PPAI

The Mark of a Professional®

2ND QUARTER

MARKET OUTLOOK REPORT

2016

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ITR ECONOMICS

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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:

A — RECOVERY

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.

B — ACCELERATING GROWTH

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.

C — SLOWER GROWTH

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.

D — RECESSION

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 member companies. This will allow members to make better business decisions in order to increase profitability and mitigate risk.

Index Description and Purpose

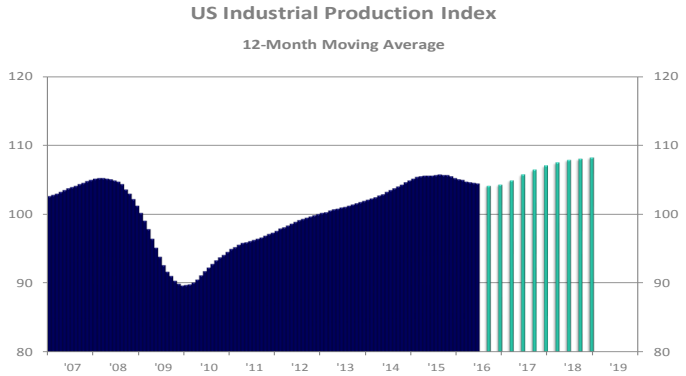
The PPAI Member Market Index is derived from sales data submitted by PPAI members. Growth rates are calculated based on the submitted data, and an index is created based on the typical (median) growth rates submitted by PPAI members in a given month. The purpose of the PPAI Member Market Index is to 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.

How to Use the Industry Performance Charts

The industry performance charts contain green, gray, and red lines that divide industry performance into quartiles. The purpose of the industry performance charts is to see how your company's performance compares to PPAI members that submitted data to ITR Economics. To use the industry performance charts, please do the following steps:

1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 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 July 2014 through June 2015 and totaled $11 million from July 2015 through June 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 charts. For example, if 10% falls between the median and third quartile, it suggests 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.

US Economy Overview



Divergent trends abound at this point of the macroeconomic business cycle. US Industrial Production is declining, but US Real GDP is rising (currently expanding at a seasonally-adjusted annual rate of 2.1%). Commodity prices are generally rising, but Steel Prices and Oil Prices took a step back in June. Business-to-business activity is showing signs of an imminent recovery trend, but progress is inconsistent.

In this point of the business cycle, especially in a presidential election year, it is easy to fall victim to pessimism. Instead, resist that temptation and turn your focus to long-term economic trends, which show US Real GDP will grow in the second half of 2016 through 2017. Consumers are in position to drive US Real GDP growth through at least 2018. Further, rising commodity prices and rise in global leading indicators point to a stronger US industrial sector in the fourth quarter of 2016 and throughout 2017.

If you were to create an ideal environment for consumer activity, it would consist of rising real wages, low unemployment, low inflation, low interest rates, a rising stock market, and low commodity prices. Indeed, that is the situation US consumers find themselves in today. US Overall Wage Growth stands at 3.6%, 1.1 percentage points above the five-year average of 2.5%. Inflation is below historical norms at 1.0% while long-term interest rates have fallen further in Brexit's aftermath. Prices at the pump remain low. The S&P 500 set several new highs in July, creating additional wealth for Americans who own equities. Rise in US Savings as a Percentage of Disposable Income, a leading indicator to US Industrial Production, bodes well for consumers' ability to drive the US economy over at least the next two years. A strong US consumer is good news for the markets that support PPAI member sales.

US Economy Leading Indicator Highlights

Indicator	Direction		What it means for the US economy
ITR Leading Indicator™ (Actual)		Rise	Indicator rise through June signals that the US Industrial Production 12/12 will recover in 3Q16 and then rise through at least the first quarter of 2017.
Housing Starts (Most recent 12 months compared to same 12 months one year ago)		Mild Decline	Decline in June pulls the growth rate down for the third consecutive month, signaling slowing growth in the housing market into late 2016.
Consumer Expectations Index (Most recent 12 months compared to same 12 months one year ago)		Decline	Cyclical decline indicates slower retail sales activity through the end of 2016.
Chicago Fed National Activity Index (Six-month average)		Mild Decline	The Index is high enough to be indicative of general economic growth.
US Leading Indicator (Most recent month compared to same month one year ago)		Decline	Decline in the indicator suggests that headwinds against the US economy could persist into late 2016.
Purchasing Managers Index (Most recent month compared to same month one year ago)		Rise	Rise in the Index signals expansion in the manufacturing sector and points to an improving US economy in late 2016.
S&P 500 Stock Prices (Raw Data)		Mild Rise	Stock Prices rose for the fourth straight month and suggests the probable gains are ahead for the US economy.

US Economy Long-Term View

2016:
Recovery in Second Half

2017:
Accelerating Growth

2018:
Slower Growth

Market Outlook Report Executive Summary

PPAI Total Members' Association Summary

- The average Total Members' Index for the 12 months through June is 4.3% above the year-ago level.
- Both the Distributors Index and the Suppliers Index are growing at a slower rate, contributing to the slower growth trend in the Total Members' Index.
- The movement of the Total Members' Index suggests that the top-performing 25% of members are likely seeing upward momentum in their annual growth rates while annual growth rates are declining for the bottom-performing 50% of members.
- Members with over $60 million in annual sales are generally outperforming members with up to $60 million in annual sales.

Index	Current	Phase
Total	4.3%	C
Suppliers	2.2%	C
Distributors	5.4%	C

PPAI Suppliers Members' Association Summary

- The forecast was downward revised from last report due to weaker-than-expected second quarter results.
- Cyclical decline in the first half of 2016 in indicators such as the US Small Business Optimism Index and US Nondefense Capital Goods New Orders corroborates the downward movement in the PPAI Supplier Members Index.
- Rise in the US Purchasing Managers Index (13-month lead time to the Supplier Members Index) suggests 2017 will be a better year than 2016, in line with our forecast expectations.
- Small Suppliers (defined as up to $60 million in annual sales) are underperforming Large Suppliers.

Supplier Outlook

2016:	0.6%
2017:	6.7%
2018:	3.8%

PPAI Distributors Members' Association Summary

- The median PPAI Distributors Members Index was up 5.4% from last year, outperforming the Total Member Index.
- Growth from March-to-June was the weakest in 10 years, as volatility from commodity prices and financial markets weighed on Sales.
- Stable growth in the Large Distributor Index supports our outlook that the Distributor Index will likely avoid year-over-year contraction in 2016.
- Leading indicators signal improvement in the industrial sector will take hold by late 2016, which will help support accelerating rise in Sales in late 2016 through late 2018.

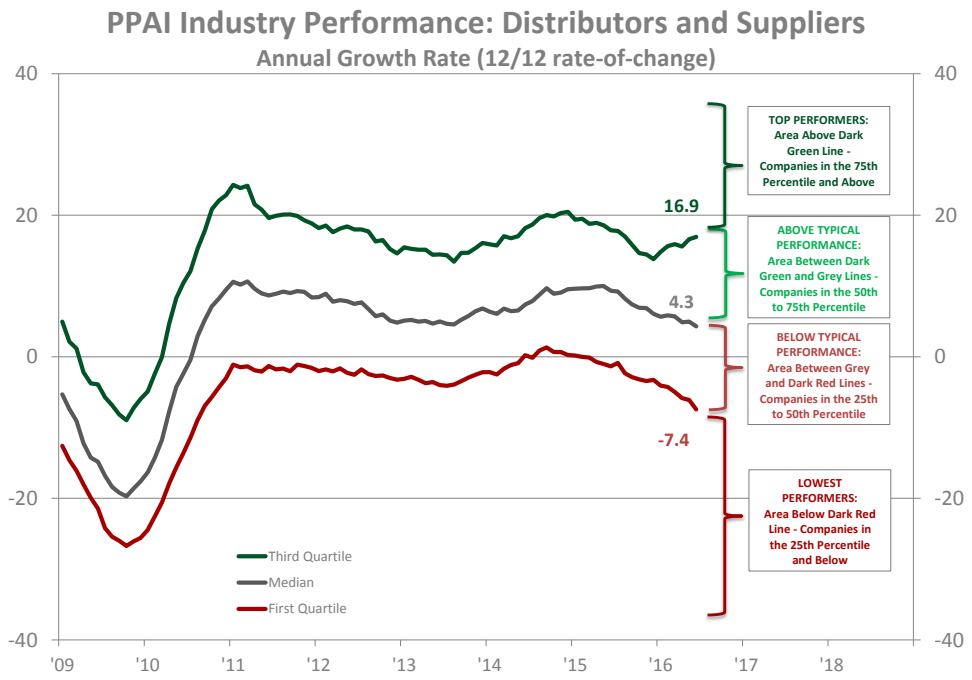
Distributor Outlook

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

PPAI Member's Competitive Environment Summary

- The forecasts were downward revised for Radio and Cable and Network Television Media Advertising Spending since the last report.
- Newspaper Advertising Spending is at a 12-year low and declining activity at US Paper Mills points to year-over-year decline in this industry through 2018.
- The recovery in the Print segment will not transition into year-over-year growth through 2018.
- Prepare for rising demand in Internet activity in 2017 by investing in workforce development, such as hiring, training, and retention. There will likely be increasing competition in this market and as labor markets tighten, waiting to implement these plans will become more costly through 2017.

