Outlook 2013

NJ Business Outlook Climbs to 5-Year High As Employers' Confidence in NJ Rises.

By Chris Biddle, Special to *New Jersey Business* magazine*

Summary of Findings

Business confidence among New Jersey employers has reached its highest levels of the past five years, according to the findings of the New Jersey Business & Industry Association's (NJBIA) 2013 Business Outlook Survey. However, that confidence remains subdued overall and has not returned to more optimistic pre-recession levels.

Of particular note, the outlook of individual companies for their own sales, profits and employment has reached its most positive level since the onset of the 2008-2009 recession. For example, 19 percent of survey respondents anticipate hiring more workers in 2013, but only 11 percent expect to make workforce reductions, with the rest expecting employment to remain stable.

As illustrated in Chart 1, the net percentage of companies anticipating the need to hire additional workers is 8 percent, the highest level of the past five years.

Survey participants also expressed more confidence in New Jersey as a place for business expansion. And they viewed New Jersey more favorably, when compared to other states, in areas where it once fared poorly, such as its attitude toward business, its ability to attract new business, and controlling government spending.

The outlook for the New Jersey economy has jumped to the highest level in eight years, as has the outlook for companies' own industries.

The damage done by Hurricane Sandy, which occurred one month after the survey was conducted, could affect economic conditions in the short term. However, strengthening business conditions, a stronger business climate and more solid economic fundamentals will continue in 2013 and help the state recover from the storm.

These are among the major findings of the NJBIA survey, now in its 54th year. A total of 1,470 companies from every major industry in all 21 counties participated in the annual fall survey. Most respondents were small companies with between 1 and 49 employees. (See "About this Survey" on last page of this report.)

The "net" business activity or outlook in this report provides a single-number point of reference to compare current survey data with data from previous surveys. It is calculated by subtracting the percentage of survey participants experiencing or anticipating a worsening of conditions from the percentage experiencing or anticipating improvement.

CHART 1

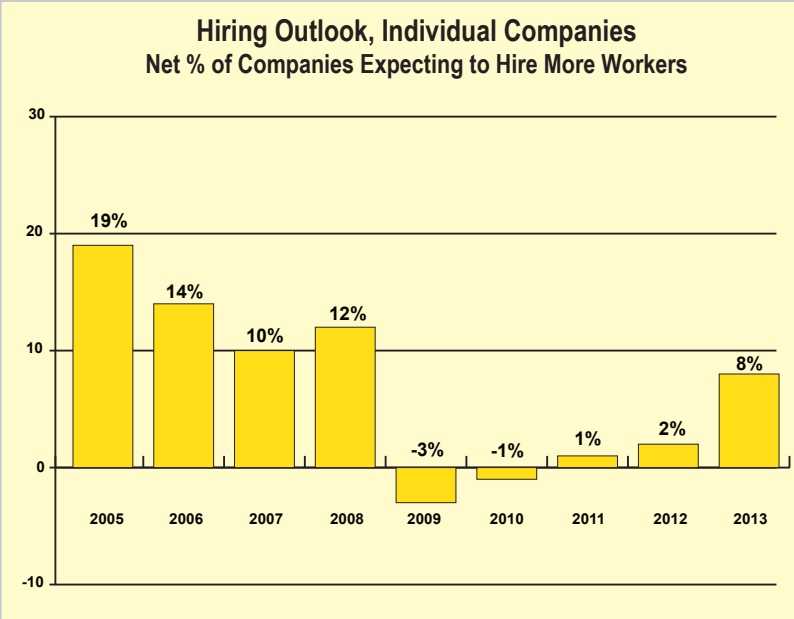
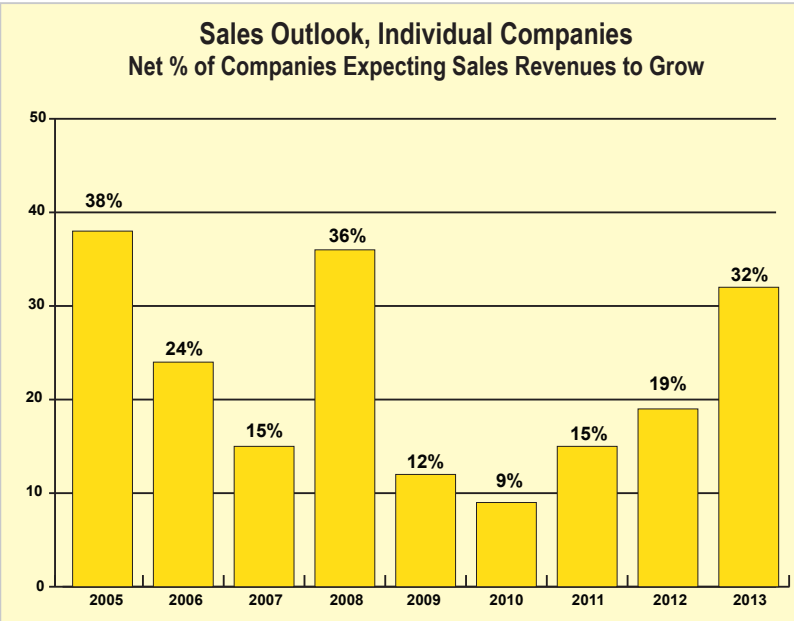


