.2%	3.6%	2.9%	3.5%	4.3%
Business Services	134.09	128.62	132.61	137.38	142.60	149.45	156.47	164.45
<i>Percent change</i>		-4.1%	3.1%	3.6%	3.8%	4.8%	4.7%	5.1%
Commercial & Residential Services	48.42	46.32	46.55	48.23	50.20	52.36	54.41	57.18
<i>Percent change</i>		-4.3%	0.5%	3.6%	4.1%	4.3%	3.9%	5.1%
Lodging	67.98	62.79	67.62	72.83	75.82	79.23	84.06	89.36
<i>Percent change</i>		-7.6%	7.7%	7.7%	4.1%	4.5%	6.1%	6.3%
Personal Services	76.18	74.43	77.85	82.29	85.42	88.15	92.12	97.00
<i>Percent change</i>		-2.3%	4.6%	5.7%	3.8%	3.2%	4.5%	5.3%
Quick Service Restaurants	171.41	173.55	179.51	187.48	197.23	209.26	220.77	233.36
<i>Percent change</i>		1.2%	3.4%	4.4%	5.2%	6.1%	5.5%	5.7%
Real Estate	49.12	44.83	42.18	42.82	46.16	49.29	51.66	54.91
<i>Percent change</i>		-8.7%	-5.9%	1.5%	7.8%	6.8%	4.8%	6.3%
Retail Food	34.66	31.92	34.12	36.47	37.75	39.11	40.71	42.30
<i>Percent change</i>		-7.9%	6.9%	6.9%	3.5%	3.6%	4.1%	3.9%
Retail Products & Services	31.59	31.89	34.19	36.41	37.94	39.37	41.22	43.32
<i>Percent change</i>		1.0%	7.2%	6.5%	4.2%	3.7%	4.7%	5.1%
Table/Full Service Restaurants	49.20	48.78	50.64	53.48	57.22	59.28	62.19	65.36
<i>Percent change</i>		-0.8%	3.8%	5.6%	7.0%	3.6%	4.9%	5.1%
Total	696.24	674.30	698.84	733.71	767.97	804.22	843.68	889.03

Franchise Business Output Growth: January 2015 Forecast



Franchise Businesses' Contribution to GDP

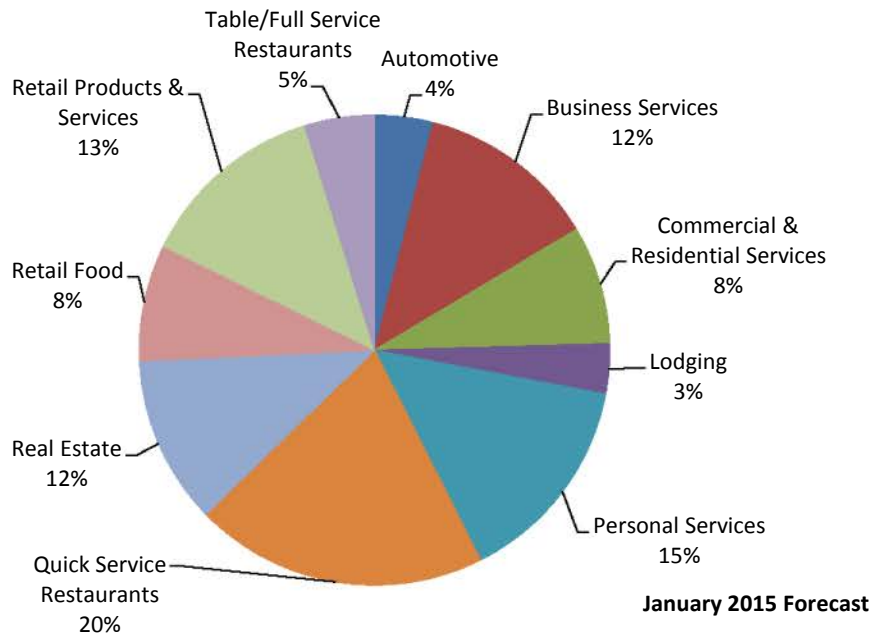
By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Economics developed estimates of the contribution to U.S. GDP by the franchise sector as a whole. We estimate that franchise businesses accounted for approximately 3% of U.S. GDP or a total of \$495 billion in 2014. Based on our employment and output forecasts for franchising in 2015, we project that nominal GDP of the franchise sector will increase by 5.1% to \$521 billion. This will exceed the growth of total U.S. GDP in nominal dollars, which is projected at 4.9%.

