

59th Annual Business Outlook Survey

Optimistic outlook reported on many fronts, but pending issues and existing challenges a concern in the new year.

Executive Summary

The results of NJBIA's 59th Annual Business Outlook Survey show a continuing optimism regarding New Jersey's economic climate in 2018.

But with that hopefulness comes some real concerns about the cost of doing business in the Garden State.

Among the positives reported by members heading into 2018: a big anticipation for sales. They also expect hiring, profits and wages to rise. (See Figures 3 & 6).

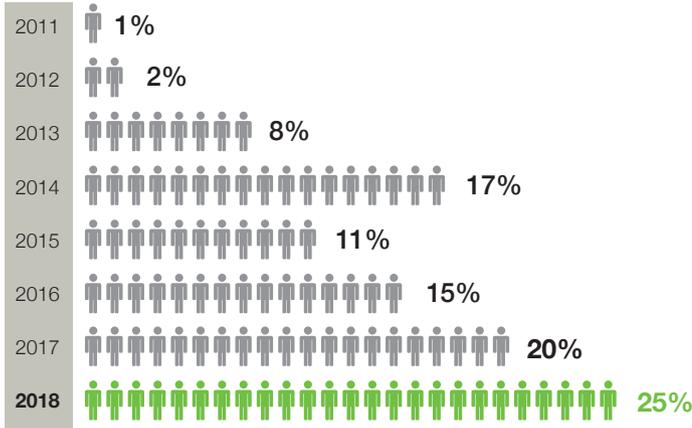
Despite that optimism, members say they remain concerned about New Jersey's overall economic future.

Leading the list of specific concerns – the specter of a \$15 minimum wage. Nearly two-thirds of members say a \$15 minimum wage will impact their businesses. The expense of health insurance, property taxes, and the overall cost of doing business also rear their heads as big concerns. They anticipate that the state's economy will be stronger in the first six months of 2018.

Members recognize that we have been able to make strides in beginning the process of comprehensive tax reform with the elimination of the estate tax and increase of the retirement income tax exclusion. But there is also the continued recognition that when it comes to taxes, we have a long way to go in order to be competitive with other states.

Hiring Outlook of Individual Companies

FIGURE 1



55% Of members believe their profits will increase in 2018

Net Profits Outlook, Individual Companies

FIGURE 2



Profits

The outlook for profits continues the pattern of employment and sales. Fifty-five percent of members believe their profits will increase in 2018, while only 12 percent felt they would fall. The net positive of +43 percent is much higher than the +31 percent and +25 percent members forecasted over the past two years.

Forty-six percent of members said their profits increased while 28 percent said they decreased in 2017. This net positive of +18 was much higher than the +3 in 2016 and +7 in 2015. This sharp recent increase helps to explain why members expect an even more pronounced increase in 2018.

New Jersey continues to outpace other states in the quality of public schools and the quality of workforce, according to the survey. These positives could be jeopardized if the state cannot reduce its high cost of living, including the high tax burden and expensive housing cost. These factors make New Jersey unaffordable, particularly for millennials. As a result, we have seen our young people leave the state in higher numbers than any other demographic segment. If we cannot keep them here, we will not have the workforce necessary to fill anticipated new positions in New Jersey.

As in years past, members told us that they do not expect to retire in New Jersey, almost certainly because they take estate and inheritance taxes into account when making business decisions. This trend is reversing slightly as a result of the final tax reform bill signed into law, which eliminates the estate tax by January 2018 and raises the retirement income tax threshold significantly over the next several years.

IRS figures continue to show that New Jersey has lost tens of billions in new adjusted gross income due to over-regulation and the cost of doing business. The loss of these funds resulted in sharp losses of economic output, jobs and labor income. In 2018, NJBIA will continue to press for more comprehensive tax reform. We must harness the momentum and continue to focus on making New Jersey more affordable for all.

Sales

Member companies continue to be optimistic about their sales looking ahead to 2018. Fifty-eight percent said sales would rise, while 9 percent said sales would fall (Figure 3). The net positive of +49 percent is a remarkable 11 percentage points higher than the +38 percent in last year's survey.

