

The PPAI

3rd Quarter 2019

Market Outlook Report

A Quarterly Snapshot of the Promotional Products Industry

The full detailed report is available to study participants. Learn more on pg. 3

Key Points:

- The PPAI Distributors and Suppliers Indexes are expected to stagnate into mid-2020, as multiple core segments of the economy soften
- Select housing and global leading indicators foreshadow the next US macroeconomic business cycle rising trend
- Other leading indicators are declining, and, if decline persists, a business cycle low after mid-2020 is possible
- Look to the Healthcare and Education markets during 2020
- Plan for 2021 to be a better year than 2019 or 2020

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Section I: Overview of National and Regional Economic Environment

- The leading indicators are consistently pointing to business cycle decline (slowing growth or recession) in the US economy in the coming quarters. The business cycle (annual rate-of-change) low is expected to form around mid-2020.
- A nascent rising trend in the housing market and positive momentum in multiple global leading indicators are positive signs foreshadowing the next rising trend. We are closely monitoring the leading indicators for additional signs of the next rising trend, as we typically like to see at least five leading indicators rise to confirm the timing of the low.
- A number of states in the Midwest and Great Lakes regions may contract or stagnate over the coming six months. Expect generally more robust economic conditions in other regions.

Section II: PPAI Total Members Summary

- The Total Index is in a slowing growth trend. We are calling for the lowest US Real Gross Domestic Product growth rate since the Great Recession by early 2020. Inflation is expected to be higher during this business cycle relative to the previous cycle. The cyclical decline will appear milder in dollar measures, such as your own top line numbers, than in inflation-adjusted numbers. Keep a close eye on your costs to avoid a period of “profitless prosperity.”

Index	Current	Phase
Total	4.8%	C
Suppliers	0.9%	C
Distributors	5.6%	C

Supplier Outlook



Section III: PPAI Supplier Members Summary

- The forecast is unchanged. The annual Suppliers Index is expected to stagnate into mid-2020 before rising into late 2021. Use any extra time afforded by this slowdown to prepare for record highs in 2021.
- Lock in prices and renegotiate fixed costs, if possible, during the first half of next year.

2019:	-0.2%
2020:	0.9%
2021:	3.4%

Section IV: PPAI Distributor Members Summary

- The forecast is unchanged. The annual Distributors Index is expected to flatten into mid-2020. During this downswing, closely monitor aging receivables and your own cash balances.
- Rise in the annual Distributors Index is expected from late 2020 through at least year-end 2021. Plan on 2021 being a stronger year than either 2019 or 2020. Develop a plan now to maximize growth during the next rising trend.

Distributor Outlook



2019:	2.5%
2020:	3.1%
2021:	5.2%

Section V: Industry Financial Results

- Financial results mirror macroeconomic trends; Average Order Size and Average Total Gross Margins in the third quarter shrank relative to the same quarter last year.

Section VI: PPAI End-Use Markets and Comparative Markets

- All of the included end-use markets are in Phase C.
- The education and healthcare markets tentatively transitioned to Phase C since the last report, later than the other markets. These two markets do not trend as closely with the US macroeconomy and could provide better opportunities in the near term. Look to manufacturing, financial services, and business services in 2021.
- Our outlook for manufacturing, as measured by Wholesale Trade, was lowered since the last report. This market is expected to have the lowest rate-of-change of the included markets in 2019 and 2020.
- Most Media Spending categories are declining. Spending on Outdoor advertisements is the only category that is in Phase B, Accelerating Growth.



The PPAI Market Outlook Report is a quarterly snapshot of the promotional products industry. In order to best provide resources to members, this report was created by ITR Economics to provide information on macroeconomic, industry, and competitive landscape trends. The goal of the 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.

The PPAI Member Market Index is derived from sales data submitted by PPAI supplier and distributor 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.

About PPAI

Promotional Products Association International (PPAI) has been the trusted authority in the promotional products industry since 1903. With over 15,500-member companies worldwide, PPAI delivers essential knowledge, resources and community to ensure the success of its members and the promotional products industry itself.

To access the detailed report in full and to help better capture the state of the industry, become a valued participant in our quarterly Market Outlook Survey. Find out how by contacting:

Mo Das, PPAI Research Manager
Email: MoD@ppai.org or Research@ppai.org
Direct: (972) 258-3058



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.

