

NJBIA's 60th Annual Business Outlook Survey

Employers hope to carry momentum of a positive 2018, but concerns about New Jersey's economic challenges are also growing for the new year.



Executive Summary

Oscar Wilde once said the basis of optimism is sheer terror.

That might not be exactly what's behind the optimism of members in NJBIA's 60th Annual Business Outlook Survey. To be sure, there are continuing high expectations for businesses in 2019. In fact, anticipation for hiring, profits, sales and wages is higher than their look into 2018 – which represented a sharp increase from previous years. (See Figures 1 & 3)

But while members feel good about their own business prospects and the US economy, in general, and they expect about the same in their own industry as last year, they also report a much more guarded outlook for the New Jersey economy. And that's the scary part.

This is reinforced by increases in members who regard the Garden State as being worse than other states in areas such as taxes and fees, controlling labor and energy costs and government spending, and attracting new business.

In general, respondents showed an appreciation of tax reforms with the elimination of the estate tax and increase of the retirement income tax exclusion. But there is also a clear recognition that New Jersey has a long way to go to be competitive with other states' tax policies.

The greatest specific concerns include the overall cost of doing business, property taxes, and the cost of health insurance. Once again, two-thirds of members say that an increase to a \$15 minimum wage will negatively affect their business.

There is definitely some New Jersey-specific good news to be found in the results. According to the survey, the Garden State outpaces other states in quality of public schools and quality of workforce. But these positives could be jeopardized if the state cannot re-

Outlook Summary: Sales, Profits & Employment

FIGURE 1

	2013	2014	2015	2016	2017	2018	2019
SALES							
More	49%	57%	45%	50%	54%	58%	62%
Same	34	28	36	34	30	33	28
Less	22	15	18	16	16	9	9
Net outlook*	32%	42%	27%	34%	38%	49%	53%
PROFITS							
More	45%	52%	50%	45%	48%	55%	59%
Same	34	31	33	35	35	33	28
Less	22	18	17	20	17	12	13
Net outlook*	23%	34%	33%	25%	31%	43%	46%
EMPLOYMENT							
More	19%	26%	22%	25%	29%	31%	39%
Same	69	65	67	65	62	63	54
Less	11	9	11	10	9	6	7
Net outlook*	8%	17%	11%	15%	20%	25%	32%

Understanding this table: The net percentage of respondents anticipating they will experience a higher dollar volume of sales in 2019, for example, is calculated by subtracting the percentage anticipating less sales revenue (9%) from the percentage anticipating more sales revenue (62%). The net percentage anticipating more sales in 2019 in this example is, therefore, +53%. Changes are calculated before rounding. Totals may not equal 100%.

duce its high cost of living, including the high tax burden and expensive housing costs. These factors challenge New Jersey's affordability.

Members indicate again that they do not expect to retire in New Jersey. Last year, this trend had reversed slightly as a result of tax reforms that eliminated the estate tax in January 2018 and raised the retirement income tax threshold significantly over the next several years.

IRS figures measure New Jersey's losses in new adjusted gross income due to over-regulation and cost of doing

business. The loss of funds resulted in sharp losses of economic output, jobs, and labor income. In 2019, NJBIA will continue to press for more comprehensive tax reform. We must continue to focus on making New Jersey more affordable for all.

Sales

Sales projections are optimistic looking ahead to 2019. Sixty-two percent of respondents said sales would rise, while 9 percent said sales would fall. The net

positive percentage of +53 percent is higher than the +49 percent in the 2018 survey and +38 percent in the 2017 survey. (See Figure 1)

Fifty-five percent said actual sales in 2018 were up, while 19 percent said sales were down, for a net positive of +36 percent. This is considerably higher than the 2017 net positive of +27 percent and far higher than the 2016 net positive of +12 percent.

Purchases and Prices

Members are slightly less optimistic about their future purchasing plans. Forty-nine percent said they would increase the dollar value of their purchases in 2019 and 17 percent expect the dollar value of their purchases to decline. The net positive percentage of +32 is lower than the +39 reported in 2018, although higher than figures reported in the previous few years.

The 61 percent of members who made investments to improve productivity in 2018 is almost identical to the 60 percent reported in 2017, and is lower than the 71 percent and 68 percent reported in 2016 and 2015.

Meanwhile, 42 percent of members said they increased prices in 2018 and only 4 percent said they lowered prices for their primary products/services. The net positive percentage of +38 is way up from +29 last year.

Challenges

For nearly 30 years, NJBIA members have indicated in this survey that health insurance costs were their top concern. But this year, there is a change.

Property taxes are now the most common concern for 25 percent of respondents, and 65 percent regard it among

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

	2013	2014	2015	2016	2017	2018	2019
US Economic Outlook							
Better	26%	36%	30%	31%	29%	54%	59%
Same	44	45	48	47	49	37	31
Worse	30	19	22	21	22	9	10
Net outlook*	-4%	16%	7%	10%	7%	46%	49%
NJ Economic Outlook							
Better	29%	35%	24%	22%	20%	33%	30%
Same	47	48	51	49	48	48	40
Worse	26	17	25	29	32	19	30
Net outlook*	4%	18%	-1%	-7%	-12%	14%	0%
Outlook for 'Your Industry'							
Better	29%	38%	34%	33%	30%	42%	43%
Same	46	42	44	46	49	44	42
Worse	26	20	22	22	21	14	15
Net outlook*	3%	18%	12%	11%	9%	28%	28%

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%.

their top four concerns, both figures identical to last year's survey. The overall cost of doing business was cited by 20 percent as their No. 1 concern, and by 69 percent among their top four concerns, with both figures slightly up from 2017.

Health insurance slips to third with 20 percent of members listing it as their No. 1 concern – down sharply from 30 percent last year. Sixty-five percent listed health insurance costs as one of their top four concerns.

