Franchise Business Economic Outlook for 2017

Prepared for:

International Franchise Association
Franchise Education and Research Foundation

By:

IHS Markit Economics

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Table of Contents

EXECUTIVE SUMMARY 1
- Franchise Business Index 3

INTRODUCTION 5

THE ECONOMIC OUTLOOK 6

OUTLOOK FOR FRANCHISE BUSINESS 8
- Outlook Summary 8
- Establishments by Business Line 15
- Employment by Business Line 16
- Output by Business Line 18
- Franchise Businesses' Contribution to GDP 20
- Distribution by Sector 20
- Output per Employee 22

State Franchise Outlook 24
- State Overview 24
- Appendix A: Composition of Franchise Business Lines 27
- Appendix B: Methodology 28

EXECUTIVE SUMMARY

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

In September 2016, the IFA Franchise Education and Research Foundation released new estimates of the employment, output, number of establishments, and contribution to GDP of US franchise businesses in 2016. These estimates were prepared by PricewaterhouseCoopers LLP (PwC) based on data collected on franchise businesses in the 2012 Economic Census and other sources including FRANdata and D&B. This report presents additional estimates of these basic indicators of franchise business activity for the period 2013-2015, which are consistent with the 2016 PwC estimates for business format franchises and a forecast for franchise activity in 2017.

In the wake of the recent US presidential election, there has been a noticeable unleashing of "animal spirits"—consumer and business optimism and stock market indexes have surged. In the case of businesses, the revival of animal spirits has a lot to do with the expectation that the incoming Trump administration and a Republican-led Congress will cut taxes, roll back regulations, and make it easier to repatriate profits.

IHS Markit forecasts that there will be a pickup in the pace of US growth, from 1.6% in 2016 to 2.3% in 2017—not so much because of animal spirits, but because of an easing in both the recent inventory correction and a rebound in energy-sector investment. Consumer spending growth should pick up gradually in 2017 and 2018, supported by gains in consumer confidence, employment, real disposable income, and household net worth.

The franchise sector grew faster than overall GDP in 2016 and will continue to outpace overall economic growth in 2017, although by a smaller margin. We estimate that the number of franchise establishments grew 1.7% in 2016 and will increase 1.6% in 2017. Franchise employment was up 3.5% in 2016 and is forecast to grow 3.3% in 2017, and franchise output grew 5.8% in 2016 and will grow 5.3% in 2017.

This report also presents estimates of 2017 franchise growth at the state level. Some highlights include:

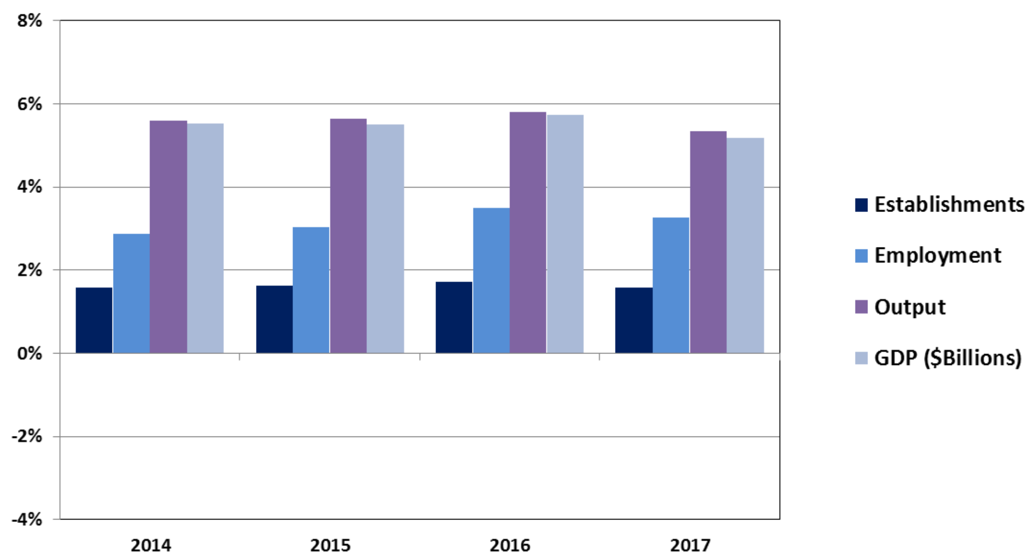
- States in the South and West will lead the nation in franchise employment and output growth in 2017. Economic growth in both regions has benefited greatly in recent years from renewed flows of domestic migration.
- In addition to the strong growth of population and personal income in these Sun Belt regions, tourism is an important driver for franchise related growth, since the lodging and restaurant industries are among the franchise-intensive business lines.

Policy changes under the new administration could have both positive and negative impacts on the business outlook for franchises. New leadership at the Department of Labor and in Congress will likely result in changes in the regulatory environment that will benefit franchise businesses, but the implementation of President Trump's proposed immigration policies could pose a threat to employment growth generally and especially to certain franchise-intensive industries.

Franchise Business Economic Outlook: January 2017

	2013	2014	2015	2016	Forecast 2017
Establishments	697,943	708,973	720,458	732,842	744,437
Percent change		*1.6%*	*1.6%*	*1.7%*	*1.6%*
Employment ('000)	6,962	7,162	7,379	7,636	7,885
Percent change		*2.9%*	*3.0%*	*3.5%*	*3.3%*
Output ($Billions)	571	603	637	674	710
Percent change		*5.6%*	*5.6%*	*5.8%*	*5.3%*
GDP ($Billions)	344	363	383	405	426
Percent change		*5.5%*	*5.5%*	*5.7%*	*5.2%*

Franchise Business Growth by Year, 2014-2017: January 2017 Forecast



Our analysis is based on a grouping of franchise businesses into 10 broad business lines. The growth outlook differs among the groups, with output growth in 2017 ranging from a low of 0.9% in the Commercial & Residential Services business line to 6.8% in Table/Full Service Restaurants. Other highlights of the industry forecast for 2017 are:

- As overall consumer spending at restaurants in expected to maintain its high growth pace in 2017, the outlook for both the Quick Service Restaurant and Table/Full Service Restaurants business lines is strong. They rank 1st and 2nd in employment growth in 2017 with growth of 4.0% and 3.9% respectively.

- With consumer spending on services picking up in 2017, the Personal Services business line is projected to rank first in growth of the number of establishments with 2.3% growth and third in employment growth (3.6%).
- The retail business lines will also benefit from higher consumer spending. Retail Products & Services franchises will see output grow 5.5% in 2017, ranking fourth.

Franchise Business Economic Outlook 2017: January 2017 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	37,603	*1.3%*	196	*2.6%*	41.2	*3.8%*
Business Services	106,772	*1.5%*	643	*2.4%*	96.4	*4.1%*
Commercial & Residential Services	65,072	*0.4%*	245	*0.4%*	42.6	*0.9%*
Lodging	28,029	*1.1%*	620	*1.3%*	71.1	*4.9%*
Personal Services	109,223	*2.3%*	484	*3.6%*	35.0	*6.1%*
Quick Service Restaurants	190,494	*1.9%*	3,610	*4.0%*	237.6	*6.7%*
Real Estate	62,424	*1.3%*	247	*1.6%*	49.9	*4.6%*
Retail Food	52,891	*1.2%*	470	*2.7%*	37.9	*4.1%*
Retail Products & Services	60,453	*1.7%*	346	*3.2%*	30.7	*5.5%*
Table/Full Service Restaurants	31,476	*1.9%*	1,025	*3.9%*	67.5	*6.8%*
TOTAL	**744,437**	***1.6%***	**7,885**	***3.3%***	**709.9**	***5.3%***

