



2012 Business Outlook

**Slow, Steady Gains in Sales,
Profits & Spending in 2011.
Matched by Expectations for
More of the Same in 2012.**

By Christopher Biddle, Vice President

Summary of Findings

New Jersey businesses saw a second year of improved sales, profits, spending and employment in 2011, moving the state one more step away from the recession bottom recorded in 2009, NJBIA's 2012 Business Outlook Survey has found.

As a group, individual companies also reported a moderately improved outlook for sales, profits and spending in 2012. (See Chart 1)

Taken together, these two survey findings—one for actual business activity in 2011, the other for anticipated activity in 2012—demonstrate that New Jersey is making slow but steady progress in its economic recovery.

However, these core indicators of business performance also remain at historically low or negative levels indicative of a struggling economy. In 2011, for a third consecutive year, more companies reported a decline in actual sales, profits, spending and employment than reported an increase.

Take employment, for example. Nearly twice as many companies reported making layoffs as reported hiring additional workers in 2011, leaving net employment activity at a negative level. And the net employment outlook for 2012 is barely positive, with nearly as many respondents planning to lay off workers as are planning to hire more workers.

Business confidence in the near-term outlook for the national economy and companies' own industries has also fallen from last year's higher levels. The near-term outlook for companies' own industries has fallen for a second consecutive year, and the outlook for the US economy has plummeted to -29 percent, the lowest level of the past 20 years.

A bright spot in this year's survey is a dramatic shift in the attitude of many businesses toward state government leaders and the state's business climate. Positive ratings for both are at the highest levels of the past six years.

These are among the major findings of the New Jersey Business & Industry Association's 2012 Business Outlook Survey.

The survey, now in its 53rd year, was conducted in September 2011. Fifteen hundred and sixty-eight companies representing every major industry participated in the survey, giving a response rate of 10 percent. Eighty-six percent of participants were small businesses with between 1 and 49 employees. (See About this Survey on last page of this report.)

Chart 1

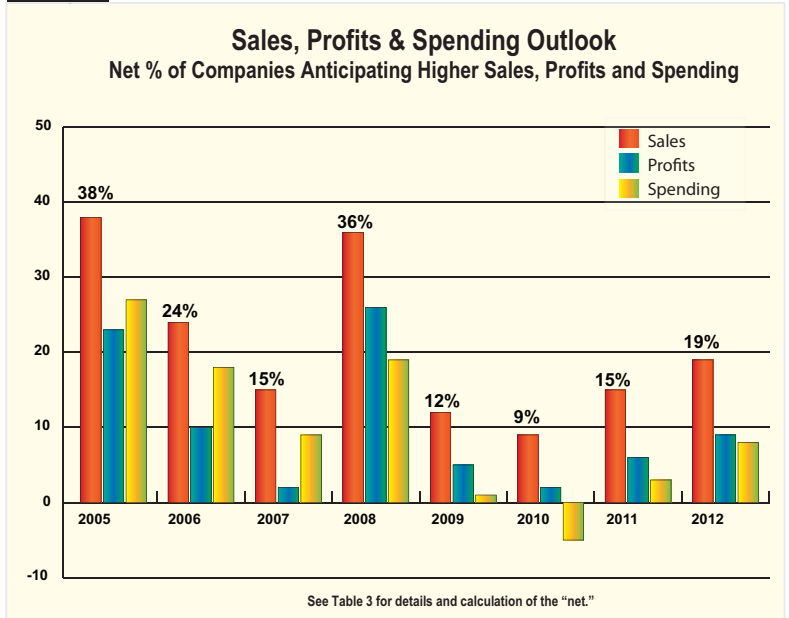
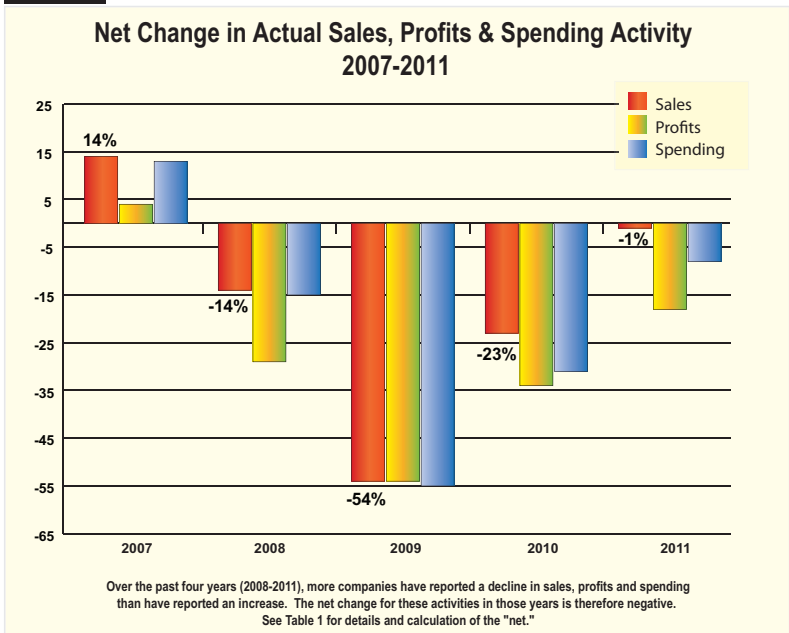


