

NJBIA'S 57TH ANNUAL BUSINESS OUTLOOK SURVEY

2016 Business Outlook Survey

Optimism continues going into 2016, with sales, profits and hiring continuing on an upward trajectory. However, members are cautious as they look ahead.

Executive Summary

For the third consecutive year, a positive outlook is reported in the New Jersey Business & Industry Association's 57th annual Business Outlook Survey as the state's economic climate continues on an upward trajectory, putting the recession further behind us in the rear view mirror.

However, the more than 1,100 members who responded to our survey also express concern about the inherent issues they continue to face with a challenging tax-, regulatory- and mandate-driven climate. The bottom line is our members still believe the state is moving in the right direction, but they harbor concerns about whether they can continue to do business in New Jersey.

In most respects, the economic news is good for our members. Their outlook for hiring, wages, sales, profits, purchasing and pricing is either as positive or more positive than it was in last year's survey. But looking ahead to 2016, our members also continue to be worried about rising healthcare costs, the overall cost of business and property taxes, which are listed as their top three concerns.

The 2016 Business Outlook Survey tells two clearly defined, but contrasting stories. The dichotomy is reflected in the fact that our members are optimistic about their own business prospects, but concerned about the overall state economy.

By large numbers, they are telling us that if they were planning to expand, they would not open another location in New Jersey and would not keep New Jersey as their domicile in retirement. Further, more than a two-thirds majority note that estate and inheritance taxes play a role in decision making about the future of their business.

It is telling that only a little more than 22 percent of those surveyed believe that the state's economy will be better next year; a little less than half (49 percent) say it will be about the same. At the same time, they are more optimistic about their own businesses.

Outmigration continues to be a serious issue for our state. According to IRS tax records, from 2007-2014, more than a million and a half people left New Jersey, taking with them billions of dollars of adjusted gross income. This loss of income has deprived the state of the economic activity those funds would have provided. Given these results, we must look at the factors driving these concerns and begin a serious discussion about how to reform policies that are leading to the outmigration.

NJBIA's 57th annual Business Outlook Survey was conducted in September and October 2015 among a broad sample of NJBIA's member companies. (*See About the Survey on the final page of this report*)

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New Jersey's Economic Climate

Although NJBIA members are optimistic about their own business prospects in 2016, they are concerned about the challenging nature of the state's economic climate. (See Figure 5) It is no secret that New Jersey has a difficult tax structure with among the highest income, corporate, sales, property and estate and inheritance taxes in the nation. Additionally, members tell us that the state's regulatory environment and climate of imposing mandates impacts their level of confidence, causing them to hesitate on reinvesting in their company and creating jobs. Facing annual Legislative efforts to increase the state income tax on small businesses and to impose a surcharge on the corporation business tax causes a lack of needed predictability in order for businesses to make long-term investments.

NJBIA has learned from the survey that this climate is causing members to think long and hard about their future in New Jersey. Sixty-two percent of those surveyed said that if they are planning to expand their business, they would open a location in another state. Sixty-six percent said that they do not plan to keep New Jersey as their domicile in their retirement. And 67 percent said that the estate and inheritance taxes play a role in decision making regarding the future of their business, up from 50 percent last year. (See Figure 7)

Research has shown that outmigration, the notion that New Jersey residents are choosing to move out of the state to avoid the costs of living and working in New Jersey, is an ongoing problem and the survey results confirm this.

According to IRS tax records, between 2007 and 2014, 1.6 million people moved out of the state of New Jersey. Between 2004 and 2013, the state lost a net \$18 billion in adjusted gross income despite the fact that new residents come into New Jersey every day. As these dollars flow out of New Jersey, so too does