CHART 2



Current Activity: Sales, Profits & Spending

Sales, profits and spending activity at individual companies made continued improvement in 2012. (See Table 1)

Sales activity at individual companies improved for a third consecutive year in 2012, moving into positive territory for the first time in five years.

Forty-one percent of companies reported higher sales revenues in 2012 than in 2011, and 35 percent reported lower revenues, with the rest reporting stable sales. The survey's net current-sales index, therefore, was plus 6 percent, up from -1 percent in 2011 and -23 percent the year before that.

The proportion of companies reporting higher profits also improved in 2012, but remained negative overall.

Thirty-four percent reported higher profits in 2012; 43 percent, lower profits; and the remainder, stable profits. The survey's net current-profitability index, therefore, was -9 percent. This is up from -18 percent in 2011 and -54 percent four years ago at the recession low point.

Business spending (purchasing) activity in 2012 improved to its best level in five years.

Thirty-three percent spent more on goods and services in 2012, 35 percent spent less, and the remainder spent about the same amount. The survey's net purchasing-activity index, therefore, was -2 percent, up from -8 percent last year and a low of -55 percent in 2009.

Your Company – Employment

Current Employment

Hiring activity improved for a third consecutive year in 2012 but remained slightly negative. (See Table 2)

Seventeen percent of companies reported hiring additional workers over the past year, and 22 percent reduced the size of their workforce, with the remainder keeping employment stable.

The survey's current employment index, therefore, was -5 percent. This is the fifth year in a row in which the survey's current employment index has been negative. However, it has improved steadily since hitting a 26-year low of -40 percent in 2009.

Employment Outlook

The employment outlook has also improved and is now at its highest level in five years. (See Table 3)

Nineteen percent of businesses expect to hire additional workers in 2013, 69 percent expect to keep employment levels about the same, and 11 percent expect to make workforce reductions.

The net percentage of companies expecting to hire more workers, therefore, is 8 percent and approaching pre-recession levels.

TABLE 1

Sales, Profits and Spending Activity at Individual Companies

Survey Year	2009	2010	2011	2012
SALES				
Up	17%	31%	38%	41%
Same	11	15	22	24
Down	72	54	40	35
*Net activity	-55%	-23%	-1%	6%
PROFITS				
Up	17%	25%	30%	34%
Same	13	17	22	24
Down	71	58	48	43
*Net activity	-54%	-33%	-18%	-9%
SPENDING				
Up	14%	24%	32%	33%
Same	17	21	28	32
Down	69	55	40	35
*Net activity	-55%	-31%	-8%	-2%

* The "net activity" 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 those same activities. Changes calculated before rounding. Totals may not equal 100 percent.