Fifty-one percent said actual sales

Outlook Summary: Sales, Profits & Employment

FIGURE 3

	2012	2013	2014	2015	2016	2017	2018
SALES							
More	42%	49%	57%	45%	50%	54%	58%
Same	34	34	28	36	34	30	33
Less	24	22	15	18	16	16	9
Net outlook*	19%	32%	42%	27%	34%	38%	49%
PROFITS							
More	36%	45%	52%	50%	45%	48%	55%
Same	36	34	31	33	35	35	33
Less	28	22	18	17	20	17	12
Net outlook*	9%	23%	34%	33%	25%	31%	43%
EMPLOYMENT							
More	15%	19%	26%	22%	25%	29%	31%
Same	71	69	65	67	65	62	63
Less	13	11	9	11	10	9	6
Net outlook*	2%	8%	17%	11%	15%	20%	25%

Understanding this table: The net percentage of respondents anticipating they will experience a higher dollar volume of sales in 2018, for example, is calculated by subtracting the percentage anticipating less sales revenue (9%) from the percentage anticipating more sales revenue (58%). The net percentage anticipating more sales in 2018 in this example is, therefore, +49%. Changes are calculated before rounding. Totals may not equal 100%.

in 2017 were up, while 24 percent said sales were down, for a net positive of +27 percent. This is considerably higher than the 2016 net positive of +12 percent and the 2015 net positive of +20 percent.

Purchases and Prices

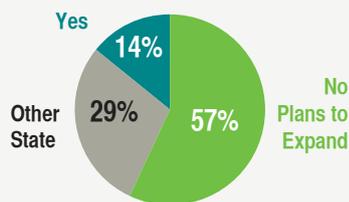
Members are equally optimistic about their purchasing plans in 2018. Forty-nine percent said they would increase the dollar value of their purchases, up considerably from the 43 percent who predicted an increase in 2017. Only 10 percent expect the dollar value of their purchases to decline. The net positive of +39 percent is 12 percent higher than the net figure reported in 2016.

Although a majority of members said they made investments to improve productivity in 2017, the 60 percent figure is lower than the 71 percent and 68 percent reported in the past two years.

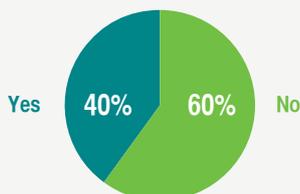
Meanwhile, 36 percent of members said they increased prices in 2017 and 7 percent said they lowered prices for their primary products/services. The net positive of +29 percent is up from +23 and +24 in the past two years.

FIGURE 4

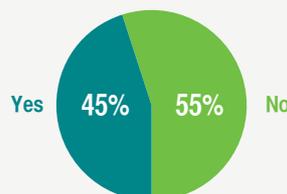
If you are planning to expand, would you open another location in NJ?



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



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



Challenges

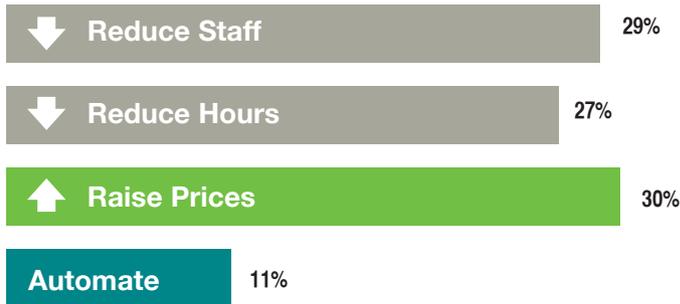
Year-to-year business challenges have remained relatively stable over time; for more than 25 years, NJBIA members have cited health insurance costs as their most important concern. This year is no exception. In this year's survey, 30 percent cited it as their top concern (up from 24 and 25 percent in the past two years), while 72 percent rated it as one of their top four concerns.

Property taxes are also of increasing concern, and were cited by 25 percent as their No. 1 concern, and 65 percent regard it among their top four concerns. The overall cost of doing business was cited by 18 percent as their No. 1 concern, and 68 percent

Minimum Wage Impact

% Distribution of Responses

FIGURE 5



regard it among their top four concerns.

Other than state regulations and state taxes, cited by 15 percent as their No. 1 concern, all other problems combined were cited as most important by only 13 percent of members.

Seventy-eight percent expect health benefits costs to rise in 2018, down from 81 percent and 80 percent in the past two years. Fifty-two percent expect their costs to rise by six percent or more in 2018.

Sixty-seven percent expect local property taxes and 77 percent expect cost of purchases to rise in 2018. Only 38 percent expect their advertising budgets to increase in 2018.

Employment

The employment picture improved in 2017 and members are increasingly optimistic about their ability to hire. Thirty-one percent of members said they could increase employment next year, while only 6 percent said they would decrease.

