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IBISWorld Industry Risk Rating Report 51213

Movie Theaters in the US

May 2013

Risk Overview 2
- Industry Definition & Activities 2
- Industry Risk Score 2
- Risk Rating Analysis 2

Structural Risk 5
- Barriers to Entry 5
- Basis of Competition 6
- Domestic and International Markets 7
- Industry Assistance 7
- Life Cycle 8
- Industry Volatility 8

Growth Risk 9
- Growth Analysis 9

Sensitivity Risk 10
- Per capita disposable income 10
- External competition for the Movie and Video Distribution industry 13
- Technological change for Television Networks and Providers 13
- Number of broadband connections 13
- Number of K-12 students 15

IBISWorld Industry Risk Scoring Methodology 18
- What is Industry Risk 18
- Methodology 18
- Risk Levels 18

Risk Overview

Industry Definition & Activities

This industry comprises businesses that primarily exhibit movies. It includes cinemas, drive-in and outdoor movie theaters and film festival exhibitors.

The primary activities of this industry are:

- Film festival exhibition
- Motion picture exhibition for airlines
- Operating drive-in movie theaters
- Operating movie theaters

Industry Risk Score

Forecast Period: December 31, 2013

To calculate the overall risk score, IBISWorld assesses the risks pertaining to industry structure (structural risk), expected future performance (growth risk) and economic forces (sensitivity risk). Risk scores are based on a scale of 1 to 9, where 1 represents the lowest risk and 9 the highest. The three types of risk are scored separately, then weighted and combined to derive the overall risk score.

Risk component	Weight	Score
Structural risk	25%	4.25
Growth risk	25%	4.98
Sensitivity risk	50%	3.98
Overall risk		**4.30**

Risk Rating Analysis

Risk Score Trend Analysis

Overall risk in the Movie Theaters industry is forecast to be MEDIUM-LOW over 2013. The primary positive factors affecting this industry are high barriers to entry and low revenue volatility. Overall risk will be lower than the MEDIUM level of the previous year, a result of favorable movements in per capita disposable income as well as number of broadband connections. Additionally, growth risk is projected to fall.

Risk Score Context

In 2013, the average risk score for all US industries is expected to be in the MEDIUM-LOW band. Furthermore, the risk score for the Information sector, which includes this industry, is also at a MEDIUM-LOW level. Therefore, the level of risk in the Movie Theaters industry will be similar to that of the US economy and the Information sector.

Structural Risk Analysis

Structural risk will be MEDIUM-LOW over the outlook period. The biggest source of difficulty within the industry is the high level of competition. Businesses competing fiercely for market share are forced to incur expenses to differentiate their offerings, keep prices low to entice demand or both. The result is a greater likelihood of declining revenue and lower profits. However, existing firms will benefit from increasing barriers to entry, which protect against higher competition in the long run by reducing the ability of new players to enter the marketplace. Another positive for operators is the low revenue volatility. This suggests steady demand, easing the burden of cash flow management even during broader economic downturns.

Growth Risk Analysis

Growth risk is expected to be MEDIUM over the outlook period. IBISWorld forecasts that annual industry revenue will grow 2.0% to $14.5 billion. In comparison, revenue expanded 1.1% per year between 2010 and 2012.

Sensitivity Risk Analysis

Sensitivity risk is forecast to be LOW over the outlook period, down from MEDIUM-LOW in 2012. The two factors with the most significant impacts on the industry are per capita disposable income and external competition. When there is a rise in per capita disposable income, risk will fall; whereas a rise in external competition will cause industry risk to increase.