TABLE 2

Hiring Activity at Individual Companies

	2009	2010	2011	2012
Hired additional workers	8%	12%	15%	17%
Kept employment stable	44	53	58	60
Reduced size of workforce	48	35	27	22
Net hiring activity	**-40%**	**-23%**	**-12%**	**-5%**

Outlook: Sales, Profits & Spending

Just as current activity for the sales, profits and spending of individual companies has improved over the past year, so too has the outlook for these critical measures of business performance. (See Table 4)

Forty-nine percent of respondents anticipate higher sales revenues in 2013, 17 percent anticipate lower sales, and the rest expect little change in sales revenues. The net percentage of companies anticipating higher sales, therefore, is 32 percent, as shown in Chart 2 and Table 4, the highest level of the past five years.

The profit outlook has improved as well, with 45 percent expecting to be more profitable in 2013, 22 percent expect-

TABLE 3

Hiring Outlook at Individual Companies

	2010	2011	2012	2013
Hire additional workers	16%	16%	15%	19%
Keep employment stable	67	70	71	69
Reduce employment	17	15	13	11
Net hiring activity	**-1%**	**1%**	**2%**	**8%**

TABLE 4

Outlook of Individual Companies for their Own Sales, Profits, Spending and Employment in the Year Ahead

	2010	2011	2012	2013
SALES				
More	40%	42%	42%	49%
Same	28	31	34	34
Less	32	27	24	17
Net outlook*	9%	15%	19%	32%
PROFITS				
More	36%	37%	36%	45%
Same	30	33	36	34
Less	34	30	28	22
Net outlook*	2%	7%	9%	23%
PURCHASES				
More	30%	33%	33%	39%
Same	36	37	42	41
Less	34	30	25	20
Net outlook*	-5%	3%	8%	19%

*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.

ing to be less profitable, and the rest expecting profitability to be little changed.

The net percentage of companies anticipating higher profits is, therefore, 23 percent, the highest level of the past five years and up from 9 percent the year before.

The outlook for business spending has improved for a fifth consecutive year.

Thirty-nine percent of respondents expect to spend more on purchases in 2012, 20 percent expect to spend less, the rest expect to keep spending at current levels.

The net percentage of companies expecting to increase spending is, therefore, 19 percent, up from 8 percent in the previous survey and matching the pre-recession high recorded in the 2008 Business Outlook Survey.

Broader Economic Outlook

Businesses remain cautious in their outlook for the state and national economies and for their own industries. However, that outlook is much improved from last year. (See Table 5)

US Economy

Twenty-six percent of respondents expect US economic conditions to improve in 2013, 30 percent expect them to worsen, and the rest expect little or no change. The net outlook as measured by this survey indicator is, therefore, -4 percent.

This is up from -29 percent in the previous survey and is the second most positive outlook of the past eight years.

NJ Economy

The outlook for the New Jersey economy is now positive for the first time in eight years, with 29 percent expecting state economic conditions to improve in 2013, 25 percent expecting them to worsen, and the rest expecting little or no change.

This leaves a net positive outlook for the state economy of plus 4 percent, compared with a net outlook of -13 percent one year ago.

Your Industry

When asked how they expect their own industries to perform in 2013 compared with 2012, 29 percent said better, 26 percent said worse and the rest said no real change. This leaves a net positive outlook of 3 percent for companies' own industries, an eight-year high. (The net outlook was also plus 3 percent in the 2010 outlook survey.)

Industry Detail

Broken down by major industry, the business outlook is uneven, with some industries positive in their outlook and others still negative. The outlook for all industries combined, however, remains subdued. (See Table 6)

Take housing, for example. Twenty-three percent of companies in the residential housing industry expect conditions to improve in the first six months of 2013, while 38 percent expect conditions to get worse, with the rest expecting little or no change.

This leaves a net outlook for the housing industry of -15 percent. While this outlook is negative, it nonetheless has improved to the best level of the past three years.

The outlook for the commercial construction ("construction, other") industry has improved sharply but still remains somewhat negative at -3 percent.

The outlook for the finance, insurance and real estate industry has also improved, moving from -11 percent in the previous survey to plus 16 percent in the current survey.

