Franchise Business Economic Outlook for 2018

January Forecast

Prepared for:

International Franchise Association
Franchise Education and Research Foundation

By:

IHS Markit Economics

January 2018

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EXECUTIVE SUMMARY

This report presents an update of the outlook for the franchise sector of the US economy in 2017 and the outlook for 2018 prepared by IHS Markit Economics for the International Franchise Association's Franchise Education and Research Foundation (FERF).

The Bureau of Economic Analysis' estimate of third-quarter 2017 real GDP growth was revised down 0.1 percentage point, to 3.2%. Moreover, despite strong holiday retail sales, weaker than-expected data on trade and inventories decreased fourth-quarter growth by 0.1 percentage point, to an estimated 2.5%. Hence, 2017 ended on a softer note. However, the forecast for 2018–20 has been revised up modestly to reflect inclusion of the Tax Cuts and Jobs Act.

The Tax Cuts and Jobs Act (TCJA), among other things, cuts the corporate tax rate from 35% to 21%, while placing limits on deductions; extends bonus depreciation by five years, followed by a three-year phaseout period; and includes added tax deductions for certain pass-through business income. According to the Penn-Wharton Budget Model (PWBM), the effective tax rate for all industries will drop from 21.2% in 2017 to 9.2% in 2018, a 12.0-percentage-point difference, which narrows over time to 4.6 points by 2027, as some provisions expire. The real estate and rental and leasing industry will see the largest effective corporate tax rate drop, 15.9 percentage points; manufacturing's effective rate will drop only 6.7 percentage points initially. Rule of thumb: capital-intensive industries, such as agriculture and utilities, stand to gain the most from the new legislation.

Thus our real GDP growth in 2018 is now forecast at 2.7% and has been revised up for 2019 to 2.6% and 2020 to 2.0% as well.

The boost to household incomes from tax cuts will reinforce already-strong consumer fundamentals—rapidly rising asset values, steady job growth, accelerating wages, and mild inflation. Real consumer spending growth is expected to edge up to a 2.8% annual pace in the second quarter. Business fixed investment will also remain on a strong growth path during 2018, supported by expanding global markets, low capital costs, and an improving regulatory climate. After 8.4% annualized growth in the fourth quarter, real nonresidential fixed investment is projected to increase at rates of 3.2% in the first quarter and 5.5% in the second quarter of 2018. Foreign trade will exert a mild drag on the economy, as import growth outpaces export growth through most of 2018. Real government purchases will hold steady in the first quarter and increase marginally in the second quarter, as modest gains in state and local spending are offset by cuts in federal purchases.

The IFA/IHS Franchise Business Index continues to signal steady growth in the franchise sector. The index was 2.8% above its year-ago level in November. However, franchise employment growth as reported by ADP has slowed somewhat in 2017 after posting the highest growth rate in 2016 since the series began in 2011. Growth in the franchise business services business lines, slowed in 2017, and this contributed to slightly slower growth of overall franchise sector indicators. Nonetheless, we project that the franchise sector grew faster than the overall economy in 2017 and will do so again in 2018 as it has in recent years:

- We estimate the number of franchise establishments increased 1.6% in 2017 and expect them to increase another 1.9% in 2018 to 759 thousand.

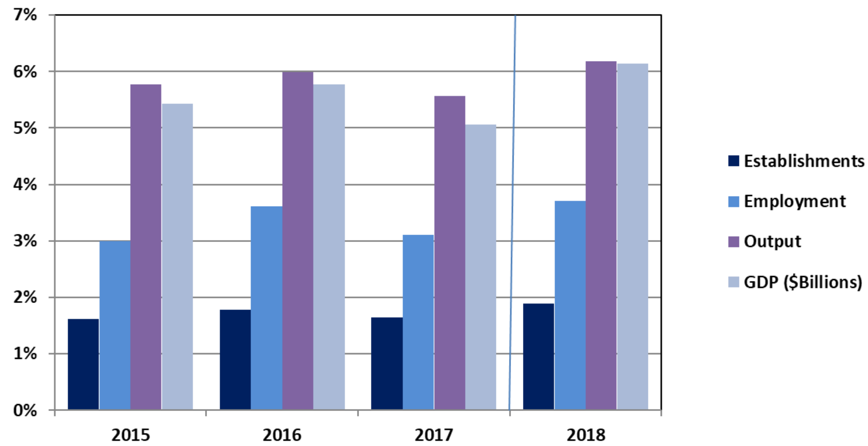
- Franchise employment is forecast to grow 3.7% in 2018 after growing 3.1% in 2017, and franchise employment will continue to outpace economy-wide employment growth. Total private nonfarm employment is forecast to increase 1.8% this year after growing 1.7% in 2017.
- The output of franchise businesses in nominal dollars is projected to increase 6.2% in 2018 to $757 billion and grew 5.6% in 2017.
- The gross domestic product (GDP) of the franchise sector will increase by 6.1% to $451 billion in 2018. This will exceed the growth of US GDP in nominal dollars, which is projected at 4.7%. The franchise sector will contribute approximately 3% of US GDP in nominal dollars.

Strong economic fundamentals and a boost from the tax reform and favorable regulatory environment support the expected above-trend growth in 2018. Consumer fundamentals were already on solid footing entering 2018—thanks to rising incomes and a solid job market—and lower tax rates enacted by the TCJA will modestly boost spending further over the next couple years. Even before the TCJA passed, equipment spending was running on all cylinders. Fourth-quarter real spending is expected to be up a whopping 15.8% and contribute 0.9 percentage point to GDP growth; this follows a 10.8% third-quarter gain. These are strong tailwinds for consumer spending, capital expenditures, and housing. Moreover, there are no obvious imbalances that could threaten the expansion, though policy missteps could mute the expansion.

Franchise Business Economic Outlook: January 2018 Forecast

					Forecast
	2014	**2015**	**2016**	**2017**	**2018**
Establishments	708,974	720,458	733,297	745,290	759,236
Percent change		*1.6%*	*1.8%*	*1.6%*	*1.9%*
Employment ('000)	7,164	7,379	7,645	7,881	8,172
Percent change		*3.0%*	*3.6%*	*3.1%*	*3.7%*
Output ($Billions)	602.7	637.5	675.7	713.2	757.2
Percent change		*5.8%*	*6.0%*	*5.6%*	*6.2%*
GDP ($Billions)	363.2	382.9	405.0	425.5	451.4
Percent change		*5.4%*	*5.8%*	*5.1%*	*6.1%*

Franchise Business Growth by Year, 2015-2018: January 2018 Forecast



This report also presents updated estimates of franchise growth in 2017 and a new 2018 forecast at the state level. Some highlights include:

- States in the South and West will continue to lead the nation in franchise employment and output growth in 2018. Economic growth in both regions has benefited greatly in recent years from renewed flows of domestic migration.
- Nevada is projected to be the top state for employment and output franchise growth in 2018 followed by Utah. Regions in the southern and western United States continue to fare the best economically, thanks to surging payrolls growth, strong GDP growth, and above-average population gains.

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 2018 ranging from a low of 3.6% in the Retail Food business line to 7.3% in Quick Service Restaurants. Other highlights of the revised industry forecast for 2018 are:

- Franchise Personal Services have experienced strong growth over the past year, and in our updated forecast the Personal Services business line is now projected to rank first in growth of the number of establishments and in employment in 2018.
- After a very strong year of employment and output growth in 2016, the franchise restaurant business lines saw slower growth in 2017 but is expected to see slightly higher growth this year. The franchise Quick Service Restaurant business line will rank 2nd in employment and 1st in output growth in 2018 and the Table/Full Service Restaurants business lines will rank 3rd and 2nd in employment and output growth.
- The nation's housing outlook, while improving, has shown slower growth in employment and output. We have revised our forecast of the franchise Real Estate business line slightly lower from 2.3% employment growth in 2017 to 2.1% and expect 1.9% growth in 2018 ranking it 9th overall.

Franchise Business Economic Outlook: January 2018 Forecast

	Establishments		Employment (thousands)		Output ($Billions)	
	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*	Amount	*Percent Change Over Previous Year*
Automotive	38,065	*1.1%*	200	*2.1%*	43.5	*4.1%*
Business Services	108,037	*1.7%*	654	*2.8%*	102.7	*5.6%*
Commercial & Residential Services	66,966	*1.7%*	252	*2.2%*	45.3	*4.2%*
Lodging	28,475	*1.7%*	635	*2.5%*	75.4	*6.2%*
Personal Services	113,536	*3.0%*	517	*5.0%*	37.8	*7.0%*
Quick Service Restaurants	194,723	*2.1%*	3,777	*4.5%*	255.5	*7.3%*
Real Estate	63,596	*1.5%*	254	*1.9%*	53.1	*5.4%*
Retail Food	53,000	*0.8%*	473	*1.8%*	39.0	*3.6%*
Retail Products & Services	60,862	*1.3%*	350	*2.5%*	32.3	*5.5%*
Table/Full Service Restaurants	31,976	*1.8%*	1,060	*3.8%*	72.7	*7.2%*
TOTAL	**759,236**	***1.9%***	**8,172**	***3.7%***	**757.2**	***6.2%***

