

2015 Business Outlook Survey

Expectations in New Jersey remain cautiously optimistic. Sales, profits and hiring are expected to be stable and the outlook remains sharply improved from previous years.

Executive Summary

After soaring in 2014 to the highest level in many years, a positive, yet more measured outlook is reported in the New Jersey Business & Industry Association's (NJBIA) 2015 Business Outlook Survey.

After improving over the past four survey years, the 2015 sales, profit and employment outlook for our member companies remains strong, but represents a slight step down from last year's near record results. Meanwhile, actual 2014 results represent a dramatic return to more positive pre-recession levels, NJBIA's 56th annual survey finds.

More than 1,000 NJBIA members participated in the survey, which revealed that there is still cautious optimism from businesses about their own company's prospects. Our members believe the state is still moving in the right direction.

New Jersey businesses did, however, express concern about the continuing escalation in health insurance costs and the impact of the Affordable Care Act. They remain concerned about what the future holds in a state that has among the highest taxes in the nation.

In a period of regulatory and political uncertainty, businesses expect that 2015 will build on a strong 2014. In particular, they believe that if positive economic signals are sent from the state in 2015, they will open their wallets.

There is still a burdensome tax climate which places New Jersey behind its neighboring states and a Governor and Legislature led by opposing parties, which makes it difficult to address issues important to business, particularly in what promises to be a difficult state budget cycle. Despite these challenges, the

latest Business Outlook Survey presents encouraging news.

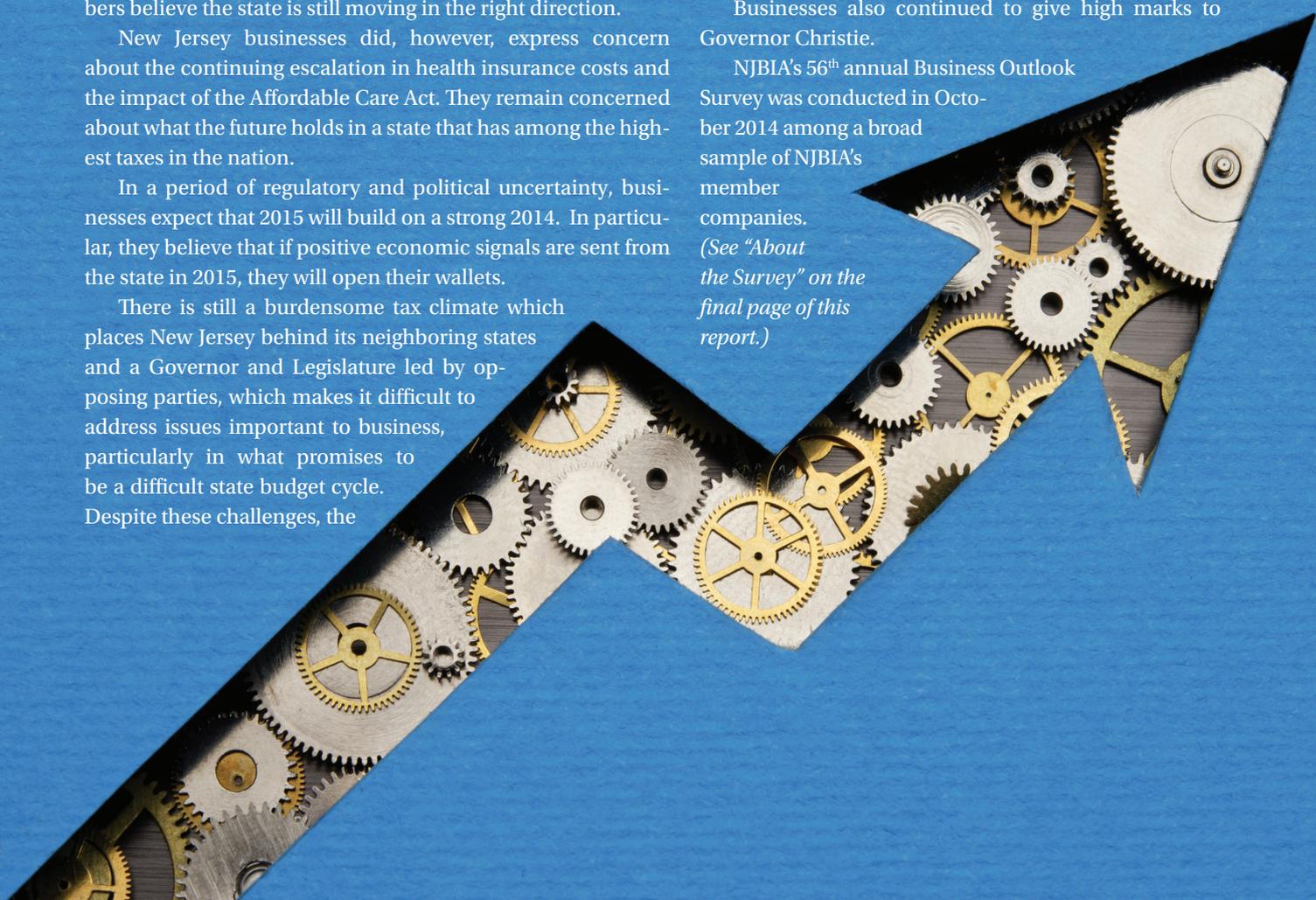
This is reflected in how our members see the economic climate in the first six months of 2015. Seventy-five percent of businesses expect conditions to either stay the same or improve. Of those, 24 percent of businesses expect conditions in New Jersey to improve over the next six months, while 25 percent expect them to worsen. The net -1 percent is still the third highest number in the last decade. *(See Figure 1)*

