INTERNATIONAL FRANCHISE ASSOCIATION

2023 FRANCHISING ECONOMIC OUTLOOK

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Research by: FRANdata

ABOUT THE INTERNATIONAL FRANCHISE ASSOCIATION

Celebrating over 60 years of excellence, education, and advocacy, the International Franchise Association (IFA) is the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 790,492 franchise establishments that support nearly 8.4 million direct jobs, $825.4 billion of economic output for the U.S. economy, and almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

ABOUT FRANDATA

FRANdata offers independent, comprehensive market insight focusing on the franchise ecosystem. Our research combines rigorous analysis with industry expertise and astute forecasting. FRANdata focuses on delivering unparalleled insights and high-level strategic advice to a global franchise client base.

AUTHORS

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METHODOLOGY

The detailed forecasts and projections presented in this report by FRANdata combine a range of existing and new quantitative and qualitative information relevant to franchising in the United States. FRANdata's forecasting model uses both internal databases that closely track approximately 9,000 brands in the U.S., as well as external sources of information, such as macroeconomic data and industry-specific research, to make informed predictions.

FRANdata draws on a variety of quantitative data sources, including publicly available information on franchise brands, disclosure documents, historical growth rates, and correlations between unit growth and macroeconomic factors, such as interest rates, GDP growth rates, inflation, consumer disposable income, household wealth, and small business sentiment.

In addition, qualitative data sources, which include insights from industry experts, lenders, franchisees, and franchisors are also incorporated in our findings. These sources aim to provide an understanding of observed growth and trends in franchising.

FRANdata's forecast estimates the performance for the year 2022 based on observed factors. The projections for franchise establishment, employment, and economic output for the year 2023 take into account the factors that are predicted to occur this year and are extrapolated using 2022 estimates. FRANdata is responsible for the charts and research in this report unless otherwise noted.

KEY TERMS

Business format franchise: This type of franchise includes not only a product, service, and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals.

Business lines:

- ***Business services:*** Includes accounting services, financial services, insurance, business consulting, computer products and services, mailing packaging, shipping, printing, advertising and promotions, legal services, security services, and business-focused publications.
- ***Commercial and residential services:*** Includes maintenance services and building and construction.
- ***Lodging:*** Includes a wide range of accommodation types including hotels, B&Bs, resorts, hostels, motels, and others that provide a place to stay overnight.
- ***Personal services:*** Includes services related to beauty, health and fitness, storage, moving, education, childcare, sports and recreation, pets, and travel.
- ***Quick service restaurants (QSRs):*** Includes limited-service restaurants that serve meals at lower price points and typically provide fast service, a limited menu, and limited table service.
- ***Real estate:*** Includes brokerage services, property inspection services, residential property managers, and nonresidential property managers.

KEY TERMS (CONTINUED)

- ***Retail food, products, and services:*** Includes food and beverage stores; convenience stores; food-service contractors; caterers; retail bakeries; beer, wine, and liquor stores; gas stations with convenience stores; motor-vehicle parts and supply stores, including tire dealers, automotive equipment rental and leasing, and automotive repair and maintenance; furniture and home furnishings stores; electronics and appliance stores; building material and garden equipment and supplies dealers; health supplement stores, pharmacies and drug stores; beauty supplies and optical goods stores; clothing and general merchandise stores; office supplies and stationery stores; florists and gift stores; used merchandise stores; consumer-goods rentals; photographic services; and book and music stores.
- ***Table/full-service restaurants:*** Includes establishments offering table service with three categories of establishments: fine dining, casual dining, and midscale.

Consumer disposable income: The amount that U.S. residents have left to spend or save after paying taxes.

Disclosure statement: Also known as the Franchise Disclosure Document (FDD), the disclosure document provides public information about the franchisor and franchise system for prospective franchisees as they consider purchasing decisions.

Franchise brand: The brand under which franchisees operate their business.

Franchise output: The total value of sales of goods and services.

Franchisee: A person that purchases the right to operate a business model under the franchisor's brand name and system.

Franchise establishments: Businesses that are owned and operated by franchisees.

Franchising: Franchising is the right of individuals to apply a company's business model for a specific time frame by using its trademark(s). Trademarks include business names, symbols (logos), and slogans used to identify businesses and the goods and services they provide.

Franchisor: The company that owns the trademarks and proprietary system for operating businesses and gives individuals the right, under limited agreement and for consideration, to run businesses using those trademarks and following those operational guidelines.

Gross domestic product (GDP): GDP is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

Household wealth: Household wealth or household net worth represents the total value of assets (financial as well as non-financial) minus the total value of outstanding liabilities of households (including non-profit institutions serving households).

Industry: An industry is a group of companies that are related based on their primary business activities.

Inflation: Inflation is an increase in the general prices of goods and services.

Multi-unit franchisee: A franchisee who agrees to open two or more locations, generally in a defined market over an agreed upon period of time.

Multi-unit, multi-brand franchisees: A franchisee who owns and operates franchise businesses in two or more franchise systems (usually non-competing).

2023: A YEAR OF MODERATION FOR FRANCHISING

Following exceptional growth and recovery in 2021, franchising experienced a period of moderation in 2022 that will continue through 2023. Economic headwinds such as high inflation, labor shortages, and supply chain issues continued to challenge franchised businesses throughout 2022.

The economic uncertainty initiated by the COVID-19 pandemic highlighted the many benefits of the franchise business model. For example, according to the IFA/FRANdata 2022 Franchisee Inflation Survey, 50% of franchisees said they were better able to navigate inflationary pressures and other pandemic-era business challenges thanks to the support of their franchise network.

Franchise Business Economic Outlook: 2019-2023

	2019	2020	2021	2022 (Est.)	2023 (Proj.)
Establishments	773,603	753,770	774,965	790,492	805,436
Percentage Change		-2.6%	2.8%	2.0%	1.9%
Employment	8,503,661	7,532,305	8,192,599	8,438,640	8,692,513
Percentage Change		-11.4%	8.8%	3.0%	3.0%
Output ($ Million)	$794,184	$677,236	$787,746	$825,367	$860,144
Percentage Change		-14.7%	16.3%	4.8%	4.2%
GDP ($ Billions)	$473.41	$446.32	$474.16	$500.22	$521.30
Percentage Change		-5.7%	6.2%	5.5%	4.2%

Key forecasts for 2023 include:

- The overall number of franchise establishments will increase by almost 15,000 units, or 1.9%, to 805,000 units.
- Franchising will add approximately 254,000 jobs in 2023. Growing at 3.0%, total franchise employment is forecasted to reach 8.7 million.
- Total franchise output will increase by 4.2%, from $825.4 billion in 2022 to $860.1 billion in 2023.
- Compared with 2022, franchises' GDP will grow at a slightly slower pace of 4.2% to $521.3 billion. Franchises' GDP share of the overall economy will remain stable at 3%.
- Service-based industries and quick service restaurants (QSRs) will witness higher growth than other industries.
- Texas is expected to witness the most growth in franchise activity in 2023. Growth in the Southern U.S. will outpace the rest of the U.S. franchise market.

Industry-Specific Forecasts: Service-Based Businesses to Outpace the Rest

The growth of service-based businesses and QSRs is expected to outpace the rest of the franchising sector, which is still recovering from the pandemic to a greater degree. Personal services and QSRs are expected to grow by 2.5% in 2023. Given real estate challenges and weaker consumer spending on discretionary items, full-service restaurants, lodging, and real estate will witness slower growth in 2023 of 1.1%, 0.8%, and -0.5%, respectively.

Franchise Establishments by Business Line

	2020	2021	2022 (Est.)	2023 (Proj.)
Business Services	97,732	99,296	100,533	102,343
Percentage Change	-4.8%	1.6%	1.2%	1.8%
Commercial and Residential Services	73,116	75,678	77,850	79,485
Percentage Change	8.8%	3.5%	2.9%	2.1%
Lodging	34,455	35,041	35,566	35,833
Percentage Change	1.3%	1.7%	1.5%	0.8%
Personal Services	110,050	114,012	117,368	120,302
Percentage Change	-7.4%	3.6%	2.9%	2.5%
Quick Service Restaurants	183,543	188,402	192,057	196,858
Percentage Change	-6.7%	2.6%	1.9%	2.5%
Real Estate	66,332	67,929	68,603	68,260
Percentage Change	1.6%	2.4%	1.0%	-0.5%
Retail Food, Products, and Services	157,538	162,579	165,636	169,114
Percentage Change	1.2%	3.2%	1.9%	2.1%
Table/Full-Service Restaurants	31,004	32,027	32,879	33,240
Percentage Change	-6.5%	3.3%	2.7%	1.1%
Grand Total	**753,770**	**774,965**	**790,492**	**805,436**
Percentage Change	*-2.6%*	*2.8%*	*2.0%*	*1.9%*

Regional Trends

The economic growth of franchising in each state will remain varied based on labor availability, infrastructure investments, and business climate. FRANdata expects that in 2023, the growth in the Southeast and Southwest regions – which witnessed positive migration trends, large industry investments, and strong labor markets – will outpace the rest of the United States. While each region is expected to grow in 2023, the growth in the Northeast region will be muted at approximately 0.8%.

Region	Growth in Franchise Establishments	Growth in Franchise Employment	Growth in Franchise Output
Midwest	1.9%	3.0%	4.2%
Northeast	0.8%	1.9%	3.1%
Southeast	2.2%	3.3%	4.5%
Southwest	2.9%	4.1%	5.3%
West	1.2%	2.4%	3.5%

- The Southeast region is the largest franchise market, with approximately 234,000 total forecasted units in 2023, employing 2.6 million people and providing $250.0 billion in total output. This region is expected to increase at a rate of 2.2%, which is greater than the forecasted growth rate of national franchised businesses.
- The top 10 fastest-growing states are Texas, Illinois, Florida, Georgia, Tennessee, North Carolina, South Carolina, Arizona, Colorado, and Indiana.

Top 10 States by Growth Rate

	Franchise Establishments (in thousands)				Franchise Employment (in thousands)				Franchise Output (in billion $)			
States	2021	2022 (Est.)	2023 (Proj.)	Growth Rate (22-23)	2021	2022 (Est.)	2023 (Proj.)	Growth Rate (22-23)	2021	2022 (Est.)	2023 (Proj.)	Growth Rate (22-23)
TX	74.9	77.4	80.0	3.3%	791.9	826.3	863.3	4.5%	76.1	80.8	85.4	5.7%
IL	32.3	33.0	34.8	5.5%	341.0	352.2	375.5	6.6%	32.8	34.4	37.2	7.9%
FL	56.9	58.5	60.1	2.7%	601.0	624.7	648.9	3.9%	57.8	61.1	64.2	5.1%
GA	28.7	29.5	30.3	2.6%	303.4	315.2	327.1	3.8%	29.2	30.8	32.4	5.0%
TN	18.7	19.2	19.8	2.7%	197.7	205.5	213.4	3.9%	19.0	20.1	21.1	5.1%
NC	27.3	27.9	28.5	2.2%	288.4	298.1	307.9	3.3%	27.7	29.2	30.5	4.5%
SC	14.6	15.1	15.6	3.2%	154.5	161.1	168.0	4.3%	14.9	15.8	16.6	5.5%
AZ	17.2	17.7	18.2	2.4%	182.2	189.3	195.9	3.5%	17.5	18.5	19.4	4.7%
CO	17.0	17.5	17.9	2.5%	179.3	186.4	193.2	3.7%	17.2	18.2	19.1	4.9%
IN	17.2	17.6	18.1	2.4%	181.6	188.4	195.0	3.5%	17.5	18.4	19.3	4.7%

TABLE OF CONTENTS

INTRODUCTION

In 2023 and beyond, the economy will rely on franchised businesses to steer the ongoing economic recovery, boost consumer confidence, and improve sentiment among small business owners. Because of its unique business model, franchising serves as an economic catalyst in states and communities, giving prospective entrepreneurs a chance to own and operate their own business while adding jobs across the economic spectrum and benefiting from established systems, a well-known brand, and insights from more experienced franchisees. In addition, as the labor market slows in 2023, franchising can offer retrenched workers at all levels an alternative avenue to re-enter the workforce.

Despite economic headwinds such as supply chain constraints, labor shortages, and high inflation, franchising output increased by 4.8% in 2022 to $825.4 billion. During this period, total franchised units grew by 2% to total 790,492 units. As we look ahead to 2023, the Federal Reserve is likely to keep interest rates high until officials achieve their target inflation rate of 2%. High interest rates are likely to soften GDP growth. Given the expected GDP growth for 2023, the estimated percentage increase of franchised units will mirror 2022, bringing the total franchised establishments to 805,436 for 2023. The estimated nominal GDP by franchising is expected to grow by 4.2% in 2023.

