



SOUTH JERSEY BUSINESS SURVEY

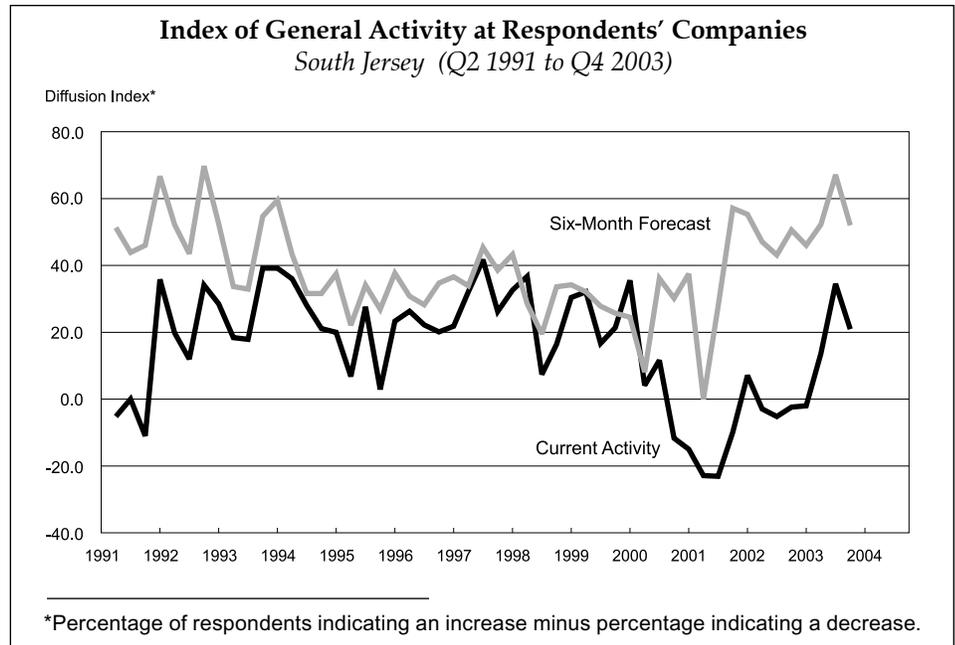
Fourth Quarter 2003

Firms responding to the *South Jersey Business Survey* indicated that business activity continued to grow in the fourth quarter of last year. Indicators for general business activity and sales at individual companies continued to suggest expansion, although the pace of growth was somewhat lower than in the third quarter. Participants also perceived that conditions improved markedly for the economies of the nation, state, and region during the fourth quarter. Indicators reflecting business executives' expectations for the next six months suggest optimism about continued expansion of business.

Current Conditions Show Continued Improvement

The index of general business activity at individual companies fell from its high reading of 34.5 in the third quarter to 20.9 in the fourth quarter. This is the third consecutive positive reading for the index, and with the exception of the third quarter, the index remains at its highest point since the first quarter of 2000 (see chart). Nearly 42 percent of the firms surveyed reported increases in activity for the fourth quarter, down slightly from the 48 percent who reported increases in the third quarter's survey. The survey's indicator for current sales decreased from 29.3 in the third quarter to 20.9.

Responses suggest that firms perceive that the U.S. economy continued to improve and that the state and region improved as well in the fourth quarter. Fifty-two percent of the respondents think that conditions in the U.S. economy improved in the fourth quarter, up from 35 percent in the third quarter survey. Only 10 percent think conditions deteriorated in the final quarter. Indexes for the nation,



state, and region increased significantly again, to their highest readings in more than six years.

Employment indicators did not improve in the fourth quarter survey. The percentage of firms reporting higher employment in the fourth quarter (23 percent) exceeded only slightly the percentage reporting lower employment (19 percent). The current employment index was virtually unchanged this month. Slightly more firms reported higher average hours worked (19 percent) than reported lower hours (13 percent).

Firms Report Higher Costs

About 40 percent of the firms polled indicated that costs for raw materials were higher in the fourth quarter; only 27.6 percent had indicated higher costs in the third quarter. The prices paid index increased notably from 25.9 in the third quarter to 37.5 in the fourth quarter, its

highest reading in over 10 years. One-third of the firms reported higher wage costs in the fourth quarter, and over 56 percent reported higher benefits costs. The benefit cost index increased to its highest reading in the 12-year history of the survey.