Also seeing positive momentum were the following industries: retail (with a net outlook of plus 2 percent, up

TABLE 5

Six-Month Outlook for US and NJ Economies and for Companies' Own Industries

	2009	2010	2011	2012	2013
US Economic Outlook					
Better	25%	42%	23%	14%	26%
Same	33	39	44	43	44
Worse	42	19	33	43	30
Net outlook*	-17%	23%	-10%	-29%	-4%
NJ Economic Outlook					
Better	15%	27%	22%	20%	29%
Same	29	36	41	47	47
Worse	57	37	37	33	26
Net outlook*	-42%	-10%	-15%	-13%	4%
Outlook for 'Your Industry'					
Better	22%	34%	27%	23%	29%
Same	37	35	41	46	46
Worse	40	31	32	32	26
Net outlook*	-18%	3%	-5%	-9%	3%

*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.

TABLE 6

Net Outlook by Major Industry Sector For First 6 Months of Years Shown

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

About the "net": The "net outlook" is calculated by subtracting the percentage of respondents expecting conditions in their industries to deteriorate in the first six years shown from the percentage expecting them to improve. A positive "net" means more companies anticipate a change for the better than a change for the worse. Changes calculated before rounding. Totals may not equal 100 percent.

TABLE 7

Employee Pay Changes in 2012 And Outlook for 2013

	Percent Distribution of Responses 2012 Actual	2013 Outlook
Higher Pay	49%	55%
Same Pay	47	42
Lower Pay	5	3
% Distribution of Pay Raises		
1+%	9%	13%
2+%	14	17
3+%	13	14
4+%	6	5
5+% or more	7	6

TABLE 8

Where NJ Is Making Improvement Compared with Other States

Percentage Saying NJ Is The Same or Better	2010 Survey	2013 Survey
Promoting economic development	41%	72%
Controlling energy costs	44	64
Attitude toward business	29	60
Attracting new business	21	57
Controlling gov't spending	14	54
Timely issuance of permits	49	55
Controlling labor costs	35	49
Cost of regulatory compliance	33	45
Controlling healthcare costs	23	41
Taxes and fees	9	18

from -23 percent a year ago), services (plus 1 percent, up from -1 percent), and wholesale (plus 5 percent, up from -6 percent).

The state's manufacturers remain more or less evenly divided in their outlook. The healthcare industry has maintained a net negative outlook for the past four years. It's current outlook of -17 percent is unchanged from last year.

Finally, the outlook for the regulated utilities industry (such as power plants and phone/Internet providers) has fallen from plus 39 percent a year ago to plus 6 percent in the current survey.

Business Cycle

When asked to describe current businesss conditions in their industries, more companies reported their industries to be expanding than contracting for the first time in six years.

Thirty-eight percent of companies said their industries were moving from recession to recovery in September 2012, when the survey was conducted, and 15 percent said their industries were fully expanding, giving a total expansion reading of 52 percent.

On the other side of the business-cycle ledger, 42 percent of companies said their industries were in a recession, and 6 percent said their industries were moving from expansion to recession, giving a total recession reading of 48 percent, down from 60 percent in 2011 and 69 percent in 2009.

The difference between the expansion reading (52 percent) and the recession reading (48 percent) yields a net positive of 4 percent for this business-cycle indicator, up from -20 percent last year and -38 percent four years ago.

Pay & Benefits

Pay Raises

More employers gave wage and salary increases in 2012 than did so in each of the previous three years.

Forty-nine percent of companies gave pay increases in 2012, 47 percent left pay rates unchanged, and 5 percent made pay cuts.

Looking at the percent distribution of 2012 pay increases, 42 percent of companies gave raises in a range of 1 to 4 percent, and 7 percent of companies gave pay raises of 5 percent or more. (See Table 7)

The outlook for wage hikes has likewise improved. Fifty-five percent of companies expect to increase employee pay levels in 2013, 42 percent expect to keep them about the same, and 3 percent expect to cut them. (See Table 7)

Looking at the percent distribution of anticipated pay increases, 49 percent expect to give pay raises in a range of 1-4 percent, and 6 percent anticipate giving raises of 5 percent or more.

