Franchise Business Economic Outlook: March 2012

Prepared for:

International Franchise Association Educational Foundation

By:

IHS Global Insight

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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 the outlook for the franchise sector of the U.S. economy in 2012 prepared for the International Franchise Association Educational Foundation by IHS Global Insight. Since our December 2011 forecast report was prepared there have been a number of positive economic releases – including three successive employment reports showing over 200,000 new jobs per month – which point to the possibility of a more sustained economic recovery. However, negative factors that could restrain an economic rebound remain. Gasoline prices have risen sharply, creating a drag on consumer demand, and weak global growth limits the possibility of gains from rising exports. Thus, on balance, our view of the growth outlook for the year has changed little. Our forecast now shows real GDP growth in 2012 just above 2 percent – a small upward adjustment from our December forecast.

We continue to expect only weak growth of consumer spending in 2012, although there are signs of an improved outlook in some areas where franchising is strong, such as food services and accommodations. Our forecast of the number of new businesses to be created economy-wide has been reduced slightly and with it expectations for growth of the number of new franchise establishments. However, our forecasts of employment and output for the franchise sector in 2012 show little change. To summarize:

- We expect the number of franchise establishments in the United States to increase by 1.6 percent in 2012 (our December forecast showed 1.9 percent growth).
- Employment in franchise establishments in 2011 was revised up slightly to show a 2.0 percent gain. We continue to expect 2.1 percent employment growth in 2012.
- The output of franchise establishments in nominal dollars in 2011 was revised down slightly to show a 4.9 percent gain. We continue to expect 5.0 percent growth in 2012.

Franchise Business Economic Outlook

			Estimates			Forecast
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Establishments	770,835	774,016	746,646	740,098	736,345	747,883
Percent change		*0.4%*	*-3.5%*	*-0.9%*	*-0.5%*	*1.6%*
Employment ('000)	7,994	8,028	7,800	7,780	7,936	8,099
Percent change		*0.4%*	*-2.8%*	*-0.3%*	*2.0%*	*2.1%*
Output ($Billions)	675	703	683	707	742	779
Percent change		*4.2%*	*-2.8%*	*3.6%*	*4.9%*	*5.0%*
GDP ($Billions)	403	410	405	418	439	460
Percent change		*1.8%*	*-1.2%*	*3.3%*	*4.8%*	*4.9%*

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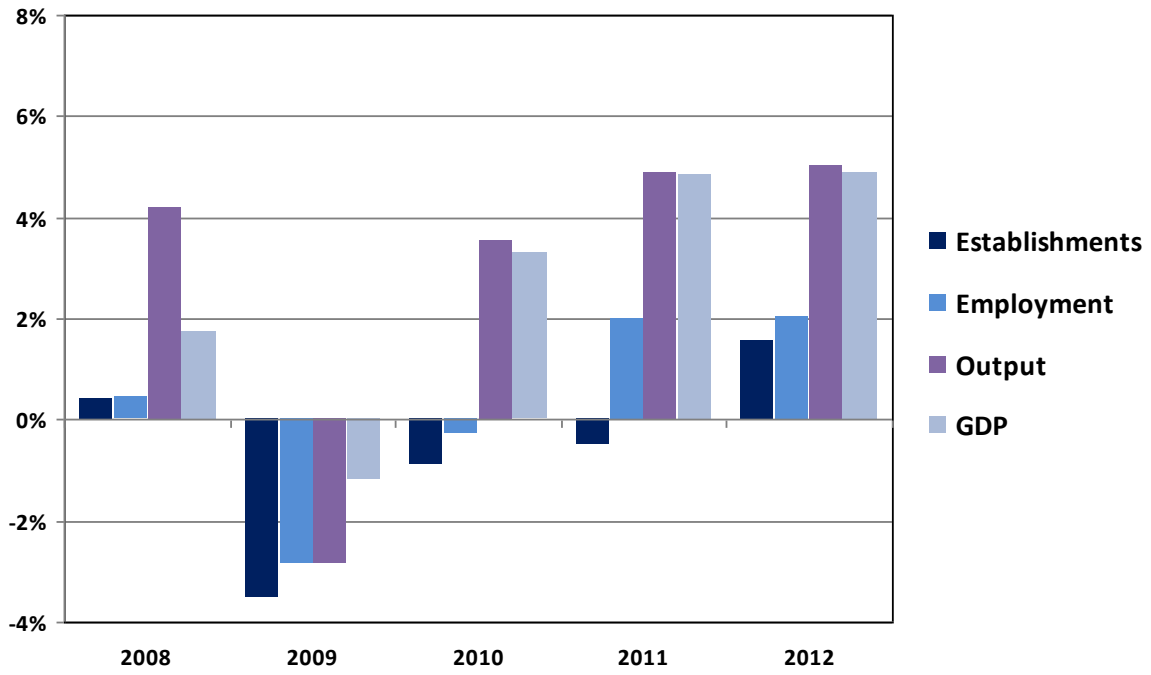
The gross domestic product (GDP) of the franchise sector is projected to increase to $460 billion in 2012 (unchanged from our December forecast). This is approximately 3.0 percent of U.S. GDP in nominal dollars.

Franchise Business Growth by Year, 2008-12



Our forecast of continued modest growth in employment and output in the franchise sector in 2012 is consistent with IHS Global Insight's overall macroeconomic outlook.

- U.S. real GDP will increase 2.1 percent in 2012, a small acceleration from the 1.7 percent growth of 2011.
- Consumer spending is expected to grow 1.9 percent in 2012 after 2.2 percent growth in 2011.

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 2012 ranging from 6.0 percent in personal services to only 3.7 percent in retail food. Other highlights of the industry forecast are:

- Business services will rank first in franchise employment growth at 3.3 percent and third and fourth, respectively, in growth of the number of establishments and employment.
- In addition to being the growth leader in output, personal services will rank second in growth of the number of establishments and third in employment growth.

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- Quick-service restaurants – the largest franchise business line – will rank fourth in the growth of new establishments but will see growth rates of output and employment that are near the franchise sector average.

Franchise Business Economic Outlook: 2012

	Establishments		Employment		Output ($Billions)	
	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*
Automotive	30,303	*1.2%*	181,118	*2.0%*	37.60	*3.8%*
Business Services	91,949	*2.1%*	911,961	*3.3%*	144.70	*5.4%*
Commercial & Residential Services	60,787	*1.0%*	345,876	*1.3%*	51.16	*5.9%*
Lodging	25,711	*2.6%*	704,259	*1.5%*	76.33	*5.1%*
Personal Services	107,915	*2.2%*	651,207	*2.4%*	87.20	*6.0%*
Quick Service Restaurants	151,150	*2.1%*	3,012,778	*2.0%*	201.73	*4.7%*
Real Estate	86,345	*1.6%*	295,147	*1.5%*	45.52	*5.0%*
Retail Food	61,047	*0.8%*	486,595	*2.5%*	37.80	*3.7%*
Retail Products & Services	96,562	*0.1%*	481,425	*1.7%*	38.35	*5.5%*
Table/Full Service Restaurants	36,113	*1.7%*	1,028,955	*1.8%*	58.69	*4.4%*
TOTAL	**747,883**	***1.6%***	**8,099,321**	***2.1%***	**779**	***5.0%***

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INTRODUCTION

This report presents an update of IHS Global Insight's forecast of the franchise sector of the U.S. economy in 2012 prepared for the International Franchise Association Educational Foundation.