Franchise Business Index

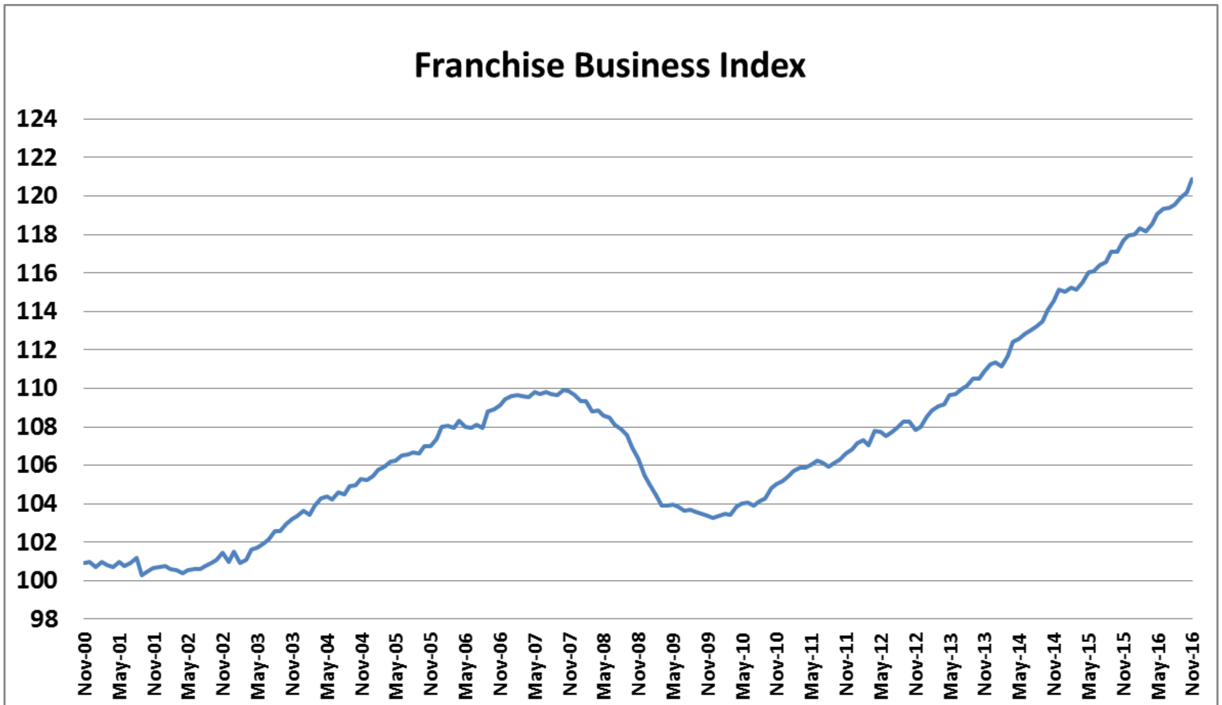
The estimates of output, employment and the number of establishments in the franchise industry reported here provide valuable measures of the size and growth of the industry. But, because most of the key data inputs required to make these estimates are published only on an annual basis, the estimates are made only at an annual frequency. A more timely 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. 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 increased by an average 0.4% per month over the last three months (September through November), and the index was up 2.7% in November compared to November 2015.

All components of the index made positive contributions to the FBI over this 3-month period. Among individual components, strong gains in retail sales of franchise-intensive retailers contributed most. This was followed closely by a significant improvement in credit conditions.

	Aug 2016	Sep 2016	Oct 2016	Nov 2016	12-month Nov-Nov
Franchise Business Index	**119.6**	**119.9**	**120.2**	**120.9**	
Percent Change	**0.1%**	**0.3%**	**0.2%**	**0.6%**	**2.7%**



Source: IHS Markit Economics, January 2017

INTRODUCTION

This report presents a first look at the outlook for the franchise sector of the US economy in 2017 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, 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 2013 through 2016 and an initial forecast for 2017 of:

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

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

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

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

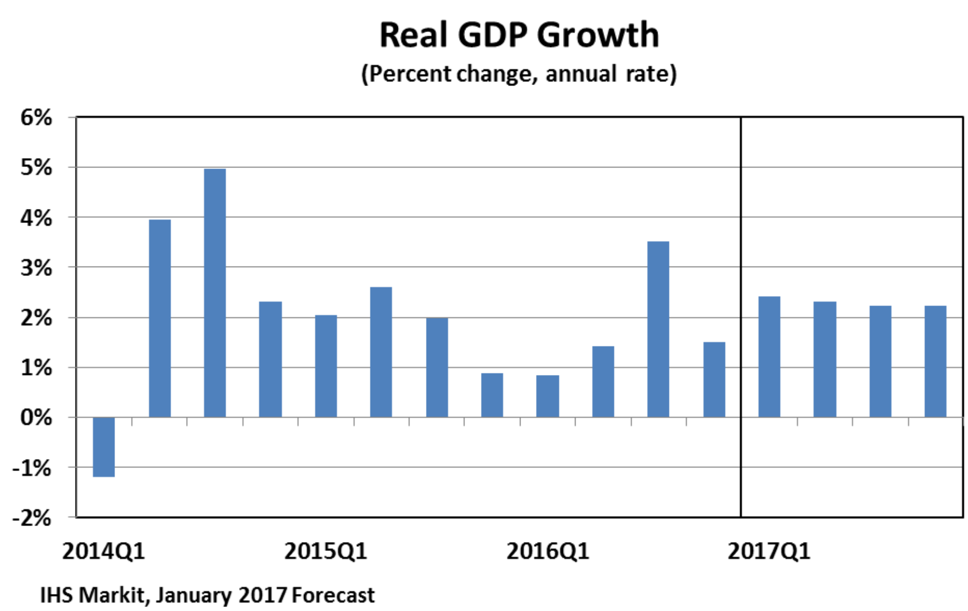
[3] Positions filled by part-time and full-time employees or by self-employed individuals.

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

THE ECONOMIC OUTLOOK

In the wake of the recent US presidential election, there has been a noticeable unleashing of animal spirits. Both consumer and business optimism have surged—and stock market indexes have hit record highs. Some of this may be a "relief rally" after a particularly contentious election cycle. However, in the case of business optimism and the stock market rally, the revival of animal spirits has a lot to do with the expectation that the incoming Trump administration and a Republican-led Congress will cut taxes, roll back regulations, and make it easier to repatriate profits. Even assuming that the optimism does translate into higher spending, two "hard" forces are already undermining some of the positive impacts. Long-term interest rates have risen by 70 basis points since the election and are projected by IHS Markit to advance another 30 basis points in the coming year. This will be drag on consumer spending, housing activity, and business capital spending. Just as important is the rise in the value of US dollar, which has climbed 4.5% on a trade-weighted basis since the election (4.8% since the beginning of 2016), and is forecast to rise another 3.0% over 2017. This will be a prolonged hindrance to net exports.

That said, IHS Markit forecasts that there will be a pickup in the pace of the US recovery, from 1.6% in 2016 to 2.3% in 2017—not so much because of "animal spirits," but because of an easing in both the recent inventory correction and the rout in energy-sector investment. The franchise sector, having been less impacted by the headwinds of inventory and energy in recent years, will also not be as impacted by their easing. Franchise businesses will see another year of solid growth in 2017, with growth rates of employment and output near those of 2016.



As expected, the Federal Reserve raised its overnight federal funds rate by 25 basis points at its December policy meeting, signaling confidence in the recovery's sustainability.

Real consumer spending will continue to increase at rates of 2.5–3.0% in the first half of 2017, supported by gains in real disposable income and household net worth. Household finances are in excellent shape, helped by the post-election stock market rally, rising home prices, and nearly a decade of restraint in borrowing. Consumer sentiment and confidence indicators surged in late 2016, suggesting some upside risk to our fundamentals-driven forecast. The recovery in homebuilding will continue on a slow path, restrained by rising interest rates. Robust home sales, lean inventories, and advancing prices will encourage builders to increase production. The upward trend in building permits signals 5.0% growth in real residential investment in the first quarter. Capital spending is finally gaining momentum, boosted by rebounds in aircraft and energy-related investments. An improving tax and regulatory climate will help, although our forecast assumes that tax changes will take effect in 2018. After 5.5% growth in the fourth quarter of 2016, real business fixed investment is projected to increase at a 6.0% annual pace in the first half of 2017.

In response to an appreciating US dollar and strengthening domestic demand, import growth will outpace export growth throughout 2017. Real net exports are expected to reduce real GDP growth by an average of 0.4 percentage point in the first two quarters.

