



SOUTH JERSEY BUSINESS SURVEY

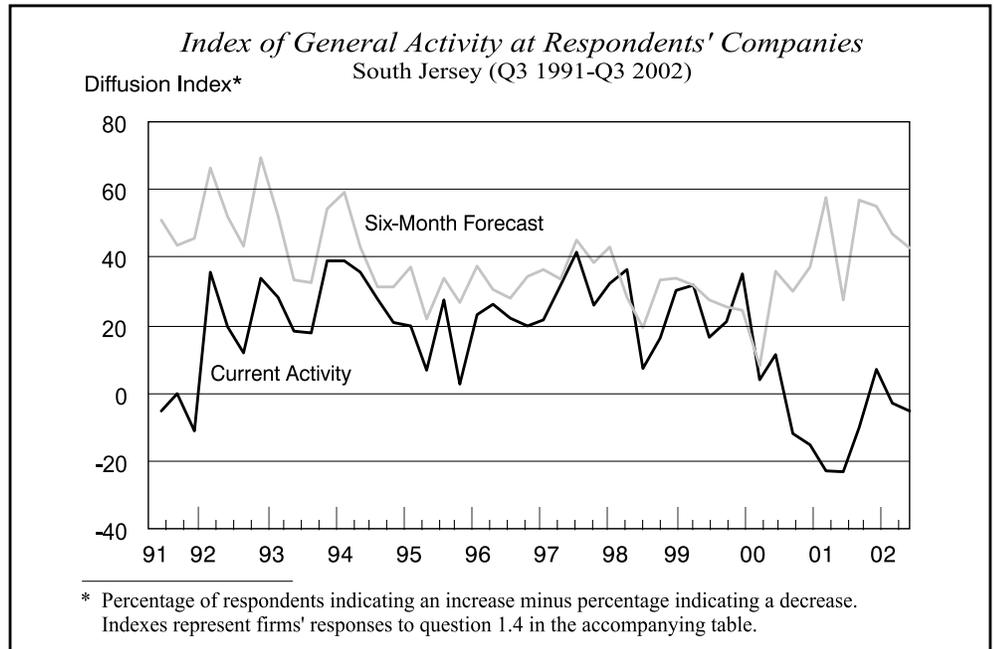
Third Quarter 2002

Business conditions in the South Jersey region showed little or no improvement in the third quarter. Most indicators suggest that business activity either declined slightly or remained flat. Slightly more firms reported declines in employment than reported increases. Despite the lack of improvement this quarter, firms generally expect business conditions to improve over the remainder of this year and into the first quarter of next year.

Most Current Indicators Remain Negative

The index of general business activity at individual companies declined from -2.9 in the second quarter to -5.2 in the third quarter (see Chart). Slightly more firms reported a decline in the level of business activity (33 percent) than reported an increase (28 percent); 40 percent of the respondents indicated no change in activity from the second quarter. Indicative of sluggish growth among the firms surveyed, the percentage of firms reporting an increase in sales (29 percent) was not as great as the percentage reporting a decrease (31 percent). The current sales index, at -1.7, was virtually unchanged from its reading of -1.5 in the second quarter.

The businesses polled for the survey perceive that the economies of the nation, state, and region deteriorated in the third quarter. Only 7 percent of the firms thought that the national economy had improved in the third quarter; more than half thought it had deteriorated. Similar, but less dramatic, perceptions were recorded for the state and regional economies. For example, the general activity index for the state's economy fell from -33.8 in the second quarter to -37.9 in the third quarter. The comparable index for the region's economy also fell, from -22.1 to -37.9.



On net, firms are still not reporting any overall employment growth. In five of the last six quarters the percentage of firms reporting declines in employment was greater than the percentage reporting increases. The one exception was in the second quarter of this year, when an equal number of firms reported increases and decreases in employment. The employment index in the latest survey declined from zero in the second quarter to -3.5. More firms, however, reported increases in average workhours (19 percent) than reported decreases (14 percent) in the third quarter.

Firms Report Price Declines Despite Higher Costs

More than twice as many firms reported decreases in the prices of products they sell (24 percent) than reported increases (10 percent). For the fifth consecutive quarter

the current index of prices received remained negative. In the third quarter the index was -13.8, virtually unchanged from its reading in the second quarter. Many firms, however, reported paying higher prices for nonenergy raw materials (33 percent); only 2 percent reported paying lower prices. Wage costs rose at over 26 percent of the firms in the third quarter, and 43 percent of the firms reported higher benefits costs.