Chart 2



Business Activity in 2011

The NJBIA Business Outlook Survey, in addition to measuring the business outlook, measures actual business conditions in the year in which the survey is conducted.

While the business outlook is based on assumptions and educated guesswork, companies know precisely how they have performed over the past year. This makes the survey indicators for current business

conditions particularly reliable.

The current survey provides a snapshot of actual sales, profits, spending and employment activity for individual companies in the fall of 2011.

Actual Sales, Profits & Spending

The survey asked participants to compare the dollar value of their sales, profits and spending in 2011 to the dollar value of those activities in 2010.

Respondents as a group reported improvement in these areas of business performance for a second consecutive year. Though improved, business performance in these areas also remained at negative levels overall, with more companies reporting a decrease in

sales, profits and spending in 2011 than reporting an increase. (See Chart 2)

For example, 38 percent reported an increase in sales in 2011, but 40 percent reported a decline, producing net sales activity of -1 percent (before rounding). (See Table 1)

This is much improved from net sales activity of -23 percent and -55 percent in 2010 and 2009, respectively, but it is slightly negative nonetheless and well below the positive levels of sales seen in earlier economic recoveries.

Levels of profits and spending at individual companies also continued to improve in 2011. However, as with sales, overall activity for these indicators, while at the highest levels of the past four years, remained negative for a fourth consecutive year. (See Table 1)

Thirty percent of companies said their profits rose in 2011, but 48 percent said profits fell, leaving net profit activity at -18 percent.

Similarly, 32 percent of companies said they spent more on purchases in 2011, but 40 percent said they spent less, leaving net spending activity at -8 percent.

Actual Employment

The survey indicator for hiring activity at individual companies also strengthened in 2011, but likewise remained at a negative level for a fourth year, with nearly twice as many companies cutting employment as increasing it.

Specifically, 15 percent of respondents said their companies hired additional workers in 2011, and 27 percent reported making cutbacks, leaving net hiring activity at -12 percent. (The remaining 58 percent said their companies kept employment stable.)

Although hiring activity remained negative overall in 2011, it nonetheless was much improved from net hiring activity reported in 2010 and 2009, which was -23 percent, and -40 percent respectively. (See Table 2)

The largest companies, those with 100 or more employees, reported the highest levels of employment activity, with 34 percent of this group adding more workers in 2011, compared with 21 percent reporting employment reductions.

The smallest companies, those with 1-24 employees, reported the lowest levels of employment activity, with only 12 percent of this group hiring additional workers versus 28 percent reporting layoffs.

