

SOUTH JERSEY

B U S I N E S S

Federal Reserve Bank
of Philadelphia

Survey

First Quarter 2001

Firms responding to the *South Jersey Business Survey* reported deterioration in business conditions in the first quarter. Indicators suggest no appreciable improvement in the sluggish state of business reported at the end of 2000. Expectations of growth over the next six months, however, remained relatively optimistic, and over one-third of the firms forecast employment increases.

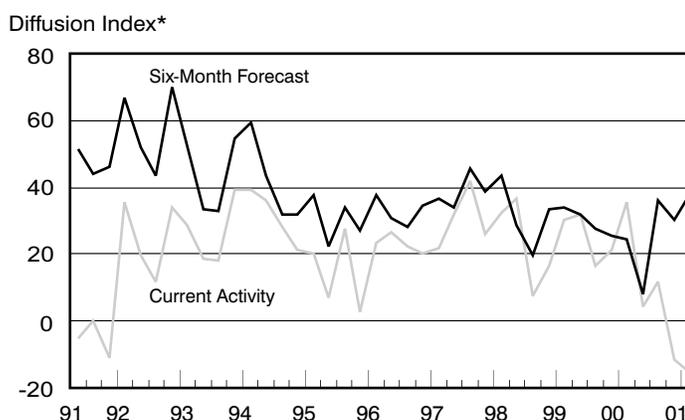
Current Indicators Suggest Little Improvement

The survey's broadest indicator of business performance, the index of general business activity at individual companies, remained negative at -15.0 in the first quarter, decreasing slightly from -11.7 in the fourth quarter. More firms reported decreases in activity (39 percent) than reported increases (24 percent), and more than 36 percent reported no change. The index, which declined markedly in the fourth quarter, is now at its lowest reading since the survey began in 1991 (see Chart).

Stagnant business conditions continue to be reflected in other indicators. The current sales index, which declined precipitously from 27.9 in the third quarter to -11.6 in the fourth quarter, rose slightly to -7.5. On the employment front, firms are near evenly divided with the percentage of firms increasing employment (19 percent) only slightly higher than the percentage decreasing employment (15 percent). The current employment index increased slightly from 1.2 to 3.8 this quarter.

Chart

**Index of General Business Activity at Respondents' Companies
South Jersey (1991-2001)**



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

Price Pressures Moderate

Firms reported a moderation of increases in both labor and nonlabor costs in the first quarter. Higher wage costs were reported by 30 percent of the firms; 43 percent reported higher benefits costs. The current wage cost diffusion index decreased from 44.2 in the fourth quarter to 27.5, and the current benefits cost index decreased slightly, from 46.5 to 41.2 in the first quarter. Prices of raw materials were reported higher by 23 percent of the firms, but the current prices paid index decreased from 31.3 in the fourth quarter to 16.2. Despite increases in costs there was little evidence of upward movement in output prices among reporting firms. Nearly 58 percent

of firms reported steady output prices during the quarter, and the percentage of firms reporting higher prices (16 percent) was the same as that reporting lower prices (16 percent). The current prices received index fell from 14.0 to zero.

Company Forecasts Remain Optimistic

Despite the reported lull in current business activity, firms expect growth in their own businesses over the next six months. More than 51 percent anticipate increases in overall activity; 14 percent expect declines. The index of future business activity increased from 30.2 in

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the fourth quarter to 37.5 and has remained buoyant over the past two quarters (see Chart).

Forty-five percent of firms anticipate growth in sales at their own firms over the next six months, and 36 percent expect to hire additional workers. The future employment index reflected this optimism, increasing slightly from 25.6 in the fourth quarter to 30.0. On balance, firms also expect a rise in the average workweek: 29 percent expect increases in average hours; 10 percent expect decreases.

This quarter's survey showed a marked improvement in firms'

expectations regarding the economies of the nation, state, and region over the next six months. Over 31 percent of firms expect improvement in the national economy over the next six months, compared with just 14 percent that expected improvement in the fourth quarter. The future general activity index for the national economy increased from -17.4 to 2.5. Corresponding future indicators for the state and region showed similar improvement.

Summary

South Jersey businesses report continued deterioration in business

conditions for the first quarter. For the second consecutive quarter, the percentage of firms reporting declines in sales and shipments is larger than the percentage reporting increases. The survey also suggested a marked slowing in overall employment growth over the past two quarters. Current indicators, while still negative, improved slightly from their readings in the fourth quarter of 2000. Expectations for growth of individual companies remained relatively high, and expectations about the U.S., state, and regional economies were markedly improved compared with those in the previous quarter.

South Jersey Business Survey

(First Quarter 2001)

	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?	70.0	25.0	3.8	-66.2	28.8	35.0	31.3	2.5
1.2 in the state?	56.3	35.0	6.3	-50.0	21.3	41.3	31.3	10.0
1.3 in the region?	51.3	40.0	6.3	-45.0	20.0	45.0	28.8	8.8
1.4 at your company?	38.8	36.3	23.8	-15.0	13.8	31.3	51.3	37.5
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers please use shipments)	30.0	37.5	22.5	-7.5	11.3	30.0	45.0	33.7
2.2 Inventories of the products you sell	10.0	32.5	18.8	8.8	3.8	37.5	18.8	15.0
2.3 Customer traffic or inquiries	26.3	37.5	31.3	5.0	11.3	38.8	41.3	30.0
2.4 Number of employees	15.0	35.0	18.8	3.8	6.3	50.0	36.3	30.0
2.5 Weekly hours	15.0	63.8	18.8	3.8	10.0	53.8	28.8	18.8
2.6 Prices actually received	16.3	57.5	16.3	0.0	7.5	55.0	23.8	16.3
2.7 Prices paid for raw materials (other than labor or energy)	6.3	43.8	22.5	16.2	0.0	38.8	31.3	31.3
2.8 Cost of Labor								
2.8.1 Wages	2.5	65.0	30.0	27.5	0.0	51.3	38.8	38.8
2.8.2 Benefits	1.3	52.5	42.5	41.2	0.0	47.5	45.0	45.0
2.9 Spending for:								
2.9.1 Acquisition of new space	10.0	63.8	10.0	0.0	10.0	51.3	17.5	7.5
2.9.2 Renovations of existing space	8.8	58.8	17.5	8.7	10.0	51.3	20.0	10.0
2.9.3 Equipment	11.3	61.3	23.8	12.5	5.0	55.0	32.5	27.5

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.