In 2022, inflation started to broaden beyond that caused by government-issued stimulus payments in 2020 and 2021 — which drove up demand and were concurrent with a shortage of goods and higher-wage growth resulting from labor demand that far exceeded labor supply. This year will be largely driven by a reversal of inflation overheating. While inflation moderation will provide much-needed relief to business owners, they will also have to prepare for a slowdown in demand for goods and services.

Brands will focus on creating a loyal customer base and acquiring new customers in innovative ways. Franchises have a competitive edge over other businesses, as they benefit from the systems, scale, and marketing of a larger brand. As franchised businesses grow, this relationship helps them scale more efficiently, incorporate new technology in their systems and processes, and gather consumer insights that help attract repeat customers.

2022
FRANCHISED UNITS
+2%

FRANCHISING OUTPUT
+4.8%

The pandemic also caused many brands to address low-performing units, either by closing these establishments or allowing higher-performing franchise operators to acquire them. These brands are entering 2023 on relatively stronger footing compared with 2020. The pandemic and ensuing inflation also made many brands realize the vulnerabilities within their supply chains, and as a result, brands will focus on creating a vertically integrated supply chain model to combat this issue. Like 2022, many brands will witness consolidation in 2023 and will grow by enticing multi-unit, multi-brand operators to their system.

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Financial institutions are likely to switch gears in 2023. Paycheck Protection Program (PPP) loans and the Employee Retention Credit (ERC) allowed many insolvent businesses to survive. Lenders will be more cautious in the coming year. In 2023, FRANdata expects that lenders will be more risk averse and place more importance on the viability of the business model, cash flow, support offered by a franchisor to franchisees, and the financial impact of any delays in opening new locations. Unlike previous periods of recession and economic slowdown, financial institutions are in good health and are likely to disburse loans though on stricter terms. While lenders will focus on diversifying their portfolio, brands will work on establishing relationships with new lenders.

During the pandemic, brands quickly adopted technology solutions according to their specific needs. In 2023, brands are likely to abandon their temporary technology fixes and invest in integrated technology models that seamlessly connect their various business modules. Technology that helps brands gain a competitive advantage and long-term business moat will be a top priority across industries.

FRANdata predicts that franchise brands also will focus on lowering their carbon emissions in accordance with government standards. While many major brands have already increased their commitment to climate sustainability, more businesses are likely to follow suit and set their sights on lowering their carbon footprint in the years to come.

FRANCHISE ESTABLISHMENT GROWTH

Higher than Pre-Pandemic Norms

In 2022, an estimated 790,492 franchised businesses delivered products and services to customers in the United States. The year-over-year growth rate from 2021 to 2022 was approximately 2%, which is faster than most historical growth rates. The growth in units in 2022 was supported by increased consumer spending, a strong labor market, and healthy financial institutions. However, economic headwinds including labor shortages and high inflation beginning in the second half of 2022 impacted the growth in franchised units. Inflation drastically increased the cost of opening new business units in 2022. When coupled with high interest costs, the cost of investing in a franchising unit increased by almost 30% in certain instances. As lenders scrutinize each investment opportunity in more detail than ever before, the time to underwrite a new loan has increased. Considering the tight monetary and fiscal environment, FRANdata projects that franchised establishments will grow by 1.9% in 2023 to reach the total of 805,436 franchised units.

In 2023, personal services and QSRs will lead the growth in franchised units, expanding by 2.5% year over year. 2022 was a challenging year for QSRs as they were impacted by supply constraints, labor shortages, and high inflation. Many brands fared well in the challenging environment as they focused on innovating and adapting to the changing preferences of their customers. These brands will continue to drive growth in their industry and attract both consumers and franchisees.

Franchise Establishments by Business Line

	2020	2021	2022 (Est.)	2023 (Proj.)
Business Services	97,732	99,296	100,533	102,343
Percentage Change	*-4.8%*	*1.6%*	*1.2%*	*1.8%*
Commercial and Residential Services	73,116	75,678	77,850	79,485
Percentage Change	*8.8%*	*3.5%*	*2.9%*	*2.1%*
Lodging	34,455	35,041	35,566	35,833
Percentage Change	*1.3%*	*1.7%*	*1.5%*	*0.8%*
Personal Services	110,050	114,012	117,368	120,302
Percentage Change	*-7.4%*	*3.6%*	*2.9%*	*2.5%*
Quick Service Restaurants	183,543	188,402	192,057	196,858
Percentage Change	*-6.7%*	*2.6%*	*1.9%*	*2.5%*
Real Estate	66,332	67,929	68,603	68,260
Percentage Change	*1.6%*	*2.4%*	*1.0%*	*-0.5%*
Retail Food, Products, and Services	157,538	162,579	165,636	169,114
Percentage Change	*1.2%*	*3.2%*	*1.9%*	*2.1%*
Table/Full-Service Restaurants	31,004	32,027	32,879	33,240
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Grand Total	**753,770**	**774,965**	**790,492**	**805,436**
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FRANCHISE EMPLOYMENT GROWTH

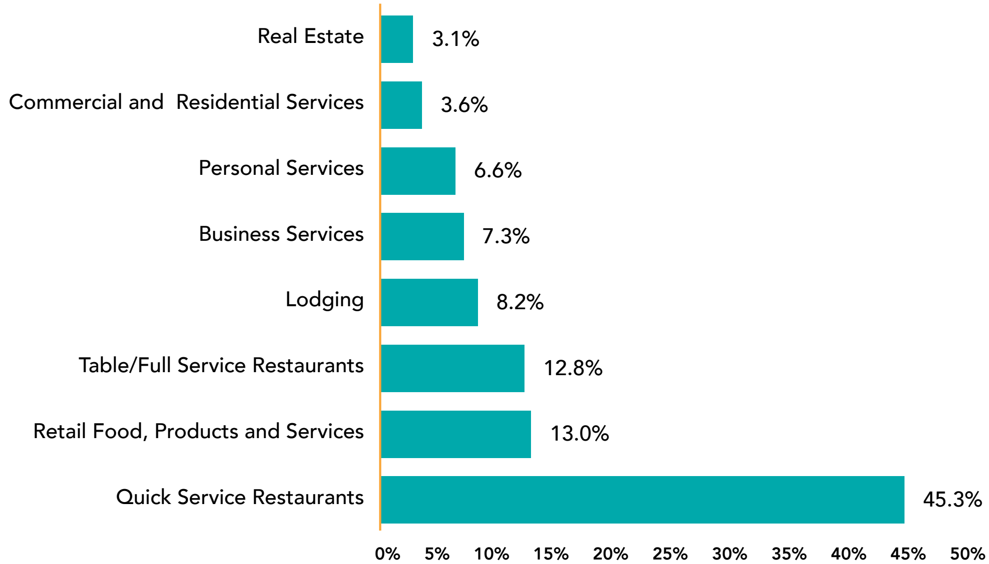
Higher than Pre-Pandemic Norms

The robust recovery of the labor market in 2021 continued to hold strong in the year 2022. According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate edged down to 3.5%, one of the lowest in history. Demand for labor far exceeded the supply, resulting in a wage growth of 9.0% in 2022. Wage growth tapered down in the fourth quarter of 2022 to 6.4%. While wage growth will slow, ADP Research projects 2023 wage growth of approximately 3%, which is still higher than pre-pandemic norms. The availability of qualified labor and the cost of workforce remains the biggest challenge for almost all franchised businesses. According to the IFA/FRANdata 2023 labor survey, 81% of franchised brands experienced constrained growth due to labor challenges, a continuation from 2022.

Franchise Employment by Business Line

	2020	2021	2022 (Est.)	2023 (Proj.)
Business Services	564,863	586,523	603,200	634,526
Percentage Change	*-9.5%*	*3.8%*	*2.8%*	*5.2%*
Commercial and Residential Services	253,682	288,542	303,650	310,026
Percentage Change	*0.3%*	*13.7%*	*5.2%*	*2.1%*
Lodging	510,761	664,886	711,321	716,656
Percentage Change	*-32.6%*	*30.2%*	*7.0%*	*0.8%*
Personal Services	475,580	527,718	551,629	577,450
Percentage Change	*-13.1%*	*11.0%*	*4.5%*	*4.7%*
Quick Service Restaurants	3,544,759	3,728,402	3,802,722	3,937,161
Percentage Change	*-8.7%*	*5.2%*	*2.0%*	*3.5%*
Real Estate	245,437	265,954	274,769	273,396
Percentage Change	*-6.4%*	*8.4%*	*3.3%*	*-0.5%*
Retail Food, Products and Services	1,014,127	1,069,837	1,093,196	1,133,065
Percentage Change	*-4.5%*	*5.5%*	*2.2%*	*3.6%*
Table/Full-Service Restaurants	923,097	1,060,736	1,098,153	1,110,233
Percentage Change	*-17.4%*	*14.9%*	*3.5%*	*1.1%*
Grand Total	**7,532,305**	**8,192,600**	**8,438,641**	**8,692,513**
Percentage Change	*-11.4%*	*8.8%*	*3.0%*	*3.0%*

Franchise Employment Distribution by Sector in 2023



GROWING AT 3.0%, TOTAL FRANCHISE EMPLOYMENT IS FORECASTED TO REACH 8.7 MILLION.

In 2022, FRANdata estimates that franchising added almost 246,000 new jobs, increasing the total employment by franchised businesses to 8.4 million. For both skilled and unskilled labor, 87% of franchised brands reported having unfilled job positions. However, 58% of franchised brands expect average franchisee employment will increase in 2023. Given these factors, it is anticipated that the number of workers employed by franchised businesses will increase to 8.7 million this year, consistent growth from the previous year. The growth in employment will be driven mostly by service-based industries including business services, personal services, and QSRs. Business services are predicted to add 5.2% to the overall labor force, while personal services will add 4.7% in 2023. Despite a decline in consumer spending, QSRs will continue expanding, due to the strong demand for food deliveries. Moreover, during anticipated economic uncertainty, consumers are more likely to cut their ancillary spending such as eating out and prefer more economical options that QSRs offer, including economical menu options and value meals. It is anticipated that overall QSR employment will increase by 3.5%.

In 2023, QSRs are anticipated to account for 45.3% of all franchise employment, followed by retail food, products, and services, which will employ 13% of the workforce. Approximately 12.8% of franchise employment is in full-service restaurants, which is followed by lodging, business services, personal services, commercial and residential services, and real estate.

As previously discussed, amid the economic fluctuations of the past several years, franchising has proved a resilient sector of the economy, creating job opportunities for all educational backgrounds and economic levels. In 2022, high labor costs and the lack of qualified employees were among the most acute challenges for franchised businesses. Franchisees encouraged staff retention by offering better pay and benefits, flexible scheduling, and employee training to boost productivity. In addition, franchise brands have provided support to their franchisees with staffing challenges, and franchised businesses have benefited from a network of other franchisees facing similar challenges, according to the IFA/FRANdata 2023 labor survey.

FRANCHISE OUTPUT TRENDING TOWARDS GROWTH

The output from franchises in all industries was supported in 2022 by persistently high demand and elevated consumer spending. As the economy moderates in 2023, FRANdata forecasts total output generated by franchised businesses to grow by approximately 4.2% in 2023 to reach $860.1 billion, a slightly lower rate than the observed growth rate of 4.8% in 2022.

Mortgage rates and high inflation will continue stifling consumer spending. The demand for products and services will be supported to some extent by a robust labor market and the resulting wage increases. Demand for necessities, low-priced goods, and services will continue to boost business output in 2023. The amount spent on upscale, premium, and expensive goods is expected to substantially decrease.

In 2022, QSRs, personal services, and commercial and residential services were the main drivers of output growth. Looking ahead to 2023, personal services will increase by 6.7% as demand keeps growing. A shortage of lodging supply will propel sales at existing locations, increasing output by 6.6% for the lodging sector, despite moderating demand. The output of QSRs and business services will also increase in 2023, increasing by 5.1% and 3.8%, respectively.