PPAI Total 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 and suppliers of all sizes) that submitted data to ITR Economics. To use this chart follow these three steps:

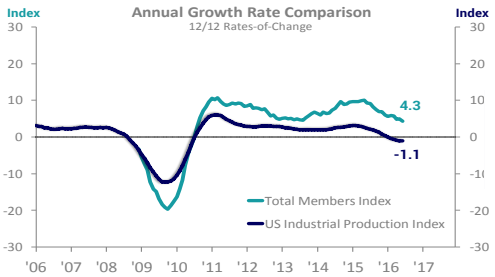
1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 2015).
2. Calculate the percentage change from the previous 12 months to the current 12 months. For example, if your sales totaled $10 million from July 2014 through June 2015 and totaled $11 million from July 2015 through June 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 (4.3%) and third quartile (16.9%), 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 median PPAI Total Member Index annual growth rate is declining. This suggests that typical member sales are rising, but at a slower pace since last quarter.
- The third quartile annual growth of 16.9% has increased from the previous report while the first quartile annual growth rate is declining. This divergence suggests top-performing members are gaining market share at the expense of other members.

PPAI Total Members' Association Leading Indicators

US Industrial Production Index



A recovery is on the horizon; better months are ahead

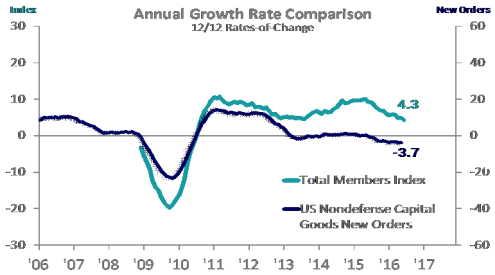
The Production 3/12 rose for the fifth consecutive month in June, suggesting recovery in the 12/12 is imminent. PPAI members that sell into the industrial sector can expect improving conditions into 2017.

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



Improved B2B activity probable in second half of 2016

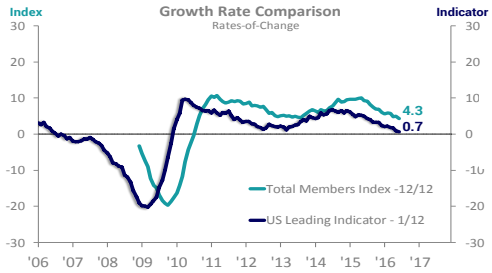
New Orders, a measure of B2B activity, is down 3.7% year-over-year. However, positive leading indicator inputs and rising commodity prices signal that B2B activity will strengthen in the second half of the year and support an increase in activity for PPAI members.

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

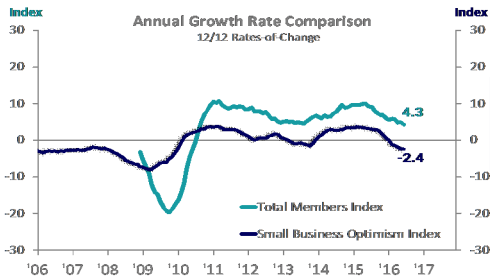


US economy could experience headwinds into late 2016

The US Leading Indicator 1/12 rate-of-change is declining as of June. General downward movement in the Indicator 1/12 suggests that the US economy could face headwinds into early 2017. This indicates that there may still be weaker markets for PPAI members through 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

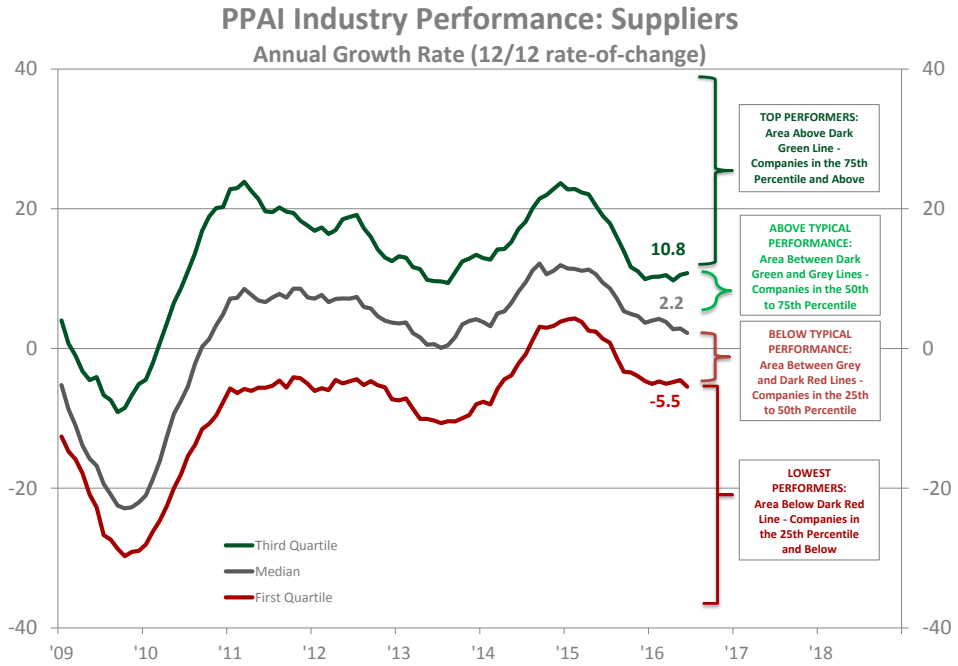


Nascent signs of recovery suggest late 2016 upturn for Member Sales

The Optimism Index 12/12 ticked up in June. More data is needed to confirm a transition to Phase A, Recovery. If the rising trend in the Index 12/12 persists, it would signal improvement for the US economy and PPAI member sales by the end of 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 three steps:

1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 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 July 2014 through June 2015 and totaled $11 million from July 2015 through June 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 (2.2%) and third quartile (10.8%), 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.

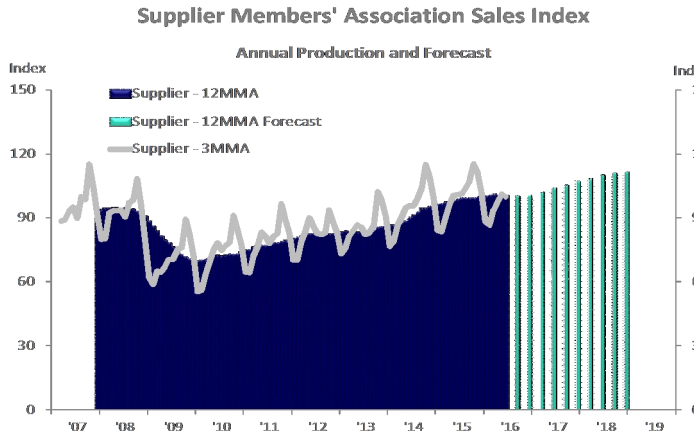
PPAI Supplier Members' Association Highlights

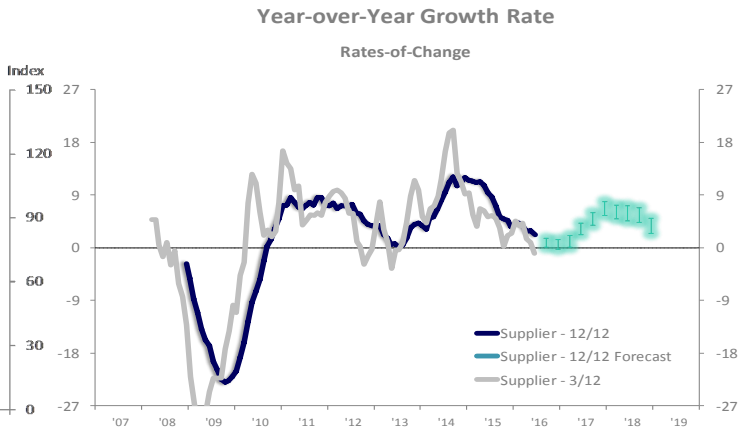
- More than half of PPAI Supplier Sales submitted are above year-ago levels. However, the median annual growth rate for all suppliers came in at 2.2%, down from 4.2% in the previous report.
- The slowdown is affecting both Large (over $60 million in annual sales) and Small (up to $60 million in annual sales) suppliers.
- The top-performing quartile of PPAI suppliers have been able to sustain double-digit growth in sales in recent months.