The Economic Outlook for 2017

(Annual percent change)	2013	2014	2015	2016	2017
Real Gross Domestic Product	1.7%	2.4%	2.6%	1.6%	2.3%
Total Nonfarm Employment	1.6%	1.9%	2.1%	1.7%	1.3%
Accommodations and Food Services	3.6%	3.0%	2.9%	2.4%	1.6%
Personal Services	1.0%	1.5%	1.0%	1.3%	0.0%
Real Disposable Income	-1.4%	3.5%	3.5%	2.7%	2.7%
Real Personal Consumption	1.5%	2.9%	3.2%	2.7%	2.8%
Food Services	1.3%	3.2%	4.6%	2.9%	2.9%
Accommodations	4.1%	4.0%	3.3%	1.8%	1.1%
Personal Services	-1.0%	3.0%	2.1%	2.5%	2.3%
Retail Sales (nominal dollars)	3.8%	4.1%	2.3%	3.0%	4.1%
Existing Home Sales	9.1%	-3.1%	6.3%	4.0%	0.3%
Com'l & Indus. Loans Outstanding, Com'l.Bank	6.8%	12.6%	10.0%	8.0%	4.8%

IHS Markit Economics, January 2017 Forecast

OUTLOOK FOR FRANCHISE BUSINESS

Outlook Summary

Many of the factors that have been creating a drag on real GDP growth, such as weak exports, flat government spending and an inventory correction, are of less direct relevance for the health of the franchise sector of the economy. As summarized above, the fundamentals of consumer spending are positive and business investment (outside the oil industry) is beginning to accelerate. Thus, many franchise businesses saw good business conditions in 2016. Just as the franchise sector was not impacted as much by the headwinds in recent years, it will also be less impacted than the overall economy by these headwinds diminishing and, therefore, will see slightly slower growth in 2017. Yet the franchise sector is still expected to grow faster than the economy as a whole in most of its business lines:

- We estimate that the number of franchise establishments increased by 1.7% in 2016, and we expect growth to be near this pace – at 1.6% – in 2017.
- Franchise employment was up an estimated 3.5% in 2016, and we project a gain of 3.3% in 2017. In comparison, total non-farm private sector employment is projected to increase 1.4% in 2017 after a 1.9% gain in 2016.
- Growth of the output of franchise businesses in nominal dollars will slow slightly from its 5.8% pace in 2016 to 5.3% in 2017.
- The gross domestic product (GDP) of the franchise sector will increase by 5.2% to $426 billion in 2017. 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 private GDP in nominal dollars.

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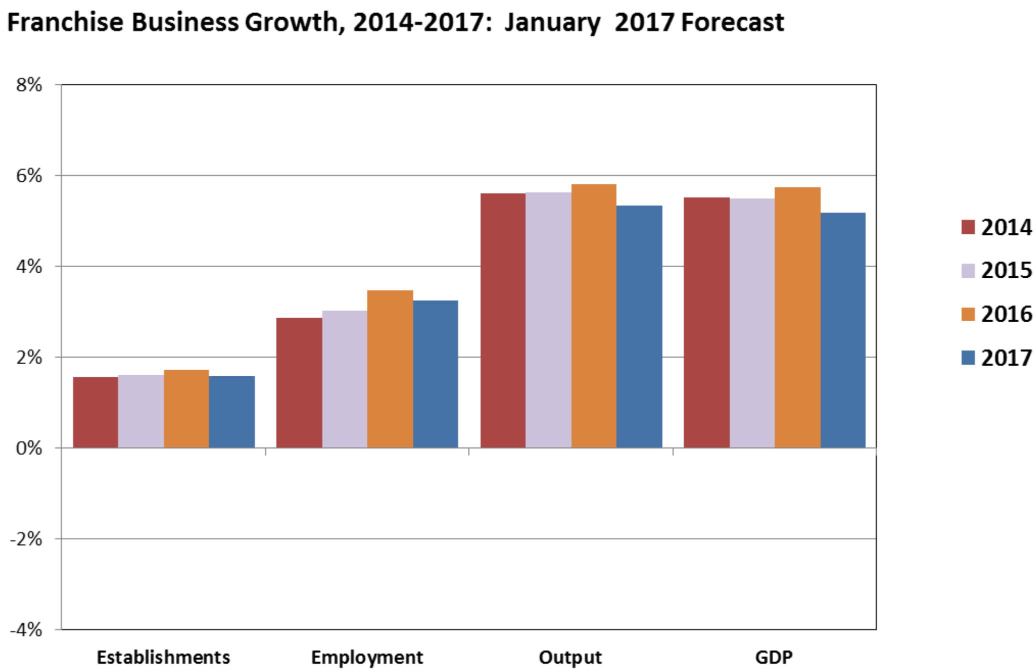
GDP ($Billions)	344	363	383	405	426
Percent change		*5.5%*	*5.5%*	*5.7%*	*5.2%*

The following chart shows how the franchise economy has fared over the last three years, along with our 2017 forecast, by various measures. Growth rates of output and GDP are in nominal dollars.



Policy changes under the new administration could have both positive and negative impacts on the business outlook for franchises. New leadership at the Department of Labor and a Republican-led Congress will likely result in changes in the regulatory environment for labor issues that have negatively affected franchise business operations, but the administration's immigration policy could pose a threat to employment growth generally and especially to certain franchise-intensive industries. With the aging of the Baby Boom generation, the US economy will be increasingly dependent on immigration for labor force growth. Immigration policies that have been advocated by the new President could result in negative net international migration, which would significantly slow US employment growth.

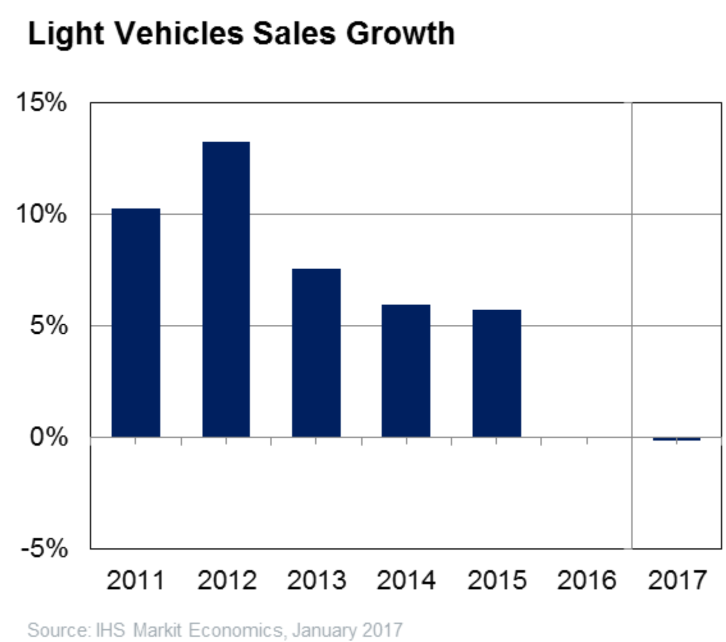
Our macroeconomic forecast, which shows modest annual US employment growth of 1.1% over the next four years, still incorporates pre-election Census Bureau population projections that assume rising immigration. A significant change in the immigration outlook would mean slower employment growth, affecting the potential labor supply for franchises as well as businesses economy-wide. There is little room in the forecast for other labor market adjustments to offset negative net migration, since the unemployment rate falls to 4.1% in the forecast – a level seen only once in the last 50 years – and the labor force participation rate is already forecast to reverse its long-term decline.

Slower employment growth due to negative net migration could have a greater impact on the hiring needs of industries that have relied more on foreign-born workers. Several sectors of the economy where franchising plays a significant role have above average shares of foreign-born workers. About 38% of workers in the lodging industry and 24% of restaurant workers are foreign born. Other franchise-intensive industries within personal services and business services have even higher shares of foreign-born workers. A tighter labor market is already putting upward pressure on wages in the restaurant industry and elsewhere. Slower labor force growth due to immigration policy would exacerbate this trend, boosting labor costs and possibly squeezing franchise profit margins.

To provide background for our view of how different segments of the franchise sector will fare in 2017, 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: Thanks to a fourth-quarter surge, light-vehicle demand finished 2016 up 0.4% for the year, and the auto sector remained a positive contributor to the overall US economic recovery. The factors that have helped support growth throughout the year—favorable credit conditions, rising incentives, low fuel prices, improving employment and housing markets, along with a churn of old vehicles needing to be replaced—remain entrenched moving into the new year. As we move through 2017, the auto sales outlook could be affected by changes in incentive levels and potentially lower inventory, as well as by rising interest rates. With overall economic fundamentals expected to be remain consistent next year, however, we anticipate a sustained, but more moderate auto demand level in 2017.

