New Jersey Business & Industry Association
52nd Annual Business Forecast

Business Activity Strengthened in 2010, but Outlook Is Mixed as Employers Struggle to Shake Off Recession  By Christopher Biddle, Vice President, Communications, NJBIA

Summary of Findings
Business activity picked up for many New Jersey employers in 2010, a hopeful sign that the state economy may be on the road to recovery following a long recession, NJBIA’s 2011 Business Outlook Survey has found.

The bright spot in this year’s survey is the finding that the overall sales, profits, purchases and employment activity of individual companies improved in 2010, bouncing off 2009 lows.

While these core indicators of actual business performance have improved, they nonetheless remain at recession levels.

Also encouraging is a modest improvement in the outlook for sales and profits in 2011.

While ground-level business conditions have improved overall, the near-term outlook for key industries and the broader economy in the year ahead has weakened as businesses struggle to shake off one of the worst recessions in history.

The outlook for job growth is flat, with the vast majority of survey participants saying they either plan to make further workforce reductions or to keep employment at current levels in 2011.

The New Jersey Business & Industry Association’s 2011 Business Outlook Survey was conducted in September 2010. Thirteen hundred and eleven companies representing every major industry participated in the 52nd annual survey, producing a response rate of 9 percent. Nine out of 10 survey participants were small companies with between one and 49 employees. (See About this Survey on page 30.)
Business Conditions in 2010

One goal of the NJBIA Business Outlook Survey is to measure actual business conditions in the year in which any given survey is conducted. The 2011 Business Outlook Survey provides a snapshot of those conditions in the fall of 2010.

Recession Lingers

Overall business activity improved moderately for individual companies in 2010. However, the recession also lingered for a majority of survey participants.

When asked to describe where they found their industries in the economic cycle, 38 percent said they were in an up phase of the cycle when this survey was conducted in September, with their industries either recovering (31%) or expanding (7%).

The jump in the percentage of companies saying their industries are recovering—from 15 percent in 2009 to 31 percent in 2010—can be viewed as an early sign of economic recovery.

Finally, 62 percent said their industries were either still in a recession (59%) or heading into one (3%) last September. As shown in Table 1, these numbers are improved from a year ago, when 69 percent of survey participants said their industries were in a recession or heading into one.

Sales, Profits & Purchases in 2010

When asked to compare the dollar value of their sales, profits and purchases in 2010 to the dollar value of those activities in 2009, respondents as a group reported improvement.

In fact, business activity in all three areas bounced off the lows recorded in 2009.

In spite of this improvement, however, these core indicators of business performance remain negative overall and at recession levels, as shown in Table 2 on next page.

Take sales, for example. Thirty-one percent of companies said their sales revenues rose in 2010, up from 17 percent reporting an increase in 2009, a marked improvement.

Fifty-four percent said their sales revenues declined in 2010, an improvement over the 72 percent of companies reporting a sales-revenue decline in 2009.

While sales activity did improve in 2010, more companies reported a decline in sales (54%) than reported an increase (31%), leaving this particular indicator at recession levels.
Rising profits and higher levels of business spending accompanied improved sales activity.

Twenty-five percent of companies reported making a larger profit in 2010, up from 17 percent of companies reporting a larger profit in 2009. And while 58 percent said profits fell in 2010, this was better than the 71 percent of companies who said profits fell in 2009.

Looking at purchases, 24 percent of respondents said they spent more money on purchases in 2010, up from 14 percent who reported spending more in 2009. And while 55 percent said they spent less in 2010, this was better than the 69 percent who reported spending less in 2009.

As with sales, however, the survey measures for profits and purchases in 2010 remained in recession territory. More companies reported a decline in profits and spending than reported an increase, as shown in Table 2.

### Employment in 2010

Employment activity at individual companies also improved in 2010, even as it remained at recession levels.

Twelve percent of companies reported hiring additional workers in 2010, while 35 percent reported making workforce reductions. The remaining 53 percent kept employment stable.

This is an improvement over the 8 percent of companies that reported hiring additional workers in 2009 and 48 percent that reported making cutbacks.

Despite the improvement, overall employment activity in 2010 remained negative for a third consecutive year, with many more employers reducing rather than expanding employment at their companies, as shown in Table 3.

The current employment contraction (2008-2010), as measured by this survey, is also the most pronounced in 27 years of archived survey data. The second worst contraction, as illustrated in Chart 3, occurred during the 1989-92 recession.

### 2011 Business Outlook

The survey also asked respondents to forecast anticipated changes in their own sales, profits, purchases and employment for the year ahead.