Distribution by Sector

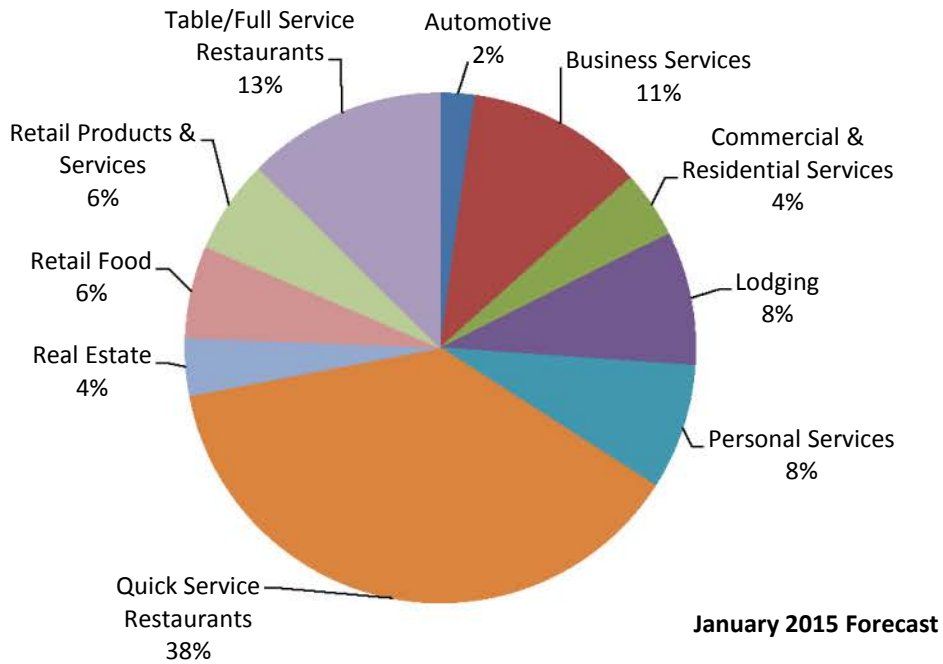
This section focuses on the distribution of the 10 franchise business lines in terms of the number of establishments, employment, and output, based on our forecast for 2015. The quick service restaurants business line is the largest category, with 20% of all franchise establishments, and accounts for 38% of franchise employment. This business line is expected to contribute 26% of total output in 2015. Second in size in terms of the number of establishments is the personal services line, with 15% 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 19% of the total.

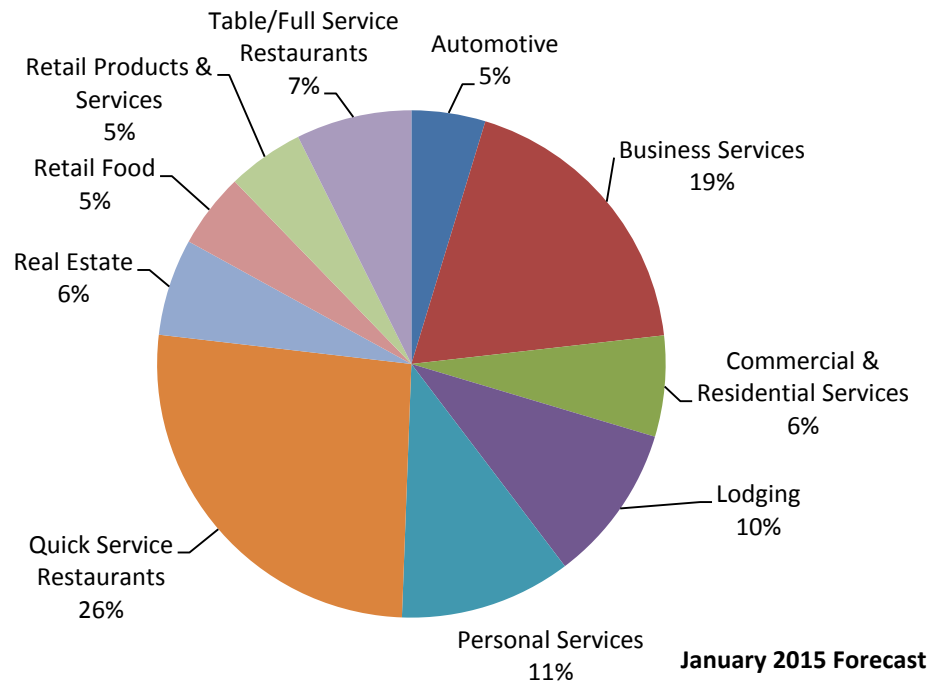
Establishments Distribution by Sector 2015