Table 1

Sales, Profits and Spending Activity at Individual Companies, 2007-2011					
Survey Year	2007	2008	2009	2010	2011
Sales					
Up	48%	34%	17%	31%	38%
Same	19	18	11	15	22
Down	34	48	72	54	40
*Net difference	14%	-14%	-55%	-23%	-1%
Profits					
Up	41%	28%	17%	25%	30%
Same	21	16	13	17	22
Down	38	56	71	58	48
*Net difference	3%	-28%	-54%	-33%	-18%
Spending					
Up	42%	30%	14%	24%	32%
Same	29	25	17	21	28
Down	29	45	69	55	40
*Net difference	13%	-15%	-55%	-31%	-8%
* The net difference is calculated by subtracting the percentage of companies reporting lower levels of sales, profits and spending in years shown from the percentage reporting higher levels of the same activities. Changes calculated before rounding. Totals may not equal 100 percent.					

Table 2

Hiring Activity at Individual Companies					
	2007	2008	2009	2010	2011
Hired additional workers	22%	13%	8%	12%	15%
Kept employment stable	60	54	44	53	58
Reduced size of workforce	18	33	48	35	27
Net hiring activity	3%	-19%	-40%	-23%	-12%

Business Outlook 2012

The survey also asked respondents to forecast anticipated changes in their own sales, profits, spending and employment for the year ahead. They were asked to compare, in dollar value, their company's expectations for these measures of business performance in 2012 compared with actual performance in 2011.

Sales, Profits & Spending Outlook

The overall outlook of individual companies for their own sales, profits and spending has improved for a second consecutive year, but nonetheless remains at historically low levels. (See Chart 1 on first page of this report)

The biggest positive change has come in the outlook for sales. Forty-two percent of companies anticipate higher sales revenues in 2012, versus 24 percent who anticipate lower sales revenues. The net percentage of companies anticipating higher sales is therefore 19 percent, the highest level of the past four years. (See Table 3)

The outlook for profits and spending is also at the highest level of the last four years. Thirty-six percent anticipate bigger profits in 2012, versus 28 percent who anticipate smaller profits. The net percentage anticipating increased profits is therefore 9 percent, modestly higher than last year's 7 percent.

Thirty-three percent of companies expect to spend more on purchases in 2012, versus 25 percent who expect to spend less. That leaves the spending outlook at a net positive level of 8 percent, up from 3 percent last year.

Employment Outlook

Given the weak job growth seen to date in this recovery, it's little surprise to find that survey participants as a group are still reluctant to hire additional workers.

As shown in Table 3, 15 percent of companies anticipate hiring more workers in 2012, compared with 13 percent who anticipate making employment cuts. The net percentage of companies expecting to expand their payrolls is therefore 2 percent. (The remaining 71 percent expect to keep employment at current levels.)

As illustrated in Chart 3, this represents only a small improvement from the employment outlook in each of the three previous surveys.

Table 3

Outlook of Individual Companies for their Own Sales, Profits, Spending and Employment in the Year Ahead					
	2008	2009	2010	2011	2012
Sales Outlook					
More	57%	41%	40%	42%	42%
Same	22	30	28	31	34
Less	21	29	32	27	24
Net outlook*	36%	12%	9%	15%	19%
Profits Outlook					
More	51%	39%	36%	37%	36%
Same	25	28	30	33	36
Less	24	33	34	30	28
Net outlook*	26%	5%	2%	7%	9%
Spending Outlook					
More	42%	33%	30%	33%	33%
Same	34	35	36	37	42
Less	23	32	34	30	25
Net outlook*	19%	1%	-5%	3%	8%
Employment Outlook					
More	25%	17%	16%	16%	15%
Same	61	64	67	70	71
Less	1%	19	17	15	13
Net outlook*	12%	-3%	-1%	1%	2%

*The "net outlook" is calculated by subtracting the percentage of respondents anticipating "less" or lower levels of sales, profits, spending and employment from the percentage anticipating "more" or higher levels. Changes calculated before rounding. Totals may not equal 100 percent.