The following section presents a summary of IHS Global Insight's current forecast for the U.S. economy in 2012, 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 2007–11 and updated forecasts for 2012 of:

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

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

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

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

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

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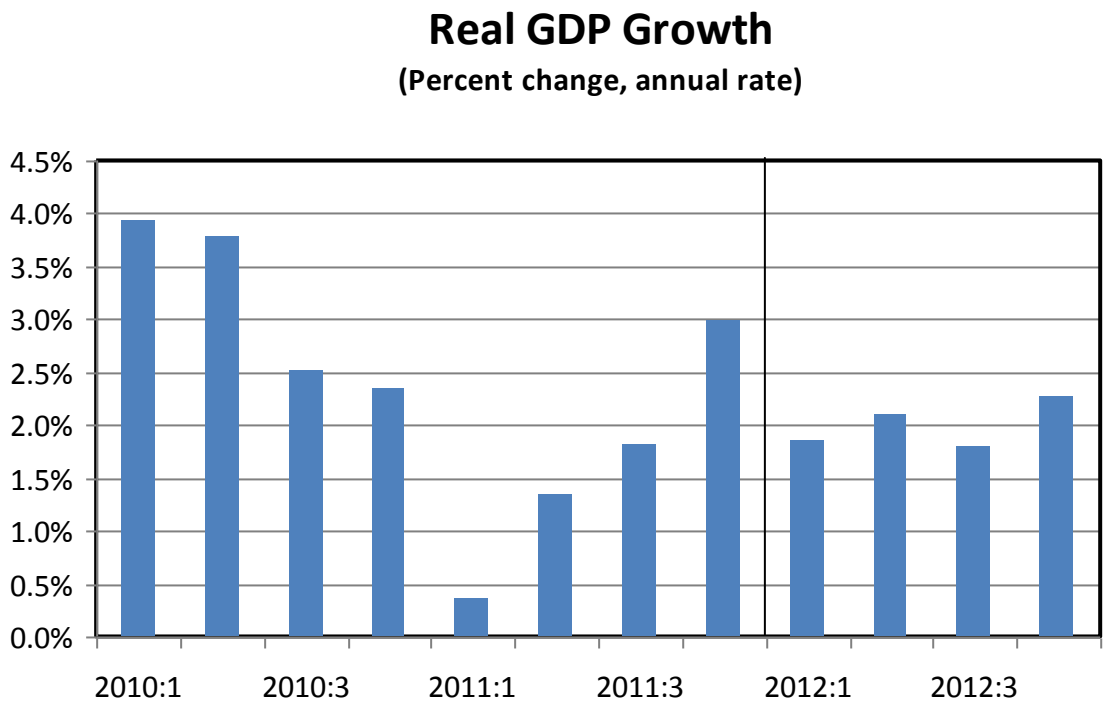
THE ECONOMIC OUTLOOK

A series of positive economic reports recently – most notably employment reports showing jobs growth of over 200,000 in each of the last three months – have raised hopes that an acceleration of growth may be underway. However, negative factors that could restrain this rebound remain. The price of oil – and gasoline prices – have risen sharply, and this will create a drag on consumer demand, offsetting some of the benefits of faster job growth. As we projected at the time of our December 2011 forecast report, real GDP growth is slowing in the first quarter – largely due to the fact that the change in inventories will be roughly neutral for growth, after adding 1.9 percentage points to the fourth quarter. Nonetheless, our forecast for full-year growth in 2012 – at 2.1 percent – is up slightly from the 1.9 percent growth projected in our December forecast.



With the job market beginning to show greater signs of life, we have raised our outlook for employment growth for the year slightly. We now expect 2.1 million jobs to be added from the fourth quarter of 2011 to the fourth quarter of 2012 – a 1.5 percent gain for the year. What that does to the unemployment rate depends on the labor-force response. If rising employment fails to attract job seekers back into the labor force, the unemployment rate will keep falling sharply, but our forecast assumes faster labor-force growth, and as a result the unemployment rate only edges down only a little further to 8.1 percent by year-end, from 8.3 percent in January and February.

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Revised data from the Bureau of Labor Statistics show job gains were greater last year in Accommodations and Food Services industry, where franchising plays a large role. Job growth in the industry in 2011 is now estimated at 2.5 percent, and we have boosted our forecast to show 2.7 percent growth this year. Our forecasts of personal consumption expenditures on Food Services and Accommodations have also been shifted up in comparison with our December 2011 report.

However, our forecast of total consumer spending in 2012 still shows only modest growth. Consumers still face too many negatives to allow a robust spending recovery – high debt burdens, house prices that have not yet hit bottom, price increases that have outpaced wage growth, and a lack of confidence in the government's ability to make things better. Overall, we expect consumer spending growth of 1.9 percent in 2012, down slightly from 2.2 percent in 2011, and not a powerful driver of recovery.

The housing market is also showing more positive signs. Pent-up demand for housing is building as young adults stay at home, and at some point (helped by job growth) will spark a major revival in housing activity. Our forecast of existing home sales in 2012 now shows a 10 percent gain, which should provide more support for the growth of franchise businesses in the real estate sector. We expect a modest improvement in housing starts during 2012 – concentrated in the multifamily segment, where pent-up demand is already helping the rental market.

The Economic Outlook for 2012

(Annual percent change)	2010	2011	2012
Real Gross Domestic Product	3.0	1.7	2.1
Total Nonfarm Employment	-0.7	1.2	1.5
Accommodations and Food Services	-0.2	2.5	2.7
Personal Services	-0.7	0.2	1.0
Real Disposable Income	1.8	1.3	1.2
Real Personal Consumption	2.0	2.2	1.9
Food Services	2.5	3.7	2.9
Accommodations	6.9	5.2	3.6
Personal Services	0.0	0.1	1.9
Retail Sales (nominal dollars)	6.4	7.7	5.2
Existing Home Sales	-3.4	2.4	9.9
Com'l & Indus. Loans Outstanding, Com'l.Banks	-13.6	5.7	9.9

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OUTLOOK FOR FRANCHISED BUSINESS

Outlook Summary

Although employment growth has picked up and prospects have brightened for some industries, there has been nothing to alter the basic pattern of IHS Global Insight's industry forecast since our December 2011 report for IFA. The uncertainty created in the global economy by Eurozone debt problems has abated, but much of Europe is in recession and growth is slowing in China – hindering any export-led expansion in the United States. Businesses have begun to expand their labor force after dramatic cuts during the recession, but output growth has not kept pace with recent hiring and productivity growth is lagging.