PPAI Supplier Members' Association Outlook

PPAI Supplier Members' Association Forecast

Annual Trend:	100.7	Phase: C	Year-over-Year Growth Rate:	2.2%
Quarterly Trend:	99.8		Quarter-over-Quarter Growth Rate:	-1.0%





PPAI Supplier Members' Association Total Sales Highlights

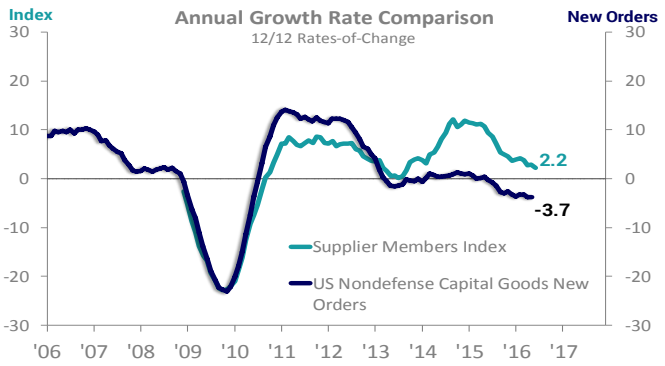
2016:	0.6%
2017:	6.7%
2018:	3.8%

- We downward revised the forecast from the last report due to weakening internal trends in the Supplier Members Index. The second quarter 2016 Index average is down 1.0% from the second quarter of 2015.
- We expect the Index to end 2016 up 0.6% relative to the 2015 level, down from the 5.4% growth expected in the previous forecast. This is due to data revisions from the source and weakness in commodity prices that will weigh on Sales growth further than we originally anticipated. Our outlook for 6.7% year-over-year growth in 2017 is within 0.2 percentage points of our previous forecast.
- Small Business Optimism and the Purchasing Managers Index suggest weakness in the Supplier Index will extend into late 2016. However, internal trends in US Industrial Production and recent rise in the Purchasing Managers Index suggest that the Index will transition to Phase B, Accelerating Growth, in 2017.
- PPAI members should evaluate labor and capital requirement to meet rising demand in 2017 and 2018.

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 June 2016 average of 100.7 indicates annual sales have increased by 0.7% from the 2015 level.

PPAI Supplier Members' Association Leading Indicators

US Nondefense Capital Goods New Orders

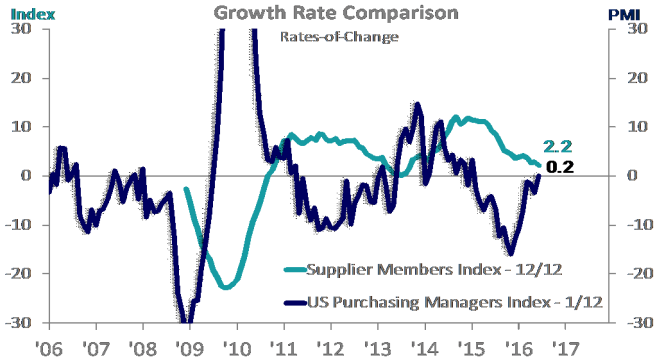


Conditions will improve in 2H16 and 2017

New Orders for the 12 months through May is 3.7% below last year. Positive leading indicator input from the Purchasing Managers Index suggests that the nascent recovery trend in New Orders is sustainable. Suppliers will benefit from improving B2B activity in the second half of 2016 and throughout 2017.

The US Nondefense Capital Goods New Orders 12/12 leads the median PPAI Supplier Index 12/12 through cyclical highs and lows by one month (best fit).

US Purchasing Managers Index

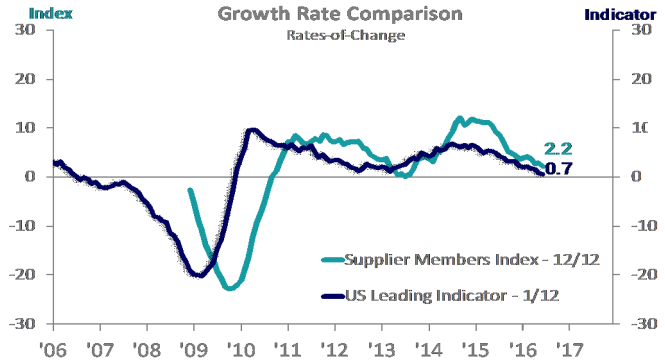


Rise in Index 1/12 suggests stronger Sales in 2017.

The Purchasing Managers Index 1/12 is in a general rising trend. The Index exceeds the 50 threshold that signals that the manufacturing sector is expanding. Rise in the Index 1/12 indicates 2017 will be a better year than 2016 for PPAI Supplier sales.

The US Purchasing Managers Index 1/12 leads the median PPAI Supplier Index 12/12 through cyclical highs and lows by 13 months (best fit).

US Leading Indicator



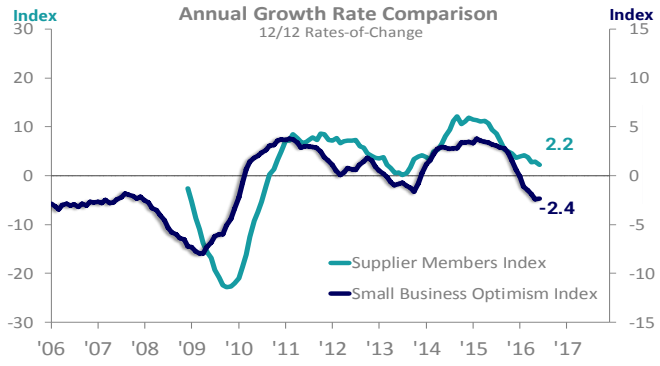
Headwinds could potentially extend into early 2017

General decline in the US Leading Indicator 1/12 suggests cyclical weakness in PPAI Supplier Sales could extend for the remainder of 2016 and into early 2017. However, positive momentum is building within the indicator components, which suggests that 2017 will be a stronger year than 2016 for Supplier sales.

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

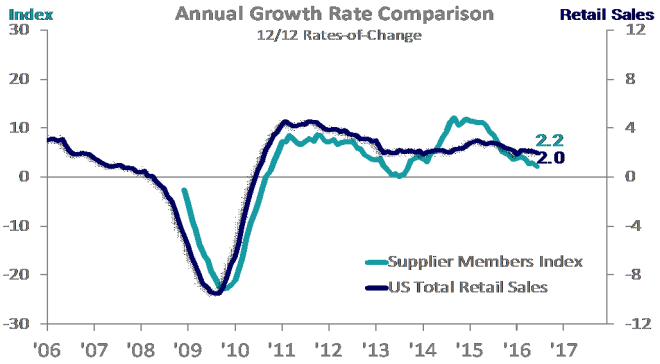


Tick up in June positive sign for sales heading into 2017

The Index 12/12 ticked up in June. More data is needed to confirm a transition to Phase A, Recovery. If the nascent rising trend holds, it would support our expectation that 2017 will be a better year for member sales than 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 (deflated)

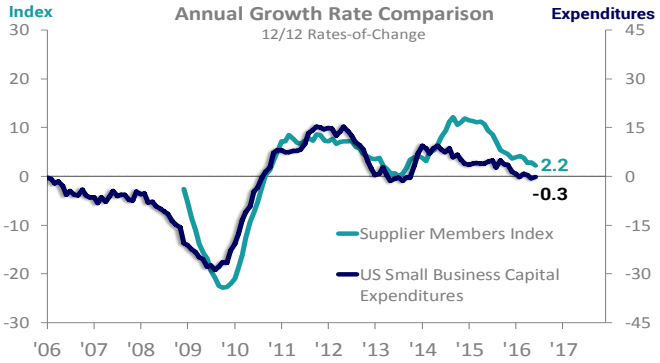


Retail Sales growth is slowing, but consumers are strong

Retail Sales (deflated) are up 2.0% on a year-over-year basis. The rate of growth is slowing. However, rising wages point to stronger consumer-spending trends ahead. This will keep the PPAI Supplier Index out of Phase D, 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 Small Business Capital Expenditure Plans Index

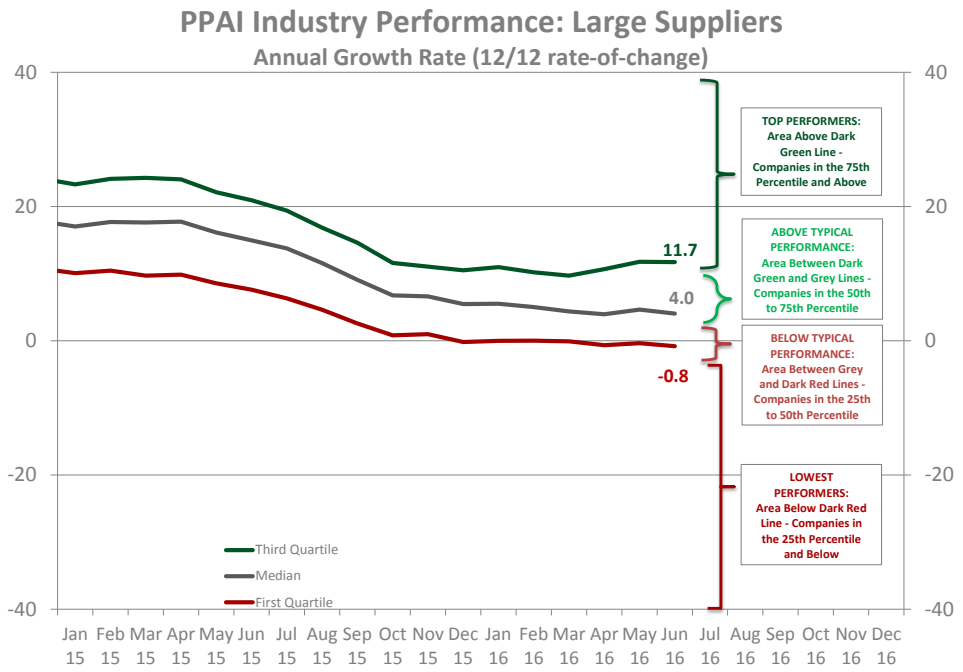


Capital Expenditure Plans are stagnating

The Index 12/12 rose in June, but Plans are basically flat compared to last year. This corroborates the stagnant conditions in the PPAI Supplier Index 12MMA in recent months.