The survey found that employers remain in a job creation mode, with the second highest net percentage since the Great Recession.

Health insurance costs, the overall cost of doing business in New Jersey and property taxes remain the top challenges facing most businesses.

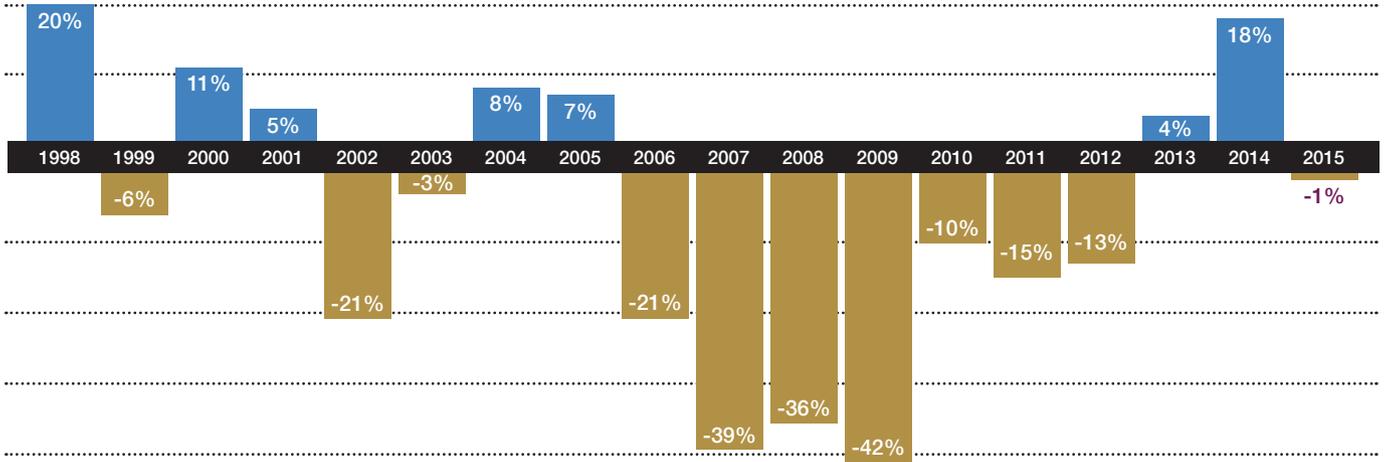
Businesses also continued to give high marks to Governor Christie.

