



2010 Business Outlook

NJ is still 'bumping along the bottom' of a deep recession, and businesses are not optimistic for a quick turnaround in 2010.

By Christopher Biddle

Summary of Findings

New Jersey's recession deepened in 2009 as individual companies, faced with plunging sales and profits, made dramatic cuts in spending and employment.

The more than 1,400 New Jersey employers who painted this picture in their responses to NJBIA's annual fall survey also expressed little optimism for a quick turnaround in the year ahead.

A small manufacturer of precision metal products in Passaic County summed it up this way: "We're still bumping along the bottom."

More than 1,400 NJBIA member companies, representing every major industry and all 21 New Jersey counties, responded to the 2010 Business Outlook Survey, now in its 51st year. It remains the state's longest running and most reliable barometer of business opinion about present and future business conditions in New Jersey.

The findings of the current survey give weight to the view that this is New Jersey's worst recession since World War II, and they provide only faint hope for a modest turnaround in the year ahead.

Survey respondents collectively reported the biggest drop in survey-data history for their individual sales, profits and spending in 2009, while saying they were more likely than not to keep a tight lid on hiring and spending in 2010.

"Our member companies don't believe the economy is going to bounce back quickly from this terrible recession we're in," said NJBIA President Philip Kirschner.

Respondents also voice unhappiness with New Jersey's business climate, giving record low marks to New Jersey as a place for expansion of their business facilities.

Sales, Profits & Spending

Sales, profits and purchases at individual companies took a nosedive in 2009 to the lowest levels since this survey question was first asked 12 years ago. The outlook for these core indicators of individual company performance remains weak and at

low recession levels. (See Chart 1 and Table 1.)

Sales—Seventy-one percent of companies said their sales shrank in 2009, with at least two-thirds of this group reporting a double-digit decline in sales revenues. Seventeen percent said sales improved, while 13 percent said they remained about

the same. As shown in Table 1, with the exception of the healthcare industry, which saw modest improvement in 2009, all other major industries reported that the sales slump deepened.

Looking ahead, 40 percent of companies said they expect their sales to improve moderately in the

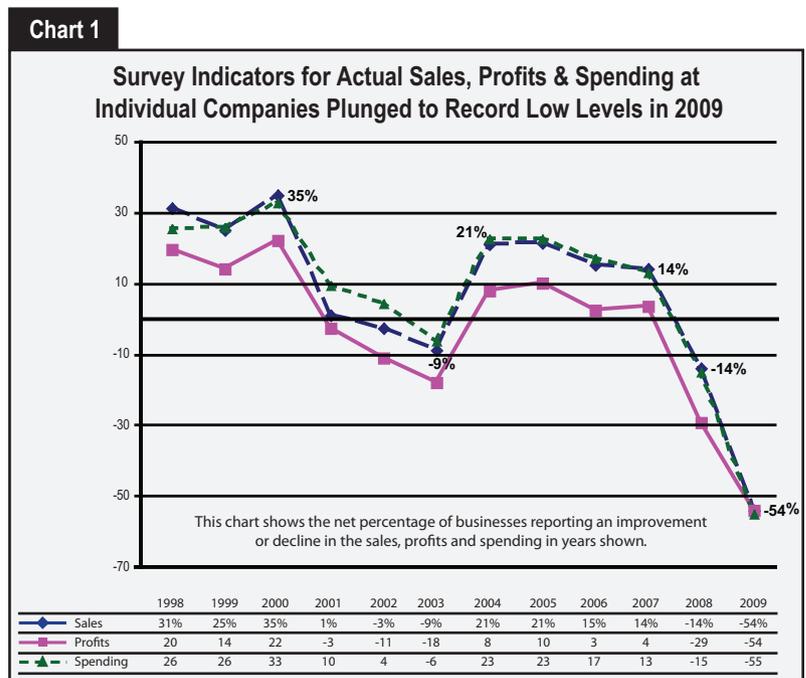


Table 1

Sales Slump Deepened for All Major Industries Except Healthcare in 2009
(This table shows the percentage of companies reporting that sales revenues were the same and/or worse in years shown.)

Actual sales (same/worse)	Hsg Const.	Other Const.	Regulated Utilities	Finance, Insur., RE	Healthcare	Manuf. Durables	Manuf. Nondur.	Retail	Services	Transpor.	Wholesale
2008	56%	26%	0%	7%	na	8%	9%	41%	7%	0%	13%
2009	68	71	41	46	na	66	51	58	45	67	75
Percentage point change between 2008 and 2009	-12	-45	-41	-38	7	-58	-42	-17	-38	-67	-61

The Sales Outlook for 2010 Remains Weak or Worse for Most Industries
(This table shows the net percentage of companies expecting sales revenues to rise or fall in years shown.)