IHS Global Insight continues to envision modest growth of business formation in 2012. Our forecast of total business formation in the U.S. in 2012 has been revised downward slightly since our December report. Expected growth of the number of franchise establishments in 2012 (at 1.6 percent) is also slightly lower, but remains in line with the economy-wide growth rate. The forecasts of other major indicators of franchise business activity show little change.

Franchise Business Economic Outlook

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The following graph clearly exhibits how the franchise economy (and the U.S. economy in general) follows the path of growth and recovery after an economic slowdown. While output (sales) bounces back quickly, businesses will continue to control costs and avoid risks for an extended period after a recession. Since most franchise businesses are service- and trade-oriented entities, given our forecast of consumer-spending growth that continues to be sub-par for an economic recovery, we expect only modest growth in franchise business formation and employment in 2012.

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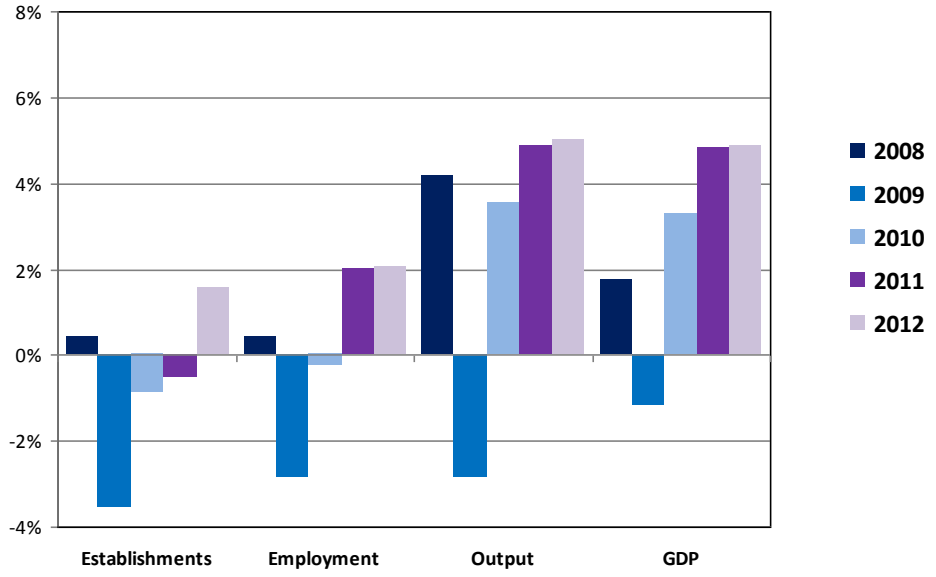
Franchise Business Growth, 2008-12



To present the franchise sector in the larger context of the U.S. economy, it is helpful to review IHS Global Insight's outlook for 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: Light vehicle sales finished 2011 at 12.7 million units, an improvement over 2010 but still way below pre-recession levels. Sales averaged roughly 16 million units for a string of years before collapsing to 10.4 million in 2009. There will be continued modest gains in employment and income in 2012, and replacement pressures are mounting, which will allow light vehicle sales to gain additional ground. Sales are pegged at 13.6 million units in 2012. An improving economy, even a modestly improving one, should translate into increased driving activity, which should bolster activity in the auto parts and supply arena. However, gains on the driving front will be limited by higher gasoline prices.

Commercial and Residential Services: There remains little chance of a strong 2012 employment turnaround in this market, while prospects for growth in the value of output are more promising. Vacancy rates in retail, industrial and commercial building have come down but remain stubbornly high by historical standards. Investments are still geared to improving productivity and efficiency, but there are signs of life emerging in new building. Residential construction is also expected to be positive. Employment opportunities among special trade contractors should turn slightly positive this year as a result. Building services and waste management should show some signs of life as existing business not only remain supportive but also pick up somewhat, and new business improves marginally.

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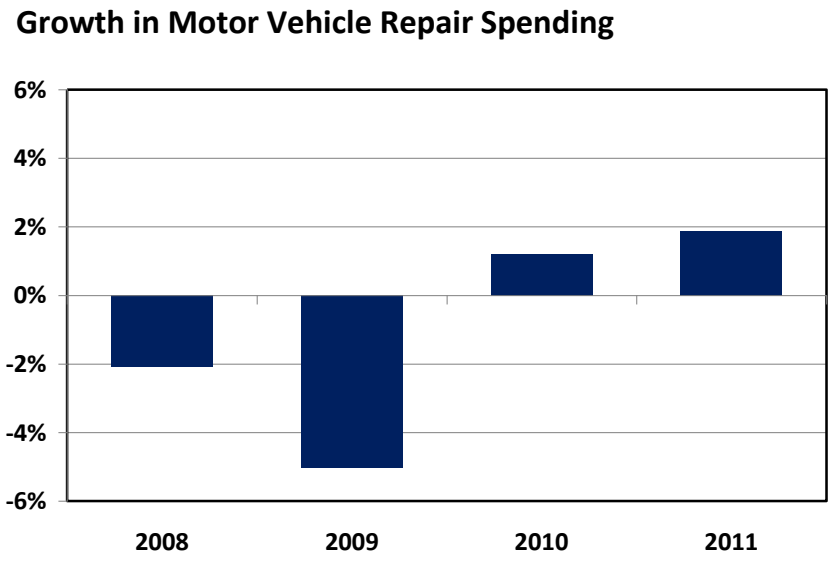

