

SOUTH JERSEY

Federal Reserve Bank
of Philadelphia

B U S I N E S S

Survey

Third Quarter 1999

Firms responding to the third-quarter *South Jersey Business Survey* reported a continuation of growth in their businesses during the quarter. The responses, however, suggest some significant slowing in the pace of growth. Expectations of growth over the next six months remain relatively optimistic, and one-third of the firms anticipate employment increases.

Indicators Remain Positive But Are Weaker Than in Recent Surveys

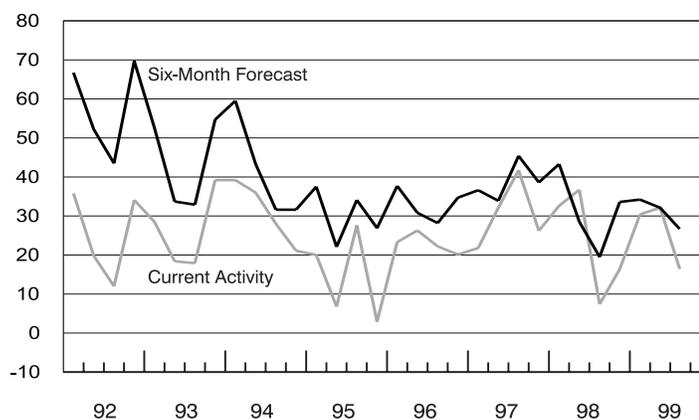
The index of general business activity for firms in the survey declined from 32.1 in the second quarter to 16.7 in the third quarter (see chart). Although nearly 37 percent of the firms indicated an increase in business activity during the third quarter, 20 percent reported declines. In the previous quarter 47 percent of respondents reported increases, and 15 percent reported decreases in business activity. The changes suggest a slowing in growth of overall business activity during the quarter. A slowing of growth is also reflected in other indicators for the third quarter. The current sales index declined precipitously from 42 in the second quarter to 7.8 in the third quarter—the largest one-quarter decline in the index since its inception in 1991. The index measuring quarter-to-quarter changes in customer traffic or inquiries fell from 32.1 to 12.2.

Respondents' perceptions about the pace of national, state, and regional economic growth changed quite dramatically during the third quarter. The index of national business activity, reflecting respondents' perceptions of growth in the national economy, fell from 27.2 in the second quarter to 2.2. Similarly, the index of state activity fell from 22.3 to 1.1, and the regional index fell from 22.3 to 2.2.

Chart

**Index of General Business Activity at Respondents' Companies
South Jersey (1992-1999)**

Diffusion Index*



* Percentage of respondents indicating an increase minus percentage indicating a decrease. Indexes represent firms' responses to question 1.4 in the accompanying table.

Employment during the quarter was reported higher at 30 percent of the firms, down from 35 percent reporting employment increases in the second quarter. Moreover, the current employment index fell from 28.4 in the second quarter to 16.7 in the third quarter. On balance, weekly hours continued to rise but at fewer companies: the current weekly hours index remained positive but declined from 24.7 in the second quarter to 16.6.

Costs Rise but Output Prices Are Steady

Firms reported a stronger rise in both labor and nonlabor costs in the third quarter but no upward pressure on output prices. Higher wage costs were reported by 33 percent of the firms; 32 percent reported higher benefits costs. The current wage cost diffusion index increased modestly from 29.6 to

32.2, and the current benefits cost index increased from 16 to 30. Prices of raw materials were reported higher by 26 percent of the firms, and the current prices paid index increased from 16.1 to 25.6. Despite increases in costs, there was little evidence of upward movement in output prices among reporting firms. Nearly 67 percent of firms reported steady output prices during the quarter, and the percentage of firms reporting lower prices (12 percent) was higher than the percentage reporting higher prices (10 percent). The current prices received index fell from 17.3 to -2.2.

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Own-Company Outlook Remains Favorable

Firms expect growth in their businesses to continue over the next six months. More than 40 percent anticipate increases in business activity; 13 percent expect declines. The future index of company business activity fell only slightly from 32.1 to 27.8 (see chart). As in previous surveys, a much larger percentage of firms expect improvements in their own businesses (41 percent) than expect increases in the economy of the

nation, state, and region (about 19 percent). Indeed, over 44 percent of firms anticipate growth in sales at their own firms over the next six months, and 33 percent expect to hire additional workers. The future employment index reflected this optimism, increasing slightly from 22.2 to 26.6.

Summary

Survey measures indicate that the third quarter was a period of growth for South

Jersey businesses, but the balance of evidence suggests that growth may have slowed at the end of the quarter. Current indicators, while still positive, fell from previous readings. Moreover, perceptions about improvements in the U.S., state, and regional economies were less in evidence. Expectations for growth of individual companies remain buoyant, but there is less optimism about further improvements in the broader national economy over the near term.

South Jersey Business Survey

(Third Quarter 1999)

	Compared with 3 Months Ago				6 Months from Now			
	Lower	Same	Higher	Diffusion Index	Lower	Same	Higher	Diffusion Index
1. What is your evaluation of the level of general business activity?								
1.1 in the nation?	18.9	58.9	21.1	2.2	24.4	51.1	18.9	-5.5
1.2 in the state?	17.8	62.2	18.9	1.1	17.8	57.8	18.9	1.1
1.3 in the region?	18.9	60.0	21.1	2.2	16.7	58.9	20.0	3.3
1.4 at your company?	20.0	42.2	36.7	16.7	13.3	43.3	41.1	27.8
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers please use shipments)	23.3	37.8	31.1	7.8	13.3	31.1	44.4	31.1
2.2 Inventories of the products you sell	15.6	36.7	16.7	1.1	7.8	38.9	21.1	13.3
2.3 Customer traffic or inquiries	18.9	47.8	31.1	12.2	11.1	44.4	37.8	26.7
2.4 Number of employees	13.3	55.6	30.0	16.7	6.7	55.6	33.3	26.6
2.5 Weekly hours	5.6	70.0	22.2	16.6	7.8	64.4	22.2	14.4
2.6 Prices actually received	12.2	66.7	10.0	-2.2	7.8	51.1	25.6	17.8
2.7 Prices paid for raw materials (other than labor or energy)	0	47.8	25.6	25.6	2.2	37.8	30.0	27.8
2.8 Cost of Labor								
2.8.1 Wages	1.1	63.3	33.3	32.2	0.0	48.9	47.8	47.8
2.8.2 Benefits	2.2	62.2	32.2	30.0	1.1	62.2	32.2	31.1
2.9 Spending for:								
2.9.1 Acquisition of new space	7.8	58.9	20.0	12.2	10.0	55.6	21.1	11.1
2.9.2 Renovations of existing space	5.6	53.3	26.7	21.1	7.8	57.8	21.1	13.3
2.9.3 Equipment	3.3	64.4	27.8	24.5	6.7	52.2	37.8	31.1

1. The *South Jersey Business Survey* is conducted each quarter and is based on responses from members of the Chamber of Commerce of Southern New Jersey.
 2. Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. Items may not add to 100 percent because of omission by respondents.