The US Small Business Capital Expenditure Plans Index 12/12 leads the median PPAI Supplier Index 12/12 by two months (best fit).

PPAI Large Supplier Members' Association Overview



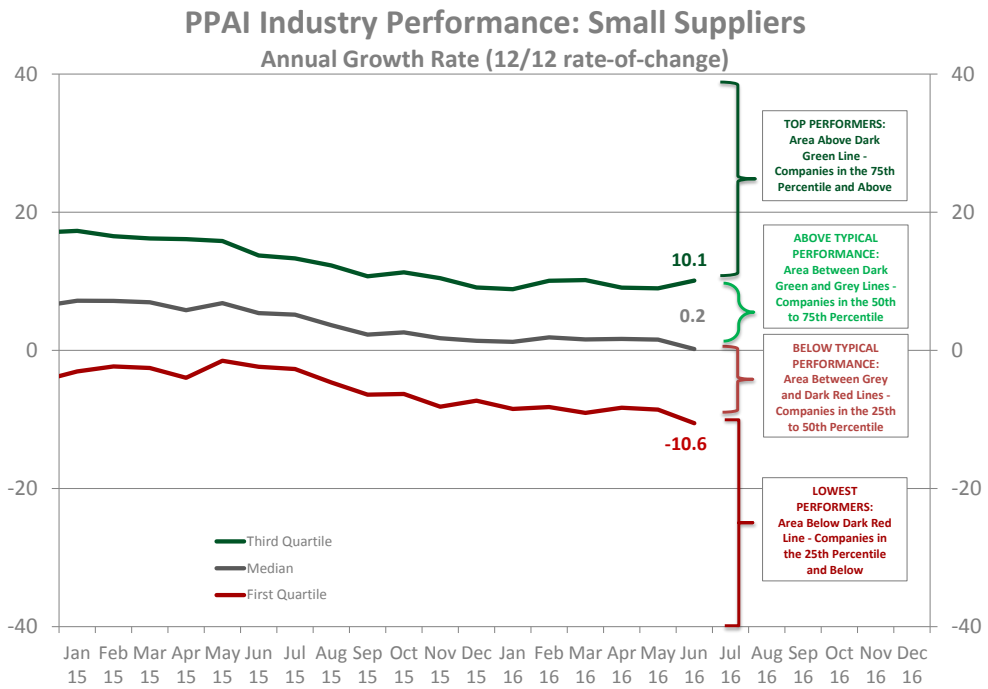
HOW TO USE THIS GRAPH: The purpose of this chart is to see how your company's performance compares to PPAI members (suppliers with more than $60 million in 2015 annual sales) that submitted data to ITR Economics. To use this chart follow these three steps:

1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 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 July 2014 through June 2015 and totaled $11 million from July 2015 through June 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 (4.0%) and third quartile (11.7%), 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

- The Median annual growth rate of 4.0% is down 1.2 percentage points from the previous report, and is well below the 9.8% five-year average. The divergence in the rising third quartile annual growth rate from the median annual growth rate points to weakness in the lower performers outweighing the positivity from the top-performing members.
- The first quartile annual growth rate fell to –0.8%. This is the fourth straight month that first quartile results came in below the year-ago level.

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 three steps:

1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 2015).
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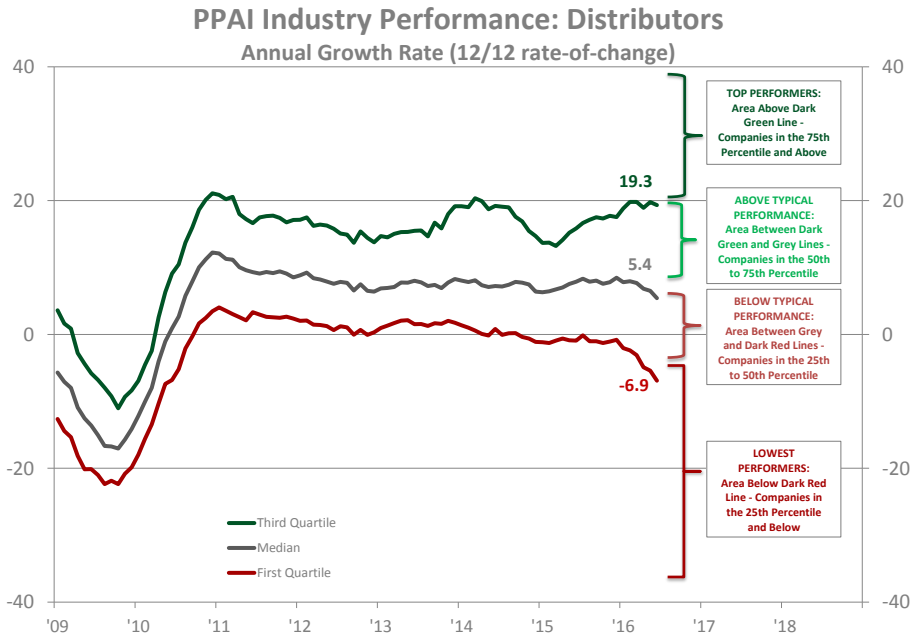
3. Compare your annual growth rate (example: 10%) to the current percentages listed on the chart above. For example, 10% falls between the median (0.2%) and third quartile (10.1%), indicating that your company has above-typical performance in line with companies in the 50th to 75th percentile of PPAI members that submitted data to ITR Economics.

PPAI Small Supplier Members' Association Highlights

- Median results for Small Suppliers came in 0.2% above the year-ago level. The decline in the annual growth rate for the median PPAI Small Suppliers Index could be attributed to weak small business confidence that made customers more reluctant to undertake nonessential expenditures in the second half of 2016.
- 25% of PPAI Small Suppliers have sales at least 10.6% below the year-ago level, while 25% of Small Suppliers came in 10.1% higher than the year-ago level. This suggests the gains of top-performing firms may be coming at the expense of bottom-performing firms.

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 three steps:

1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 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 July 2014 through June 2015 and totaled $11 million from July 2015 through June 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 (5.4%) and third quartile (19.3%), 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.

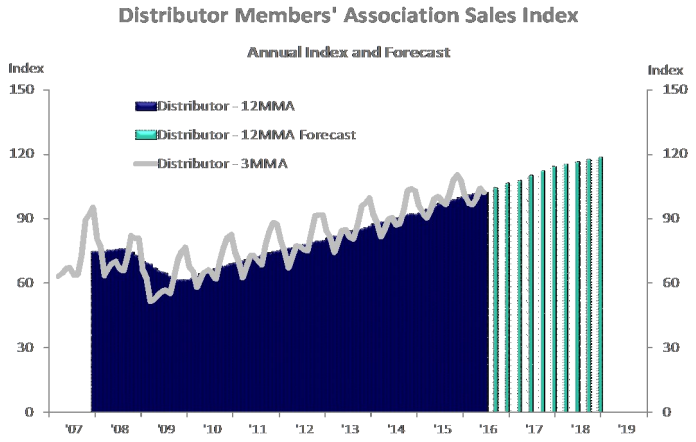
PPAI Distributor Members' Association Highlights

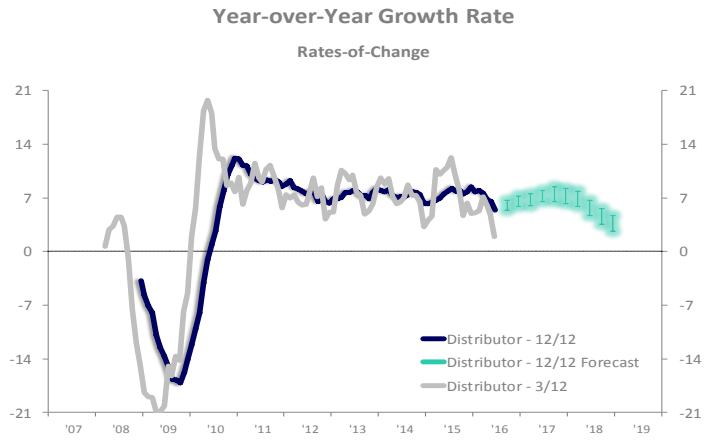
- The median Distributor Members Index annual growth rate was 5.4%, down from the 8.0% reported in the previous report and below its five-year average of 7.6%. Most distributors are experiencing slower growth in sales.
- Large Distributor Members (over $60 million in annual sales) are generally outperforming Small Distributors. The median Large Distributor annual growth rate is 9.8%, compared to 3.9% for Small Distributors.
- The third quartile annual growth rate is rising, in contrast to the declines exhibited in the median and first quartile annual growth rates. This suggests the rate at which top-performing firms are grabbing market share from bottom-performing firms is increasing.

