

58th Annual Business Outlook Survey

Navigating 2017:
Optimism continues
with sales, profits and
hiring expected to rise.



Executive Summary

NJBIA's 58th annual Business Outlook Survey tells a vivid story about the state of New Jersey's economic climate.

There are many positives to report as our members tell us they are broadly optimistic about their own businesses heading into 2017. They expect hiring, sales, profits and wages all to rise.

(See Figure 1 and Figure 2) In short, they feel good about themselves and are planning for a great 2017. Despite this optimism, our members still report that they remain concerned about New Jersey's overall economic future.

Members recognize that, led by NJBIA, 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 still have a long way to go in order to be competitive with other states.

Leading the list of specific concerns is the cost of health insurance, property taxes and the overall cost of doing business; once again their three top concerns. Further, more than two-thirds say a \$15 minimum wage will impact their business. They also anticipate that the state's economy will be challenging in the first six months of 2017.

In contrast, we continue to positively outpace other states in two critically important areas – the quality of our workforce and the quality of our public schools. However, these positives could be in jeopardy if we don't reduce the state's cost of living, including our high tax burden and the cost of housing. These factors make New Jersey unaffordable, particularly for Millennials. As a result, we have seen

Outlook Summary: Sales, Profits & Employment

FIGURE 1

	2011	2012	2013	2014	2015	2016	2017
SALES							
More	42%	42%	49%	57%	51%	50%	54%
Same	31	34	34	28	33	34	30
Less	27	24	17	15	16	16	16
Net outlook*	15%	19%	32%	42%	35%	34%	38%
PROFITS							
More	37%	36%	45%	52%	45%	45%	48%
Same	33	36	34	31	36	35	35
Less	30	28	22	18	18	20	17
Net outlook*	7%	9%	23%	34%	27%	25%	31%
EMPLOYMENT							
More	16%	15%	19%	26%	22%	25%	29%
Same	70	71	69	65	67	65	62
Less	15	13	11	9	11	10	9
Net outlook*	1%	2%	8%	17%	11%	15%	20%

*Understanding this table: The net percentage of survey participants anticipating that they will enjoy a higher dollar-volume of sales in 2014, 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.

our young people leave the state in higher numbers than any other demographic group. If we cannot keep them here, we will not have the workforce necessary to fill the available positions we anticipate.

Our members also told us again this year that they will not retire here and that they take the estate and inheritance taxes into account when making business decisions. This survey was completed before the final tax reform bill was signed into law in October, which eliminates the estate tax by January 2018 and raises the retirement income tax threshold signifi-

cantly over the next few years. As a result of these actions, we are hopeful this trend will begin to reverse.

The latest IRS figures that now include 2014-2015, tell us that during the last 11 years we have lost \$20.7 billion of net adjusted gross income. The loss of these funds resulted in a loss of \$13.1 billion in economic output; nearly 87,000 jobs; and \$4.6 billion in total lost labor income.

In 2017, 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 2017. Fifty-four percent said sales would rise, while 16 percent said sales would fall. The net positive of +38 percent is 4 percentage points higher than the +34 from last year's survey.

Forty-three percent said actual sales through the first eight months of 2016 were up, while 31 percent said sales were down, for a net positive of +12 percent. This is below the 2015 net positive of +20 percent.

Purchases and Prices

Our members are equally optimistic about their purchasing plans in 2017. Forty-three percent said they would increase the dollar value of their purchases, slightly higher than the 42 percent who predicted an increase for 2016. Sixteen percent expect the dollar value of their purchases to decline. The net percentage of +27 percent is slightly higher than the net percentage of +25 in last year's survey and +26 from the year before.

When it came to increasing spending to improve productivity, the response was positive. Seventy-one percent said they increased spending to improve productivity in 2016, which is higher than the 68 percent who said they increased spending in 2015 as determined by last year's survey.

Meanwhile, 32 percent said they increased prices in 2016 and 9 percent said they lowered prices. The net percentage of +23 is slightly below the +24 in last year's survey.