Despite its relative drop in importance, 80 percent of members expect their health benefits costs to rise in 2019 – which is very similar to responses in the past three years. Forty-nine percent expect these costs to rise by 6 percent or more in 2019. In NJBIA's recently completed Health Benefits Survey, members said their cost for healthcare coverage increased 8.5 percent.

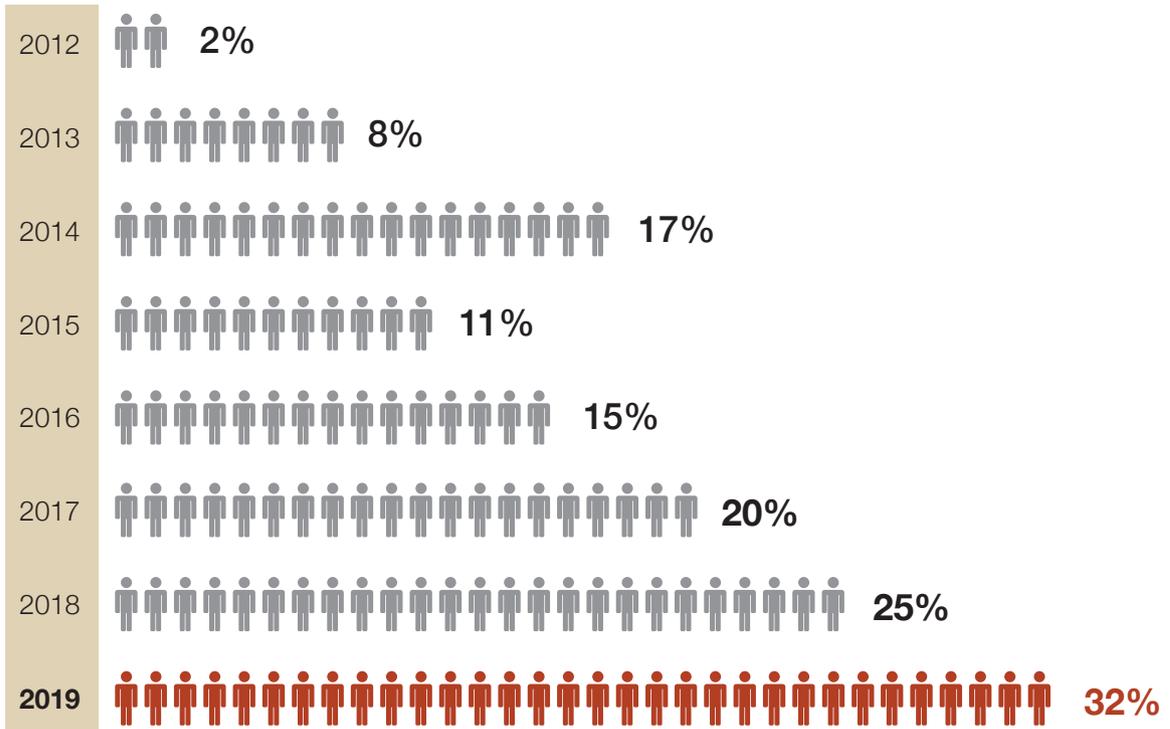
Employment

The employment picture continued to improve in 2018 and members remain optimistic about their ability to hire. Thirty-nine percent of members said they could increase employment next year, while only 7 percent said they would decrease.

The net percentage increase of +32 in members saying they will increase employment represents a steady increase from +25, +20, and +15 percent in the three previous years.

This optimism reflects strong employment in the past year. Thirty-one percent said that employment within their company increased, while 12 percent said it decreased in 2018 for a net positive of +19 percent – also higher than the +14, +10 and +6 percentages in 2017, 2016 and 2015, respectively.

Net Hiring Outlook of Individual Companies



Profits

The outlook for profits is similar to the pattern found in employment and sales. Fifty-nine percent of members believe their profits will increase in 2019, while only 13 percent felt they would fall. The net positive of +46 percent is slightly higher than the +43 that members forecast in 2018 and much higher than in the preceding three years.

Fifty percent of members said their actual profits increased while 24 percent said they decreased in 2018. This net positive percentage of +26 represents a steady increase from +18 in 2017 and +3 in 2016. This sharp recent increase helps to explain why members expect an even more pronounced increase in 2019.

Net Profits Outlook, Individual Companies



59% of members believe their profits will increase in 2019

New Jersey's Economic Climate

Countering the optimism about their own company and industry performances, NJBIA members have some serious concerns regarding the state's overall business climate.

Of course, the unfortunate reality for New Jersey business is its status as being near or at the top of all states in all tax categories including income, sales, property, corporate and inheritance taxes. NJBIA has made comprehensive tax reform a mission, and found success in the form of the elimination of the estate tax and an increased retirement income tax exemption – not to mention the mitigation of corporate business tax and income tax increases this year that could have been far worse without NJBIA's advocacy on behalf of business.

Fifty percent indicated they are not planning to expand, while 36 percent of members plan to grow in another state – with only 14 percent planning to expand in New Jersey. Interestingly, there was a 7 percentage point increase in both members looking to expand and those looking to expand in another state compared to last year. But the 14 percent of those planning to expand in New Jersey remained stationary from last year.

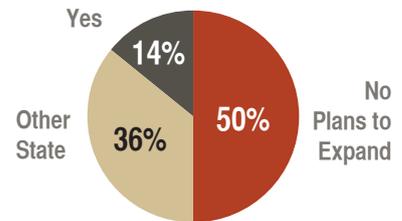
Much of this trend reflects disappointment with New Jersey's regulatory obstacles – only 17 percent in 2018, down from 24 percent in 2017, feel that New Jersey had made progress in easing them over the last year.

A relatively consistent 14 percent of members indicate that they have postponed installation of equipment or expansion of their business due to delays in the state permitting and regulatory process.

