

The PPAI

4th 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:

- We revised our 9-month old Suppliers Index forecast and our 15-month old Distributors Index forecast to reflect our revised outlook for US Total Retail Sales and the latest leading indicator evidence.
- Nascent rise in multiple leading indicators bodes well for industry business cycle rise late this year. The pace of growth will be more robust in 2021 relative to 2020 or 2022.
- To maximize growth, target Education and Healthcare markets in 2020; in 2021, target markets such as Business Services, Financial Services, and Manufacturing.

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Section I: Overview of National and Regional Economic Environment

- Numerous leading indicators have risen in recent months, providing insight into how the economy will shape up this year. The majority of indicators suggest business cycle rise for the macroeconomy will take hold in the latter half of the year. Rise is expected in 2021, with higher growth rates relative to 2020.
- We have extended our macroeconomic outlook to include 2022. We are forecasting that the US macroeconomy will enter a recession in late 2022. For PPAI members, 2022 will likely be virtually flat compared to 2021. Start planning now on how to use upcoming business cycle rise to best position yourself for the next downturn.
- The Pacific Coast, Southwest and Southeast regions of the US generally have stronger near-term economic prospects than the Midwest and Northeast regions.

Section II: PPAI Total Members Summary

- The Total Index annual growth rate edged down to 4.5% at the end of 2019. The Total Index is in a slowing growth trend.
- We updated our outlook for US Total Retail Sales, a key economic driver for PPAI's markets. Retail Sales are expected to be on the back side of the business cycle into late this year, which means the Total Index will likely remain in Phase C until late this year.

Index	Current	Phase
Total	4.5%	C
Suppliers	1.7%	C
Distributors	5.2%	C

Supplier



Outlook

Section III: PPAI Supplier Members Summary

- We revised the Supplier Index forecast up 0.6 and 1.8 percentage points for 2020 and 2021, respectively. The updated forecast aligns with our latest analysis of Retail Sales and a collection of predictive indicators.
- Plan for growth in 2021 to be more robust relative to 2020 or 2022. The Supplier Index will be flat in 2022.

2020:	1.5%
2021:	5.2%
2022:	0.2%

Section IV: PPAI Distributor Members Summary

- We revised the Distributors Index down 0.7 percentage points for 2020 and up 1.1 percentage points for 2021. Our forecast accuracy 15 months out was at 97.1%.
- Plan for slowing growth to last into late this year. The subsequent accelerating growth trend will last for about a year, into late 2021. The Index will be relatively flat in 2022 as the macroeconomy falls into a recession.

Distributor



Outlook

2020:	2.4%
2021:	6.3%
2022:	0.3%

Section V: Industry Financial Results

- Smaller distributors' gross revenue and average number of orders contracted in the fourth quarter of 2019 relative to the fourth quarter of 2018. Larger distributors' gross revenue and average number of orders grew at a slower pace in the fourth quarter relative to the year as a whole.

Section VI: PPAI End-Use Markets and Comparative Markets

- Education and Healthcare markets are in Phase B. Sales efforts will likely be better spent on Education and Healthcare markets in 2020 than on Manufacturing markets.
- 2021 is expected to be stronger year than 2020 for PPAI's cyclically-driven end markets: Business Services, Financial Services, and Manufacturing.
- The majority of media spending categories are down on a year-over-year basis. This year's election cycle could bring an increase in media spending, especially in the TV and Radio categories.



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.