Anticipated sales	Hsg Const.	Other Const.	Regulated Utilities	Finance, Insur., RE	Healthcare	Manuf. Durables	Manuf. Nondur.	Retail	Services	Transpor.	Wholesale
2009	-16%	-3%	18%	10%	29%	12%	24%	-10%	15%	9%	23%
2010	5	-8	-18	13	5	7	15	4	19	-6	3
Percentage point change in outlook	21	-5	-36	3	-24	-5	-9	14	4	-15	-20

year ahead, 32 percent expect sales to fall, and 28 percent expect them to remain flat. This leaves a net 8 percent of companies expecting improvement. While this outlook is more positive than negative, it remains very subdued and marginally worse than it was one year ago.

(See Business Outlook Summary Table on page six of this report.)

While the outlook for sales in construction, finance/insurance/real estate, retail and services is somewhat better than it was in 2009, the outlook has deteriorated, in some instances dramatically, for regulated utilities, healthcare, manufacturing, transportation and wholesale. (See Table 1)

Profits—Company profits were also hit hard over the past year. Seven in ten companies said their profits fell in 2009, with two-thirds of this group reporting a double-digit decline.

Looking ahead to 2010, the outlook for profits is flat, with 36 percent of companies expecting their profits to rise, 34 percent expecting them to fall, and 30 percent expecting no change. This outlook is marginally worse than it was last year. (See Business Outlook Summary Table on page six of this report.)

Purchases — In order to offset falling revenues, New Jersey employers vigorously reined in spending in 2009. Sixty-nine percent of companies said they spent less on purchases in 2009, 17 percent the same amount, and 14 percent more. This is by far the lowest level of spending reported in the 12 years since this question was first asked.

Thirty-six percent of companies anticipate keeping their purchases at current levels in 2010, about 35 percent anticipate spending less, and 30 percent anticipate spending more. As shown in Chart 2, this leaves a net purchasing outlook of -5 percent, which is somewhat worse than it was a year ago.

Employment

2009 Actual—Private-sector employment took a nosedive in 2009, and a weak economy is expected to dampen private-sector job growth next year.

A record 48 percent of survey respondents said they reduced employment levels at their companies in 2009, while only 8 percent reported hiring more workers. This is the most negative

Chart 2

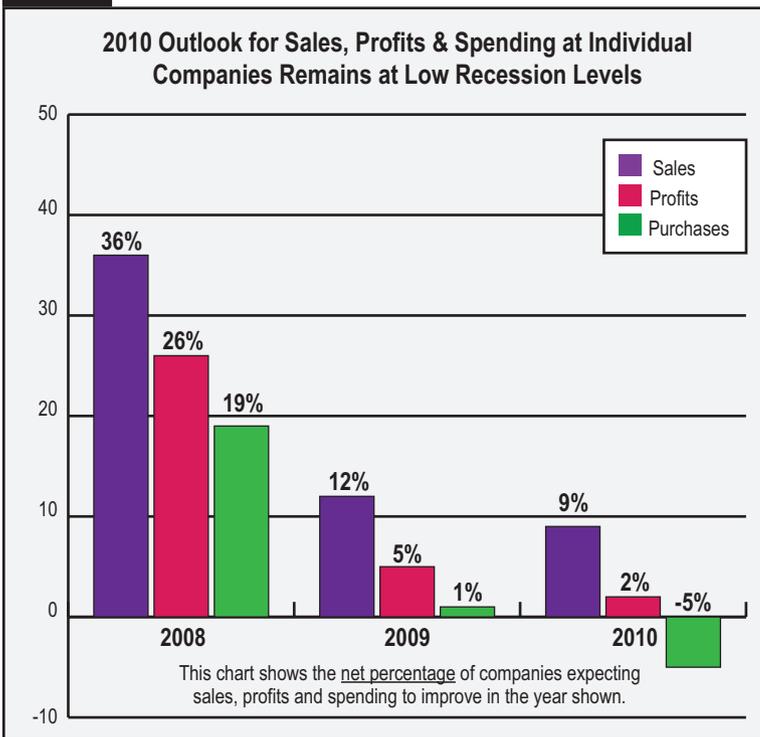
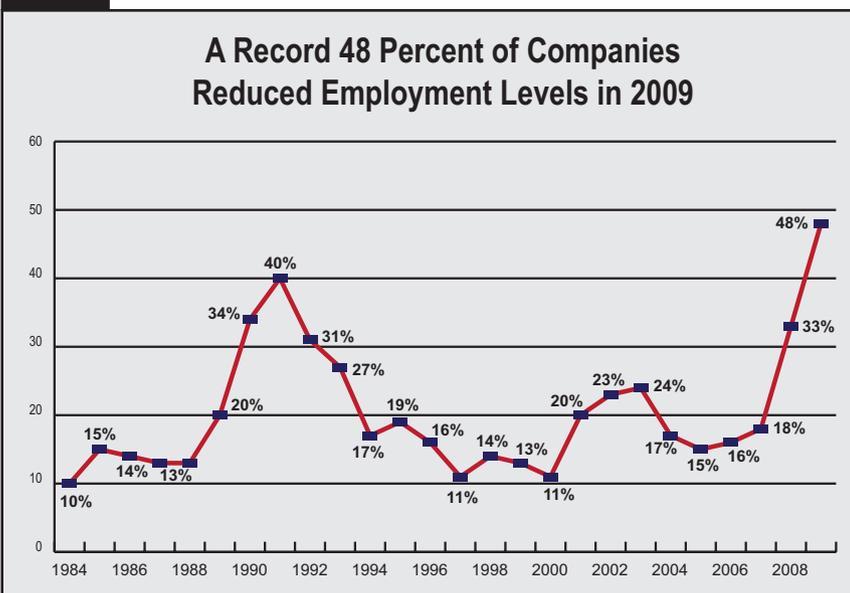