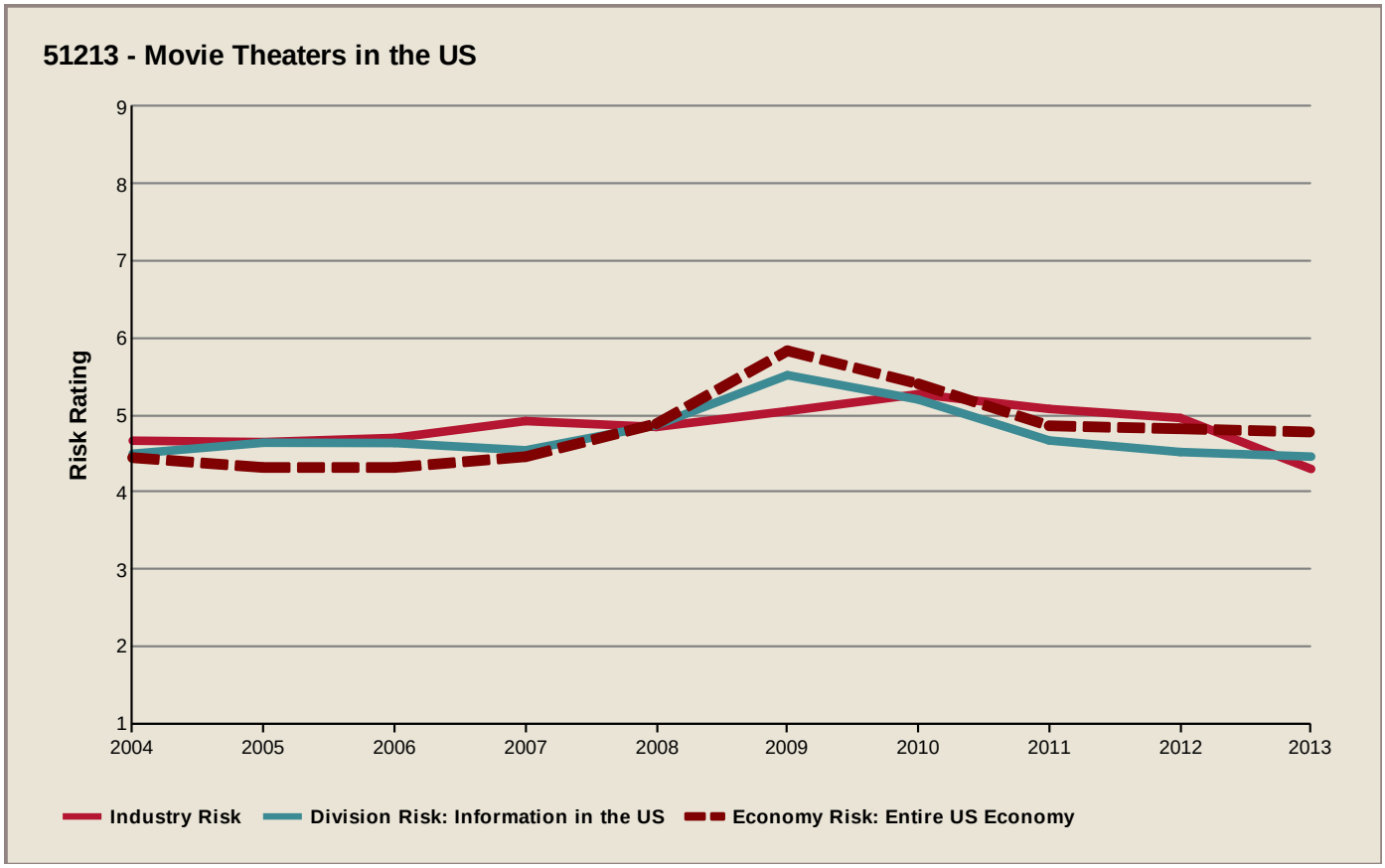
Per capita disposable income: Movie attendance relies on changes in household disposable income, which is affected by movements in the employment rate and in tax and interest rates. Consumers may defer or reduce trips to the movies during difficult economic times, as they concentrate more on increasing their savings or repaying debt. This factor's contribution to risk is expected to decrease in the coming year.

External competition: Increasingly, cable and satellite TV, and other entertainment products are appearing in households and diminishing demand for the Movie Theater industry. This factor's contribution to risk is expected to remain the same in the coming year.

Number of broadband connections: The number of broadband connections indicates the extent to which consumers use high-speed internet for a variety of purposes, including as a way to access entertainment. With the rapid rise in broadband connection numbers, more consumers are using the internet to download or stream movies, which directly reduces demand for the Movie Theaters industry. The number of broadband connections is expected to rise during 2013. This factor's contribution to risk is expected to decrease in the coming year.

Technological change: As movie theaters continue to switch to digital and 3-D projection systems, revenue increases because higher ticket prices can be justified. Advances in movie-making and projection technologies have helped to stimulate demand for cinematic screenings. This factor's contribution to risk is expected to decrease in the coming year.

Number of K-12 students: Adolescents aged 17 and younger contribute about a quarter of industry revenue, and many successful movies are geared toward young audiences. Toy Story 3, for example, was the highest-grossing film of 2010 and is the second-highest-grossing film rated G of all time. As the number of primary and secondary students rises, industry demand rises as well. The number of K-12 students is expected to rise slowly during 2013. This factor's contribution to risk is expected to decrease in the coming year.


51213 - Movie Theaters in the US
Risk Rating
9
8
7
6
5
4
3
2
1
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Industry Risk
Division Risk: Information in the US
Economy Risk: Entire US Economy

Structural Risk

An industry's structural score measures the impact of the fundamental characteristics common to all industries. These seven components are scored separately, then weighted and combined to derive the structural risk score.

Structure component	Level	Trend	Weight	Score
Barriers to Entry	High	Increasing	13%	1.00
Competition	High		20%	9.00
Exports	Low	Steady	7%	1.00
Imports	Low	Steady	7%	2.00
Assistance	None	Steady	13%	7.00
Life Cycle Stage	Mature		20%	5.00
Revenue Volatility	Low		20%	1.00
Structural Risk				**4.25**

Barriers to Entry

Barriers to entry in this industry are high
Barriers to entry in this industry are increasing

Barriers to entry in the Movie Theaters industry are high and growing more difficult to overcome. The costs of purchasing and operating capital equipment such as digital projection systems, screens and speakers are high, as are the costs of establishing auditoriums on par with the quality offered by the industry's major players. Opening a large multiscreen complex entails high rent and utilities costs. Furthermore, new and untested theater operators may have difficulty acquiring rental licenses from major film distributors; without the ability to show blockbuster films, commercial success for a first-run theater is highly unlikely.

However, opportunities exist for theaters that limit their operations to certain genres or specialize in second- or third-run films. Licensing agreements are less strict or exclusive for independent or art house films, as they are after a major title's first run. Second- or third-run theaters thrive by offering deeply discounted tickets and earning revenue through concessions sales. Such theaters are often older establishments without more modern amenities like stadium seating and are much less expensive to acquire and operate than first-run facilities, making barriers to entry lower for this segment of the industry.

