

# 48TH ANNUAL SURVEY

## *Business Outlook Dims As Employers Foresee Continued Slow Growth In NJ*



### Summary of Findings

**A**mid evidence of a weakening economy, business confidence in the State economy and the State's business climate has fallen to the lowest levels since the early 1990s, the New Jersey Business & Industry Association's 2007 Business Outlook Survey has found.

As a group, the 1,700 employers responding to the survey also expressed less optimism about sales, profits, and employment in the year ahead, with collective expectations falling to the lowest levels since the 2002 survey, when the State was in the throes of a recession.

Survey respondents also expressed great concern

about the high overall cost of doing business in New Jersey, especially the costs of health insurance and property taxes.

While employers voiced growing pessimism about the near-term economic outlook at all levels—from the US economy to their own industries—the bleakest assessment was reserved for the New Jersey economy.

Fifty-one percent of survey respondents said they expect State economic conditions to deteriorate in the first half of 2007, while only 12 percent said they anticipate improvement. This is the most downbeat assessment since the 1989-92 recession. However, most respondents who anticipate a worsening of conditions expect it to be only moderate.

Respondents as a group also gave New Jersey the

# NJBIA'S 2007 BUSINESS OUTLOOK SURVEY

lowest marks on record as a place for business expansion. They gave similarly low marks to State government for its performance in key areas of fiscal responsibility, including its ability to control government spending and taxes, as well as the cost of health insurance, regulatory compliance and energy.

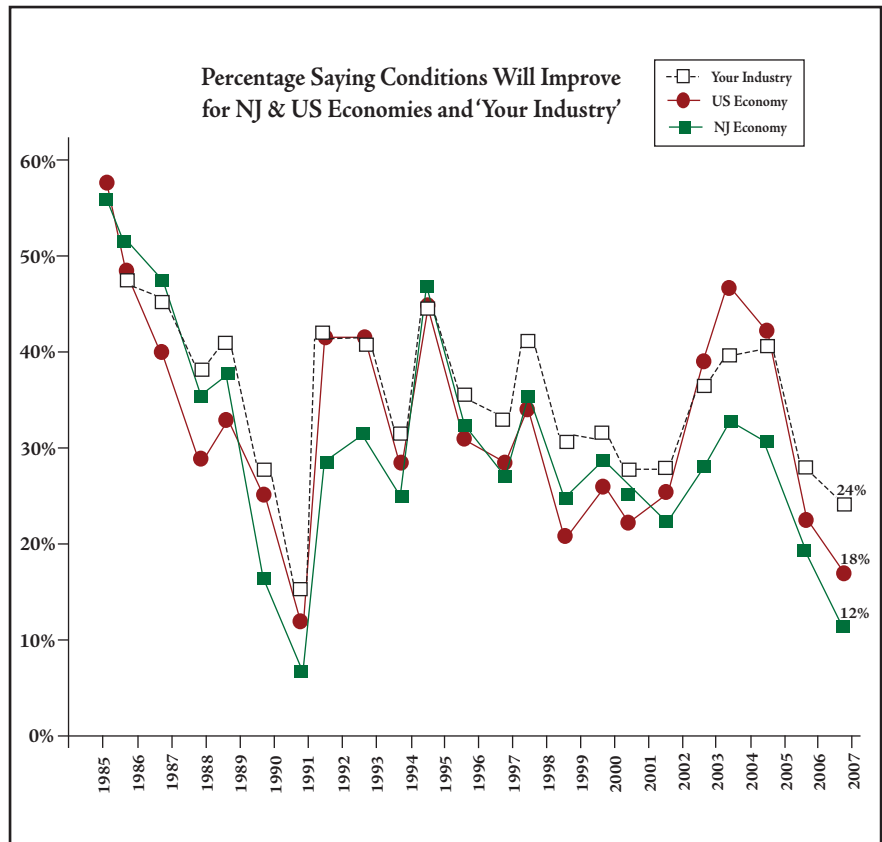
While the survey findings do not show New Jersey to be in a recession, they reveal a distinct softening of economic conditions and a widespread loss of confidence within the business community.