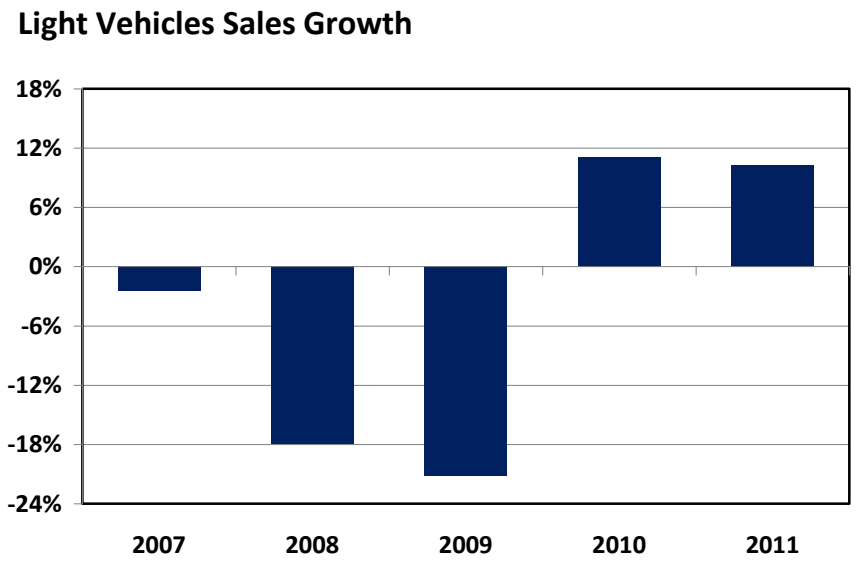

Quick Service Restaurants: In general, as the economy slowly improves, consumers are leaning less toward lower-priced restaurants. In 2011 total sales of full service restaurants began to show stronger growth, increasing 8.2 percent for the year, while quick-service restaurant sales grew 4.6 percent. The modest growth we expect in employment and personal income in 2012 should support some additional customer traffic for restaurants in general, as the formerly unemployed return to the workforce. We expect total spending on food away from home to grow at a slightly stronger pace than it did in 2011. Quick service restaurants can expect another year of modest growth in 2012, with overall sales growth again in the 4-5 percent range.

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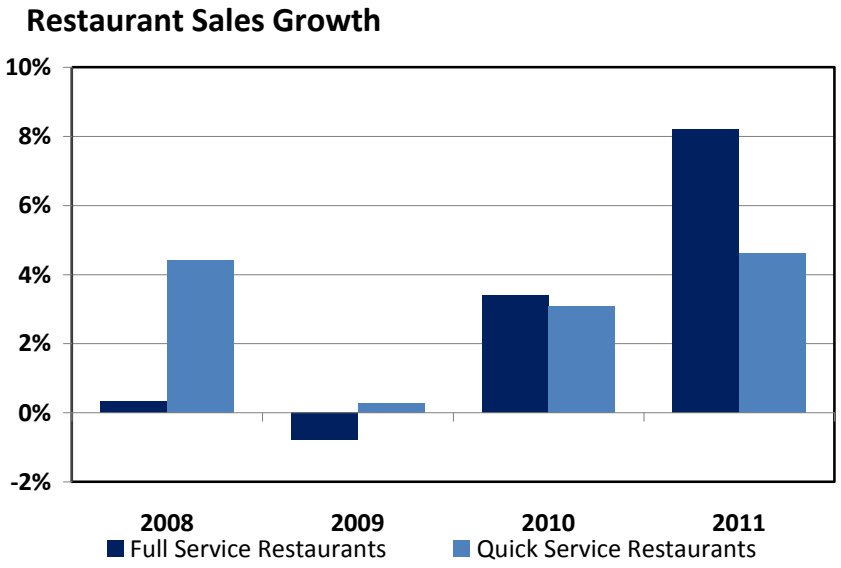
Table/Full Service Restaurants: The acceleration in full service restaurant sales in 2011 may be due to two factors. Business travel spending has recovered following sharp cutbacks during the recession, and economic conditions are improving for middle and upper income households who have a higher propensity to dine at full service restaurants. Recovery of the stock market has increased consumer confidence among those in higher income brackets, and employment growth over the last year has been strongest in professional and managerial occupations. We expect the growth in full service restaurant sales to outpace quick-service restaurant sales again in 2012, but the gap in growth rates will narrow. We estimate that sales of full service restaurant in the franchise-operated sector have not accelerated to the same extent as non-franchise restaurants, however, and we expect franchise-operated full service restaurants to grow at about the pace of franchise quick-service restaurants in 2012.



Retail Food: Spending on food and beverages advanced by close to 6.0 percent in 2011. In real terms, spending on food and beverages is relatively inelastic. During tough economic times, consumers adjust their product mix and migrate towards lower-priced sales items and store brands and increase their use of coupons. Competition between traditional food and beverage stores and grocery chains and the likes of Wal-Mart, Target, Costco and other general merchandise stores will remain intense. Lower-priced store brands will remain attractive to consumers who, during the depths of the recession, found them not only cheaper than national brands, but also equal in taste and quality. Lower input costs, except for beef and beef products, will keep a lid on food prices, which may induce some consumers to move their product purchases back toward their pre-recession mix. Bottom line: food and beverage retailers can expect nominal sales growth of 3.5-4.0 percent in 2012.

Lodging: Consumer spending on lodging increased by 8.4 percent in both 2010 and 2011. Corporate lodging outlays rose as sales and profit gains supported more liberal travel budgets. The prospects for business travel and lodging spending remain bright, as Corporate America remains flush with cash and aggressively seeking sales opportunities. However, the prospects for consumer travel in 2012 are

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somewhat mixed, as the support from modest gains in employment and income will be offset to some degree by high gasoline prices. Consumer spending on lodging is slated to increase by 4.3 percent this year.

Real Estate: Signs of life are emerging on the real estate front. We expect sales of new homes to increase by 17 percent in 2012. Sales of existing single-family homes, coops and condos are expected to be up 10 percent. On the non-residential side, vacancy rates for retail, commercial, and industrial properties remain high by historic standards, but have been coming down as the economy continues to gain ground. There are some signs of life on the new construction front as well. The percentage gains we anticipate in 2012 will look impressive, but will leave the industry still well below its pre-recession level.

Retail Products and Services: As 2012 unfolds, consumer confidence has improved and the prospects for employment and income suggest a decent year ahead for retailing. Still, growth of 1.5 percent in employment and 1.2 percent in real disposable income will not be enough to generate real strength in retailing activity. Within the retail sector, the fastest growth will occur among non-store web-based retailers. Long-suffering building materials, furniture and home furnishings, and electronics and appliance retailers will finally have something to cheer about in 2012. Among general merchandise retailers, warehouse clubs and superstores and dollar stores will lead the way. Traditional department stores are likely to continue to lose ground as consumers continue to favor lower prices.

Business Services: Business-services spending rebounded in 2010–11 supported by expanding sales activity and an improving profits climate. More of the same is expected in 2012 as Corporate America experiences additional sales and profit increases. There is even hope that small businesses will lift their spending on services as confidence levels have been improving.

Personal Services: Consumer spending on personal services lagged during the recession as consumers turned to do-it-yourself options. But spending on personal services rebounded in 2011 and is expected to continue to show solid growth in 2012. Two categories of personal services that are identified individually in the nation's Personal Consumption Expenditures accounts are personal care services, where spending increased 4.1 percent in 2011, and laundry & dry cleaning, which was up 3.3 percent after a three-year decline. Spending on home health care was up 2.6 percent. Franchise-operated businesses had above average growth rates in several personal service categories and are expected to continue to show strong growth in 2012.