Fringe Benefit Costs

Businesses expect the cost of fringe benefits, which includes their share of health plan costs (if offered), to continue to rise at well above the rate of inflation in 2013. The anticipated rates of increase closely match the annual average as recorded by this survey over the past 10 years.

Sixty-seven percent of survey respondents expect the cost of fringe benefits to increase in 2012, 27 percent expect them to remain about the same, and 6 percent expect those costs to decline.

Looking at the percent distribution of anticipated in-

creases, 31 percent of respondents expect fringe-benefit costs to rise by 1-5 percent, and 36 percent expect those costs to rise by 6 percent or more.

Pricing Power & Capital Spending

Businesses are continuing to experience pressure to maintain low prices for their goods and services. In 2012, 73 percent kept their prices the same (57 percent) or lowered them (16 percent), while 27 percent raised prices.

The percentage of companies able to raise prices in 2012 is little changed from 2011, when 71 percent kept prices the same or lowered them, and 29 percent raised prices.

The pricing power of individual companies also remains well below levels in the decade, preceding the 2008-2009 recession. In that 10-year period, an average of 43 percent of companies reported raising prices annually.

Capital spending plans have continued to strengthen with 40 percent saying they intend to increase capital spending in 2013, versus 16 percent saying they plan to spend less on capital improvements. The other 44 percent said they plan to keep capital spending at current levels.

The net percentage of companies planning to increase capital spending, at 23 percent, has made steady improvement over the past two years, returning this survey measure to pre-recession levels.

Rating New Jersey As a Place for Business Expansion

New Jersey continues to make steady improvement in the eyes of business as a place for business expansion.

Twenty-two percent of respondents said the state is a good or very good place in which to expand their business facilities, up from 18 percent last year and a long-term low of 9 percent the year before that.

Fifty-seven percent said New Jersey is average or fair in this regard, up from 54 percent last year and 37 percent three years ago.

Finally, 21 percent said New Jersey is a poor place for business expansion, compared with 28 percent who held this view one year ago, and a record 52 percent four years ago.

Regulatory Obstacles

Forty-six percent of companies said New Jersey has made progress over the past year in easing regulatory obstacles for business, up from 43 percent last year and a long-term low of 9 percent three years ago. Sixteen percent said they had to postpone expansion of their facilities or installation of equip-

ment due to delays in the state permitting process, matching the long-term survey average for answers to this question.

NJ Compared to Other States

New Jersey has again made marked improvement, when compared to other states, on a variety of issues of concern to business.

Specifically, New Jersey is now viewed favorably, with a majority of companies saying it is better than, or the same as other states, in promoting economic development, controlling energy costs, its attitude toward business, attracting new business, controlling government spending, and timely issuance of permits. (See Table 8)

Four years ago, New Jersey fared poorly when compared to other states in all of these issue areas.

As has been true for many years, New Jersey continues to compare favorably with other states in the quality of its public schools (86 percent same/better), the quality of its workforce (85 percent same/better), protection of the environment (87 percent same/better) and as a place to live (77 percent same/better, up from 66 percent four years ago).

New Jersey has also made significant progress over the past few years, when compared with other states, in controlling labor costs, cost of regulatory compliance and controlling healthcare costs. Nonetheless, in the eyes of business, it still lags behind other states in these areas.

Finally, New Jersey gets its lowest ranking when compared to other states in its taxes and fees, with only 18 percent saying New Jersey is the same or better. However, the percentage saying New Jersey is the same or better in this area has improved from 9 percent four years ago.

Worst Problems

When asked to identify, from a pre-selected list, their most troublesome problems in doing business in New Jersey, employers said health insurance was their No. 1 problem, followed by property taxes and the overall cost of doing business in New Jersey, which were tied for second place.

Each of these problems has been identified by this survey as one of the three most troublesome for over a decade.

