

# PPAI

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QUARTER

## MARKET OUTLOOK REPORT

2016

The logo for ITR ECONOMICS features a stylized blue and white wave icon to the left of the text "ITR ECONOMICS" in a bold, blue, sans-serif font.

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### **LIVE WEBINAR: Understanding the PPAI Market Outlook Report**

Learn how to read and best utilize the PPAI Market Outlook Report for your business decisions.

Webinar and Registration details will be sent via email

[Click Here for a Brief Video Explanation of the Methodology We Use in this Report.](#)

## Moving Total/Moving Average

Moving totals/averages are used to smooth out the volatility inherent to monthly data at the product/company level.

**Monthly Moving Total (MMT) vs Monthly Moving Average (MMA):** There are times when it is desirable to calculate a monthly moving average instead of a total. Averages are used when the data can not be compounded such as an index, percent, price level, or interest rates. Totals are used for things where it makes sense to add the data together. For example: units sold or total dollars spent.

**3MMT or 3MMA:** A three-month (quarterly) moving total (3MMT) or average (3MMA) is the total (or average) of the monthly data for the most recent three months. Three-month moving totals (3MMT) or averages (3MMA) illustrate the seasonal changes inherent to the data series.

**12MMT:** A twelve-month (annual) moving total (12MMT) or average (12MMA) is the total (or average) of the monthly data for the past 12 months. The 12MMT(A) removes seasonal variation in order to derive the underlying cyclical trend. Throughout this report, it is also referred to as the data trend.

## Rate-of-Change

A rate-of-change figure is the ratio comparing a data series during a specified time period to the same time period one year ago. **Rates-of-change** are expressed in terms of the **annual percent change in an MMT or MMA**.

Rates-of-change reveal whether activity levels are getting progressively better or worse compared to last year. Consecutive rates-of-change illustrate and measure cyclical change and trends.

ITR Economics' three commonly used rates-of-change are the **1/12**, **3/12**, and **12/12**, which represent the year-over-year percent change of a single month, 3MMT(A), and 12MMT(A) (respectively).

A rate-of-change above 0 indicates a rise in the data relative to one year prior, while a rate-of-change below 0 indicates decline.

## Business Cycle

The data trends and rates-of-change identify positions in the business cycle. Those positions are:



12/12 is rising below 0 and the data trend is either heading toward a low or is in the early stages of recovery. This is the first positive phase of the business cycle.



12/12 is rising above 0, data trend is accelerating in its ascent, and growth is occurring above year-ago levels. This is the second positive phase of the business cycle.



12/12 is declining but remains above 0, data trend is decelerating in its ascent or has stopped its rise, but it is still above last year. This is the first negative phase of the business cycle.



12/12 is below 0, data trend is at levels below the year-earlier level. This is the final phase and second negative phase of the business cycle.

## About PPAI and the PPAI Market Outlook Report

PPAI is an industry trade association comprised of over 10,000 member companies. The majority of these members are located in the United States, but membership includes firms in Canada and throughout the world. Most member companies are suppliers and distributors of promotional products and services, including specialty advertising, business gifts, premiums, incentives, awards, prizes, and commemoratives. The Promotional Products Association International advocates the power and value of promotional products in the marketing and advertising professions to ensure the success of its members and the global industry.

In order to best provide resources to members, the PPAI Market Outlook Report was created by ITR Economics to provide information on macroeconomic, industry, and competitive landscape trends. The goal of the PPAI Market Outlook Report is to provide members with insight into current business cycle trends that affect their company. This will allow members to make better business decisions in order to increase profitability and mitigate risk.

### Changes to the PPAI Market Outlook Report

In an effort to make sure your Market Outlook Report is easy to review and provides you the most value, we have made improvements based on PPAI members' feedback from previous reports.

**Your First Quarter 2016 Market Outlook Report features the following improvements and changes:**

- A US Economy Overview section has been added to provide insight regarding where the economy is headed.
- An Executive Summary page now appears as a one-page summary of the major findings within the report.
- New market indexes incorporating additional member data have been created for Total Members, Supplier Members, and Distributor members.
- A breakdown between Large and Small Supplier and Distributor Members' Sales has been provided.
- A Comparative analysis has been added for Member Sales to Leading and Competitive Landscape Indicators.

### Index Description and Purpose

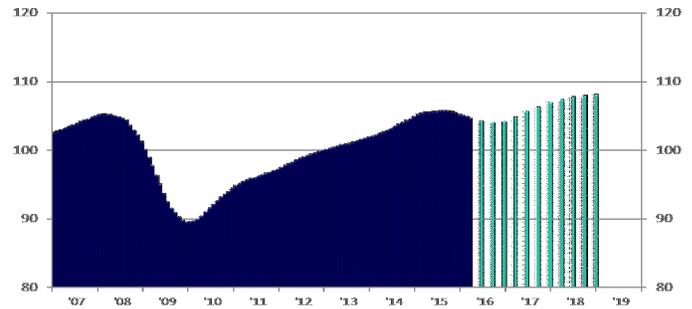
The PPAI Member Market Index is derived from sales data submitted by PPAI members. Growth rates are calculated based on the submitted data, and an index is created based on the typical (median) growth rates submitted by PPAI members in a given month. The purpose of the PPAI Member Market Index is to allow PPAI members to see how their company's performance compares to industry trends. Graphs are included throughout the report and there are explanations on how to calculate your own company's performance and compare it against the industry. Members can see whether they are performing in the top quarter, middle two quarters, or bottom quarter of the industry. Members can also compare their results against all members, distributors or suppliers only, and distributors/suppliers by company size.

## US Economy Overview

On the consumer side of the economy, the labor market remains favorable to consumers. Wage growth (up 3.2%) is outpacing inflation (up 0.9%). This is allowing consumers to increase savings and spending at the same time. US Retail Sales Excluding Gas Stations (deflated) is up 4.2% on a year-over-year basis. This is a full percentage point above the five-year average since the Great Recession (3.2%), which occurred during a period of uninterrupted US Real GDP growth. We expect the rate of growth of US Real GDP to slow through the first half of 2016 before accelerating in the second half of the year and throughout 2017. Slower US Real GDP growth will resume in 2018.

Year-over-year contraction is evident across much of the industrial sector. Annual US Industrial Production, which was subject to a data revision from the data source (Federal Reserve Board), is down 0.8% compared to its year-ago level. However, US Manufacturing Production is expanding and will avoid recession during this business cycle. In addition, a weaker dollar

**US Industrial Production Index**  
12-Month Moving Average



and higher commodity prices are helping business-to-business activity transition into a recovery stage. PPAI members should plan for a stronger US macroeconomy in the second half of 2016 and especially in 2017 as the headwinds facing the US industrial sector subside, allowing consumers to drive growth in the US economy and the promotional products industry through at least 2018.

## US Economy Leading Indicator Highlights

| Indicator   | Direction    | What it means for the US economy  |
|---|--------------|---|
| <b>ITR Leading Indicator™</b><br>(Actual)   | Rise         | Two months of rise suggests economic conditions in the US could improve in the second half of 2016.                                     |
| <b>Housing Starts</b><br>(Most recent 12 months compared to same 12 months one year ago)              | Mild rise    | Double-digit growth in Starts shows a stronger consumer which will support the economy in 2016.   |
| <b>Consumer Expectations Index</b><br>(Most recent 12 months compared to same 12 months one year ago) | Decline      | Quarterly contraction indicates the Index will decline further and points to weaker economic conditions in the second half of the year. |
| <b>Chicago Fed National Activity Index</b><br>(Six-month average)                                     | Flat         | The tick up in February shows tentative growth which would point to a stronger second half of 2016.                                     |
| <b>US Leading Indicator</b><br>(Most recent month compared to same month one year ago)                | Decline      | General cyclical decline signals that US economic weakness is probable into the second half of 2016.                                    |
| <b>Purchasing Managers Index</b><br>(Most recent month compared to same month one year ago)           | Rise         | The rising trend points to rise in US economy in the second half of 2016.   |
| <b>S&amp;P 500 Stock Prices</b><br>(Raw Data)   | Mild decline | March growth shows a potential trend reversal for the economy in the coming months.   |

**US Economy Long-Term View**

**2016:**  
Growth Second Half

**2017:**  
Ongoing Strength

**2018:**  
Slower Growth

## Market Outlook Report Executive Summary

### PPAI Total Members' Association Summary

- Weaker business environment suggests gains seen among top performers are at the expense of market share loss of lower performing members.
- Leading Indicators suggest there could be a stronger sales environment in the second half of 2016.
- Distributors are outperforming Suppliers, but both are showing early signs of sustainable rise in their median growth rates in the near term.
- Members should evaluate their lead times to determine staffing, purchases, and sales focus for the upcoming rise in industry demand by the end of 2016.
- Members should focus sales and marketing on consumer-facing segments that are more shielded from the decline in US Industrial Production.

| Index        | Current | Phase |
|--------------|---------|-------|
| Total        | 5.8%    | C     |
| Suppliers    | 4.2%    | C     |
| Distributors | 8.0%    | C     |

### PPAI Suppliers Members' Association Summary

- Supplier activity over the last 12 months is up 4.2% from one year ago.
- Nascent rising trends in the annual growth rates for the first quartile, median, and third quartile signal that the industry is nearing a cyclical low.
- Weakness tends to be concentrated among a subset of small suppliers (defined as suppliers with no more than \$60 million in 2015 sales). This could be due to an inability to secure financing and fewer long term contracts.
- Plan now for accelerating growth in the second half of 2016, extending into the third quarter of 2017.

#### Supplier Outlook

|       |      |
|-------|------|
| 2016: | 5.4% |
| 2017: | 6.5% |
| 2018: | 2.3% |

### PPAI Distributors Members' Association Summary

- The median annual growth rate for distributors of 8.0% is nearly identical to its five-year average of 7.9% and has remained steady over the last five years.
- PPAI Distributor Members will face headwinds from industrial-based sectors in the coming months.
- However, the ITR Leading Indicator shows that recovery in the industrial sector will set in by the third quarter of 2016.
- PPAI Distributor Members will feel relief in the industrial sector by year end.
- Consumer-facing markets will offer growth opportunities this year while the industrial sectors falter.

