



2009 Business Outlook

Business Confidence Among NJ Employers Falls to Recession Levels

By Christopher Biddle, NJBIA Vice President

Summary

The business outlook among New Jersey employers has fallen sharply to levels not seen since the state's two previous recessions, and their plans for hiring more workers have fallen to the lowest level in 18 years, the New Jersey Business & Industry Association has found in its 2009 Business Outlook Survey.

Sixty-nine percent of survey participants reported that their industries were in a recession or slipping into one, when this survey was conducted in September, while 77 percent said they expect conditions in their industries to remain unchanged or worsen in the first half of 2009.

Whether evaluating actual conditions in 2008 or anticipating what 2009 will bring, the 1,450 New Jersey employers responding to the survey presented a mostly gloomy assessment of current and future economic conditions. As a group, they reported a sharp drop in sales, profits and employment in 2008, and their outlook for these measures of business performance in 2009 remains weak.

Survey participants reserved their bleakest outlook for the New Jersey economy, with 57 percent saying business conditions here will get worse before they get better, a more negative assessment than was found by this survey in the 2001 recession.

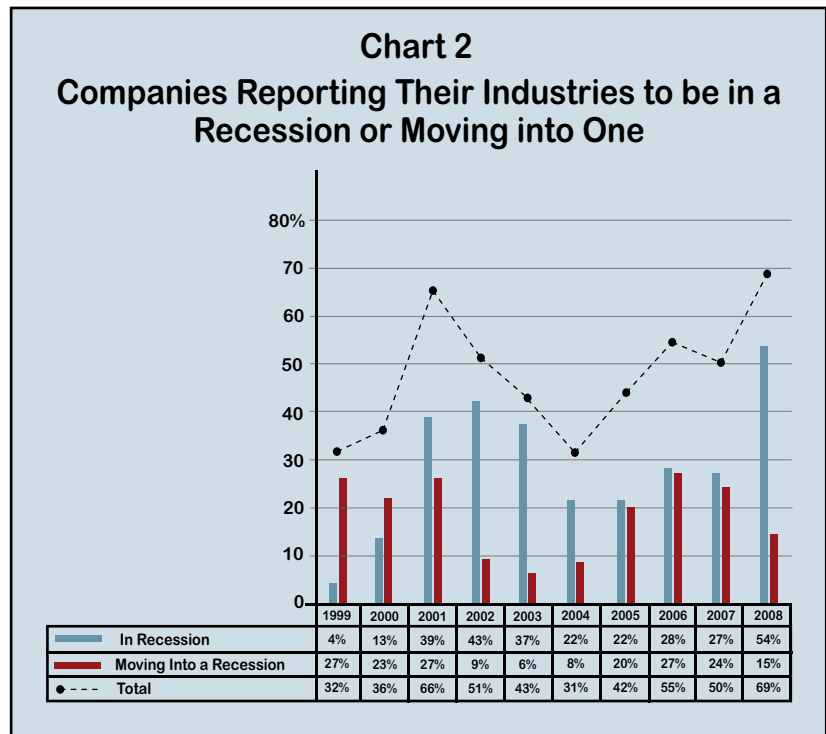
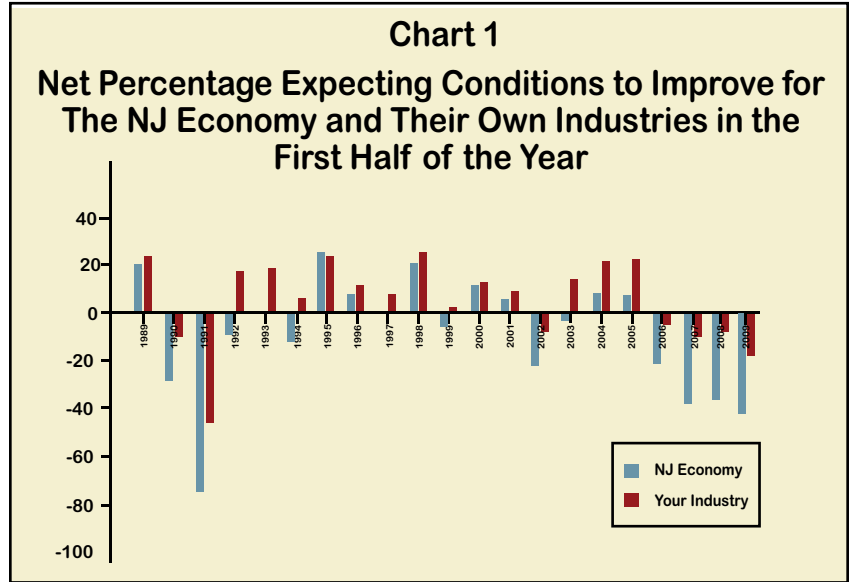
Employment has taken the brunt of the economic slump. Only 17 percent of companies said they expect to expand their payrolls in 2009, a hiring outlook even weaker than was seen during the 2001 recession. Over the past 25 years, only the 1991 survey has produced a more negative employment outlook.¹