State regulations were identified as the third worst problem in 2012, followed by state taxes (fourth), and workers' compensation costs and frivolous lawsuits, which tied for fifth place.

Trailing in importance were wage-and-labor costs and unemployment insurance costs, followed by energy costs, environmental compliance and availability of skilled labor.

Property Taxes

Although survey respondents continue to view property taxes as one of their three worst problems here in New Jersey, in their answers to another question, they said they expect the percentage increase in their property-tax bills to be among the lowest of the past 16 years.

Just 29 percent of companies said they expect their property taxes to increase by 4 percent or more in the year ahead. That's the lowest level of expectations of the past 16 years, over which period an average of 40 percent of companies reported the expectation that they would see property-tax increases of this magnitude.

Thirty-six percent of companies expect their property tax bills to rise by 1-3 percent in 2013, 32 percent of companies expect them to stay the same, and three percent expect them to fall.

Rating Government Leaders

Asked to rate the performance of government leaders, New Jersey employers gave the Governor and the state Legislature good-to-excellent ratings that were little changed from the prior-year survey.

Forty-four percent said the Governor is doing a good job and 29 percent said an excellent job, for an overall positive rating of 73 percent. This is little changed from the 74 percent who gave the Governor good-to-excellent marks one year ago.

Another 20 percent said Governor Christie is doing a fair job, and 7 percent, a poor job.

The Legislature maintained its improved ratings, with 26 percent saying the Legislature is doing a good-to-excellent job; 50 percent, a fair job; and 24 percent, a poor job.

In the previous survey, 27 percent said the state Legislature was doing a good-to-excellent job, up from 15 percent the year before that.

The President's ratings also improved, with 16 percent saying Obama is doing a good or excellent job, up from 10 percent last year. Twenty-four percent said the President is doing a fair job, and 60 percent, a poor one.

Congress continued to receive low ratings that were little changed from the two previous surveys. Five percent said Congress is doing a good-to-excellent job; 25 percent, a fair job; and 71 percent, a poor job.

Conclusion

The bright spot in NJBIA's 2013 Business Outlook Survey is the finding that actual business conditions have improved for a fourth consecutive year, and that business confidence has continued to strengthen, reaching its highest level since the onset of the 2008-2009 recession.

The outlook of individual companies for future sales and profits is the most positive it's been in five years, leading to more hiring activity and more robust hiring plans.

And the outlook for the state and national economies, as well as for companies' own industries, has risen to the best levels of the past five to eight years.

Clearly, New Jersey is on the path of a strengthening economy, which should continue barring any outside shocks such as the onset of a global or national recession.

Contributing to this positive momentum is a growing belief among New Jersey businesses that state government, and Governor Chris Christie in particular, are taking effective steps to make this state a better place for business investment and expansion.

In the eyes of business, New Jersey has made dramatic improvement over the past four years in seven important areas, including its attitude toward business, its ability to attract new business, and its ability to control government spending.

New Jersey still has a long way to go, especially when it comes to its high taxes and fees.

But it's encouraging to see evidence over the past two survey years of a slowdown in the rate of property-tax inflation and the perceived extent of regulatory obstacles. If the Governor and the Legislature continue to build on these and other policy successes, this will do much to strengthen the state's favorable economic momentum.

About this Survey

NJBIA's 2013 Business Outlook Survey questionnaire was sent to a sample of the Association's 21,000 member companies in September 2012. The responses are based on the first 1,470 responses, giving a valid response rate of 9.9 percent.

Most respondents were small businesses, with 74 percent employing 1-24 employees; 10 percent, 25-49 employees; 6 percent, 50-99 employees; and 89 percent, 100 employees or more.

Responses came from businesses in all 21 New Jersey counties. Every major industry sector was represented, with 34 percent of respondents in unspecified service industries, 17 percent in manufacturing, 17 percent in construction, 8 percent in finance/insurance/real estate, 7 percent in wholesale, 7 percent in retail, 6 percent in healthcare, and 3 percent in transportation or regulated utilities. NJB

**Editor's Note:*
The report was prepared by recently retired 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.