Franchise Output by Business Line ($Billion)

	2020	2021	2022 (Est.)	2023 (Proj.)
Business Services	$84.4	$95.3	$99.6	$103.4
Percentage Change	*-17.1%*	*13.0%*	*4.5%*	*3.8%*
Commercial and Residential Services	$49.3	$52.7	$56.0	$57.4
Percentage Change	*7.7%*	*6.9%*	*6.1%*	*2.5%*
Lodging	$52.0	$82.8	$87.2	$93.0
Percentage Change	*-41.8%*	*59.2%*	*5.4%*	*6.6%*
Personal Services	$26.0	$35.8	$39.5	$42.1
Percentage Change	*-34.0%*	*37.9%*	*10.3%*	*6.7%*
Quick Service Restaurants	$241.0	$261.2	$275.7	$289.6
Percentage Change	*-10.1%*	*8.4%*	*5.6%*	*5.1%*
Real Estate	$48.4	$60.2	$60.9	$62.3
Percentage Change	*-12.5%*	*24.3%*	*1.2%*	*2.3%*
Retail Food, Products and Services	$121.1	$127.0	$130.0	$134.1
Percentage Change	*2.3%*	*4.9%*	*2.4%*	*3.2%*
Table/Full-Service Restaurants	$55.1	$72.8	$76.5	$78.2
Percentage Change	*-27.9%*	*31.9%*	*5.2%*	*2.2%*
Grand Total	**$677.2**	**$787.7**	**$825.4**	**$860.1**
Percentage Change	*-14.7%*	*16.3%*	*4.8%*	*4.2%*

Many brands have evolved and implemented operational efficiencies into their system as a result of the challenging business environment that began with pandemic-related uncertainties, followed by high inflation, supply shortages, labor difficulties, and now the anticipated slowdown in the economy in 2023. The results of numerous franchising initiatives that began in 2020 are already starting to become evident, leading to better growth in franchise output in 2023. The most common technology adopted by franchised businesses that have helped drive growth include: kiosk ordering and digital payments; artificial intelligence (AI) software to track inventory and forecast future sales; online training combined with on-site training programs; delivery apps and voice ordering technology; technology to gather customer insight for effective sales and marketing campaigns; AI to segment customers and increase the variety of loyalty programs; and better site selection using data and analytics that incorporate demographics, competition, customer behavior, and other critical information.

BUSINESS SERVICES
CONTINUE TO BENEFIT FROM SHIFT IN CONSUMER BUYING BEHAVIOR

FRANdata projects that franchise establishments in business services will grow by 1.8% in 2023, reaching a total of approximately 102,000 locations. Franchise employment in the industry will increase by approximately 31,000 jobs, and output in the industry is expected to contribute a total of $103.4 billion, a growth rate of 3.8%, in 2023.

The overall business services industry experienced higher growth in 2021 and 2022. Finance and insurance, health care and social assistance, and professional, scientific, and technical services have generated the most revenue in this category over the past five years. Online shopping and delivery boosted the recovery by increasing demand for mailing, packing, and shipping services. Additionally, many franchisees used the flexibility of remote work to attract quality workers and continue growing their businesses. Augmented by technology, business process innovation will be crucial in fostering this category's expansion. For example, the packaging industry automated continuous and repetitive tasks in the wake of labor shortages. According to a 2022 report by the Association of Packaging and Processing Technologies on trends in secondary packaging, 67% of brand manufactures have automated their end-of-line operations, and 85% of manufacturers are looking to expand their current portfolio of automated solutions in secondary packaging. Additionally, in many instances, brands are adapting to the rise in e-commerce by redesigning their packaging to help ensure the safe delivery of their products.

Due to the current economic climate, traditional industries including printing, periodicals, and direct mail advertising will continue to encounter difficulties.

Franchising within the business services category will continue to grow in 2023. However, the slowing economy will challenge growth in 2023. Each category within business services (e.g. accounting services or financial services) is predicted to maintain its 2022 share of the overall business line in 2023, and the demand for internet services, technology services, outsourcing services, as well as packaging and mailing services supported by online shopping will help boost the industry's expansion.

COMMERCIAL AND RESIDENTIAL SERVICES
DEMAND REMAINS HIGH BUT SUBJECT TO ECONOMIC PRESSURE

Commercial and residential services are projected to reach approximately 80,000 establishments in 2023, with a growth rate of 2.1%. Employment in the industry is forecasted to grow by 2.1% to 310,026 jobs, and the output is expected to increase by 2.5% in 2023 to $57.36 billion.

The forecast for commercial and residential services in 2023 is more complex as it is more sensitive to economic conditions. On the commercial side, new construction and real estate make up the majority of the activity, and real growth (nominal growth minus inflation) has increased by about 4% over the last 12 months. Demand for commercial services will remain high in 2023 as increased e-commerce drives up warehouse construction. Additionally, the opening of new restaurants or stores will continue to provide additional projects for retail construction, and the demand for technology will increase construction of manufacturing plants. However, the growth rate of commercial and residential real estate will be slower in 2023 than 2022 due to high supply costs, lack of labor, and economic slowdown.

As hybrid and remote work have continued since the pandemic, people are spending more time at home, and the demand for home improvements or remodeling has continued to increase. However, labor shortages and prospects of the economic slowdown have constrained growth or prompted people to postpone projects from 2023 to 2024 or even 2025.

Overall, the commercial and residential industry will continue to grow but at a more moderate rate in 2023. In addition, in response to high costs and labor shortages, more companies will begin to increase spending on research and development initiatives like digital design labs, augmented reality, machine learning, and more to improve efficiency and provide a better customer experience.

LODGING
DEMAND UNCERTAINTIES LIKELY TO LIMIT NEW SUPPLY

As the lodging sector was recuperating from pandemic-related disruptions, economic uncertainty had little influence on the sector in 2022. According to a Lodging Analytics Research & Consulting (LARC) report, U.S. revenue per available room (RevPAR) increased by 17% in the third quarter of 2022 on a year-over-year basis, driven by a 12% increase in average daily rate (ADR) and a 5% increase in occupancy. In 2022, leisure travel was robust, supporting the industry's recovery. Future growth will be heavily influenced by the decline in economic activity, as the lodging industry cycle transitions from recovery to expansion. The demand for leisure travel will likely decline in 2023 due to diminishing consumer disposable income. Corporate and group segments are likely to drive growth in 2023, but these categories are highly dependent on economic activity. Moderating demand and a limited increase in supply will continue to increase the RevPAR, ADR, and occupancy rate in 2023.

The number of franchised businesses in the lodging industry is anticipated to rise by 0.8% to 35,833 sites, with the total production rising by 6.6% from $87.2 billion to $92.9 billion. Franchise employment in lodging is expected to reach 716,656 jobs in 2023, with the same rate of growth as the establishments.

PERSONAL SERVICES
LEADING THE PACK IN FRANCHISE EXPANSIONS

The personal services industry boasts some of the fastest growing categories, including health and fitness centers, beauty-related studios, and home health care. According to the latest "Occupational Outlook Handbook" published by BLS, the personal care and service occupation is expected to grow 14% over the next few years, with approximately 762,600 openings per year. This growth exceeds the average for all occupations, and employment statistics imply a large demand for this industry. According to FRANdata's New Concept Reports published last year, more personal services brands have emerged, with an increased distribution seen across all new concepts from the first quarter to the fourth quarter. Alongside

QSRs, the personal services industry also has more projected units for 2023 than any other industry.

In 2023, FRANdata forecasts that personal services will continue to lead franchise expansion, experiencing the highest growth both in the number of establishments and outputs. These establishments are predicted to increase by 2.5% to 120,302 locations, while outputs are expected to grow by 6.7% to $42.1 billion. In addition, the sector will deliver about 577,450 jobs to the franchising market. As this industry is highly reliant on skilled labor, the ability of personal service franchise owners to retain their current employees becomes even more important during labor shortages.

This industry grows as consumers' health needs increase and with an increased demand for home healthcare, fitness centers, and beauty services. Notably, this industry will become more competitive compared with other industries as more new players enter the market. On the other hand, while the consumer confidence index did not decline at the end of 2022, people are likely to be more cautious about what they need to buy in 2023, which may impact growth.

SERVICE-BASED INDUSTRIES & QUICK SERVICE RESTAURANTS (QSRS) WILL WITNESS THE STRONGEST INDUSTRY GROWTH.

QUICK SERVICE RESTAURANTS AND TABLE/FULL-SERVICE RESTAURANTS

TO SUSTAIN GROWTH, ADAPTING TO CHALLENGING ECONOMIC CLIMATE

Franchise outputs in the QSR industry are projected to increase by 2.5% in 2023 to a total of 196,858 units. Employment is projected to increase by 2.5% in 2023 to a total of approximately 3,900,000 employees. Additionally, 2023 will see the overall industry output increase from $275 billion in 2022 to $287 billion in 2023.

Franchise establishments in the table/full-service restaurant sector are expected to grow by 2.2%, or approximately $2 billion, in 2023. This growth is supported by the addition of approximately 400 units, which are expected to provide approximately 12,000 new jobs. Following the pandemic and throughout 2022, restaurants have been challenged by increased supply chain and labor-related business costs and employee hiring and retention. According to the 2022 IFA/FRANdata Franchisee Inflation Survey, 67% of QSRs expect cost impacts to worsen in 2023. Labor continues to be an issue, with 88% of survey respondents identifying labor challenges as a major growth hurdle in QSRs. To attract and retain talent, restaurants are looking to increase employee benefits and other incentives to increase overall job satisfaction. Because both industries are unable to otherwise lower their costs, they have introduced solutions like in-app loyalty programs, reducing portion size, and corresponding pricing adjustments amid the current economic climate.

The industry was confronted with several economic challenges in 2022, with inflation being the most significant issue. The IFA/FRANdata 2022 Franchisee Inflation Survey found that 90% of QSR franchisees experienced increased costs for inventory, and 88% experienced higher labor costs. While these challenges are expected to continue in 2023, the demand for a restaurant experience remains the driving force behind the industry. The National Restaurant Association's 2023 State of the Restaurant Industry Report indicates that 84% of consumers prefer going out to eat with friends and family over cooking and cleaning up at home. With a rise in customers working from home, many look to QSRs and table/full-service restaurants as a way to get out of the house. Similarly, the aftermath of COVID-19 has allowed restaurants to become a community meeting space for their customers. This is illustrated by the rise in "eatertainment," or food being served alongside a form of entertainment.

QSRs and table/full-service restaurants will continue to adapt to the economic climate in 2023 to attract and retain customers. In 2023, growth will be driven by an increased reliance on technology and focus on order online/pickup options, as well as a consumer base that continues to favor eating outside of the home. In the 2022 edition of this report, IFA/FRANdata highlighted consumer trends that began during the pandemic that we expected to remain long term. Post COVID-19 trends we anticipate will continue throughout 2023 include:

- Online food delivery with third-party delivery apps will continue to rise. In addition, many customers are now choosing pickup over delivery.
- Ghost kitchens that offer multi-restaurant selection will grow exponentially in the coming years.
- Brands will rely on automation and innovation to achieve operational efficiency.
- Inflation and input cost increases will continue to pressure profit margins.
- Supply chain and labor-related costs will drive up menu prices.
- Employee hiring and retention issues will continue to challenge employers.
- Digital menus, such as QR codes and self-order kiosks, will be adopted industry wide.
- Restaurant layouts tailored solely to pickup orders will continue to emerge.
- Technological integrations will increase at all stages of the customer's experience — from order placement to payment.

As the restaurant industry continues to open new units, its biggest challenges will come in the form of inflation, expensive real estate, wage increases, and rising borrowing rates. In many cases, the initial investment costs have increased by more than 30%. The average time needed to launch new units has also increased due to high costs combined with a labor supply shortfall, which has added to higher interest costs.