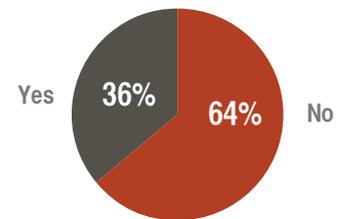
Only 36 percent indicate that they would plan to continue keeping New Jersey as their domicile in retirement, down from 40 percent in 2017 and a worrying indication for how attractive New Jersey is for retirees.

In this year's survey, 41 percent indicated that state inheritance taxes or estate taxes play a role in their decision-making regarding the future of their business.

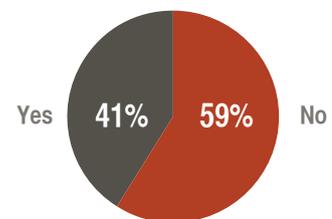
If you are planning to expand, would you open another location in NJ?



Do you plan to continue keeping NJ as your domicile in retirement?



Do state inheritance or estate taxes affect decisions regarding your business' future?



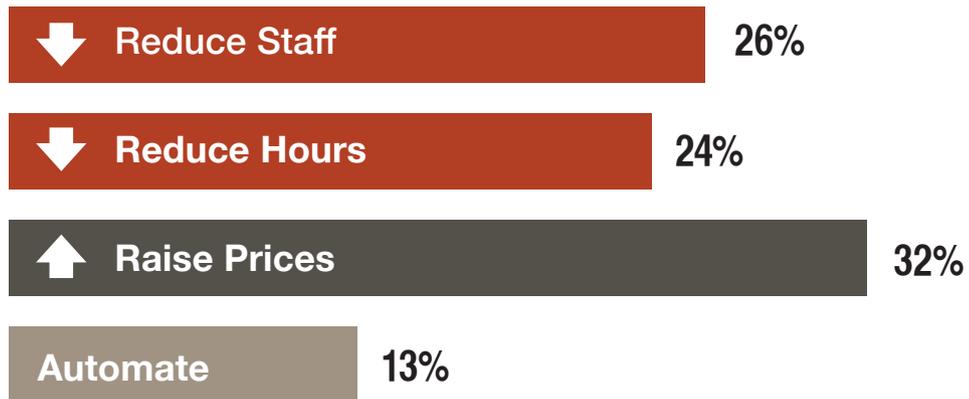
Minimum Wage Impact

There continues to be great concern among NJBIA members regarding the potential increase in the minimum wage to \$15 an hour, particularly as support for the mandate grows among New Jersey policymakers. Sixty-six percent believe there will be some impact, with 39 percent of members regarding it as “significant.”

Anticipated reactions if the minimum wage is increased include 32 percent who would raise prices to offset the wage increase, 26 percent who would reduce staff levels, and 24 percent who would reduce hours. Another 13 percent would respond with greater automation.

When this question was posed last year, slightly fewer indicated they would raise prices and slightly more would reduce staff and hours. This continues to be a pressing concern that would disrupt operations and require action by most businesses.

Minimum Wage Impact
% Distribution of Responses



66%
of members say
a minimum wage
increase would impact
their business

Keeping New Jersey Competitive

NJBIA members overwhelmingly do not feel that their state is competitive with other states in most categories.

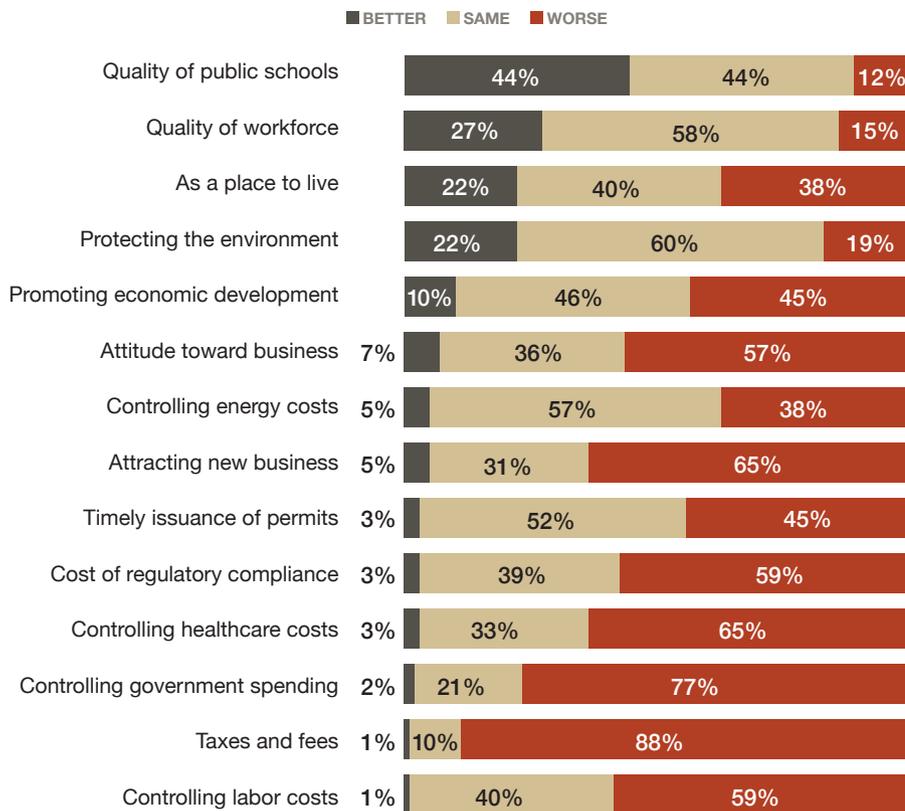
Taxes and fees are regarded as worse in New Jersey by 88 percent – a five percent increase from last year – while controlling government spending (77 percent), controlling healthcare costs (65 percent), attracting new business (65 percent), controlling labor costs (59 percent), and cost of regulatory compliance (59 percent) are regarded as relative weak area for the state by at least half of members.