The current plunge in business confidence did not come out of thin air. It follows three consecutive years of already deteriorating business conditions and mostly falling expectations as measured by this survey.

The current survey findings suggest that New Jersey was in an economic recession for much if not all of 2008, and that a majority of businesses expect recession-like conditions to persist in 2009.

The 2008 Recession - A Look Back

Unlike the 2001 recession, which caught many businesses by surprise, the current downturn gave plenty of advance warning, especially here in New Jersey. Over



¹ The 1991 survey marked the low point for business confidence during the 1989-92 recession. Regional economists say this was New Jersey's worst recession since the Great Depression.

Table 1

**In Recession or Heading into Recession
As of September 2008**

INDUSTRY SECTORS	In Recession	Heading into Recession	Recession Total
Retail Trade	73%	14%	87%
Construction, housing	75	10	85
Construction, other	56	22	78
Wholesale Trade	56	13	69
Services	53	15	68
Transportation	55	13	68
Finance, Insurance & Real Estate	52	15	67
Manufacturing, nondurables	47	18	65
Manufacturing, durables	47	13	60
Communications & Utilities	29	24	53
Healthcare	31	11	42
All Respondents	54%	15%	69%

* The other respondents in each industry sector reported that their industries were either expanding or emerging from recession. All responses in each category total 100 percent

the past three years, the findings of this survey have urgently signaled a slowdown.

The portion of this annual survey that asks employers about actual business conditions provides a useful rear view mirror for understanding the current economic storm.

The 2006 survey, conducted in the fall of 2005, revealed a pronounced shift in the business outlook from relative optimism to relative pessimism. This shift is illustrated in Chart 1, which shows that businesses, starting with the 2006 survey, have remained more negative than positive in their outlook for their own industries and the New Jersey economy.

Business confidence has remained at low levels since then, finally giving way to the deeper pessimism seen in the current survey. The plunge in business confidence over the past year is grounded in the hard reality of actual business conditions in 2008.

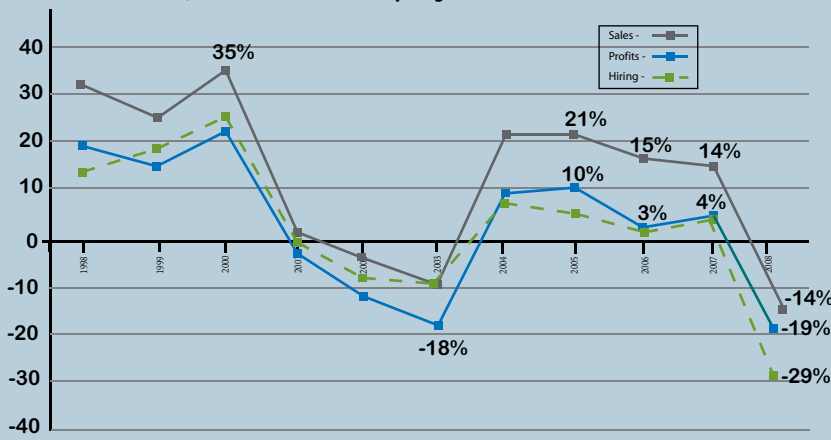
When this survey was conducted in September 2008, 54 percent of survey participants reported that their industries were in a recession, twice the proportion (27 percent) reported their industries to be in a recession a year ago, and a ten-year high for this recession indicator. (See Chart 2)

The retail and housing construction sectors have been hardest hit, with 87 percent and 85 percent of respondents in these sectors reporting, respectively, that their industries are in a recession or heading into one. Most other sectors have been hard hit as well, including commercial construction, wholesale, services, transportation, finance/insurance/real estate and manufacturing, as shown in Table 1.