In the current survey, companies were asked to compare, in terms of dollar value, their businesses’ expectations for sales, profits and purchases in 2011 compared with current levels. They were also asked about their hiring plans for 2011.

### Sales, Profits & Purchases Outlook

The outlook of individual companies for their own sales, profits and purchases in the year ahead, while improved, remains at recession levels.

Forty-two percent of companies expect their sales revenues to rise in 2011, while 27 percent expect sales revenues to fall, with the rest expecting revenues to stay about the same.

This is somewhat better than the 40 percent expecting sales revenues to rise a year ago, and the 32 percent expecting revenues to fall, as shown in Table 4.

The survey reveals a similar story for companies’ expectations for their profits and purchases in the year ahead, where the outlook has improved somewhat from year-ago levels.

Thirty-seven percent expect profits to rise in 2011, while 30 percent expect profits to fall, with the remainder expecting profits to remain unchanged. This is moderately improved from year-ago levels, when 36 percent expected profits to improve, and 34 percent expected them to fall.

Similarly, 33 percent expect to spend more on purchases in 2011 than they did in 2010, and 30 percent ex-
pect to spend less, with the rest anticipating little change in spending levels. This is moderately improved from last year’s purchasing outlook, when 30 percent expected to spend more and 34 expected to spend less.

**Employment Outlook**
Given the length and severity of this recession, it’s not surprising to find that the outlook for hiring in the year ahead remains flat. Employers as a group are in no rush to hire.

As shown in Table 4, 16 percent of respondents anticipate hiring additional workers in 2011, while 15 percent anticipate making cuts. The balance of survey respondents (70%) expect to keep employment about the same.

This outlook is little changed from a year ago when 15 percent anticipated hiring additional workers and 17 percent anticipated making cuts.

Looking at the longer-term trend, the overall or “net” employment outlook has been flat or negative for the past three years, producing the longest period of subpar expectations in 27 years of available survey data.

**2011 Economic Outlook**
In addition to assessing the actual experience and expectations of individual companies for their own performances, this survey measures levels of business confidence in companies’ own industries, as well as in the state and national economies, for the first six months of the year ahead.

The current survey finds that overall business confidence in the near-term future of the economy has tumbled from last year’s higher levels.

**Outlook for NJ & US Economies**
Twenty-three percent of respondents said they believe US economic conditions will improve in the first six months of the year ahead, down from 42 percent of respondents a year ago.

In addition, the percentage of companies believing economic conditions will worsen for the US, at 33 percent, is higher than the 19 percent of companies holding this view one year ago.

This decline in business confidence is illustrated in Chart 2 on page 25.

As for business confidence in the New Jersey economy, it remains negative overall for a sixth consecutive year, with more companies believing conditions will deteriorate, rather than improve, in the first six months of the year ahead.

Thirty-seven percent of businesses expect state

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**Table 4**

| Outlook of Individual Companies For Their Own Sales, Profits, Purchases and Employment |
|---------------------------------|----------------|----------------|----------------|----------------|
| Survey Year                     | 2008 Sales     | 2009 Sales     | 2010 Sales     | 2011 Sales     |
| Sales                           | More 57%       | More 41%       | More 40%       | More 42%       |
|                                 | Same 22%       | Same 30%       | Same 28%       | Same 31%       |
|                                 | Less 21%       | Less 29%       | Less 32%       | Less 27%       |
| Net Outlook*                    | 36%            | 12%            | 9%             | 15%            |
| Profits                         | More 51%       | More 39%       | More 36%       | More 37%       |
|                                 | Same 25%       | Same 28%       | Same 30%       | Same 33%       |
|                                 | Less 21%       | Less 29%       | Less 32%       | Less 27%       |
| Net Outlook*                    | 26%            | 5%             | 2%             | 7%             |
| Purchases                       | More 42%       | More 33%       | More 30%       | More 33%       |
|                                 | Same 34%       | Same 35%       | Same 36%       | Same 37%       |
|                                 | Less 23%       | Less 32%       | Less 34%       | Less 30%       |
| Net Outlook*                    | 19%            | 1%             | -5%            | 3%             |
| Employment                      | More 25%       | More 17%       | More 16%       | More 16%       |
|                                 | Same 61%       | Same 64%       | Same 67%       | Same 70%       |
|                                 | Less 14%       | Less 19%       | Less 17%       | Less 15%       |
| Net Outlook*                    | 12%            | -3%            | -1%            | 1%             |

* The Net Outlook is calculated by subtracting the percentage of companies anticipating a decline in sales, profits or purchases from the percentage anticipating an increase. A negative number denotes a negative outlook overall.
economic conditions to deteriorate in the first half of 2011, versus 22 percent who expect conditions to improve, leaving a net outlook for the state economy of minus 15 percent. The remaining 42 percent of businesses expect conditions to remain about the same. This outlook is somewhat weaker than it was a year ago, as shown in Table 5.