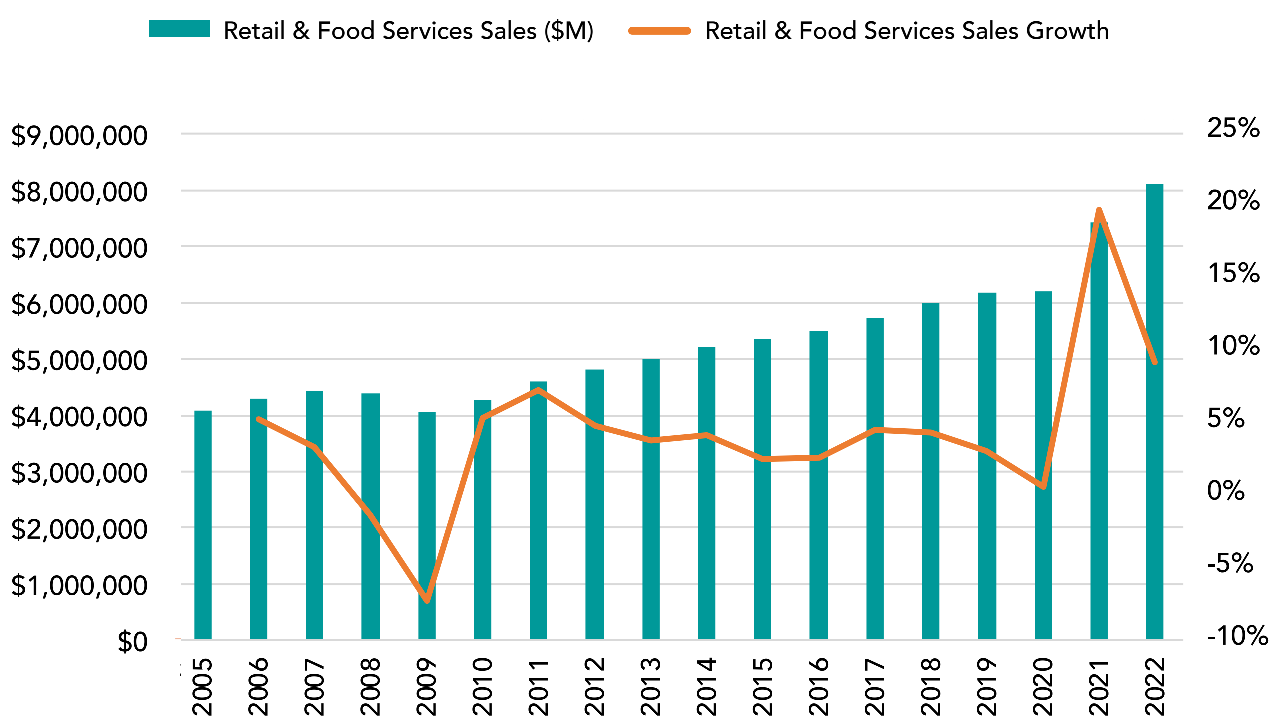
RETAIL FOOD, PRODUCTS, AND SERVICES

INDUSTRY MAKES STRIDES IN ADJUSTING TO MARKET CONDITIONS

According to data from the U.S. Census Bureau Report, retail and food service companies sales grew 9.2% year over year in 2022, down from 19.8% in 2021. Pent-up consumer demand generated strong growth in 2021 and helped sustain impressive momentum throughout 2022.

Since the pandemic, the retail industry has rapidly evolved, as it now competes with both online and offline players while trying to solve supply chain issues. FRANdata anticipates that the industry will now focus on increasing customer touchpoints by providing holistic solutions to their customers. For example, retailers have offered services such as curbside pickup, same-day delivery, and “buy now, pay later” payment options to improve the consumer experience. Like other industries, brands will use customer data and technology to drive revenue. Due to the tight labor market, wages are expected to remain high, and as consumer spending gets closer to pre-pandemic levels, it is likely that consumers will spend more on services. Consumers are likely to cut back on the purchase of expensive goods, but low-ticket products will remain in demand.

U.S. Retail & Food Service Sales



Source: U.S. Census Bureau

Franchisors are responding to these trends by integrating technology in and out of the store to improve the online shopping experience. Franchisors are also increasingly implementing loyalty programs. For example, retailers are combining buy online, pick up in store (BOPIS) with in-app loyalty programs that allow for discounts or inclusive product access to keep customers coming back.

FRANdata foresees a 3.2% increase, or $4 billion, in additional franchise retail output in 2023. The number of franchise retail establishments is expected to increase by approximately 360 units and add 10,000 additional jobs in 2023.

Potential industry trends include:

- Omnichannel presence and the use of physical retail presence to build brands and drive sales on both offline and online channels.
- Digital insights to build customer lifetime value by rewarding customer loyalty and providing add-on services such as fast shipping.
- Stores with broader product offerings to keep customers shopping for longer periods of time and increasing customer touch points.
- An increase in technology and operational partnerships that would otherwise be very expensive to develop in-house – for example, partnering with delivery services.

REAL ESTATE
WILL OBSERVE A MUTED GROWTH MIRRORING U.S. GDP GROWTH RATE

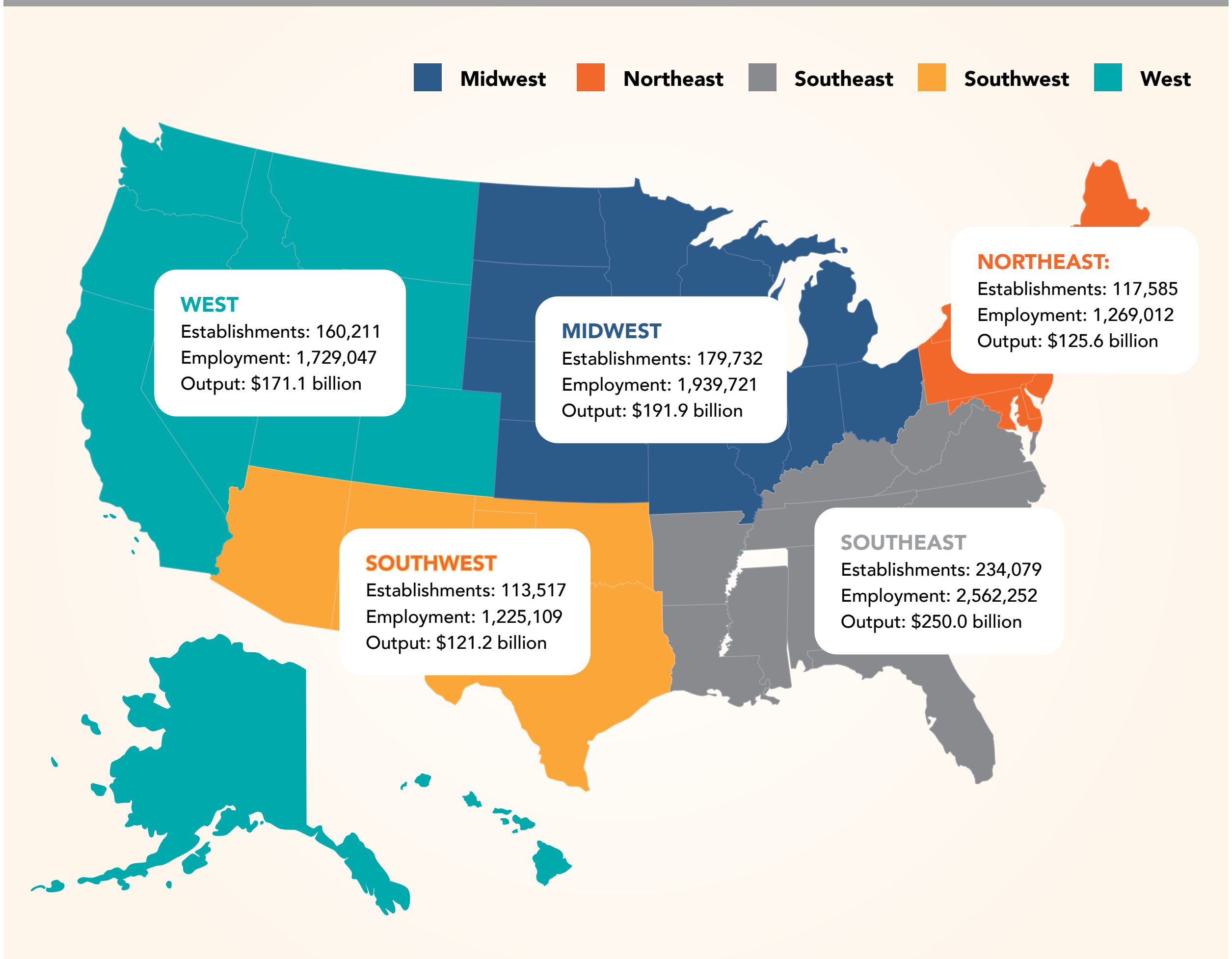
Real estate saw moderate expansion in 2022 following a year of high growth in 2021 supported by low mortgage rates, a robust job market, and healthy household balance sheets. With more and more consumers being priced out of the housing market due to high price and demand, the biggest impediment to growth is high mortgage rates, which have impacted housing affordability. Following a years of high demand, current housing inventory remains near historic lows. Based on data from the National Association of Realtors, existing home sales dropped by 35.4% in November 2022 compared with the previous year. First-time home buyers represent 28% of housing sales, decreasing from 34% in 2021. Given the macroeconomic climate in 2023, demand from individual investors and those buying second homes will likely decrease.

Considering overall transactions and demand in the industry, FRANdata expects that 2023 will be a slow year for housing inspection services, real estate brokers, appraisers, and property management services.

Altogether, franchise establishments in real estate services are expected to decline at a rate of 0.5% in 2023 to approximately 68,300 units. Employment in this sector is forecasted to remain at about 273,400 workers, a slight decline of approximately 1,000 jobs compared with the previous year. However, franchise output is anticipated to increase by 2.3% in 2023 to $62 billion.

STATE FRANCHISE OUTLOOK

2023 Franchising Outlook by Region



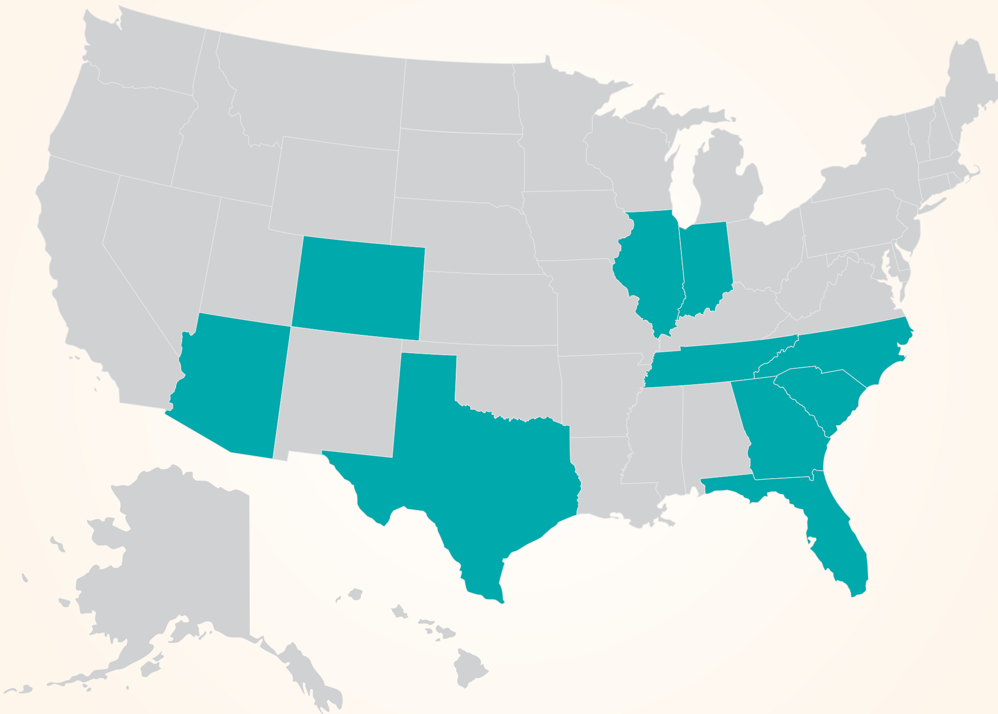
In 2023, franchises will serve as a bright spot for economic activity, preserving economic growth at the national, regional, and state levels.

According to FRANdata estimates, the Southeast region continues to have the most franchise businesses. This region is home to about 29.1% of all U.S. franchised businesses, 2.6 million employees, and $250 billion in franchise revenue, reflected as "output" in the chart above. The Midwest is the second-largest region in terms of franchise establishments. There are roughly 179,700 businesses in this region, employing 1.94 million people, with an output of $191.9 billion.

The rate of economic expansion and recovery varies from state to state. How each state performs in 2023 will be influenced by its business environment, migration patterns, access to capital, and the resilience of its core industries.

Texas, Illinois, Florida, Georgia, Tennessee, North Carolina, South Carolina, Arizona, Colorado, and Indiana are predicted to be the top 10 growth markets for franchises in 2023. Like 2022, Texas remains the fastest growing state in terms of franchise establishments. Residents with disposable income, vast infrastructure, low tax rates, and investments in advanced manufacturing

Top 10 States for Franchise Growth in 2023



and service industries are the key growth drivers in Texas. Texas continues to outperform the country in terms of job growth.

Strong growth in the Southeast will continue, with Florida serving as the main driving force. It is anticipated that the Southeast's regional growth will outpace the national GDP growth. According to the U.S. Census Bureau, Florida was the fastest growing state in 2022. The state population grew by 1.9% year over year in 2022, despite being the third most populous state in the country. Rents and housing costs are likely to increase as a result of home demolition due to Hurricane Ian in 2022. The construction industry will benefit from the reconstruction efforts at a time of ongoing slowdown in the housing market given high borrowing costs. Inflation in the large metro cities of Miami and Tampa will continue to challenge consumer demand.