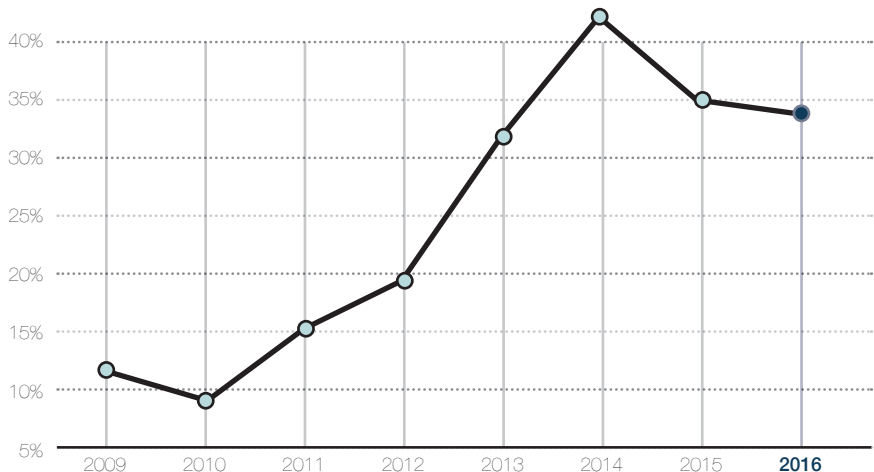
Outlook Summary: Sales, Profits & Employment

FIGURE 1

	2010	2011	2012	2013	2014	2015	2016
SALES							
More	40%	42%	42%	49%	57%	51%	50%
Same	28	31	34	34	28	33	34
Less	32	27	24	17	15	16	16
Net outlook*	9%	15%	19%	32%	42%	35%	34%
PROFITS							
More	36%	37%	36%	45%	52%	45%	45%
Same	30	33	36	34	31	36	35
Less	34	30	28	22	18	18	20
Net outlook*	2%	7%	9%	23%	34%	27%	25%
EMPLOYMENT							
More	16%	16%	15%	19%	26%	22%	25%
Same	67	70	71	69	65	67	65
Less	17	15	13	11	9	11	10
Net outlook*	-1%	11%	2%	8%	17%	11%	15%

*Understanding this table: The net percentage of survey participants anticipating that they will enjoy a higher dollar-volume of sales in 2016, for example, is calculated by subtracting the percentage anticipating less sales revenue (15 percent) from the percentage anticipating more sales revenue (57 percent). The net percentage anticipating more sales in this example is, therefore, +42. Changes calculated before rounding. Totals may not equal 100 percent.

Sales Outlook, Individual Companies



the residual impact of these dollars, including the inability to tax this income, the loss of purchasing power of that income rippling through the economy and the loss of charitable giving to New Jersey's non-profits.

These results are a clarion call from our members that the reform of those factors influencing outmigration, such as the estate and inheritance taxes, must begin and that more certainty and predictability is needed.

Employment

Employers in New Jersey expect a brighter hiring picture in 2016, continuing a recent trend. Twenty-five percent of companies said they would increase employment in the coming year,

while 10 percent said they will reduce the number of employees. The net percentage of companies saying they will increase hiring of +15 percent is a 4 percentage-point increase over last year's forecast and is within two percentage points of the eight year high of +17 percent in 2014. (See Figure 1)

Meanwhile, 23 percent of employers said employment rose this year, while 17 percent said it decreased. This is the exact same net percentage of +6 as we saw in 2014. This remains well above the -40 percent we saw at the height of the recession.

Sales

The 2016 sales outlook continues to be bright for our member companies.

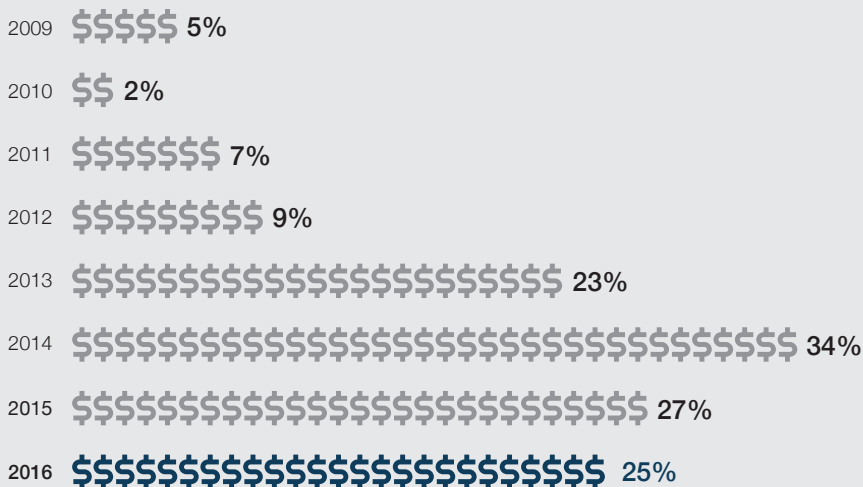
Fifty percent of those surveyed said they expect sales to rise next year, while only 16 percent expected sales to decline. This net positive of +34 was virtually identical to last year's net percentage of +35 and still significantly above a net +9 percent in 2010. (See Figure 1)

Actual sales in 2015 continued on the upswing, with 47 percent saying sales increased slightly above 2014's 46 percent. This year, actual sales have declined for 27 percent of companies, below last year's 30 percent. The 2015 net positive of +20 is well above last year's net positive in actual sales of +16.