The economic slump has resulted in sharply lower sales, profits and employment for most businesses. These measures of business performance are now well below their previous

Chart 3

Net Percentage of Businesses Reporting An Improvement in Sales, Profits and Employment in the Year Shown



lows, which were set during the 2001 recession period. (See Chart 3)

The employment picture is even darker. Only 13 percent of survey participants reported adding new jobs last year, while 33 percent reported instituting cutbacks, making 2008 the worst year for private-sector employment growth, as measured by this survey, since 1990.

Not surprisingly, the economic slowdown can also be seen in the state's official employment data, which shows that private-sector employment growth in New Jersey came to a near standstill in 2007, and then collapsed with a loss of 25,000 jobs in the first ten months of 2008.

Near-term Economic Outlook

Own Industry. The short-term outlook for survey participants' "own industries" has fallen to the lowest level since the 1992 survey. (See Chart 1)

Forty percent expect conditions in their industry to deteriorate in the first six months of 2009, while only 22 percent expect conditions to improve, with the rest expecting things to stay about the same.

As shown in Table 2 (Business Outlook Summary), this outlook is markedly more negative than it was just one year ago. This also marks the fourth consecutive survey in which the overall response to this question has been more negative than positive.

The only major industry sector in which respondents were not so negative in their outlook was healthcare, where 32 percent said they expect business to strengthen in the first half of

Table 2

Business Outlook Trend 2002-2009

EXPECTATIONS FOR:

<u>US Economy</u>	2002	2003	2004	2005	2006	2007	2008	2009
Better	25%	38%	47%	42%	21%	18%	20%	25%
Same	33	39	38	43	40	48	43	33
Worse	42	23	16	16	39	34	37	42
Net Better*	-17	15	32	26	-18	-15	-17	-17
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<u>NJ Economy</u>	2002	2003	2004	2005	2006	2007	2008	2009
Better	22%	28%	34%	31%	18%	12%	13%	15%
Same	36	40	41	45	42	37	38	29
Worse	42	31	26	24	39	51	49	57
Net Better*	-21	-3	8	7	-21	-39	-36	-42
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<u>"Your Industry"</u>	2002	2003	2004	2005	2006	2007	2008	2009
Better	28%	36%	40%	41%	27%	24%	25%	22%
Same	39	41	41	41	41	42	42	37
Worse	33	23	19	19	32	34	33	40
Net Better*	-6	13	21	22	-5	-10	-7	-18
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<u>Sales</u>	2002	2003	2004	2005	2006	2007	2008	2009
Increase	42%	50%	50%	56%	49%	43%	57%	41%
Same	27	25	27	26	26	28	22	30
Decrease	31	26	23	18	25	29	21	29
Net Increase*	12	24	26	38	23	15	36	12
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<u>Profits</u>	2002	2003	2004	2005	2006	2007	2008	2009
More	37%	42%	44%	49%	43%	37%	51%	39%
Same	27	25	28	26	25	28	25	28
Less	36	33	28	26	32	36	23	33
Net More*	0	10	16	23	10	2	26	5
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<u>Purchases</u>	2002	2003	2004	2005	2006	2007	2008	2009
More	35%	39%	40%	46%	42%	36%	42%	33%
Same	39	37	37	36	35	37	34	35
Less	26	24	24	18	23	27	23	32
Net More*	8	16	16	28	19	8	19	1
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<u>Employment</u>	2002	2003	2004	2005	2006	2007	2008	2009
More	21%	24%	23%	27%	24%	21%	25%	17%
Same	66	66	66	66	66	67	61	64
Less	13	10	11	7	10	12	14	19
Net More*	8	14	12	20	14	10	12	-3

* "Net better" (or "net increase" or "net more") represents the net percentage of respondents ("more" minus "less") anticipating improved conditions.
Notes: Changes calculated before rounding. Totals may not equal 100 percent.