It is worth noting that the current survey findings come on the heels of an already dramatic loss of confidence found in the previous year's survey. The 2006 Business Outlook Survey captured one of the most dramatic shifts from optimism to pessimism in 22 years of available survey data. It is now apparent that this shift anticipated an economic slowdown that can be seen in the current survey findings and in broader State economic data.

The 2007 Business Outlook Survey was mailed to NJBIA members in September 2006. The findings are based on the first 1,700 responses. The respondents as a group are representative of NJBIA's overall membership. Three quarters of the responses came from small companies with one to 24 employees.

## Near-Term Economic Outlook

Business confidence in the near-term outlook for the State



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economy, as well as for respondents' own industries, has fallen to the lowest levels since the 1991 survey, which was conducted during the 1989-92 recession. (See Chart 1)

Overall confidence in the national economy remains at last year's depressed levels, but otherwise is little changed. It is important to note that the vast majority of respondents expecting conditions to worsen—at the industry, state and national levels—anticipate that those conditions will deteriorate only “moderately.”

**US Economy.** For the second year in a row, those expecting national economic conditions to weaken in the first six months of the year far exceed those

foreseeing improvement.

Eighteen percent of survey respondents expect the national economy to improve in the first half of 2007, down from 21 percent a year ago, while 34 percent expect conditions to worsen, versus 39 percent a year ago. It is important to note that the net percentage believing conditions will get better, while still negative, has actually improved somewhat over the last year, as shown in Table 3.

**NJ Economy.** Respondents are more pessimistic in their outlook for the State economy than they were last year. Only 12 percent believe conditions will improve in the first half, down from 18 percent last year, while 51 percent expect conditions to worsen, versus 39 percent last year. The proportion

## Expectations For Own Industry By Major Sector

SECTOR	2007 Survey Percent Expecting Conditions to:		Net Expecting Improvement In Past Three Surveys*		
	IMPROVE	WORSEN	2005	2006	2007
Finance, Insurance & Real Estate	31	28	41	-2	3
Communications & Utilities	21	21	67	22	0
Manufacturing	30	35	26	-1	-6
Wholesale Trade	25	31	25	-12	-6
Services	21	31	22	-1	-10
Transportation	31	50	37	0	-19
Construction	15	42	8	-13	-27
Retail Trade	15	43	10	-16	-28
Other	34	26	26	-7	8
All Sectors Combined	24	34	22	-5	-10

\*Percentage expecting increases minus percentage expecting declines.

projecting improvement is now the lowest in 16 years.

**Own Industry.** Respondents as a group are also less optimistic about prospects for their own industries, with overall confidence also falling to the lowest point in 16 years. Twenty-four percent project better times ahead, down from 27 percent last year, while 34 percent believe conditions will worsen, compared with 32 percent last year.

As shown in Table 1, optimism is down from last year across virtually all major industries. The gloomiest assessments came from the retail and construction industries. Only 15 percent of respondents in those industries anticipate improvement in the year ahead, but 43 percent and 42 percent, respectively, foresee a slowdown.

**Business Cycle.** When asked where in the business cycle they find their industries, respondents expressed a comparable loss of confidence. They offered the least optimistic assessment since the 2002 survey, conducted during the 2001 recession. (See Table 2)

Twenty-eight percent said they

believed their industries were already in a recession in September 2006, when this survey was conducted. This is up from 22 percent of companies believing their industries were in recession in each of the two previous surveys. But it is well off the high of 43 percent seen in the 2003 recession-year survey.

Another 27 percent said they believed their industries were moving from expansion to recession in September, up from 20 percent a year ago and 8 percent two years ago. This sentiment was widespread across sectors but was most pronounced in construction, where 47 percent believed their industry to be headed into recession.

On the other side of the business cycle, 28 percent said they believed their industries to be expanding and 16 percent said their industries were still recovering from recession.

### Employment

About 21 percent said they expect to hire more workers in 2007, compared with 24 percent

last year, while 12 percent anticipate making cutbacks, compared with 10 percent last year. This is the lowest level of hiring expectations since the 2002 survey and the third lowest level in 14 years.

This outlook is consistent with actual employment conditions in New Jersey as measured both by this survey and by the New Jersey Department of Labor and Workforce Development (LWD).

The current survey shows that fewer employers hired workers in 2006 than had anticipated doing so in the prior-year's survey. While 24 percent of companies anticipated expanding their payrolls in 2006, only 18 percent actually did so. At the same time, 16 percent of companies trimmed their payrolls in 2006, more than the 10 percent that anticipated the need to do so.