Chart 3

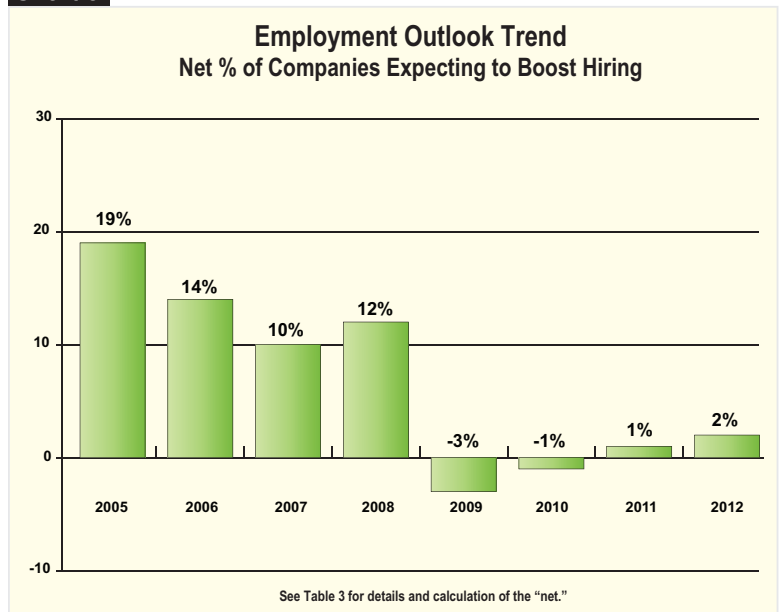


Chart 4

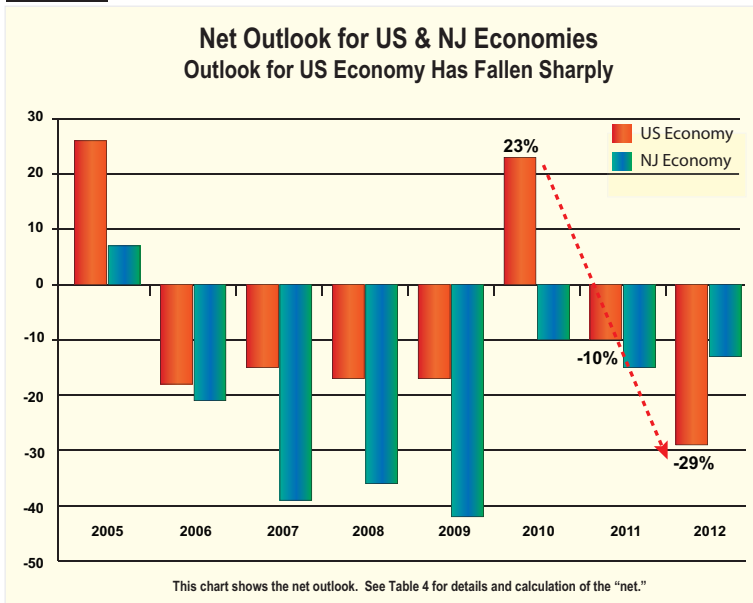


Table 4

Six-Month Outlook for US and NJ Economies and for Companies' Own Industries					
	2008	2009	2010	2011	2012
US Economic Outlook					
Better	20%	25%	42%	23%	14%
Same	43	33	39	44	43
Worse	37	42	19	33	43
Net outlook*	-17%	-17%	23%	-10%	-29%
NJ Economic Outlook					
Better	13%	15%	27%	22%	20%
Same	38	29	36	41	47
Worse	49	57	37	37	33
Net outlook*	-36%	-42%	-10%	-15%	-13%
Outlook for 'Your Industry'					
Better	25%	22%	34%	27%	23%
Same	42	37	35	41	46
Worse	33	40	31	32	32
Net outlook*	-7%	-18%	3%	-5%	-9%

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

Broader Economic Outlook

In addition to assessing the actual experience and expectations of individual companies for their own performance, this survey measures levels of business confidence in companies' own industries and in the

state and national economies for the first six months of the year ahead.