Most worrisome is the retreat in business confidence for companies' own industries.

### Outlook for ‘Your Industry’

Thirty-two percent expect conditions in their own industries to deteriorate in the first six months of 2011, while 27 percent expect conditions to improve, with 41 percent expecting conditions to remain about the same.

As shown in Table 5, this is a negative outlook overall (-5%) and below last year's somewhat higher levels (+3%).

Most of the decline in confidence was reported by companies whose industries have been hardest hit by the recession, namely construction, retail, transportation, and finance/insurance/real estate, as shown in Table 6.

For example, among companies involved in non-residential construction, 20 percent expect conditions to improve in the first six months of 2011, whereas 49 percent expect conditions to worsen. The net outlook is therefore negative at minus 28 percent. (See Table 6.)

As shown in Table 7, the overall outlook for non-residential construction has fallen sharply from last year's improved level.

The overall outlook for the housing construction, retail, transportation, and finance/insurance/real estate industries is also negative, having fallen from last year's higher levels.

As for the manufacturing, services and wholesale industries, the outlook has weakened somewhat but remains neutral or slightly positive. The overall outlook for the healthcare industry remains negative (-15%) and little changed from last year's level. The outlook for the communications and utilities industry, which comprises only a handful of state-regulated companies, remains positive.

### Salaries & Wages

More companies plan on giving pay hikes in 2011 than actually gave pay raises in 2010, as shown in Table 8.

Thirty-three percent gave pay raises to their employees in 2010, 55 percent kept pay at existing levels, and 12 percent reduced pay.

Looking ahead, 42 percent of companies plan to give pay raises in 2011, 52 percent plans to keep pay at current levels, and 6 percent plans to cut employee pay.

Looking at planned pay hikes in more detail, 26 percent of companies anticipate making cost-of-living adjustments of between 1 percent and 2.9 percent. Sixteen percent of companies plan to give raises of between 3 percent and 5.9 percent, and 1 percent of companies plan on giving pay raises of 6 percent or more.
Fringe Benefits
The cost of fringe benefits, which is driven primarily by the cost of employee health insurance, continued to rise rapidly in 2010, and businesses expect even larger cost increases in 2011.

Sixty-eight percent of companies expect their fringe benefit costs to rise in 2011, more than the 61 percent of companies who expected those costs to rise in 2010. Twenty-five percent expect those costs to remain unchanged in 2011, and 7 percent expect them to fall.

Looking at the details, 55 percent expect their costs to rise by 4 percent or more, up somewhat from the 49 percent having this expectation last year.

But 23 percent expect fringe benefit costs to rise by 11 percent or more, up from 14 percent of respondents having this expectation last year.

Pricing, Productivity & Capital Investments
Pricing power among survey respondents improved somewhat in 2010, but it still remained near last year’s lower levels.

Twenty-one percent of companies said they raised prices for their products and services in 2010, compared with 19 percent who reported raising prices in 2009. These levels are low compared with the half of survey respondents, on average, who reported raising prices in each of the previous five years (2004-2008).

In 2010, 28 percent of respondents lowered their prices, compared with 35 percent the year before, and 51 percent left prices unchanged, compared with 46 percent the year before.

Looking at capital spending plans, 35 percent of companies plan to increase their investments in new buildings and equipment in 2011, up sharply from 23 percent of companies planning such investments in 2010 and within the historical average for this indicator.

Forty-three percent plan to keep capital investments level in 2011, and 22 percent plan to spend less on such investments.

When asked which investments they made to improve productivity in 2010, 54 percent said they invested in computer hardware and software; 26 percent, new production equipment and/or facilities; 23 percent, production processes; and 32 percent, employee training and development.

New Jersey
When asked to describe New Jersey as a location for new or expanded facilities, 9 percent said the state was a good place for this kind of business expansion, near last year’s low of 11 percent.

When asked to identify, from a predetermined list, the major types of cost increases they expected to face in 2011, 56 percent said health care costs, 29 percent reported higher insurance premiums, and 27 percent said higher taxes. Each of these costs is driven by the state’s continuing difficulties in paying its share of the national Medicaid program without raising state taxes. Median New Jersey property taxes increased by 7 percent in 2011, compared with 6 percent the year before, and prices, compared with 35 percent the year before, and 6 percent or more the year before.