Challenges

The year may change, but the year-to-year challenges seem to remain the same: health insurance costs,

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

FIGURE 2

	2011	2012	2013	2014	2015	2016	2017
US Economic Outlook							
Better	23%	14%	26%	36%	30%	31%	29%
Same	44	43	44	45	48	47	49
Worse	33	43	30	19	22	21	22
Net outlook*	-10%	-29%	-4%	16%	7%	10%	7%
NJ Economic Outlook							
Better	22%	20%	29%	35%	24%	22%	20%
Same	41	47	47	48	51	49	48
Worse	37	33	26	17	25	29	32
Net outlook*	-15%	-13%	4%	18%	-1%	-7%	-12%
Outlook for 'Your Industry'							
Better	27%	23%	29%	38%	34%	33%	30%
Same	41	46	46	42	44	46	49
Worse	32	32	26	20	22	22	21
Net outlook*	-5%	-9%	3%	18%	12%	11%	9%

*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.

property taxes and the overall cost of doing business. For more than a quarter century, our members have cited health insurance costs as their No. 1 concern.

In the 2017 survey, 24 percent cited health insurance as their No. 1 concern (similar to last year's 25 percent), while 67 percent cited health insurance costs as one of their top four concerns. Coming in second was property taxes at 20 percent (21 percent last year); and the overall cost of doing business 20 percent (21 percent last year).

Eighty-one percent expected

health benefits costs to rise in 2017 compared to 80 percent last year. Fifty-four percent said they expected their costs to rise by more than 6 percent. Members also do not feel any better about the impact of the Affordable Care Act than they have in the last few surveys. Sixty-four percent believe they have been negatively impacted by the ACA, similar to last year's 61 percent.

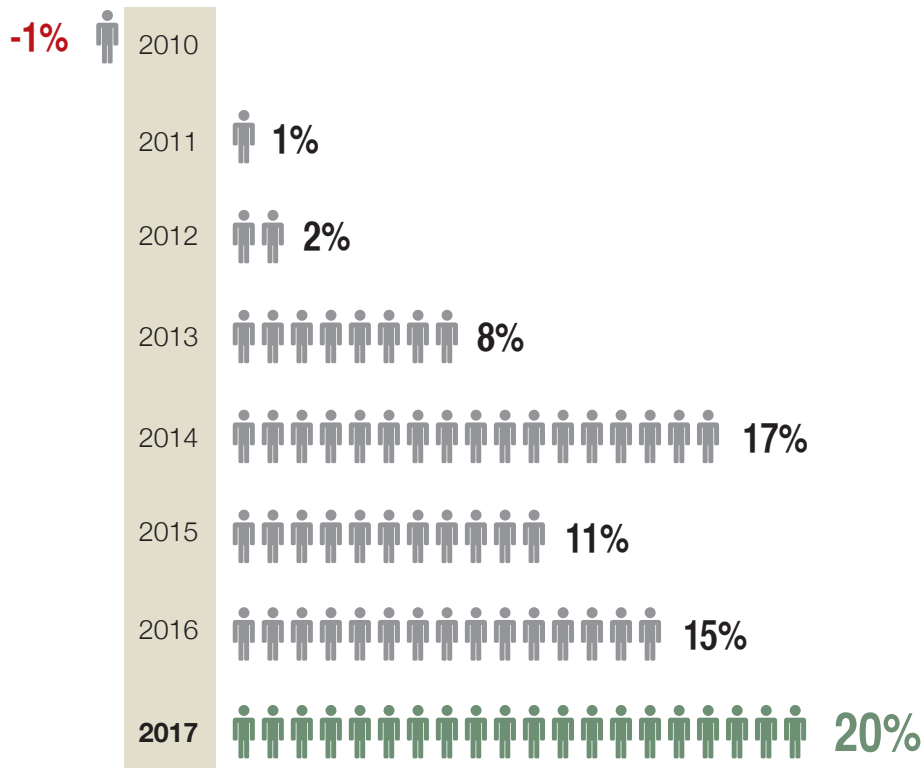
Sixty-nine percent expect property taxes to rise in 2017 (68 percent last year). Only 7 percent expect property taxes to rise by more than 6 percent.

Employment

The employment picture improved in 2016 and members are more optimistic about their ability to hire in 2017 than they have been since before the Great Recession. Twenty-nine percent of companies said they would increase employment next year, while only 9 percent said they would decrease employment. The +20 percent net percentage increase of companies saying they will increase employment is a 5 percentage point increase over last year's forecast. This is the highest positive percentage since prior to the recession.