Basis of Competition

Competition in this industry is high
Competition in this industry is increasing

Internal competition

Movie theaters compete against one another primarily on the basis of film offerings, ticket prices, auditorium quality and concessions offerings. The popularity of certain films is the most important determinant of demand for a theater, and the ability to secure the license to exhibit a season's biggest hit is a theater's strongest competitive advantage. Strong links with movie distributors that have a strong slate of film releases ensures that a theater can offer the most popular films. Additionally, the capability to show 3-D films expands a theater's range of exhibition options and can attract moviegoers seeking the 3-D experience.

Because first-run theaters are generally all able to secure licensing for popular films, ticket prices reflect an auditorium's quality rather than the movie being exhibited. Ticket prices have risen slowly during the past five years across the industry, and operators refrained from lowering prices significantly during the recession because patrons are more sensitive to the titles available than the price of a ticket. However, some smaller operators reduced prices on first-release movies during the recession to boost admissions, creating combined offers that included a movie ticket and discounted drinks and popcorn as part of a packaged movie deal. Larger companies have created or expanded customer loyalty programs, such as the Regal Crown Club, which offer concessions based on purchases at participating theaters.

External competition

Movie theaters face competition from other ways of accessing films, including DVD players, home theater systems and downloading or streaming content from the internet, as well as from other forms of entertainment, such as video game consoles or sports. The rapid penetration of in-home entertainment equipment such as projector screen TVs affects industry revenue by competing with movie theaters for a share of household disposable income spent on entertainment. The growing prevalence of online content, though, has become a greater threat to the industry during the past five years. Since 2008, the number of broadband connections has grown at an annualized rate of 17.5% and is forecast to expand 5.0% per year on average through 2018. As more consumers become comfortable with downloading and streaming movies onto their computers, smartphones, mobile devices like iPods and tablets like the iPad, demand for theaters falls.

The industry benefits from a significant built-in limit to external competition, however. Theatrical releases are highly important to the future commercial success of a film; sales of DVDs and other products associated with a title largely depend on the excitement generated by a successful debut at theaters. Furthermore, when film distributors license titles to the Movie Theaters industry for exhibition, the terms of the agreement specify that the distributor refrain from licensing the film to other mediums for a set time period, known as the “theatrical release window.” This window can range from about three months from release at cinemas to availability on DVD or Blu-ray to as long as 12 months for free-to-air release. However, illegal download sites, where users upload bootlegged copies of films, circumvent the window altogether and pressure film distributors to rethink the standard length of the release window. According to the National Association of Theatre Owners, the average release window in 2012 was three months and 29 days, down from four months and five days in 2011, with the window consistently shrinking since 2000. Leading firms in the Movie Theaters industry note that any reduction in the window's length severely hurts their business.

Domestic and International Markets

Exports

Exports in this industry are low
Exports in this industry are steady

Imports

Imports in this industry are low
Imports in this industry are steady

This industry operates domestically. Some major players operate theaters overseas, but these locations generate revenue in their respective countries' movie theaters industry.

Industry Assistance

There is no assistance available for this industry
There are no specific tariffs for this industry

The Movie Theaters industry receives no direct government assistance in the form of tariffs or subsidies. The Motion Picture Association of America (MPAA) is a professional association for the wider motion picture production sector composed of the six major American studios: Walt Disney Studios Motion Pictures; Paramount Pictures Corporation; Sony Pictures Entertainment Inc.; Twentieth Century Fox Film Corporation; Universal City Studios LLC; and Warner Bros. Entertainment Inc. As online piracy has become a growing problem for the film and television industries, the MPAA has become the industry's most prolific advocate for copyright and intellectual property protection by providing the industry and the public with data and research.

The National Association of Theatre Owners (NATO) is the largest exhibition trade organization in the world and represents more than 30,000 screens in all 50 states. NATO represents its members in Hollywood and in Washington, DC, where it helps influence federal policy-making and works with film distributors on issues like marketing, First Amendment rights and intellectual property. NATO also offers resources and data for current exhibitors and parties interested in opening a new theater business.

Life Cycle

The life cycle stage is mature

Life Cycle Reasons

- Industry value added is growing more slowly than GDP
- Operators are divesting unprofitable locations, increasing industry consolidation
- Technological investment into digital projection is rising but not fundamentally changing the industry
- Movie theaters continue to enjoy wholehearted acceptance in American culture

The Movie Theaters industry is in the mature phase of its life cycle, exhibited by slow growth, steady technological change and wholehearted market acceptance. Industry value added, a measure of the industry's contribution to the overall economy, is forecast to grow at an annualized rate of 3.6% during the 10 years from 2008 to 2018, faster than projected annualized GDP growth of 2.1% over the same period. Operators' focus on upgrading their auditoriums with modern amenities like stadium seating and digital or 3-D projection systems has limited profit growth during the past five years, and ongoing investment is forecast to keep profit growth stagnant in the next five.

The number of enterprises operating in the industry is expected to decline at an annualized rate of 2.0% during the five years to 2013 and is forecast to continue falling at an average annual rate of 0.8% during the five years to 2018. The industry is experiencing only moderate merger and acquisition activity, a key characteristic of a mature industry, with most firms purchasing theaters in small numbers in select geographic areas. An exception to this trend occurred in 2010, when major player AMC Entertainment acquired the 92-theater chain Kerasotes ShowPlace Theaters. The steady level of technology change, including the transition from analog to digital and 3-D projection, is also indicative of an industry's maturity. 3-D has likely settled into its position as a developed product line for the industry; while 3-D sales slowed in 2011, they are expected to continue to generate a healthy share of the total box office going forward.

In addition, the industry is facing and will continue to face intense competition from alternative sources of film content, particularly online streaming services. While the industry remains in a mature phase and an icon of American culture, the ramp-up of competition and shrinking admissions may push the industry into decline over the next decade.