Light truck sales will continue to outpace passenger car demand in 2017, since fuel prices are expected to remain moderate and the popularity of crossover utility vehicles (CUVs) continues to grow. In December, light truck sales were up more than 8% and accounted for more than 64% of total sales volume—an all-time monthly record level. All the light truck gains come at the direct expense of passenger car demand, which was down more than 5% for the month, contributing to a full-year sector decline of approximately 9%. With cars getting older on the road and increased employment and incomes, economy-wide, consumer spending on auto parts (in nominal dollars) is expected to increase to 4.8% in 2017 after growing just 2.9% in 2016.



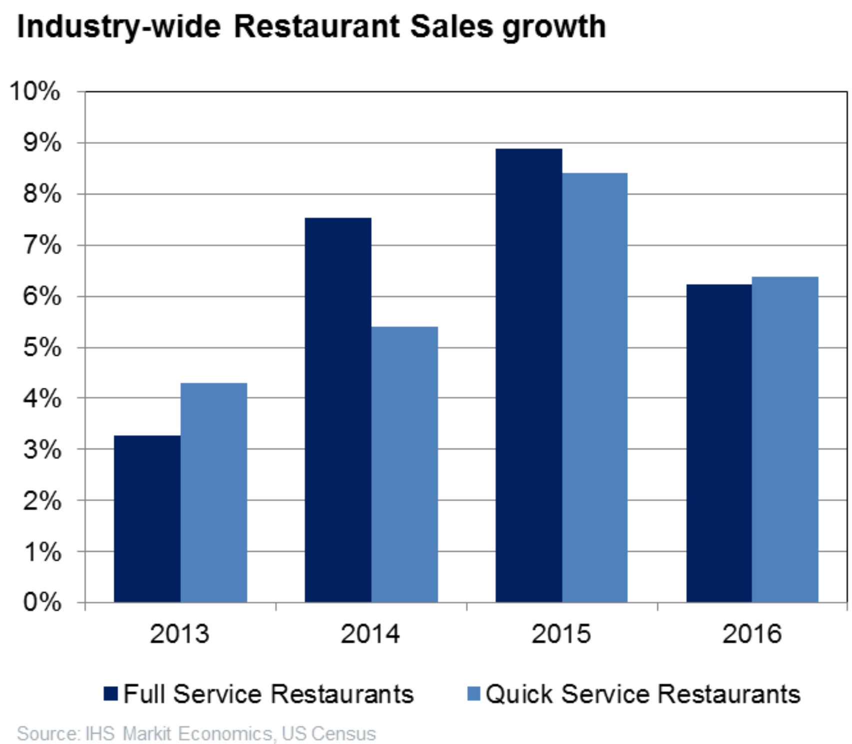
Franchise employment in the automotive business line was estimated to be 3.0% in 2016 and will slow slightly to 2.6% in 2017. While this will outpace the overall auto parts and tire sales industry, whose employment is projected to grow 1.1% in 2017, it will keep the automotive business line among the slower growing of the 10 franchise business lines, ranking sixth in employment growth and ninth in output growth. Growth of the number of establishments in the automotive business line will slow from 1.6% in 2016 to 1.3% in 2017.

Commercial & Residential Services: Nominal spending on household services is expected to rise 4.7% in 2017 after increasing 4.5% in 2016. However the housing market is showing mixed signals. In December, homebuilder sentiment reached an 11-year high, but the pending home sales index measuring contract signings for existing homes declined in November, indicating a slower pace of existing home sales to start 2017. In addition, housing starts in November retreated after reaching a nine-year high the month before. Mortgage rates have been moving higher, which will hurt affordability and may limit price increases and transactions.

The commercial and residential services business line is expected to grow at the slowest pace of the 10 business lines in 2017. Our estimates of establishment, employment and output for this business line show slower 2017 growth of 0.4%, 0.4% and 0.9%, respectively.

Table/Full Service Restaurants: Spending at restaurants continues to be an important contributor to rising household spending on services, although the growth of spending in both segments of the restaurant industry slowed in 2016. Sales of both quick service and table/full service restaurants slowed from 8-9% growth in 2015 to just over 6% in 2016. We expect growth in both segments of the industry in 2017 to match 2016's results.

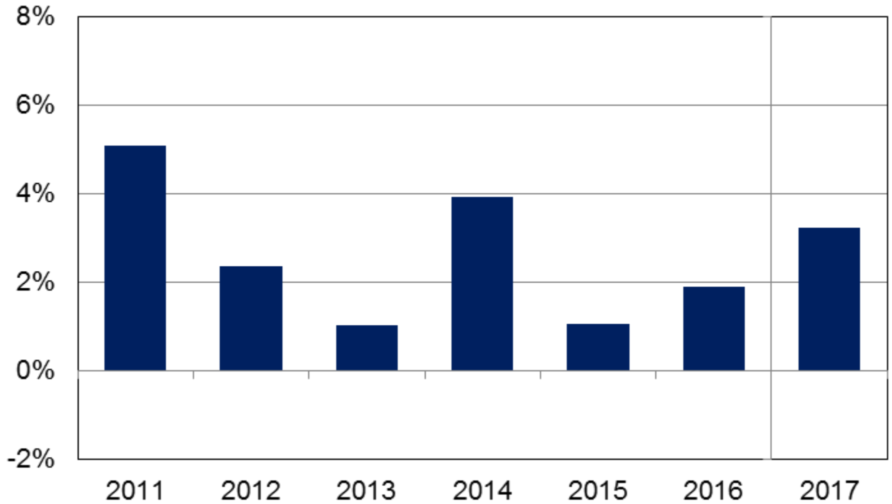
Both restaurant categories will continue to be among the growth leaders among franchise business lines in 2017. The franchise table/full service restaurants business line is expected to post the fastest pace of output growth among the 10 business lines in 2017, with sales up 6.8%. This will translate into higher productivity, as we project a 3.9% increase in employment in 2017.



Quick Service Restaurants: As reported above, we expect total nonfarm employment growth (including government employment) of 1.3% in 2017 – slightly slower than the 1.7% pace of 2016. As the labor market tightens and the unemployment rates remains below 5%, this should further boost wages, which were stagnant for years but began to accelerate in 2016. Higher wages and employment should benefit the quick service restaurant business line, and we estimate sales will grow at the second highest pace (behind full service restaurants) of 6.7%. We estimate the number of QSR establishments will also grow at the second fastest pace, increasing 1.9%. The QSR business line will remain among the leaders of the franchise sector in employment growth in 2017, with a 4.0% gain.

Retail Food: Though restaurants are expected to continue to do well in 2017, it is becoming increasingly pricy to eat out compared with preparing food at home. This should help the retail food franchise business line, although it is still expected to rank 8th in establishment growth as it did in 2016 with growth of 1.2%. Retail sales of food stores of all types (including their sales of non-food items) grew by 2.2% in 2016, and their sales growth is expected to increase to 3.7% in 2017. We expect franchise employment and output within the retail food business line to outpace these industry-wide growth trends. Our forecast for this business line shows a 2.7% increase in employment and sales (output) growth of 4.1% in 2017, moving it up from 6th to 5th and 9th to 7th place respectively among all franchise business lines.

Growth of Consumer Spending on Food (Excluding Restaurants)



Source: IHS Markit Economics, 2017

Lodging: The lodging industry, after posting several years of solid growth, saw slightly slower growth in 2016. Employment growth in the industry in 2016 is estimated at 0.6%, which is half its 2015 growth. Similarly, recent data on the lodging industry from the ADP National Franchise Report and our industry data indicate that the franchise segment of the industry has shared in these trends with franchise employment growth slowing to a 1.4% pace in 2016. We estimate that franchise employment in the lodging business line will grow 1.3% in 2017. Output growth in the lodging business line is expected to grow 4.9% in 2017, ranking it in the middle of the 10 business lines.

Real Estate: Mortgage commitment rates have gained 90 basis points since the low reached in mid-2016, but 2016 as a whole matched the average annual rate in 2012, the lowest of all time. Still, higher mortgage rates will hurt affordability and may limit price increases and transactions. Third-quarter real residential investment was revised to a smaller decline, and we expect growth in the fourth quarter of 2016 after two quarters of declines. Private spending on nonresidential buildings is expected to be down in the fourth quarter, after two solid quarters, on declining spending in manufacturing and electric power plants. The dip is temporary: we anticipate modest gains in building construction during 2017 and 2018. Housing starts are expected to tick up slightly in 2017 from 1.162 million units to 1.223 million units. Similarly, amidst tight inventory, existing homes sales are projected to grow from 5.441 million units in 2016 to 5.457 million units in 2017.