Table 3
Outlook by Major Industry Sector, First Half 2009

MAJOR SECTORS	Better	Worse	Net % Expecting Improvement
Construction, housing	12%	56%	-44%
Retail Trade	19	58	-39
Construction, other	24	49	-25
Manufacturing, nondurables	17	41	-24
Communications & Utilities	18	41	-23
Finance, Insurance & Real Estate	25	39	-14
Wholesale Trade	24	38	-14
Services	21	34	-13
Transportation	24	37	-13
Manufacturing, durables	28	38	-10
Healthcare	32	31	1
All Sectors Combined	22%	40%	-18%

• Those not saying the outlook will get better or worse believe conditions will remain about the same.

2009, compared with 31 percent who expect business to soften.

In all other major industry sectors, a clear majority of companies said they expect business conditions to deteriorate or stay about the same in the first six months of 2009, as shown in Table 3.

NJ Economy. For a fourth consecutive year, survey participants were more negative than positive in their outlook for the New Jersey economy, giving the gloomiest assessment in 18 years. (See Chart 1)

Fifty-seven percent said they expect New Jersey business conditions to go downhill in the first six months of 2009, versus only 15 percent expecting improvement. (See Table 2)

Although respondents expressed more confidence in the national economy, they nonetheless said they believe national economic conditions will get worse before they get better. Forty-two percent said they expect US business conditions to worsen in the first half of 2009, while only 25 percent said they expect those conditions to be more expansive.

Employment

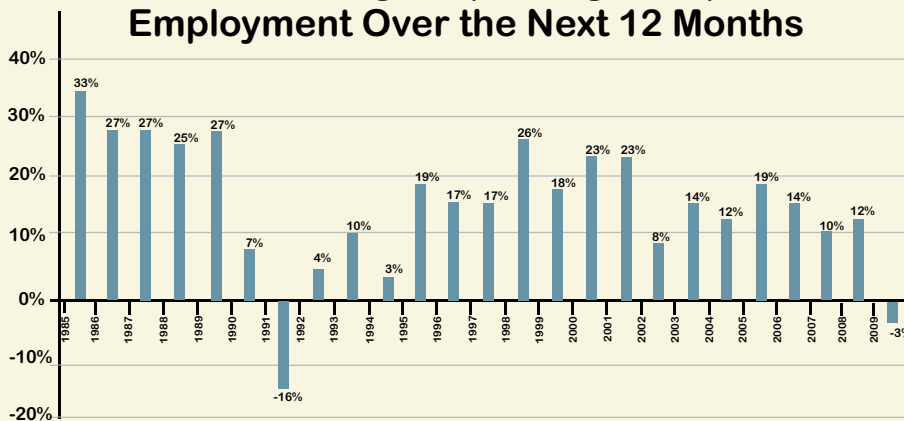
For only the second time in 25 years, survey participants were more negative than positive in the outlook for employment at their own companies.

Seventeen percent said they expect to hire additional workers in the year ahead, while close to 20 percent said they anticipate making layoffs. Thus, the net percentage of businesses planning to expand their payrolls in 2009, as illustrated in Chart 4, is actually negative. Only the 1991 outlook was worse.

Looking back at actual

Chart 4

Net Percentage Expecting to Expand Employment Over the Next 12 Months



employment conditions in 2008, one finds good reason for this negative outlook. The past year produced the biggest gap between employment expectations and actual employment in a quarter century of survey data.

In last year's survey, 25 percent of businesses said they expected to hire more workers in 2008 while 12 percent said they anticipated making layoffs, a moderately expansive outlook. But, as shown in the current survey, only 13 percent of businesses actually hired more workers in 2008, while 33 percent decreased the size of their workforce, reflecting a slumping economy.

Business Spending

Businesses are no more ready to spend than they are to hire. The outlook for business spending in 2009 is essentially flat.