Franchise Business Index

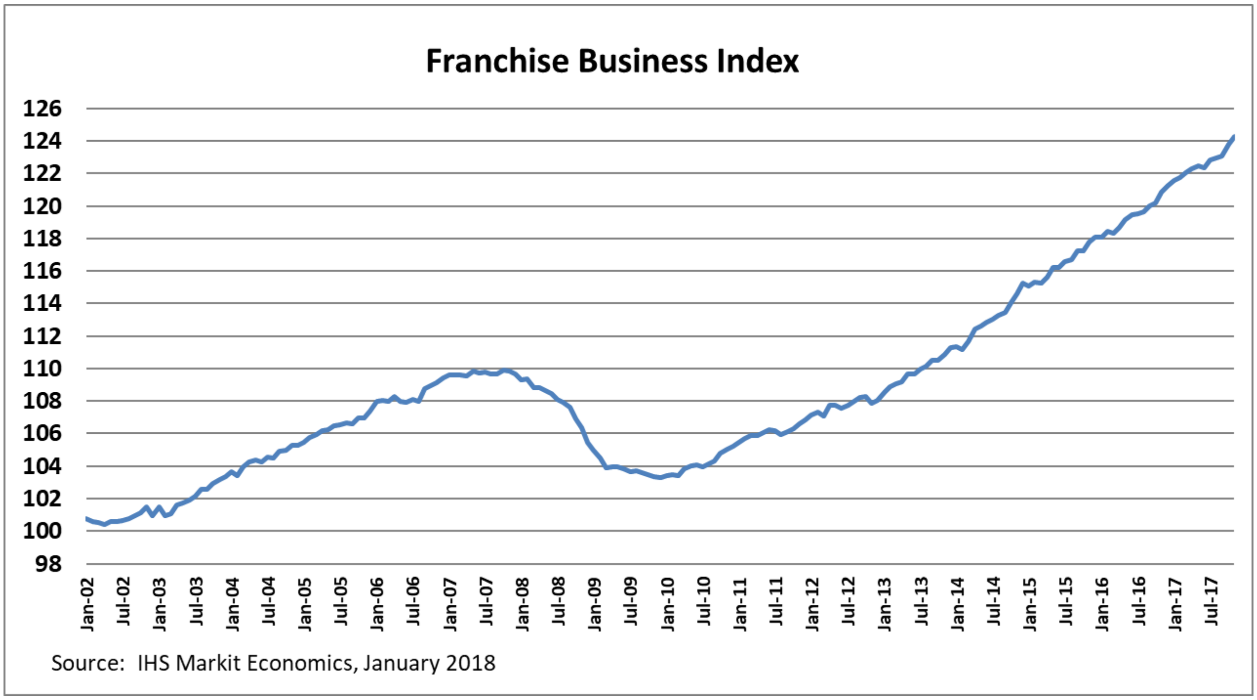
The estimates of output, employment and the number of establishments in the franchise industry reported here provide valuable measures of the size and growth of the industry. But, because most of the key data inputs required to make these estimates are published only on an annual basis, the estimates are made only at an annual frequency. A timelier reading of the business environment for franchise operations in the US is provided by the Franchise Business Index (FBI) – a monthly index of franchise activity that was developed for IFA by IHS Markit. 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 continues to signal steady growth in the franchise sector. The strength in the November reading reflects the momentum going into 2018 as the uncertainty in the first half of 2017 gave way to increased optimism among businesses and consumers. The FBI increased by an average 0.3% per month over the months August-November for which data are available, and the index was up 2.8% in November compared to November 2016, which is 0.2 percentage points higher than the year-over-year pace a year ago.

Over the most recent 4-month period all components of the index made positive contributions to the FBI with the Retail Sales Index making the largest contribution, averaging 1.3% to growth while Credit Conditions showed a neutral contribution averaging relatively no change each month. The employment and unemployment components each registered a healthy average 0.4% growth each month.

	Aug 2017	Sept 2017	Oct 2017	Nov 2017	12-month Nov-Nov
Franchise Business Index	**123.0**	**123.1**	**123.8**	**124.3**	
Percent Change	**0.1%**	**0.1%**	**0.6%**	**0.4%**	**2.8%**


Franchise Business Index
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Source: IHS Markit Economics, January 2018

INTRODUCTION

This report presents an update of the outlook for the franchise sector of the US economy in 2017 and a first outlook for 2018 prepared by IHS Markit Economics for the International Franchise Association Franchise Education and Research Foundation.

The following section presents a summary of the current IHS forecast of the US economy in 2017 and 2018, 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 estimates from 2015 through 2017 and an initial forecast for 2018 of:

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

This report also includes a forecast of 2017 and 2018 franchise growth in each of the 50 states and Washington, DC for employment, establishments, payroll and output.

[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.

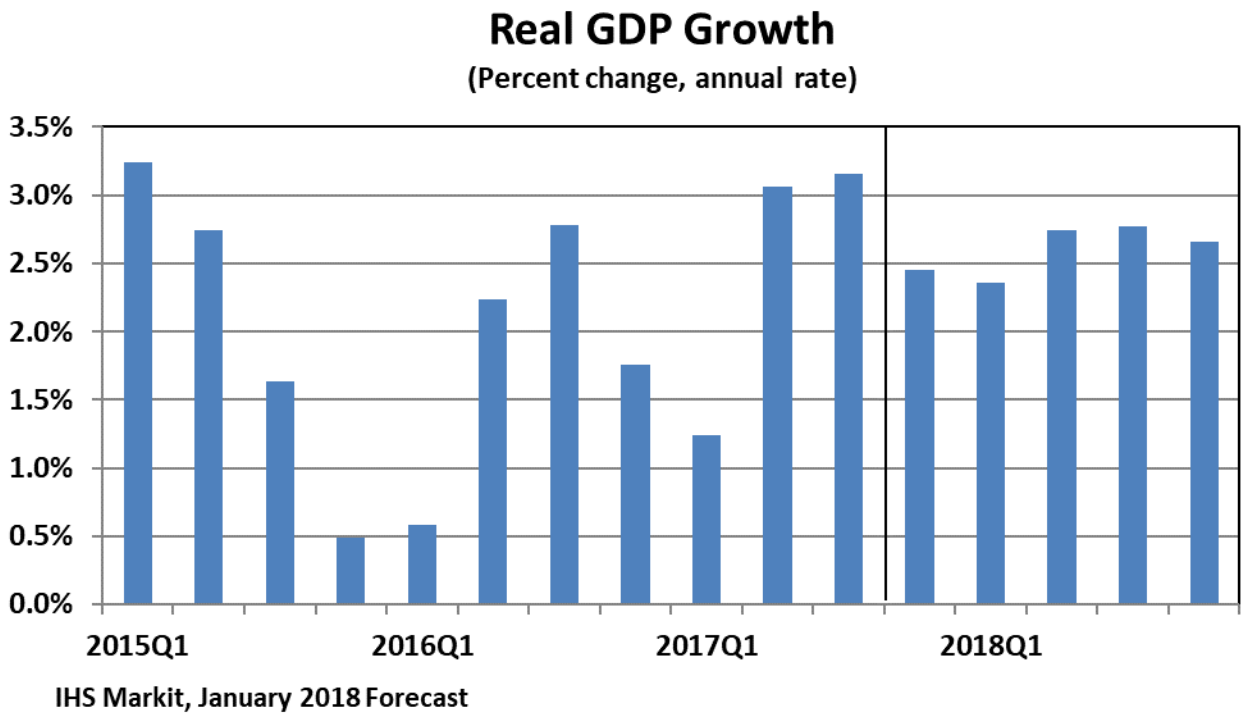
[4] Nominal output is the gross value of goods and services produced -- a concept that is comparable with "sales" for most industries. In government input-output accounts, the output of goods-producing industries is measured by the value of shipments. For most other industries, output is measured by 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

The improved momentum in GDP, combined with recent strength in orders for capital goods—which has raised the near-term forecast for business spending on equipment—and continued improvement in financial conditions (and other factors), has raised the forecast of 2018 GDP growth (year over year) by 0.1 percentage point compared to our previous forecast. Additionally, the Tax Cuts and Jobs Act that, among other things, cuts personal taxes through 2025, allows expensing of equipment and reduces the corporate tax rate permanently, will contribute another estimated 0.1 percentage point increase to real GDP growth in 2018. Thus we are forecasting 2.7% growth in 2018, 2.6% in 2019 and 2.0% growth in 2020 (all upward revisions from our previous forecast).

Stronger growth results in a lower unemployment rate, which troughs at 3.7% in 2019. Tighter labor markets puts upward pressure on core PCE inflation raising it to 2.0% by 2020. With stronger growth and tighter labor markets, we expect the Federal Reserve will move faster on a 25 basis-point tightening, so the federal funds rate averages 25 basis points higher through 2020 than previously forecast, however the terminal rate is expected to remain the same, topping out at 2.75%.

Growth in the second half of 2017 and going into 2018 is broad based. Consumer confidence is a key ingredient to recent positive spending trends. The upbeat sentiment is underpinned primarily by low unemployment and rising wages. Solid personal income growth, along with the ever improving job market, helped retailers end 2017 on a good note. We expect that holiday retail sales—total retail sales over November–December excluding purchases at gasoline stations, auto dealers, and restaurants—grew 4.7% relative to 2016, which would be the best year since 2014. November retail sales for electronics and appliances, clothing and accessories, and furniture and home furnishings were all stronger than their three-month averages, indicating that consumers opened their wallets more freely as the holiday shopping season began in earnest. After November's 0.8% growth rate in retail sales, even a mediocre December would result in a positive holiday season for retailers.



Consumer spending will remain an engine of US economic growth in the second half of the year and beyond. The incorporation of the recently passed Tax Cut and Jobs Act has raised projections for real consumer spending over the next few years, primarily because of the lower personal income tax rates enacted under the new law. The average effective personal income tax rate will be about two percentage points lower from now until the provisions expire in 2026, at which point tax rates will begin rising. Our baseline forecast calls for real personal consumption expenditures to grow at a 2.7% annual average in 2018 - continuing the growth trend of 2016–17.