#### Distributor Outlook

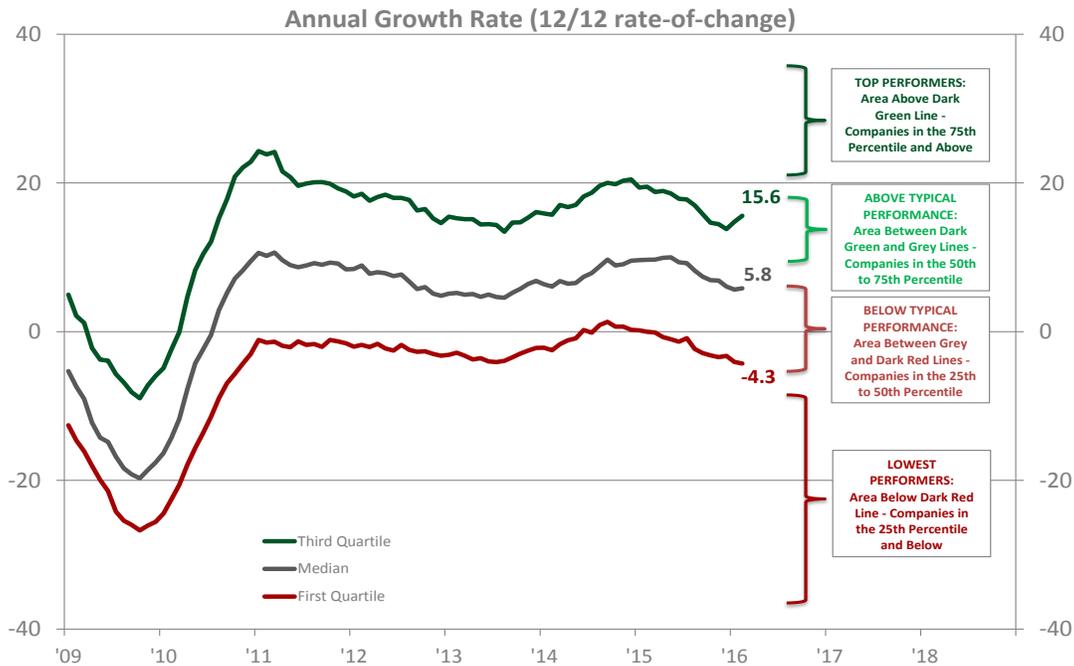
|       |      |
|-------|------|
| 2016: | 6.6% |
| 2017: | 7.3% |
| 2018: | 3.7% |

### PPAI Member's Competitive Environment Summary

- Growth in Total Member Sales will outpace the growth in Print Media and TV Advertising Expenditures through 2018.
- Print Media advertising will decline over the next three years. Electronic advertising segments will lose ground as Internet Expenditures rise.
- Radio advertising will see robust growth in 2016. Outdoor and Internet Advertising Expenditures will be the best performers for 2017 and 2018.
- PPAI Members should gauge shifts in advertising expenditures over the next three years towards the Internet to determine what it means to their current market segments. Seek ways to utilize this method to expand exposure to prospective markets.

## PPAI Total Members' Association Overview

### PPAI Industry Performance: Distributors and Suppliers



**HOW TO USE THIS GRAPH:** The purpose of this chart is to see how your company's performance compares to PPAI members (distributors and suppliers of all sizes) that submitted data to ITR Economics. To use this chart follow these four steps:

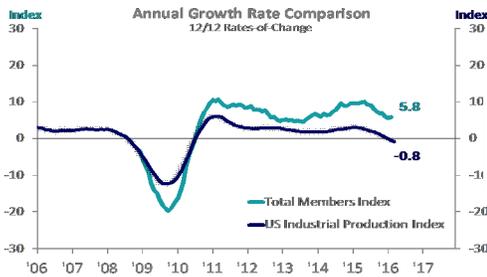
1. Calculate your company's annual growth rate as of February 2016. Add up your 12 months of sales through February (from March 2015 through February 2016) and compare it to the annual total one year earlier (from March 2014 through February 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled \$10 million from March 2014 through February 2015 and totaled \$11 million from March 2015 through February 2016, your percentage change would be \$1 million change / \$10 million original amount, or 10%.
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls between the median (5.8%) and third quartile (15.6%), indicating that your company has above-typical performance in line with companies in the 50th to 75th percentile of PPAI members that submitted data to ITR Economics.

### PPAI Total Members' Association Highlights

- The annual growth rate for the third quartile rose for the second consecutive month, to 15.6%, in February. The median annual growth rate ticked up 0.2 percentage points to 5.8%. The annual growth rate for the first quartile is in decline, at -4.3%.
- These trends suggest top performers in the industry are able to increase their market share at the expense of lower performing companies as the US macro economy slows.

## PPAI Total Members' Association Leading Indicators

### US Industrial Production Index



### Budget for a stronger second half of 2016



Strong consumer trends and positive leading indicator output suggest cyclical upswing is likely in the second half of 2016 for US Industrial Production.

The US Industrial Production 12/12 is coincident with the median Total Members 12/12 through cyclical highs and lows (best fit).

### Production



### Outlook

|       |       |
|-------|-------|
| 2016: | -1.0% |
| 2017: | 2.7%  |
| 2018: | 1.1%  |

### US Nondefense Capital Goods New Orders



### Improving trends point to a near-term rise in industry demand



Total New Orders ticked up in February for the first time since 2014. This is a sign of improvement for the US manufacturing sector.

The US Nondefense Capital Goods New Orders 12/12 is coincident with the median Total Members 12/12 through cyclical highs and lows (best fit).

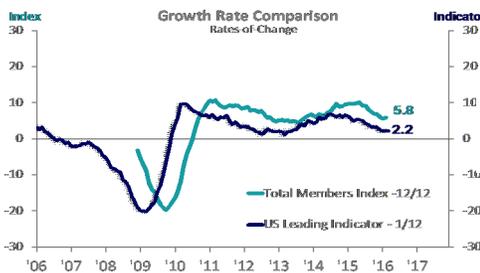
### New Orders



### Outlook

|       |      |
|-------|------|
| 2016: | 2.1% |
| 2017: | 6.5% |
| 2018: | 0.1% |

### US Leading Indicator



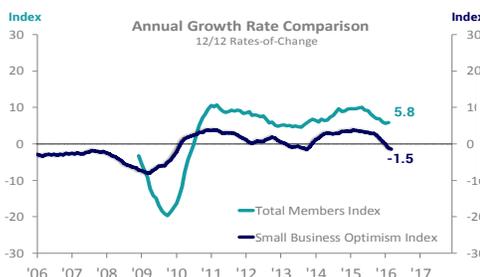
### Weaker markets probable into the second half of 2016



The US Leading Indicator 1/12 ticked lower in February as housing permits hold the Indicator back from a defined upswing. General cyclical decline in the indicator points to economic weakness and tougher markets to sell into through the first half of 2016.

The US Leading Indicator 1/12 leads the median Total Members 12/12 through cyclical highs and lows by eight months. (best fit)

### US Small Business Optimism Index



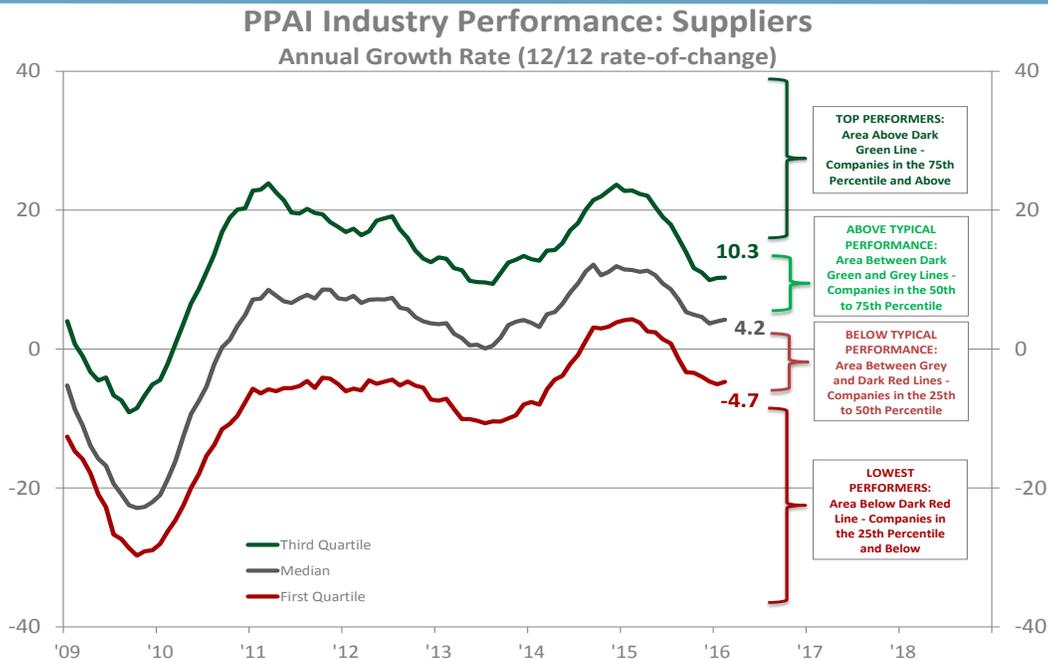
### Business sentiment falls further in March to a two-year low



Weaker monthly trends will push the Index lower in the upcoming months. The negative trends suggest that many companies will act more defensively in their contracts and there could be a tougher market for sales into late 2016.

The US Small Business Optimism Index 12/12 leads the median Total Members 12/12 through cyclical highs and lows by six months. (best fit)

## PPAI Suppliers Members' Association Overview



**HOW TO USE THIS GRAPH:** The purpose of this chart is to see how your company’s performance compares to PPAI members (suppliers of all sizes) that submitted data to ITR Economics. To use this chart follow these four steps:

1. Calculate your company’s annual growth rate as of February 2016. Add up your 12 months of sales through February (from March 2015 through February 2016) and compare it to the annual total one year earlier (from March 2014 through February 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled \$10 million from March 2014 through February 2015 and totaled \$11 million from March 2015 through February 2016, your percentage change would be \$1 million change / \$10 million original amount, or 10%.
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls between the median (4.2%) and third quartile (10.3%), indicating that your company has above-typical performance in line with companies in the 50th to 75th percentile of PPAI members that submitted data to ITR Economics.

### PPAI Supplier Members' Association Highlights

- Nascent rising trends in the annual growth rates for the first quartile, median, and third quartile signal that the industry may have reached a cyclical low.
- Suppliers (median annual growth rate of 4.2%) are underperforming distributors (median annual growth rate of 8.0%).