Chart 3



report on actual employment conditions in 26 years of survey data. (See Chart 3 on previous page.)

The previous low point for this employment indicator was reached during the 1989-92 recession, which until now regional economists had said was the worst recession since the Great Depression. This recession is now a contender for the title of “worst.”

To put the employment situation in context, New Jersey lost close to 170,000 private-sector jobs in the first 21 months of this recession (through October 2009), and its unemployment rate reached as high as 9.8 percent, the highest level in 32 years.

2010 Outlook—A majority of survey respondents expect employment at their companies to remain flat or to fall in 2010.

Sixteen percent of survey respondents expect to add jobs over the next 12 months, and 17 percent expect to cut jobs. Sixty-seven percent said they expect to maintain employment at current levels. This produces a net employment outlook of -1 percent.

Only twice before in the last 26 years has the survey’s employment outlook been so negative, in 2009 and in 1991. (See Chart 4)

Business Costs

Salaries & Wages — A majority of companies either did not give pay raises or lowered pay rates in 2009. A majority also said they do not expect to give pay raises in 2010. (See Table 2)

When asked “what average pay increase did you give your employees in 2009,” 69 percent of respondents reported keeping pay rates level (55%) or lowering them (14%). This is the highest percentage of companies not giving pay raises in

the nine years since this question was first asked.

Thirty-one percent of employers reported giving pay increases in 2009, the lowest percentage in nine years.

The outlook for pay raises has improved moderately, with 52 percent of companies expecting to keep pay rates at current levels, 43 percent expecting to give increases, and 5 percent expecting to pay less.

Fringe Benefits —A smaller proportion of employers expect their employee benefit costs to rise in 2010 than did in previous years.

Sixty-one percent of companies said their benefit costs will increase in 2010, well below the average of 73 percent anticipating higher benefit costs over the previous 12 years.

Twenty-eight percent said their benefit costs will remain about the same and 11 percent said they will fall. This is more than twice the average (5 percent of respondents) anticipating a decline in benefit costs over the previous 12 years.