PPAI Distributor Members' Association Outlook

PPAI Distributor Members' Association Forecast

Annual Trend:	102.1	Phase: C	Year-over-Year Growth Rate:	5.4%
Quarterly Trend:	102.2		Quarter-over-Quarter Growth Rate:	2.0%





PPAI Distributor Members' Association Total Sales Highlights

Distributor Outlook

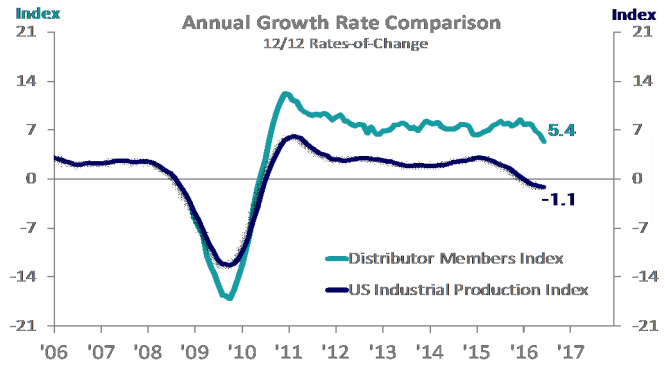
2016:	6.6%
2017:	7.3%
2018:	3.7%

- The average PPAI Distributor Index over the 12 months through June is up 5.4% compared to the year-ago level. The PPAI Distributor Index in the second quarter of 2016 increased 2.0% above the level in the second quarter of 2015 and signals weakness in the Index may persist into the second half of 2016.
- Our forecast is unchanged from the previous report. A review of internal trends and leading indicators suggests that the PPAI Distributor Index annual growth rate will rise by late 2016. Strong consumer trends will support growth in the Distributor Index through 2017 and at a slower pace in 2018.
- PPAI members should budget for higher wages and input costs over the next three years.

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 102.1 indicates annual sales have increased by 2.1% from the 2015 level.

PPAI Distributor Members' Association Leading Indicators

US Industrial Production Index

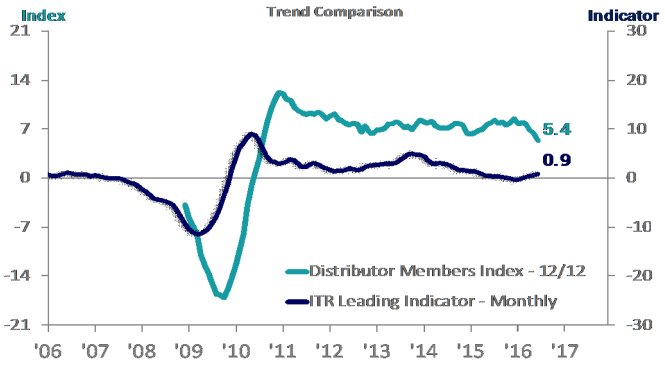


Internal trends point toward imminent recovery

Decline in the US Industrial Production 12/12 through June corroborates the downturn in the Distributor Index 12/12. However, signs of recovery point toward a near-term transition into Phase, A, Recovery, for Production that will support an upturn in the Distributor Index 12/12 by the fourth quarter of 2016.

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

ITR Leading Indicator

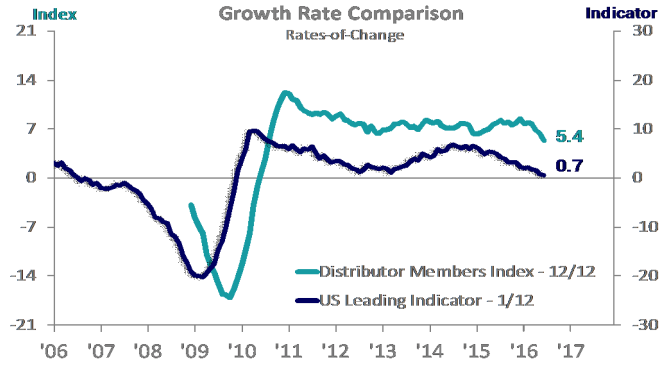


Rise confirms expectation of economic improvement by 2017

The ITR Leading Indicator rose for the fifth consecutive month in June. The rise in the Indicator confirms that US Industrial Production will rise in the second half of 2016. Opportunities for Distributors could increase from this quarter through at least early 2017.

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

US Leading Indicator



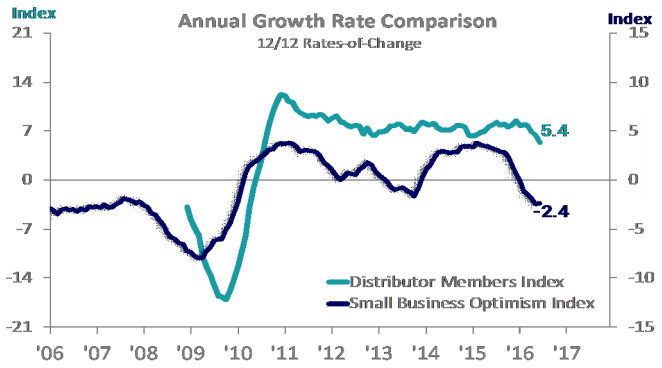
Indicator signals that weakness could persist into 2017

The US Leading Indicator moved lower in June and suggests that weakness in the PPAI Distributors Index could persist into at least early 2017. However, positive signals within the Indicator and improvement in other leading indicators suggest the Distributors Index will outperform the expectations set by the US Leading Indicator in 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

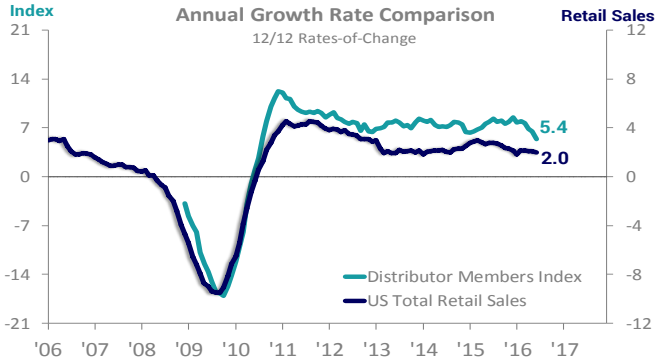


Nascent recovery trend in Small Business Optimism

Small Business Optimism declined 2.4% from the year-ago level. However, the pace of decline in the second quarter is easing and suggests a tentative transition to Phase A, Recovery. Positive cyclical momentum in Optimism suggests increasing Sales opportunities for Distributors by the fourth quarter 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

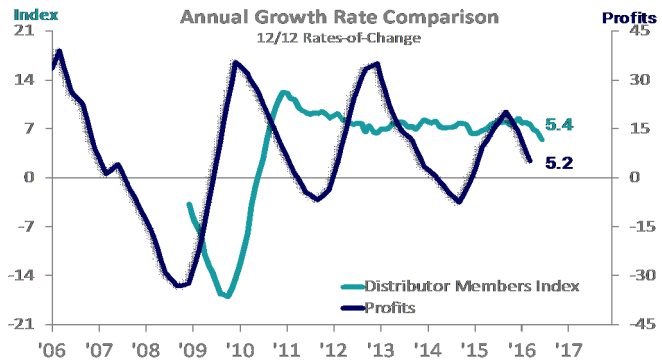


Retail Sales supporting Distributor Index growth

Retail Sales (deflated) has grown steadily at around 2.0% year-over-year so far in 2016. Wage growth is accelerating, interest rates are low, and inflation is low. Plan for an upturn in 2017 US Total Retail Sales (deflated) to drive growth in the PPAI Distributors Index next year.