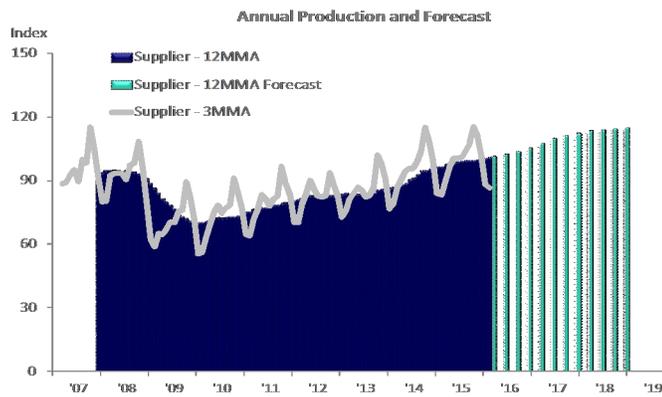
## PPAI Supplier Members' Association Outlook

### PPAI Supplier Members' Association Forecast

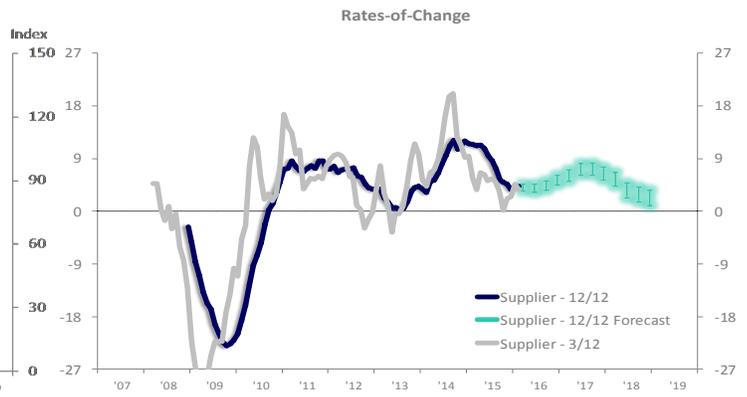
Annual Trend: 100.6 Phase: C Year-over-Year Growth Rate: 4.2%

Quarterly Trend: 86.5 Quarter-over-Quarter Growth Rate: 3.7%

Supplier Members' Association Sales Index



Year-over-Year Growth Rate



### PPAI Supplier Members' Association Total Sales Highlights

#### Supplier Outlook

|       |      |
|-------|------|
| 2016: | 5.4% |
| 2017: | 6.5% |
| 2018: | 2.3% |

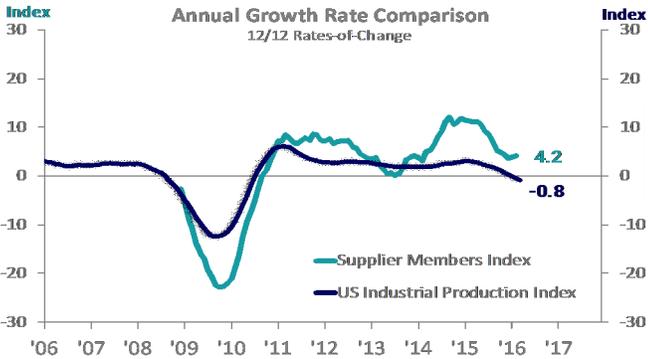
- The 12-month moving total for the PPAI Suppliers Index set a new record high in February, up 43.7% from its low during the Great Recession.
- The most recent 12 months of the Index are up 4.2% from one year ago. The most recent three months of the Index are up 3.7% from the same period a year ago.
- We expect the Index annual growth rate to accelerate beginning in the second half of 2016 and to extend into the third quarter of 2017 as the US macro economy strengthens.
- PPAI suppliers should develop plans for how they will meet the upcoming period of accelerating growth, especially in 2017. Phase out unprofitable clients, be on good terms with a banker, and consider investing in your business at today's low interest rates.

*This is an aggregate market index created from sales data submitted by PPAI suppliers. The index is set to average 100 in 2015. For example, the February 2016 average of 100.6 indicates annual sales have increased by 0.6% from the 2015 level.*

## PPAI Supplier Members' Association Leading Indicators

### US Industrial Production Index

#### Ongoing weakness will hinder sales through 3Q16



The annual growth rate for US Industrial Production fell to  $-0.8\%$  in March. We expect the annual growth rate for US Industrial Production to decline into the third quarter of 2016. This suggests that macroeconomic weakness will hinder growth in PPAI supplier members' sales through the third quarter of 2016.

The US Industrial Production 12/12 leads the median PPAI Supplier Index 12/12 through cyclical highs and lows by one month (best fit).

### ITR Leading Indicator

#### Rise in Indicator suggests stronger second half of 2016

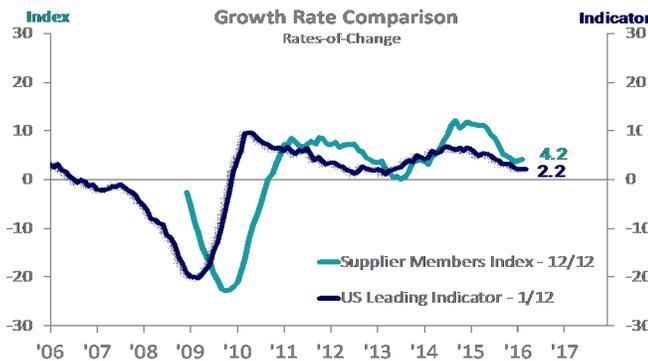


The ITR Leading Indicator has risen for two consecutive months. This suggests that PPAI supplier members will see an upturn in sales in the second half of 2016.

The ITR Leading Indicator leads the median PPAI Supplier Index 12/12 through cyclical highs and lows by nine months (best fit).

### US Leading Indicator

#### Decline in Indicator points to weakness into late 2016



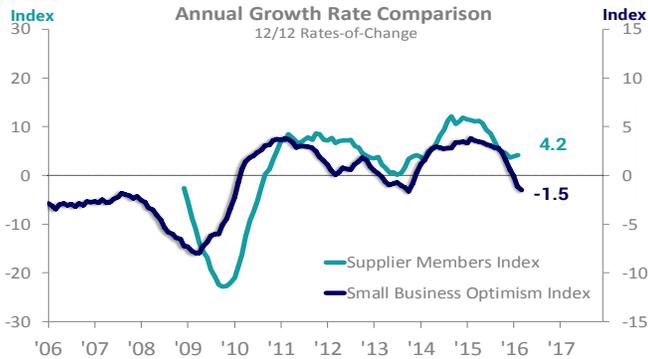
The rate-of-change in the Conference Board's US Leading Indicator remained at  $2.2\%$  in March. This is the same value as the previous two months. General decline in the US Leading Indicator rate-of-change suggests that PPAI supplier members' sales could face headwinds through 2016.

The US Leading Indicator 1/12 leads the median PPAI Supplier Index 12/12 through cyclical highs and lows by nine months (best fit).

## PPAI Supplier Members' Association Leading Indicators

### US Small Business Optimism Index

### Low Optimism Will Drag on Sales into late 2016

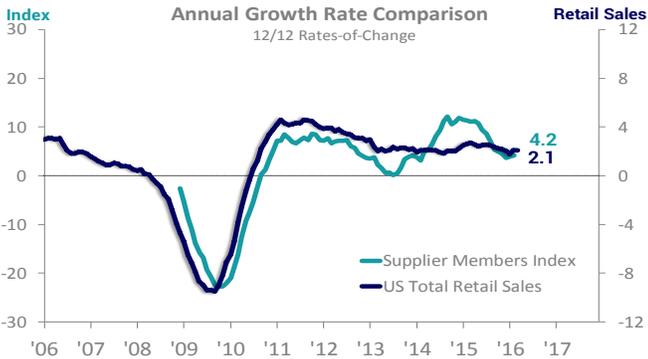


The annual growth rate for the US Small Business Optimism Index fell to -1.5%, its lowest level in over two years. Decline in the Index annual growth rate suggests that PPAI suppliers will face weakness in sales into the second half of 2016.

The US Small Business Optimism Index 12/12 leads the median PPAI Supplier Index 12/12 by six months (best fit).

### US Total Retail Sales

### Retail Sales Figures Signal Strength of US Consumer

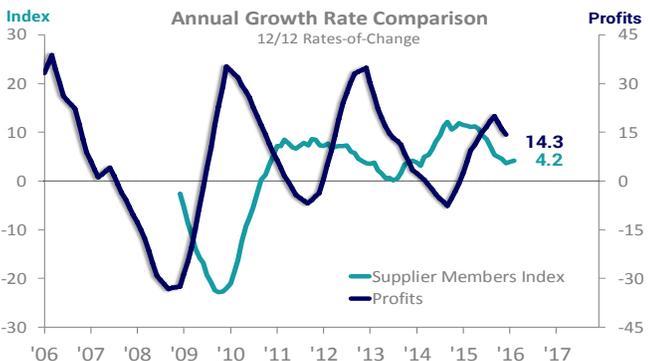


The annual growth rate in US Retail Sales (deflated) remained at 2.1% in March, the same value as February. Retail Sales Excluding Gas Stations are growing at 4.2%, signaling the strength of the US consumer which will drive US Real GDP growth. Strong consumer trends suggest that the PPAI supplier industry will avoid recession during this business cycle.

The US Retail Sales (deflated) 12/12 leads the median PPAI Supplier Index 12/12 by two months (best fit).