Meanwhile, in 2016, 27 percent said employment rose and 17 percent said employment went down for a net positive of +10 percent, which is 4 percentage points higher than the +6 percent in 2015.

Hiring Outlook of Individual Companies

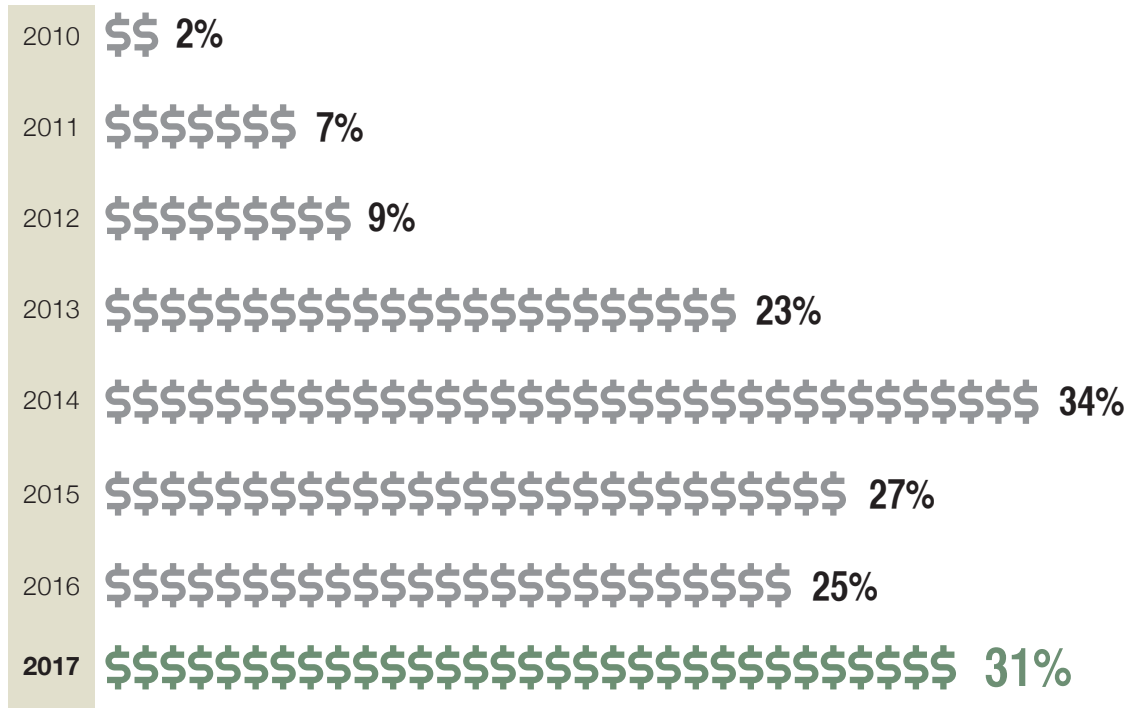


Profits

The outlook for profits continues the optimistic pattern set by the outlook for employment and sales. Forty-eight percent of members said they believed their profits would increase in 2017 while 17 percent said profits would fall. The net positive of +31 percent is higher than the net positive of +25 percent in last year's 2016 forecast.

Thirty-eight percent of members said their profits increased while 35 percent said profits have fallen in 2016. This net positive of +3 percent is less than 2015's net positive of +7.

Profits Outlook, Individual Companies



69% Of members expect property taxes to go up.

New Jersey's Economic Climate

As we move toward 2017, it is clear that although members are bullish on their own industries, they remain concerned when looking at the state as a whole. This concern manifests itself throughout the responses provided in our latest survey.

Our members understand that we are either at or near the top among all states in every single tax category. This includes income, sales, property, corporate and inheritance tax. Our members also believe the level of regulation they face makes it very difficult to compete.

NJBIA has worked very hard to begin the process of comprehensive tax reform and had two recent victories as the Legislature and Governor eliminated the estate tax and increased the retirement income tax exclusion.

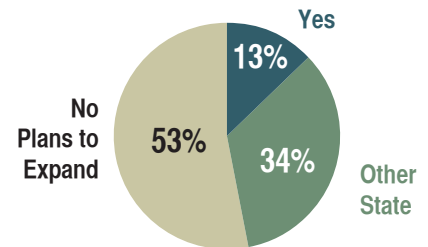
In last year's survey, 67 percent said they took the estate and inheritance tax into account when making business decisions. The estate tax has always impacted business succession planning as families struggled with whether to sell their business or move to another state to avoid the estate tax.