THE TOP 10 STATES FOR FRANCHISE GROWTH IN 2023

1. TEXAS
2. ILLINOIS
3. FLORIDA
4. GEORGIA
5. TENNESSEE
6. NORTH CAROLINA
7. SOUTH CAROLINA
8. ARIZONA
9. COLORADO
10. INDIANA

Remote and hybrid work continues to drive population migration to more affordable cities with a low cost of living. Backed by population growth and strong labor demand, states such as Illinois and Indiana will lead the franchise expansion in 2023 because of increasing consumer demand and spending.

North Carolina continues to promote business expansion and investments that drive growth and strong labor demand. For example, a significant $11 billion investment by VinFast and Toyota in electric vehicle (EV) batteries and semiconductors is expected to create several thousand jobs over the next few years. Expansions by Fujifilm ($188M facility, cell culture media), Ziehl-Abegg ($100M, ventilation systems), and SO-PAK-CO ($85M, food processing) are expected to bring thousands more job opportunities to North Carolina. However, home affordability will continue to pose a challenge in 2023. During the pandemic, home prices rose by more than 50%. Population growth and ongoing business investments will continue to support the state GDP growth, although at a slower pace than in 2022.

FRANdata forecasts that the Southwest and Southeast region will benefit from the large boost in franchise unit growth in 2023. The number of franchise establishments in the Southwest region is expected to grow by 2.9% and by 2.2% in the Southeast region. The projected growth in these regions is higher than overall projected growth in the U.S. (1.9%). The increase in population and large infrastructure investments, which will increase demand for workers, will promote growth in the Southwest and Southeast.

The top 10 growth markets for franchised businesses will benefit as new establishments open in these states, though growth will be softened by the impending economic slowdown. The franchise businesses make substantial investments in the initial phase of setting up, contributing to the state economy. FRANdata estimates the opening of new franchise establishments within the top 10 states will contribute the following amounts to the state economy:

Average Investment Contribution By New Franchise Establishment

State	2023 (Proj. New Units)	$ M
Texas	2,590	4,521
Illinois	*1,800*	*3,142*
Florida	1,609	2,809
Georgia	*777*	*1,357*
Tennessee	524	915
North Carolina	*604*	*1,055*
South Carolina	476	831
Arizona	*421*	*734*
Colorado	444	775
Indiana	*417*	*729*

INTRODUCTION

Economic conditions for 2023 remain uncertain. Decelerating growth, increasing interest rates and a corresponding decrease in the money supply, as well as moderating inflation will be defining features of the U.S. economic slowdown in 2023. The forecasted real GDP growth for the year is expected to be muted at 0.5%. As domestic production slows, demand for labor and wage growth will weaken. Pricing pressure will recede as energy prices stabilize and demand slows. However, the core inflation rate is expected to stay much above the Fed's target of 2%, and it is expected that the federal reserve funds rate will be in range of 4.75-5.00% in 2023.

A high interest rate environment will continue to impact consumer and business spending. Less ability and willingness to pay will help the Fed control inflation, but that comes at the cost of GDP growth. Despite the anticipated slowdown, it is highly unlikely that the government will provide any overall fiscal or monetary assistance in 2023 to combat recession while trying to control inflation. Consumers and businesses will have to weather the slowdown using the resources available to them.

Assuming wage growth in range of 4-5%, inflation moderating in 2023, and a drawdown of pandemic savings, FRANdata expects that real consumer spending will grow slowly compared with previous years. Government-focused infrastructure spending will continue to support GDP growth, such as the Inflation Reduction Act, the bipartisan infrastructure law, and the CHIPS and Science Act in 2022. In 2023, FRANdata expects business investments will be focused more on technology, equipment, and sustainability rather than real estate investments in plants and buildings given the high cost of borrowing.

Because the U.S. is a net exporter of energy, the U.S. dollar has been strong compared with other currencies amid the global economic slowdown. A strong dollar is a sign that the U.S. economy will likely perform better than the world economy in 2023. Additionally, a strong U.S. currency helps reduce inflationary pressures and boosts consumer spending. However, a strong dollar disadvantages U.S. exports versus overseas competitors and boosts imports.

The supply chain disruptions started easing in the fourth quarter of 2022. According to the Goldman Sachs Supply Chain Congestion Scale, supply chain congestion has reached the lowest level since the pandemic. However, the supply chain will continue to be challenged by various geopolitical events especially related U.S.-China tensions remaining a source of volatility and uncertainty in the global economic market. These include various import and export controls, the termination of China's "zero-Covid" policy, and the ongoing threat of Chinese military operations in Taiwan elevating the risk of war and subsequent supply chain disruption.

Another major issue impacting businesses in 2022 was labor availability. The [2023 IFA/FRANdata labor survey] highlighted that 87% of franchised businesses faced trouble finding skilled and unskilled workers. Going into 2023, workforce quality and cost of labor are bigger concerns than availability of labor for business owners. A slowdown in the economic growth rate is likely to result in job losses along with a decline in new job openings. Lower demand for labor will help balance the labor supply and demand equation in 2023. While labor shortages will likely persist in the first half of 2023, it is expected that during the second half of 2023, businesses should see an increase in availability of workforce.

EMPLOYMENT AND WAGES

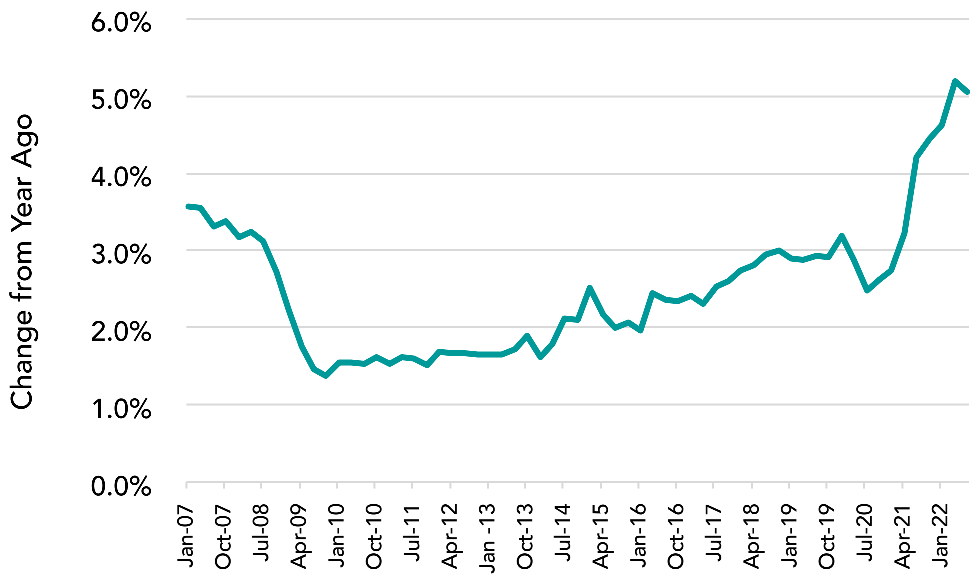
In 2023, the franchise labor market will be even more competitive than it was in 2022. According to the 2023 IFA/FRANdata labor study, 85% of the franchisors surveyed reported an increase in store-level wages in the past six months, and 24% reported a significant increase. Almost 60% of the franchisors surveyed anticipate an increase in labor wages in the next six months. Nearly 58% of the franchisors expect that the average employee per franchised location will increase in the next six months. FRANdata expects that the rebalancing of the labor market will likely take some time, and franchisees will continue to face labor related challenges at least in the first half of 2023.

In 2023, franchise owners need to optimize certain aspects of their business and attract customers through technology and automation. For example, fitness centers leverage technology that allows customers to walk in anytime and utilize their equipment without the need to be supervised by employees. For retail stores, self-checkout has become increasingly popular. While the need for a skilled workforce

85%
OF FRANCHISORS INCREASED WAGES

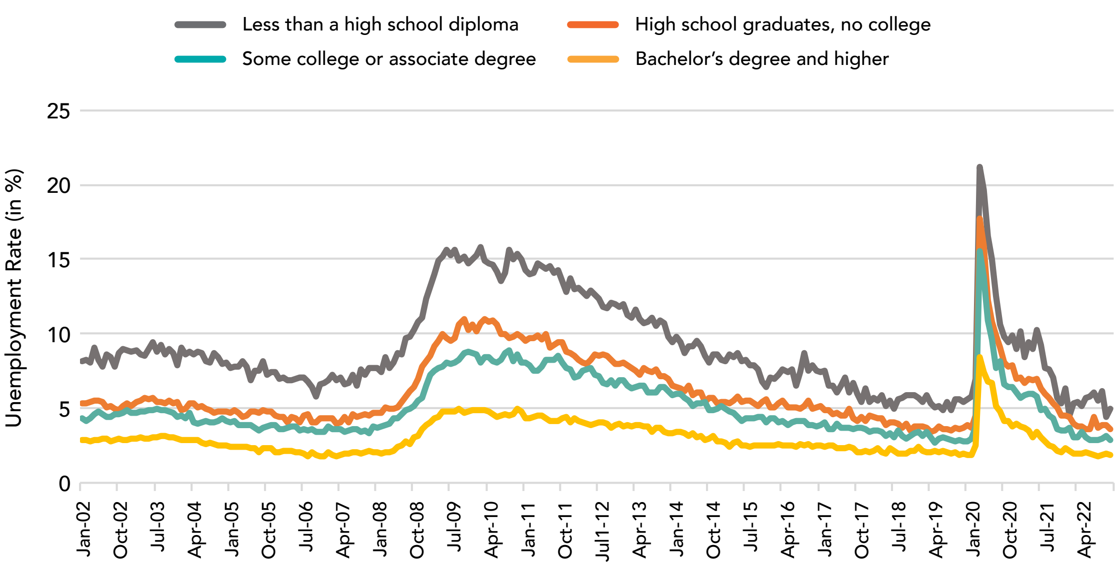
+4.6%
HOURLY EARNINGS

Wage and Salary Growth



Source: Bureau of Labor Statistics

Unemployment Rate by Educational Attainment



Source: Bureau of Labor Statistics

will remain, recent labor shortages have highlighted the need for owners to increase efficiency without adding additional employees. The U.S. labor market continued to remain strong with labor demand far exceeding the labor supply. The unemployment rate was 3.6% in February 2023. This rate marks one of the lowest unemployment rates in half a century and is nearly half of the 6.7% unemployment rate experienced in the worst part of the pandemic in December 2020.

The total number of individuals in the U.S. labor force is gradually returning to pre-pandemic levels, which can be seen by an increase of 4.5 million more workers from the start of 2022. Even with an increase in workers, there is a gap between job openings and the unemployment level that is creating labor shortages. Toward the end of 2022, monthly job openings reached 10.7 million, with 1.7 openings for every unemployed person. Many of the unfulfilled jobs are within the leisure and hospitality industry or the health care and social assistance industry.

According to the BLS, labor hiring in February 2023 was higher than expected with additional wage increases. The gain in employment was led by the leisure and hospitality, retail trade, government, and health care. The strong labor market witnessed early signs of easing as the unemployment rate increased to 3.6% in February 2023 from 3.4% in January 2023 (lowest since 1969).

In February 2023, the average hourly wage increased by 4.6% to $33.09 from $31.63 in February 2022. Increasing wages raise concerns for a wage-price spiral that could keep prices high for the long term. Strong wage growth is driving consumer spending, which leads experts to predict that the current economic slump will be brief and shallow. However, an extended period of tight monetary policy will cause the labor market to weaken.

The most recent unemployment level in February 2023 is 5.9 million, compared with 6.3 million and 9.9 million in 2022 and 2021, respectively. The current unemployment rate increased to 3.6% after historic lows of 3.4% in January 2023.