The current survey finds that business confidence has fallen dramatically for the US economy and somewhat for companies' own industries. Confidence in the New Jersey economy, on the other hand, has strengthened modestly. (See Chart 4)

Business confidence in the national economy has not only fallen sharply, but it also has declined to the lowest level in 20 years for this survey, with three times as many companies saying US economic conditions will worsen as saying conditions will improve in the first six months of 2012.

Specifically, 43 percent of survey participants expect US economic conditions to worsen, versus 14 percent who expect those conditions to improve, producing a net outlook of -29 percent.

The near-term outlook for the New Jersey economy, while still negative overall, is somewhat improved. Twenty percent expect the state economy to improve in the first half of 2012, while 33 percent expect it to worsen, leaving a net outlook of -13 percent. (See Table 4)

Most worrisome among these indicators is the near-term outlook for companies' own industries, which has gradually deteriorated over the past three years.

Twenty-three percent expect conditions in their industries to improve over the next six months, but 32 percent expect them to deteriorate. This leaves a net outlook for companies' own industries of -9 percent, the lowest level of the past three years. (See Table 4)

This finding is consistent with the findings of another survey question in which slightly more than half of companies (55%) said their industries were "in a recession" in September 2011, when this survey was conducted. This is somewhat improved from the 59 percent of companies saying their industries were in recession in the fall of 2010.

Pay & Benefits

A higher proportion of companies gave pay raises to their employees in 2011 than did in 2010, but the percentage of companies planning to give pay raises in the year ahead is little changed. (See Table 5)

Forty-three percent of respondents actually gave pay raises to their employees in 2011, up from 33 percent who did so the year before. Another 51 percent kept pay rates level over the past year, and 6 percent reduced pay, compared with 12 percent who reduced

pay in 2010.

Looking ahead, 47 percent of companies plan to give pay raises in 2012, up from 42 percent the year before.

Thirty-nine percent plan to give raises of between 1 and 3.9 percent in 2012, compared with 35 percent of respondents who planned to give raises of a similar magnitude last year. Only 9 percent plan to give raises of 4 percent or more, little changed from the year before.

Companies expect the cost of employee benefits, the biggest portion of which is typically employee health coverage, to change at about the same rates as last year. Sixty-five percent expect those costs to rise in 2012, 28 percent expect those costs to stay about the same, and 7 percent expect them to fall.

Among those anticipating rising benefit costs, 51 percent expect those costs to rise by 4 percent or more, down somewhat from the 55 percent having this expectation last year.

The biggest change has come in the percentage of companies expecting employee benefits to increase by 6 percent or more. Thirty-four percent expect their benefits costs to rise at this rate in 2012, less than the 41 percent who had this expectation last year.

Seventeen percent expect benefit costs to rise by 11 percent or more, down from 23 percent of respondents having this expectation last year.

Pricing, Productivity & Capital Investments

Pricing power among survey respondents improved in 2011, but still remained well below pre-recession levels.

Twenty-nine percent of companies said they raised prices for their products and services in 2011, compared with 21 percent the year before and a recession low of 19 percent the year before that.

Another 51 percent said they did not change their pricing in 2011, and 20 percent said they lowered their prices, compared with 28 percent the year before.

While improved, pricing power remains well below pre-recession levels (2004-2008), when about half of companies were able to raise prices annually.

Looking at capital spending, 37 percent of companies said they plan to spend more on investments in new buildings and equipment in 2012, up

from 35 percent in the previous survey, and a recession low of 23 percent two years ago.

Rating New Jersey

New Jersey received significantly better marks from the business community in this year's survey.

Eighteen percent of companies said New Jersey is a good place in which to build new or expanded facilities, up from 9 percent in the previous year's survey, ending 10 years of declining ratings for New Jersey in this regard.

Fifty-four percent said New Jersey is fair or average as a place for business expansion, and 28 percent said it is poor.

In comments submitted about New Jersey's business climate, one small business owner echoed a sentiment expressed by many other survey respondents: "It's better under Governor Christie than it has been in years, but it's still very difficult."