From this data, it is clear that employment conditions in 2006 were weak. This is consistent with State employment data for the first ten months of 2006. According to the LWD, total private-sector employment in New Jersey grew by 11,300 jobs in the January through October period. This is the third consecutive year in which New Jersey has lagged the nation in private-sector job growth.

Employment expectations for 2007 vary from one industry sector to another. Most industry sectors anticipate at least some employment growth, while only the retail and construction sectors anticipate a pullback.

Even with weak job growth, employers have experienced moderately increased difficulty in recruiting qualified workers since the current expansion got underway in 2002. Two-thirds continue to have trouble finding "skilled" labor. Employers also report difficulty finding qualified workers for professional and technical positions (54 percent) and managerial positions (45

percent). Less than 20 percent said they had a hard time finding suitable clerical and unskilled workers.

## Sales, Profits & Purchases

Respondents as a group reported expectations for sales, profits and purchases in the year ahead that are the most subdued since the 2002 survey, when the economy was in a recession. Respondents also reported that actual activity for all of these measures in 2006 fell to the lowest level in three years. Chart 2 summarizes the net percentage of companies expecting sales and profits to rise over the last 19 years, and thus provides a useful historical perspective. Table 3 shows more detailed survey findings for these measures over the last six years.

**Sales.** Forty-three percent of companies expect sales to rise in 2007, while 29 percent foresee declines. Thus, the net percentage of companies anticipating higher sales is 15 percentage points, down sharply from 38 percentage points two years ago. (See Table 3)

Expectations are actually better this year than last for manufacturing and for the transportation, communications and utilities sectors. They are worse, however, for construction, retail and wholesale trade, service providers and finance, insurance and real estate firms.

In the retail trade sector, those anticipating sales declines actually outweigh those projecting gains by 14 percentage points. There is an even balance between expectations of gains and declines in construction.

Forty-six percent of respondents reported enjoying higher sales in 2006, somewhat less than the 49 percent reporting gains a year earlier, but above the 34 percent low reported four years ago. The

## Where is Your Industry in the Business Cycle?

	2000	2001	2002	2003	2004	2005	2006
<b>In Recession</b>	13%	39%	43%	37%	22%	22%	28%
<b>Moving into Recession</b>	23%	27%	9%	6%	8%	20%	27%
<b>RECESSION PHASE</b>	36%	66%	51%	43%	31%	42%	56%
<b>Expanding</b>	54%	21%	17%	20%	32%	36%	28%
<b>Recovering from Recession</b>	10%	12%	31%	38%	38%	23%	16%
<b>EXPANSION PHASE</b>	64%	34%	49%	57%	69%	58%	44%

NOTE: Years indicate actual years in which surveys were conducted.

proportion experiencing declines edged up from 28 percent to 31 percent.

**Profits.** The outlook is even less rosy for profits. A little over 37 percent said they expect profits to increase in 2007, while just below 36 percent project a decline. As a result, a net 2 percent of respondents anticipate higher profits. (See Table 3). This is the lowest level in five years and the second lowest level in 13 years, as shown in Chart 2.

As with sales, respondents' actual experience with profits in 2006 did not live up to expectations. Thirty-nine percent reported higher profits, down from 43 percent in each of the previous two years, but up from 30 percent in 2003. The proportion of respondents reporting that their profits were down in 2006 was 36 percent.

**Purchases.** In the face of an expected reduction in sales and profits, a somewhat smaller proportion of companies anticipate spending more on purchases in the year ahead. Thirty-six percent believe they will spend more on purchases in 2007, versus 42 percent the year before, while 27 percent believe they will spend less, versus 23 percent the year before. (See Table 3)

## Costs of Doing Business

Responding to questions about the costs of doing business, respondents indicate that they

plan to manage wage and fringe benefit costs more tightly in 2007. They said they expect to keep the level of increases in 2007 somewhat below the level of increases seen in 2005 and 2006. They also expect to spend somewhat less money on advertising. Looking at some of the costs over which they have little or no control, they anticipate that property taxes will rise at an even faster pace in 2007 than in recent years.