A majority of employers antici-

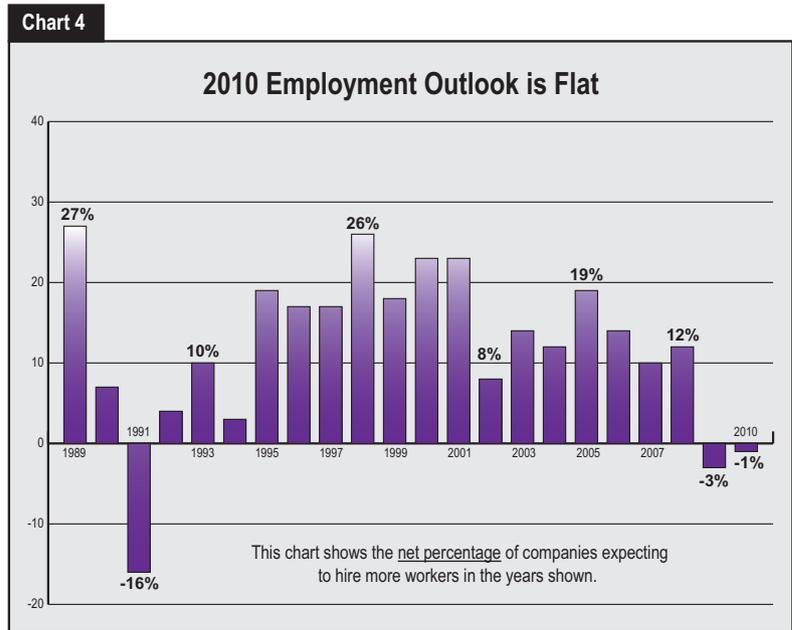


Table 2

Actual Pay Changes in 2009 & Outlook for Pay in 2010		
	2009 Actual	2010 Outlook
% Distrib. of Responses		
Lower Pay	14%	5%
Same Pay	55	52
Higher Pay	31	43
% Distrib. of Higher Pay		
1+%	6	14
2+%	9	13
3+%	9	10
4+%	4	3
5+%	2	2
6% or more	2	1

patting higher benefit costs very likely provide health insurance coverage for their employees, a cost that continues to rise at more than double the rate of general inflation.

The percent distribution of respondents anticipating benefit-cost increases is as follows: 12 percent of respondents, a 1-3% increase; 17 percent, a 4-5% increase; 18 percent, a 6-10% increase; and 14 percent, a cost increase of 11% or more.

Capital Spending—Employers reduced their investments in programs to boost productivity in 2009, with 51 percent saying they invested in productivity enhancements and 49 percent saying they did not.

This is the smallest percentage of survey respondents to invest in productivity since the question was first

asked in 2001.

When asked for their capital spending plans in the year ahead, 52 percent said they would spend the same as they did in 2009, 24 percent said they would spend less, and 23 percent said they would spend more. This is the lowest level of anticipated capital spending since the question

was first asked in 2004. (See Table 3 on next page.)

Outlook for “Your Industry”

A faint bright spot in the 2010 business outlook can be found in respondents’ view of their own industries.

For the first time in five years, the overall outlook for companies’ own industries has climbed into positive territory, as shown in Chart 5.

Thirty-four percent of companies believe their industry conditions will improve in 2010, 35 percent believe conditions will remain about the same, and 31 percent believe conditions will deteriorate. The net percentage expecting a change for the better, as shown in Chart 5, is 3 percent. The move into positive territory is small, but it is positive nonetheless.

A detailed analysis of the outlook by industry (see Table 4) indicates that companies in four industries hit hard by this recession—namely housing construction, manufacturing, retail sales and transportation—believe the worst is behind them.

Take, for instance, the outlook for housing construction. Survey respondents in that industry are evenly divided between those expecting conditions to improve in 2010 (36%) and those expecting conditions to worsen (36%), with the rest (27%) expecting conditions to remain about the same.

The result is a “net” outlook of zero percent, which is neutral. While this does not argue for a housing industry turnaround, it still represents a big improve-