The +25 percent net percentage increase in members saying they will increase employment represents a marked increase from 20 percent in 2017 and 15 percent in 2016. Given that 2017 was a peak since the recession, this represents a remarkably high level of hiring intent.

This optimism reflects strong employment in the past year. Twenty-six percent said that employment within their company increased, while 12 percent said it decreased in 2017 for a net positive of +14 percent, also much higher than the +10 percent in 2016 and +6 percent in 2015.

New Jersey's Economic Climate

While members are very optimistic about their own company and industry performances, they remain concerned when looking at the state's overall business climate.

Members are fully aware that New

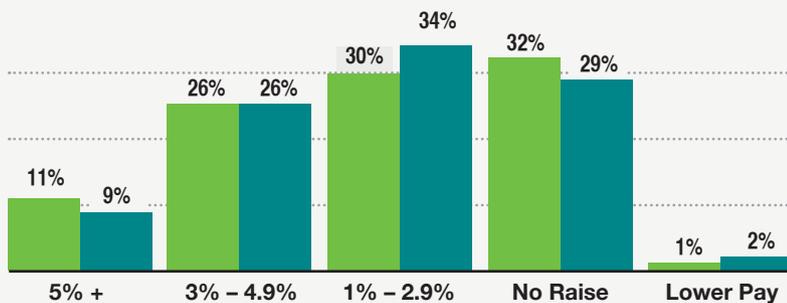
64% Of members say a minimum wage increase would impact their business

Pay Raises

% Distribution of Responses

FIGURE 6

■ 2017 ACTUAL PAY RAISES
■ 2018 PLANNED PAY RAISES



Understanding this table: This table shows the percent distribution of respondents giving pay raises to employees in 2016 or planning to give raises in 2017 and in what range.

Wages

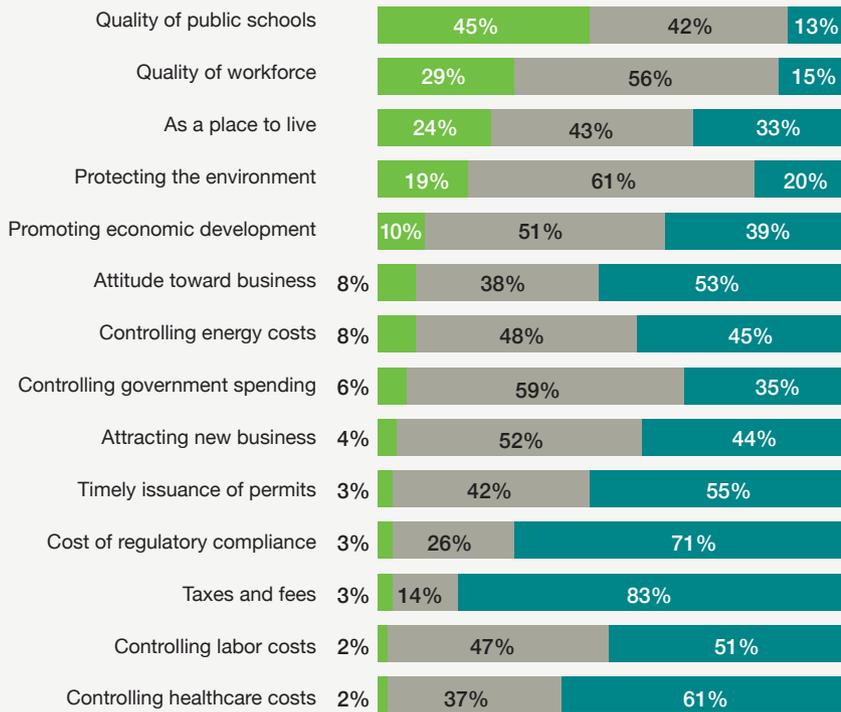
Wages are expected to rise again in 2018 after showing a median increase of 2.2 percent in 2017. In 2017, 67 percent of members granted a pay raise, and 69 percent expect to do so in 2018. The proportion who plan to give raises above 5 percent should decline this year, while the proportion who grant pay raises up to 3 percent should increase compared to the proportion who gave raises in that range in 2017.

There are only slight differences compared to last year's survey results. Compared to 2016 actual pay raises, slightly fewer members granted pay raises in the 3-5 percent range in 2017, more granted no raise, and fewer lowered pay.