It is clear the sales picture is continuing its upward trajectory with the +20 net well above the recession low of -54 percent in 2009.

Profits Outlook, Individual Companies

FIGURE 2



In 2016, our members are expecting greater profits. While 45 percent said they expect their profits to rise, which is the same number as last year's survey, only 20 percent expect lower profits compared to 18 percent last year. The net positive of +25 percent continues the upward profit trend since the recession. (See Figures 1 & 2)

The 2015 profit picture was also improved from 2014. Forty-one percent of those surveyed said their profits rose, while 34 percent said their profits decreased. The net percentage of +7 of companies enjoying higher profits represents an increase from the +5 percent in last year's survey. These positive numbers again continue to signal the state is moving in the right direction.

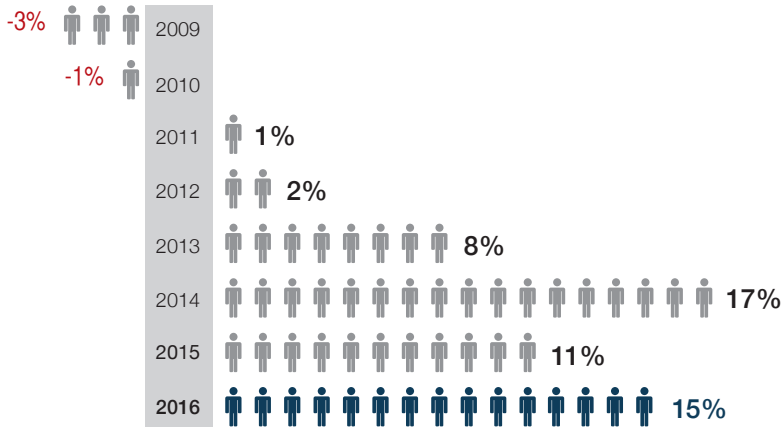
Purchases and Pricing Power

In addition to an optimistic outlook about employment, sales and profits, NJBIA members are also optimistic about their ability to invest. Forty-two percent of members surveyed said they expect the dollar value of their purchases to increase next year, which is in line with last year's 43 percent, while 17 percent said they would decrease the dollar value of their purchases. The net percentage of +25 percent is virtually identical to last year's +26 percent, among the survey's highest post-recession results.

In terms of 2015 spending, 41 percent increased their expenditures while 25 percent spent less. The net percentage of +16 percent is slightly below last year's +18 percent, but still the third consecutive year of positive spending after five years of net negative recession-related spending.

Our members raised the prices they charge for their primary products and services, but at a lower rate than they did in 2014. Thirty-three percent said they raised prices this year; less than the 37 percent that said they raised prices last year. The 2015 net percent-

Hiring Outlook of Individual Companies



age of companies raising prices of +24 percent is lower than the +29 net percentage of 2014.

Outlook for Economy and Industries

NJBIA members have a broadly optimistic view of their businesses in 2016; however, there is a dichotomy when it comes to their view of the state's overall economic climate in the first six months of next year. Our members still believe the economy presents challenges. Member responses to these questions must be evaluated within the context of their responses to the three questions cited in the section on the state's economic climate. The majority of members have indicated they have concerns. (See Figure 3)

Forty-nine percent of members said they expect the New Jersey economy to stay the same in 2016. Twenty-two percent said they expect the economy to get better, and 29 percent expect the economy to get worse.

Our members are more optimistic about the US economy and also about the economy in their own industry during the first six months of next year. Thirty-three percent said they expect their own industry's economy to be better in the first half of next year (46 percent said it would remain the same) while 31 percent said the US economy would improve in the first six months (47 percent said it would remain the same).