There are areas of strength for the Garden State. Forty-four percent of members say that we are better than other states in public school quality and 27 percent say we have a better-quality workforce. Twenty-two percent feel that New Jersey is a better place to live and is better at protecting the environment. However, of these four categories, only the ranking for protecting the environment improved from last year's survey results.

In last year's report, we saw that short-term improvements in business performance lightly reduced the number of members who saw serious weaknesses in New Jersey's competitiveness. However, we are now also seeing increases in the proportion of members who regard New Jersey as worse than other states in areas such as taxes and fees, controlling labor and government spending, and attracting new business.

NJ's Performance Compared with all Other States

FIGURE 2



Percentages are rounded. Totals may not equal 100%.

Wages

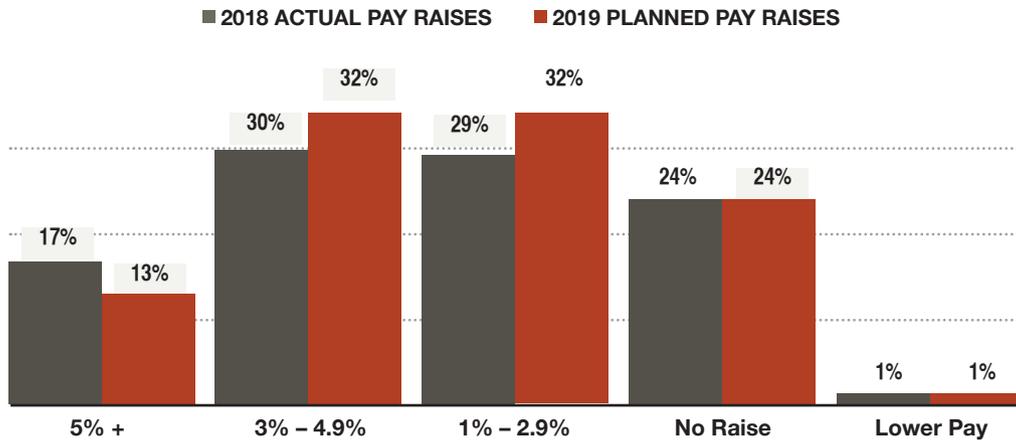
Wages are expected to rise again in 2019 after showing a median increase of approximately 2.2 percent in 2018 and 2017. In 2018, 76 percent of members granted a pay raise, and 77 percent expect to do so in 2019. Eight percent said their average pay increase was 6 percent in 2018, while only 5 percent forecasted raising wages above that level in 2019.

Overall, there were mostly slight differences in wage increase data from last year's results. Of those who provided wage increases in 2018, 22 percent had an average increase between 3 and 3.9 percent. Another 21 percent had an average pay increase between 2 and 2.9 percent.

One outlier statistic: 24 percent did not grant any raises in 2018, compared to 32 percent who stayed stationary in 2017.

Pay Raises % Distribution of Responses

FIGURE 3



Understanding this table: This table shows the percent distribution of respondents giving pay raises to employees in 2018 or planning to give raises in 2019 and in what range.

State Economic Outlook

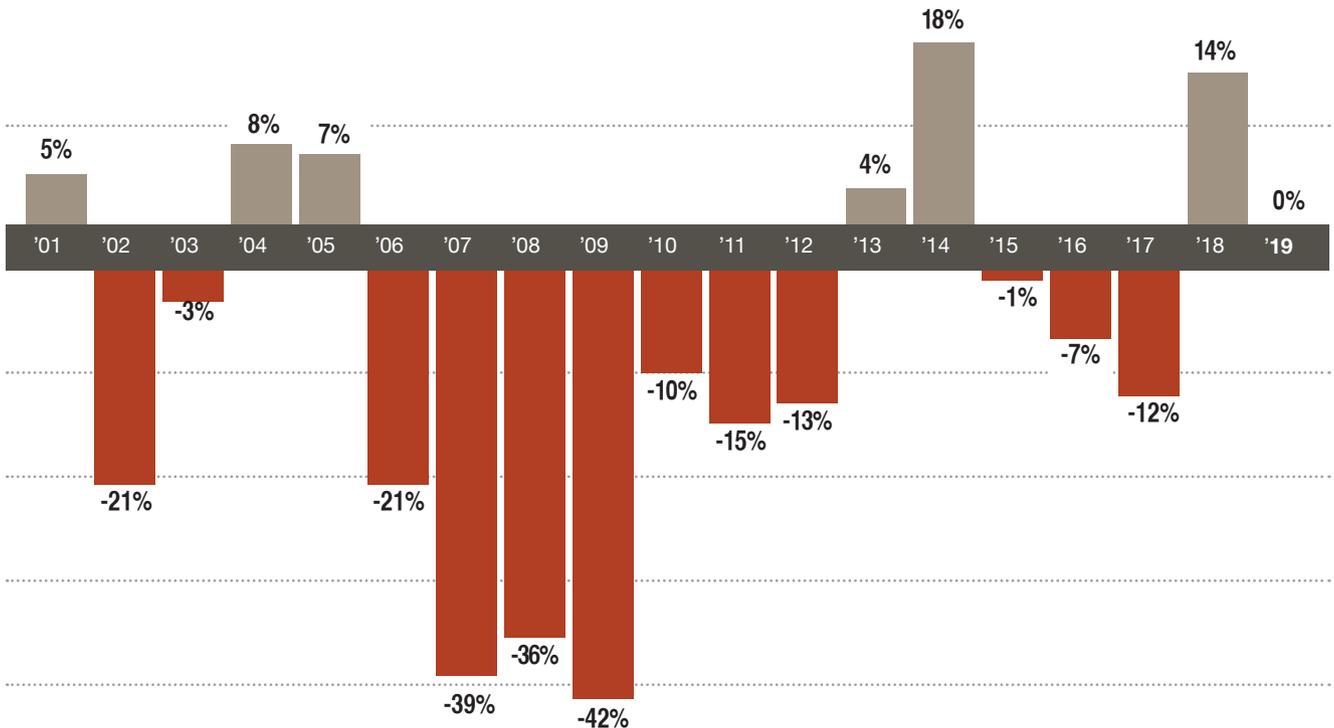
With more positive sales, profit and employment projections than in the 2018 Business Outlook Survey, NJBIA members are demonstrating a very optimistic outlook for their own business performance in 2019.

