



SOUTH JERSEY BUSINESS SURVEY

Third Quarter 2007

Firms responding to the third-quarter *South Jersey Business Survey* reported overall declines in business activity for the quarter. The firms perceived deterioration in overall business conditions for the nation, state, and region and reported lower sales at their own companies, compared with the second quarter. Responses to special questions indicated that some of the weakness was related to direct or indirect effects of the recent changes in the construction and financial sectors. The outlook for future business conditions at individual companies paralleled the decline in current activity, although the share of firms expecting improvement over the next six months continued to exceed the share of firms expecting deterioration.

Current Indicators Decline

The survey's broadest measure of performance, the index of general activity at individual companies, fell from a reading of 13.0 in the second quarter, to -21.8 in the third quarter. The index is the lowest reading since 2001 (see Chart). The percentage of firms reporting lower levels of activity in the third quarter (40 percent) exceeded the percentage reporting higher levels (18 percent). The survey's indicator for sales fell 12 points, and the percentage of firms indicating decreases in sales (27 percent) was larger than the percentage that indicated an increase (16 percent).

Firms' perceptions of the health of the economies of the region, state, and nation deteriorated significantly compared with the previous survey. Last quarter, 22 percent of the firms perceived improvement

in the national economy; only 7 percent perceived improvement in the third quarter. The general activity index for the nation (reflecting firms' assessments of the level of business activity nationally) fell from -2.9 in the second quarter to -36.4. Also, the percentage of firms that thought conditions in the region and state had deteriorated was significantly higher than the percentage that thought they had improved.

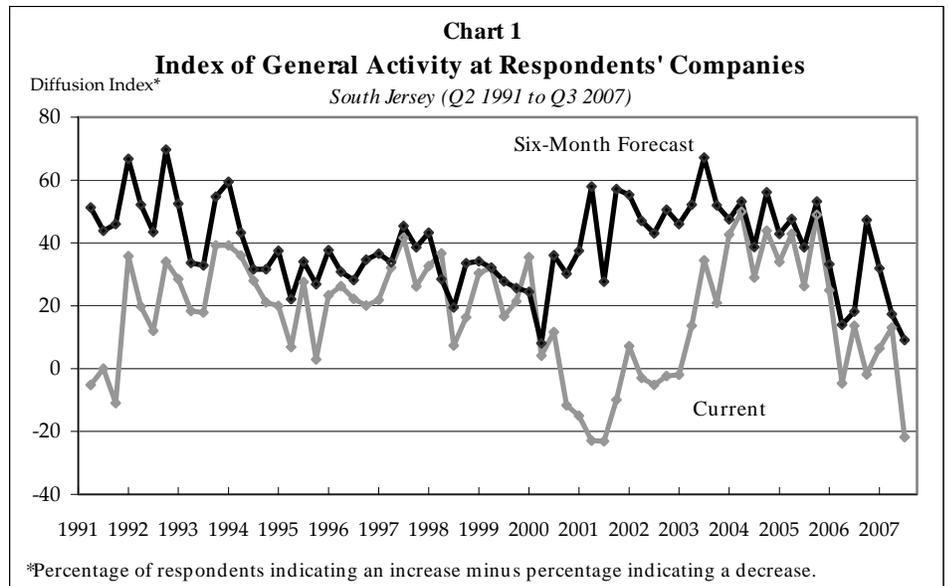
There was no growth in employment among firms polled: The percentage of firms indicating a decrease in employment in the third quarter (18 percent) was higher than the percentage indicating increases (9 percent), although 62 percent indicated no change in employment. The current employment index decreased 15 points from its reading in the second quarter. Work hours remained steady: The percentage of firms reporting longer work hours (13 percent) was nearly matched by

the percentage reporting shorter work hours (11 percent).

In special questions this quarter firms were asked about the impact of recent changes in the construction and financial sectors on sales and employment (see *Special Questions*). Although 40 percent of firms indicated no overall impact, 56 percent indicated some negative direct or indirect effects on sales (9 percent indicated a substantial decline in sales, 27 percent a modest decline, and 20 percent a slight decline). About 22 percent said employment had declined as a result of the recent changes.

Higher Costs but Lower Prices For Products Reported

Thirty-six percent of the South Jersey businesses surveyed indicated higher prices for raw materials in the third quarter, down somewhat from the second quarter when nearly 41 percent reported



cost increases. The prices paid index for these materials edged down three points. With regard to labor costs, 24 percent of the firms reported higher wage costs in the third quarter, and 38 percent reported higher benefit costs.

With regard to the prices received for their own products, the percentage reporting decreases (24 percent) was higher than the percentage reporting increases (13 percent) for the first time since the second quarter of 2003. The responses suggest both weak demand and that not all cost increases are being passed through to customers.