### US Corporate Profits for Domestic Retail Trade Industries

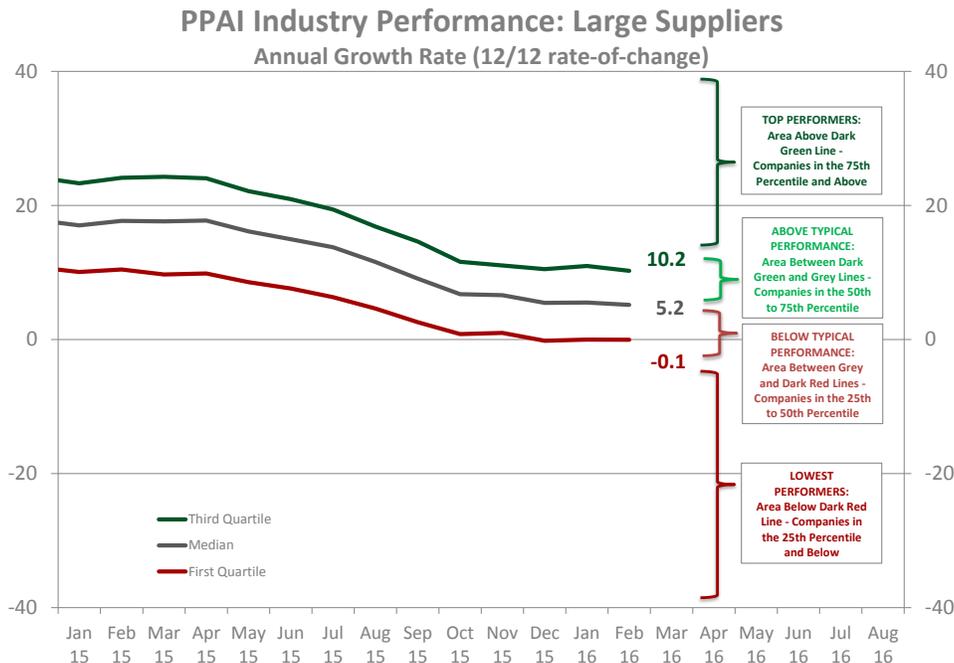
### Slower growth in Profits could hinder Sales in 1H17



The US Corporate Profits for Domestic Retail Trade Industries annual growth rate fell to 14.3% in December (latest data available). Slower growth in Profits signals the potential for weakness in PPAI suppliers sales in the first half of 2017.

The US Corporate Profits for Domestic Retail Trade Industries 12/12 leads the median PPAI Supplier Index 12/12 by 16 months (best fit).

## PPAI Large Supplier Members' Association Overview



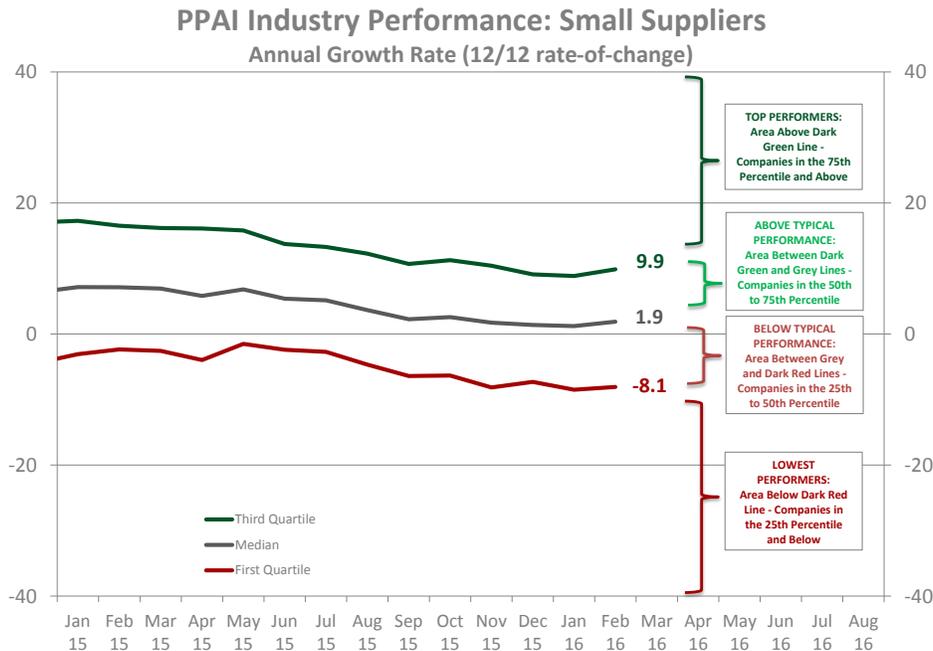
**HOW TO USE THIS GRAPH:** The purpose of this chart is to see how your company's performance compares to PPAI members (suppliers with more than \$60 million in 2015 annual sales) that submitted data to ITR Economics. To use this chart follow these four steps:

1. Calculate your company's annual growth rate as of February 2016. Add up your 12 months of sales through February (from March 2015 through February 2016) and compare it to the annual total one year earlier (from March 2014 through February 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled \$10 million from March 2014 through February 2015 and totaled \$11 million from March 2015 through February 2016, your percentage change would be \$1 million change / \$10 million original amount, or 10%.
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls between the median (5.2%) and third quartile (10.2%), indicating that your company has above-typical performance in line with companies in the 50th to 75th percentile of PPAI members that submitted data to ITR Economics.

## PPAI Large Supplier Members' Association Highlights

- Large suppliers (defined as having over \$60 million in 2015 sales) are outperforming smaller suppliers (companies with up to \$60 million in 2015 sales).
- The annual growth rates for the first quartile, median, and third quartile are generally moving horizontally. This indicates stable business conditions for large suppliers.

## PPAI Small Supplier Members' Association Overview



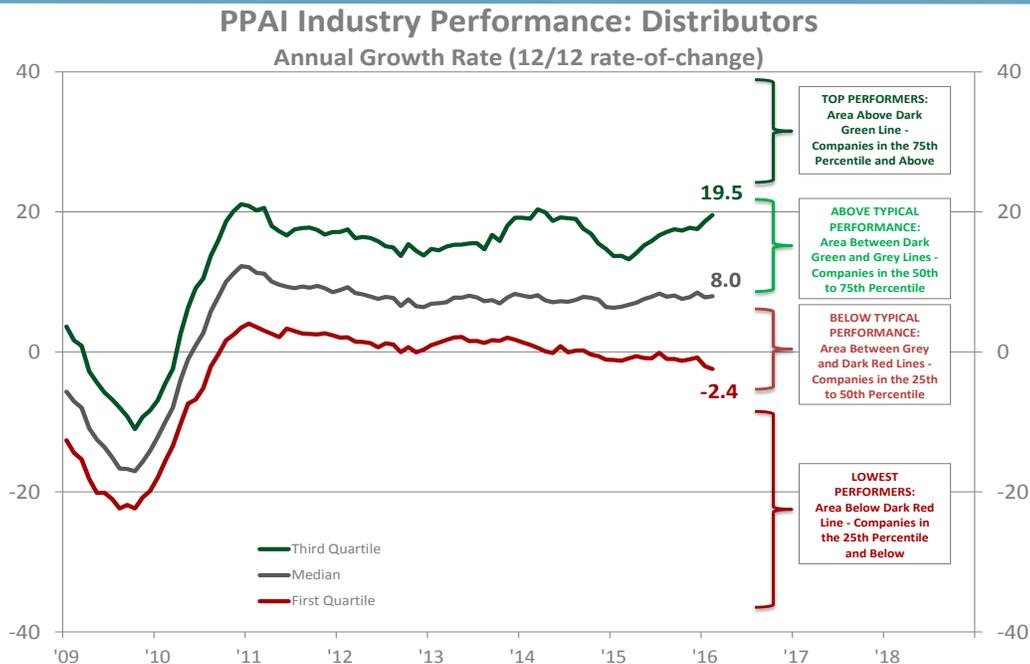
**HOW TO USE THIS GRAPH:** The purpose of this chart is to see how your company's performance compares to PPAI members (suppliers with up to \$60 million in 2015 annual sales) that submitted data to ITR Economics. To use this chart follow these four steps:

1. Calculate your company's annual growth rate as of February 2016. Add up your 12 months of sales through February (from March 2015 through February 2016) and compare it to the annual total one year earlier (from March 2014 through February 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled \$10 million from March 2014 through February 2015 and totaled \$11 million from March 2015 through February 2016, your percentage change would be \$1 million change / \$10 million original amount, or 10%.
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls above the quartile (9.9%), indicating that your company has above-typical performance in line with companies in the 75th to 100th percentile of PPAI members that submitted data to ITR Economics.

### PPAI Small Supplier Members' Association Highlights

- The -8.1% annual growth rate for the first quartile of small suppliers suggests that a segment of small suppliers (defined as up to \$60 million in 2015 sales) have been adversely affected by the macroeconomic slowdown. This could be due to an inability to secure financing and fewer long-term contracts.
- The majority of small suppliers are above year-ago levels.

## PPAI Distributor Members' Association Overview



**HOW TO USE THIS GRAPH:** The purpose of this chart is to see how your company's performance compares to PPAI members (distributors of all sizes) that submitted data to ITR Economics. To use this chart follow these four steps:

1. Calculate your company's annual growth rate as of February 2016. Add up your 12 months of sales through February (from March 2015 through February 2016) and compare it to the annual total one year earlier (from March 2014 through February 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled \$10 million from March 2014 through February 2015 and totaled \$11 million from March 2015 through February 2016, your percentage change would be \$1 million change / \$10 million original amount, or 10%.
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls between the median (8.0%) and third quartile (19.5%), indicating that your company has above-typical performance in line with companies in the 50th to 75th percentile of PPAI members that submitted data to ITR Economics.

## PPAI Distributor Members' Association Highlights

- The third quartile annual growth rate for distributors (currently at 19.5%) is in a defined rising trend, while the annual growth rate of the first quartile is declining. Top performing distributors are likely grabbing market share at the expense of distressed firms.
- The median annual growth rate for distributors of 8.0% is nearly identical to its five-year average of 7.9% and has remained steady over the last five years. This indicates that PPAI distributors (with given data history) tend to be relatively well-insulated from macroeconomic events except for severe events like the Great Recession.