The elimination of the estate tax is only the first step in what NJBIA hopes will be a continuing discussion about comprehensive tax reform. Fundamentally, if New Jersey's economy is going to improve, we have to be competitive both nationally and with our neighboring states. As the results of this year's survey show, our members do not currently believe we are competitive at all.

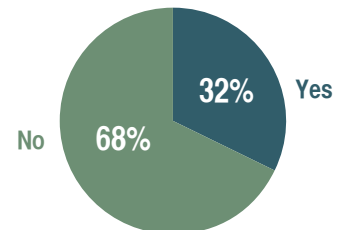
NJBIA research has indicated that if only 20 percent of those over 45 years of age who left the state in 2013 had stayed, it would have resulted in more than half a billion dollars in additional adjusted gross income staying in the state, which could not only have been taxed, but would have flowed through the economy adding an additional \$300 million in economic activity. This year's survey was perhaps impacted by the realization that the long-awaited elimination of the estate tax was finally about to happen. Fifty-five percent indicated they took the estate and inheritance taxes into account when making business decisions, a 12 point drop from the 2016 survey.

In last year's survey, 66 percent said they would not keep New Jersey as their domicile in retirement. This year, that number rose to 68 percent, indicating continuing concern about the economic conditions that still exist here for retirees.

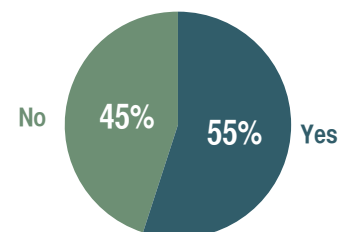
If you are planning to expand, would you open another location in NJ?



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



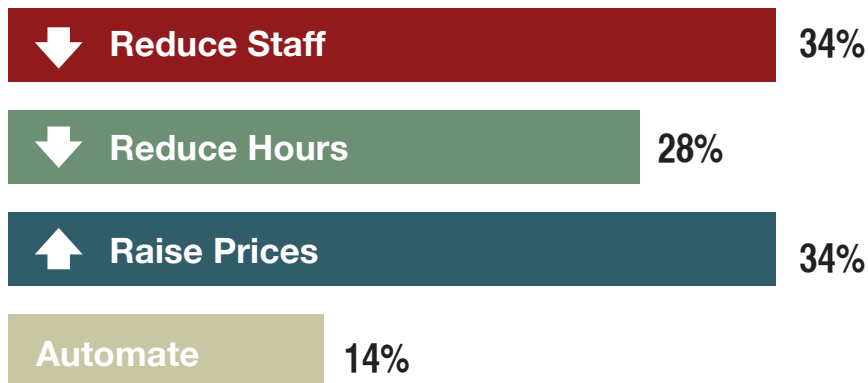
Do state inheritance or estate taxes affect decisions regarding your business' future?



Minimum Wage Impact

There is also great concern among our members regarding the potential increase in the minimum wage to \$15 an hour. Seventy percent said that increasing the minimum wage will have an impact on their business. Thirty-four percent said they would reduce staff; 28 percent would reduce hours; 34 percent will raise prices and 14 percent said they would automate.

Minimum Wage Impact % Distribution of Responses



70%
Of members say
a minimum wage
increase would impact
their business.

Keeping New Jersey Competitive

NJBIA members in general do not feel New Jersey is competitive with other states across the nation in most categories. When it came to controlling healthcare costs, 63 percent felt we were worse than other states (67 percent last year); 66 percent said we were worse in attracting new business (65 percent last year); 56 percent said our attitude toward business was worse than other states (55 percent last year); 65 percent said we were worse than other states in our cost of regulatory compliance (62 percent last year); 73 percent said we were worse in controlling government spending (65 last year); and 87 percent said we were worse in taxes and fees (86 percent last year).

However, New Jersey was deemed better than other states in several important categories. Our members said we were better in the quality of our workforce 30 vs. 17 percent (29 vs.19 percent last year); better in our public school quality 42 vs.14 percent (same as last year); and protecting the environment 21 vs. 18 percent (21 vs. 20 percent last year).