NJ's Performance Compared with all Other States

FIGURE 7

■ BETTER ■ SAME ■ WORSE



Keeping New Jersey Competitive

In general, NJBIA members 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 83 percent, while controlling government spending (71 percent), healthcare costs (61 percent), and labor costs (51 percent) are also regarded as relative weak areas for the state by at least half of members. Cost of regulatory compliance (55 percent) and attracting new business (53 percent) are other areas where the majority of members regard New Jersey as weaker compared to other states.

Comparing these findings to the 2016 survey shows larger declines in those who feel New Jersey is worse for taxes and fees (87 percent last year), labor costs (56 percent last year), and particularly attracting new business (66 percent last year) and cost of regulatory compliance (65 percent last year). There has been a smaller decline in those who feel New Jersey is worse for controlling government spending (73 percent last year) and healthcare costs (63 percent last year).

New Jersey continues to demonstrate other strengths. Forty-five percent of members say that we are better than other states in public school quality. Twenty-nine percent say the quality of the workforce is better, and 24 percent feel New Jersey is a better place to live. Only public schools improved compared to last year's survey results.

In general, we see short-term improvements in recent business performance and projected performance next year are reducing the number who see serious weaknesses in New Jersey's competitiveness, but it is not having much effect on the number who regard New Jersey as better than other states, at least for now.

Jersey is near or at the top of all states in all tax categories including income, sales, property, corporate and inheritance taxes. They also believe the level of regulation they face makes it difficult to compete.

NJBIA has made comprehensive tax reform a mission. Recent victories with the elimination of the estate tax and an increased retirement income tax deduction, suggest that we will continue to have success in the future.

In this year's survey, 43 percent indicated that they are planning to expand, but only one-third, or 14 percent of all members, plan to expand and would open another location in New Jersey, while two-thirds, or 29 percent of all members, plan to expand in another state.

Some of this reflects disappointment with New Jersey's regulatory obstacles for business – only 24 percent of members feel that New Jersey had made progress in easing them over the last year.

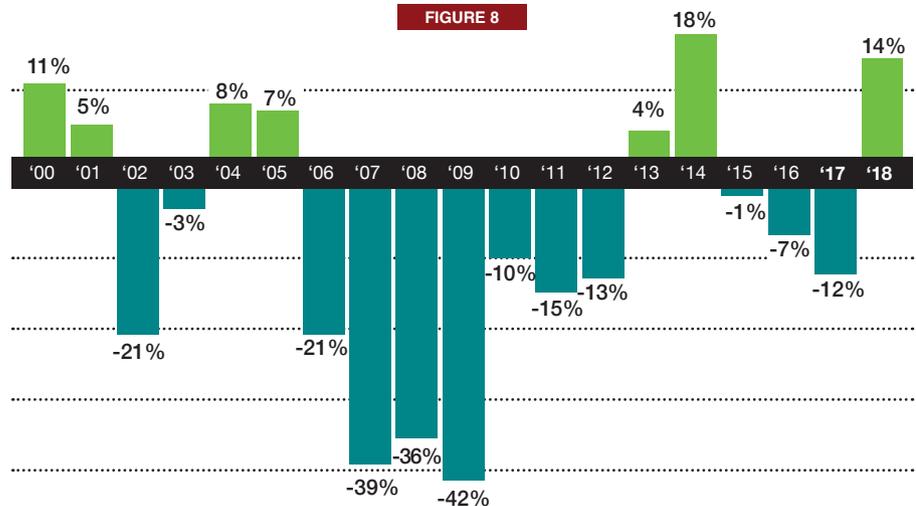
Also, 14 percent of members indicate that they have postponed installation of equipment or expansion of their business due to delays in the state permitting and regulatory process. Although we do not know what proportion of members were expanding or installing new equipment, this finding suggests that as many as one-third postponed action due to excessive regulation.

Only 40 percent indicate that they would plan to continue keeping the Garden State as their domicile in retirement, up from 32 percent and 34 percent in the past two years, but still a worrying indication for how attractive New Jersey's economic conditions remain for retirees.

In this year's survey, 45 percent indicated that state inheritance taxes or estate taxes play a role in decision-making regarding the future of their business.

Net Outlook for State Economy

FIGURE 8



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

FIGURE 9

	2012	2013	2014	2015	2016	2017	2018
US Economic Outlook							
Better	14%	26%	36%	30%	31%	29%	54%
Same	43	44	45	48	47	49	37
Worse	43	30	19	22	21	22	9
Net outlook*	-29%	-4%	16%	7%	10%	7%	46%
NJ Economic Outlook							
Better	20%	29%	35%	24%	22%	20%	33%
Same	47	47	48	51	49	48	48
Worse	33	26	17	25	29	32	19
Net outlook*	-13%	4%	18%	-1%	-7%	-12%	14%
Outlook for 'Your Industry'							
Better	23%	29%	38%	34%	33%	30%	42%
Same	46	46	42	44	46	49	44
Worse	32	26	20	22	22	21	14
Net outlook*	-9%	3%	18%	12%	11%	9%	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%.