Our members also felt good about the economic growth in their own industries. Twenty-eight percent said their industries are expanding, while 38 percent said their industries are moving from recession to recovery. This is compared to 25 percent and 44 percent, respectively, in last year's survey.

Challenges

The results of the latest survey underscore that the economic climate still

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

FIGURE 3

	2010	2011	2012	2013	2014	2015	2016
US Economic Outlook							
Better	42%	23%	14%	26%	36%	30%	31%
Same	39	44	43	44	45	48	47
Worse	19	33	43	30	19	22	21
Net outlook*	23%	-10%	-29%	-4%	16%	7%	10%
NJ Economic Outlook							
Better	27%	22%	20%	29%	35%	24%	22%
Same	36	41	47	47	48	51	49
Worse	37	37	33	26	17	25	29
Net outlook*	-10%	-15%	-13%	4%	18%	-1%	-7%
Outlook for 'Your Industry'							
Better	34%	27%	23%	29%	38%	34%	33%
Same	35	41	46	46	42	44	46
Worse	31	32	32	26	20	22	22
Net outlook*	3%	-5%	-9%	3%	18%	12%	11%

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

presents challenges for New Jersey businesses. The No. 1 challenge according to our members is health insurance, with 25 percent naming it at the top of their list. The No. 2 challenge is the overall cost of doing business at 21.3 percent. Property taxes are the No. 3 challenge at 20.8 percent. In last year's survey, health insurance, property taxes and the cost of doing business were also listed as the top three challenges by our members.

Health Benefit Costs

It is no surprise that most of those surveyed believe health benefit costs will rise in 2016. Eighty percent said they expect the cost of their health benefits to go up next year. Of those, 52 percent said they expected their benefit costs to increase by more than six percent. In last year's survey, 85 percent expected benefit costs to rise.

Meanwhile, NJBIA members continued to have issues with the cost of the Affordable Care Act. Sixty-two percent reported that they have been negatively impacted by the ACA, while only six percent said the ACA had a positive impact.

Property Taxes

NJBIA members also expect property taxes to be an issue for them next year. Sixty-eight percent indicated that their property taxes will rise next year. Thirty-one percent said property taxes will remain the same. The cumulative impact of property taxes on top of income taxes, sales taxes, the corporation business tax and the estate and inheritance tax have been a key driver of the state's economic climate and have left our members calling for relief.

Rating the State Business Climate

We asked our members how they viewed the state as a location for new or expanded facilities as another way of measuring attitudes toward the

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

FIGURE 4

Major Industry Sectors	2010	2011	2012	2013	2014	2015	2016
Construction, Housing	0%	-18%	-33%	-15%	25%	11%	25%
Construction, Other	-1	-28	-27	-3	28	11	23
Communications & Utilities	-12	32	39	6	-11	38	19
Finance, Insurance & RE	12	-8	-11	16	22	26	20
Healthcare	-16	-15	-17	-17	-33	-28	-18
Manufacturing, Durables	8	7	1	1	25	23	12
Manufacturing, Nondurables	4	0	-8	-1	16	-3	7
Retail Trade	5	-12	-23	2	2	-4	-3
Services	4	-1	-1	10	27	18	7
Transportation	13	-10	-11	-6	23	29	17
Wholesale Trade	9	2	-6	5	20	3	9
All industries combined	3%	-6%	-9%	3%	18%	12%	11%

This chart shows the net percentage of companies expecting conditions to improve in their industries in the first six months of the years shown. A negative number denotes a net negative outlook.