Industry Volatility

The level of volatility is low

While revenue for the Movie Theaters industry has had a moderate level of volatility historically, lower admissions and higher ticket prices have offset to keep changes in revenue relatively steady. Growing competition from external sources, including video content on the internet and gaming consoles, has also kept industry revenue from rising more quickly in response to improving economic conditions like higher disposable income. During the past five years, industry revenue stagnated with 0.0% growth in 2009 and rose as much as 3.0% in 2009, when *Avatar* and Transformers: Revenge of the Fallen experienced highly successful holiday and summer seasons, respectively. Over the next five years, industry revenue is projected to flatten further as rising competition from substitutes offset the economic recovery's aid to consumer spending.

Growth Risk

The growth risk score evaluates forecasted industry revenue growth against past performance as well as expected growth for all other industries. A high industry growth rate is associated with lower risk for operators in that industry.

Growth component	Revenue	Weight	Score
2010-2012 Annualized growth	1.1%	25%	5.29
2012-2013 Forecast Growth	2.0%	75%	4.87
Growth risk			**4.98**

Growth Analysis

The stubborn effects of the recession and rising competition have hindered the $14.5-billion Movie Theaters industry during the past five years. Faced with falling or stagnant disposable income, consumers cut spending on nonessential leisure goods like movie tickets. However, the unprecedented success of *Avatar*, both in terms of gross box office and higher-priced 3-D ticket sales, created a strong 3.0% jump in revenue in 2009, exemplifying the powerful influence of a single blockbuster on industry performance, even in the midst of recession. As such, IBISWorld expects industry revenue to grow at a weak average annual rate of 1.4% during the five years to 2013, including a moderate bump of 2.0% in 2013 in response to improving economic conditions.

External competition from substitute entertainment products and other ways of accessing films, including online video, on-demand services, internet-enabled TVs, smartphones and tablets, has increasingly shifted movie consumption away from theaters. Lower admissions during the past five years have caused a steady decline in the number of companies, and larger firms have consistently closed underperforming establishments. Operators are concentrating their screens in fewer but larger megaplexes, where costs can be spread over higher admissions and concessions sales. As such, profit has regained much of the ground lost since 2008, when it fell to a low of 0.2% of revenue, and is expected to reach 4.2% of revenue in 2013.

Exhibitors are also focusing on upgrading their screens and auditoriums with digital projection systems and stadium-style seating, capital investments that are expected to continue over the next five years. During the five years to 2018, the industry will benefit from rising consumer disposable income, which will encourage consumers to spend on entertainment like trips to the movies. In addition, blockbuster movies – especially ones that offer 3-D screenings – will be able to temporarily reduce falling admissions, as did *Avatar* in 2009. Ultimately, though, IBISWorld anticipates competition from online video access to largely mitigate these positive trends. As such, the Movie Theaters industry is forecast to grow slowly at an average annual rate of 1.3% to reach $15.5 billion in 2018.

Sensitivity Risk

IBISWorld has identified and weighted the most significant external factors affecting industry performance. These factors are scored separately, then weighted and combined to derive the sensitivity risk score.

Sensitivity component	Weight	Score
Per capita disposable income	35%	3.77
External competition for the Movie and Video Distribution industry	25%	6.50
Technological change for Television Networks and Providers	15%	3.00
Number of broadband connections	15%	2.12
Number of K-12 students	10%	2.70
Sensitivity risk		**3.98**

Per capita disposable income

Estimated Value in 2013: $33,050

2008-2013 Compound Growth: -0.1%

Forecast Value for 2018: $37,161

2013-2018 Compound Growth: 2.4%

Per capita disposable income determines an individual's ability to purchase goods or services. It is calculated by taking income earned from all sources (wages, government transfers, rental income etc) minus taxes, savings and some non-tax payments (e.g. fines, forfeitures and donations) and dividing by the total US population. The data for this report is sourced from the Bureau of Economic Analysis and presented in chained 2005 dollars.

Current Performance

The financial meltdown and subsequent recession reversed a seventeen year streak of positive growth in disposable incomes. The primary drag on income was felt by millions of Americans who lost their jobs or were unable to join the workforce for the first time. Job losses started in the financial sector but quickly spread from Wall Street to Main Street as credit tightened and businesses saw demand wither in the face of uncertainty. The national unemployment rate climbed from 4.6% in 2007 to 10.6% in early 2010, crippling spending power across the United States and through all income brackets. Even Americans who retained their jobs were afflicted by stagnant wages, furloughs and diminished nest eggs. Given the possibility of an even bleaker future, individuals increased their savings rate from a low of 1.4% in 2005 to 5.9% in 2009, reducing the amount available for purchasing goods or services.