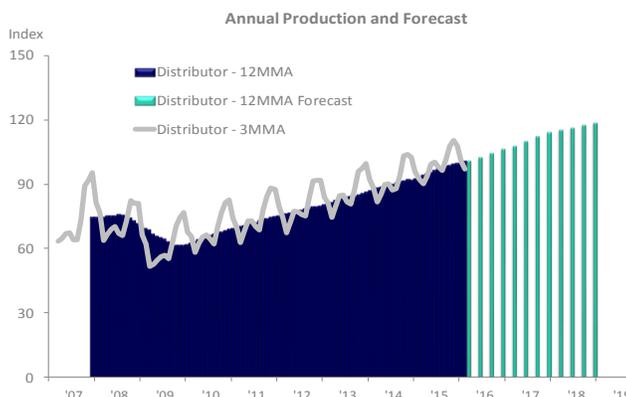
## PPAI Distributor Members' Association Outlook

### PPAI Distributor Members' Association Forecast

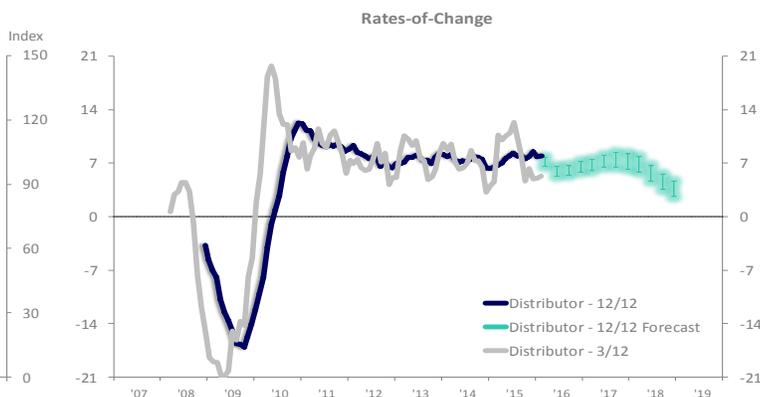
Annual Trend: 100.8 Phase: C Year-over-Year Growth Rate: 8.0%

Quarterly Trend: 97.2 Quarter-over-Quarter Growth Rate: 5.3%

Distributor Members' Association Sales Index



Year-over-Year Growth Rate



### PPAI Distributor Members' Association Total Sales Highlights

#### Distributor Outlook

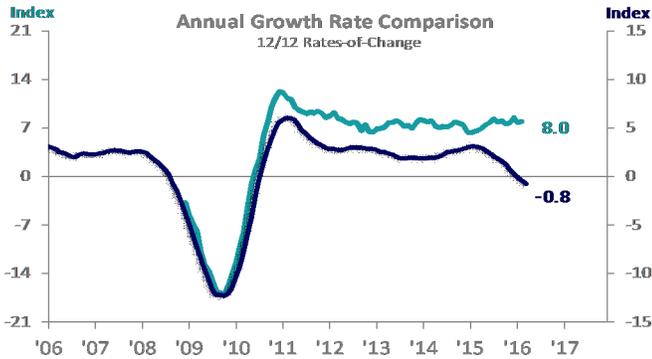
|       |      |
|-------|------|
| 2016: | 6.6% |
| 2017: | 7.3% |
| 2018: | 3.7% |

- The PPAI Distributors Index is up 8.0% compared to the same 12 months one year ago. The Index over the most recent three months is up 5.3% compared to the same period a year ago.
- The pace of growth for the Distributor Index will slow into mid-2016, but there will be no overt negativity through at least 2018.
- The second half of 2016 will be characterized by accelerating growth.
- The US consumer will be the driving force for the economy over the next 2 years. This will support overall positivity for consumer-facing segments for PPAI Distributors over the same period.

*This is an aggregate market index created from sales data submitted by PPAI distributors. The index is set to average 100 in 2015. For example, the February 2016 average of 100.8 indicates annual sales have increased by 0.8% from the 2015 level.*

## PPAI Distributor Members' Association Leading Indicators

### US Industrial Production Index



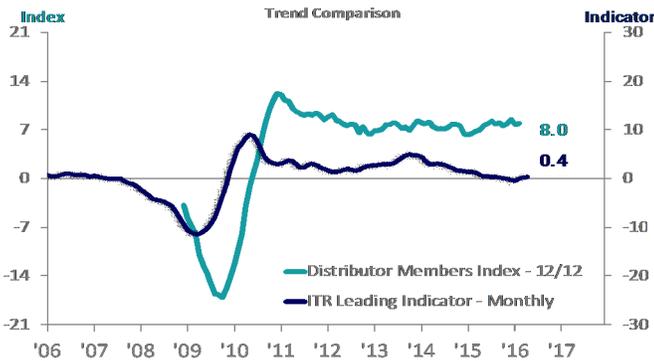
### Industrial Production will create headwinds



US Industrial Production is down 0.8% for the 12 months through March. Weakness can largely be attributed to the Mining and Utilities segments of the industrial economy. The current cyclical downturn in Industrial Production will drag on the Distributor Index through at least 3Q16.

The US Industrial Production 12/12 is coincident with the median PPAI Distributors Index 12/12 (best fit).

### ITR Leading Indicator



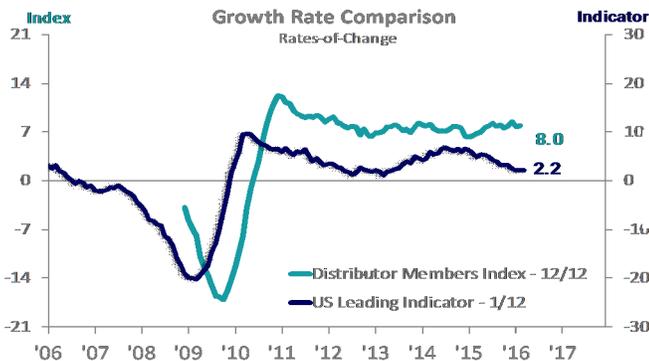
### The second half of 2016 will be stronger



The ITR Leading Indicator rose for the second consecutive month, suggesting that the economy is on track for improvement later in the year. The second half of 2016 will be stronger than the first half of the year and supports accelerating growth for Distributors by late 2016.

The Indicator leads the median PPAI Distributors Index 12/12 through cyclical highs and lows by seven months (best fit).

### US Leading Indicator



### Indicator suggests decline into second half of 2016

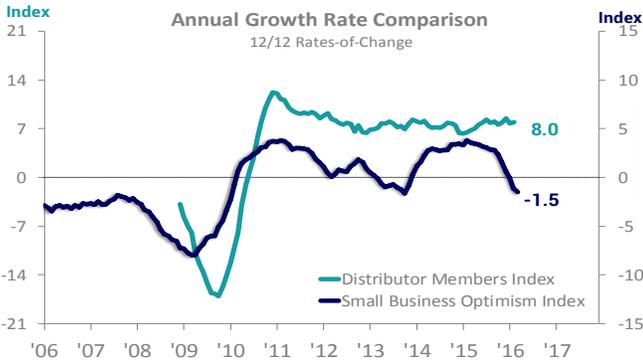


The US Leading Indicator Index 1/12 remains in a declining trend. Ongoing decent in the Indicator 1/12 rate-of-change suggests the PPAI Members Index 12/12 could decline into the second half of 2016.

The US Leading Indicator Index 1/12 leads the median PPAI Distributors Index 12/12 by seven months (best fit).

## PPAI Distributor Members' Association Leading Indicators

### US Small Business Optimism Index



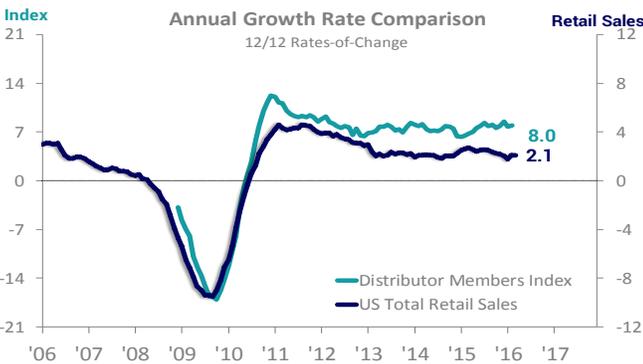
### Small Businesses are not very optimistic



The Small Business Optimism Index is down 1.5% from one year ago. This suggests that small business owners do not have high expectations for the US economy, which will weigh on the PPAI Distributors Index into the second half of 2016.

The Optimism Index 12/12 leads the median PPAI Distributors Index 12/12 though cyclical highs and lows by five months (best fit).

### US Total Retail Sales



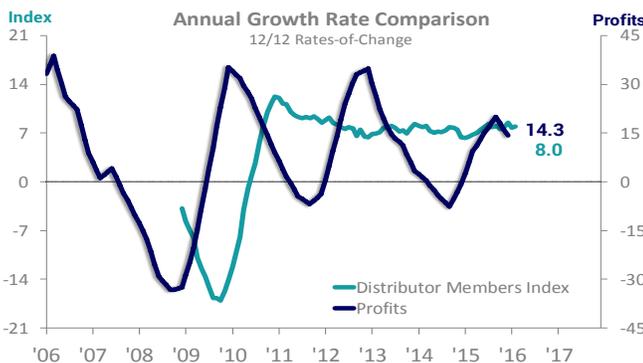
### US Total Retail Sales will grow at a slower rate



US Total Retail Sales (deflated) are up 2.1% on a year-over-year basis. Growth in Retail Sales indicates that consumer-facing segments will offer growth opportunities for Distributors over the next two years.

The US Total Retail Sales (deflated) 12/12 leads the median PPAI Distributors Index 12/12 through cyclical highs and lows by one month (best fit).

### US Corporate Profits for Domestic Retail Industries



### Corporate Profits are positive overall

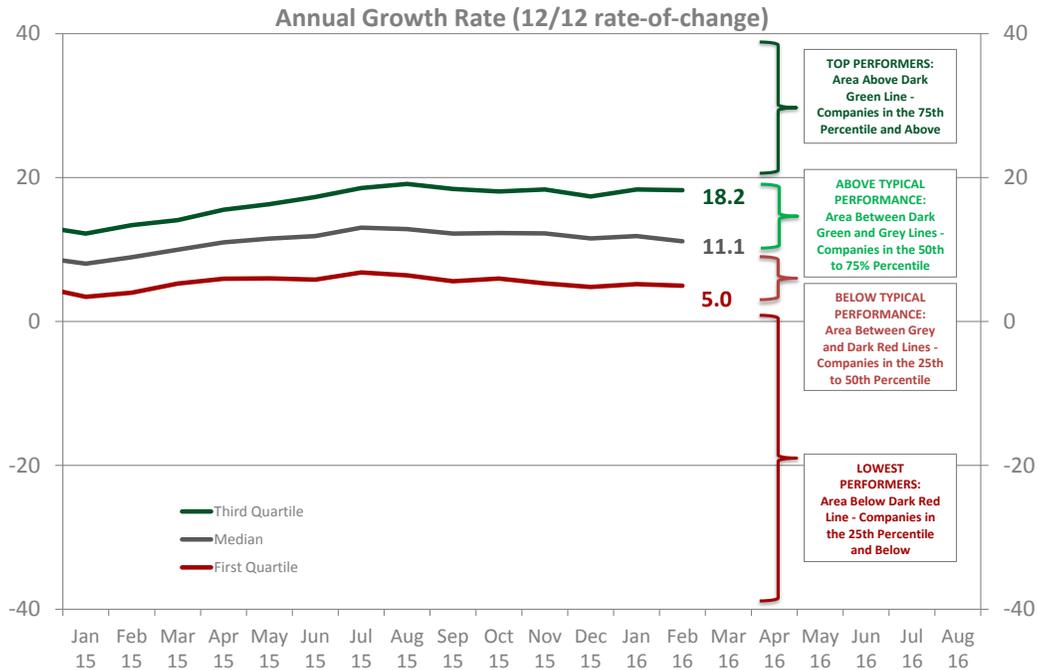


Corporate Profits for Domestic Retail Trade Industries are up 14.3% on a year-over-year basis. Corporate Profits are slowing but remain positive overall. Slower growth in Profits could reduce firms' abilities to purchase promotional products, dragging on the PPAI Distributors Index in early 2017.