NJBIA's 56th annual Business Outlook Survey was conducted in October 2014 among a broad sample of NJBIA's member companies. *(See "About the Survey" on the final page of this report.)*



Outlook for State Economy

FIGURE 1



The latest Business Outlook Survey clearly paints a very positive picture for member companies when it comes to the key indicators of sales, profits and employment. But the survey also tells a story of members who look ahead at what is still a challenging state tax and healthcare coverage environment. The key may be taking particular care to ensure that New

Jersey remains competitive with its neighboring states.

Sales

The outlook for sales showed the second highest post-recession numbers for New Jersey employers, a forecast backed by a steady improvement in actual sales over those years.

In the current survey, 51 percent

said they expect the dollar value of their company sales to increase in the coming year; significantly higher than the recession low of 40 percent in the 2010 Survey.

Only 16 percent anticipate a sales decline, for a net positive outlook of +35 percent. This level is down slightly from +42 percent in 2014, and is still up sharply from a low of +9 percent net expecting an increase in 2010. (See Figure 2)

Meanwhile, actual sales increased for 46 percent of companies in 2014 and declined for 30 percent. The net percentage of companies seeing an increase in sales was +16 percent, identical to the net sales increase of +16 percent reported by businesses in the 2014 Outlook Survey. This represented a second straight year of strong sales performance, particularly compared to the 2008 to 2011 period when more companies reported declining sales than rising sales each year, reaching a low of -54 percent in 2009.

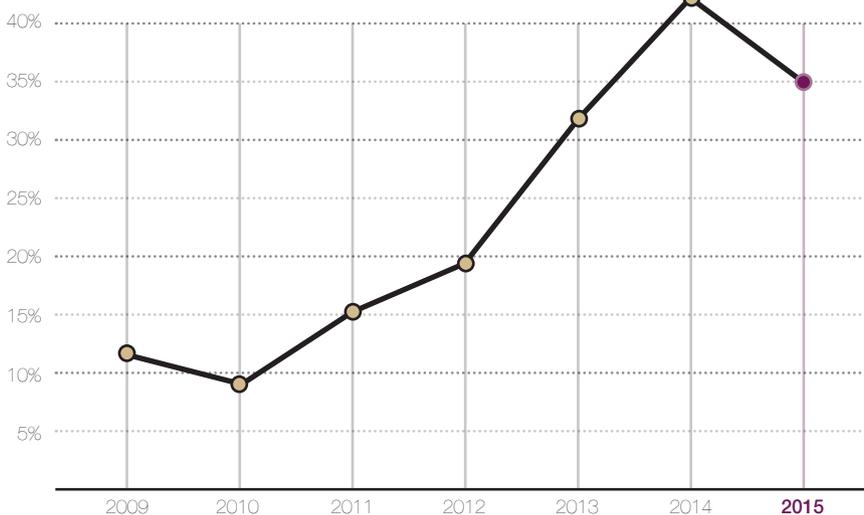
Purchases & Pricing Power

As the sales and profits of companies have risen, so has their ability to spend more.

Forty-three percent of respondents

Sales Outlook, Individual Companies

FIGURE 2



Profits

The outlook for profits and actual profitability among companies has improved steadily over the past five years.

In the current survey, 45 percent of companies said they expect profits to rise in the year ahead, and 18 percent expect profits to decline. That net percentage at +27 percent, compared to +34 percent last year, was the highest level of profit expectations since the recession. (See Figure 3 & 4)

Forty percent of respondents said their profits increased in 2014, but 35 percent said profits declined. The net percentage of companies enjoying higher annual profits in 2014 was +5 percent.