Housing starts have been grinding higher since mid-2011, but the recovery has slowed over the last couple of years. This slowing has been accounted for by multifamily units, whose trend peaked in mid-2015 and has been flat to lower ever since; the trend in single-family starts has continued to push higher. Contributing to the softening trend in multifamily starts has been a declining headship rate among those aged 25–29. This is the only age cohort for which the propensity to form households (the headship rate) has remained on a softening trend since 2007. By March 2017, the headship rate in this cohort reached an all-time low, putting downward pressure on multifamily starts. However, with the economy growing and creating jobs, borrowing rates low, and demand (gauged by rising home prices across the country) remaining strong, growth should pick up.

Business fixed investment grew an estimated 5.8% in 2017 after contracting in 2016. Even before the TCJA's passage, equipment spending, in particular, was running on all cylinders. Fourth-quarter spending is expected to be up a whopping 15.8% and contribute 0.9 percentage point to growth; this follows a 10.8% third quarter gain. In 2018 we anticipate 8.0% gains.

Real exports continue to bounce along an upward trend that started in mid-2016; fourth-quarter growth is expected to come in at 7.4%, the strongest gain in nearly four years. Real imports have accelerated recently and are on track to advance 12.0% in the fourth quarter; nonpetroleum imports are projected to increase 18.4%, the strongest growth in seven years.

The Economic Outlook for 2018

(Annual percent change)	2014	2015	2016	2017	2018
Real Gross Domestic Product	2.6%	2.9%	1.5%	2.2%	2.7%
Total Nonfarm Employment	1.9%	2.1%	1.8%	1.5%	1.6%
Accommodations and Food Services	3.0%	3.2%	3.0%	2.0%	1.6%
Personal Services	1.5%	1.0%	1.1%	1.3%	0.8%
Real Disposable Income	3.6%	4.2%	1.4%	1.3%	3.8%
Real Personal Consumption	2.9%	3.6%	2.7%	2.7%	2.7%
Food Services	3.3%	4.5%	2.7%	0.9%	2.5%
Accommodations	3.4%	3.1%	0.9%	3.9%	3.8%
Personal Services	2.6%	2.2%	4.1%	3.5%	2.7%
Retail Sales (nominal dollars)	4.2%	2.6%	3.0%	4.5%	4.3%
Existing Home Sales	-3.1%	6.3%	3.9%	2.0%	2.9%
Com'l & Indus. Loans Outstanding, Com'l.Banks	12.6%	10.3%	7.3%	2.2%	4.9%

IHS Markit Economics, January 2018 Forecast

Recession Risks

Since the global expansion is now stronger and more synchronized, and with muted inflationary pressures, derailing it would require a large shock. The list of such shocks is long, but the probability of the any of them doing serious damage in 2018 is low. The Fed—or for that matter any other major central bank—is unlikely to raise interest rates high enough in the next year to kill growth. It is possible the recently passed tax reform bill could push up growth and inflation enough to make the Fed nervous, but any policy "clash" in the United States is probably a couple of years away. Deleveraging in China is fraught with risk, but the prospect that the Chinese government would do anything to seriously harm growth is remote. An oil shock is always possible, but with US and other non-OPEC oil production rising, it would take major geopolitical event in the Middle East to disrupt oil markets in a big way. And while the risk of trade friction is uncomfortably high, the chances of an out-and-out trade war are low. Bottom line: the odds of a recession in 2018 are still low.

OUTLOOK FOR FRANCHISE BUSINESS

Outlook Summary

After a slow start to 2017, the pickup in the second half helped lift the overall 2017 outlook for franchise businesses. With more complete data for 2017, our estimates of franchise output growth have been revised upward slightly from our August 2017 report on the franchise business outlook. We estimate that 2017 franchise output grew 5.6% compared to 5.3% in our August outlook. Consistent with the overall economy's improvement in productivity, our estimate of 3.1% employment growth in franchise businesses in 2017 is the same as our August outlook, however there have been some revisions both upward and downward in individual business lines. In 2018 growth across franchises picks up to a robust 3.7% in employment and 6.2% in output.

Just as the franchise sector was not impacted as much by the economic headwinds the full economy experienced in 2016, it was less impacted than the overall economy as those winds dissipated in 2017. Thus, franchise sector growth slowed slightly in 2017 compared to 2016, even as real GDP growth improved to 2.2%. Nonetheless, the franchise sector will continue to grow faster than the economy as a whole in most of its business lines:

- We expect the number of franchise establishments to increase 1.9% in 2018 to 759 thousand.
- Franchise employment is forecast to grow 3.7% in 2018. Franchise employment continues to outpace growth in businesses economy-wide. Total private nonfarm employment is forecast to increase 1.8% this year.
- The output of franchise businesses in nominal dollars is projected to increase 6.2% in 2018 to $757 billion.

Franchise Business Economic Outlook: January 2018 Forecast

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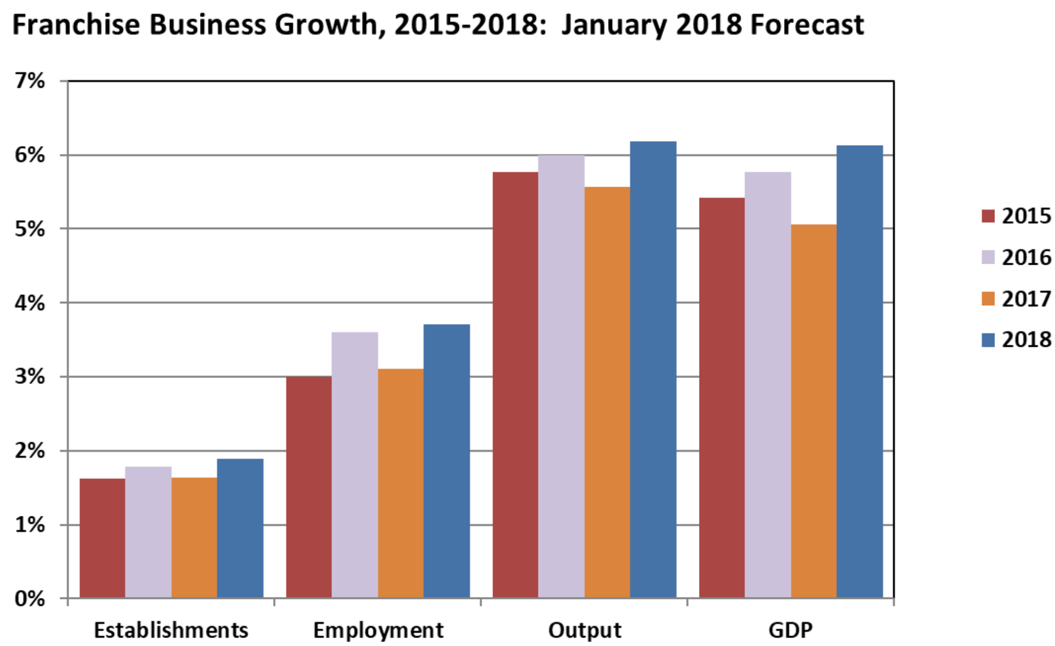
TOTAL	**759,236**	***1.9%***	**8,172**	***3.7%***	**757.2**	***6.2%***

The gross domestic product (GDP) of the franchise sector will increase by 6.1% to $451 billion in 2018. This will exceed the growth of US GDP in nominal dollars, which is projected at 4.7%. The franchise sector will contribute approximately 3% of US GDP in nominal dollars.

The following chart shows how the franchise economy has fared over the last three years, along with our 2018 forecast, by various measures. Growth rates of output and GDP are in nominal dollars.

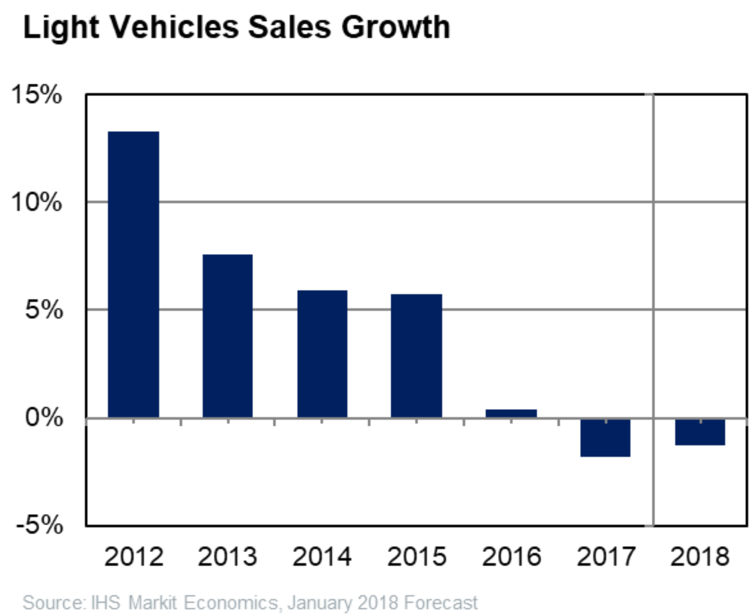


To provide background for our view of how different segments of the franchise sector will fare in 2017 and 2018, we review IHS forecasts of employment and output in the industries where there is a large concentration of franchise businesses. Key drivers of the franchise economy drawn from the IHS US Industry and US Macroeconomic forecasts are summarized below.

Automotive: Consumer spending on motor vehicles and parts has been volatile. In 2015, total spending on motor vehicles and parts achieved 6.9% growth, a figure that tumbled to a mere 1.8% the next year and is expected to moderate to just over 3% in 2017 and 2018.

