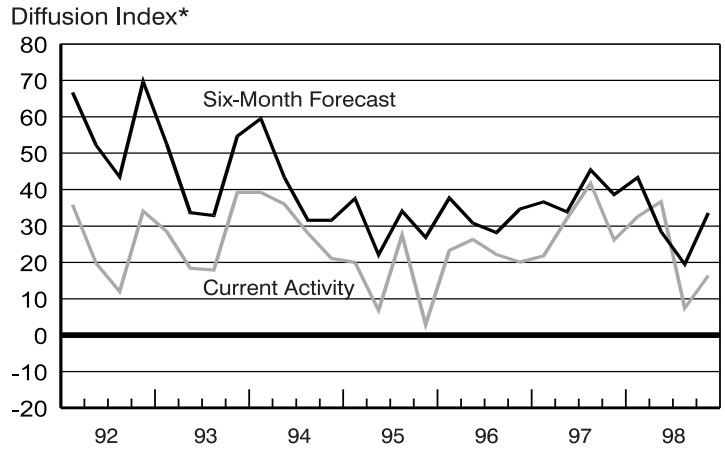
SOUTH JERSEY BUSINESS Survey

Federal Reserve Bank of Philadelphia

Fourth Quarter 1998

Companies polled for the *South Jersey Business Survey* indicated continued improvement in conditions in the final quarter of 1998. Many of the indicators of individual company performance remained close to their readings in the third quarter and suggest moderate growth. Firms' perceptions of state and regional business conditions showed marked improvement. Forecasts of economic growth over the next six months were up from last quarter, and forecasts for respondents' own companies continued to be more optimistic than forecasts for the national, state, and regional economies.

Chart 1
Index of General Business Activity at Respondents' Companies
South Jersey (1992-1998)



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

Current Indicators Suggest Continued Growth

The survey's broadest measure of overall economic performance, the general activity diffusion index for individual companies, edged higher in the fourth quarter, increasing from 7.4 to 16.4 (see Chart 1). Although 41 percent of the participating firms reported no change in activity, the percentage reporting increases (37 percent) exceeded the percentage reporting declines (21 percent).

Firms reported that their own business growth in the fourth quarter was better than what they observed for the nation, state, and region. For example, while 37 percent reported growth for their own companies in the fourth quarter, only 17 percent thought there was improvement in the state's economy, and 22 percent saw growth in the region's economy. When compared with responses from the previous quarter, however, the fourth-quarter survey registered improvements for every geographic breakdown: the index for state business activity increased from -21.9 to 1.7, the regional activity index increased from -20.3 to 3.4, and the national index increased from - 27.6 to 6.9.

Firms reported continued steady growth in sales during the fourth quarter. The overall current sales and shipments index declined modestly but remained positive, changing from 17.1 to 14.7. Nearly 39 percent of firms reported increases in sales during the quarter; 24 percent reported declines. Customer traffic and inquiries showed improvement:

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South Jersey Business Survey

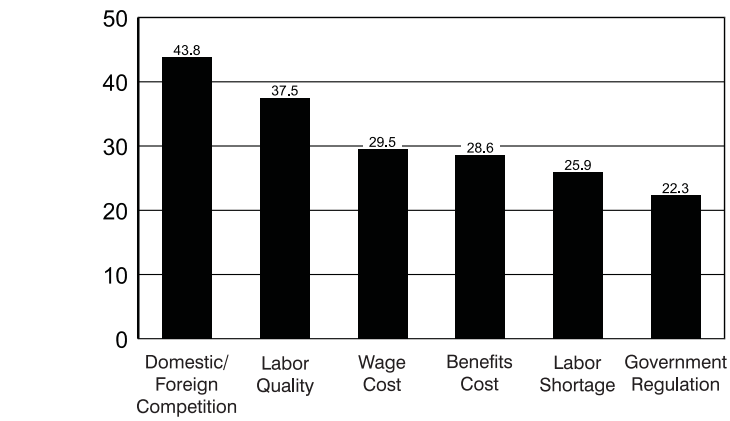
(Fourth Quarter 1998)