Thirty-three percent of businesses said they expect to spend more on purchases in 2009 than they did in 2008, while 32 percent said they expect to spend less. The remainder said they expect to spend about the same. This is the weakest outlook for business purchasing in 18 years, and it is sharply lower from a year ago. (See Table 2)

The survey also shows that the pullback in business spending began in 2008. Forty-five percent reported spending less on business purchases in 2008 than they did in 2007, compared with 30 percent who reported spending more. This was the lowest level in nearly 20 years.

Survey participants are also prepared to tighten spending on advertising in the year ahead.

Only 28 percent said they would spend more on advertising in 2009, while 20 percent said they would spend less. Another 52 percent said they expect to spend about the same amount.

This is considerably weaker than last year's advertising outlook, when 38 percent said they would spend more, and 12 percent said they would spend less. It is also the weakest outlook for advertising spending in 12 or more years.

Finally, survey participants said they also plan

to cut back on capital spending. Twenty-eight percent said they plan to increase spending on new buildings and equipment over the next 12 months, down from 36 percent who said they planned to increase capital spending last year. Capital spending plans are now at their lowest level in the past six years.

Sales and Profits

Survey participants are also subdued in their out-

look for sales and profits at their own companies. These core measures of business activity have fallen dramatically from last year's levels, retreating to lows seen in earlier recessions.

Forty-one percent of companies said they expect their sales to increase over the next 12 months, down from 57 percent of companies having this expectation last year. And 29 percent expect their sales to decline over the next 12 months, compared with 21 percent who had this expectation last year.

The net percentage of companies expecting

TABLE 4

Average Wage & Salary Increases Given in 2007 & 2008 and the Outlook for 2009

	% OF RESPONSES		
	2007	2008	2009
PAY-RATE CHANGE	Actual	Actual	Projected
No Change	2%	5%	3%
Decrease	27	35	34
Increase	71	60	63
PERCENT DISTRIBUTION OF INCREASES ONLY			
1 -1.9% Increase	11%	13%	22%
2 -2.9% Increase	17	19	25
3 -3.9% Increase	34	33	29
4 -4.9% Increase	18	18	12
5 -5.9% Increase	10	10	7
6% or more	10	8	4

their sales to increase over the year, at 12 percent, matches the recent low-water mark for sales expectations set in the 2002 survey, as shown in Table 2.

The outlook for profits is also weak and lower than last year's moderate levels. Thirty-nine percent said they expect their company profits to increase in the year ahead, compared with 51 percent who had this expectation last year. And 33 percent expect company profits to decline, compared with 24 percent having this expectation last year.

The net percentage of companies expecting profits to increase in 2008, at 5 percent, is close to the lows seen in the 2007 and 2002 surveys.

This subdued outlook for sales and profits comes out of a painful year in which business conditions were more difficult than anticipated.

For example, 57 percent of companies responding to last year's survey said they expected their sales to increase in 2008. However, the current survey shows that only 34 percent in fact saw an increase, while 48 percent experienced a decrease.

Similarly, 51 percent expected their profits to improve heading into 2008. However, only 28 percent enjoyed an increase, while 56 percent suffered a decline in profits.

As illustrated in Chart 3, the net percentage of companies seeing an increase in sales and profits in 2008 was a negative number due to the fact that more companies saw decreases than saw increases.

Moreover, the negative reading for actual sales and profits in 2008 is below what it was at the low point of the 2001 recession.

Wages and Salaries

Survey participants anticipate giving smaller pay hikes in 2009 than they did in 2008. This continues a belt-tightening seen in last year's survey.

Sixty percent of businesses reported giving pay increases in 2008, down from 71 percent of businesses the year before. Of those giving pay raises in 2008, 65 percent reported giving increases in a range of 1 to 4 percent, with the other 35 percent giving increases of more than 4 percent.

Looking ahead, 63 percent anticipate giving pay increases in 2009, close to last year's level. But those pay hikes promise to be less generous than they were over the past year. Of those planning to

give pay raises in 2009, 76 percent anticipate that those increases will be in a range of 1 to 4 percent, while only 24 percent plan to give increases of more than 4 percent. (See Table 4 for details.)