This is slightly higher than the +3

Profits Outlook, Individual Companies

FIGURE 3



percent in last year's survey, which makes 2014 the highest reported since 2008 and only the second positive level reported in the past seven years.

anticipate spending more on purchases in the year ahead, while 17 percent anticipate spending less for a net percentage of +26 percent – the second highest post-recession result.

Actual spending levels in 2014 also increased from 2013. Forty-four percent of companies spent more in 2014 than they spent in 2013, while 26 percent spent less. This net +18 percent spending more is the highest level of the past eight years, and it is the second consecutive year of positive net spending after five years of net negative spending.

The percentage of respondents raising prices for their primary products and services has reached the highest level of the past six years. Thirty-seven percent raised prices in 2014, up from 34 percent last year and a recent-year low of 19 percent in 2009. Very few companies lowered prices; 8 percent in 2014 compared with 11 percent last year and 35 percent in 2009.

Employment

For the third consecutive year, employers in New Jersey report a positive hiring outlook for 2015.

Twenty-two percent of companies

Outlook Summary: Sales, Profits & Employment

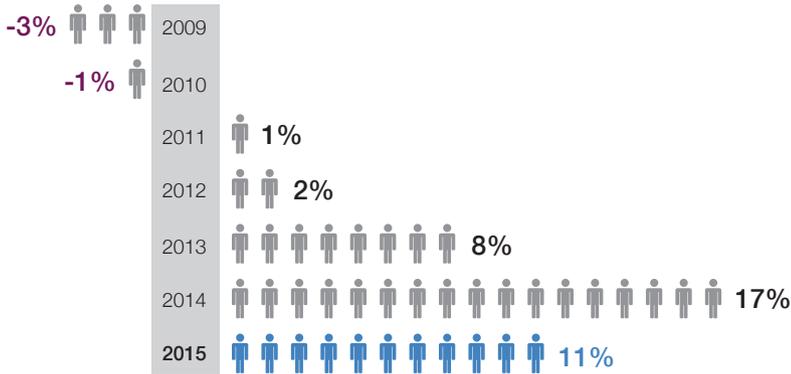
FIGURE 4

	2009	2010	2011	2012	2013	2014	2015
SALES							
More	41%	40%	42%	42%	49%	57%	51%
Same	30	28	31	34	34	28	33
Less	29	32	27	24	17	15	16
Net outlook*	12%	9%	15%	19%	32%	42%	35%
PROFITS							
More	39%	36%	37%	36%	45%	52%	45%
Same	28	30	33	36	34	31	36
Less	33	34	30	28	22	18	18
Net outlook*	5%	2%	7%	9%	23%	34%	27%
EMPLOYMENT							
More	17%	16%	16%	15%	19%	26%	22%
Same	64	67	70	71	69	65	67
Less	19	17	15	13	11	9	11
Net outlook*	-3%	-1%	1%	2%	8%	17%	11%

*Understanding this table: The net percentage of survey participants anticipating that they will enjoy a higher dollar-volume of sales in 2014, for example, is calculated by subtracting the percentage anticipating less sales revenue (15 percent) from the percentage anticipating more sales revenue (57 percent). The net percentage anticipating more sales in this example is, therefore, +42. Changes calculated before rounding. Totals may not equal 100 percent.

Hiring Outlook of Individual Companies

FIGURE 5



anticipate increasing employment in the year ahead, while 11 percent expect to reduce staffing. The net percentage of companies expecting to increase hiring is +11 percent. (See Figure 5)

In actual 2014 employment, 23 percent of employers reported hiring additional workers while 17 percent reported hiring reductions for a net of +6. In the 2008-2012 period, net hiring activity was negative, hitting a low of -40 percent in 2009.

Outlook for Economy & Industries

Although business conditions have sustained their recently improved level, companies seem to have resumed a more conservative view of the broader economy.

Seventy-five percent of businesses expect the state economy to stay the same or improve. Of those, 24 percent of respondents expect the state economy to improve over the next six months, while 25 percent expect it to worsen. (See Figure 6)

Businesses are slightly more optimistic in their outlook for both the US economy and their own industries as shown in Figure 6.