The impact of job losses and higher savings were partially offset by a larger safety net, with government assistance programs extended and expanded to unprecedented levels. However, these programs could only partially negate the impact of the economic collapse, with disposable income growth slipping by 3.6% in 2009. But conditions stabilized in 2010, allowing some of the storm clouds hanging over disposable income levels to retreat. Firstly, corporate profits surged, generating profits for owners and restoring battered stock portfolios. This eased pressure on businesses to keep wage costs down and boosted

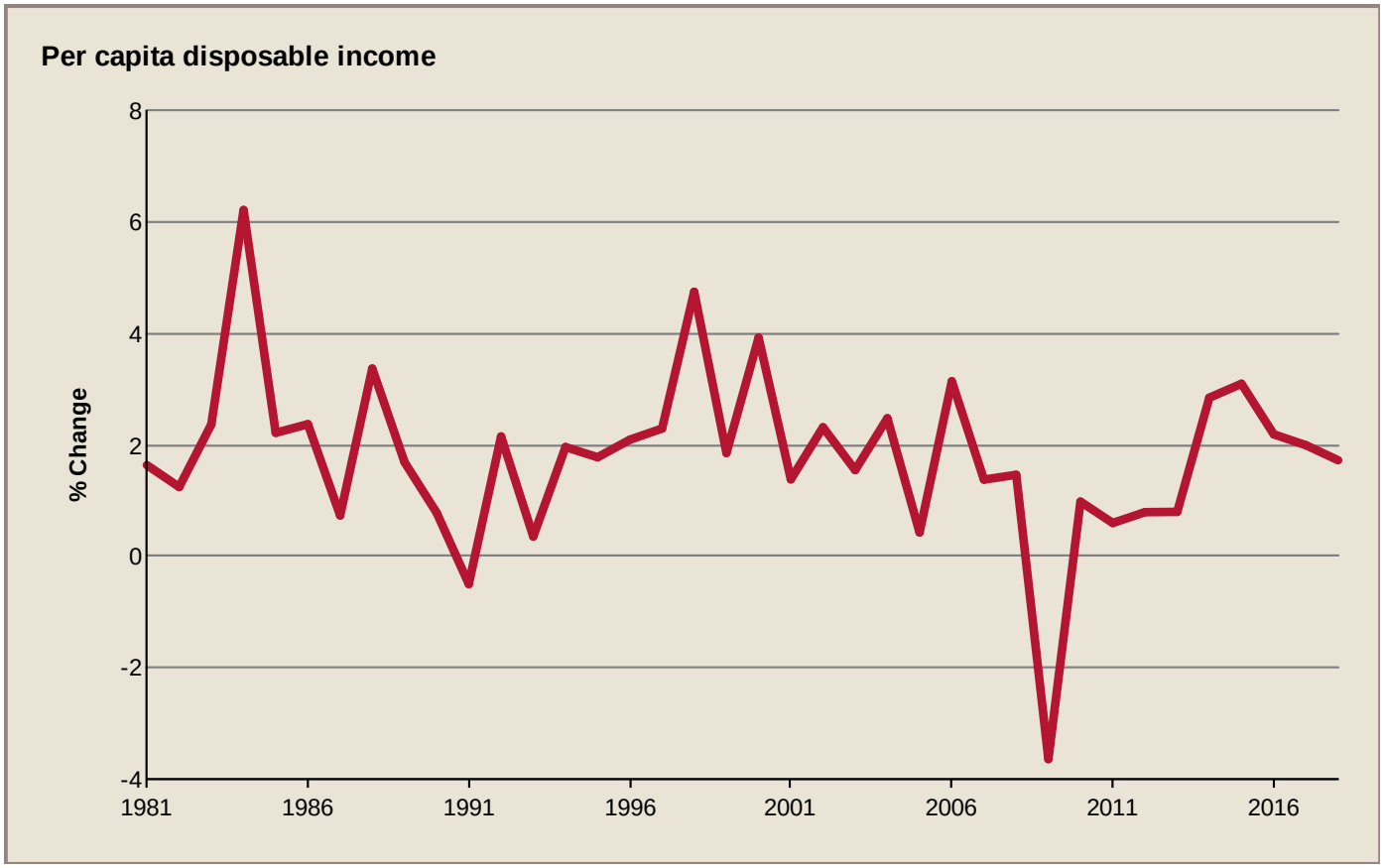
consumer sentiment, leading to both higher earned incomes and receding savings rate. Consequently, per capita disposable income edged up by an anemic but positive 1.0% in 2010. These initial signs of recovery were expected to make further gains in 2011 and 2012 paving the way for a more robust rebound. However, the rebound was limited by unrelenting unemployment, a housing market trapped in the doldrums and by public debt domestically and abroad. Consequently, growth in disposable incomes weakened to 0.6% and 0.8% in 2011 and 2012, respectively. Rising prices in 2013 will continue to pressure growth in real disposable income, particularly for those in the lower income group. During the year, per capita disposable income is expected to increase 0.8% to $33,050.

Outlook

IBISWorld expects economic indicators that drive disposable income levels to steadily strengthen over the outlook period. A greater number of Americans returning to work will combine with improved housing and stock values to make consumers willing to spend on purchases delayed during the recession. However, future growth will be tempered relative to the boom leading up to the recent downturn. This is because the belief in ever rising house prices and unsound lending practices that created the bubble will not be present to inflate natural growth. Consequently, positive job growth and lower savings will lead positive growth, but at a slower annualized rate compared to the five years to 2006. Furthermore, growth in per capita disposable income will be hindered by the inevitably higher tax rates needed to balance the fiscal deficit and pay for the dual stimulus packages. The wealthiest individuals and households will generate the slowest real income growth from 2014 through 2018 as a consequence. Rising prices for high-end luxury goods and increasing mortgage costs as houses become less affordable will also contribute to slowing growth for the wealthier population.

Data Volatility

Per capita disposable income displays a low level of volatility. It is important to note that this measure looks only at income available for spending, after taxes and savings. This feature has allowed for American spending income to be extremely stable over the long term as individuals are able to tap into savings accounts and alternate income streams (e.g. unemployment payments from the government) to maintain their lifestyles in the short term. Additionally, due to the progressive income tax in the US, individuals with lowered incomes pay a smaller proportion in taxes and thus retain a greater share for potential expenditures. Meanwhile, in more prosperous times, these factors work in reverse and constrain disposable income from rising quickly.