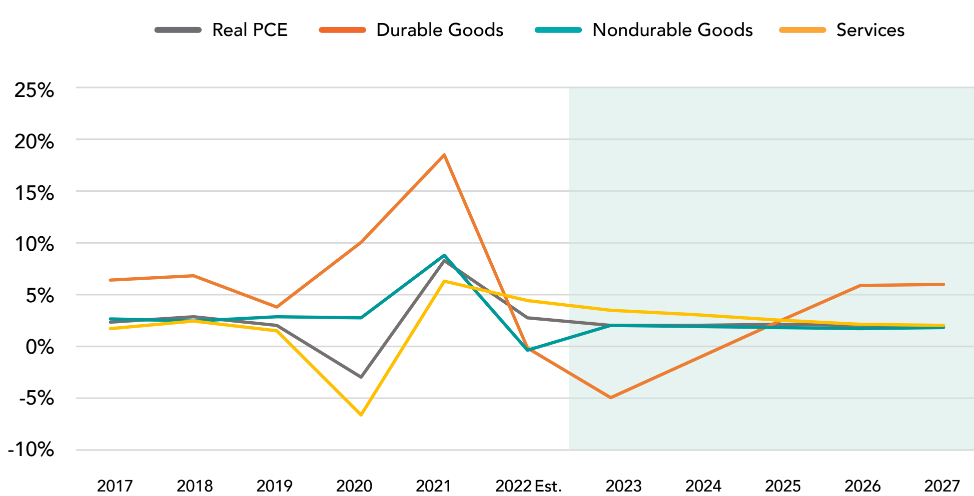
In January 2023, job openings reached 10.8 million. Even if all those currently unemployed found jobs in the current market, there would still be approximately 4.9 million job openings. The declining unemployment rate has intensified the labor shortage, and the low participation rate has exacerbated the problem as well. The average labor force participation rate from 2017 to March 2020 was about 63.0% but faced a huge decline afterward due to COVID-19. The participation rate as of February 2023 was 62.5%. Drawing from the current civilian noninstitutional population, if workforce participation remained at pre-pandemic levels, the U.S. would have a labor force of 167.7 million. However, the latest report shows the labor force at 166.3 million, which means the U.S. has lost 1.4 million workers due to the pandemic.

CONSUMER SPENDING AND CONFIDENCE

Wage growth and pandemic-related fiscal support have kept consumer spending strong. Increase in demand for goods coupled with supply shortages increased inflation in 2022. The peak inflation in 2022 was at 9.1%. Inflation eased to 6.0% in February 2023 but remains a big concern. Nearly 75% of Americans are concerned about rising prices and anticipate that they will continue to increase in the future, as highlighted in the Deloitte State of U.S. Consumer Report.

Despite the looming concern of inflation, consumer spending on goods (durable and non-durable) and services remained strong in 2022. The real consumption in October 2022 was at 6%. Considering the economic slowdown in 2023, experts forecast 2% consumption for

Growth in Real PCE and Components (%)

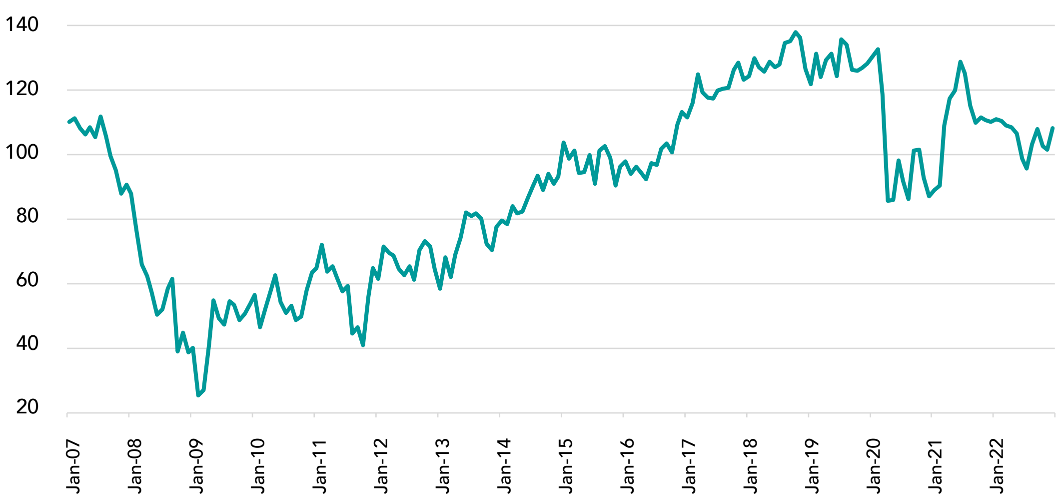


Source: U.S. Bureau of Economic Analysis

2023.The Consumer Confidence Index has had a declining trend since July 2021. Despite a spike in confidence in December 2022, people are likely to remain conservative in their spending in 2023. The personal savings rate boosted by fiscal stimulus has plummeted from a peak of 33.8% in April 2020 to 2.3% in October 2022. At $1.2 trillion, credit card balances have increased by 15% year over year. The growth in credit card debt is at its highest level in two decades. Despite historically high borrowing, the average default rate was steady at 2.7% after the pandemic.

For the franchise market, owners of high-end stores or premium service businesses should be prepared for the possibility of a decline in customers. Many businesses are already experiencing margin pressure due to rising inflation costs. A drop in consumer sales can threaten the viability of the company when finances are tight.

Consumer Confidence Index



Source: The Conference Board

HOUSEHOLD WEALTH

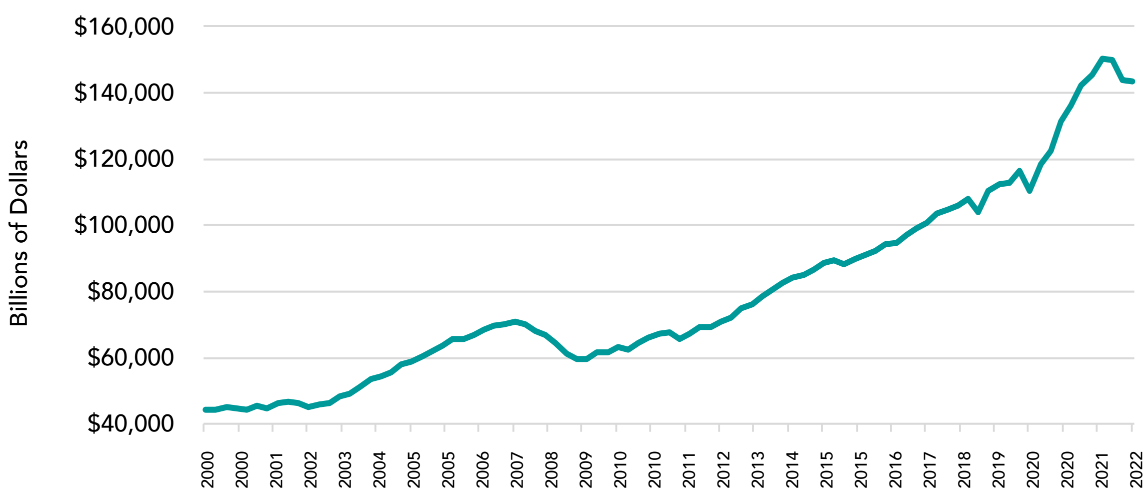
Fiscal stimulus during the pandemic and a strong labor market created a surge in household wealth in 2021 and in the first quarter of 2022. A drop in U.S. stock prices outpaced the real estate gains, and in the third quarter of 2022, household wealth fell by $400 billion. Household wealth represents the difference between total assets and total liabilities per household. Compared with the third quarter of 2021, total U.S. household net worth decreased from $137.5 trillion to $135.3 trillion in the third quarter of 2022.

Rising inflation and stock market decline have already eroded the value of household assets. In addition, total liabilities increased as the federal funds effective rate, or interest rate, grew in 2022.

Compared with 2022, consumers will have less financial cushion in 2023. Over the duration of 2022, savings and cash that were accumulated in 2020 and 2021 have been depleted.

Spending in 2022 was supported by pay growth and employment gains, but consumers have still witnessed a decline in household savings amassed during the pandemic. In addition, purchase of new credit cards has increased in 2022. According to a 2023 economic outlook report from J.P. Morgan, excess savings during the pandemic ranged from $2.0-$2.4 trillion, which has declined to $1.2 trillion - $1.8 trillion in 2022. Depending on inflation and the rate of consumer spending over the ensuing few quarters, the surplus savings accumulated during the pandemic may be completely spent in 2023.

U.S. Household Wealth



Source: Board of Governors of the Federal Reserve System (US)

INTEREST RATES AND SMALL BUSINESS LENDING

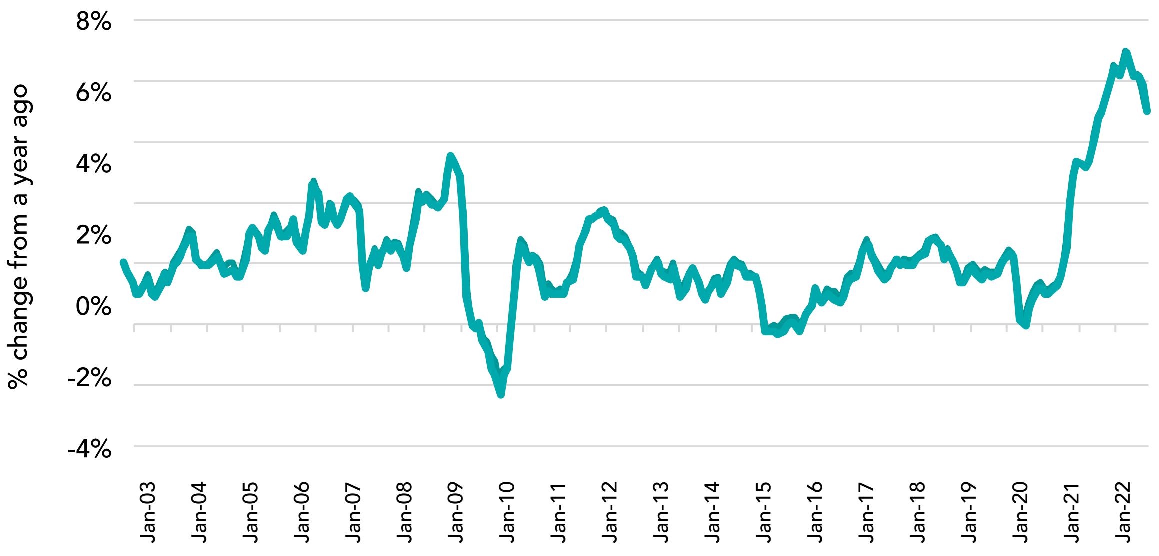
By the end of 2022, the interest rate hit 4.1%. This increased from 0.08% rate in 2021. The increase in interest rates led to a dramatic drive in the cost of lending. In 2023, the interest rate will remain high as the government continues to combat inflation.

Inflation experienced consecutive hikes throughout 2022, with the rate being increased multiple times, and coming in at 6.5% at the end of the year. The increase in inflation is mainly due to supply chain issues and increased energy costs, passed on to consumers through higher prices. According to the BLS, the latest consumer price index for all urban consumers is up 6.4% compared to that in 2021, with a 10.4% increase in food consumption and 7.3% in energy service.

The Fed is expecting inflation to moderate in 2023 and aims to reach a rate below 3% by the end of 2023. In 2023, supply chain issues will be minimized as the demand normalizes and capacity expands post-pandemic. In addition, energy costs are forecasted to go down as producers in the U.S. and elsewhere ramp up oil production.

Meanwhile, the interest rate is likely to remain high until the inflation rate reaches the Fed target of 2%. Goldman Sachs projects the rate will be approximately 5% to 5.25% in 2023. To franchise owners, the cost of borrowing will continue to increase, and it is more important for investors to think about real return with the high inflation.

Inflation Rate (Consumer Price Index for All Urban Consumers)



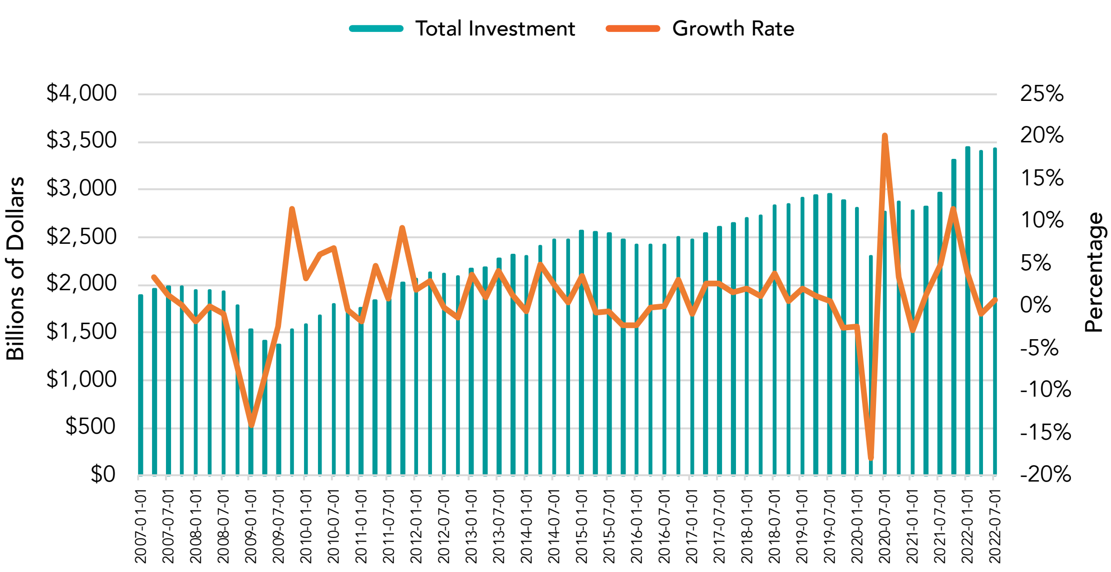
Source: Bureau of Labor Statistics

BUSINESS INVESTMENT AND SMALL BUSINESS OPTIMISM INDEX

According to the U.S. Census Bureau's Business Formation Statistics report, which captures the weekly number of actual and predicted business formations, applications for new businesses slightly dropped to 417,055 from 430,729 at the start of 2022. Retail trade, professional services, and construction were the industries with the most applications in 2022. In 2023, the rate of new business formations will continue to increase; however, growth is projected to slow down due to a decline in applications across nearly every industry.