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

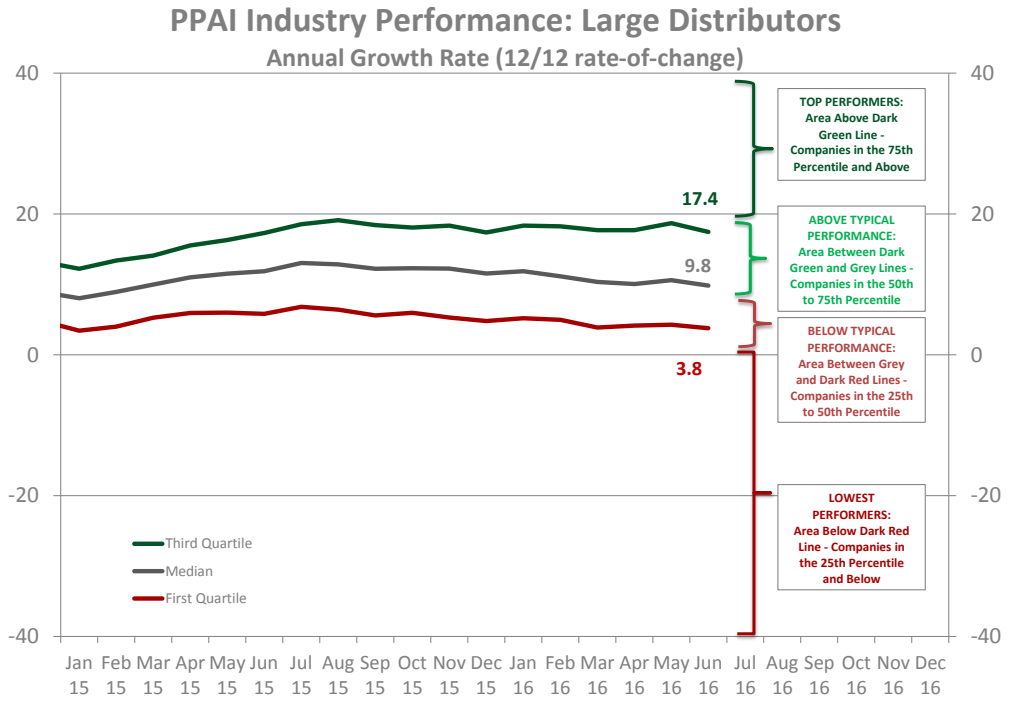


Profits pose risk to our 2017 outlook

The Corporate Profits for Domestic Retail Industries 12/12 is declining. Decline in the Profits 12/12 poses a risk to our expectation that 2017 will be a better year than 2016 for the PPAI Distributors Index.

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



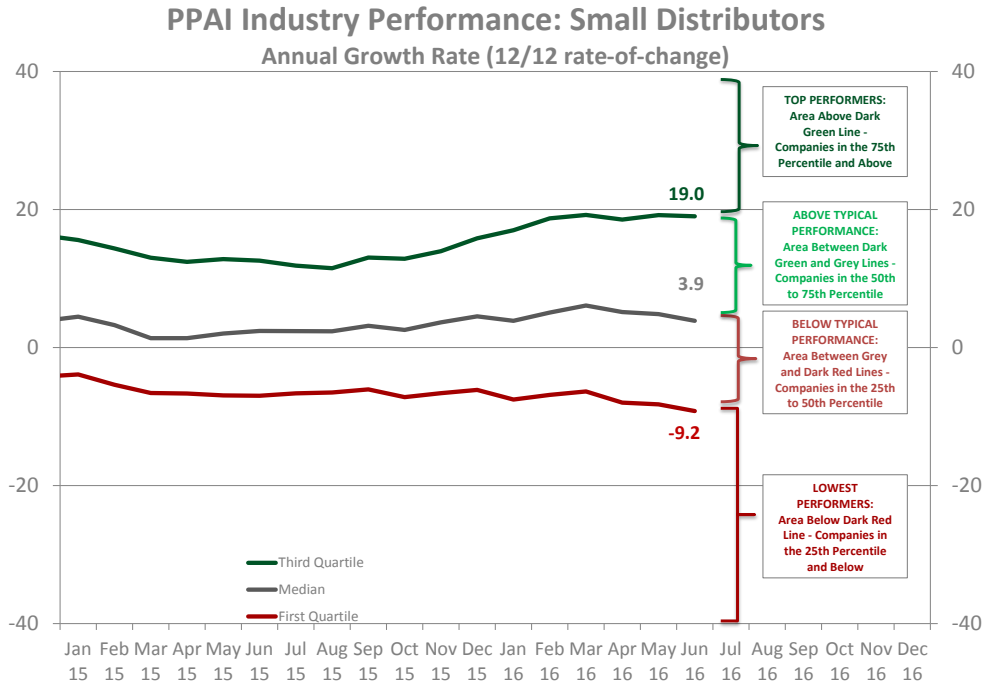
HOW TO USE THIS GRAPH: The purpose of this chart is to see how your company's performance compares to PPAI members (distributors with more than $60 million in 2015 annual sales) that submitted data to ITR Economics. To use this chart follow these three steps:

1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 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 July 2014 through June 2015 and totaled $11 million from July 2015 through June 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 (9.8%) and third quartile (17.4%), 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 Distributor Members' Association Highlights

- Large Distributors (median annual growth rate of 9.8%) are outperforming Small Distributors (up 3.9%).
- The pace of rise is slowing, which suggests that market weakness is negatively impacting Large Distributors despite possible market share increases.
- The Index's relatively stable annual growth rate suggests stable business conditions in the near term and supports our outlook that the Distributor Index will avoid recession during this business cycle.

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 three steps:

1. Calculate your company's annual growth rate as of June 2016. Add up your 12 months of sales through June (from July 2015 through June 2016) and compare it to the annual total one year earlier (from July 2014 through June 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 July 2014 through June 2015 and totaled $11 million from July 2015 through June 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 (3.9%) and third quartile (19.0%), 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.

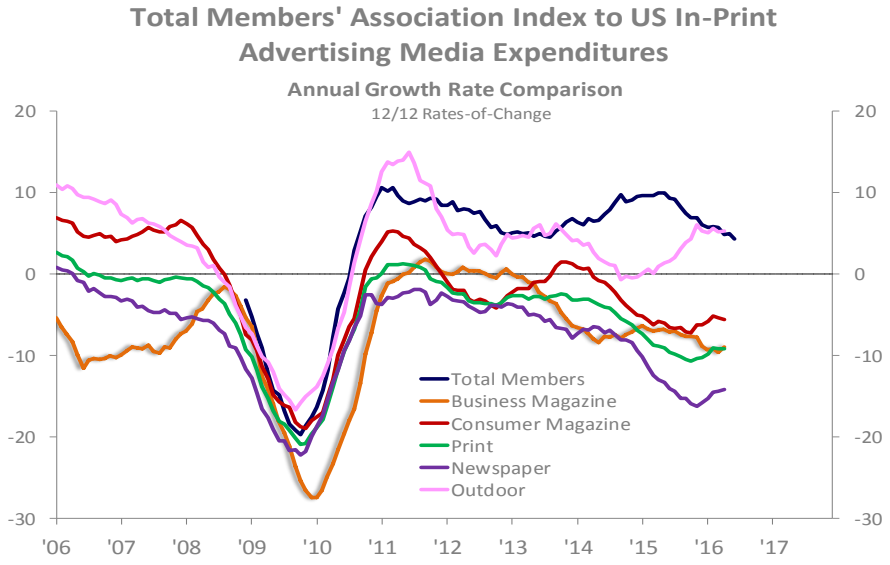
PPAI Small Distributor Members' Association Highlights

- Rise in the Small Distributor third quartile annual growth rate flattened since the last report. The median and first quartile annual growth rates are declining.
- The disparity in the performance between Small Distributors has become more pronounced since the last report, with 25% of Small Distributors falling at least 9.2% below the year-ago level and 25% rising at least 19.0% over the same period.
- Lock in input costs now to help protect margins, as input costs will generally rise through 2017; refine your competitive advantages to protect your market position.

PPAI Members' Competitive Outlook

US In-Print Advertising Media Expenditures	Current Rate-of-Change	Current Phase	2016	2017	2018	Highlights
Print (Magazine and Newspaper)	-9.1%	A	-3.3%	-3.3%	-5.3%	Year-over-year decline through 2018
Newspaper	-14.1%	A	-4.3%	-6.0%	-8.9%	At lowest level in over 12 years and declining
Business Magazine	-8.9%	A	-7.6%	-5.8%	-7.2%	Recovery through late 2017 but no growth expected
Consumer Magazine	-5.6%	A	-2.1%	-1.2%	-2.9%	Recovery will persist into mid-2017
Outdoor	5.3%	C	2.8%	6.5%	-0.1%	Stronger growth in 2017 than 2016