Per capita disposable income
% Change
8
6
4
2
0
-2
-4
1981
1986
1991
1996
2001
2006
2011
2016

Year	$	% Change
1981	19,160	
1982	19,399	1.25
1983	19,859	2.37
1984	21,094	6.22
1985	21,562	2.22
1986	22,074	2.37
1987	22,236	0.73
1988	22,986	3.37
1989	23,375	1.69
1990	23,558	0.78
1991	23,441	-0.50
1992	23,946	2.15
1993	24,032	0.36
1994	24,504	1.96
1995	24,940	1.78
1996	25,463	2.10
1997	26,048	2.30
1998	27,286	4.75
1999	27,793	1.86

Year	$	% Change
2000	28,885	3.93
2001	29,285	1.38
2002	29,964	2.32
2003	30,429	1.55
2004	31,184	2.48
2005	31,318	0.43
2006	32,303	3.15
2007	32,749	1.38
2008	33,229	1.47
2009	32,020	-3.64
2010	32,335	0.98
2011	32,529	0.60
2012	32,788	0.80
2013	33,050	0.80
2014	33,992	2.85
2015	35,046	3.10
2016	35,815	2.19
2017	36,530	2.00
2018	37,161	1.73

External competition for the Movie and Video Distribution industry

Increasingly, cable and satellite TV, as well as other entertainment products, are appearing in households and diminishing demand for the Movie Theater industry. External competition is expected to increase during 2013, reflecting a potential threat to the industry.

Technological change for Television Networks and Providers

As movie theaters continue to switch to digital and 3-D projection systems, industry revenue increases because higher ticket prices can be justified. Advances in movie-making and projection technologies have helped to stimulate demand for cinematic screenings. This driver is expected to increase during 2013.

Number of broadband connections

Estimated Value in 2012: 237.2 million connections

2007-2012 Compound Growth: 16.4%

Forecasted Value for 2017: 326.5 million connections

2012-2017 Compound Growth: 6.6%

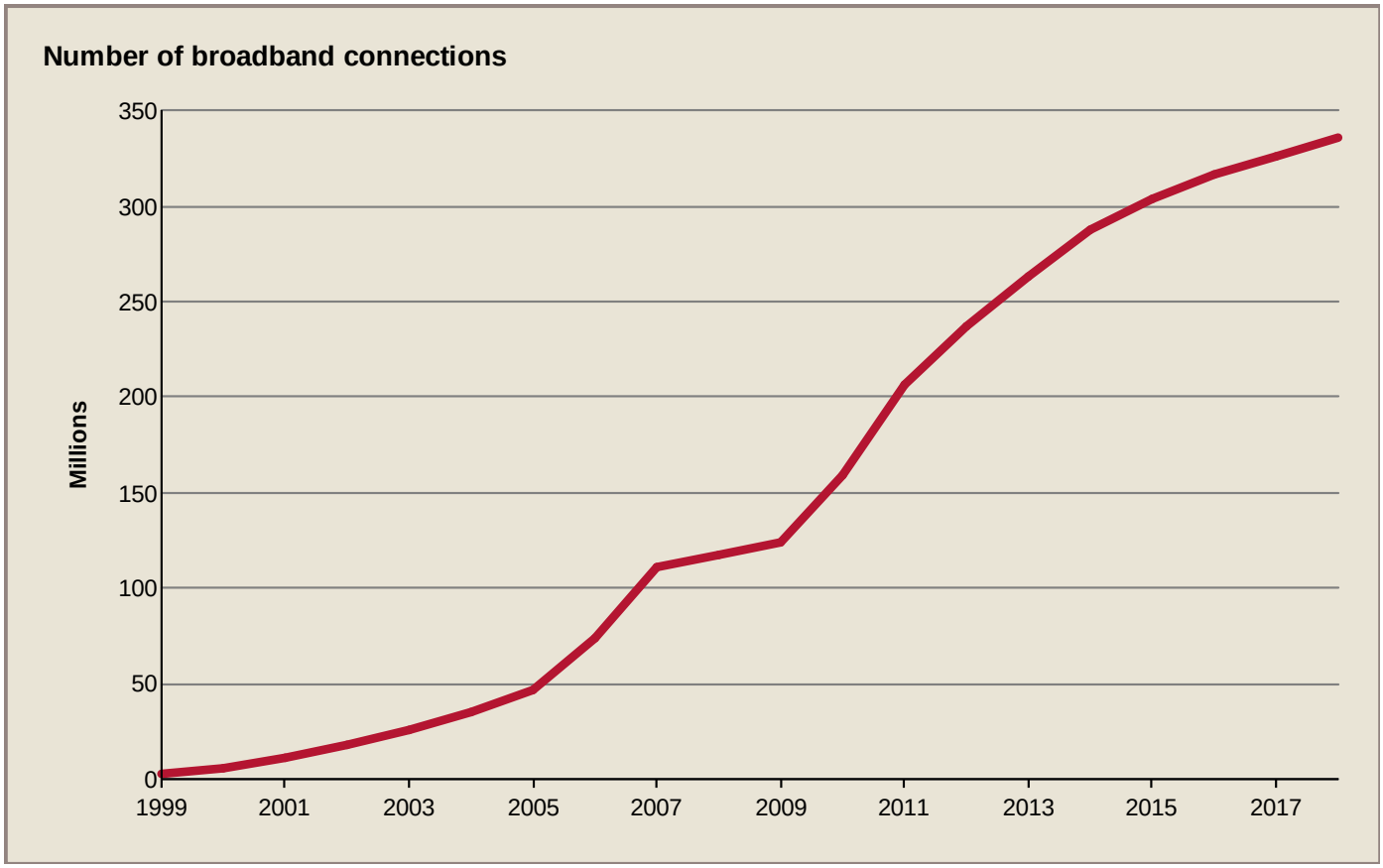
The number of broadband connections in the United States represents the total number of internet connection points with speed over 200 kilobits per second in at least one direction. The data includes both households and businesses that have broadband connections. Yearly data represents the average of semi-annual data released by the Federal Communications Commission.