The struggles of the auto markets were never more visible than in the first half of 2017. Consumer spending on new motor vehicles plunged at a 21.4% rate in the first quarter of 2017, and then again in the second, at 11.0%. This is the third straight year of declining auto sales and sales are expected to decline again in 2018. Light-vehicle sales fared better than overall auto sales, only declining 1.8% in 2017 but is expected to contract another 1.3% in 2018. A moderate recovery is expected, helped along by the need to replace vehicles damaged in the extraordinary 2017 hurricane season. Replacement sales stemming from hurricane losses continue to remain strong with auto sales remaining solid after elevated sales paces in September (18.5 million) and October (18.0 million), although we expect that this source of strength has nearly run its course.

Motor vehicle and parts spending should resume growing at a 12.4% annual rate. Spending on used vehicles will also benefit, maintaining a brisk 13.0% growth pace.

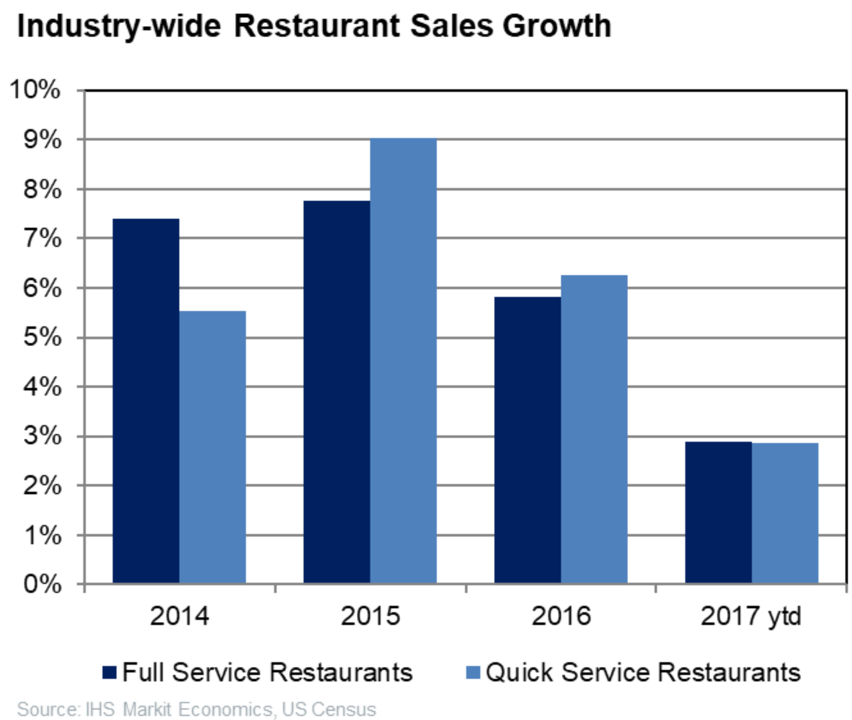


Franchise employment growth in the automotive business line is estimated to be 2.8% in 2017 and will slow to 2.1% in 2018. While this will outpace employment growth in the industry economy-wide (measured as overall auto parts and tires retailers and the automotive service industry), it will keep the automotive business line among the slower growing of the 10 franchise business lines, ranking eighth in employment growth and ninth output growth. Growth of the number of establishments in the automotive business line will slow from 1.5% in 2017 to 1.1% in 2018.

Commercial & Residential Services: Economy-wide consumer spending on household services showed slower growth in 2017 than 2016 and is projected to grow at about the same pace in 2018. ADP franchise employment data show a similar pattern in a broader category of business services.

We project the commercial & residential services business line to grow in the lower middle of the pack of the 10 franchise business lines in 2018. Our estimates of establishment, employment and output for this business line show 2018 growth of 1.7%, 2.2% and 4.2%, respectively – higher than its estimated pace of growth in 2017 in all instances.

Table/Full Service Restaurants: Various indicators related to the restaurant industry economy-wide show a slow-down in 2017 compared to growth rates registered in 2016. Employment growth in all restaurants slowed from 3.3% in 2016 to 2.2% in the first ten months of this year. Sales of restaurants economy-wide show a similar slowdown from growth near 6% in 2016 to 3% in the first eleven months 2017 on a non-seasonally adjusted basis. (The decline is smaller in the seasonally adjusted data, which do not report QSR and full-service restaurants separately.) The broader personal consumption expenditures category of spending on food services grew 5.4% in nominal dollars in 2016 and estimated to be 3.2% in 2017 before rebounding to 4.9% in 2018. The retail sales data show the same pace of growth economy-wide in the QSR business line and full-service restaurants in year-to-date in 2017.



We project employment growth in the franchise table/full service restaurants business line to accelerate from 3.7% in 2017 to 3.8% in 2018. Output growth will increase from 7.1% to 7.2%. The table/full service restaurants business line will remain one of the growth leaders among the 10 business lines, ranking third in employment and second in output growth in 2018.

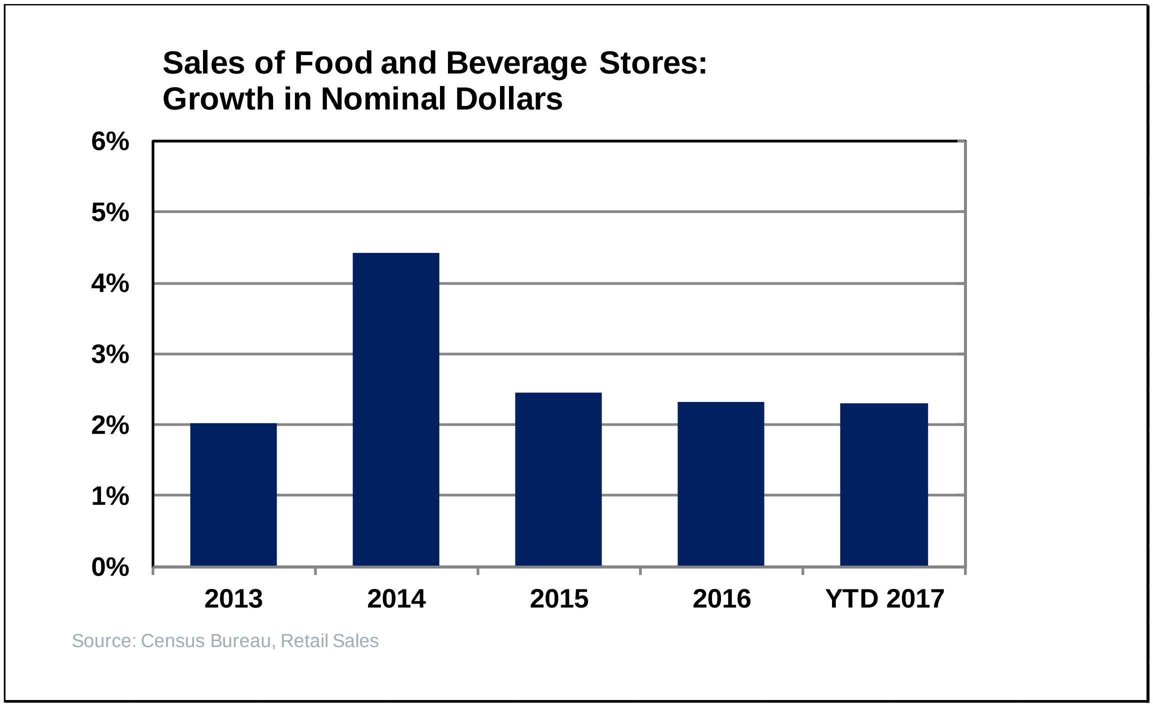
Quick Service Restaurants: A similar acceleration in employment and output growth in 2018 is projected for the QSR business line. We project employment growth in the franchise QSR business line to increase from 3.7% in 2017 to 4.5% in 2018. Output growth will rise from 6.6% to 7.3%.

Growth of the franchise QSR business line will continue to slightly outpace the table/full service business line, and the QSR business line will rank second among the 10 business lines in employment growth and first in output growth in 2018.

Retail Food: While restaurant sales growth is expected to have slowed in 2017 (after three consecutive years of above 5% growth), economy-wide retail food sales grew from 2.0% in 2016 to an estimated 2.8% in 2017 and is forecast to grow 3.3% in 2018.

However, advances in technology for the retail sector is driving productivity improvements and thus the growth in sales is not expected to increase employment in the sector. Economy-wide employment in the industry grew 0.9% in 2016 and is expected to contract 0.2% in 2017 and decrease another 0.8% in 2018.

We expect franchise employment and output within the retail food business line, though, to continue to outpace these industry-wide growth trends. Our forecast for this business line shows a 2.0% increase in employment in 2017 and 1.8% growth in 2018. In terms of sales (output), we project 3.6% growth in both 2017 and 2018. Among all 10 business lines, the Retail Food business line will rank last in both employment and output growth in 2018.



Lodging: Employment and output in the lodging industry has slowed over the last two years. Economy-wide employment growth in the industry grew only 1.2% in 2016, and is expected to grow 0.4% in 2017 and 0.3% in 2018. Personal consumption expenditures on accommodations in nominal dollars, which measures only household and not business spending, slowed to 3.5% growth in 2016 and but is expected to improve in 2017 to 4.9% and rebound to 6.9% in 2018. Similarly, recent ADP data on the franchise lodging industry show employment growth below 1% for 2017.

We estimate that franchise employment in the lodging business line will grow 2.5% in 2018 – up from 1.2% in 2017. Output growth in the lodging business line is expected to grow 6.2% in 2018, ranking it 4th among the 10 business lines.

Real Estate: Growth in sales of both new and existing homes slowed in 2017 from their 2016 pace however growth in sales is projected to pick up in 2018. Inventories are lean and getting leaner partly due to low levels of new construction. This has contributed to driving home prices upward. Home prices continue to rise at unsustainable, but-not-yet-alarming rates—in the 5-10% range in most places.

We estimate that the output of the franchise real estate business line will increase 5.4% in 2018 – down slightly from 5.6% growth in 2017 – ranking it 7th among the 10 business lines. Employment growth in the real estate business line is expected to slow to 1.9% in 2018 from 2.1% in 2017 – 9th among all business lines.