**Wages and Salaries.** Seventy-two percent of survey participants increased salary and wage rates in 2006, about the same as in 2004 and 2005. Reported increases were little changed in magnitude from the year before. Of those employers reporting increases, 31 percent raised their pay rates by 3 percent and 45 percent granted hikes of 4 percent or more. The remaining one-fourth raised pay by 1 or 2 percent.

Seventy-two percent of respondents expect to pay higher wages and salaries in 2007, the same as those who actually paid more in 2006, but they expect those increases to be smaller than in the past three years, as shown in Table 4. Of those anticipating increases, 35 percent project that they will be about 3 percent. The same proportion anticipates increases of 4 percent or more. Thirty-one percent expected to limit their increases to 1 or 2 percent.

**Fringe Benefits.** Rapidly rising fringe benefit costs, particularly



### Summary of the Outlook for Future Business Conditions 2002-2007 Surveys

US Economy	2002	2003	2004	2005	2006	2007	2006-07 Change
Better	25%	38%	47%	42%	21%	18%	-3%
Same	33%	39%	38%	43%	40%	48%	8%
Worse	42%	23%	16%	16%	39%	34%	-6%
Net Better*	-17%	15%	32%	26%	-18%	-15%	

NJ Economy	2002	2003	2004	2005	2006	2007	Change
Better	22%	28%	34%	31%	18%	12%	-6%
Same	36%	40%	41%	45%	42%	37%	-5%
Worse	42%	31%	26%	24%	39%	51%	11%
Net Better*	-21%	-3%	8%	7%	-21%	-39%	

"Your Industry"	2002	2003	2004	2005	2006	2007	Change
Better	28%	36%	40%	41%	27%	24%	-3%
Same	39%	41%	41%	41%	41%	42%	1%
Worse	33%	23%	19%	19%	32%	34%	2%
Net Better*	-6%	13%	21%	22%	-5%	-10%	

Employment	2002	2003	2004	2005	2006	2007	Change
Increase	21%	24%	23%	27%	24%	21%	-3%
Same	66%	66%	66%	66%	66%	67%	1%
Decrease	13%	10%	11%	7%	10%	12%	2%
Net Increase*	8%	14%	12%	19%	14%	10%	

Sales	2002	2003	2004	2005	2006	2007	Change
More	42%	50%	50%	56%	49%	43%	-5%
Same	27%	25%	27%	26%	26%	28%	2%
Less	31%	26%	23%	18%	25%	29%	3%
Net More*	12%	24%	26%	38%	23%	15%	

Profits	2002	2003	2004	2005	2006	2007	Change
More	37%	42%	44%	49%	43%	37%	-6%
Same	27%	25%	28%	26%	25%	28%	2%
Less	36%	33%	28%	26%	32%	36%	3%
Net More*	0%	10%	16%	23%	10%	2%	

Purchases	2002	2003	2004	2005	2006	2007	Change
More	35%	39%	40%	46%	42%	36%	-6%
Same	39%	37%	37%	36%	35%	37%	2%
Less	26%	24%	24%	18%	23%	27%	4%
Net More*	8%	16%	16%	28%	19%	8%	

\* "Net better" (or "net increase" or "net more") represents the net percentage ("more" minus "less") anticipating improved conditions.

Notes: Changes calculated before rounding. Totals may not equal 100 percent.

in the previous two surveys. Fifty-five percent said they expect no change and 12 percent project a decline.

**Property Taxes.** Expectations have worsened regarding New Jersey's local property tax burden. Eighty-one percent of this year's respondents expect larger property tax bills in 2007 than in 2006. Of these, 34 percent (up from 30 percent last year and just 13 percent five years ago) foresee hikes of 6 percent or more.

**Borrowing Costs.** Interest rates have been edging upwards for some time now and survey respondents expect borrowing costs to keep rising during the period ahead. Two-thirds anticipate further increases in 2007 while only 5 percent foresee a decline.

### Pricing and Productivity

**Pricing Power.** Pricing power was little changed in 2006, after improving considerably during the three preceding years. The proportion of businesses raising prices edged up from 54 percent to 55 percent, the highest since this question was first asked in the 2000 survey. Thirty-seven percent said they held prices at last year's levels and only 7 percent said they cut prices.