	Compared with 3 Months Ago				6 Months from Now			
1. What is your evaluation of the level of general business activity?	Lower	Same	Higher	Diffusion Index	Lower	Same	Higher	Diffusion Index
1.1 in the nation?	13.8	63.8	20.7	6.9	13.8	61.2	18.1	4.3
1.2 in the state?	15.5	65.5	17.2	1.7	13.8	60.3	19.0	5.2
1.3 in the region?	19.0	56.0	22.4	3.4	9.5	58.6	24.1	14.6
1.4 at your company?	20.7	40.5	37.1	16.4	9.5	42.2	43.1	33.6
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers please use shipments)	24.1	32.8	38.8	14.7	10.3	26.7	53.4	43.1
2.2 Inventories of the products you sell	12.1	49.1	8.6	-3.5	10.3	43.1	13.8	3.5
2.3 Customer traffic or inquiries	16.4	42.2	39.7	23.3	6.9	38.8	48.3	41.4
2.4 Number of employees	12.1	62.1	23.3	11.2	6.0	55.2	31.9	25.9
2.5 Weekly hours	10.3	65.5	20.7	10.4	4.3	58.6	30.2	25.9
2.6 Prices actually received	8.6	61.2	20.7	12.1	6.9	55.2	25.9	19.0
2.7 Prices paid for raw materials (other than labor or energy)	4.3	54.3	18.1	13.8	2.6	51.7	20.7	18.1
2.8 Cost of Labor								
2.8.1 Wages	0.0	62.9	33.6	33.6	0.0	48.3	45.7	45.7
2.8.2 Benefits	0.9	68.1	27.6	26.7	0.9	63.8	29.3	28.4
2.9 Spending for:								
2.9.1 Acquisition of new space	9.5	60.3	18.1	8.6	3.4	59.5	23.3	19.9
2.9.2 Renovations of existing space	9.5	61.2	16.4	6.9	6.0	59.5	19.8	13.8
2.9.3 Equipment	9.5	59.5	26.7	17.2	4.3	52.6	36.2	31.9

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.

Chart 2

Most Important Problems Confronting South Jersey Businesses
Fourth Quarter 1998



* The figure refers to the percentage of participants choosing one of the six most frequently mentioned problems listed. The percentages sum to more than 100 because each participant could cite more than one problem.

the index for customer traffic increased notably from 12.2 to 23.3.

Employment is also expanding at many firms. Although 62 percent of firms reported no change in employment in the fourth quarter, 23 percent reported increases and 12 percent reported decreases. The current employment diffusion index also showed some improvement, increasing from 9.8 to 11.2.

The survey's labor cost indexes increased only modestly over their readings in the third quarter. The cost of wages index increased from 30.9 to 33.6; the current benefits index was virtually unchanged at 26.7. The survey's measures of price change showed some upward movement in the fourth quarter. The current prices paid index, reflecting the prices paid for raw materials and other inputs, increased from 5.7 to 13.8. The current prices received index increased from -0.8 to 12.1. Nevertheless, a large percentage of firms (61 percent) reported stable prices for their own goods.

As in previous year-end surveys, respondents were asked to name the most serious problems facing their businesses. As in the past, domestic and foreign competition was the most frequently cited problem (see Chart 2). Also reported were labor quality, wage and benefit costs, labor shortages, and government regulation. Concerns about the cost of credit waned in importance this year and were not among the top six problems cited. Labor quality and labor shortages were more frequently cited than in past years.

Forecasts Show Notable Improvement

After falling in two consecutive quarters, the index of future activity for respondents' companies increased from 19.5 to 33.6 in the fourth quarter (see Chart 1). About 43 percent of those polled expect growth in general business activity over the next six months; less than 10 percent expect declines in business. About half as many respondents foresee growth in the national, state, and regional economies, although diffusion indexes for these three categories were higher than in the third quarter.

Optimism carried over to the firms' forecasts for employment as well. Although over 55 percent of firms expect no change in employment over the next six months, the percentage expecting to hire workers (32 percent) is higher than the percentage expecting to decrease the number of workers (6 percent). The future employment index increased from 20.4 to 25.9.

Summary

Survey results suggest the South Jersey economy experienced modest growth in the fourth quarter of 1998. The responses reflected concerns about the pace of growth of the national economy, but firms expressed optimism with regard to an increase in their own businesses over the next six months. Over half of the firms polled expect increases in sales over the next six months, and about 10 percent expect decreases. Moreover, 32 percent of respondents expect to hire additional workers.