We estimate that the output of the franchise real estate business line increased 5.3% in 2016, and we expect a 4.6% increase in 2017 – ranking it 6th of the 10 lines. Employment in the real estate business line is expected to increase 1.6% in 2017 and establishments will grow 1.3% – just below the 2016 growth rates.

Retail Products & Services: Nonstore (mostly online) retailers made a killing this holiday season, and are up 13.2% from last December. Meanwhile, department stores are suffering badly, and have not recorded an increase in sales since April. Retail sales excluding gasoline and autos are likely to slow down slightly in 2017 (up 3.8% vs. 4.0% in 2016), before accelerating to a 4.8% growth rate in 2018.

This franchise business line, though, continues to perform in the top half of the 10 business lines. In 2017 it ranks 4th in employment, establishment and output growth with expected growth rates of 3.2%, 1.7% and 5.5% respectively.

Business Services: The IHS US Industry Service forecasts a slight slowdown in business service growth (even as business investment is finally expected to pick up this year). Employment growth in all professional and technical services, including accounting and bookkeeping services and architectural and engineering services, is expected to be down slightly – growing 2.2% in 2017 versus 3.3% in 2016. The franchise business services industry has been one of the leaders among franchise business lines in recent years, but is expected to somewhat lag this year, ranking number 7 of the 10 business lines for employment growth (2.4%), number 5 for establishment growth (1.5%) and number 8 for output growth (4.1%) in 2017.

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. Real consumer spending will continue to increase at rates of 2.5–3.0% in the first half of 2017, supported by gains in real disposable income and household net worth. Household finances are in excellent shape, helped by the post-election stock market rally, rising home prices, and nearly a decade of restraint in borrowing. Consumer sentiment and confidence indicators also surged in late 2016. This should all help boost spending on personal services. Economy-wide personal consumption spending is expected to grow 4.6% in 2017 (in nominal dollars) after growing 3.8% in 2016.

We estimate that employment in franchise personal services increased 3.7% in 2016 and will grow another 3.6% in 2016, making it the third fastest growing business line after the two restaurant business lines. Output is expected to be up 6.1%. Personal service establishments will have the fastest growth of the 10 business lines, growing 2.3% in 2017.

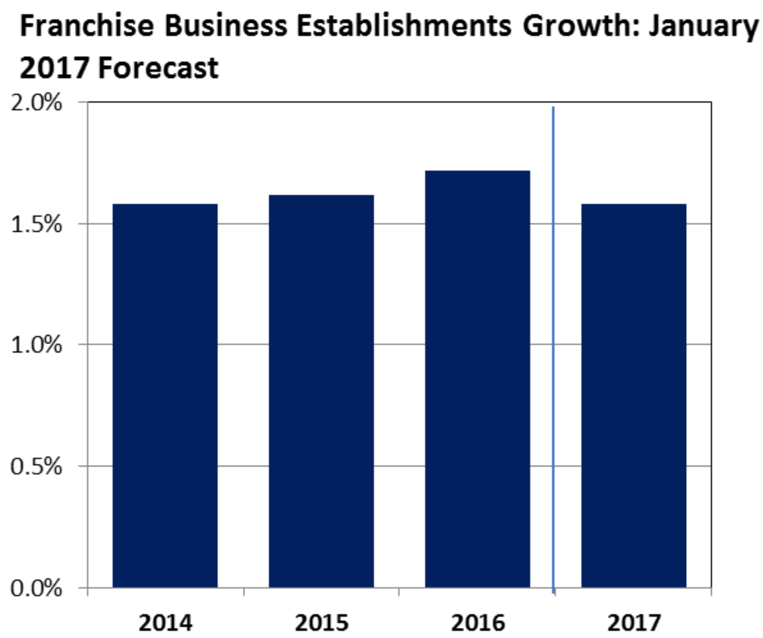
Establishments by Business Line

Historically, total US establishments have exhibited growth of 1 to 2% in the initial years of a recovery and then accelerated. However, during the recovery following the recession of 2008-2009 business formation lagged, as did growth of the number of establishments.

We estimate that the number of franchise establishments increased an average 1.7% across all 10 business-format lines in 2016, and growth will be about the same in 2017 at 1.6%. The personal services line will take the lead with 2.3% growth, followed closely by the quick service and table/full service restaurant lines at 1.9% growth.

Franchise Establishments by Business Line, 2013-2017: January 2017

					Forecast
	2013	**2014**	**2015**	**2016**	**2017**
Automotive	35,503	35,913	36,535	37,109	37,603
Percent change		*1.2%*	*1.7%*	*1.6%*	*1.3%*
Business Services	99,791	101,590	103,596	105,209	106,772
Percent change		*1.8%*	*2.0%*	*1.6%*	*1.5%*
Commercial & Residential Services	62,678	63,552	64,371	64,825	65,072
Percent change		*1.4%*	*1.3%*	*0.7%*	*0.4%*
Lodging	26,428	26,939	27,396	27,718	28,029
Percent change		*1.9%*	*1.7%*	*1.2%*	*1.1%*
Personal Services	100,398	102,635	104,333	106,777	109,223
Percent change		*2.2%*	*1.7%*	*2.3%*	*2.3%*
Quick Service Restaurants	178,133	180,717	183,332	186,977	190,494
Percent change		*1.5%*	*1.4%*	*2.0%*	*1.9%*
Real Estate	58,877	59,722	60,712	61,593	62,424
Percent change		*1.4%*	*1.7%*	*1.5%*	*1.3%*
Retail Food	50,320	50,933	51,649	52,268	52,891
Percent change		*1.2%*	*1.4%*	*1.2%*	*1.2%*
Retail Products & Services	56,292	57,144	58,238	59,467	60,453
Percent change		*1.5%*	*1.9%*	*2.1%*	*1.7%*
Table/Full Service Restaurants	29,524	29,829	30,296	30,898	31,476
Percent change		*1.0%*	*1.6%*	*2.0%*	*1.9%*
Total	**697,943**	**708,973**	**720,458**	**732,842**	**744,437**



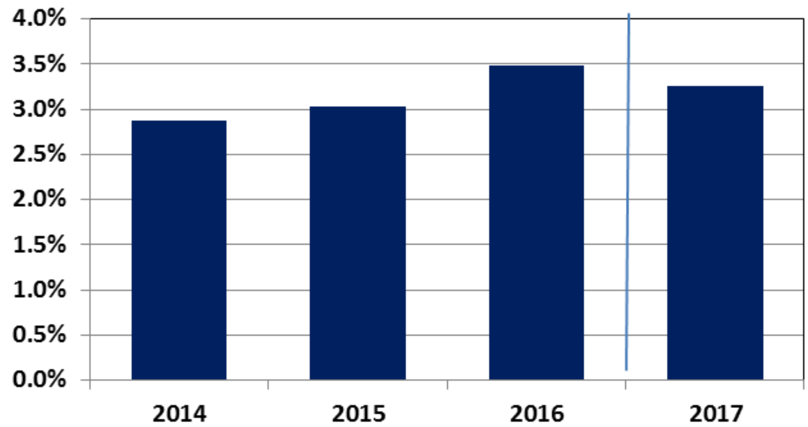
Employment by Business Line

We estimate that total franchise employment grew 3.5% in 2016, and we expect a similar pace of employment growth in 2017 (3.3%). The table/full service and quick service restaurant lines will continue to be the growth leaders, with quick service restaurants increasing their employment by 4.0% in 2017 versus 3.9% for full service restaurants. Our forecast shows personal services moving up a spot to number three, pushing retail products & services to number four in employment growth in 2017, followed by the retail food business line to round out the top five.