**Investments to Improve Productivity.** Fifty-nine percent of respondents reported that they had made productivity-enhancing investments in 2006, up from 57 percent a year earlier. Of those making such investments, 70 percent upgraded their information technology, 51 percent invested in new production equipment or facilities, 51 percent engaged in workforce training and development and 35 percent made outlays for production process improvements.

**Capital Spending Plans for Next 12 Months.** The percentage of respondents projecting

health insurance costs, have been a major concern to employers for a good number of years, and further sizeable increases are projected for 2007. Seventy-three percent of respondents said they expect their fringe benefit outlays to climb higher, about the same proportion as in the four preceding surveys. Twenty-two percent said they expect no change and 5 percent anticipate a reduction.

Of those respondents projecting

increases, 49 percent said fringe benefit costs are likely to rise by 6 percent or more and 21 percent predict hikes in excess of 11 percent. These expectations are not quite as inflationary as those expressed by last year's survey participants.

**Advertising Budgets.** Thirty-three percent of respondents said they expect to spend more on advertising in 2007, a somewhat smaller proportion than was seen

increased capital spending during the next 12 months slipped for the second year in a row, to 32 percent this year, from 39 percent in the 2005 survey. Fifty-one percent of all respondents see capital outlays holding steady at 2006 levels and 16 percent project declines, up from 11 percent two years earlier.

### NJ Business Climate

Survey respondents' assessment of New Jersey as a place for business expansion has plummeted to a new low.

When asked how they view New Jersey as a place to expand their business facilities, only 17 percent rated the State to be "good" or "very good." This is down from 28 percent during the three preceding surveys. It is also the lowest rating for the entire 1985-2007 survey period, as shown in Chart 3.

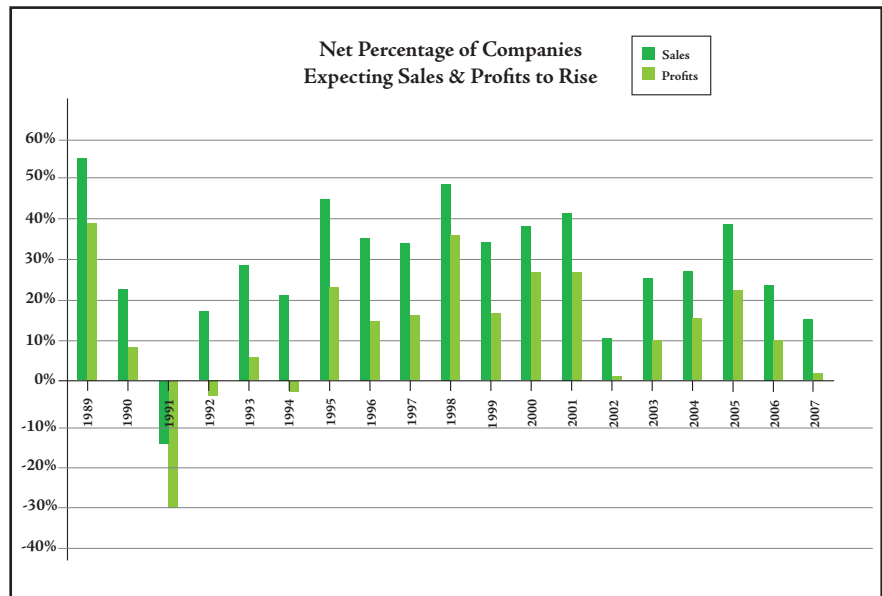
Thirty-nine percent now say New Jersey is a "poor" place for business expansion, 25 percent say it is "fair" and the remaining 19 percent, "average."

### NJ Worse than Other States

NJBIA members also hold mostly negative views about the State government's attitude towards business, its economic development efforts and its effectiveness in controlling the costs of doing business. Members were most unhappy with the performance of the State regarding taxes and fees, government spending and healthcare costs. The following percentages of respondents said New Jersey is worse than other states in:

**Attracting new business:** 82 percent, the most unfavorable assessment on record and up from an average of 72 percent in the three preceding surveys.

**Attitude towards business:** 80



percent, up from 69 percent last year and the worst on record.

**Promoting economic development:** 74 percent, up from 64 percent last year and the least favorable assessment on record.