Survey participants seem to be at a stable place today in the business cycle. Twenty-five percent said their industries are “expanding” and 44 percent said their industries are “moving from recession to recovery.” This compares to 20 percent and 5 percent in last year’s survey, respectively.

Challenges

NJBIA member companies are clearly optimistic about what 2015 holds for them in sales, profits and employment, while very obviously showing concern about a host of factors that can throw cold water on their hopes. The cost of health insurance is still proving to be the No. 1 issue for New Jersey businesses from a list of 12 items in the survey, with 29 percent of employers

Six-Month Outlook for US and NJ Economics and for Companies’ Own Industries

FIGURE 6

	2009	2010	2011	2012	2013	2014	2015
US Economic Outlook							
Better	25%	42%	23%	14%	26%	36%	30%
Same	33	39	44	43	44	45	48
Worse	42	19	33	43	30	19	22
Net outlook*	-17%	23%	-10%	-29%	-4%	16%	7%
NJ Economic Outlook							
Better	15%	27%	22%	20%	29%	35%	24%
Same	29	36	41	47	47	48	51
Worse	57	37	37	33	26	17	25
Net outlook*	-42%	-10%	-15%	-13%	4%	18%	-1%
Outlook for ‘Your Industry’							
Better	22%	34%	27%	23%	29%	38%	34%
Same	37	35	41	46	46	42	44
Worse	40	31	32	32	26	20	22
Net outlook*	-18%	3%	-5%	-9%	3%	18%	12%

*The “net outlook” is calculated by subtracting the percentage of companies expecting conditions to worsen from the percentage anticipating conditions to improve over first six months of the year ahead. Changes are calculated before rounding. Totals may not equal 100 percent.

saying it was the issue of most concern and 72 percent rating it among the four greatest concerns.

Overall, property taxes were considered the second greatest concern for business at 20 percent. The cost of doing business in the state was third at 19 percent. All other issues combined, including state regulations and taxes; the cost of workers compensation, wage/labor, unemployment insurance and energy; frivolous lawsuits, availability of skilled labor and environmental compliance were indicated as the most common concerns by a combined total of 32 percent.

Health Insurance Costs

Not surprisingly, the survey finds that health insurance costs continue to top the list of most troublesome problems for New Jersey businesses. Eighty-five percent of respondents said they expect the cost of employee health benefits to rise in 2015, with 13 percent expecting costs to stay about the same, and 2 percent anticipating a decline.

Fifty-nine percent of respondents reported that the federal Affordable Care Act has had a negative impact on their company. While only 4 percent report a positive impact, 25 percent reported no impact, and 11 percent don't know. Compared to last year, an almost-identical percentage expected a negative impact.

Property Taxes

Property taxes remain a top concern among respondents. Twenty-eight percent of businesses expect their property tax bills to remain at current levels or decrease in the year ahead. Meanwhile, 71 percent of businesses expect their property taxes to rise in 2014 with most (60 percent) expecting them to rise by 1 to 5 percent, in line with the historical pattern of response over almost the past 20 years. Eleven percent expect

Net Percentage of Companies Expecting Conditions in Their Industries to Improve Over the Next Six Months

FIGURE 7

Major Industry Sectors	2009	2010	2011	2012	2013	2014	2015
Construction, housing	-44%	0%	-18%	-33%	-15%	25%	11%
Construction, other	-25	-1	-28	-27	-3	28	11
Communications & Utilities	-23	-12	32	39	6	-11	38
Finance, Insurance & RE	-14	12	-8	-11	16	22	26
Healthcare	1	-16	-15	-17	-17	-33	-28
Manufacturing, durables	-10	8	7	1	1	25	23
Manufacturing, nondurables	-24	4	0	-8	-1	16	-3
Retail Trade	-39	5	-12	-23	2	2	-4
Services	-13	4	-1	-1	10	27	18
Transportation	-13	13	-10	-11	-6	23	29
Wholesale Trade	-14	9	2	-6	5	20	3
All industries combined	-18%	3%	-6%	-9%	3%	18%	12%

This chart shows the net percentage of companies expecting conditions to improve in their industries in the first six months of the years shown. A negative number denotes a net negative outlook.