Based on domestic business investment from the U.S. Bureau of Economic Analysis, investments recovered quickly after the initial COVID-19 shock. This was illustrated by a quick rebound in financial markets, as the impact of the pandemic was not the same for all businesses. On the other hand, despite the pandemic's impact on the dollar amount of business investment, its percentage of GDP remained stable between 2019 and 2022 at approximately 13%. In 2023, domestic business investments are expected to trend in line with GDP growth as its percentage of GDP will not be significantly affected by a mild recession. However, the domestic business investment growth rate will slow down alongside the overall economy.

Gross Private Domestic Business Investment



Source: U.S. Bureau of Economic Analysis

According to the National Federation of Independent Business (NFIB), the Small Business Optimism Index decreased 9.1 points year over year in December 2022. This illustrates a decline in the percentage of owners who expected better business conditions over the next six months. Inflation remains one of the key business problems, with 32% of owners reporting it as their top issue in operating their business.

Monthly Total Business Formations – Actual and Projections

Source: U.S. Census Bureau

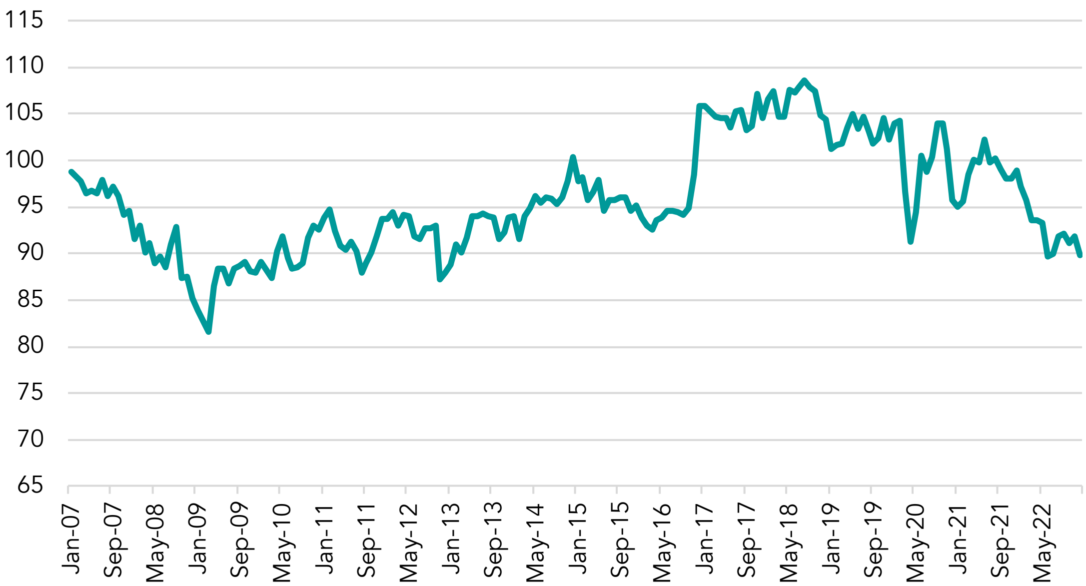
U.S. HOUSING MARKET

In 2020 and 2021, the demand for housing was increased by pandemic-related fiscal stimulus, monetary easing, work-from-home mandates, migration to more affordable cities, and wage increases. Even though monetary easing lessens the burden of mortgage payments, it increases home prices and reduces housing affordability.

High mortgage rates in 2022 put pressure on the demand for housing. Limited housing supply continued to push prices upwards, forcing out buyers from the market. First-time home buyers declined from 34% in 2021 to all-time lows of 26% in 2022.

High inflation, steep interest rates, and fears of an economic slowdown will continue to challenge demand within the housing market in 2023. According to the Mortgage Bankers Association (MBA) mortgage applications have declined to their lowest level in the last 25 years. Despite a decline in sales, interest rates and limited supply have continued to increase home prices in 2022. The median existing-home sales price was up 3.5% to $370,700 in 2022 compared with 2021. With buyers priced out of the market, affordability will remain the biggest challenge for the residential market in 2023. In line with housing prices, rents have continued

U.S. Small Business Optimism Index



Source: The National Federation of Independent Business (NFIB)

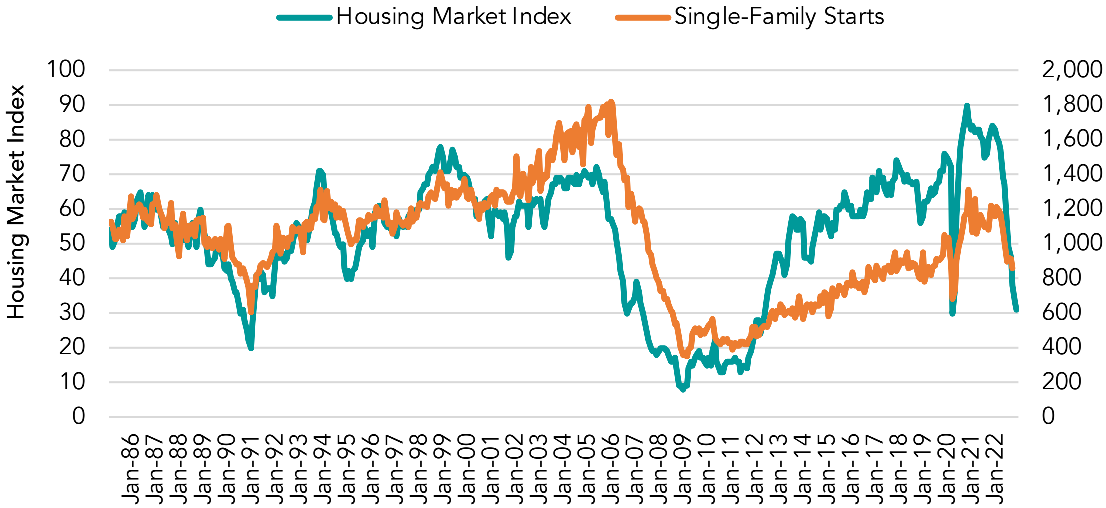
to increase. According to a recent National Association of Realtors report, nearly 50% of renters spend more than 30% of their salary on rent.

The housing inventory has not entirely recovered since the 2008 housing market crash and continues to be a problem. The National Association of Realtors estimates unsold housing inventory sits for 2.9 months at the current sales pace, unchanged from December 2022 but up from 1.6 months in January 2022.

Home buyers will face pricing pressure in 2023 as the housing supply is predicted to remain low. Due to supply bottlenecks on building materials, construction will be muted in the first quarter of 2023.

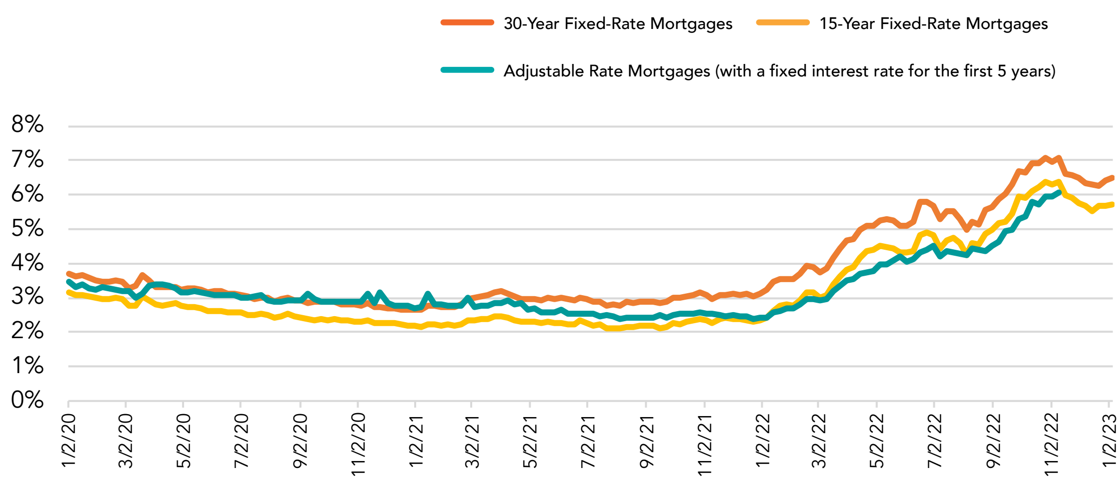
Home builder confidence increased four points in January 2023, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI), indicating that a recovery in home construction is anticipated in the second half of 2023.

NAHB/Wells Fargo Housing Market Index (HMI) and New Single-Family Starts



Source: National Association of Home Builders (NAHB).

U.S. Weekly Average Mortgage Rates as of 01/2/2023



Source: Freddie Mac

APPENDIX | Franchise Establishments

STATE	2020	2021	2022 (Est.)	2023 (Proj.)	Growth Rate (20-21)	Growth Rate (21-22)	Growth Rate (22-23)
ALABAMA	12,691	12,980	13,208	13,433	2.3%	1.8%	1.7%
ALASKA	1,250	1,241	1,229	1,213	-0.7%	-1.0%	-1.3%
ARIZONA	16,775	17,239	17,733	18,154	2.8%	2.9%	2.4%
ARKANSAS	7,448	7,595	7,800	7,914	2.0%	2.7%	1.5%
CALIFORNIA	79,890	81,337	83,002	83,616	1.8%	2.0%	0.7%
COLORADO	16,428	16,961	17,457	17,901	3.2%	2.9%	2.5%
CONNECTICUT	6,952	7,059	7,121	7,160	1.5%	0.9%	0.5%
DELAWARE	2,309	2,397	2,467	2,532	3.8%	2.9%	2.6%
DISTRICT OF COLUMBIA	1,140	1,129	1,104	1,077	-1.0%	-2.2%	-2.5%
FLORIDA	54,902	56,851	58,517	60,126	3.6%	2.9%	2.7%
GEORGIA	27,802	28,698	29,529	30,306	3.2%	2.9%	2.6%
HAWAII	3,072	3,044	3,030	2,993	-0.9%	-0.5%	-1.2%
IDAHO	4,333	4,557	4,721	4,896	5.2%	3.6%	3.7%
ILLINOIS	27,970	32,255	32,990	34,790	15.3%	2.3%	5.5%
INDIANA	16,686	17,178	17,647	18,065	2.9%	2.7%	2.4%
IOWA	8,278	8,437	8,524	8,614	1.9%	1.0%	1.1%
KANSAS	7,908	8,136	8,246	8,366	2.9%	1.4%	1.5%
KENTUCKY	10,883	11,091	11,306	11,485	1.9%	1.9%	1.6%
LOUISIANA	11,099	11,284	11,518	11,659	1.7%	2.1%	1.2%
MAINE	2,298	2,290	2,295	2,291	-0.3%	0.2%	-0.2%
MARYLAND	13,836	14,098	14,250	14,403	1.9%	1.1%	1.1%
MASSACHUSETTS	10,594	10,796	10,932	11,052	1.9%	1.3%	1.1%
MICHIGAN	22,563	23,025	23,225	23,461	2.0%	0.9%	1.0%
MINNESOTA	14,164	14,286	14,205	14,129	0.9%	-0.6%	-0.5%
MISSISSIPPI	6,745	6,983	7,101	7,235	3.5%	1.7%	1.9%
MISSOURI	14,969	15,288	15,518	15,739	2.1%	1.5%	1.4%
MONTANA	3,045	3,076	3,067	3,074	1.0%	-0.3%	0.2%
NEBRASKA	6,200	6,259	6,385	6,449	0.9%	2.0%	1.0%
NEVADA	7,777	8,139	8,385	8,651	4.7%	3.0%	3.2%
NEW HAMPSHIRE	2,966	2,997	3,015	3,029	1.0%	0.6%	0.5%
NEW JERSEY	18,609	18,832	19,057	19,216	1.2%	1.2%	0.8%
NEW MEXICO	4,735	4,783	4,864	4,924	1.0%	1.7%	1.2%
NEW YORK	27,098	27,262	27,296	27,276	0.6%	0.1%	-0.1%
NORTH CAROLINA	26,501	27,280	27,927	28,531	2.9%	2.4%	2.2%
NORTH DAKOTA	2,327	2,355	2,338	2,332	1.2%	-0.7%	-0.2%
OHIO	28,505	28,794	29,488	29,834	1.0%	2.4%	1.2%
OKLAHOMA	9,923	10,139	10,291	10,445	2.2%	1.5%	1.5%
OREGON	9,570	9,702	9,788	9,856	1.4%	0.9%	0.7%
PENNSYLVANIA	26,312	26,722	27,152	27,521	1.6%	1.6%	1.4%
RHODE ISLAND	2,010	2,014	2,054	2,082	0.2%	2.0%	1.4%
SOUTH CAROLINA	14,054	14,615	15,094	15,570	4.0%	3.3%	3.2%
SOUTH DAKOTA	2,695	2,722	2,729	2,733	1.0%	0.3%	0.2%
TENNESSEE	18,147	18,697	19,246	19,770	3.0%	2.9%	2.7%
TEXAS	71,826	74,909	77,403	79,993	4.3%	3.3%	3.3%
UTAH	8,181	8,611	8,899	9,223	5.3%	3.4%	3.6%
VERMONT	1,046	1,053	1,034	1,023	0.6%	-1.8%	-1.1%
VIRGINIA	22,553	22,736	23,089	23,333	0.8%	1.6%	1.1%
WASHINGTON	16,432	16,632	16,769	16,859	1.2%	0.8%	0.5%
WEST VIRGINIA	3,610	3,620	3,648	3,640	0.3%	0.8%	-0.2%
WISCONSIN	14,823	14,902	15,088	15,220	0.5%	1.2%	0.9%
WYOMING	1,838	1,877	1,902	1,928	2.1%	1.4%	1.3%
TOTAL	753,770	774,965	790,686	805,123	2.8%	2.0%	1.8%