Franchise Employment by Business Line, 2013-2017: January 2017

					Forecast
	2013	**2014**	**2015**	**2016**	**2017**
Automotive	175,209	179,092	185,127	190,773	195,670
Percent change		*2.2%*	*3.4%*	*3.0%*	*2.6%*
Business Services	575,345	592,643	612,496	627,906	642,801
Percent change		*3.0%*	*3.3%*	*2.5%*	*2.4%*
Commercial & Residential Services	231,139	236,663	241,819	244,256	245,138
Percent change		*2.4%*	*2.2%*	*1.0%*	*0.4%*
Lodging	571,916	588,878	603,507	612,248	620,416
Percent change		*3.0%*	*2.5%*	*1.4%*	*1.3%*
Personal Services	425,360	440,062	450,230	466,825	483,541
Percent change		*3.5%*	*2.3%*	*3.7%*	*3.6%*
Quick Service Restaurants	3,135,711	3,232,917	3,332,861	3,471,999	3,609,503
Percent change		*3.1%*	*3.1%*	*4.2%*	*4.0%*
Real Estate	230,013	234,079	239,263	243,569	247,459
Percent change		*1.8%*	*2.2%*	*1.8%*	*1.6%*
Retail Food	420,313	431,819	445,270	457,288	469,571
Percent change		*2.7%*	*3.1%*	*2.7%*	*2.7%*
Retail Products & Services	301,604	310,433	321,999	335,271	346,057
Percent change		*2.9%*	*3.7%*	*4.1%*	*3.2%*
Table/Full Service Restaurants	895,391	915,703	946,317	985,849	1,024,779
Percent change		*2.3%*	*3.3%*	*4.2%*	*3.9%*
Total	**6,962,001**	**7,162,289**	**7,378,887**	**7,635,984**	**7,884,935**

Franchise Business Employment Growth: January 2017 Forecast



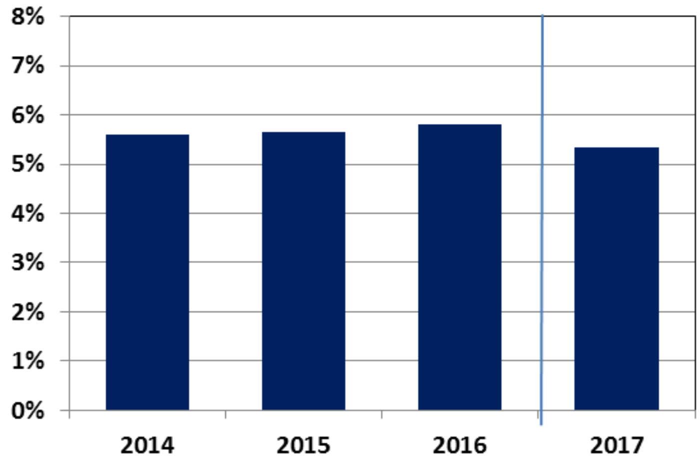
Output by Business Line

We estimate that total output across all franchise business lines grew 5.8% in 2016 – up from 5.6% growth recorded in 2015. We expect the pace of growth in 2017 to tick down to 5.3%. The restaurant business lines (full service and quick service) were the growth leaders in 2016, and they are expected to maintain first and second position in 2017, with growth of 6.8% and 6.7% respectively. Personal services will overtake retail products & services for third place among business lines in 2017 with expected growth of 6.1%.

Franchise Output by Business Line, 2013-2017: January 2017

					Forecast
($billions)	**2013**	**2014**	**2015**	**2016**	**2017**
Automotive	34.57	36.15	37.94	39.70	41.20
Percent change		*4.6%*	*5.0%*	*4.6%*	*3.8%*
Business Services	79.09	83.78	88.77	92.60	96.40
Percent change		*5.9%*	*6.0%*	*4.3%*	*4.1%*
Commercial & Residential Servic	37.70	39.37	40.99	42.20	42.60
Percent change		*4.4%*	*4.1%*	*3.0%*	*0.9%*
Lodging	56.89	60.63	64.43	67.80	71.10
Percent change		*6.6%*	*6.3%*	*5.2%*	*4.9%*
Personal Services	28.27	29.66	31.08	33.00	35.00
Percent change		*4.9%*	*4.8%*	*6.2%*	*6.1%*
Quick Service Restaurants	185.13	195.85	207.87	222.60	237.60
Percent change		*5.8%*	*6.1%*	*7.1%*	*6.7%*
Real Estate	40.74	42.88	45.29	47.70	49.90
Percent change		*5.2%*	*5.6%*	*5.3%*	*4.6%*
Retail Food	31.94	33.39	34.93	36.40	37.90
Percent change		*4.6%*	*4.6%*	*4.2%*	*4.1%*
Retail Products & Services	24.12	25.61	27.24	29.10	30.70
Percent change		*6.2%*	*6.4%*	*6.8%*	*5.5%*
Table/Full Service Restaurants	52.24	55.43	58.93	63.20	67.50
Percent change		*6.1%*	*6.3%*	*7.3%*	*6.8%*
Total	**571**	**603**	**637**	**674**	**710**

Franchise Business Output Growth: January 2017 Forecast



Franchise Businesses' Contribution to GDP

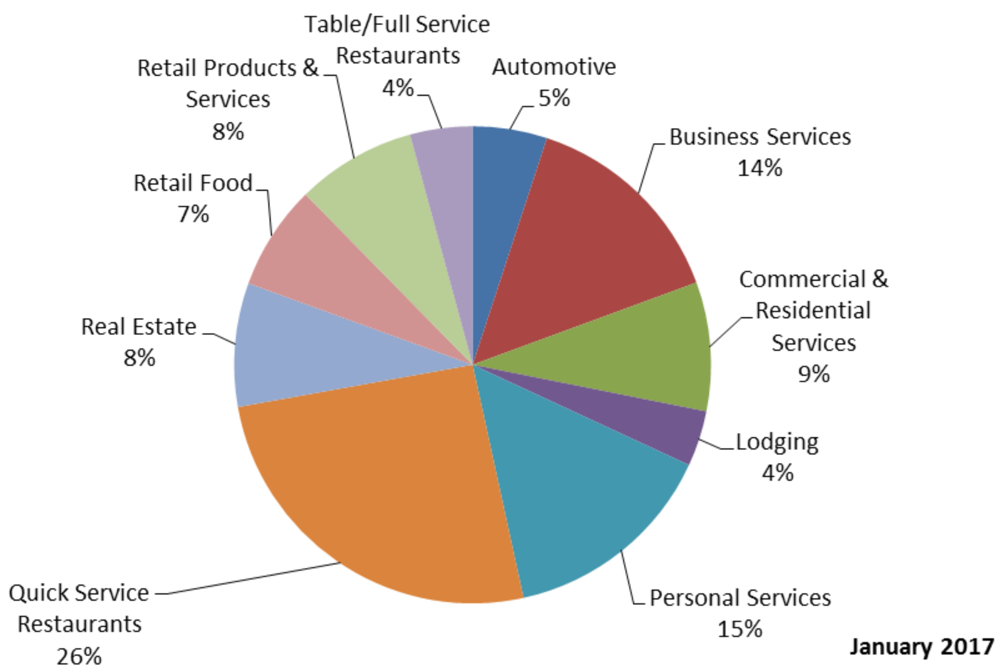
By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Markit Economics developed estimates of the contribution to US GDP by the franchise sector as a whole. We estimate that franchise businesses accounted for approximately 3% of US private GDP or a total of $405 billion in 2016. Based on our employment and output forecasts for franchising in 2017, we project that nominal GDP of the franchise sector will increase by 5.2% to $426 billion in 2017. This will exceed the growth of total US GDP in nominal dollars, which – with moderately low inflation – is projected at only 4.7% in 2017.

Distribution by Sector

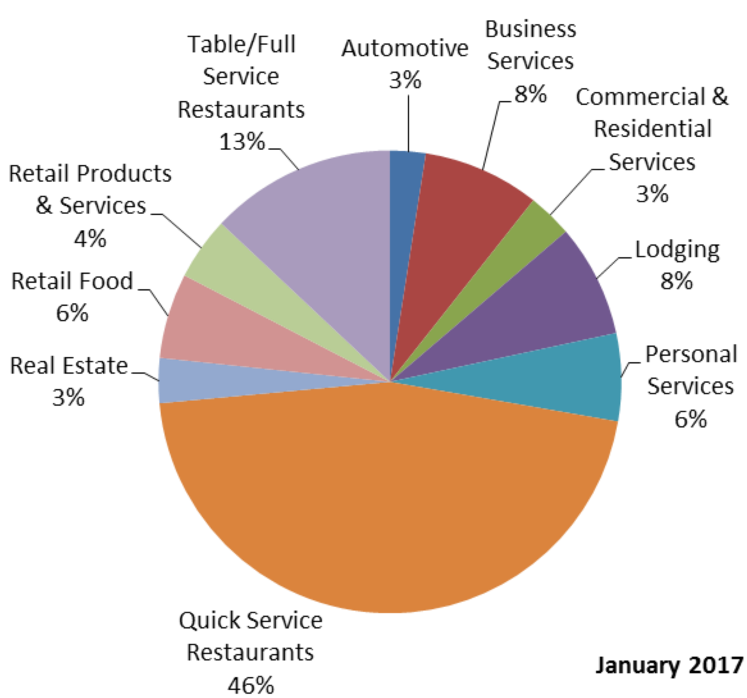
This section focuses on the distribution of the 10 franchise business lines in terms of the number of establishments, employment, and output, based on our forecast for 2017. The quick service restaurants business line is the largest category, with 26% of all franchise establishments, and accounts for 46% of franchise employment. This business line is expected to contribute 33% of total output in 2017. 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.