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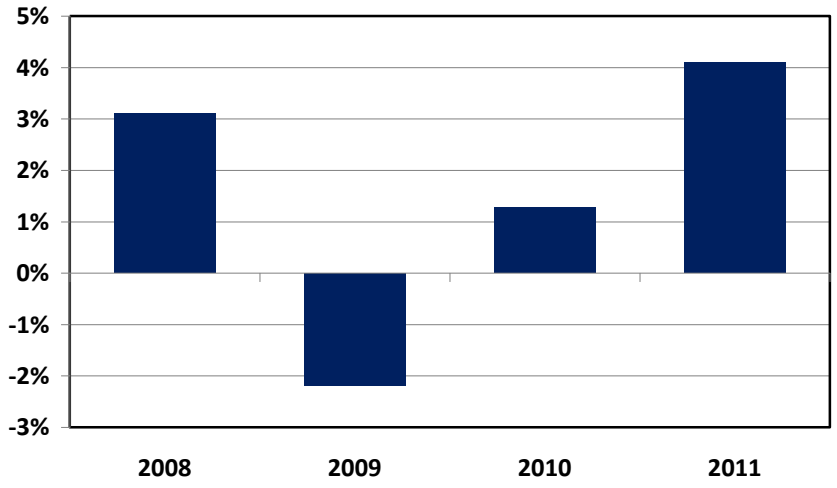
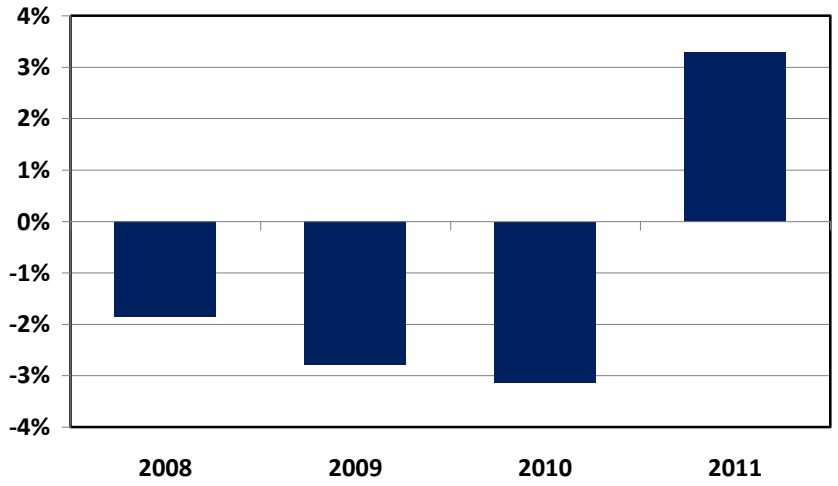
Growth in Personal Care Service Spending



Growth in Laundry & Dry Cleaning Spending



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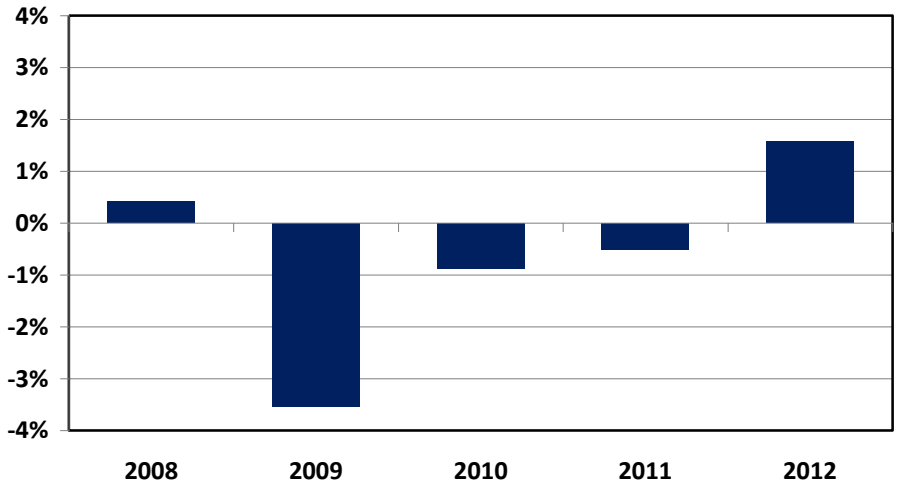
Establishments by Business Line: 2007–12

The total number of franchise establishments across the 10 business-format franchise lines is expected to increase 1.6 percent in 2012. This increase will be above the growth of total (non-franchise as well as franchise) establishments in those business lines (1.5 percent), and it will be nearly 0.3 percent above total business formation in the U.S. economy. 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 improved economic conditions facilitate business formation, with franchise activity more focused in the services sectors of the economy the growth rate is slightly above the U.S. average. The recent IFA Franchise Business Leader Survey reports that over 80 percent of franchisors say that limitations on access to credit continue to have a negative impact on their ability to expand. Nevertheless, the expected gain is welcome news following three consecutive years of decline from 2009 to 2011.

Franchise Business Establishments Growth



Most of the 10 business-format franchise lines experienced declines in the number of establishments during the 2009–2011 period. In 2009, we estimate that the industry total of establishments (franchises and non-franchises) declined in each of the 10 industries where franchise businesses are concentrated. Business Services and Real Estate led the way, each falling more than 6.5 percent in 2009.

The decline in 2010 was more muted, and the total for the 10 franchise industries declined by 0.9 percent. In 2010, only one of the 10 franchise business lines experienced growth in establishments. Table/Full Service Restaurants inched forward at 0.2 percent. All other business lines slowed somewhat, led by a 2.5 percent drop in Real Estate establishments.

In 2011, we estimate that 3 of the 10 business-format franchise lines saw an expansion of business establishments. Automotive, Business Services and Retail Food all saw moderate gains of close to 1 percent, whereas Commercial & Residential Services, Real Estate and Lodging each saw declines of close to 1.5 percent.

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All 10 business-format lines are expected to grow modestly in 2012. Lodging will be the growth leader, expanding more than 2.5 percent, while Business Services, Personal Services and Quick Service Restaurants are all expected to grow more than 2.0 percent.