Current Performance

The number of broadband connections skyrocketed from 1999 through 2007, seeing yearly growth rates around 50%, due to large increases in the percentage of households with internet access. Declining prices for broadband service has also contributed to the technology's adoption as broadband internet access has matured. Because many broadband providers can provide speeds up to 15 megabytes per second, consumers can now turn to the internet for easy access to all of their media needs, such as music, videos and software, further driving broadband popularity. The proliferation of smartphones has also contributed to the swelling of total connections, as they offer broadband-quality service that consumers can carry with them. The rate of expansion tapered off during the recession, with growth of 5.8% and 5.5% in 2008 and 2009, respectively. The recession forced households to either put off new connection purchases or consolidate the number of connections they were paying for. Coupled with strong growth in smartphone adoption, this factor caused the number of broadband connections to jump 28.4% and 29.8% in 2010 and 2011, respectively. Strong growth will continue over 2012, albeit at a slower pace than in 2011 due to the approaching market saturation. Consequently, the number of broadband connections is expected to grow 14.8% in 2012 to reach 237.2 million connections.

Outlook

In the five years up to 2017, IBISWorld projects the growth rate of broadband connections to slow. The return to steady economic growth in 2013 will help further the current smartphone and tablet computer boom. However, any further improvements in internet speed will only encourage those already with broadband connections to upgrade rather than inducing large numbers of consumers without high-speed internet to sign up, which is what happened prerecession. But the price of broadband internet is expected to fall over the next five years, and that, along with population growth, will still cause minor increases in the total number of broadband connections. As a result, IBISWorld projects an annualized growth rate of 6.6% to 326.5 million connections in the next five years to 2017.



Year	Millions	% Change
1999	2.8	
2000	5.7	103.57
2001	11.2	96.49
2002	18.0	60.71
2003	25.8	43.33
2004	35.2	36.43
2005	46.7	32.67
2006	73.8	58.03
2007	111.1	50.54
2008	117.5	5.76

Year	Millions	% Change
2009	124.0	5.53
2010	159.2	28.39
2011	206.6	29.77
2012	237.2	14.81
2013	263.3	11.00
2014	287.8	9.30
2015	303.9	5.59
2016	316.7	4.21
2017	326.2	3.00
2018	336.0	3.00

Number of K-12 students

Estimated Value in 2012: 56.063 million students

2007-2012 Compound Growth: 0.20%

Forecast Value for 2017: 58.129 million students

2012-2017 Compound Growth: 0.70%

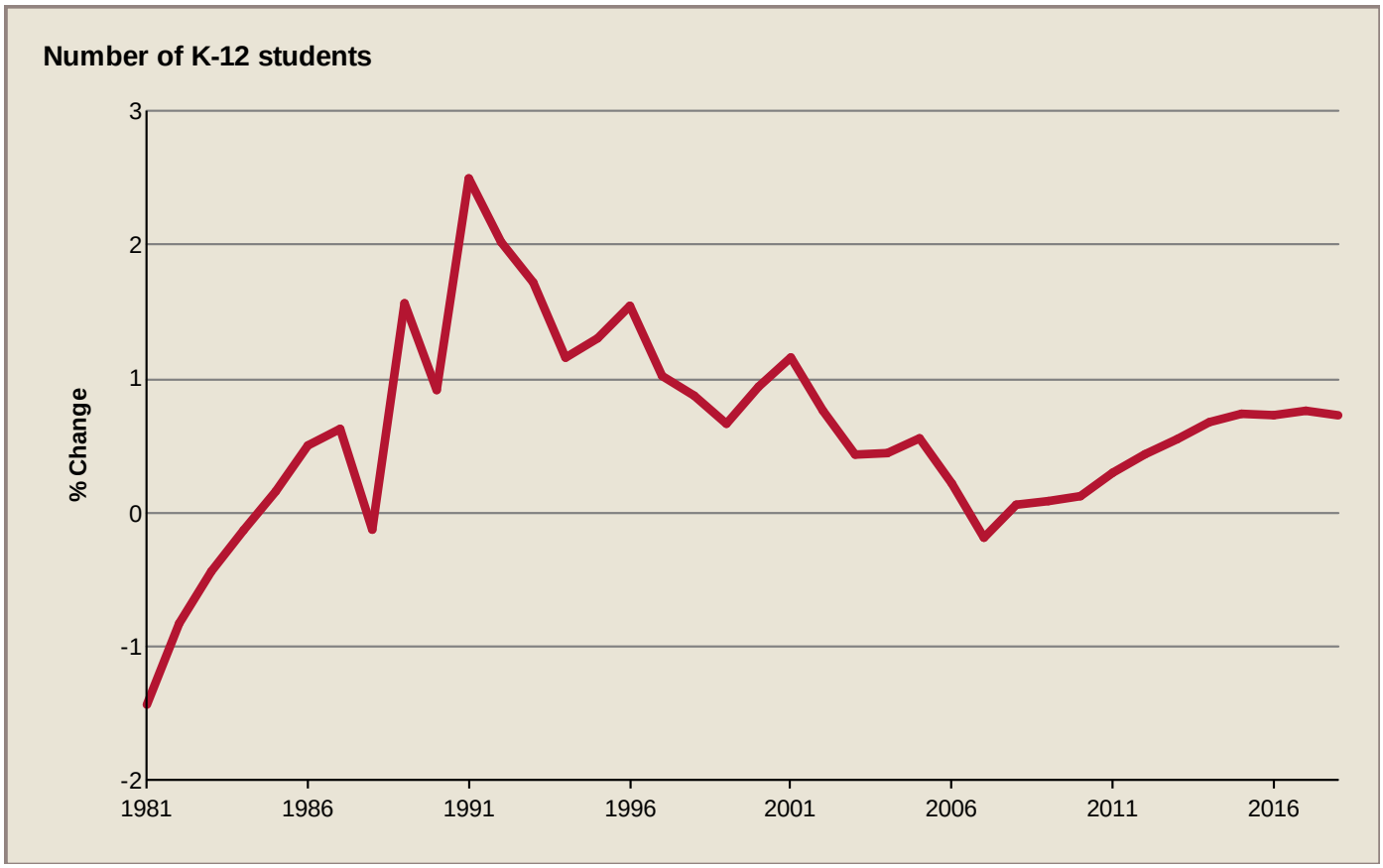
Number of K-12 students represents the total student enrollment in both public and private kindergarten, elementary and secondary schools. Data and forecasts are sourced from the US Department of Education's National Center for Education Statistics.