Outlook by Major Industry

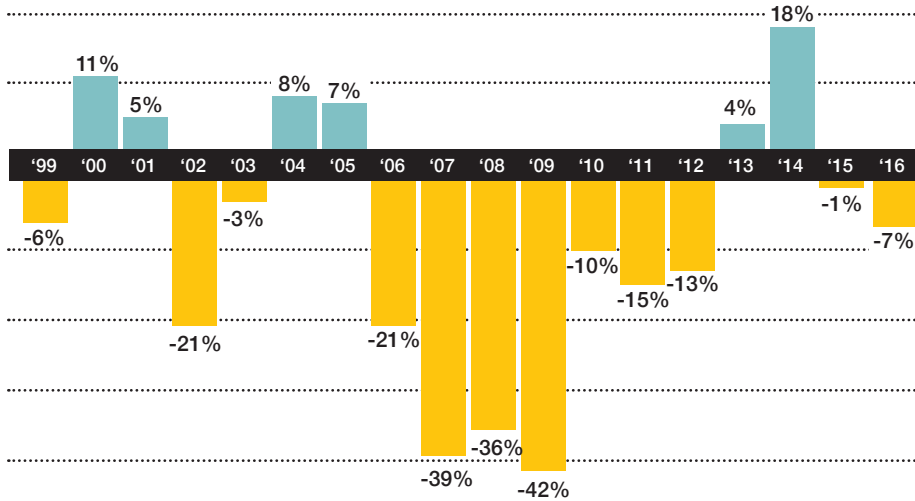
NJBIA members in nearly all industry sectors have a positive outlook for the first six months of 2016 with the construction industry, in particular, showing dramatically more optimism than in last year's survey. (See Figure 4)

Nine of the 11 sectors measured by the survey show a positive net outlook for 2016. The largest net positive is in the housing construction industry (+25 percent for housing construction compared with +11 percent last year; and +23 percent for all other construction compared with +11 percent in 2015). Large net positives appear in the Communications & Utilities sector (+19 percent); and Finance, Insurance and Real Estate (+20 percent).

There is also optimism in the manufacturing sector with net positives in the durable goods sector (+12 percent) and in non-durable goods (+7 percent). These numbers represent a continued bounce back from significant net negative percentages during the recession.

Outlook for State Economy

FIGURE 5



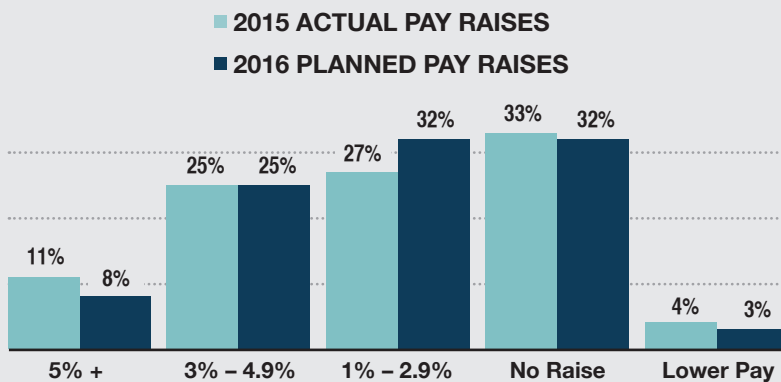
state's business climate. The results were telling and underscored that our members view the dynamics of the state's economy quite differently than they view their own business prospects in 2016. While our members were positive about the key economic indicators of employment, sales and profits, they were less positive about the challenges inherent in the state's business climate. Fifteen percent said that the state was a good or very good location, while 48 percent said it was fair or average.

New Jersey remains near the bottom in the tax burden it places on business with high income, sales, corporation, property and the estate and inheritance taxes. We are also a state that presents a difficult environment of regulations and mandates. The response to this question underscores why it is important for New Jersey to remain competitive with its neighboring states and the importance of offering incentives to achieve that goal.

Pay Raises

% Distribution of Responses

FIGURE 6



Understanding this table: This table shows the percent distribution of respondents giving pay raises to employees in 2015 or planning to give raises in 2016 and in what range.

Wages

New Jersey employers report solid wage gains in 2015. Sixty-two percent of employers gave raises this year, compared to 56 percent who gave their employees raises last year. This mirrors the results of last year's Business Outlook Survey when 61 percent said they planned to give raises this year.

The results of this year's survey also show that a greater percentage of employers are planning to give raises in 2016 versus those who actually gave raises this year. Sixty-five percent of employers surveyed said they would give raises next year, 3 percent more than those who actually gave raises this year.

Thirty-two percent said they would give raises next year in the 1-3 percent range; 25 percent said they would give raises in the 3-5 percent range; and 8 percent said they would give raises of 5 percent or more. (See Figure 6)

Conclusion

NJBIA's 2016 Business Outlook Survey shows that our members are optimistic about their own business prospects with employment, wages, sales and profits continuing on the upswing. However, our members' optimism is tempered by concerns about the state's economic climate as a whole.