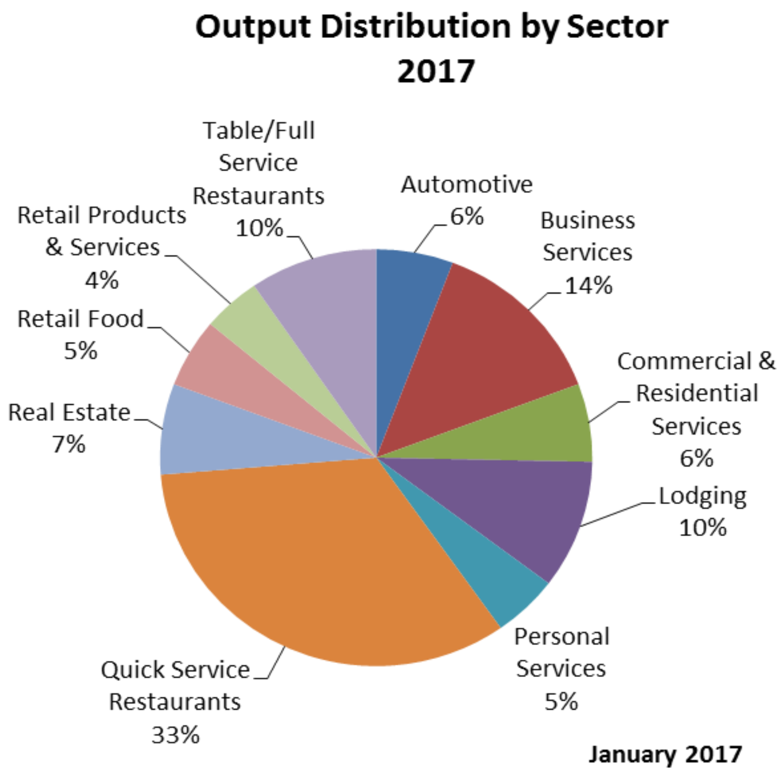
The table/full service restaurants group occupies the second-largest share of employment, accounting for 13% of the total. The business services segment, which has higher ratios of output per establishment and per employee, is the second-largest contributor to the value of output in the franchise sector, with 14% of the total.

Establishments Distribution by Sector 2017



Employment Distribution by Sector 2017





Output per Employee

The average output per worker in the franchise sector has grown since 2013, increasing at a compound annual growth rate of 1.7%, and will continue to rise in 2017. The productivity pattern of franchise businesses during and after the recession is consistent with other US industries, where revenues initially fell at a greater rate than worker lay-offs, and later rose at a faster pace because employers started to rehire workers only slowly. Average output per employee in franchise businesses is projected to increase to 90,032 in 2017 – up 2.0% compared to 2.2% growth in 2016. In 2017, this output-per-worker ratio will vary among the 10 franchise business lines from a low of $65,826 (quick service restaurants) to a high of $210,559 (automotive).

The lodging business line has been one of the fastest growing in terms of output per worker over the 2014-2016 timeframe and will continue to lead, growing output per worker by 3.5% in 2017. The real estate sector will rank second in 2017 – growing its output per worker by 3.0%.

Franchise Productivity by Business Line, 2013-2016: January 2016 Forecast

					Forecast
(Dollars per worker)	2013	2014	2015	2016	2017
Automotive	197,302	201,867	204,955	208,101	210,559
Percent change		*2.3%*	*1.5%*	*1.5%*	*1.2%*
Business Services	137,468	141,369	144,927	147,474	149,969
Percent change		*2.8%*	*2.5%*	*1.8%*	*1.7%*
Commercial & Residential Services	163,115	166,344	169,508	172,770	173,780
Percent change		*2.0%*	*1.9%*	*1.9%*	*0.6%*
Lodging	99,466	102,957	106,758	110,739	114,601
Percent change		*3.5%*	*3.7%*	*3.7%*	*3.5%*
Personal Services	66,457	67,407	69,034	70,690	72,383
Percent change		*1.4%*	*2.4%*	*2.4%*	*2.4%*
Quick Service Restaurants	59,040	60,579	62,371	64,113	65,826
Percent change		*2.6%*	*3.0%*	*2.8%*	*2.7%*
Real Estate	177,118	183,170	189,309	195,838	201,650
Percent change		*3.4%*	*3.4%*	*3.4%*	*3.0%*
Retail Food	75,988	77,330	78,454	79,600	80,712
Percent change		*1.8%*	*1.5%*	*1.5%*	*1.4%*
Retail Products & Services	79,965	82,505	84,596	86,795	88,714
Percent change		*3.2%*	*2.5%*	*2.6%*	*2.2%*
Table/Full Service Restaurants	58,347	60,529	62,269	64,107	65,868
Percent change		*3.7%*	*2.9%*	*3.0%*	*2.7%*
Total	**81,972**	**84,156**	**86,392**	**88,306**	**90,032**

State Franchise Outlook

State Overview

A recent study of the economic impact of franchise businesses commissioned by the IFA Franchise Education and Research Foundation included estimates of basic indicators of franchise business activity at the state level.[5] Here we present forecasts of the growth of franchise businesses in 2017 by state based on macroeconomic forecasts for states from the IHS Markit US Regional Information Service. These estimates and forecasts, like the national franchise data presented elsewhere in this report, are for business format franchises and do not include product distribution franchises.

Franchise businesses are an important part of state economies. States in the South and West lead the nation in franchise employment and output growth. Both regions have benefited greatly in recent years from renewed flows of domestic migration, which dropped sharply during the 2009 recession and aftermath. The movement of people from the Snow Belt to the Sun Belt is now back to prerecession levels. Housing affordability, climate, and job opportunities are key influences behind migration trends with the top ranking states holding advantages in these areas – 8 of the top 10 states in franchise employment and output growth also have housing affordability that is above the US average. Population growth is an enormous positive for overall economic vitality and spurs demand for food, retail, real estate, and automotive services.

In addition to the strong growth of population and personal income in these Sun Belt regions, tourism is an important driver for franchise related growth. Florida and Nevada boast some of the most visited destinations in the US. Leisure and hospitality is also an especially large sector in Arizona, Colorado, and South Carolina. Tourism creates greater need for lodging and restaurants, which are among the top franchise-related business lines.

Top 10 States for Franchise Growth: 2017

Employment	Growth		Output	Growth
Arizona	4.7%		Nevada	7.4%
Utah	4.6%		Utah	7.3%
Nevada	4.4%		Florida	6.6%
Florida	4.1%		Arizona	6.4%
Colorado	4.1%		Colorado	6.3%
South Carolina	4.0%		Virginia	6.1%
North Carolina	3.8%		Texas	6.1%
Georgia	3.8%		South Dakota	6.1%
Tennessee	3.8%		South Carolina	5.9%
Texas	3.6%		North Carolina	5.8%