The Corporate Profits 12/12 leads the median PPAI Distributors Index 12/12 through cyclical highs and lows by 12 months (best fit).

## PPAI Large Distributor Members' Association Overview

### PPAI Industry Performance: Large Distributors



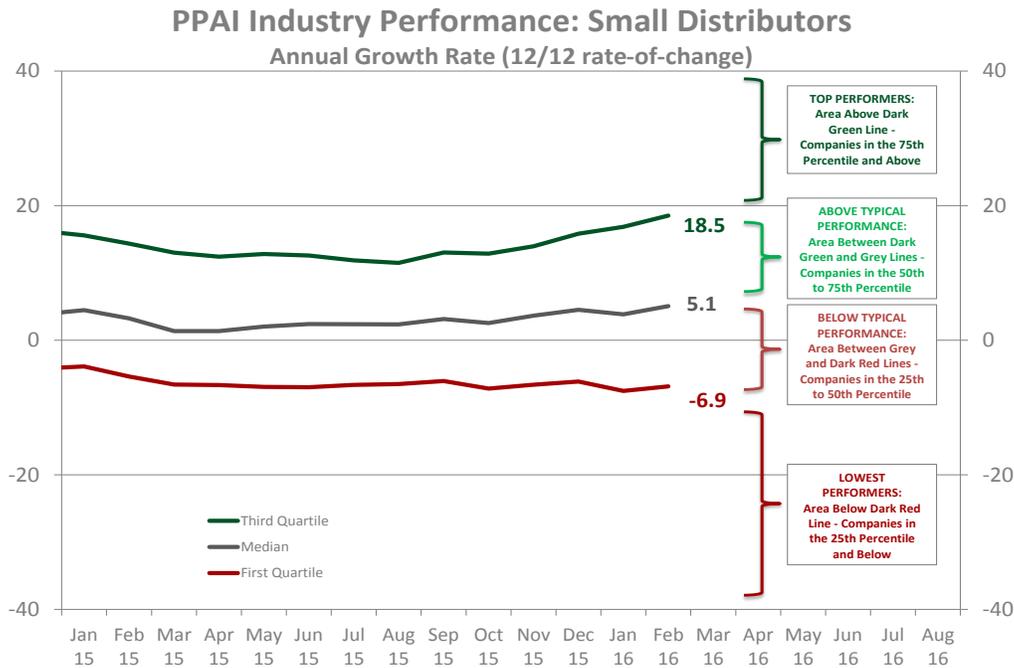
**HOW TO USE THIS GRAPH:** The purpose of this chart is to see how your company's performance compares to PPAI members (distributors with more than \$60 million in 2015 annual sales) that submitted data to ITR Economics. To use this chart follow these four steps:

1. Calculate your company's annual growth rate as of February 2016. Add up your 12 months of sales through February (from March 2015 through February 2016) and compare it to the annual total one year earlier (from March 2014 through February 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled \$10 million from March 2014 through February 2015 and totaled \$11 million from March 2015 through February 2016, your percentage change would be \$1 million change / \$10 million original amount, or 10%.
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls between the first quartile (5.0%) and median (11.1%), indicating that your company has above-typical performance in line with companies in the 25th to 50th percentile of PPAI members that submitted data to ITR Economics.

### PPAI Large Distributor Members' Association Highlights

- At least 75% of large distributors, defined as those with over \$60 million in 2015 sales, are experiencing over 5.0% growth in annual Sales, across the first quartile, median, and third quartile.
- The horizontal movement in the annual growth rates indicates relatively stable business conditions in the industry for large distributors since mid-2015.

## PPAI Small Distributor Members' Association Overview



**HOW TO USE THIS GRAPH:** The purpose of this chart is to see how your company's performance compares to PPAI members (distributors with up to \$60 million in 2015 annual sales) that submitted data to ITR Economics. To use this chart follow these four steps:

1. Calculate your company's annual growth rate as of February 2016. Add up your 12 months of sales through February (from March 2015 through February 2016) and compare it to the annual total one year earlier (from March 2014 through February 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled \$10 million from March 2014 through February 2015 and totaled \$11 million from March 2015 through February 2016, your percentage change would be \$1 million change / \$10 million original amount, or 10%.
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls between the median (5.1%) and third quartile (18.5%), indicating that your company has above-typical performance in line with companies in the 50th to 75th percentile of PPAI members that submitted data to ITR Economics.

## PPAI Small Distributor Members' Association Highlights

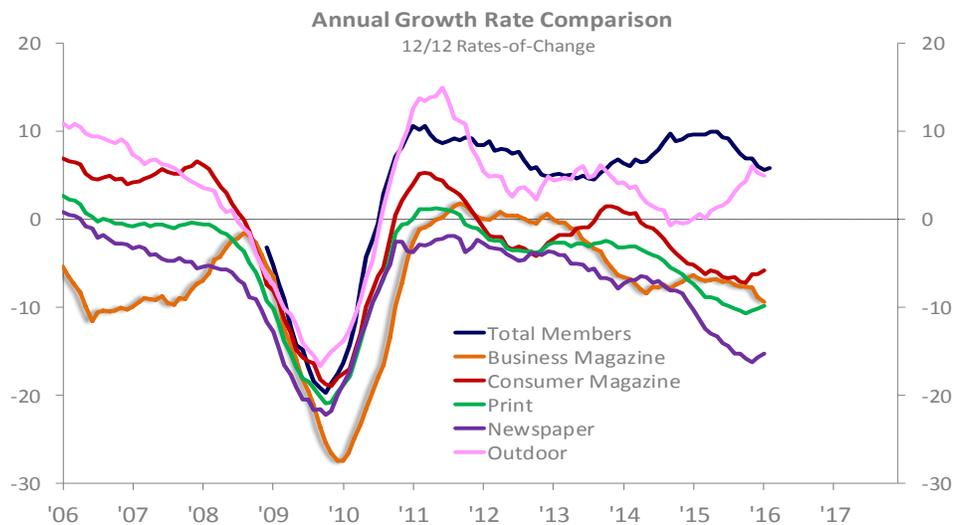
- The annual growth rate for the third quartile of small distributors (those with up to \$60 million in 2015 sales) has been rising since an August low. The median has been rising since an April low.
- 25% of PPAI small distributors have sales at least 6.9% below the year-ago level. In a market with varied performance, it is particularly important to communicate competitive advantages to differentiate your company.

## PPAI Members' Competitive Outlook

| US In-Print Advertising Media Expenditures | Current Rate-of-Change | Current Phase | 2016  | 2017  | 2018  | Highlights                                       |
|--|------------------------|---------------|-------|-------|-------|--|
| Print (Magazine and Newspaper)             | -9.8%                  | A             | -3.3% | -3.3% | -5.3% | Decline through at least 2018                    |
| Newspaper                                  | -15.3%                 | A             | -4.3% | -6.0% | -8.9% | Year-over-year decline through 2018              |
| Business Magazine                          | -9.4%                  | D             | -7.6% | -5.8% | -7.2% | Imminent trough; recovery through late 2017      |
| Consumer Magazine                          | -5.8%                  | A             | -2.1% | -1.2% | -2.9% | Recovery into mid-2017; contraction through 2018 |
| Outdoor                                    | 4.9%                   | C             | 2.8%  | 6.5%  | -0.1% | Growth into late 2018                            |

## PPAI Members' Competitive Environment

Total Members' Association Index to US In-Print Advertising Media Expenditures



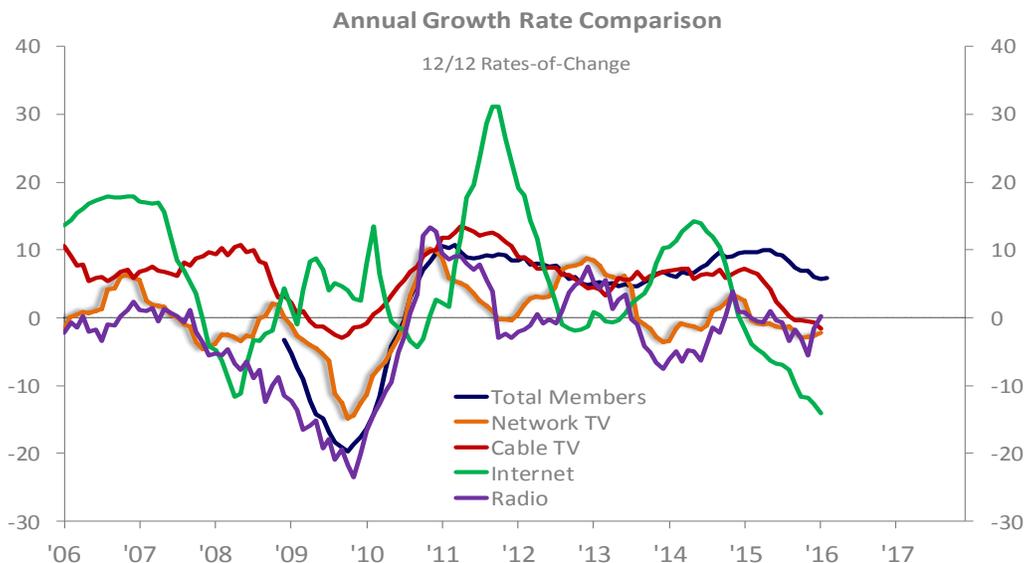
- Print Media Advertising Spending, with the exception of the Business Magazines and Outdoor Segment, are in recovery. However, industry expenditures will decline through at least 2018 as consumers and business shift to electronic sources of information and advertisement.
- Total Members have bucked the negative trend seen in this environment and are outpacing all categories.
- Outdoor Media spending will see year-over-year growth into the second part of 2018. The rate of growth in Outdoor Media spending will slow in 2016, similar to the trend expected for both Supplier and Distributor Sales in 2017.