PPAI Members' Competitive Environment

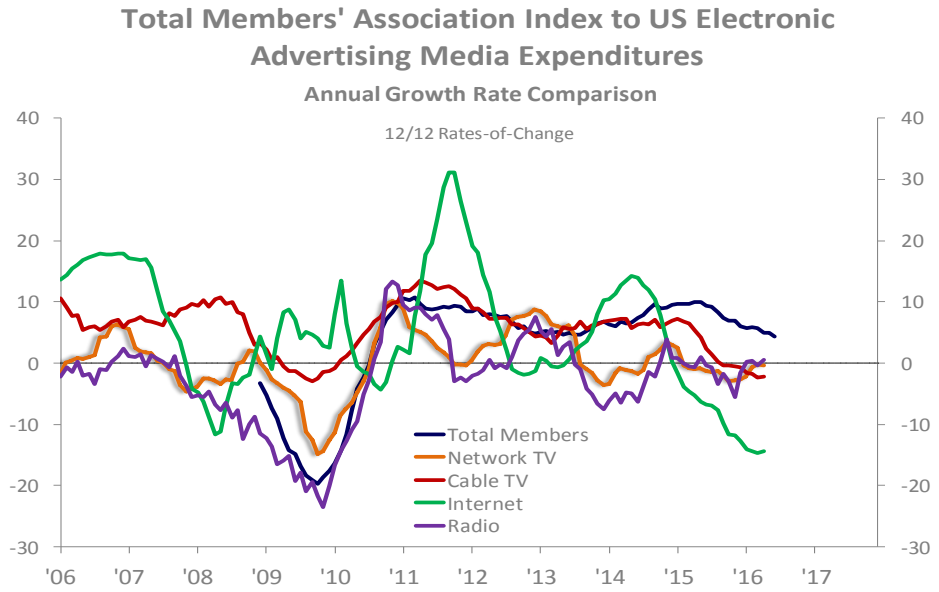


- In-Print Advertising Media Expenditures will generally contract over the next three years. We expect declining activity at Paper Mills over most of the next three years, which supports our expectation that In-Print Media will falter, providing downward pressure on Advertising Spending.
- Newspaper Advertising Expenditures will remain below year-ago levels over the next three years. Newspaper Service Revenue is at its lowest level in nearly nine years as consumers opt for electronic media alternatives.
- The PPAI Total Members' Index is outperforming Print Media Expenditures, but in line with Outdoor Media Expenditures.

PPAI Members' Competitive Outlook

US Electronic Advertising Media Expenditures	Current Rate-of-Change	Current Phase	2016	2017	2018	Highlights
Network TV	-0.4%	A	-0.1%	4.2%	-0.2%	Expenditures will generally rise into mid-2018
Cable TV	-2.2%	A	4.8%	0.7%	-2.5%	Forecast downward revised since last report
Internet	-14.4%	D	-7.2%	8.9%	3.5%	Imminent trough; growth in 2017 and 2018
Radio	0.5%	B	1.2%	3.6%	-3.2%	Rise through late 2017, decline in 2018

PPAI Members' Competitive Environment



- We have downward revised our forecasts for Network and Cable TV spending due to the fact that consumers are now able to access some programs away from this medium. Network TV Spending growth will outpace Cable TV growth in 2017 and 2018.
- We also downward revised our forecast for Radio spending. Our further research into recent presidential election cycles suggest they historically have minimal impact on Radio Spending.
- Spending has been shifting toward the Internet, which will expand in both 2017 and 2018. A cyclical trough is imminent, which suggests PPAI members should use pessimism to their advantage by acquiring struggling competitors and preparing for sales growth in 2017.
- Look for an increasingly competitive landscape as spending shifts toward the Internet given, the lower barriers to entry.

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 indictor 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.

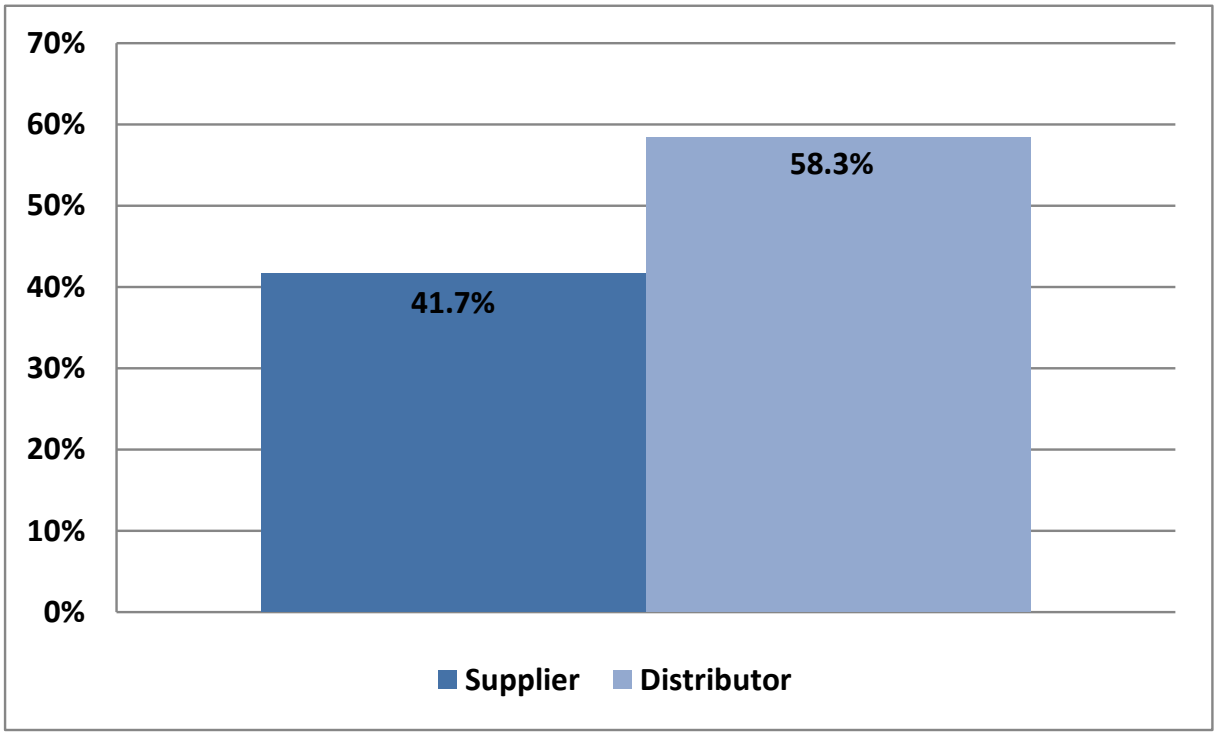
US Radio Media Spending - Media spending in the US on radio advertising, measured in millions of dollars, NSA.

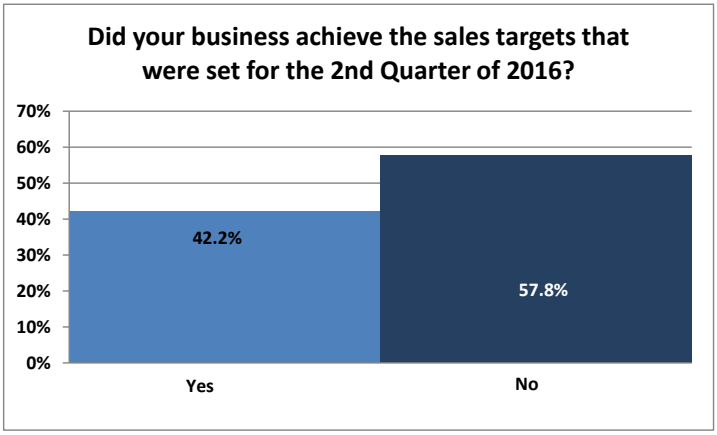
US Internet Display Media Spending - Media spending in the US on internet display advertising, measured in millions of dollars, NSA.

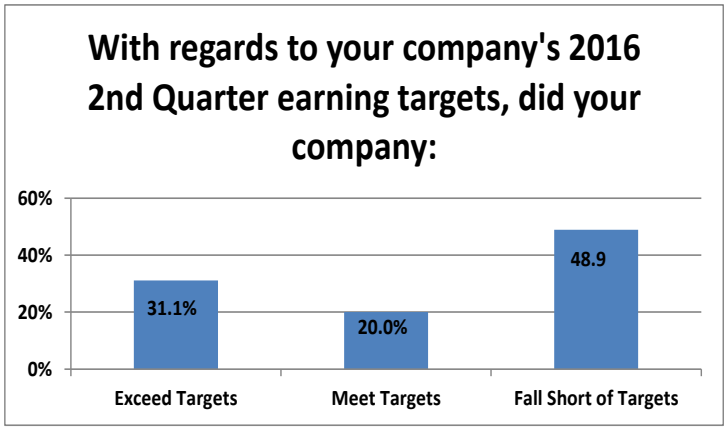
US Network TV Media Spending - Media spending in the US on network tv advertising, measured in millions of dollars, NSA.