APPENDIX | Franchise Employment

STATE	2020	2021	2022 (Est.)	2023 (Proj.)	Growth Rate (20-21)	Growth Rate (21-22)	Growth Rate (22-23)
ALABAMA	126,814	137,219	140,998	144,972	8.2%	2.8%	2.8%
ALASKA	12,492	13,119	13,120	13,091	5.0%	0.0%	-0.2%
ARIZONA	167,626	182,246	189,308	195,924	8.7%	3.9%	3.5%
ARKANSAS	74,430	80,296	83,265	85,415	7.9%	3.7%	2.6%
CALIFORNIA	798,327	859,864	886,057	902,413	7.7%	3.0%	1.8%
COLORADO	164,165	179,305	186,356	193,190	9.2%	3.9%	3.7%
CONNECTICUT	69,473	74,625	76,016	77,268	7.4%	1.9%	1.6%
DELAWARE	23,074	25,340	26,336	27,326	9.8%	3.9%	3.8%
DISTRICT OF COLUMBIA	11,393	11,935	11,787	11,619	4.8%	-1.2%	-1.4%
FLORIDA	548,628	601,008	624,681	648,901	9.5%	3.9%	3.9%
GEORGIA	277,820	303,387	315,224	327,072	9.2%	3.9%	3.8%
HAWAII	30,699	32,176	32,341	32,302	4.8%	0.5%	-0.1%
IDAHO	43,299	48,178	50,401	52,844	11.3%	4.6%	4.8%
ILLINOIS	279,496	340,986	352,174	375,466	22.0%	3.3%	6.6%
INDIANA	166,742	181,597	188,387	194,960	8.9%	3.7%	3.5%
IOWA	82,722	89,194	91,000	92,967	7.8%	2.0%	2.2%
KANSAS	79,027	86,006	88,029	90,286	8.8%	2.4%	2.6%
KENTUCKY	108,752	117,246	120,695	123,948	7.8%	2.9%	2.7%
LOUISIANA	110,915	119,289	122,960	125,829	7.5%	3.1%	2.3%
MAINE	22,965	24,213	24,500	24,729	5.4%	1.2%	0.9%
MARYLAND	138,261	149,039	152,122	155,440	7.8%	2.1%	2.2%
MASSACHUSETTS	105,868	114,133	116,706	119,279	7.8%	2.3%	2.2%
MICHIGAN	225,472	243,409	247,936	253,200	8.0%	1.9%	2.1%
MINNESOTA	141,542	151,025	151,641	152,484	6.7%	0.4%	0.6%
MISSISSIPPI	67,400	73,823	75,802	78,081	9.5%	2.7%	3.0%
MISSOURI	149,581	161,623	165,659	169,864	8.1%	2.5%	2.5%
MONTANA	30,428	32,519	32,739	33,174	6.9%	0.7%	1.3%
NEBRASKA	61,956	66,165	68,164	69,595	6.8%	3.0%	2.1%
NEVADA	77,711	86,044	89,514	93,360	10.7%	4.0%	4.3%
NEW HAMPSHIRE	29,635	31,679	32,188	32,690	6.9%	1.6%	1.6%
NEW JERSEY	185,958	199,088	203,438	207,390	7.1%	2.2%	1.9%
NEW MEXICO	47,319	50,565	51,923	53,146	6.9%	2.7%	2.4%
NEW YORK	270,790	288,206	291,390	294,368	6.4%	1.1%	1.0%
NORTH CAROLINA	264,823	288,397	298,122	307,915	8.9%	3.4%	3.3%
NORTH DAKOTA	23,254	24,900	24,956	25,171	7.1%	0.2%	0.9%
OHIO	284,850	304,399	314,787	321,974	6.9%	3.4%	2.3%
OKLAHOMA	99,162	107,182	109,863	112,727	8.1%	2.5%	2.6%
OREGON	95,629	102,561	104,487	106,371	7.2%	1.9%	1.8%
PENNSYLVANIA	262,930	282,497	289,858	297,015	7.4%	2.6%	2.5%
RHODE ISLAND	20,081	21,291	21,925	22,468	6.0%	3.0%	2.5%
SOUTH CAROLINA	140,442	154,501	161,135	168,039	10.0%	4.3%	4.3%
SOUTH DAKOTA	26,931	28,777	29,133	29,498	6.9%	1.2%	1.3%
TENNESSEE	181,344	197,656	205,457	213,367	9.0%	3.9%	3.9%
TEXAS	717,750	791,904	826,292	863,312	10.3%	4.3%	4.5%
UTAH	81,749	91,028	95,001	99,541	11.4%	4.4%	4.8%
VERMONT	10,455	11,133	11,040	11,040	6.5%	-0.8%	0.0%
VIRGINIA	225,364	240,353	246,479	251,813	6.7%	2.5%	2.2%
WASHINGTON	164,201	175,830	179,011	181,953	7.1%	1.8%	1.6%
WEST VIRGINIA	36,070	38,267	38,939	39,281	6.1%	1.8%	0.9%
WISCONSIN	148,121	157,537	161,064	164,257	6.4%	2.2%	2.0%
WYOMING	18,369	19,840	20,309	20,809	8.0%	2.4%	2.5%
TOTAL	7,532,305	8,192,599	8,440,713	8,689,141	8.8%	3.0%	2.9%

APPENDIX | Franchise Output (in million $)

STATE	2020	2021	2022 (Est.)	2023 (Proj.)	Growth Rate (20-21)	Growth Rate (21-22)	Growth Rate (22-23)
ALABAMA	11,402	13,194	13,791	14,345	15.7%	4.5%	4.0%
ALASKA	1,123	1,261	1,283	1,295	12.3%	1.7%	0.9%
ARIZONA	15,071	17,524	18,516	19,387	16.3%	5.7%	4.7%
ARKANSAS	6,692	7,721	8,144	8,452	15.4%	5.5%	3.8%
CALIFORNIA	71,778	82,679	86,664	89,296	15.2%	4.8%	3.0%
COLORADO	14,760	17,241	18,227	19,117	16.8%	5.7%	4.9%
CONNECTICUT	6,246	7,175	7,435	7,646	14.9%	3.6%	2.8%
DELAWARE	2,075	2,436	2,576	2,704	17.4%	5.7%	5.0%
DISTRICT OF COLUMBIA	1,024	1,148	1,153	1,150	12.0%	0.5%	-0.3%
FLORIDA	49,328	57,789	61,099	64,210	17.2%	5.7%	5.1%
GEORGIA	24,979	29,172	30,831	32,364	16.8%	5.7%	5.0%
HAWAII	2,760	3,094	3,163	3,196	12.1%	2.2%	1.0%
IDAHO	3,893	4,632	4,930	5,229	19.0%	6.4%	6.1%
ILLINOIS	25,130	32,787	34,445	37,153	30.5%	5.1%	7.9%
INDIANA	14,992	17,461	18,426	19,292	16.5%	5.5%	4.7%
IOWA	7,438	8,576	8,900	9,199	15.3%	3.8%	3.4%
KANSAS	7,105	8,270	8,610	8,934	16.4%	4.1%	3.8%
KENTUCKY	9,778	11,274	11,805	12,265	15.3%	4.7%	3.9%
LOUISIANA	9,972	11,470	12,026	12,451	15.0%	4.9%	3.5%
MAINE	2,065	2,328	2,396	2,447	12.8%	2.9%	2.1%
MARYLAND	12,431	14,331	14,879	15,381	15.3%	3.8%	3.4%
MASSACHUSETTS	9,519	10,974	11,415	11,803	15.3%	4.0%	3.4%
MICHIGAN	20,272	23,405	24,250	25,055	15.5%	3.6%	3.3%
MINNESOTA	12,726	14,522	14,832	15,089	14.1%	2.1%	1.7%
MISSISSIPPI	6,060	7,098	7,414	7,726	17.1%	4.4%	4.2%
MISSOURI	13,449	15,541	16,203	16,808	15.6%	4.3%	3.7%
MONTANA	2,736	3,127	3,202	3,283	14.3%	2.4%	2.5%
NEBRASKA	5,571	6,362	6,667	6,887	14.2%	4.8%	3.3%
NEVADA	6,987	8,273	8,755	9,238	18.4%	5.8%	5.5%
NEW HAMPSHIRE	2,665	3,046	3,148	3,235	14.3%	3.4%	2.7%
NEW JERSEY	16,720	19,143	19,898	20,522	14.5%	3.9%	3.1%
NEW MEXICO	4,254	4,862	5,079	5,259	14.3%	4.5%	3.6%
NEW YORK	24,347	27,712	28,500	29,128	13.8%	2.8%	2.2%
NORTH CAROLINA	23,810	27,730	29,159	30,469	16.5%	5.2%	4.5%
NORTH DAKOTA	2,091	2,394	2,441	2,491	14.5%	1.9%	2.0%
OHIO	25,611	29,269	30,789	31,860	14.3%	5.2%	3.5%
OKLAHOMA	8,916	10,306	10,745	11,155	15.6%	4.3%	3.8%
OREGON	8,598	9,862	10,220	10,526	14.7%	3.6%	3.0%
PENNSYLVANIA	23,640	27,163	28,350	29,390	14.9%	4.4%	3.7%
RHODE ISLAND	1,806	2,047	2,144	2,223	13.4%	4.7%	3.7%
SOUTH CAROLINA	12,627	14,856	15,760	16,628	17.6%	6.1%	5.5%
SOUTH DAKOTA	2,421	2,767	2,849	2,919	14.3%	3.0%	2.4%
TENNESSEE	16,305	19,005	20,095	21,113	16.6%	5.7%	5.1%
TEXAS	64,533	76,144	80,818	85,427	18.0%	6.1%	5.7%
UTAH	7,350	8,753	9,292	9,850	19.1%	6.2%	6.0%
VERMONT	940	1,070	1,080	1,092	13.9%	0.9%	1.2%
VIRGINIA	20,263	23,111	24,108	24,917	14.1%	4.3%	3.4%
WASHINGTON	14,763	16,907	17,509	18,005	14.5%	3.6%	2.8%
WEST VIRGINIA	3,243	3,680	3,809	3,887	13.5%	3.5%	2.1%
WISCONSIN	13,318	15,148	15,753	16,254	13.7%	4.0%	3.2%
WYOMING	1,652	1,908	1,986	2,059	15.5%	4.1%	3.7%
TOTAL	677,236	787,746	825,570	859,810	16.3%	4.8%	4.1%

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