Chart 5

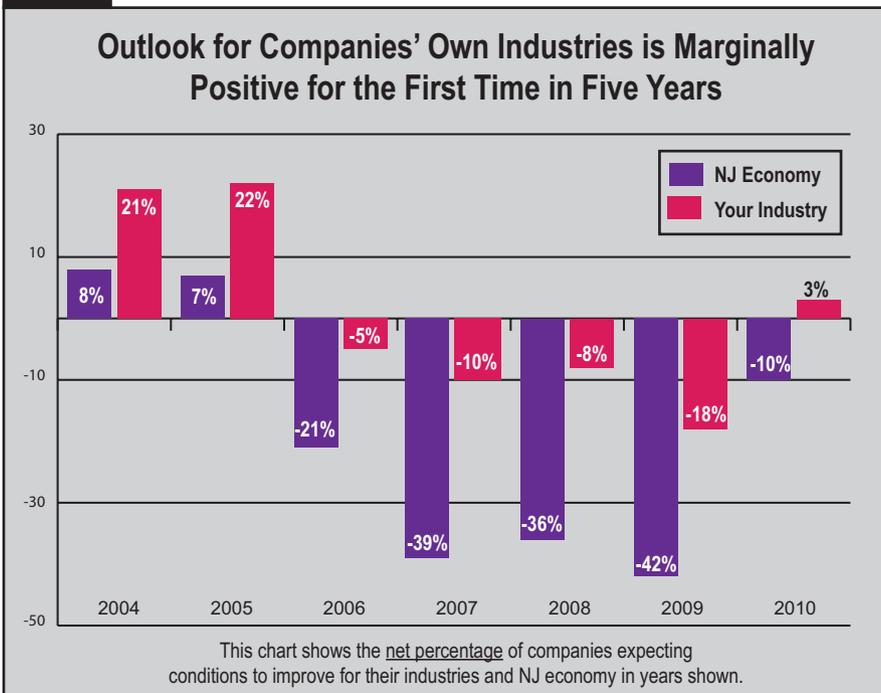


Table 4

Major Industry Sectors	2010 Outlook Details			Net % of Cos. Expecting Conditions to Improve in Their Industries		Percentage Point Change: 2009-2010
	Better	Same	Worse	In 2009	In 2010	
Communications & Utilities	18%	53%	29%	0%	-12%	-12%
Construction, housing	36	27	36	-44	0	44
Construction, other	34	30	36	-25	-1	24
Finance, Insurance & Real Estate	37	38	25	-14	12	26
Healthcare	27	31	42	0	-16	-16
Manufacturing, durables	39	31	31	-10	8	18
Manufacturing, nondurables	34	36	30	-24	4	28
Retail Trade	34	37	29	-39	5	44
Services	32	40	28	-13	4	17
Transportation	38	36	26	-13	13	26
Wholesale Trade	39	30	31	-14	9	23
All respondents	34	35	31	-18	3	21

ment from the 2009 outlook survey, when 56 percent believed conditions would worsen and only 12 percent believed they would improve, leaving a net negative outlook of -43 percent.

The outlook for the US and New Jersey economies has also improved markedly, as shown in Chart 5 on page five and the Business Outlook Summary Table on page six. But the outlook for the state economy is still more negative than positive.

This particular survey finding raises a critical question: Is this belief by many companies that the worst is over based on real, ground-level conditions (for example, an increase in customer orders for 2010) or is it simply based on news reports and anecdotal evidence.

NJ Business Climate

Just 11 percent of survey respondents said New Jersey is a good place for expansion of their business facilities, a record low. This is down from 50 percent nine years ago and a high of 67 percent in 1987. (See Chart 6 on next page.)

Conversely, 52 percent said New Jersey is a poor place for expansion of business facilities, and 37 percent said New Jersey is fair-to-average.

Not surprisingly, given this negative view of the state's business climate, respondents ranked the overall cost of doing business in New Jersey as their most troublesome problem, followed by health insurance costs and property taxes. The fourth and fifth ranked problems were state taxes and state regulations, respectively.

Other clues to business malaise about New Jersey's business climate can be found in answers to an annual survey question about whether the state is better or worse in a number of important measures.

SUMMARY

Business Outlook Summary Table

EXPECTATIONS FOR:	2002	2003	2004	2005	2006	2007	2008	2009	2010
-----Percent Distribution of Responses-----									
US ECONOMY									
Better	25%	38%	47%	42%	21%	18%	20%	25%	42%
Same	33	39	38	43	40	48	43	33	39
Worse	42	23	16	16	39	34	37	42	19
Net better*	-17	15	32	26	-18	-15	-17	-17	23
NJ ECONOMY									
Better	22%	28%	34%	31%	18%	12%	13%	15%	27%
Same	36	40	41	45	42	37	38	29	36
Worse	42	31	26	24	39	51	49	57	37
Net better*	-21	-3	8	7	-21	-39	-36	-42	-10
YOUR INDUSTRY									
Better	28%	36%	40%	41%	27%	24%	25%	22%	34%
Same	39	41	41	41	41	42	42	37	35
Worse	33	23	19	19	32	34	33	40	31
Net better*	-6	13	21	22	-5	-10	-7	-18	3
SALES									
More	42%	50%	50%	56%	49%	43%	57%	41%	40%
Same	27	25	27	26	26	28	22	30	28
Less	31	26	23	18	25	29	21	29	32
Net more*	12	24	26	38	23	15	36	12	9
PROFITS									
More	37%	42%	44%	49%	43%	37%	51%	39%	36%
Same	27	25	28	26	25	28	25	28	30
Less	36	33	28	26	32	36	24	33	34
Net more*	0	10	16	23	10	2	26	5	2
PURCHASES									
More	35%	39%	40%	46%	42%	36%	42%	33%	30%
Same	39	37	37	36	35	37	34	35	36
Less	26	24	24	18	23	27	23	32	34
Net more*	8	16	16	28	19	8	19	1	-5
EMPLOYMENT									
Increase	21%	24%	23%	27%	24%	21%	25%	17%	16%
Same	66	66	66	66	66	67	61	64	67
Decrease	13	10	11	7	10	12	14	19	17
Net increase*	8	14	12	20	14	10	12	-3	-1

*"Net better" (or "net increase" or "net more") is calculated by subtracting the percentage of respondents anticipating worsening conditions from the percentage anticipating improved conditions.
Note: Changes calculated before rounding. Totals may not equal 100 percent.