Expectations Continue to Deteriorate

South Jersey firms were significantly less optimistic about the future this quarter. The index of future activity at individual companies dropped notably, from 17.4 in the second quarter to 9.1 in the third quarter. This is the lowest reading of the index since the second quarter of 2003 and marks the third consecutive quarter of decline (see Chart). The percentage of firms expecting improvement in conditions (27 percent) continued to exceed the

percentage expecting deterioration (18 percent).

Firms were also less optimistic about employment growth over the next six months. The future employment index fell 18 points, to -3.6, the index's first negative reading since the beginning of the survey. Although 49 percent expect to hold employment levels steady over the next six months, the percentage of firms expecting to cut employment (15 percent) slightly exceeded the percentage expecting to increase employment (11 percent).

Some of the pessimism in the firms' outlook is traceable to the recent changes in the financial sector. Forty percent of the firms indicated that recent events have had a negative influence on employment plans for the remainder of the year, and about 38 percent indicated that they have had a negative influence on capital spending plans.

Summary

According to the latest *South Jersey Business Survey*, economic conditions in the nation, state, and region deteriorated in the third quarter. Sales and employ-

ment indicators for the individual companies polled in the South Jersey region suggest overall lower levels of activity than in the previous quarter. There was some evidence in the survey results that economic difficulties in the construction and financial sector have had a negative effect on business. Despite the weakness in current conditions, the firms' outlook suggests that growth will return over the next six months, but it will be sluggish at best.

Special Questions

Third Quarter 2007

1. Have the recent changes in the construction and financial sectors had any direct or indirect adverse effects on sales or employment at your business?

	Sales	Employment
No impact	40.0%	65.5%
Slight decline	20.0%	12.7%
Moderate decline	27.3%	9.1%
Substantial decline	9.1%	0.0%
No response	3.6%	12.7%
Total	100.0%	100.0%

<i>South Jersey Business Survey</i> (Third Quarter 2007)	Compared with 3 Months Ago					Six Months From Now				
	<i>Previous Diffusion Index</i>	Lower	Same	Higher	Diffusion Index	<i>Previous Diffusion Index</i>	Lower	Same	Higher	Diffusion Index
1. What is your assessment of the level of general business activity?										
1.1 in the nation?	-2.9	43.6	38.2	7.3	-36.4	-7.2	18.2	52.7	9.1	-9.1
1.2 in the state?	-17.4	50.9	40.0	3.6	-47.3	-4.3	23.6	49.1	10.9	-12.7
1.3 in the region?	-2.9	47.3	38.2	9.1	-38.2	-2.9	21.8	50.9	10.9	-10.9
1.4 at your company?	13.0	40.0	36.4	18.2	-21.8	17.4	18.2	40.0	27.3	9.1
2. Business Indicators at your company:		Lower	Same	Higher	Diffusion Index		Lower	Same	Higher	Diffusion Index
2.1 Sales (or Shipments for Manufacturers)	1.4	27.3	36.4	16.4	-10.9	23.2	10.9	27.3	29.1	18.2
2.2 Product Inventories	0.0	18.2	27.3	9.1	-9.1	14.4	10.9	23.6	5.5	-5.5
2.3 Customer traffic/inquiries	-5.8	36.4	27.3	29.1	-7.3	13.0	14.5	36.4	25.5	10.9
2.4 Number of employees	5.8	18.2	61.8	9.1	-9.1	14.4	14.5	49.1	10.9	-3.6
2.5 Weekly hours	11.6	10.9	65.5	12.7	1.8	18.8	9.1	50.9	14.5	5.5
2.6 Prices actually received	14.5	23.6	54.5	12.7	-10.9	20.3	7.3	47.3	16.4	9.1
2.7 Prices paid for raw material (not labor or energy)	37.7	1.8	25.5	36.4	34.5	33.3	5.5	20.0	29.1	23.6
2.8 Cost of labor:										
2.8.1 Wages	39.1	3.6	63.6	23.6	20.0	43.5	1.8	45.5	32.7	30.9
2.8.2 Benefits	34.8	0.0	52.7	38.2	38.2	40.6	1.8	30.9	49.1	47.3
2.9 Spending for:										
2.9.1 Acquisition of new space	13.0	23.6	41.8	7.3	-16.4	10.1	16.4	32.7	10.9	-5.5
2.9.2 Renovation	11.6	14.5	41.8	14.5	0.0	2.9	10.9	34.5	14.5	3.6
2.9.3 Equipment	24.6	14.5	47.3	18.2	3.6	26.1	9.1	45.5	16.4	7.3
1. The <i>South Jersey Business Survey</i> is conducted each quarter and is based on responses from members of the Chamber of Commerce of Southern New Jersey.										
2. The diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease. Items may not add to 100 because of omission by respondents										