## PPAI Members' Competitive Outlook

| US Electronic Advertising Media Expenditures | Current Rate-of-Change | Current Phase | 2016  | 2017  | 2018  | Highlights                                       |
|--|------------------------|---------------|-------|-------|-------|--|
| Network TV                                   | -2.3%                  | <b>A</b>      | 5.0%  | 2.9%  | 2.2%  | Growth through at least 2018                     |
| Cable TV                                     | -1.7%                  | <b>D</b>      | 7.2%  | 5.8%  | -0.9% | Imminent trough and then rise through 2Q17       |
| Internet                                     | -14.1%                 | <b>D</b>      | -7.2% | 8.9%  | 3.5%  | Growth will resume by mid-2017                   |
| Radio  | 0.2%                   | <b>B</b>      | 17.1% | -0.8% | -5.2% | Robust growth for 2016; decline in 2017 and 2018 |

## PPAI Members' Competitive Environment

### Total Members' Association Index to US Electronic Advertising Media Expenditures



- Radio Advertising spending will rapidly rise in 2016, outpacing both Supplier and Distributor sales growth. Radio spending will then falter through 2018.
- Year-over-year contraction in Internet Advertising expenditures suggests short-term cutbacks from firms on advertising services into 2017, but growth will outpace Supplier and Distributor sales in 2017. Internet Expenditures will rise through the remainder of 2018.
- Cable TV Advertising will outpace Network TV Advertising through 2017, but will contract in 2018.
- PPAI Members should gauge shifts in advertising expenditures over the next three years towards the Internet to determine what it means to their current market segments. Seek ways to utilize online presence to expand exposure to prospective markets.

## Indicator Definitions

**US Industrial Production Index** - Manufacturing, mining, and utility output, measured in physical units and/or inferred from data on input to the production. Index, 2012 = 100, NSA.

**US Nondefense Capital Goods New Orders** - New orders for nondefense capital goods, excluding aircraft. Includes farm machinery and equipment, construction machinery, mining machinery, nondefense small arms and ordnance, industrial machinery, commercial and service industry equipment, other general purpose machinery, photographic equipment, metalworking machinery, turbine and generator manufacturing, power transmission equipment, pumps and compressors, material handling equipment, electronic computers, computer storage devices and peripheral equipment, communications equipment, nondefense search and navigation equipment, electromedical equipment, electrical equipment, heavy duty truck manufacturing, railroad rolling stock, nondefense ship and boat building, office and institutional furniture, and medical equipment and supplies. Measured in billions of dollars, NSA.

**ITR Leading Indicator** - Monthly composite indicator established by ITR to track cyclical turning points in the overall economy as early as 12 months in advance. This indicator includes financial, manufacturing, construction, and consumer components. A reading of zero or lower is indicative of recession.

**US Leading Indicator** - The Conference Board's US leading economic index made up of 10 economic indicators including average weekly hours, average weekly initial claims for unemployment insurance, manufacturers' new orders of consumer goods and materials, index of supplier deliveries, manufacturers' new orders of nondefense capital goods, building permits, stock prices, money supply, interest rate spread and the index of consumer expectations.

**US Purchasing Managers Index** - The Institute For Supply Management's US manufacturing index. The PMI is a composite index based on the diffusion indexes of five indexes with equal weights: New Orders (seasonally adjusted), Production (seasonally adjusted), Employment (seasonally adjusted), Supplier Deliveries (seasonally adjusted), and Inventories.

**US Housing Starts** - Total number of housing units started, including farms, private and public, NSA.

**Federal Reserve Bank of Chicago National Activity Index** - The weighted average of 85 monthly indicators of national economic activity. The CFNAI provides a single summary measure of a common factor in these national economic data. As such, historical movements in this Chicago Fed index closely track periods of economic expansion and contraction, as well as periods of increasing and decreasing inflationary pressure. The economic indicators used for the CFNAI are drawn from four broad categories of data: 1) production and income (23 series), 2) employment, unemployment, and hours (24 series), 3) personal consumption and housing (15 series), and 4) sales, orders, and inventories (23 series). All of the data are adjusted for inflation. Index.

**University of Michigan Consumer Expectations Index** - The monthly Surveys of Consumers includes a comprehensive array of survey measures, with around 50 core questions that cover consumers' assessments of three areas: their own personal financial situation, prospects for the general economy in the near term, and prospects for the economy over the long term. Index, NSA.

## Indicator Definitions

**S&P 500 Stock Prices Index** - Standard and Poor 500 Industrials. Index, 1941-43 = 10, NSA.

**US Small Business Optimism Index** - Index measuring small business optimism using 10 indicators: plans to increase employment, plans to make capital outlays, plans to increase inventory, expect economy to improve, expect real sales higher, current inventory, current job openings, expected credit conditions, now a good time to expand, earnings trend. Index, 1986 = 100, SA.

**US Corporate Profits for Domestic Retail Trade Industries** - Corporate profits (with inventory valuation and capital consumption adjustments) for domestic retail trade industries in the United States, measured in billions of dollars, SAAR.

**US Total Retail Sales** - US total retail sales, including food services measured in trillions of dollars, deflated by the Consumer Price Index for all items.

**US Outdoor Media Spending** - Media spending in the US on outdoor advertising, such as billboards, measured in millions of dollars, NSA.

**US Print (Magazine and Newspaper) Media Spending** - Media spending in the US on print advertising, measured in millions of dollars, NSA. Includes magazine and newspaper advertising.

**US Newspaper Media Spending** - Media spending in the US on newspaper advertising, measured in millions of dollars, NSA.

**US Business Magazines Media Spending** - Media spending in the US on business magazine advertising, measured in millions of dollars, NSA.

**US Consumer Magazines Media Spending** - Media spending in the US on consumer magazine advertising, measured in millions of dollars, NSA.

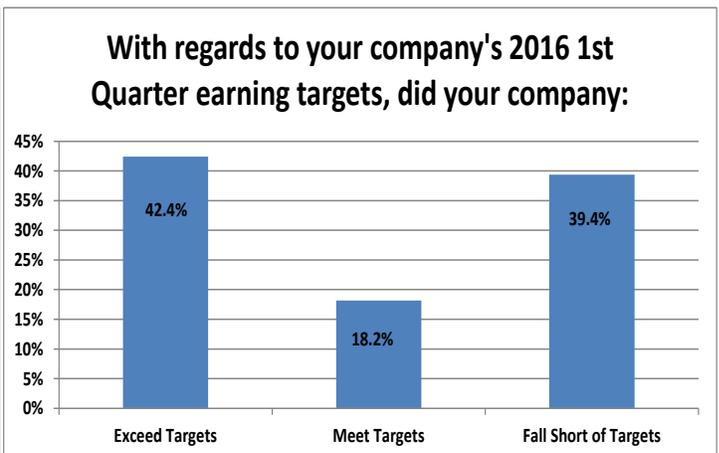
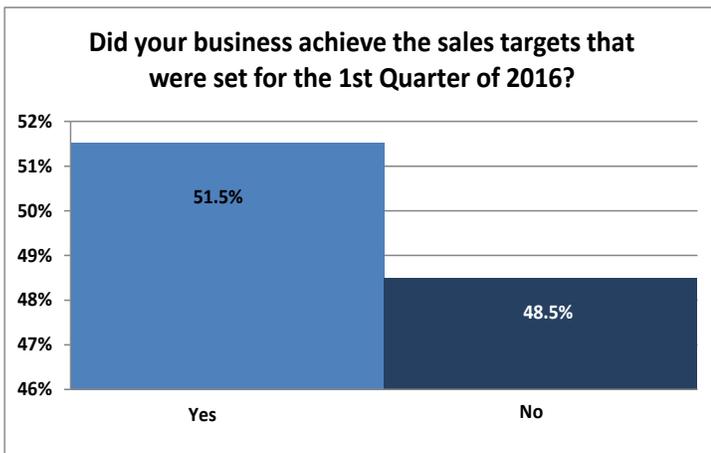
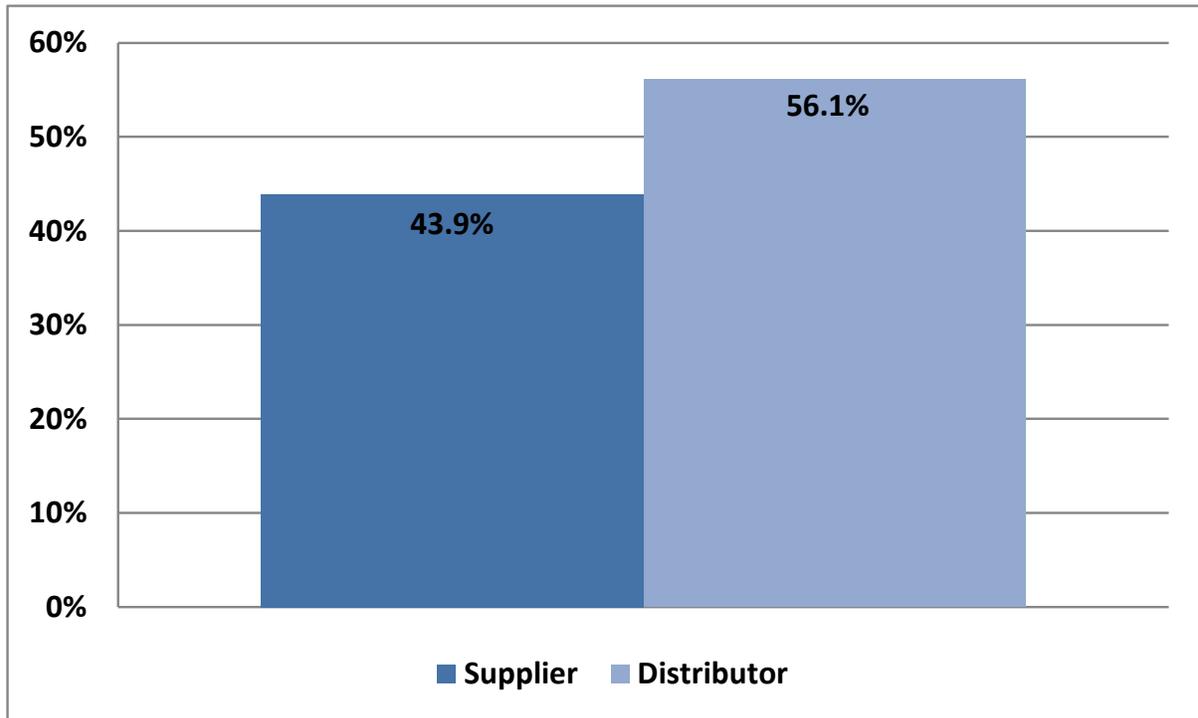
**US Radio Media Spending** - Media spending in the US on radio advertising, measured in millions of dollars, NSA.