Minimum Wage Impact

There is great concern among NJBIA members regarding the potential increase in the minimum wage to \$15 an hour. Sixty-four percent believe there will be some impact, with 37 percent of members regarding it as "significant."

Anticipated responses should the minimum wage be increased include 30 percent of businesses saying they would raise prices to offset the wage increase, 29 percent who would reduce staff levels, and 27 percent who would reduce hours. Only 11 percent would respond with greater automation. (See Figure 5)

When this question was posed last year, slightly more (34 percent) indicated they would raise prices and reduce staff. Although fewer members anticipate taking action to address increased wages, it continues to be a pressing concern that would disrupt options and require action by the majority of businesses.

State Economic Outlook

NJBIA members demonstrate a very optimistic outlook for their own business performance in 2018. Their projections are far more positive for sales, profit and employment than last year's.

Forty-two percent expect their industry to perform better in the first six months of 2018, compared to 14 percent who expect it to perform worse, for a +28 net percentage. This is far higher than the +9 and +11 net percent reported in the past two years' surveys.

A smaller number, 33 percent, expect the New Jersey economy to perform better in the first six months of 2018, while 19 percent expect it to be worse. The net +14 percent is smaller than for their own industry, but it still represents a sharp reversal of the downward trend we saw in 2015 to 2017 (See Figure 9), and it is close to a record high for the 2000s.

More members feel that the US

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

FIGURE 10

Major Industry Sectors	2012	2013	2014	2015	2016	2017	2018
Construction, Housing	-33%	-15%	25%	11%	25%	-4%	36%
Construction, Other	-27	-3	28	11	23	11	46
Communications & Utilities	39	6	-11	38	19	17	58
Finance, Insurance & RE	-11	16	22	26	20	18	29
Healthcare	-17	-17	-33	-28	-18	-13	-8
Manufacturing, Durables	1	1	25	23	12	7	33
Manufacturing, Nondurables	-8	-1	16	-3	7	28	32
Retail Trade	-23	2	2	-4	-3	-11	4
Services	-1	10	27	18	7	14	30
Transportation	-11	-6	23	29	17	-22	15
Wholesale Trade	-6	5	20	3	9	6	28
All industries combined	-9%	3%	18%	12%	11%	9%	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.

Industries

Most industries show a striking improvement in the net percentage who believe their industries will perform better in the first six months of 2018. The highest net percentages are reported by Communications & Utilities at +58 percent (up from +17 percent last year) and Other Construction at +46 percent (up from +11 percent last year).

Healthcare and Retail Trade, at -8 percent and 4 percent, respectively, continue to expect relatively weak conditions in early 2018.

Other sectors that were weak in 2017 such as Housing, improved to +36 percent from -4 percent a year ago, and Durable Goods Manufacturing, improved to +33 percent from 7 percent last year.

58% Companies in the Communications & Utilities industries expecting improved conditions in 2018

economy will perform better in early 2018: 54 percent feel it will be substantially or moderately better, while only 9 percent feel it will be worse, for a net percentage of +46.

Conclusion

NJBIA's 59th annual Business Outlook Survey forecasts a somewhat positive 2018 for NJBIA members, with companies expecting rising sales, profits, employment and wages. More members believe the state's economy will perform better in the first six months of 2018.

A significant majority believe that most states fare better than New Jersey in key areas including health insurance costs, property taxes, and cost of doing business. However, they recognize New Jersey's leadership in workforce quality and K-12 public education system.

While nearly two-thirds say they will not retire here, steps are being taken toward comprehensive tax reform which may increase the likelihood that residents will remain and the business climate will continue to improve.

About the Survey

NJBIA's Business Outlook Survey questionnaire was sent to 17,235 individual contacts with deliverable e-mail addresses at NJBIA member companies in September/October 2017. The report is based on 1,010 valid responses, a response rate of 5.9 percent.

Most respondents were small businesses, with 68 percent reporting fewer than 25 employees and 11 percent with 25 to 49 employees. The margin of error is plus or minus 2.99 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. **NJB**