Members give strong support for education and quality of workforce, but continue to be concerned about the state's tax, regulatory and mandate climate and how it may impact their business success. These long-time concerns by our members are now manifesting themselves in broader worries, where two-thirds majorities note that their future plans for expansion and domicile will not include New Jersey.

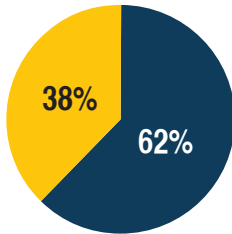
The 2016 Business Outlook Survey is a strong indication that New Jersey business results continue to move in the right direction. However, these

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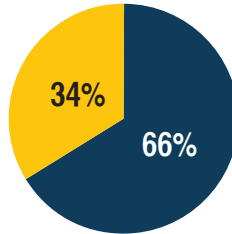
FIGURE 7

■ YES ■ NO

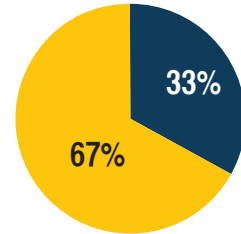
If you are planning to expand, would you open another location in NJ?



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



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



positive feelings about one's own results are tempered with the overall concern about New Jersey's economic competitiveness. Phasing in tax reform and being mindful of actions that may increase the cost of doing business can provide the needed predictability our members are looking for so they can invest in New Jersey instead of elsewhere.

About the Survey

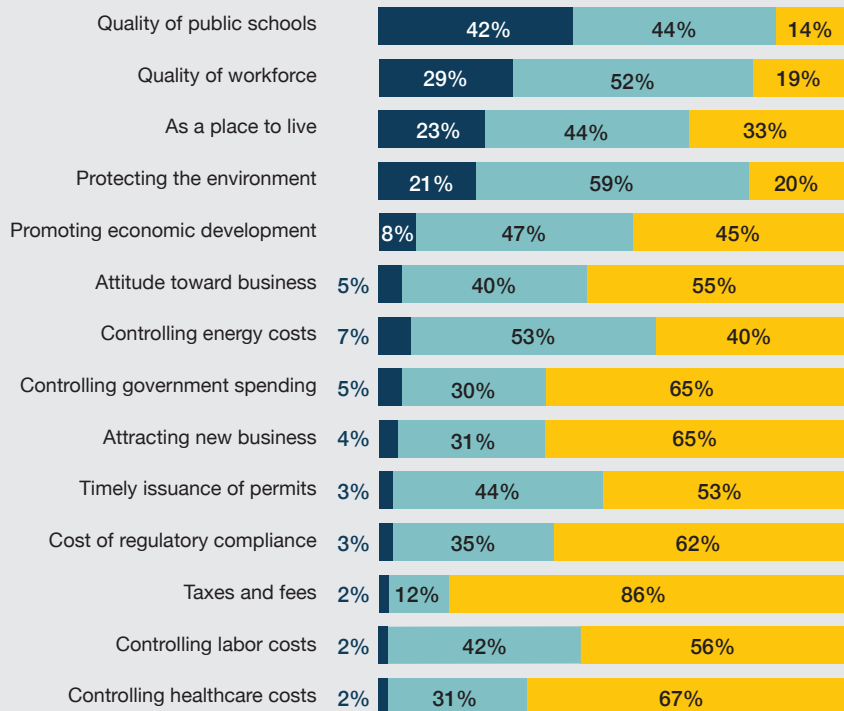
The NJBIA 2016 Business Outlook Survey was sent to the primary point of contact in 19,588 of its member companies in September and October 2015. The report is based on 1,105 valid responses, a response rate of 5.6 percent. Most respondents were small businesses with 69 percent reporting fewer than 25 employees, 12 percent 25-49 employees, 9 percent 50-99 employees and 11 percent 100 or more employees. Responses came from businesses in all 21 counties, with every industry sector represented in the survey. The margin of error is plus or minus 2.9 percent at a 95 percent level of significance.

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," "businesses" or "employers" in this text refers to survey participants. **NJB**

NJ's Performance Compared with all Other States

FIGURE 8

■ BETTER ■ SAME ■ WORSE



Where New Jersey Compares Favorably

A majority of those surveyed said New Jersey compared favorably to other states in several areas including controlling energy costs, protecting the environment and the quality of the workforce. Most notably, 86 percent of those surveyed said the quality of New Jersey public schools was either better or the same as other states. (See Figure 8)