Forty-three percent expect their industry to perform better in the first six months of 2019, compared to 15 percent who expect it to perform worse, for a +28 net percentage. The net remains the same as in 2018, after rising sharply from the 2015-2017 surveys.

More members feel the US economy will perform better in early 2019 – 59 percent feel it will be substantially or moderately better, while only 10 percent feel it will be worse, for a net percentage of +49.

When it comes to New Jersey's economy, however, a far smaller number, 30 percent, expect it to perform better in the first six months of 2019, while 30 percent expect it to be worse. This net 0 percent is much more pessimistic than their expectation of the US economy or their industry, and represents a sharp drop in anticipated performance for the Garden State than last year.

Net Outlook for State Economy



Industries

Most industries show a striking improvement in the net percentage who project that their industries will perform better in the first six months of 2019. The highest net percentages are reported by Housing, Construction at +54 percent (up from +36 percent last year) and Transportation at +53% (up from +15% last year).

Other sectors expecting improving performance in 2019 include Non-Durable Goods Manufacturing (+39 percent), Other Construction (+36 percent), Durable Goods Manufacturing (+35 percent), and Services (+31 percent).

Healthcare Services and Retail Trade, at -4 percent and +7 percent, respectively, continue to expect weak conditions.

Sectors showing a sharp downturn in expectations compared to 2018 include Communications and Utilities (+15 percent, down from +58 percent in 2018) and Wholesale Trade (+13 percent, down from +28 percent in 2018).

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

Major Industry Sectors	2013	2014	2015	2016	2017	2018	2019
Construction, Housing	-15%	25%	11%	25%	-4%	36%	54%
Construction, Other	-3	28	11	23	11	46	36
Communications & Utilities	6	-11	38	19	17	58	15
Finance, Insurance & RE	16	22	26	20	18	29	25
Healthcare	-17	-33	-28	-18	-13	-8	-4
Manufacturing, Durables	1	25	23	12	7	33	35
Manufacturing, Nondurables	-1	16	-3	7	28	32	39
Retail Trade	2	2	-4	-3	-11	4	7
Services	10	27	18	7	14	30	31
Transportation	-6	23	29	17	-22	15	53
Wholesale Trade	5	20	3	9	6	28	13
All industries combined	3%	18%	12%	11%	9%	28%	28%

Net percentage of companies expecting conditions to improve in their industries in the first six months of each year shown. A negative number denotes a net negative outlook.

What are the current business conditions in your industry?

Expanding



↑ FROM 49% IN 2017

From recession to recovery



↓ FROM 29% IN 2017

From expansion to recession



↑ FROM 9% IN 2017

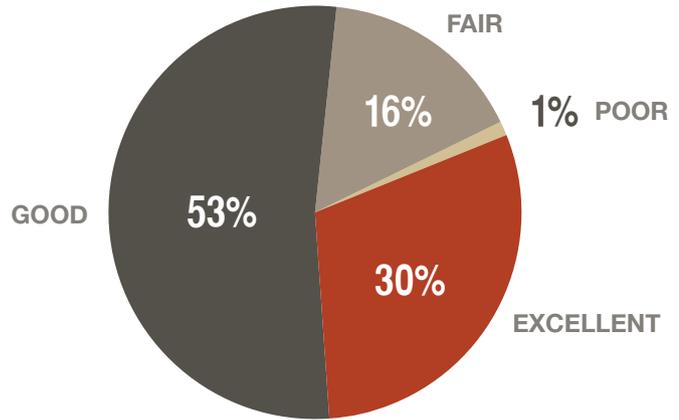
In a recession



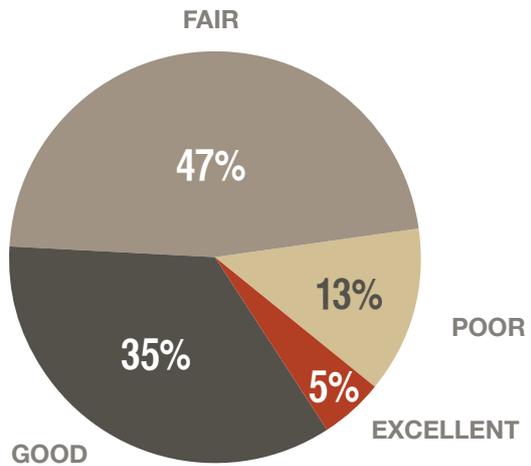
↓ FROM 14% IN 2017

How do you rate the recent performance of each of the following:

US Economy



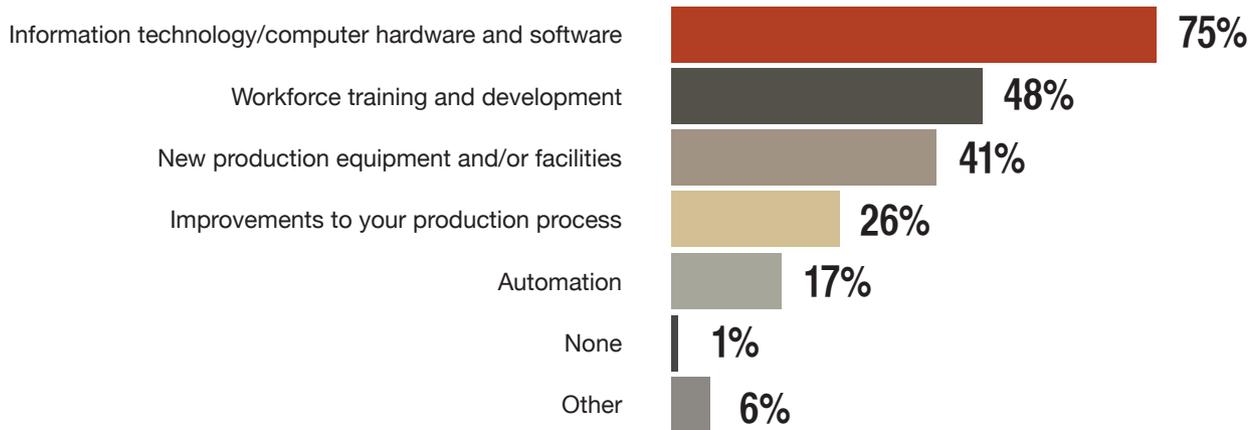
NJ Economy



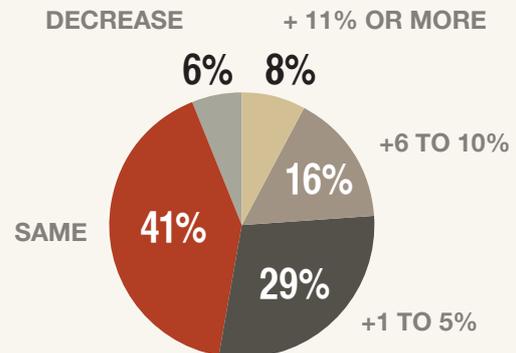
Investments



If so, which of the following investments did you make to improve productivity in 2018?

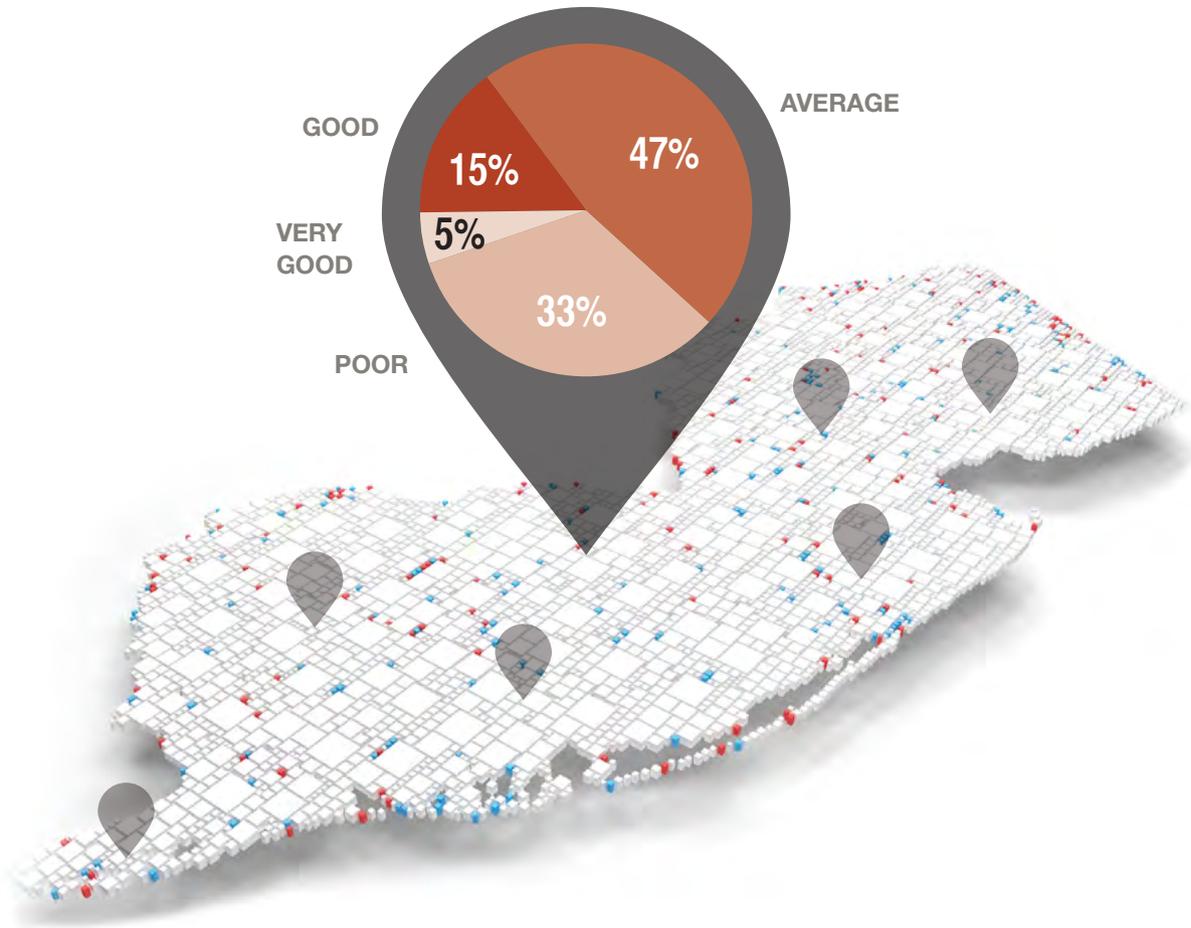


What are your company's plans for capital spending over the next 12 percent (investments in new buildings/equipment/computer technology)?



Expansion

How do you view New Jersey as a location for new or expanded facilities?