Retail Products & Services: Retail sales have seen robust growth in the second half of 2017, albeit much of it from online sales versus brick-and-mortar. Total retail sales for 2017 (excluding food and auto) is expected to grow 4.5% after 3.8% growth in 2016 and is expected to grow 4.7% in 2018. The franchise retail products & services business line continues to outperform these other categories of retailers. We project employment in franchise retail products & services increased 2.4% in 2017 and will increase 2.5% in 2018 – fifth among all business lines – and output increased 5.4% and will increase 5.5% respectively -- sixth among business lines.

Business Services: Economy-wide employment in professional and technical services, including accounting and bookkeeping services and architectural and engineering services, has been around 3% from 2014-2016 but is expected to have slowed to 2.5% in 2017 is forecast to grow 2.4% in 2018. However with the passage of the TCJA, the component of professional and technical services that includes accounting, tax preparation, bookkeeping and payroll is expected to see accelerated growth in employment in 2018 to 2.3% from 1.5% in 2017. The franchise business services industry has been one of the leaders among franchise business lines in past years, but we estimate that employment growth in franchise business services slowed to 1.5% in 2017 with output up only 4.3%. We project that growth based on both indicators will rebound in 2018 to 2.8% and 5.6%, respectively, ranking it 4th and 5th among the business lines.

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. The growth of spending on personal services economy-wide has been supported by gains in real income and household net worth. Household finances are also in excellent shape, helped by the post-election stock market rally, rising home prices, and nearly a decade of restraint in borrowing. Economy-wide personal consumption spending on services is expected to grow 4.6% in 2018 (in nominal dollars) after growing 4.6% in 2017.

ADP franchise employment data show a surge in the growth of franchise personal services over the last two years, well ahead on economy-wide average growth, with somewhat slower growth for personal service retailers. We estimate that employment in franchise personal services increased 5.2% in 2017 and will slow only slightly to 5.0% in 2018. Output is projected to be up 7.0% in 2018 following a 7.1% increase in 2017. Franchise personal services will rank first among all business lines in employment growth and third in output growth in 2018.

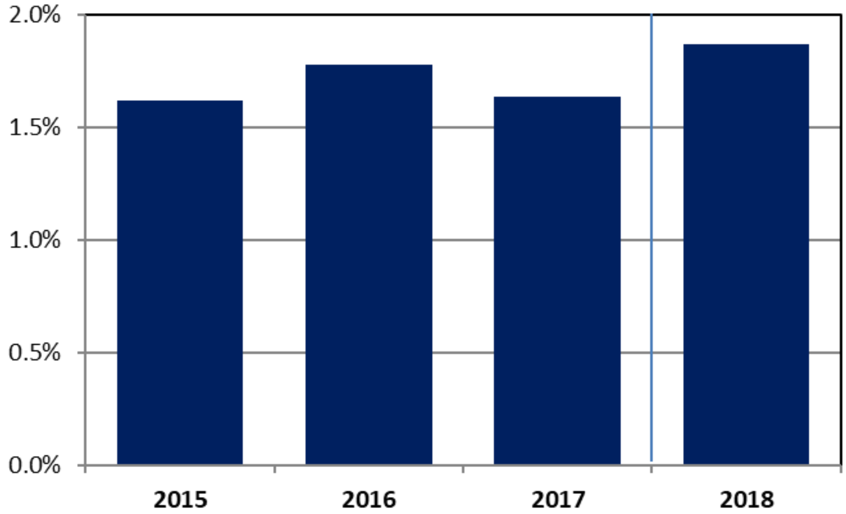
Establishments by Business Line

We estimate that the total number of franchise establishments across all 10 business lines increased by 1.6% in 2017, and growth will increase slightly to 1.9% in 2018. The personal services line will take the lead with 3.0% growth, followed by quick service restaurants at 2.1% and the full service restaurant business line at 1.8%.

Franchise Establishments by Business Line: January 2018 Forecast

					Forecast
	2014	**2015**	**2016**	**2017**	**2018**
Automotive	35,913	36,535	37,100	37,645	38,065
Percent change		*1.7%*	*1.5%*	*1.5%*	*1.1%*
Business Services	101,590	103,596	105,080	106,207	108,037
Percent change		*2.0%*	*1.4%*	*1.1%*	*1.7%*
Commercial & Residential Services	63,552	64,371	65,083	65,817	66,966
Percent change		*1.3%*	*1.1%*	*1.1%*	*1.7%*
Lodging	26,939	27,396	27,712	27,998	28,475
Percent change		*1.7%*	*1.2%*	*1.0%*	*1.7%*
Personal Services	102,635	104,333	106,940	110,236	113,536
Percent change		*1.7%*	*2.5%*	*3.1%*	*3.0%*
Quick Service Restaurants	180,717	183,332	187,368	190,649	194,723
Percent change		*1.4%*	*2.2%*	*1.8%*	*2.1%*
Real Estate	59,722	60,712	61,653	62,652	63,596
Percent change		*1.7%*	*1.5%*	*1.6%*	*1.5%*
Retail Food	50,933	51,649	52,165	52,599	53,000
Percent change		*1.4%*	*1.0%*	*0.8%*	*0.8%*
Retail Products & Services	57,144	58,238	59,326	60,079	60,862
Percent change		*1.9%*	*1.9%*	*1.3%*	*1.3%*
Table/Full Service Restaurants	29,829	30,296	30,870	31,408	31,976
Percent change		*1.6%*	*1.9%*	*1.7%*	*1.8%*
Total	**708,974**	**720,458**	**733,297**	**745,290**	**759,236**

Franchise Business Establishments Growth: January 2018 Forecast



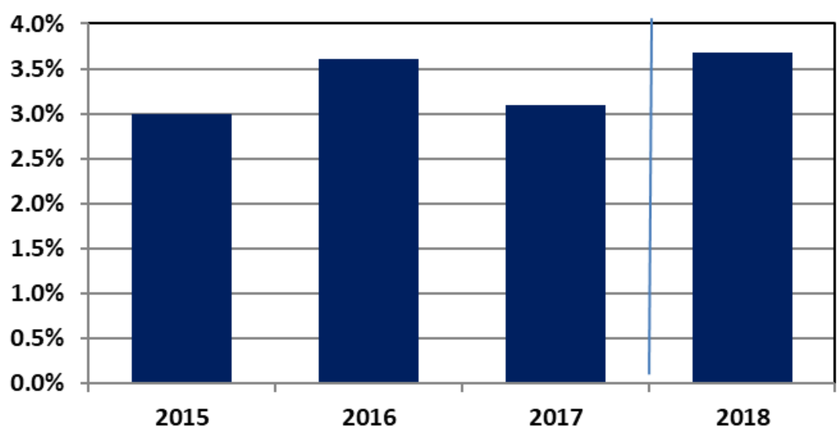
Employment by Business Line

We estimate that total franchise employment grew 3.1% in 2017, but growth will accelerate to 3.7% in 2018 due primarily to faster growth in the restaurant business lines, which account for nearly three-fifths of franchise employment. The QSR and table/full service restaurant business lines will continue to be growth leaders, ranking second and third, respectively in 2018 employment growth. Personal services, though, will continue to be the leader with growth of 5.0%.

Franchise Employment by Business Line: January 2018 Forecast

	2014	2015	2016	2017	Forecast 2018
Automotive	179,092	185,127	190,674	196,100	200,294
Percent change		*3.4%*	*3.0%*	*2.8%*	*2.1%*
Business Services	592,643	612,496	626,370	636,050	654,159
Percent change		*3.3%*	*2.3%*	*1.5%*	*2.8%*
Commercial & Residential Services	238,663	241,819	244,136	246,577	252,092
Percent change		*1.3%*	*1.0%*	*1.0%*	*2.2%*
Lodging	588,878	603,507	611,956	619,049	634,529
Percent change		*2.5%*	*1.4%*	*1.2%*	*2.5%*
Personal Services	440,062	450,230	468,239	492,426	516,993
Percent change		*2.3%*	*4.0%*	*5.2%*	*5.0%*
Quick Service Restaurants	3,232,917	3,332,861	3,486,173	3,615,138	3,776,795
Percent change		*3.1%*	*4.6%*	*3.7%*	*4.5%*
Real Estate	234,079	239,263	244,048	249,270	254,037
Percent change		*2.2%*	*2.0%*	*2.1%*	*1.9%*
Retail Food	431,819	445,270	455,511	464,465	472,948
Percent change		*3.1%*	*2.3%*	*2.0%*	*1.8%*
Retail Products & Services	310,433	321,999	333,695	341,825	350,378
Percent change		*3.7%*	*3.6%*	*2.4%*	*2.5%*
Table/Full Service Restaurants	915,703	946,317	984,170	1,020,580	1,059,629
Percent change		*3.3%*	*4.0%*	*3.7%*	*3.8%*
Total	**7,164,289**	**7,378,889**	**7,644,972**	**7,881,480**	**8,171,854**

Franchise Business Employment Growth: January 2018 Forecast

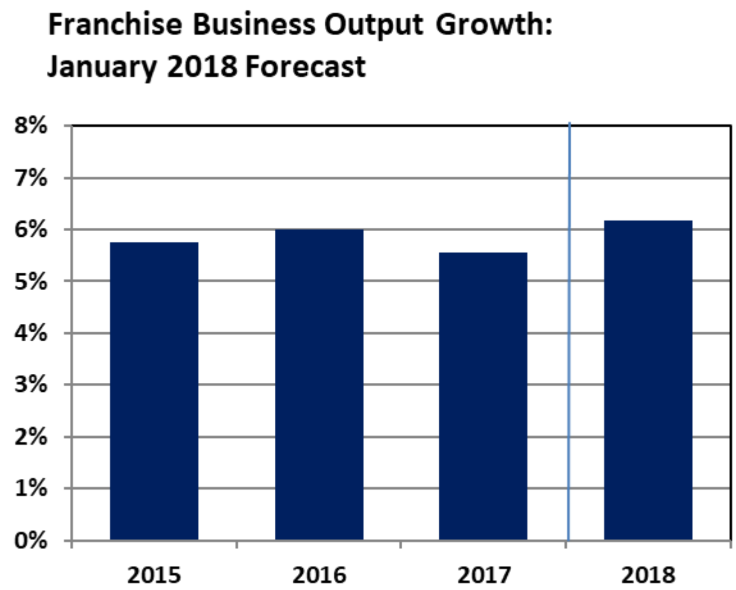


Output by Business Line

We estimate that total output across all franchise business lines grew 5.6% in 2017 – down from 6.0% growth recorded in 2016. We expect the pace of growth in 2018 to rebound to 6.2% due to faster growth of the restaurant industry and overall growth in the macroeconomy. Both the QSR and table/full service restaurant business lines will see faster growth in 2018, and they will remain among the growth leaders, ranking first and second, respectively, with the personal services business line taking the third spot.