When asked to identify, from a pre-determined list, the four "most troublesome" problems for New Jersey businesses, survey participants selected health insurance costs as their top problem. This was closely followed by property taxes and the overall cost of doing business in New Jersey, which were ranked second and third, respectively.

These three problems — cost of health insurance, property taxes and overall cost of doing business in the state — have been identified as the most troublesome by this survey for many years.

State regulations were identified as the fourth worst problem, followed by state taxes, frivolous lawsuits and wage-and-labor costs.

When asked how New Jersey compares to other states in certain key areas of importance to business, this year's survey respondents gave the

Table 5

Employee Pay Changes in 2011 and Outlook for 2012		
	Percent Distribution of Responses	
	2011 Actual	2012 Outlook
Higher Pay	43%	47%
Same Pay	51	49
Lower Pay	6	4
% Distribution of Pay Raises		
1+%	8%	11%
2+%	13	16
3+%	12	12
4+%	4	4
5+% or more	6	5

from 35 percent in the previous survey, and a recession low of 23 percent two years ago.

The survey found that spending to improve productivity has held steady over the past three years, with 52 percent saying they invested in productivity enhancements in 2011, and the remaining 48 percent saying they did not.

Of those companies making investments to improve productivity, 39 percent invested in computer hardware and software (down from 54% the year before), 20 percent invested in new fa-

Table 6

Where NJ Is Making Improvements Compared with Other States			
Percentage Saying NJ Is Same or Better	2010 Survey	2012 Survey	% Point Change
Promoting economic dev.	41%	67%	+26
Attitude toward business	29%	55%	+26
Controlling gov't spending	14%	49%	+35
Attracting new business	21%	46%	+25
Controlling energy costs	44%	59%	+15
Controlling labor costs	35%	45%	+10
Cost of regulatory compliance	33%	42%	+9
Controlling healthcare costs	23%	35%	+12
Taxes and fees	9%	18%	+9

state significantly higher ratings than they did two years ago.

As shown in Table 6, survey participants now view the state much more favorably in promoting economic development, its attitude toward business, attracting new business, and controlling government spending and energy costs.

However, in only three of these areas—promoting economic development, attitude toward business and energy costs—does a majority of survey respondents believe the state is the same as or better than other states.

Areas where New Jersey has made moderate improvement in the eyes of business include controlling labor costs and the cost of regulatory compliance.

New Jersey has also made an improvement, when compared to other states, in controlling healthcare costs and in its taxes and fees. However, a majority of respondents say the state is still considerably worse than other states in both of these areas.

New Jersey continues to get high ratings, when compared with other states, in the quality of its public schools (same or better: 87%), quality of its workforce (same or better: 86%), protecting the environment (same or better: 84%), and as a place to live (same or better: 75%)

Rating Government Leaders

In his second year in office, Governor Chris Christie continued to get high marks from the New Jersey

business community, with 74 percent saying he is doing a good-to-excellent job, unchanged from last year's survey. Another 19 percent said the Governor is doing a fair job, and 7 percent, a poor job.

Approval ratings for the state Legislature improved for a second consecutive year, with 28 percent saying lawmakers are doing a good-to-excellent job, up from 15 percent last year and 5 percent the year before that.

Fifty percent said the Legislature is doing a fair job, little changed from the previous survey, and 22 percent said the Legislature is doing a poor job, down from 35 percent last year, and 64 percent the year before that.

Conclusion

New Jersey business activity continued to strengthen in 2011, with the survey indicators for current sales, profits, spending and employment at individual companies climbing higher for a second consecutive year.

The outlook for these key indicators of business performance has also improved and is now at the highest level of the past four years.

These are clear signs of an improving economy, but not necessarily a strong economy. While business conditions are certainly better, they are far from robust.

In fact, the current economic expansion, as measured by this survey, is the weakest of the past 25 years.

Business confidence in the broader economy has weakened, with respondents expressing a growing pessimism in the near-term outlook for their own industries and for the US economy. The outlook for the New Jersey economy, however, is slightly improved.

The lack of business confidence in the broader economy is also reflected in survey participants' hiring plans, which are barely positive overall and remain at historically low levels.