YES

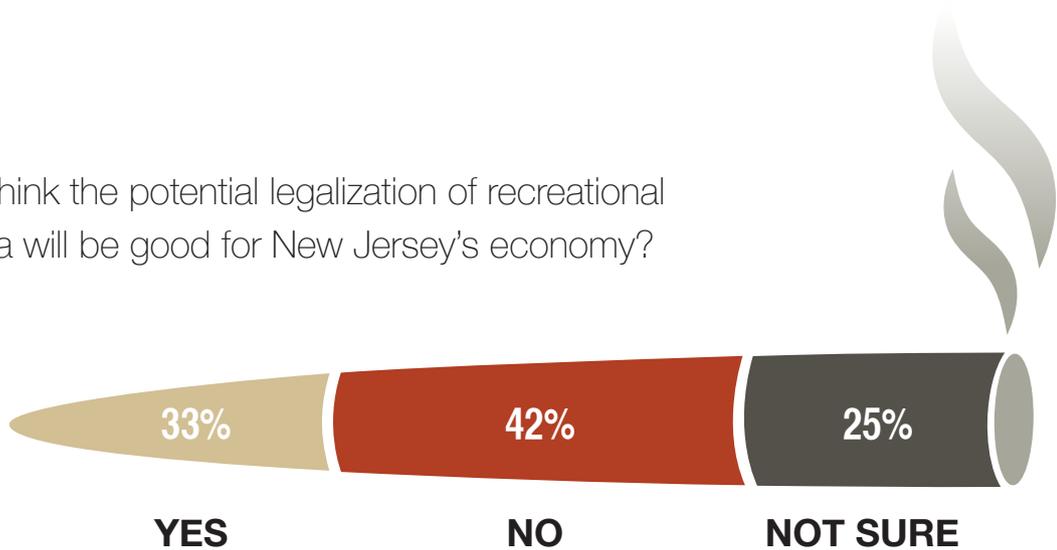


Do you think NJ has made progress over the last year in easing regulatory obstacles for business?

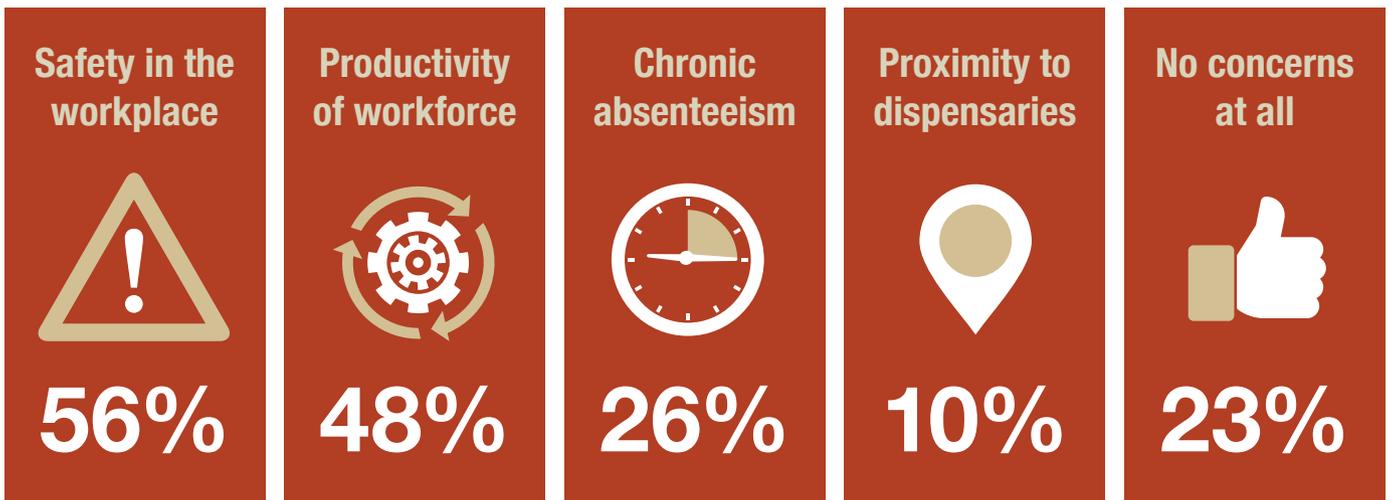


Marijuana Legalization

Do you think the potential legalization of recreational marijuana will be good for New Jersey's economy?

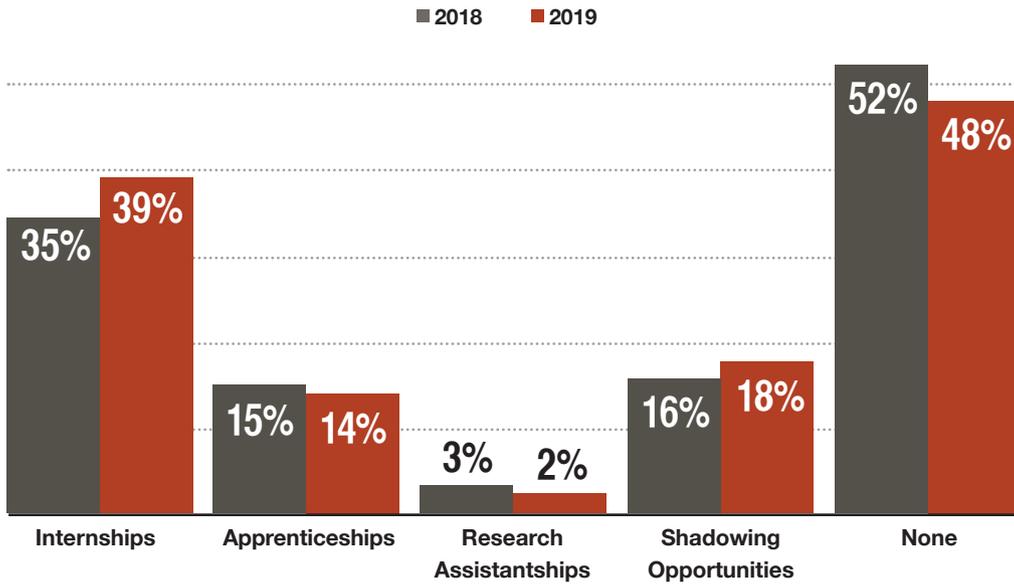


What concerns you the most about the potential legalization of recreational marijuana in New Jersey?