Franchise Output by Business Line: January 2018 Forecast

					Forecast
($billions)	**2014**	**2015**	**2016**	**2017**	**2018**
Automotive	36.15	37.94	39.82	41.74	43.45
Percent change		*5.0%*	*5.0%*	*4.8%*	*4.1%*
Business Services	83.78	88.77	93.24	97.26	102.72
Percent change		*6.0%*	*5.0%*	*4.3%*	*5.6%*
Commercial & Residential Services	39.37	40.99	42.20	43.46	45.29
Percent change		*4.1%*	*3.0%*	*3.0%*	*4.2%*
Lodging	60.63	64.43	67.71	71.00	75.40
Percent change		*6.3%*	*5.1%*	*4.9%*	*6.2%*
Personal Services	29.66	31.08	32.94	35.29	37.75
Percent change		*4.8%*	*6.0%*	*7.1%*	*7.0%*
Quick Service Restaurants	195.84	207.87	223.39	238.06	255.53
Percent change		*6.1%*	*7.5%*	*6.6%*	*7.3%*
Real Estate	42.87	45.29	47.76	50.43	53.14
Percent change		*5.6%*	*5.5%*	*5.6%*	*5.4%*
Retail Food	33.39	34.93	36.31	37.62	38.96
Percent change		*4.6%*	*4.0%*	*3.6%*	*3.6%*
Retail Products & Services	25.61	27.24	29.03	30.59	32.26
Percent change		*6.4%*	*6.6%*	*5.4%*	*5.5%*
Table/Full Service Restaurants	55.43	58.93	63.29	67.78	72.67
Percent change		*6.3%*	*7.4%*	*7.1%*	*7.2%*
Total	**602.7**	**637.5**	**675.7**	**713.2**	**757.2**



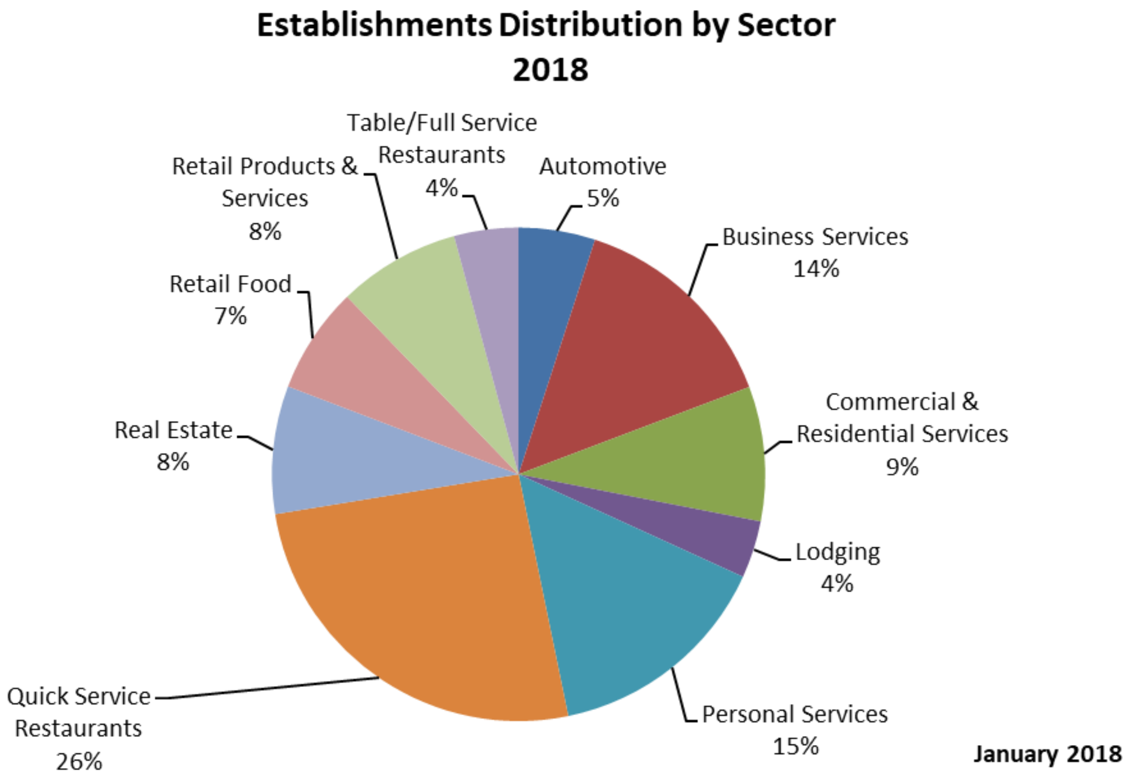
Franchise Businesses' Contribution to GDP

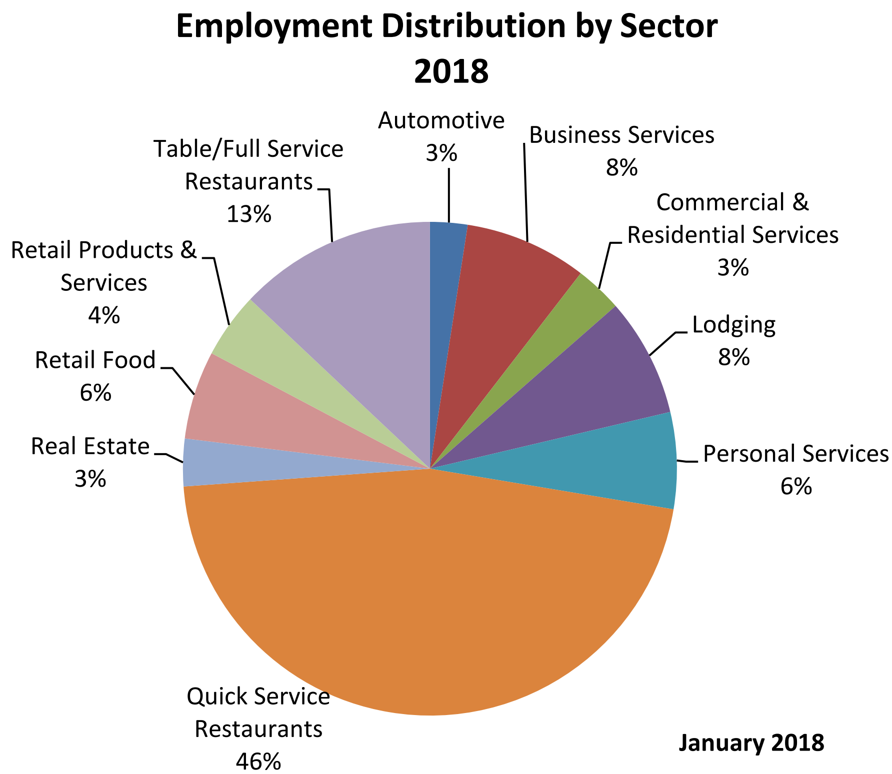
By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Markit Economics developed estimates of the contribution to US GDP by the franchise sector as a whole. We estimate that franchise businesses accounted for approximately 3% of US private GDP or a total of $426 billion in 2017. Based on our employment and output forecasts for franchising in 2017, we project that nominal GDP of the franchise sector will increase by 6.1% to $451 billion in 2018. This will exceed the growth of total US GDP in nominal dollars, which – with moderately low inflation – is projected at 4.7% in 2018.