Outlook by Major Industry

The outlook for virtually all major industries reached the most positive levels since the 2009 survey. (See Figure 7)

Leading the way is the communications, utilities industries with a 49 percent net increase from last year and transportation with a 6 percent net increase.

Construction indicators are all still significantly higher than at any time since the recession. A net +11 percent of companies in the housing and commercial construction industries expect conditions to improve over the next six months.

In the durable goods manufacturing sector, a net positive of 23 percent of companies in the durables subsector expect conditions to improve over the next six months. In the preceding five years before last year, the manufacturing outlook was mostly either flat or negative, so sustained optimism in durables manufacturing is a welcome departure from past conditions.

The outlook has grown progressively stronger over the past two years for finance, insurance and real estate, where the net positive outlook for next year is +26 percent, up from +22 percent in 2014 and +16 percent in 2013.

Pay Raises
% Distribution of Responses

FIGURE 8



Understanding this table: This table shows the percent distribution of respondents giving pay raises to employees in 2014 or planning to give raises in 2015 and in what range.

Wages

Fifty-six percent of companies gave pay raises to their employees in 2014, reflecting a steady increase since 2009 when only 31 percent gave pay raises.

Sixty-one percent said they plan to give pay raises in 2015, five percentage points more than who actually gave raises in 2014, and slightly more than the 57 percent who indicated in last year's survey they planned to give raises in 2014.

Thirty-three percent of those surveyed plan to give pay raises in a 1 to 3 percent range, 20 percent plan to give raises in a 3 to 5 percent range, and 7 percent plan to give raises of 5 percent or more. (See Figure 8)

their tax bills to rise by 6 percent or more, almost unchanged over the past two years and one of the lowest levels since a high of 27 percent in the 2007 outlook survey.

Rating Governor Christie and the State Business Climate

Governor Chris Christie remains the most popular governor among the business sector since the outlook survey first asked this question in 1991. Fifty-seven percent said Governor Christie was doing a good-to-excellent job. These ratings are even more striking when compared to the Obama Ad-

ministration (9 percent good to excellent), and the US Congress (3 percent good to excellent).

When asked how New Jersey rates as a place for expansion of their business facilities, 19 percent said the state was good or very good as a place for business expansion; another 53 percent said New Jersey was fair or average. The reaction of New Jersey businesses to this particular question underscores how important it is for the state to remain competitive with its neighboring states when it comes to taxes and incentives. Overall, the state continues to have among the highest

corporate, income and property taxes in the nation.

Other emerging issues are the state inheritance and estate taxes. New Jersey is one of only two states that has both.

For the first time, the Business Outlook Survey asked our members what they thought about these twin taxes, and the results were significant. Half of those surveyed said both taxes play a role in decision-making regarding the future of their business.

Conclusion

NJBIA's 2015 Business Outlook Survey finds that New Jersey businesses are continuing to hold a cautiously optimistic outlook for the state economy and their own sales, profits and employment. As last year's report noted, the New Jersey economy made a five-year climb to current levels built on the back of difficult times in the Great Recession.

The outlook for profit, sales and employment remains positive with our member companies expressing a measure of caution about the state's economic climate in 2015, particularly with regulatory uncertainty, divided executive and legislative branches and the promise of another difficult budget cycle.

The rising cost of providing health insurance remains a clear, ongoing concern along with a majority feeling a negative impact from the Affordable Care Act.

Ground-level business conditions have improved following the worst recession since the Depression and the 2015 Business Outlook reflects one of the highest levels of optimism in the last decade. This gradual recovery and these survey findings suggest continued growth in 2015, barring any unforeseen financial or economic disruptions.