**Controlling government spending:** 95 percent, up from 91 percent last year and the worst on record.

**Controlling energy costs:** 83 percent, virtually unchanged from last year and the worst on record.

**Timely issuance of building permits:** 81 percent, up from 77 percent last year.

**Cost of regulatory compliance:** 89 percent, up from 84 percent last year and near the all-time high of 91 percent recorded in the 1994 survey.

**Controlling healthcare costs:** 95 percent, matching last year's least favorable assessment on record.

**Taxes and fees:** 98 percent, the worst assessment since the question was first asked in the 2004 survey.

### NJ Better than Other States

In contrast to their highly critical assessments of the State's business climate and the costs of doing business here, survey

respondents continued to assign relatively high marks to the caliber of New Jersey's workforce, the quality of life, schools and environment. The following percentages of survey respondents said New Jersey is better than other states:

**Quality of work force:** 62 percent, near last year's 64 percent.

**Quality of public schools:** 68 percent, down from 72 percent last year.

**Environmental protection:** 61 percent, little changed from the average for the four preceding surveys.

**Quality of life:** Historically, large proportions of survey participants have been favorably impressed by the State's quality of life, but this favorable view is eroding. Fifty-two percent said New Jersey is a better place in which to live than other states, a sharp drop from 65 percent last year and the fewest on record since the 1991 and 1992 survey years.

### Most Commonly Cited Problems

Health insurance costs continue to rank as the biggest problem faced by NJBIA members, but by a much smaller margin than in the

## Average Wage & Salary Increases in 2005 & 2006

### And Projections for 2007

	% of Respondents		
	2005 Actual	2006 Actual	2007 Projected
<b>PAY-RATE CHANGE</b>			
Decrease	2%	2%	1%
No Change	26%	26%	27%
Increase	72%	72%	72%
<b>PERCENT DISTRIBUTION OF INCREASES ONLY</b>			
1% Increase	11%	7%	11%
2% Increase	15%	17%	20%
3% Increase	31%	31%	35%
4% Increase	17%	19%	16%
5% Increase	17%	18%	14%
6% Increase or more	9%	9%	5%

past, as concerns about property taxes and the overall cost of doing business in New Jersey have moved up in importance.

Asked to rank their biggest problems from a list of common business concerns, 26 percent of respondents said health insurance costs are their worst problem, while 25 percent said their worst problem is property taxes and 24 percent named the overall cost of doing business in the Garden State.

Farther down in the ranking were state regulations (7 percent), state taxes (5 percent) and frivolous lawsuits (4 percent).

### Editor's Note:

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 "employers" in this text refers to respondents to this survey.

### Assessing Government Leaders

Not surprisingly, this year's survey respondents did not give good grades to political leaders in Trenton and Washington.

**Bush Administration.** Mirroring national polls, the very favorable assessment given by survey participants to the Bush Administration in the wake of 9/11 has vanished. Sixty-five percent of those responding to the 2003 survey rated its performance as "good" or "excellent." This year, only 31 percent gave the Administration a good rating, with 33 percent rating it "poor" and the remaining 36 percent, "fair."

**Congress.** The President's current rating is enviable when compared with that of Congress. Only 11 percent of this year's survey participants assigned a "good" to "excellent" rating to federal lawmakers, down from 14 percent last year and 38 percent in the 2001 survey. Forty-four percent of this year's respondents said Congress has been doing a poor job, compared with 35 percent at the time of last year's

survey.

**Corzine Administration.** The Corzine Administration, in office for only seven months when this survey was conducted, has not been given much of a honeymoon by NJBIA members. Twenty-three percent of survey respondents gave it a good-to-excellent rating, 42 percent a fair rating, and 35 percent a poor rating.

**NJ Legislature.** The New Jersey Legislature fared slightly worse than Congress. Nine percent of respondents gave State lawmakers a good-to-excellent rating, down from 13 percent last year. Forty percent rated them fair and 51 percent poor.

### Conclusion

For the second year in a row, business confidence in the near-term economic outlook has tumbled, particularly for the state economy. The outlook for future sales, profits and employment of individual companies has also weakened.

Perhaps even more worrisome, this year's survey reveals a continued erosion of business confidence in New Jersey as a place for business expansion and in the ability of state government to control fundamental costs like health insurance, taxes, regulatory compliance and energy.