NJ's Performance Compared with all Other States



Wages

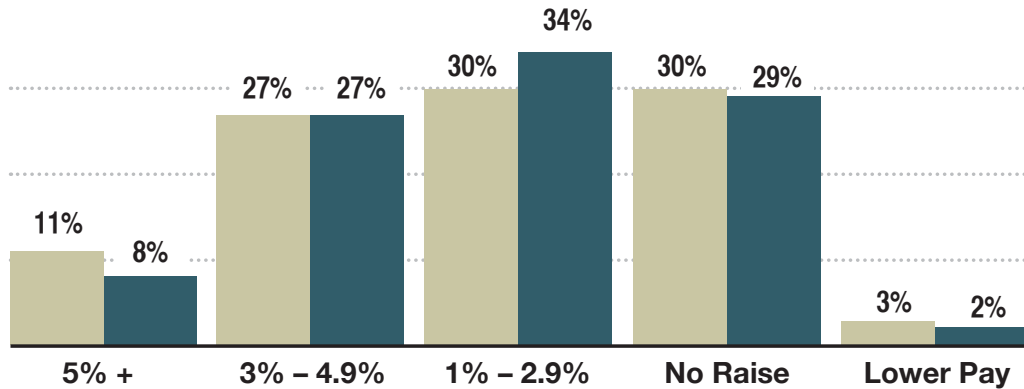
Our members tell us that wages will be rising in 2017 at a rate surpassing that of last year's 2016 forecast. Sixty-nine percent said they will give wage increases in 2017, higher than the 65 percent who forecasted wage hikes in 2016. Sixty-one percent will give raises ranging from 1 to 4.9 percent. Eight percent will give raises that are higher than that.

In 2016, 67 percent of members gave wage increases compared to 62 percent last year. Fifty-six percent gave raises in the 1-4.9 percent range. Eleven percent gave raises higher than that.

Pay Raises

% Distribution of Responses

■ 2016 ACTUAL PAY RAISES
 ■ 2017 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.

Economic Outlook

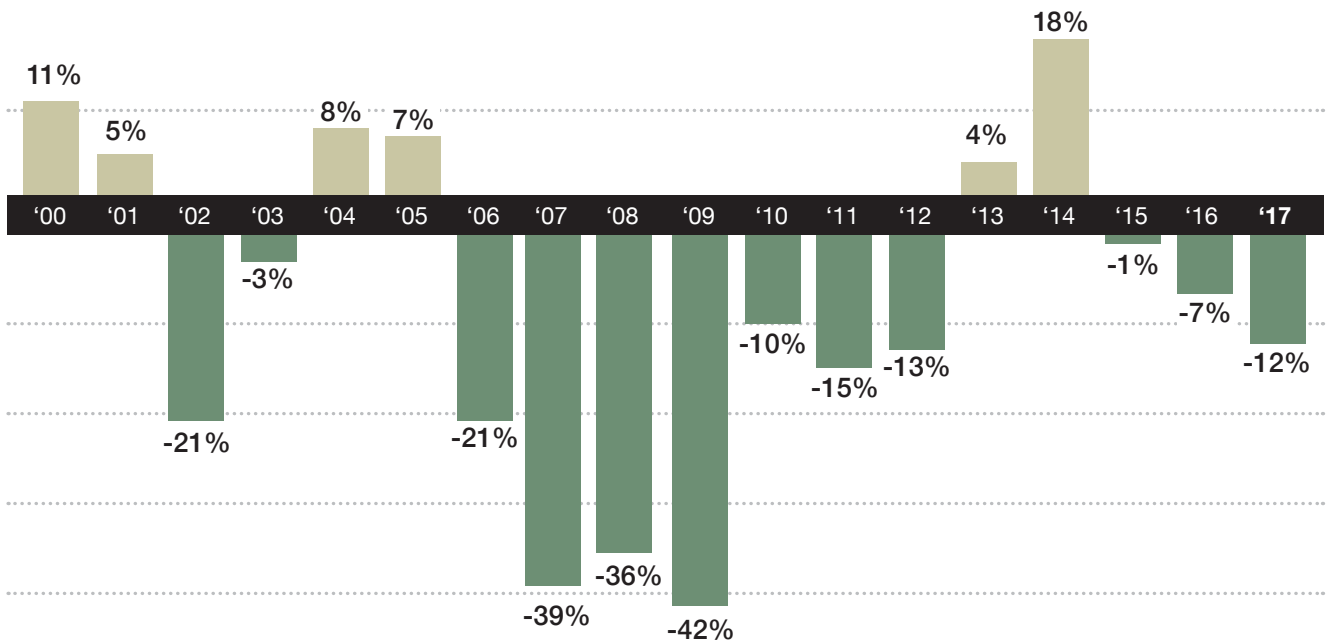
When looking ahead to 2017, NJBIA members have a broadly optimistic view of their own businesses when it comes to sales, jobs and profits. This year's projections for 2017 are more positive in all three categories than the projected outlook was in last year's survey. However, our members' outlook was less rosy than it was in 2016 when looking at the economy as a whole.