Franchise Establishments by Business Line, 2007-12

	Estimates					Forecast
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Automotive	31,307	31,653	30,012	29,687	29,955	30,303
Percent change		*1.1%*	*-5.2%*	*-1.1%*	*0.9%*	*1.2%*
Business Services	102,370	96,289	89,691	89,147	90,035	91,949
Percent change		*-5.9%*	*-6.9%*	*-0.6%*	*1.0%*	*2.1%*
Commercial & Residential Services	64,715	65,325	62,650	61,272	60,169	60,787
Percent change		*0.9%*	*-4.1%*	*-2.2%*	*-1.8%*	*1.0%*
Lodging	25,830	26,572	25,588	25,410	25,070	25,711
Percent change		*2.9%*	*-3.7%*	*-0.7%*	*-1.3%*	*2.6%*
Personal Services	107,428	110,696	106,510	106,100	105,545	107,915
Percent change		*3.0%*	*-3.8%*	*-0.4%*	*-0.5%*	*2.2%*
Quick Service Restaurants	150,291	151,887	150,316	149,547	147,999	151,150
Percent change		*1.1%*	*-1.0%*	*-0.5%*	*-1.0%*	*2.1%*
Real Estate	96,848	94,599	88,372	86,153	84,977	86,345
Percent change		*-2.3%*	*-6.6%*	*-2.5%*	*-1.4%*	*1.6%*
Retail Food	60,935	62,247	60,374	60,173	60,583	61,047
Percent change		*2.2%*	*-3.0%*	*-0.3%*	*0.7%*	*0.8%*
Retail Products & Services	94,966	98,527	97,519	96,921	96,504	96,562
Percent change		*3.7%*	*-1.0%*	*-0.6%*	*-0.4%*	*0.1%*
Table/Full Service Restaurants	36,145	36,221	35,614	35,688	35,507	36,113
Percent change		*0.2%*	*-1.7%*	*0.2%*	*-0.5%*	*1.7%*
Total	**770,835**	**774,016**	**746,646**	**740,098**	**736,345**	**747,883**

Employment by Business Line: 2007–12

In conjunction with the decline in the number of franchise establishments in 2009, all 10 business-format franchise lines experienced a reduction in employment. Nearly 230,000 jobs were lost (a 2.8 percent decline) by the franchise sector, compared with a 4.5 percent drop for the overall U.S. economy in 2009. The Business Services group experienced the largest decline, losing more than 65,000 jobs (6.8 percent). Real Estate and Automotive also saw substantial jobs losses.

Four of 10 business-format lines rebounded to post small gains in employment in 2010. Retail Products & Services showed the largest employment growth, advancing 1.0 percent for the year. Commercial & Residential Services along with Business Services and Real Estate continued to record the largest employment losses.

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Franchise employment growth closely tracked overall employment growth by industry in 2011, and we expect this pattern to continue in 2012. Total U.S. employment in the 10 industries where franchises are concentrated grew 2.1 percent in 2011, while franchise employment grew 2.0 percent. In 2012 we project franchise employment growth of 2.1 percent, matching the industry-wide average growth rate for the 10 industries.

Lodging and Quick Service restaurants surpassed all other business format lines in growth in 2011, with increases of 2.8 percent and 2.5 percent, respectively. Business Services will be the growth leader in 2012, expanding at 3.3 percent, while employment will grow at about 2.5 percent in Retail Food and Personal Services.

Franchise Employment Business Line, 2007-12

	Estimates					Forecast
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Automotive	181,845	184,826	174,889	173,546	177,550	181,118
Percent change		*1.6%*	*-5.4%*	*-0.8%*	*2.3%*	*2.0%*
Business Services	1,016,222	955,080	889,721	874,087	882,828	911,961
Percent change		*-6.0%*	*-6.8%*	*-1.8%*	*1.0%*	*3.3%*
Commercial & Residential Services	354,940	357,475	343,531	336,317	341,437	345,876
Percent change		*0.7%*	*-3.9%*	*-2.1%*	*1.5%*	*1.3%*
Lodging	677,744	696,878	671,702	674,953	693,852	704,259
Percent change		*2.8%*	*-3.6%*	*0.5%*	*2.8%*	*1.5%*
Personal Services	623,315	642,204	618,069	622,864	635,944	651,207
Percent change		*3.0%*	*-3.8%*	*0.8%*	*2.1%*	*2.4%*
Quick Service Restaurants	2,888,554	2,919,701	2,887,550	2,882,638	2,954,704	3,012,778
Percent change		*1.1%*	*-1.1%*	*-0.2%*	*2.5%*	*2.0%*
Real Estate	323,974	316,969	295,954	290,329	290,785	295,147
Percent change		*-2.2%*	*-6.6%*	*-1.9%*	*0.2%*	*1.5%*
Retail Food	472,945	483,138	468,868	468,172	474,726	486,595
Percent change		*2.2%*	*-3.0%*	*-0.1%*	*1.4%*	*2.5%*
Retail Products & Services	452,929	468,973	464,036	468,883	473,572	481,425
Percent change		*3.5%*	*-1.1%*	*1.0%*	*1.0%*	*1.7%*
Table/Full Service Restaurants	1,001,184	1,003,208	985,999	988,044	1,010,906	1,028,955
Percent change		*0.2%*	*-1.7%*	*0.2%*	*2.3%*	*1.8%*
Total	**7,993,651**	**8,028,452**	**7,800,319**	**7,779,833**	**7,936,304**	**8,099,321**

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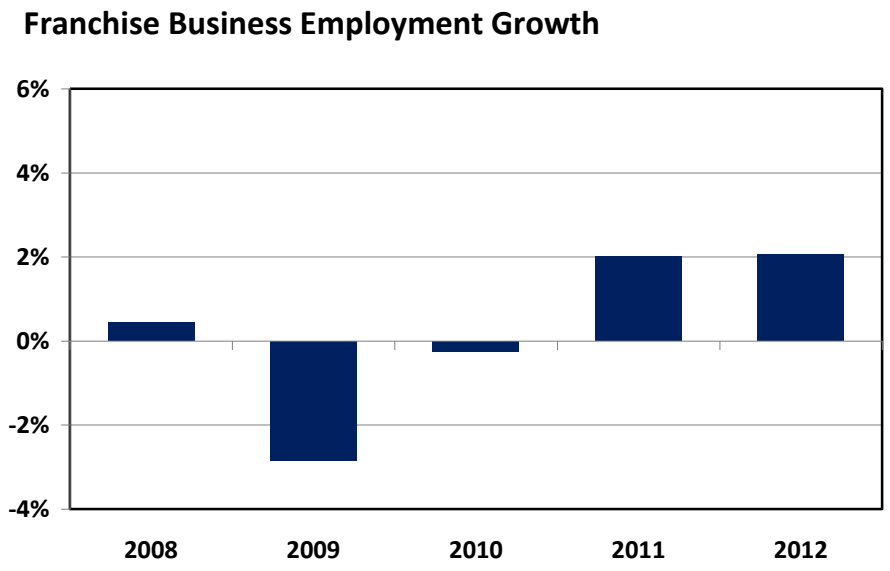

Output by Business Line: 2007–12

Although the number of franchise establishments and franchise employment was still flat to declining in 2010, we estimate that nominal dollar output (sales) increased in 9 of the 10 franchise segments as existing businesses tried to do more with less staffing. All 10 franchise segments posted output gains in 2011, led by Automotive and Lodging.