Current Performance

Elementary and secondary school enrollment grew in the five years up to 2012, albeit slower than total population growth. This is due to declining birth rates since 1990 resulting in low growth of the school age (5-18) demographic. High school retention rates have marginally improved over this same period, bolstering growth slightly.

Outlook

IBISWorld forecasts the birth rate to increase and high school retention rates to continue to improve over the five years to 2017. These factors will cause the student growth rate to increase over the outlook period. The growth rate, which is expected to rise 0.7% annually in the five years to 2017, will pass the expected annual population growth rate during each of the next five years.



Year	Million people	% Change
1981	45.544	
1982	45.166	-0.83
1983	44.967	-0.44
1984	44.908	-0.13
1985	44.979	0.16
1986	45.205	0.50
1987	45.488	0.63
1988	45.430	-0.13
1989	46.141	1.57
1990	46.564	0.92
1991	47.728	2.50
1992	48.694	2.02
1993	49.532	1.72
1994	50.106	1.16
1995	50.759	1.30
1996	51.544	1.55
1997	52.071	1.02
1998	52.526	0.87
1999	52.875	0.66

Year	Million people	% Change
2000	53.373	0.94
2001	53.992	1.16
2002	54.403	0.76
2003	54.639	0.43
2004	54.882	0.44
2005	55.187	0.56
2006	55.307	0.22
2007	55.203	-0.19
2008	55.235	0.06
2009	55.282	0.09
2010	55.350	0.12
2011	55.515	0.30
2012	55.757	0.44
2013	56.063	0.55
2014	56.442	0.68
2015	56.859	0.74
2016	57.273	0.73
2017	57.709	0.76
2018	58.129	0.73

IBISWorld Industry Risk Scoring Methodology

What is Industry Risk

IBISWorld Industry Risk evaluates the inherent risks associated with hundreds of different industries in the United States. Industry Risk is assumed to be "the difficulty or otherwise of the operating environment". This approach is new in that it analyses non-financial information surrounding each industry.

The Industry Risk score is forward looking, and the score looks at expected Industry Risk over the next 12-18 months. The methodology is based on industry classifications and is designed to identify and quantify risks inherent in specific industries both now and into the 12 month forecast.

Industry-based information would, for example, enable the examination of a loan book (portfolio) with regards to risk, which would enable a more sophisticated assessment of risk spread and pricing to risk. Alternatively, individual exposures can be better evaluated using an assessment of structure and key drivers of change in the industry of the exposure.

Methodology

To calculate the overall risk score, IBISWorld assesses the risks pertaining to industry structure (structural risk), expected performance (growth risk) and economic forces (sensitivity risk). Risk scores are on a scale of 1 to 9, where 1 represents the lowest risk and 9 the highest. The three types of risk are scored separately, then weighted and combined to derive the overall risk score.

Structure Score: An industry's structural score measures the impact of the fundamental characteristics common to all industries. These seven components are scored separately, then weighted and combined to derive the structural risk score. This component contributes 25% of the overall score.

Growth Score: The growth risk score evaluates forecasted industry revenue growth against past performance as well as expected growth for all other industries. A high industry growth rate is associated with lower risk for operators in that industry. This component contributes 25% of the overall score.

Sensitivity Score: IBISWorld has identified and weighted the most significant external factors affecting industry performance. These factors are scored separately, then weighted and combined to derive the sensitivity risk score. Examples include input costs, number of housing starts, commodity prices, etc. This component contributes 50% of the overall score.

Risk Levels

Risk Score	Level of Risk
1 - 3	Very Low
>3 - 4.1	Low
>4.1 - 4.7	Medium - Low
>4.7 - 5.3	Medium
>5.3 - 5.9	Medium - High
>5.9 - 7	High
>7 - 9	Very High

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