Pricing

The prices that companies charged for their goods and services in 2008 reflected both the pressure of rising input costs—such as the cost of steel, oil, natural gas and other commodities—and the need to stay competitive.

Fifty-one percent of businesses reported raising prices over the past year, up from 45 percent the year before, but within the average range seen over the past five years.

The big change was in the proportion of businesses lowering prices. Thirty-seven percent reported lowering their prices in 2008, up from 10 percent lowering their prices in 2007. This is the largest proportion of companies lowering prices in the 10 years that this question has been asked.

NJ Business Climate

Not surprisingly, New Jersey continues to get poor marks for its business climate. Only 12 percent said the state is a good place for expansion of their business facilities, down from 19 percent last year. This is also the lowest mark in more than 25 years.

Forty percent said New Jersey is "average" or "fair" for expansion of business facilities, and another 48 percent said it is "poor."

Asked to rate the performance of state government, most respondents said New Jersey is worse than other states in controlling government spending, controlling healthcare costs, and attracting new businesses, as well as in its attitude toward business and the cost of regulatory compliance.

However, the state was given relatively good grades for the quality of its workforce, the quality of its schools and protection of the environment. Significant majorities said New Jersey is as good as other states in these three areas, if not better.

The two top-ranked problems were health insurance costs and the high overall cost of doing business in New Jersey. Property taxes came in third, followed by state taxes, state regulations and energy costs.

Government Leaders

Survey participants gave state and federal govern-

ment leaders low scores for their recent performance.

Fourteen percent said Governor Jon Corzine is doing a good job, 35 percent a fair job and 51 percent a poor job, his lowest approval rating since taking office three years ago.

Eight percent said the Legislature is doing a good job, 37 percent a fair job, and 55 percent a poor job, its lowest rating in 17 years.

Fifteen percent said President Bush is doing a good job, 35 percent a fair job and 48 percent a poor job, the lowest approval rating in his eight years as the nation's chief executive.

Five percent said Congress is doing a good job, 30 percent a fair job, and 65 percent a poor job, its lowest rating in eight years.

Conclusion

The findings of this annual survey make it abundantly clear that the economic slowdown came early to New Jersey. Starting with the 2006 survey, businesses have been more negative than positive in their outlook for the state economy and their own industries.

The 2009 outlook survey provides compelling evidence that this slowdown became a full-blown recession in 2008.

Sales, profits and employment fell dramatically last year, forcing many companies to make fewer purchases, give smaller pay raises and, in many instances, to cut prices to keep their businesses afloat in a shrinking economy.

The outlook for sales, profits and employment among New Jersey businesses is weak and has fallen to levels not seen since the last two recessions.

In New Jersey, employers have not only lost confidence in the economy, but also in the state's business climate and in the performance of government leaders.

The Governor and Legislature must continue to follow through on their commitment to improve the state's business climate by lowering taxes and removing other barriers to business expansion and job creation. Only in this way can New Jersey emerge stronger from what many believe will be a long and deep recession.

About this Survey

NJBIA's 50th annual Business Outlook Survey questionnaire was sent to approximately half of the

Association's 23,000 member companies in September 2008. The responses are based on the first 1,450 responses arriving before the cut-off date.

The profile of this year's respondents (geographical location, industry type and company size) is generally consistent with respondents from past survey years. Most of the respondents were small companies, with 73 percent reporting 1-24 employees; 10 percent, 25-49 employees; 8 percent, 50-99 employees; and 9 percent, 100 employees or more.

Responses came from businesses in all 21 New Jersey counties, with the greatest number of responses coming from Bergen, Monmouth, Middlesex and Essex counties, followed closely by Union, Morris, Mercer and Ocean.

Every major industry sector was represented, with 31 percent of respondents in diverse service industries; 19 percent in manufacturing; 15 percent in construction; 7 percent each in retail, finance/insurance/real estate and the wholesale trades; and 3 percent in healthcare. 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 rounding. Any reference to "companies" or "businesses" or "employers" in this text refers to respondents to this survey.