Thirty percent said they expected their own industry to perform better in the first six months of 2017, while 21 percent said they expected their industry to perform worse. The net percentage of +9 is slightly below the +11 in the 2016 survey.

Our members are also less positive about the US economy than a year ago. Twenty-nine percent said the US economy will perform better in the first six months of 2017, while 22 percent said it would perform worse. The net percentage of +7 is a bit lower than the +10 of 2016.

When it comes to the New Jersey economy, members communicated how challenging they believe the environment will be. Only 20 percent felt that the economy will perform better, while 32 percent believed it will perform worse. The net percentage of -12 versus last year's -7 is the lowest number since 2012.

Outlook for State Economy



Industries

There were mixed messages from our members when asked if they believe their industries will perform better or worse in the first six months of 2017. There is no greater example of this than the construction industry. Housing construction had a net percentage of -4 percent (16 percent better; 20 percent worse), which is well below the +25 from last year's survey. However, all other construction fared better, although lower than last year, with a net percentage of +11 compared to a +23 from a year ago.

Industries with stronger results were in the Communications and Utilities sector with a net +17 (+19 a year ago); Finance, Insurance and Real Estate had a net percentage of +18 (+20 last year); Manufacturing of Durables a net +7 (+12 last year); Nondurables manufacturing with a net +28 (+7 last year); and services a net +14 (+7 last year).

Faring less well in our survey were Healthcare Services, with a net of -13 (-18 last year); Retail Trade, with a net of -11 (-3 last year) and, most significantly, transportation, with a net of -22 (+17 last year).

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

Major Industry Sectors	2011	2012	2013	2014	2015	2016	2017
Construction, Housing	-18%	-33%	-15%	25%	11%	25%	-4%
Construction, Other	-28	-27	-3	28	11	23	11
Communications & Utilities	32	39	6	-11	38	19	17
Finance, Insurance & RE	-8	-11	16	22	26	20	18
Healthcare	-15	-17	-17	-33	-28	-18	-13
Manufacturing, Durables	7	1	1	25	23	12	7
Manufacturing, Nondurables	0	-8	-1	16	-3	7	28
Retail Trade	-12	-23	2	2	-4	-3	-11
Services	-1	-1	10	27	18	7	14
Transportation	-10	-11	-6	23	29	17	-22
Wholesale Trade	2	-6	5	20	3	9	6
All industries combined	-6%	-9%	3%	18%	12%	11%	9%

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.

Conclusion

NJBIA's 58th annual Business Outlook Survey forecasts a positive 2017 for NJBIA member companies with members expecting rising sales, profits, employment and wages. However, more members believe the state's overall economy will perform worse in the first six months of 2017 than those who believe the state's economy will perform better. A large majority believe that most states fare better than New Jersey in most key economic areas, including a insurance, property taxes and the cost of doing business, but recognize New Jersey leads in the quality of our workforce and our K-12 public education system.

Finally, while more than two-thirds still say they will not retire here, now that the Legislature and Governor have taken the first step toward comprehensive tax reform it is hoped that next year's survey will be reflective of a greater level of optimism and an improved business climate.

About this Survey

The NJBIA 2017 Business Outlook Survey was sent to one or more contacts within 17,132 member companies in September and October 2016. The report is based on 1,046 valid responses – a response rate of 6.1 percent. Most respondents were small businesses with 62 percent reporting fewer than 25 employees and 14 percent with 25-49 employees. 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.



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