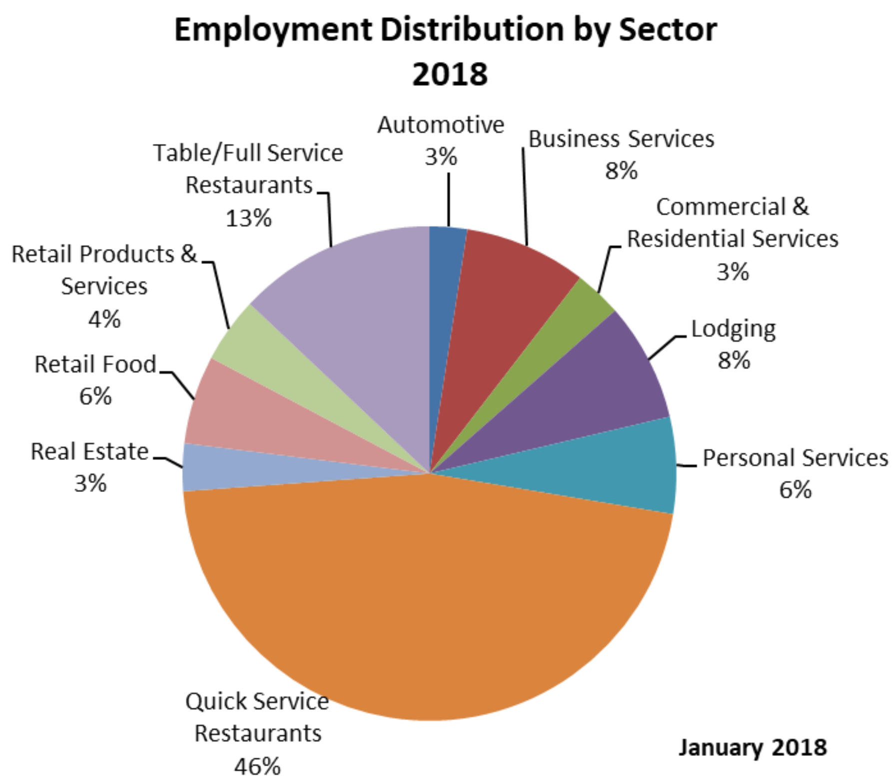
Distribution by Sector

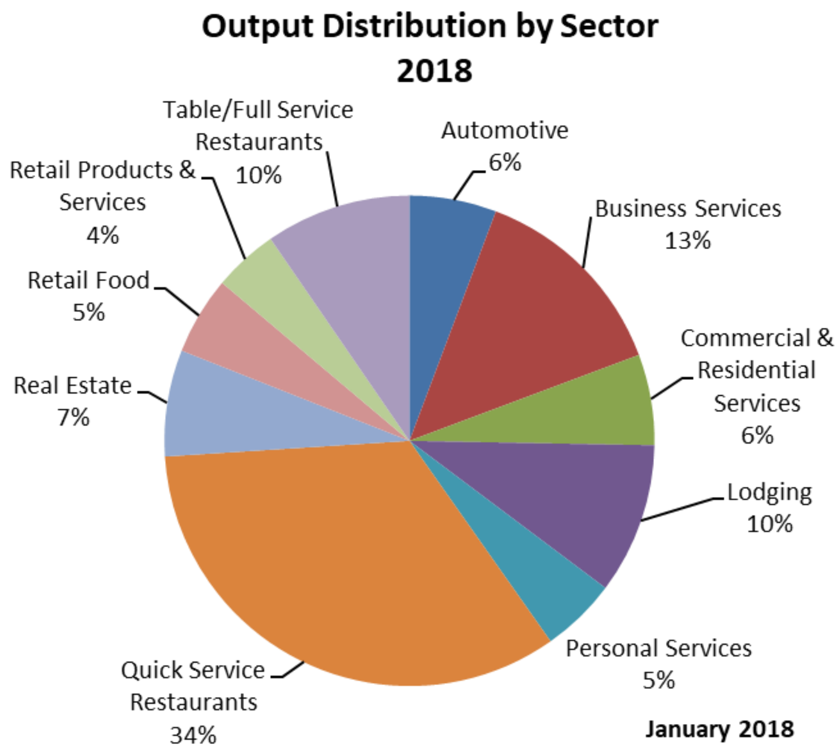
This section focuses on the distribution of the 10 franchise business lines in terms of the number of establishments, employment, and output, based on our forecast for 2018. The quick service restaurants business line is the largest category, with 26% of all franchise establishments, and accounts for 46% of franchise employment. This business line is expected to contribute 34% of total output in 2018. 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 6% of franchise employment and 5% 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 14% of the total.


Establishments Distribution by Sector
2018
Automotive
5%
Business Services
14%
Commercial &
Residential Services
9%
Lodging
4%
Personal Services
15%
Quick Service
Restaurants
26%
Real Estate
8%
Retail Food
7%
Retail Products &
Services
8%
Table/Full Service
Restaurants
4%
January 2018


Employment Distribution by Sector
2018
Automotive
3%
Business Services
8%
Commercial &
Residential Services
3%
Lodging
8%
Personal Services
6%
Quick Service
Restaurants
46%
Real Estate
3%
Retail Food
6%
Retail Products &
Services
4%
Table/Full Service
Restaurants
13%
January 2018


Employment Distribution by Sector
2018
Automotive
3%
Business Services
8%
Commercial &
Residential Services
3%
Lodging
8%
Personal Services
6%
Quick Service
Restaurants
46%
Real Estate
3%
Retail Food
6%
Retail Products &
Services
4%
Table/Full Service
Restaurants
13%
January 2018



Output per Employee

The average output per worker in the franchise sector has grown since 2014, increasing at an average rate of 2.5% per year, and will continue to rise in 2018. Average output per employee in franchise businesses is projected to increase to 92,656 in 2018 – up 2.4%. In 2018, this output-per-worker ratio will vary among the 10 franchise business lines from a low of $67,658 (quick service restaurants) to a high of $216,931(automotive).

The lodging business line has been one of the fastest growing in terms of output per worker over the 2014-2017 timeframe, with average annual growth of 3.7%. The lodging business line will be the productivity growth leader again in 2018 with an increase of 3.6%, followed by real estate with a 3.4% increase.

Franchise Productivity by Business Line: January 2018 Forecast

(Dollars per worker)	2014	2015	2016	2017	Forecast 2018
Automotive	201,852	204,940	208,838	212,851	216,931
Percent change		*1.5%*	*1.9%*	*1.9%*	*1.9%*
Business Services	141,367	144,932	148,858	152,913	157,026
Percent change		*2.5%*	*2.7%*	*2.7%*	*2.7%*
Commercial & Residential Services	164,961	169,507	172,854	176,253	179,657
Percent change		*2.8%*	*2.0%*	*2.0%*	*1.9%*
Lodging	102,959	106,759	110,645	114,692	118,828
Percent change		*3.7%*	*3.6%*	*3.7%*	*3.6%*
Personal Services	67,400	69,031	70,349	71,666	73,018
Percent change		*2.4%*	*1.9%*	*1.9%*	*1.9%*
Quick Service Restaurants	60,577	62,370	64,079	65,851	67,658
Percent change		*3.0%*	*2.7%*	*2.8%*	*2.7%*
Real Estate	183,143	189,290	195,699	202,311	209,182
Percent change		*3.4%*	*3.4%*	*3.4%*	*3.4%*
Retail Food	77,324	78,447	79,713	80,996	82,377
Percent change		*1.5%*	*1.6%*	*1.6%*	*1.7%*
Retail Products & Services	82,498	84,597	86,996	89,490	92,072
Percent change		*2.5%*	*2.8%*	*2.9%*	*2.9%*
Table/Full Service Restaurants	60,533	62,273	64,308	66,413	68,581
Percent change		*2.9%*	*3.3%*	*3.3%*	*3.3%*
Total	**84,130**	**86,391**	**88,384**	**90,494**	**92,656**

State Franchise Outlook

State Overview

Franchise businesses are an important part of state economies. Economic gains ramped up in the third quarter of this year despite the disruptions of hurricanes Harvey and Irma, indicating that the underlying momentum in the US economy is solid. Hurricane Harvey caused severe disruptions the energy, chemicals, and shipping in the Houston and southern Louisiana areas, but most facilities were back on line quickly as floodwaters receded. Hurricane Irma triggered mass evacuations of coastal areas and affected the entire state of Florida after a last-minute shift in course, but again disruptions to business were relatively short-lived. Rebuilding of damaged or destroyed homes is the most long-lasting effect of the hurricanes.

On a state level, the past three months brought strong job numbers for Utah, Idaho, Texas, California, and South Carolina: in all five, growth increased by more than a 3.4% annualized rate. Utah and Idaho boomed at a clip faster than 4.0%. Idaho's hiring was propelled by education and health, while Utah had broad increases in services. West Virginia, meanwhile, after dealing with a downturn in government services year over year (y/y) in November, is showing signs of improvement. Leisure and hospitality services helped the state achieve a growth pace of 1.2% over the past three months despite being one of only four states—Alaska, Wyoming, and Connecticut being the others—that had fewer jobs than in November 2016.

The top 10 states for franchise growth continues to be dominated by the Sun Belt states as the demographic center of the United States continues to push south and west. We expect that strong growth in population and households will be a driving force of economic expansion in these states over the next five years.

Nevada continues to top the list of fastest growth in franchise employment and output as Nevada remains on track to have one of the fastest-growing labor markets in 2018, when payrolls will expand by another 2.4%. Every sector of the state economy is expected to be in positive territory when it comes to jobs. Construction and services will be key drivers of course as they keep pace with population growth in Reno and Las Vegas, but the state's attractiveness to manufacturers and distributors is unlikely to wane in the near term. Despite a diversifying economy, leisure and hospitality employment (including casinos, hotels and resorts, eating and drinking establishments, and other attractions) continue to dominate, accounting for 26% of all jobs as compared with the national average of 11% of all jobs.

Nevada is also one of the 7 states with no state income tax, which should help to further boost the attractiveness of Nevada relative to states with an income tax under the recently passed Tax Cuts and Jobs Act (TCJA). In fact, of the top 10 states for franchise employment and output growth, three of them, Nevada, Florida and Texas are in the top 10 states for franchise growth in 2018.

Commercial damage was minor overall but residential rebuilding will indeed take time.