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:

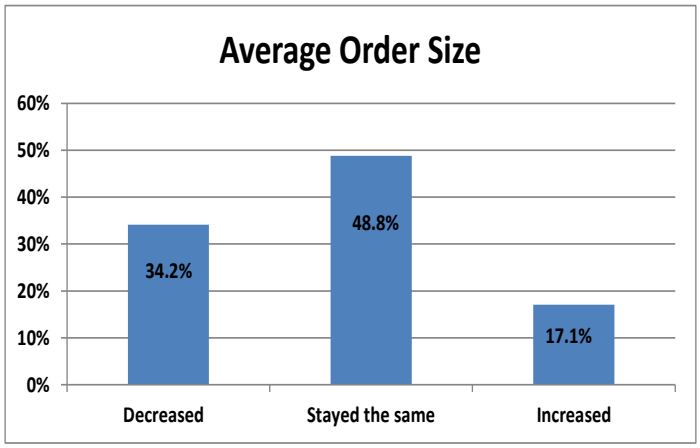


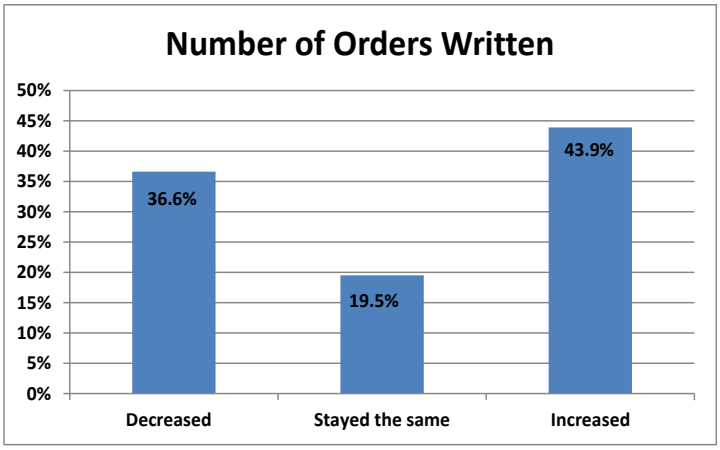


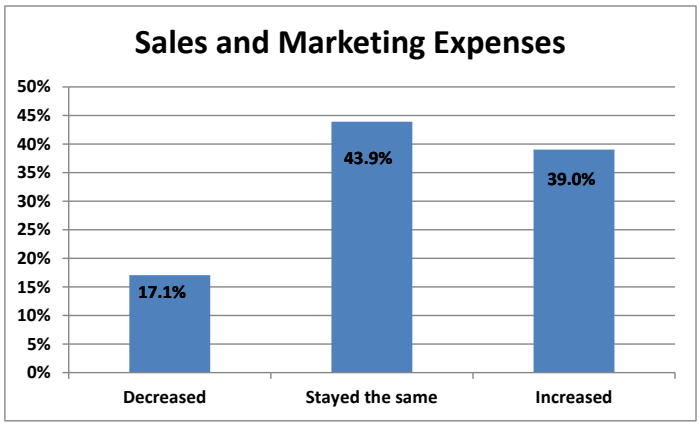


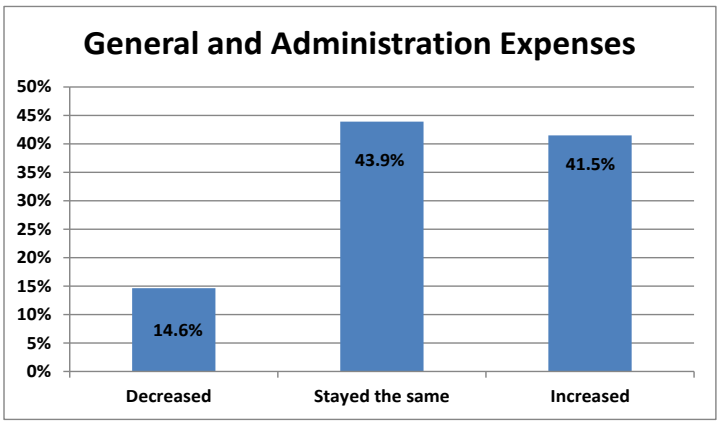
PPAI The Mark of a Professional®

When comparing the 2nd Quarter of 2016 with the 2nd Quarter of 2015, what kind of change did you see in the following?

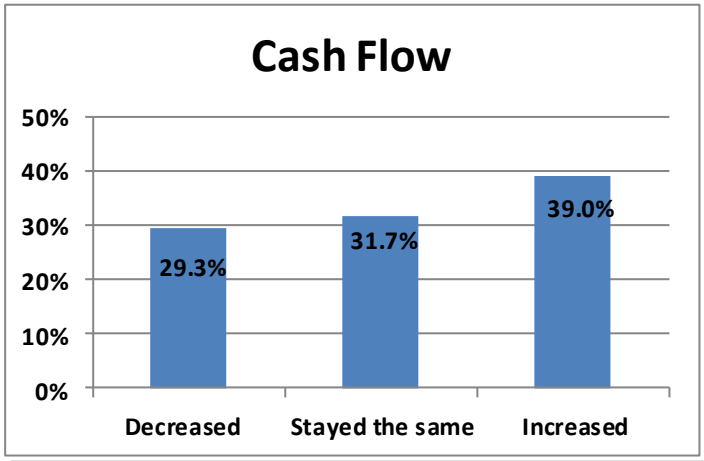


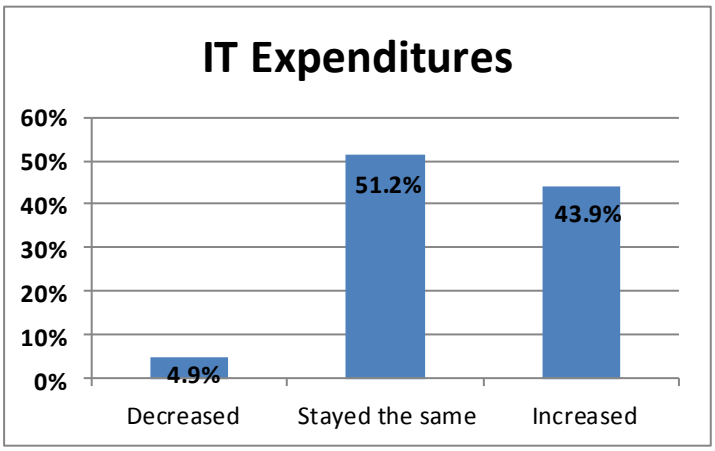


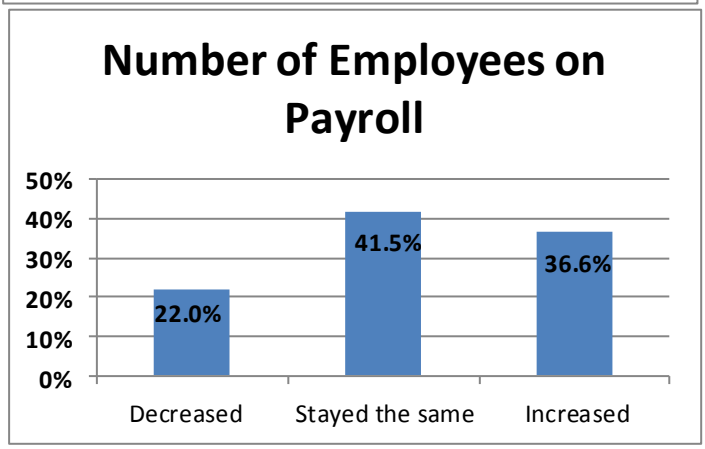


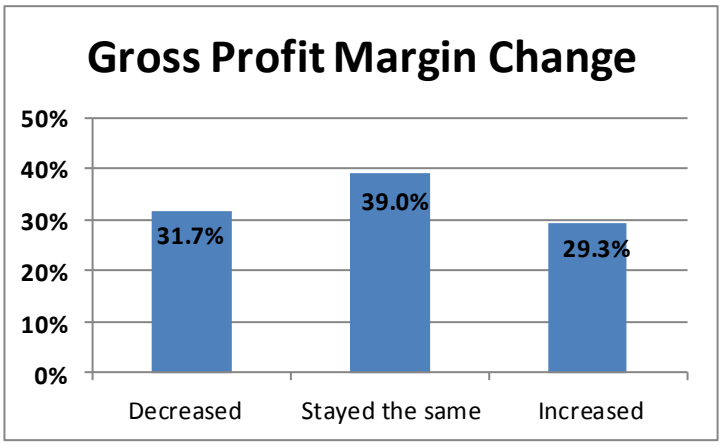


When comparing the 2nd Quarter of 2016 with the 2nd Quarter of 2015, what kind of change did you see in the following?

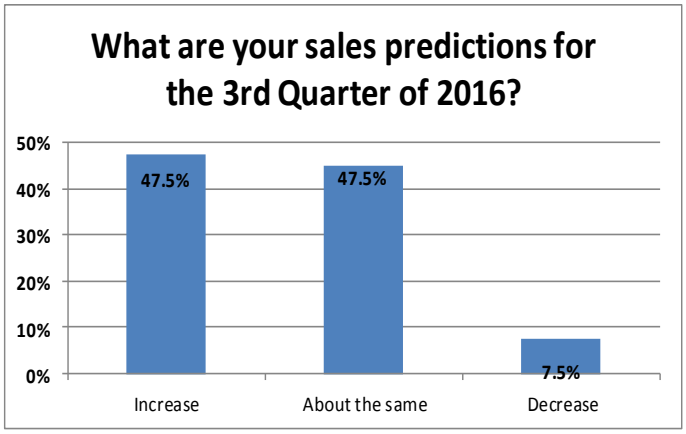








What are your sales predictions for the 3rd Quarter of 2016?



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 for more information.