**US Internet Display Media Spending** - Media spending in the US on internet display advertising, measured in millions of dollars, NSA.

**US Network TV Media Spending** - Media spending in the US on network tv advertising, measured in millions of dollars, NSA.

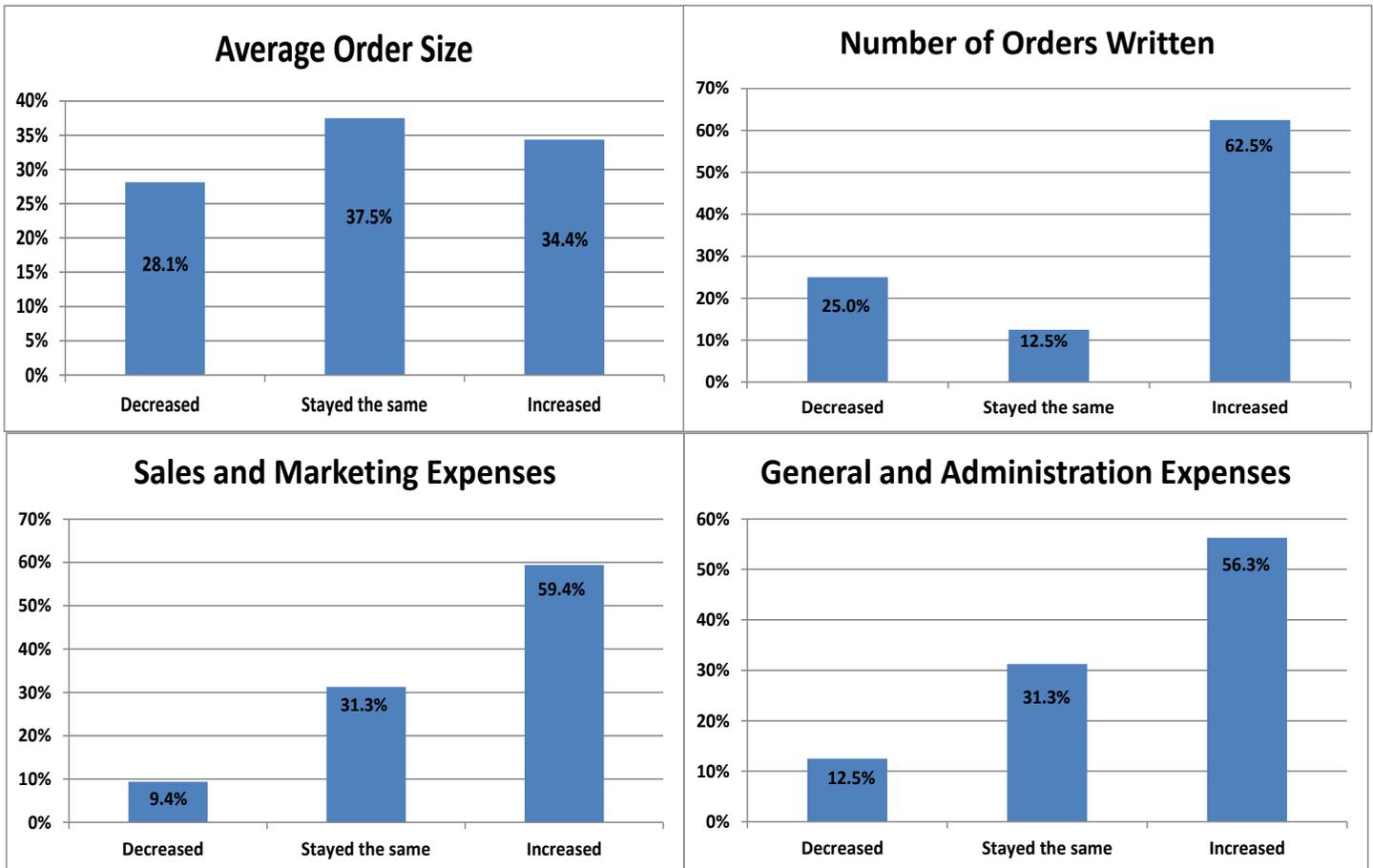
**US Cable TV Media Spending** - Media spending in the US on cable tv advertising, measured in millions of dollars, NSA.

Please indicate whether you are a supplier or a distributor:

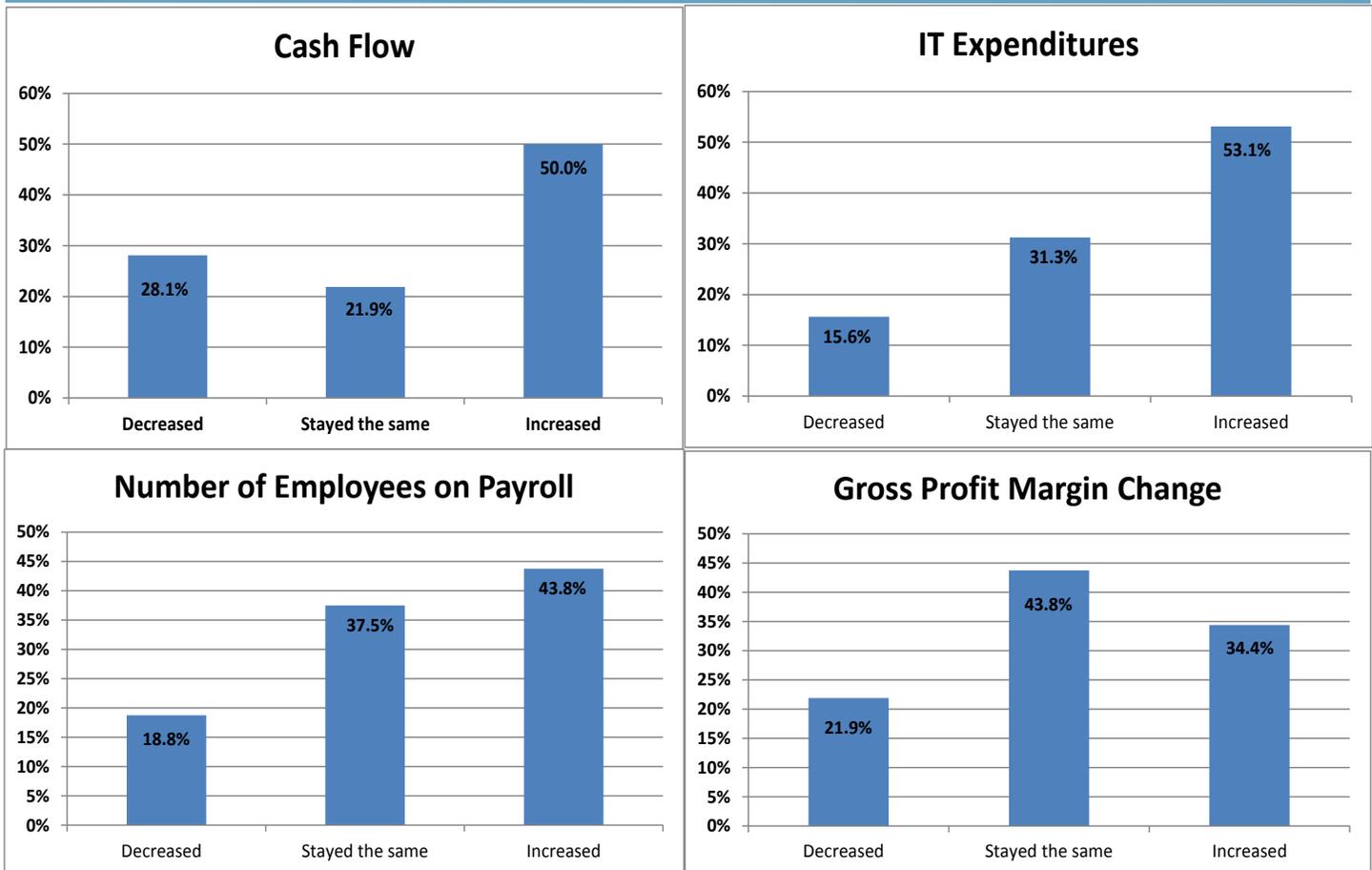


# Market Outlook Report

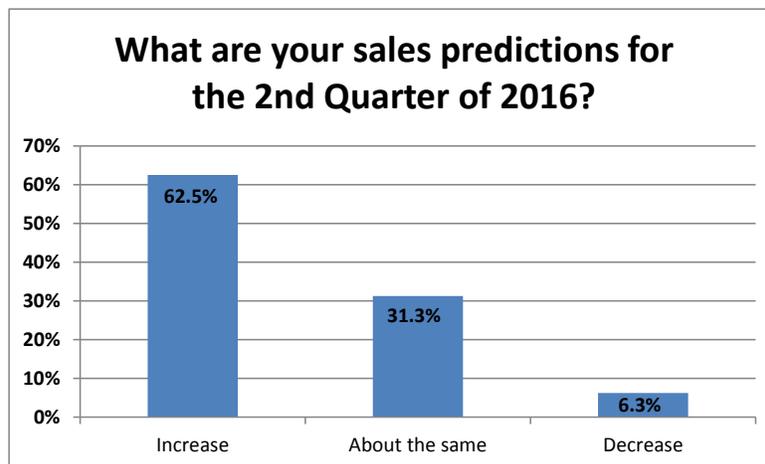
When comparing the 1st Quarter of 2016 with the 1st Quarter of 2015, what kind of change did you see in the following?



When comparing the 1st Quarter of 2016 with the 1st Quarter of 2015, what kind of change did you see in the following?



What are your sales predictions for the 2nd Quarter of 2016?



# Market Outlook Report



## ITR ECONOMICS

### About ITR Economics

ITR Economics provides clear, comprehensive action plans for capitalizing on business cycle fluctuations and for outperforming your competition. More than just analysis and forecasts, ITR Economics provides management with actionable options. ITR Economics uses a knowledge base of over six decades that encompasses an uncommon understanding of long-term economic trends and how leaders should react to critical changes in market conditions. Our reputation for excellent, independent, and objective analysis is indisputable. Visit [www.itreconomics.com](http://www.itreconomics.com) for more information.