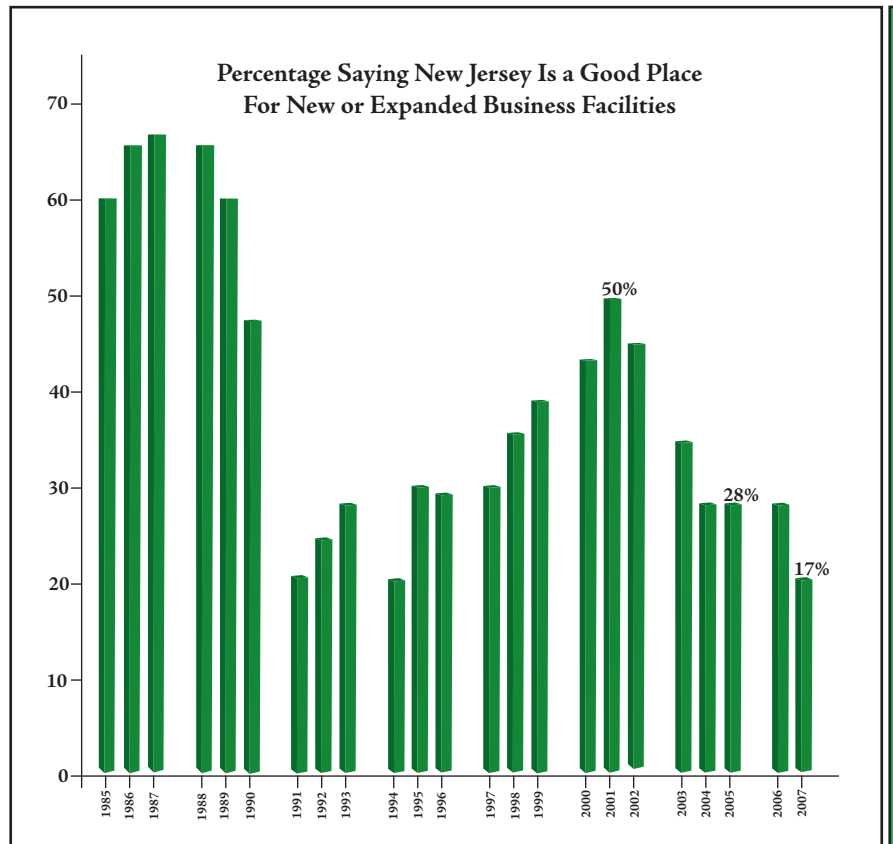
One could argue that a slowing economy is coloring employers' perceptions of New Jersey's business climate. One could also argue that disenchantment with state-government policies is coloring employers' outlook for the economy.

Either way, the essential fact is this: Business opinion about the State economic outlook and the state's business climate are moving in a negative direction. Survey respondents are voicing a growing unhappiness with business conditions here in the Garden

State, a disturbing trend.

It is abundantly clear that the Governor and the Legislature must act quickly on policies that will lower business costs, make New Jersey more attractive as a place for business expansion and create new jobs in the private sector. Employers are very concerned about the high overall cost of doing business in New Jersey, especially the high cost of health insurance and property taxes.

New Jersey cannot afford to take a passive approach, simply hoping that business conditions will improve. We have reached a critical tipping point. Aggressive actions must be taken to improve business conditions. If business confidence continues to slide, this will further harm the State's ability to strengthen the economy, retain and attract businesses and create new jobs.



## About this Survey

The 48th Annual Business Outlook Survey questionnaire was mailed to the New Jersey Business & Industry Association's 23,000 member companies in September 2006. About 1,700, or a little over 7 percent, of these companies returned their questionnaires prior to the survey cutoff date. It is their responses that serve as the basis for the survey findings presented in this report.

The geographical coverage and industry mix of this year's responses are similar to those of other recent years and are generally consistent with the make-up of NJBIA's overall membership. Manufacturers accounted for 21 percent of this year's responses and another 29 percent were from service firms. Sixteen percent were from wholesale and retail trade establishments and 14 percent were from the construction sector. The balance was from finance, insurance, real estate, transportation, utilities and other industries.

Seventy-four percent of the respondents employed 24 or fewer persons. Another 18 percent employed from 25 to 99 persons and 8 percent employed 100 or more.