In 2012, we expect Personal Services to lead all franchise segments with a growth rate of 6.0 percent, followed by Commercial and Residential Services at 5.9 percent. Sales of the Retail Food business line were boosted by rising food prices in 2011. With more moderate price food price increases expected in 2012, the sales of this business line will slow to only 3.7 percent. The two restaurant franchise segments will have growth rates of 4-5 percent in 2012 as they did in 2011.

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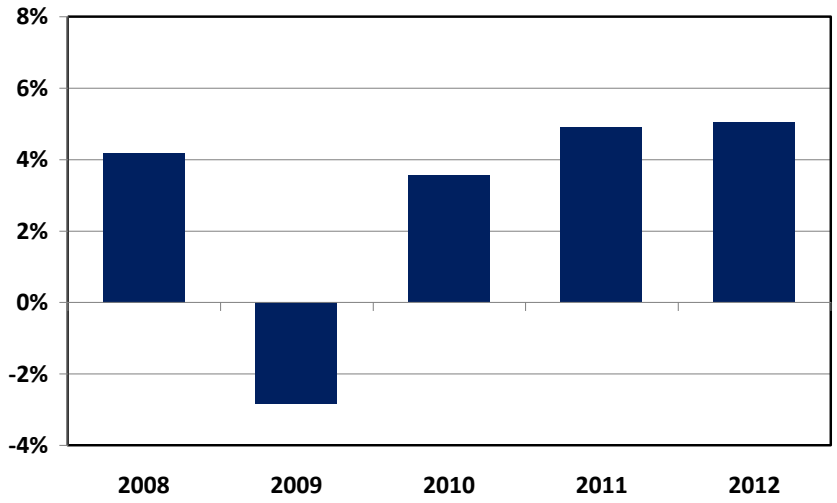
Franchise Business Output Growth



Franchise Output by Business Line, 2007-12

	Estimates					Forecast
(in $Billions)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Automotive	30.21	33.59	31.16	33.50	36.23	37.60
Percent change		*11.2%*	*-7.2%*	*7.5%*	*8.1%*	*3.8%*
Business Services	131.77	134.09	128.62	132.52	137.29	144.70
Percent change		*1.8%*	*-4.1%*	*3.0%*	*3.6%*	*5.4%*
Commercial & Residential Services	45.00	48.42	46.32	46.59	48.31	51.16
Percent change		*7.6%*	*-4.3%*	*0.6%*	*3.7%*	*5.9%*
Lodging	65.26	67.98	62.79	67.49	72.62	76.33
Percent change		*4.2%*	*-7.6%*	*7.5%*	*7.6%*	*5.1%*
Personal Services	74.29	76.18	74.43	77.85	82.22	87.20
Percent change		*2.5%*	*-2.3%*	*4.6%*	*5.6%*	*6.0%*
Quick Service Restaurants	164.67	175.62	178.80	184.39	192.68	201.73
Percent change		*6.7%*	*1.8%*	*3.1%*	*4.5%*	*4.7%*
Real Estate	52.62	49.12	44.83	42.65	43.34	45.52
Percent change		*-6.7%*	*-8.7%*	*-4.9%*	*1.6%*	*5.0%*
Retail Food	31.80	34.66	31.92	34.09	36.45	37.80
Percent change		*9.0%*	*-7.9%*	*6.8%*	*6.9%*	*3.7%*
Retail Products & Services	30.11	31.59	31.89	34.13	36.35	38.35
Percent change		*4.9%*	*1.0%*	*7.0%*	*6.5%*	*5.5%*
Table/Full Service Restaurants	48.79	51.53	52.06	53.90	56.22	58.69
Percent change		*5.6%*	*1.0%*	*3.5%*	*4.3%*	*4.4%*
Total	**674.54**	**702.78**	**682.83**	**707.12**	**741.72**	**779.10**

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Franchise Businesses' Contribution to GDP

By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Global Insight developed estimates of the contribution to U.S. GDP by the franchise sector as a whole. We estimate that franchise businesses account for approximately 3 percent of U.S. GDP, or a total of $439 billion in 2011. Based on our employment and output forecasts for franchising in 2012, we project that nominal GDP of the franchise sector will increase by 4.9 percent to $460 billion in 2012.

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 2012. 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 forecast to contribute 26 percent of total output in 2012. Second in size in terms of the number of establishments is the Personal Services line, with 14 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 close to 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 19 percent of the total.

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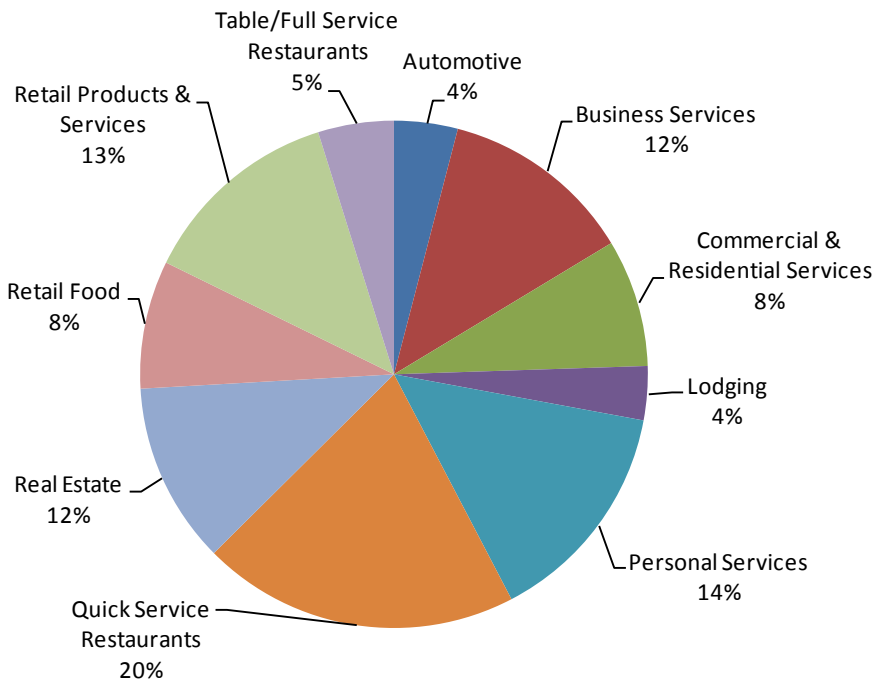
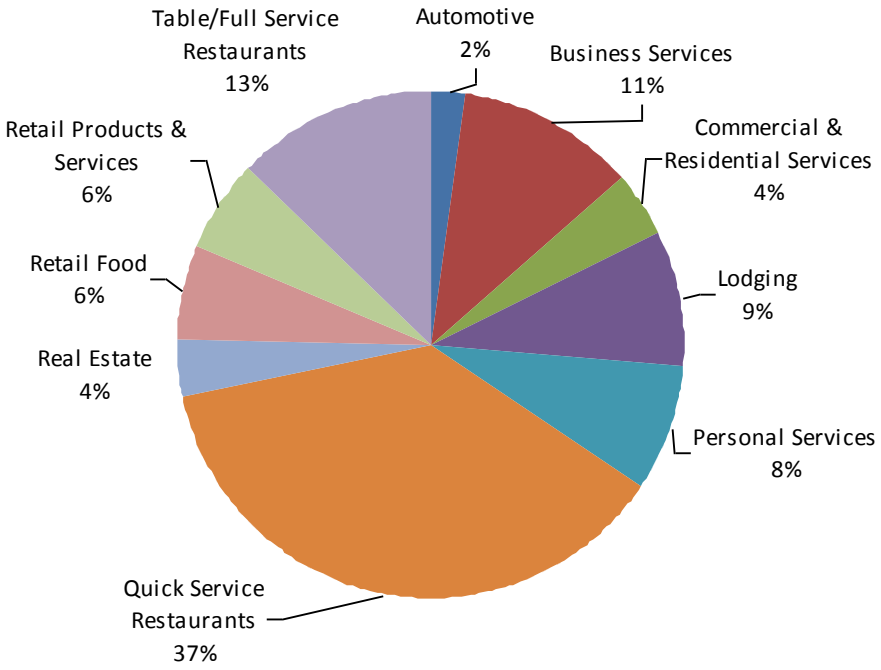
Establishments Distribution by Sector
2012