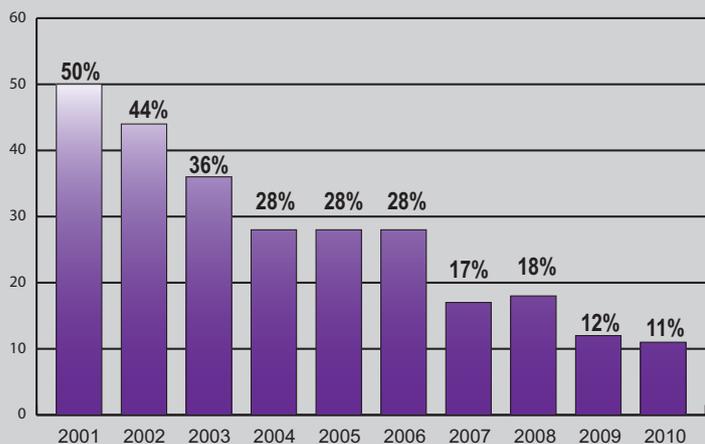
Table 3

Capital Spending Outlook

	2003	2004	2005	2006	2007	2008	2009	2010
% of cos. planning to spend:								
Same	49%	49%	50%	50%	51%	49%	50%	52%
Less	19	16	11	14	16	14	22	24
More	32	36	39	37	32	36	28	23
% distrib. of "more"								
1-5% increase	20	21	23	21	18	19	16	14
6-10% increase	8	10	10	10	8	11	7	6
11% or more	4	6	6	6	6	7	5	4

Chart 6

Only 11 Percent of Companies Say NJ Is a Good Place In Which to Expand their Business Facilities



In the current survey, large majorities of respondents agreed that New Jersey is worse than other states in taxes and fees (91%), controlling government spending (86%), attracting new business (79%), controlling healthcare costs (77%), its attitude toward business (71%), the cost of regulatory compliance (67%), and controlling labor costs (65%).

On the other side of the ledger, respondents said New Jersey was better or comparable to other states in the quality of its public schools (NJ better, 42%; NJ about the same, 47%), the quality of its workforce (28% better, 57% same), protecting the environment (28% better, 58% same), and as a place to live (23% better, 42% same).

Conclusion

As we approach the end of the second year of this deep recession, it is disconcerting to find that business confidence among New Jersey’s private-sector employers remains stuck at recession levels.

Instead of offering hope for a quick rebound in 2010, the findings of NJBIA’s 2010 Business Outlook Survey provide compelling evidence that the state economy is still bumping along a deep recession bottom. And the survey offers only faint hope that we might see the start of a modest turnaround over the next six to 12 months.

The dismal state of the New Jersey economy puts the focus squarely on the one thing state government can do to improve the situation: improve the business climate.

This means lowering taxes, removing burdensome regulations that are obstacles to business growth, and, in general, creating a less costly and friendlier environ-

ment in which to do business and create private-sector jobs.

About this Survey

NJBIA’s 51st annual Business Outlook Survey questionnaire was sent to a random sample of the Association’s 22,000 member companies in September 2009. The responses are based on the first 1,425 responses.

Most respondents were small companies, with 71 percent employing 1-24 employees; 11 percent, 25-49 employees; 8 percent, 50-99 employees; and 10 percent, 100 employees or more. Responses came from businesses in all 21 New Jersey counties.

Every major industry sector was represented, with 31 percent of respondents in diverse service industries; 21 percent in manufacturing; 16 percent in construction; 8 percent each in finance/insurance/real estate and the wholesale trades; 7 percent in retail; 5 percent in health-care; and 3 percent in transportation.

Editor’s Note:

The report was prepared by NJBIA Vice President Christopher Biddle. The complete results for any single survey question may equal slightly more or less than 100 percent due to rounding. Any reference to “companies” or “businesses” or “employers” in this text refers to respondents to this survey.