Anticipated Change in Cost of Fringe Benefits

<table>
<thead>
<tr>
<th>Percentage Distribution of Cost Increases</th>
<th>2010 Outlook</th>
<th>2011 Outlook</th>
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</thead>
<tbody>
<tr>
<td>+1-3%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>+4-5%</td>
<td>17%</td>
<td>14%</td>
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<tr>
<td>+6-10%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>+11% or more</td>
<td>14%</td>
<td>23%</td>
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</table>

This chart compares the net outlook for each of the years shown. A negative number denotes a negative outlook overall.

Employee Pay Changes in 2010 And Outlook for 2011

<table>
<thead>
<tr>
<th>Pay Changes</th>
<th>2010</th>
<th>2011</th>
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<tr>
<td>Lower Pay</td>
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<tr>
<td>Same Pay</td>
<td>55%</td>
<td>52%</td>
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<tr>
<td>Higher Pay</td>
<td>33%</td>
<td>42%</td>
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</table>

<table>
<thead>
<tr>
<th>Percentage Distribution of Pay Raises</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>7%</td>
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<td>2%</td>
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<td>5%</td>
<td>2%</td>
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<tr>
<td>6% or more</td>
<td>1%</td>
<td>1%</td>
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mined list, the four “most troublesome” problems for businesses in New Jersey, 75 percent of companies said the cost of employee health insurance was one of their top four problems, followed by the overall cost of doing business in New Jersey (71%) and property taxes (67%).

Next most troublesome in the ranking were state regulations (41%) and state taxes (39%). Finally, in order of descending importance, were: frivolous lawsuits, workers’ compensation costs, unemployment insurance costs, wage and labor costs, and energy costs.

When asked how New Jersey performs compared to other states in certain areas important to business, significant majorities said New Jersey is about the same or better than other states in the quality of its public schools and workforce, protecting the environment, and as a place to live.

Regarding the timely issuance of permits, promoting economic development and controlling energy costs, respondents were more or less evenly divided between those saying New Jersey is the same or better and those saying New Jersey is worse.

In other critical areas, however, New Jersey is seen as worse than other states. These include (along with the percentage saying New Jersey is worse) taxes and fees (89%), controlling government spending (71%), attracting new business (73%), controlling healthcare costs (74%), the cost of regulatory compliance (64%), and attitude toward business (64%).

State Government Leaders
In his first year in office, Governor Chris Christie got high marks from New Jersey employers, with 74 percent saying he is doing a good (41%) or excellent (33%) job.

Approval ratings for the state Legislature improved, with 15 percent saying lawmakers are doing a good-to-excellent job, up from 5 percent last year. Forty-nine percent said the Legislature is doing a fair job, versus 31 percent last year. Finally, 35 percent said the Legislature is doing a poor job, an improvement over the 64 percent saying the legislative branch of government was doing a poor job one year ago.

Conclusion
The 2011 Business Outlook Survey reveals that overall levels of sales, profits, purchases and employment picked up in 2010, moving off their 2009 lows. The survey also found a somewhat improved outlook for sales, profits and purchases, and a pick-up in capital spending plans.

These findings suggest that the worst of the recession is behind us and that New Jersey is in the early stages of an economic recovery.

Nonetheless, a majority of companies reported that they and their industries were still in a recession in 2010, and they expressed less confidence in the near-term outlook for the state and national economies than they did a year ago. In addition, the outlook for job growth remains essentially flat.

In sum, the findings of the 2011 survey fall into two major, somewhat conflicting categories. Ground-level business conditions improved in 2010, but overall business confidence has weakened, especially in certain key industries.

What do we make of this?
While business activity has improved somewhat, economic conditions remain challenging, and a majority of companies continue to battle strong headwinds as they face a still uncertain future.

About this Survey
NJBIA’s 52nd annual Business Outlook Survey questionnaire was sent to a sample of the Association’s 22,000 member companies in September 2010. The responses are based on the first 1,311 responses, yielding a response rate of 8.8 percent.

Most respondents were small companies, with 75 percent employing 1-24 employees; 10 percent, 25-49 employees; 7 percent, 50-99 employees; and 8 percent, 100 employees or more. Responses came from businesses in all 21 New Jersey counties.

Every major industry sector was represented, with 30 percent of respondents in diverse service industries, 19 percent in manufacturing, 17 percent in construction, 7 percent in finance/insurance/real estate, 7 percent in wholesale, 9 percent in retail, 5 percent in healthcare, and 2 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 calculations made before rounding. Any reference to “companies” or “businesses” or “employers” in this text refers to respondents to this survey. NJB