Employment Distribution by Sector
2012



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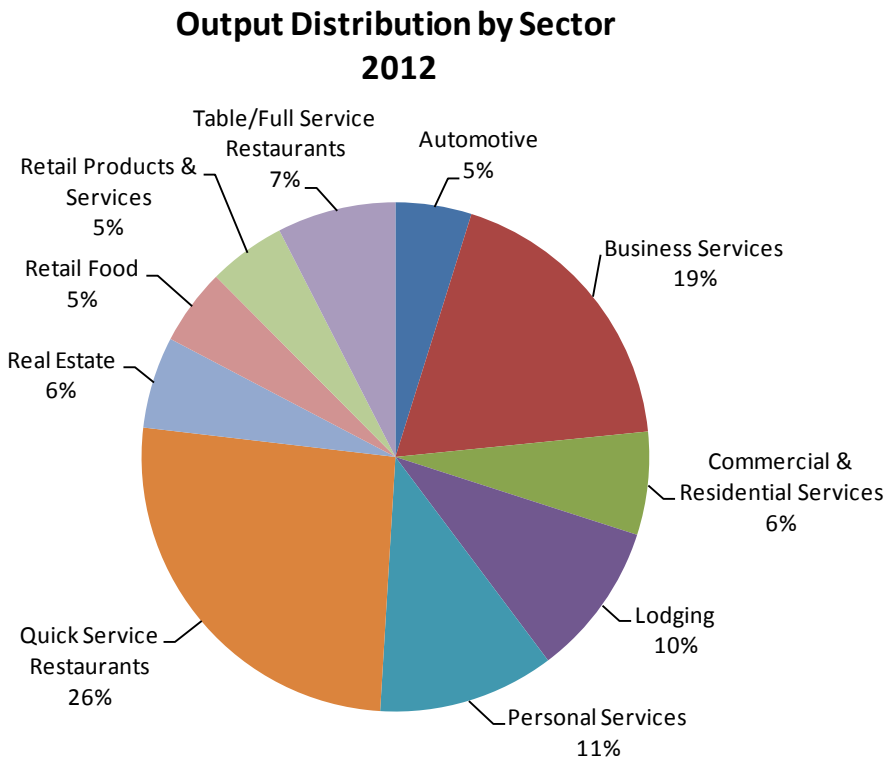

Output per Employee

On average, output per employee in franchise businesses is estimated to be $93,459 per worker in 2011 and forecast to grow to $96,193 in 2012. This output-per-worker ratio varies within the 10 franchise business lines from a low of $55,614 (Table/Full Service Restaurants) to a high of $204,031 (Automotive) in 2011.

The average output per worker in the franchise sector has grown since 2007, and is estimated to rise through 2012, increasing at a compound annual growth rate of 2.7 percent over the five-year period. 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 advanced 2.8 percent in 2011 and we expect a similar gain in 2012.

The Automotive and Business Services are the fastest-growing segments, with expected compound annual productivity gains of 4.6 percent and 4.1 percent, respectively, during the period 2007–12. The Real Estate sector has recovered the slowest, but is projected to achieve annual productivity gains of 1.5 and 3.5 percent in 2011 and 2012, respectively.

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Franchise Productivity by Business Line, 2007-12

	Estimates					Forecast
(Dollars per worker)	2007	2008	2009	2010	2011	2012
Automotive	166,120	181,720	178,197	193,044	204,031	207,612
Percent change		*9.4%*	*-1.9%*	*8.3%*	*5.7%*	*1.8%*
Business Services	129,668	140,397	144,563	151,610	155,513	158,674
Percent change		*8.3%*	*3.0%*	*4.9%*	*2.6%*	*2.0%*
Commercial & Residential Services	126,786	135,461	134,835	138,523	141,494	147,919
Percent change		*6.8%*	*-0.5%*	*2.7%*	*2.1%*	*4.5%*
Lodging	96,285	97,543	93,477	99,998	104,667	108,380
Percent change		*1.3%*	*-4.2%*	*7.0%*	*4.7%*	*3.5%*
Personal Services	119,192	118,627	120,430	124,994	129,294	133,902
Percent change		*-0.5%*	*1.5%*	*3.8%*	*3.4%*	*3.6%*
Quick Service Restaurants	57,009	60,151	61,921	63,964	65,211	66,960
Percent change		*5.5%*	*2.9%*	*3.3%*	*1.9%*	*2.7%*
Real Estate	162,432	154,972	151,469	146,908	149,048	154,214
Percent change		*-4.6%*	*-2.3%*	*-3.0%*	*1.5%*	*3.5%*
Retail Food	67,241	71,730	68,074	72,811	76,782	77,692
Percent change		*6.7%*	*-5.1%*	*7.0%*	*5.5%*	*1.2%*
Retail Products & Services	66,485	67,368	68,733	72,801	76,765	79,666
Percent change		*1.3%*	*2.0%*	*5.9%*	*5.4%*	*3.8%*
Table/Full Service Restaurants	48,736	51,362	52,797	54,555	55,614	57,042
Percent change		*5.4%*	*2.8%*	*3.3%*	*1.9%*	*2.6%*
Total	**84,384**	**87,536**	**87,538**	**90,891**	**93,459**	**96,193**

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APPENDIX

Composition of Franchise Business Lines

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

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

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

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

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

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

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

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

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

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

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Methodology

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

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

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

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

We also acquired and reviewed data from Dun & Bradstreet on the number of franchise businesses 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).

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