Education & Workforce Development

Do you offer experiential learning opportunities?

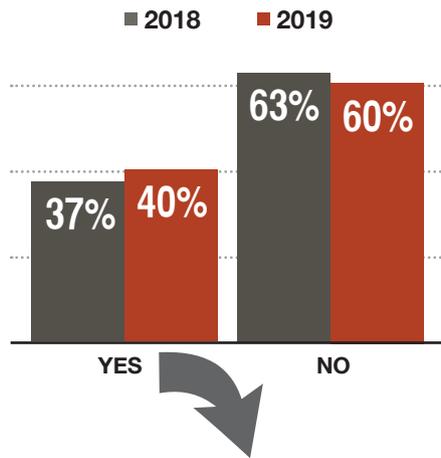


Are you willing to work with your local school district or county vocational and its students?

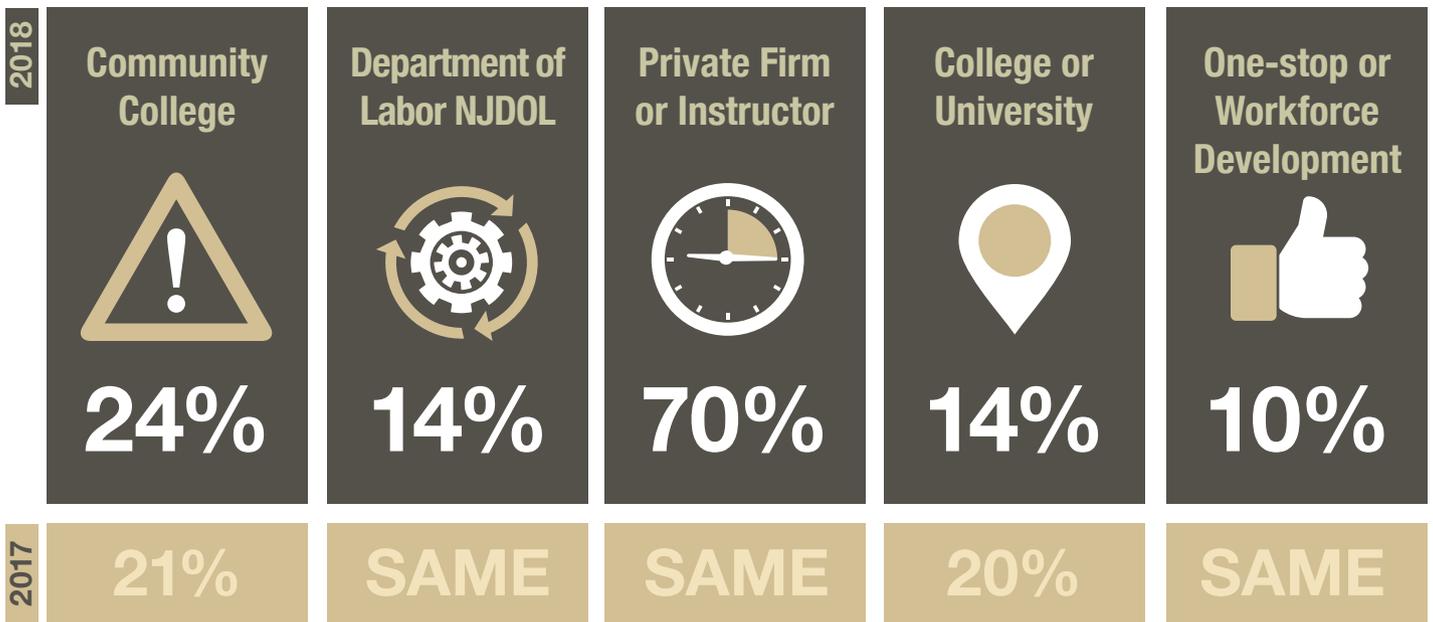


Education & Workforce Development

Have you taken advantage of an employee training program or provide professional development for your employees?



If yes, who provides it?



Conclusion

Overall, NJBIA's 60th Annual Business Outlook Survey forecasts a positive 2019 for NJBIA members, with companies expecting rising sales, profits, employment and wages. However, fewer members believe the state's economy will perform better in the first six months of 2019, with an equal number believing it will perform worse.

There is a significant majority who believe most states fare better than New Jersey in key areas including health insurance costs, property taxes, and cost of doing business. This is reflected in multiple NJBIA analyses of regional business climate competitiveness. However, they also recognize New Jersey's leadership in the quality of public schools and in workforce quality. *(See Figure 2)*

New Jersey businesses have seen significant tax increases and costly mandates in the first year of the Murphy administration, with the discussion of more to come, in particular a \$15 minimum wage. The actual impacts of those burdens may not be felt for some time, but it appears they are impacting New Jersey's overall outlook.

About the Survey

NJBIA's Business Outlook Survey questionnaire was sent to 16,024 individual contacts with deliverable e-mail addresses in NJBIA member companies in September 2018. The report is based on 898 valid responses, a response rate of 5.6 percent.

Most respondents were small businesses, with 62 percent reporting fewer than 25 employees and 12 percent with 25 to 49 employees. The margin of error is plus or minus 3.18 percent at a 95 percent level of significance.

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



For more information contact:

Bob Considine | Chief Communications Officer | BConsidine@njbia.org | 609-858-9502