Top 10 States for Franchise Growth: 2018				
Employment	Growth		Output	Growth
Nevada	5.1%		Nevada	7.8%
Utah	5.0%		Utah	7.7%
Arizona	4.9%		Florida	7.5%
Florida	4.7%		Oregon	7.5%
Colorado	4.7%		Arizona	7.4%
Oregon	4.5%		Texas	7.2%
South Carolina	4.4%		Colorado	7.1%
North Dakota	4.3%		North Dakota	6.9%
North Carolina	4.3%		South Carolina	6.8%
Tennessee	4.2%		North Carolina	6.8%

IHS Markit Economics January 2018 Outlook

State Franchise Activity: January 2018 Outlook

	2017	2018	Growth		2017	2018	Growth
Alabama	12,185	12,377	1.6%		124,581	128,804	3.4%
Alaska	1,814	1,837	1.3%		14,516	14,959	3.1%
Arizona	14,696	15,141	3.0%		155,094	162,642	4.9%
Arkansas	8,186	8,336	1.8%		82,801	85,828	3.7%
California	75,810	77,192	1.8%		728,818	755,362	3.6%
Colorado	15,761	16,215	2.9%		151,948	159,120	4.7%
Connecticut	7,187	7,267	1.1%		84,397	86,859	2.9%
Delaware	2,026	2,054	1.4%		21,906	22,610	3.2%
District of Columbia	891	909	2.0%		14,033	14,580	3.9%
Florida	47,559	48,930	2.9%		519,294	543,811	4.7%
Georgia	26,653	27,260	2.3%		277,002	288,375	4.1%
Hawaii	1,856	1,886	1.6%		30,735	31,792	3.4%
Idaho	4,715	4,797	1.7%		45,559	47,182	3.6%
Illinois	28,411	28,820	1.4%		320,159	330,576	3.3%
Indiana	16,470	16,740	1.6%		188,633	195,146	3.5%
Iowa	9,857	9,988	1.3%		94,930	97,915	3.1%
Kansas	9,096	9,190	1.0%		88,892	91,412	2.8%
Kentucky	12,664	12,894	1.8%		145,674	150,970	3.6%
Louisiana	11,358	11,515	1.4%		115,383	119,066	3.2%
Maine	2,820	2,848	1.0%		26,877	27,630	2.8%
Maryland	12,796	12,999	1.6%		142,456	147,305	3.4%
Massachusetts	12,451	12,672	1.8%		116,530	120,715	3.6%
Michigan	23,305	23,692	1.7%		246,783	255,368	3.5%
Minnesota	15,150	15,409	1.7%		152,315	157,689	3.5%
Mississippi	8,020	8,132	1.4%		78,565	81,090	3.2%
Missouri	16,773	16,984	1.3%		177,291	182,730	3.1%
Montana	3,735	3,783	1.3%		30,533	31,477	3.1%
Nebraska	6,491	6,576	1.3%		63,277	65,256	3.1%
Nevada	6,234	6,439	3.3%		74,952	78,797	5.1%
New Hampshire	3,062	3,101	1.3%		26,754	27,581	3.1%
New Jersey	16,904	17,118	1.3%		169,548	174,761	3.1%
New Mexico	4,860	4,939	1.6%		54,692	56,579	3.5%
New York	28,906	29,277	1.3%		303,252	312,633	3.1%
North Carolina	25,002	25,611	2.4%		296,136	308,766	4.3%
North Dakota	2,814	2,883	2.5%		31,494	32,847	4.3%
Ohio	26,962	27,266	1.1%		316,295	325,581	2.9%
Oklahoma	10,125	10,275	1.5%		96,762	99,947	3.3%
Oregon	9,181	9,429	2.7%		83,400	87,179	4.5%
Pennsylvania	26,439	26,728	1.1%		268,435	276,221	2.9%
Rhode Island	2,070	2,098	1.4%		17,918	18,488	3.2%
South Carolina	12,401	12,718	2.6%		130,920	136,663	4.4%
South Dakota	3,304	3,360	1.7%		28,162	29,151	3.5%
Tennessee	17,522	17,934	2.4%		201,422	209,846	4.2%
Texas	62,412	63,868	2.3%		638,613	665,189	4.2%
Utah	6,587	6,792	3.1%		64,097	67,276	5.0%
Vermont	1,485	1,491	0.4%		11,140	11,383	2.2%
Virginia	22,353	22,814	2.1%		238,730	248,004	3.9%
Washington	14,502	14,799	2.0%		136,785	142,079	3.9%
West Virginia	4,728	4,769	0.9%		44,379	45,568	2.7%
Wisconsin	14,301	14,531	1.6%		149,165	154,269	3.4%
Wyoming	14,404	14,553	1.0%		259,448	266,777	2.8%

State Franchise Activity: January 2018 Outlook (in millions $)

	2017	2018	Growth	2017	2018	Growth
Alabama	3,815	4,016	5.3%	9,695	10,207	5.3%
Alaska	645	678	5.1%	1,487	1,575	5.9%
Arizona	5,667	6,064	7.0%	13,830	14,856	7.4%
Arkansas	2,393	2,529	5.7%	6,271	6,662	6.2%
California	29,632	31,585	6.6%	69,670	74,033	6.3%
Colorado	5,579	6,001	7.6%	13,614	14,585	7.1%
Connecticut	4,358	4,556	4.5%	9,293	9,821	5.7%
Delaware	929	975	5.0%	2,271	2,403	5.8%
District of Columbia	1,013	1,061	4.7%	2,058	2,170	5.4%
Florida	18,483	19,991	8.2%	45,514	48,910	7.5%
Georgia	9,337	9,950	6.6%	22,808	24,231	6.2%
Hawaii	1,474	1,547	5.0%	3,463	3,656	5.6%
Idaho	1,249	1,326	6.2%	3,302	3,493	5.8%
Illinois	13,088	13,773	5.2%	31,632	33,261	5.1%
Indiana	5,497	5,784	5.2%	14,418	15,219	5.6%
Iowa	2,767	2,951	6.6%	7,602	8,046	5.8%
Kansas	2,817	2,960	5.1%	7,166	7,525	5.0%
Kentucky	4,229	4,462	5.5%	10,655	11,237	5.5%
Louisiana	3,858	4,062	5.3%	9,797	10,357	5.7%
Maine	904	943	4.3%	2,325	2,444	5.1%
Maryland	5,793	6,164	6.4%	13,671	14,505	6.1%
Massachusetts	4,999	5,324	6.5%	12,029	12,763	6.1%
Michigan	7,214	7,603	5.4%	19,324	20,298	5.0%
Minnesota	5,345	5,627	5.3%	13,427	14,210	5.8%
Mississippi	2,362	2,509	6.2%	6,134	6,465	5.4%
Missouri	5,800	6,165	6.3%	14,756	15,574	5.5%
Montana	910	968	6.4%	2,418	2,550	5.5%
Nebraska	2,062	2,184	5.9%	5,417	5,721	5.6%
Nevada	3,190	3,422	7.3%	7,581	8,175	7.8%
New Hampshire	1,049	1,109	5.7%	2,568	2,716	5.8%
New Jersey	7,324	7,718	5.4%	18,087	19,041	5.3%
New Mexico	1,654	1,756	6.2%	4,297	4,536	5.6%
New York	15,014	15,951	6.2%	34,342	36,573	6.5%
North Carolina	10,268	10,940	6.5%	24,576	26,236	6.8%
North Dakota	1,265	1,341	6.0%	3,418	3,654	6.9%
Ohio	10,216	10,790	5.6%	24,956	26,246	5.2%
Oklahoma	3,046	3,253	6.8%	7,626	8,083	6.0%
Oregon	3,025	3,254	7.6%	7,322	7,868	7.5%
Pennsylvania	9,972	10,498	5.3%	24,499	25,757	5.1%
Rhode Island	721	766	6.2%	1,828	1,934	5.8%
South Carolina	4,003	4,280	6.9%	10,326	11,031	6.8%
South Dakota	792	836	5.6%	2,250	2,390	6.2%
Tennessee	6,954	7,400	6.4%	17,000	18,071	6.3%
Texas	22,220	23,905	7.6%	53,725	57,567	7.2%
Utah	2,072	2,259	9.0%	5,126	5,522	7.7%
Vermont	386	408	5.7%	1,042	1,092	4.8%
Virginia	8,798	9,353	6.3%	21,161	22,494	6.3%
Washington	5,522	5,902	6.9%	13,946	14,825	6.3%
West Virginia	1,283	1,348	5.1%	3,347	3,510	4.9%
Wisconsin	4,556	4,845	6.3%	11,887	12,610	6.1%
Wyoming	584	611	4.6%	38,275	40,462	5.7%

APPENDIX

Appendix A: 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.

Appendix B: Methodology

The statistics in this report were derived from various published sources as well as IHS Economics propriety databases. In January 2017, IHS Markit developed estimates of franchise establishments, employment and output by business line in 2013-2015 tied to benchmark estimates of these indicators for 2016 developed in a study of the economic impact of franchise businesses prepared for the International Franchise Association Franchise Education and Research Foundation by PricewaterhouseCoopers[5]. That report, completed in mid-2016, provided estimates (projections) of establishments, employment, and annual payroll and output, separately for business format franchises, in 10 Business Format Lines in 2016.

To develop corresponding estimates for 2013-2015, 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). Many economic drivers for our forecasts of franchise business activity are drawn from the *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).

When complete data for 2016 were available in mid-2017, IHS Markit made revised estimates for all franchise business indicators in 2016.

State Level Forecast

The PricewaterhouseCoopers study also provided 2016 estimates of state level franchise activity. Using these 2016 state levels as a starting point, IHS Markit Economics used our proprietary Business Market Insights database and Regional Information Service forecasts to estimate the growth in franchise activity in 2017. The estimates were further constrained to equal sum to our national level forecasts for 2017. When complete data for 2016 were available in mid-2017, IHS Markit made revised estimates for all state franchise business indicators in 2016 consistent with the revised national data for 2016.

Additionally, since our BMI database does not forecast payroll, we use our Regional Information Service estimates and forecasts of wages in the 10 franchise business lines in 2016 and 2017 to estimate and project the growth in payrolls for each state.

[5] https://franchiseeconomy.com/