Employment Distribution by Sector 2015



Output Distribution by Sector 2015



Output per Employee

On average, output per employee in franchise businesses is estimated to be \$98,452 per worker in 2014 and is forecast to grow to \$100,843 in 2015. This output-per-worker ratio varies within the 10 franchise business lines from a low of \$59,040 (table/full service restaurants) to a high of \$216,850 (automotive) in 2015.

The average output per worker in the franchise sector has grown since 2007, and will continue to rise through 2015, 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 and 2014 with increases of 2.1% and 2.0%, and is forecast to accelerate to 2.4% growth in 2015. The retail products & services business line is the fastest-growing segment in terms of output per worker, with a compound annual growth rate of 2.7% during the period 2007-2014. The real estate sector had the slowest growth of output per worker over this period.

Franchise Productivity by Business Line, 2008-2015: January 2015 Forecast

(Dollars per worker)	Estimates						Forecast (January 2015)	
	2008	2009	2010	2011	2012	2013	2014	2015
Automotive	181,720	178,197	193,404	204,158	208,793	210,635	213,315	216,850
<i>Percent change</i>		-1.9%	8.5%	5.6%	2.3%	0.9%	1.3%	1.7%
Business Services	140,397	144,563	151,710	155,461	157,895	160,033	162,674	166,476
<i>Percent change</i>		3.0%	4.9%	2.5%	1.6%	1.4%	1.7%	2.3%
Commercial & Residential Services	135,461	134,835	138,416	141,002	144,329	147,295	149,452	152,796
<i>Percent change</i>		-0.5%	2.7%	1.9%	2.4%	2.1%	1.5%	2.2%
Lodging	97,543	93,477	100,190	105,273	108,397	111,710	115,634	119,687
<i>Percent change</i>		-4.2%	7.2%	5.1%	3.0%	3.1%	3.5%	3.5%
Personal Services	118,627	120,430	124,994	129,528	131,943	133,234	134,651	137,792
<i>Percent change</i>		1.5%	3.8%	3.6%	1.9%	1.0%	1.1%	2.3%
Quick Service Restaurants	58,707	60,102	62,273	63,514	64,745	66,629	68,180	69,832
<i>Percent change</i>		2.4%	3.6%	2.0%	1.9%	2.9%	2.3%	2.4%
Real Estate	154,972	151,469	145,293	145,151	153,254	159,996	164,711	170,651
<i>Percent change</i>		-2.3%	-4.1%	-0.1%	5.6%	4.4%	2.9%	3.6%
Retail Food	71,730	68,074	72,879	76,984	78,347	79,811	80,899	82,004
<i>Percent change</i>		-5.1%	7.1%	5.6%	1.8%	1.9%	1.4%	1.4%
Retail Products & Services	67,368	68,733	72,920	76,437	78,470	79,660	81,053	82,626
<i>Percent change</i>		2.0%	6.1%	4.8%	2.7%	1.5%	1.7%	1.9%
Table/Full Service Restaurants	49,042	49,477	51,248	52,805	55,231	56,098	57,523	59,040
<i>Percent change</i>		0.9%	3.6%	3.0%	4.6%	1.6%	2.5%	2.6%
Total	86,721	86,445	89,827	92,401	94,497	96,501	98,452	100,843

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 & 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 & 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).