Although 56 percent of the firms in the survey reported no change in prices of their own products, 25 percent reported higher prices, compared with 10 percent that reported lower prices. The prices received index rose by only 4 points, but reached its highest reading in 15 quarters.

In a special question, firms indicated that labor issues were among the most important problems facing their businesses (see Special Question). This year the most frequently cited problem was benefit costs for labor. The percentage of firms citing benefit costs as a major problem has grown in each

Special Question (Fourth Quarter 2003)

What are the most important problems your firm is facing at this time?

Percentage of Firms Choosing Specified Problem*

	2003	2002	2001
Labor Costs—Wages	26%	17%	25%
Labor Costs—Benefits	67%	53%	40%
Labor—Quality	35%	49%	30%
Labor—Shortages	11%	17%	10%
Credit Cost	0%	5%	4%
Credit Availability	4%	5%	8%
Cost of Raw Materials	13%	NA	NA
Shortage of Raw Materials	2%	0%	1%
Competition—Foreign	13%	9%	4%
Competition—Domestic	39%	27%	42%
Government Regulation	26%	21%	25%

*The totals sum to more than 100% because each participant could cite up to three problems.

of the past three years. Labor quality problems rank as the second most frequently cited problem, followed by domestic competition.

Expectations Remain Optimistic

The future general activity index for individual companies decreased from 67.2

in the third quarter to 52.0 in the fourth quarter. The previous quarter's future activity index, however, was at its highest reading since the fourth quarter of 1992 (see chart). The expectations indicators for the state and national economies edged higher to reach their highest readings since the period following the 1990-91 recession.

Other indicators reflect a relatively high degree of optimism for the companies' own business forecasts. Fifty-four percent of the firms expect an increase in sales in the next six months, only slightly lower than the 66 percent that expected increases in the previous survey. Thirty-eight percent of the firms indicated they are expecting to increase employment over the next six months; only 4 percent indicated that they expect declines.

Summary

According to this survey's results, economic conditions showed continued improvement in the final quarter of 2003. The survey's broadest measure of business conditions was positive for the third consecutive quarter; however it declined somewhat from its level in the third quarter. Although firms reported little employment growth in the quarter, the six-month outlook for employment remains relatively optimistic. The polled executives generally expect continued expansion for the nation, state, and region over the first half of 2004.

South Jersey Business Survey

(Fourth Quarter 2003)

	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?	10.4	37.5	52.1	41.7	2.1	37.5	60.4	58.3
1.2 in the state?	10.4	54.2	33.3	22.9	2.1	45.8	50.0	47.9
1.3 in the region?	12.5	50.0	35.4	22.9	4.2	43.8	50.0	45.8
1.4 at your company?	20.8	35.4	41.7	20.9	6.3	35.4	58.3	52.0
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers report shipments)	22.9	27.1	43.8	20.9	6.3	27.1	54.2	47.9
2.2 Inventories of the products you sell	18.8	33.3	18.8	0.0	10.4	35.4	22.9	12.5
2.3 Customer traffic or inquiries	16.7	47.9	31.3	14.6	0.0	52.1	37.5	37.5
2.4 Number of employees	18.8	56.3	22.9	4.1	4.2	50.0	37.5	33.3
2.5 Weekly hours	12.5	66.7	18.8	6.3	4.2	60.4	27.1	22.9
2.6 Prices actually received	10.4	56.3	25.0	14.6	2.1	58.3	25.0	22.9
2.7 Prices paid for raw materials (other than labor or energy)	2.1	35.4	39.6	37.5	0.0	33.3	39.6	39.6
2.8 Cost of Labor								
2.8.1 Wages	2.1	62.5	33.3	31.2	2.1	58.3	31.3	29.2
2.8.2 Benefits	0.0	41.7	56.3	56.3	2.1	31.3	58.3	56.2
2.9 Spending for:								
2.9.1 Acquisition of new space	10.4	64.6	4.2	-6.2	4.2	50.0	18.8	14.6
2.9.2 Renovation of existing space	2.1	66.7	18.8	16.7	2.1	58.3	18.8	16.7
2.9.3 Equipment	8.3	70.8	18.8	10.5	2.1	62.5	25.0	22.9

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.