IHS Markit Economics January 2017 Outlook

[5] https://franchiseeconomy.com/

State Franchise Activity: January 2017 Outlook

	Establishments			Employment		
	2016	2017	Growth	2016	2017	Growth
Alabama	12,220	12,384	1.3%	124,900	128,651	3.0%
Alaska	1,824	1,839	0.8%	14,600	14,963	2.5%
Arizona	14,530	14,965	3.0%	153,300	160,487	4.7%
Arkansas	8,189	8,317	1.6%	82,800	85,473	3.2%
California	75,840	77,067	1.6%	728,900	752,864	3.3%
Colorado	15,606	15,980	2.4%	150,400	156,533	4.1%
Connecticut	7,240	7,301	0.8%	85,000	87,124	2.5%
Delaware	2,035	2,062	1.3%	22,000	22,662	3.0%
District of Columbia	889	902	1.5%	14,000	14,442	3.2%
Florida	47,088	48,230	2.4%	514,000	535,117	4.1%
Georgia	26,544	27,107	2.1%	275,800	286,280	3.8%
Hawaii	1,860	1,887	1.5%	30,800	31,754	3.1%
Idaho	4,721	4,793	1.5%	45,600	47,053	3.2%
Illinois	28,529	28,940	1.4%	321,400	331,388	3.1%
Indiana	16,506	16,770	1.6%	189,000	195,176	3.3%
Iowa	9,908	10,015	1.1%	95,400	98,010	2.7%
Kansas	9,170	9,312	1.5%	89,600	92,486	3.2%
Kentucky	12,670	12,845	1.4%	145,700	150,141	3.0%
Louisiana	11,412	11,532	1.1%	115,900	119,048	2.7%
Maine	2,844	2,859	0.5%	27,100	27,689	2.2%
Maryland	12,830	13,001	1.3%	142,800	147,081	3.0%
Massachusetts	12,462	12,618	1.3%	116,600	120,002	2.9%
Michigan	23,351	23,646	1.3%	247,200	254,433	2.9%
Minnesota	15,173	15,372	1.3%	152,500	157,037	3.0%
Mississippi	8,056	8,186	1.6%	78,900	81,486	3.3%
Missouri	16,873	17,040	1.0%	178,300	183,027	2.7%
Montana	3,756	3,798	1.1%	30,700	31,557	2.8%
Nebraska	6,526	6,596	1.1%	63,600	65,336	2.7%
Nevada	6,148	6,318	2.8%	73,900	77,187	4.4%
New Hampshire	3,079	3,111	1.0%	26,900	27,629	2.7%
New Jersey	17,004	17,153	0.9%	170,500	174,821	2.5%
New Mexico	4,871	4,930	1.2%	54,800	56,379	2.9%
New York	29,072	29,297	0.8%	304,900	312,310	2.4%
North Carolina	24,863	25,400	2.2%	294,400	305,697	3.8%
North Dakota	2,797	2,804	0.3%	31,300	31,895	1.9%
Ohio	27,158	27,390	0.9%	318,500	326,502	2.5%
Oklahoma	10,163	10,302	1.4%	97,100	100,046	3.0%
Oregon	9,106	9,269	1.8%	82,700	85,567	3.5%
Pennsylvania	26,640	26,832	0.7%	270,400	276,828	2.4%
Rhode Island	2,079	2,100	1.0%	18,000	18,478	2.7%
South Carolina	12,317	12,608	2.4%	130,000	135,256	4.0%
South Dakota	3,309	3,349	1.2%	28,200	29,011	2.9%
Tennessee	17,438	17,800	2.1%	200,400	207,922	3.8%
Texas	62,126	63,349	2.0%	635,500	658,662	3.6%
Utah	6,507	6,694	2.9%	63,300	66,185	4.6%
Vermont	1,507	1,508	0.1%	11,300	11,494	1.7%
Virginia	22,310	22,699	1.7%	238,200	246,334	3.4%
Washington	14,477	14,686	1.4%	136,500	140,749	3.1%
West Virginia	4,775	4,820	0.9%	44,800	45,967	2.6%
Wisconsin	14,337	14,522	1.3%	149,500	153,913	3.0%
Wyoming	2,107	2,130	1.1%	18,300	18,805	2.8%

State Franchise Activity: January 2017 Outlook (in millions $)

	Payroll				Output		
	2016	2017	Growth		2016	2017	Growth
Alabama	3,726	3,839	3.0%		9,745	10,213	4.8%
Alaska	635	654	3.0%		1,486	1,563	5.2%
Arizona	5,493	5,661	3.1%		13,627	14,493	6.4%
Arkansas	2,312	2,382	3.0%		6,247	6,603	5.7%
California	28,805	29,677	3.0%		69,391	73,260	5.6%
Colorado	5,403	5,568	3.0%		13,450	14,295	6.3%
Connecticut	4,286	4,412	2.9%		9,308	9,758	4.8%
Delaware	913	940	3.0%		2,272	2,382	4.8%
District of Columbia	1,002	1,033	3.1%		2,066	2,184	5.7%
Florida	17,882	18,425	3.0%		44,826	47,800	6.6%
Georgia	9,097	9,377	3.1%		22,722	23,980	5.5%
Hawaii	1,452	1,496	3.0%		3,472	3,657	5.3%
Idaho	1,216	1,252	3.0%		3,303	3,481	5.4%
Illinois	12,916	13,307	3.0%		31,839	33,279	4.5%
Indiana	5,420	5,584	3.0%		14,456	15,218	5.3%
Iowa	2,726	2,807	3.0%		7,602	8,000	5.2%
Kansas	2,804	2,889	3.0%		7,222	7,594	5.2%
Kentucky	4,149	4,275	3.0%		10,694	11,182	4.6%
Louisiana	3,776	3,889	3.0%		9,808	10,311	5.1%
Maine	883	909	2.9%		2,342	2,454	4.8%
Maryland	5,659	5,829	3.0%		13,637	14,398	5.6%
Massachusetts	4,909	5,055	3.0%		11,998	12,675	5.6%
Michigan	7,169	7,387	3.0%		19,471	20,272	4.1%
Minnesota	5,196	5,351	3.0%		13,429	14,184	5.6%
Mississippi	2,329	2,400	3.0%		6,160	6,505	5.6%
Missouri	5,809	5,983	3.0%		14,797	15,511	4.8%
Montana	892	918	3.0%		2,427	2,564	5.6%
Nebraska	2,009	2,069	3.0%		5,428	5,722	5.4%
Nevada	3,143	3,239	3.1%		7,441	7,988	7.4%
New Hampshire	1,043	1,074	3.0%		2,570	2,706	5.3%
New Jersey	7,213	7,427	3.0%		18,183	18,994	4.5%
New Mexico	1,623	1,672	3.0%		4,309	4,536	5.3%
New York	14,620	15,055	3.0%		34,128	35,759	4.8%
North Carolina	10,010	10,315	3.0%		24,365	25,784	5.8%
North Dakota	1,236	1,272	2.9%		3,384	3,488	3.1%
Ohio	10,051	10,353	3.0%		25,115	26,252	4.5%
Oklahoma	3,001	3,092	3.0%		7,615	8,008	5.2%
Oregon	2,884	2,972	3.0%		7,212	7,618	5.6%
Pennsylvania	9,873	10,166	3.0%		24,663	25,872	4.9%
Rhode Island	715	736	3.0%		1,828	1,923	5.2%
South Carolina	3,895	4,014	3.1%		10,230	10,829	5.9%
South Dakota	767	790	2.9%		2,242	2,378	6.1%
Tennessee	6,796	7,004	3.1%		16,926	17,843	5.4%
Texas	21,552	22,207	3.0%		53,067	56,293	6.1%
Utah	1,993	2,054	3.1%		5,036	5,402	7.3%
Vermont	386	397	2.9%		1,052	1,101	4.7%
Virginia	8,581	8,842	3.0%		21,069	22,358	6.1%
Washington	5,388	5,549	3.0%		13,884	14,671	5.7%
West Virginia	1,277	1,315	3.0%		3,377	3,551	5.2%
Wisconsin	4,415	4,547	3.0%		11,861	12,475	5.2%
Wyoming	582	599	3.0%		1,546	1,630	5.4%

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. The source for all 2016 estimates in the report is a recent study of the economic impact of franchise businesses prepared for the International Franchise Association Franchise Education and Research Foundation by PricewaterhouseCoopers[6]. This report provides estimates of establishments, employment, and annual payroll and output, separately for business format franchises, in 10 Business Format Lines in 2016.

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).

State Level Forecast

The PricewaterhouseCoopers study also provides 2016 estimates of state level franchise activity. Using these 2016 state levels as our starting point, IHS Markit Economics used our proprietary Business Market Insights database and Regional Information Service forecasts to estimate the growth in franchise activity for 2017. The estimates were further constrained to equal sum to our national level forecasts for 2017.

Additionally, since our BMI database does not forecast payroll, we used our Regional Information Service forecasts of wage growth in the 10 franchise business lines in 2017 to project the growth in payrolls for each state.

[6] https://franchiseeconomy.com/