About the Survey

NJBIA's Business Outlook Survey questionnaire was sent to the primary point of contact at 15,640 NJBIA member companies in October 2014. The report is based on 1,046 valid responses, a response rate of 6.7 percent. Most respondents were small businesses, with: 75 percent reporting fewer than 25 employees, 10 percent 25 to 49 employees; 7 percent, 50 to 99 employees; and 8 percent, 100 or more employees. Responses came from businesses in all 21 counties and every industry sector was well represented in the survey.

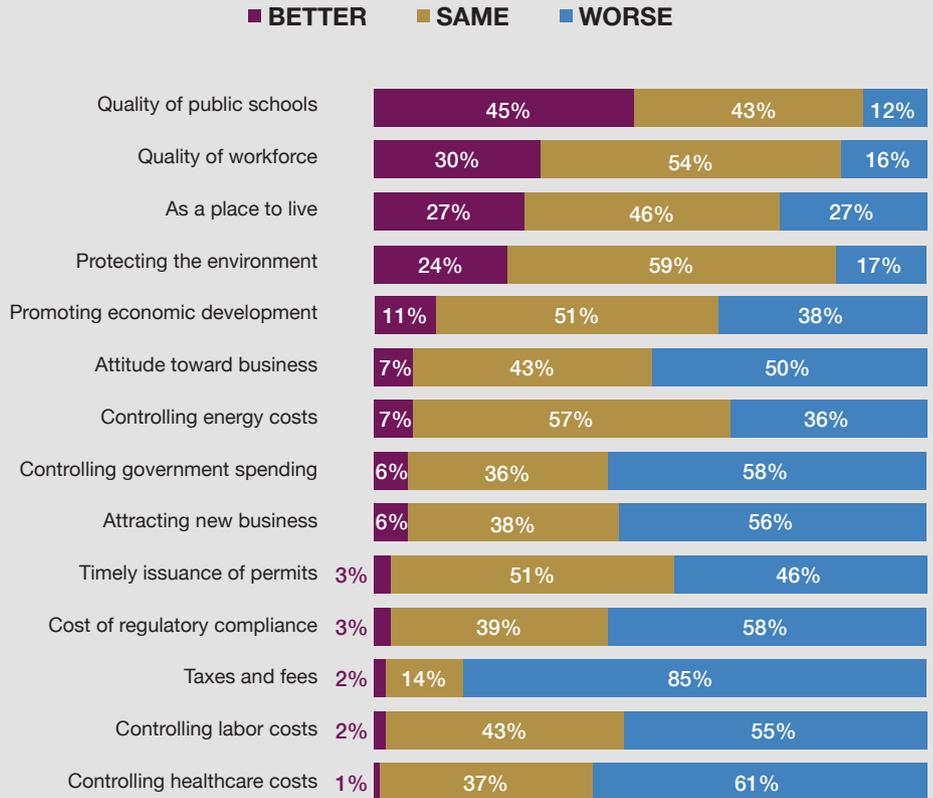
The complete results for any single survey question may equal slightly more or less than 100 percent due to calculations made before rounding. Any reference to "companies" or "businesses" or "employers" in this text refers to survey participants.

** These levels are measured by calculating an adjusted mean, using the midpoints of each range provided in the survey as a response item, so that "1-3 percent" in the survey was treated as 2 percent in the calculation of an average across all respondents.*

About the net percentage: The "net percentage" is used frequently in this report to provide a single data point allowing current survey data to be accurately compared with past survey data. It is calculated by subtracting the percentage of negative responses to a particular question (e.g. lower sales) from the percentage of positive responses. If the negative responses outweigh the positive responses, the net percentage will be a negative.

NJ's Performance Compared with all Other States

FIGURE 9



New Jersey Compared

A majority of companies said that New Jersey compares at least as well as other states on a variety of issues of concern to business, including quality of public schools, quality of workforce, as a place to live, protecting the environment, promoting economic development, attitude toward business, controlling energy costs and timely issuance of permits.