One very positive finding from this year's survey is a big shift in the attitude of businesses toward state government leaders and the state's business climate. They are encouraged that state government leaders are taking steps to control costs and make New Jersey a better place for business expansion.

In their individual comments, however, they make it clear that the state still has a long way to go to overcome a legacy of high taxes and burdensome regulations.

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If state government leaders can keep up the momentum with business friendly policies, spurring the creation of new private-sector jobs, this could indeed give New Jersey the edge it needs to overcome the constraints of a lackluster economic recovery.

About this Survey

NJBIA's 53rd annual Business Outlook Survey questionnaire was sent to a sample of the Association's 22,000 member companies in September 2011. The responses are based on the first 1,568 responses, giving a response rate of 10 percent.

Most respondents were small businesses, with 75 percent employing 1-24 employees; 11 percent, 25-49 employees; 6 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, 16 percent in manufacturing, 16 percent in construction, 8 percent in finance/insurance/real estate, 5 percent in wholesale, 8 percent in retail, 6 percent in healthcare, and 2 percent in transportation. **NJB**

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.

Patent Awards Spotlight NJ Innovation

>R&D Council's 32nd annual ceremony celebrates the best ideas and brightest minds.



Merck's Dr. Ann E. Weber (left), vice president and discovery chemistry site head, and Nancy A. Thornberry, senior vice president and franchise head, diabetes and obesity, received the Science & Technology Medals from the R&D Council of NJ in honor of their research and discovery of the diabetes drug Januvia.

Forty inventors and 13 New Jersey companies, universities and the U.S. Army were honored by the Research and Development Council of New Jersey with the organization's Thomas Alva Edison Patent Awards at a recent ceremony held at the Liberty Science Center, Jersey City. Avaya, BASF, Bristol-Myers Squibb, Celgene, ExxonMobil, Honeywell, Immunomedics, New Jersey Institute of Technology, Novartis, Rutgers University, Siemens, University of Medicine & Dentistry of New Jersey and the U.S. Army ARDEC were recognized for innovative

patent work spanning 13 R&D categories including: biomaterials, defense, environmental, industrial processes, information technology, manufacturing, materials technology, medical health, medical imaging, pharmaceutical, pharmaceutical process, renewables and telecommunications.

"On this special night, we recognize the people who have made the breakthroughs, who define the best in New Jersey," said Ian Shankland, vice president and chief technology officer of Honeywell Specialty Materials and chairman of the R&D Council. "In this difficult economy, you were able to conduct outstanding research despite historically tight budgets. More than any time in the past, justifying a project took courage and dedication on your part and on the part of [your company's] management."

Along with the patent awards, individual honors were given to Dr. Ann Weber and Nancy Thornberry, Merck researchers behind the development of Januvia, a major breakthrough in diabetes treatment; they were the 2011 co-recipients of the Council's Science & Technology Medal. For his decades of continuing work to maintain science and technology as a national priority, Congressman Rodney Frelinghuysen (NJ-11) received the 2011 Chairman's Award, which recognizes extraordinary commitment to R&D as the foundation of U.S. leadership in technological progress and innovation. Dr. Herman Saatkamp, president of The Richard Stockton College of New Jersey, was honored as the Council's 2011 Educator of the Year for shaping educational programs and outreach to bring together industry and communities and build on the strength of the region's economy.

Dr. Saatkamp told the audience that American education should strive for worldwide competitiveness in the "global century." He pointed out that the U.S. is no longer the top-ranked nation in higher education, the percentage of the population holding college degrees and in high school achievement. "This is troubling, but it is also an opportunity," he said. "Every one of our students should be seen as an international student in the sense that they need to be prepared to adjust and adapt to a global community and to understand other cultures, languages and ways of getting things done."

Nineteen community college students were recognized as this year's Merit Scholars for 2011. Each year, the R&D Council awards \$1,500 and \$750 scholarships to outstanding students studying in a STEM (Science, Technology, Engineering & Mathematics) field.