Employment Outlook Improves

South Jersey businesses remain generally optimistic about future growth, although some of the survey's overall future indicators were slightly lower this quarter. The future general activity index fell from 47.1 in the second quarter to 43.1, but the index remains at a relatively high level (see Chart). In a special question for the third-quarter survey, firms were asked about changes in their

customers' and their own expectations over the past three months. Slightly more firms thought their customers' expectations had improved recently (37 percent) rather than deteriorated (31 percent). With regard to their own business plans, most said their fourth-quarter plans were lower than they were three months ago. The majority of firms (63 percent) still expect an improvement in business conditions in the fourth quarter, but 58 percent indicated that the business increases would be slight.

The firms' employment forecasts for the next six months showed notable improvement this quarter. More firms expect increases in employment over the next six months (35 percent) than expect decreases (4 percent). Moreover, the future employment index rose significantly from 13.2 in the second quarter to 31.0 this quarter. Expectations for spending on real estate remain lackluster; the indicator for future capital spending on equipment, however, showed a modest increase—from 16.2 in

Special Questions (Third Quarter 2002)

In the past three months have your customers' expectations for the fourth quarter:

increased substantially 0%
 increased slightly 37%
 remained the same 32%
 decreased slightly 28%
 decreased substantially 3%

For the remainder of the year do you expect:

substantially increased business 5%
 slightly increased business 58%
 no change in business 19%
 slightly decreased business 14%
 substantially decreased business 4%

Do these fourth-quarter plans represent more business or less business than what was expected three months ago?

More 47% Less 53%

the second quarter to 22.4 in the third quarter (its highest reading in six quarters).

Summary

Some *South Jersey Business Survey* indicators fell from their readings in the second quarter and continue to suggest that the recovery in the region's economy has slowed. Employment among firms polled was virtually flat in the third quarter. Reflecting this weakness, a significant share

of firms reported lower prices for their own products despite higher costs. Although overall expectations were somewhat lower this quarter, firms remain optimistic that recovery in their own businesses will occur over the next six months. Two bright spots in this quarter's survey were an improvement in the firms' employment forecast and a slight improvement in expectations for future capital spending on equipment.

South Jersey Business Survey
(Third Quarter 2002)

	Compared With 3 Months Ago				6 Months from Now			
	Lower	Same	Higher	Diffusion Index	Lower	Same	Higher	Diffusion Index
1. What is your assessment of the level of general business activity?								
1.1 in the nation?	58.6	34.5	6.9	-51.7	17.2	39.7	37.9	20.7
1.2 in the state?	48.3	41.4	10.3	-37.9	17.2	37.9	41.4	24.1
1.3 in the region?	48.3	39.7	10.3	-37.9	20.7	36.2	39.7	19.0
1.4 at your company?	32.8	39.7	27.6	-5.2	13.8	25.9	56.9	43.1
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers report shipments)	31.0	36.2	29.3	-1.7	10.3	32.8	48.3	37.9
2.2 Inventories of the products you sell	27.6	29.3	19.0	-8.6	19.0	39.7	13.8	-5.2
2.3 Customer traffic or inquiries	39.7	32.8	25.9	-13.8	8.6	37.9	46.6	37.9
2.4 Number of employees	25.9	48.3	22.4	-3.5	3.5	51.7	34.5	31.0
2.5 Weekly hours	13.8	63.8	19.0	5.2	5.2	63.8	20.7	15.5
2.6 Prices actually received	24.1	62.1	10.3	-13.8	8.6	65.5	17.2	8.6
2.7 Prices paid for raw materials (other than labor or energy)	1.7	46.6	32.8	31.0	3.45	51.7	22.4	19.0
2.8 Cost of Labor								
2.8.1 Wages	3.5	69.0	25.9	22.4	3.5	39.7	44.8	41.4
2.8.2 Benefits	1.7	53.5	43.1	41.4	3.5	34.5	50.0	46.6
2.9 Spending for:								
2.9.1 Acquisition of new space	19.0	58.6	10.3	-8.6	12.1	56.9	19.0	6.9
2.9.2 Renovation of existing space	15.5	62.1	10.3	-5.2	10.3	60.3	15.6	5.3
2.9.3 Equipment	15.5	51.7	27.6	12.1	6.9	55.2	29.3	22.4

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.