

# SOUTH JERSEY

Federal Reserve Bank  
of Philadelphia

B U S I N E S S

Survey

Third Quarter 1998

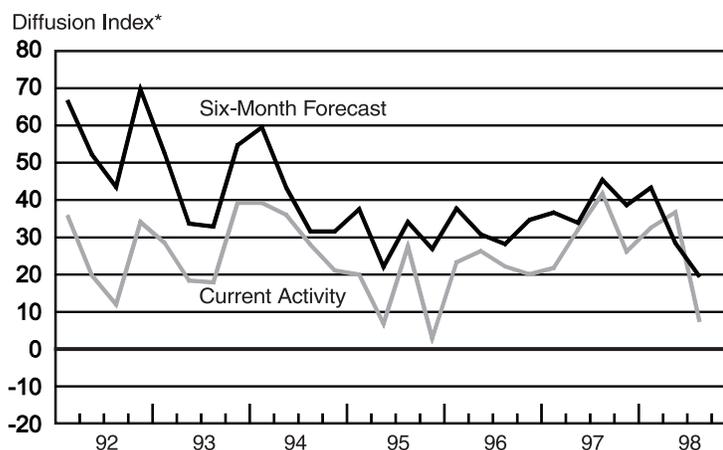
According to the latest *South Jersey Business Survey*, economic growth in the region continued to advance in the third quarter of 1998, but at a much slower pace. Most current indicators fell markedly from their readings in the second quarter. Business expectations also dropped notably as national economic forecasts called for slower growth.

### Current Performance Indicators Fall

Participants in the South Jersey survey perceived a deterioration in general business activity in both the U.S. and in the state during the quarter. The index of national business activity, reflecting respondents' perception of growth in the U.S. economy, declined from 6.5 to -27.6 in the second quarter. The index of state business activity, reflecting respondents' perception of growth in the state economy, followed suit, declining from 12.9 to -21.9. The index of activity in the South Jersey region fell by an almost identical amount as the state index.

The survey's broadest measure of overall economic performance at the participating firms, the general activity diffusion index for individual companies, remained positive but dropped significantly — from 36.7 in the second quarter to 7.4 in the third quarter (see Chart). This decline represents the largest one-month decline in the eight-year history of the survey and the lowest reading of this index since the fourth quarter of 1995. Despite a decline in the index, more

**Chart**  
*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.

firms reported increases than reported decreases: nearly 29 percent of the firms indicated a higher level of activity in the third quarter compared with the second quarter, while 21 percent reported a lower level.

Despite the apparent deterioration of current business conditions, firms reported sales still growing, albeit at a slower pace. Thirty-five percent of the firms reported no change in sales during the third quarter, and 37 percent reported increases, a decline of almost 17 percentage points from the

second quarter. The current sales diffusion index remained positive but declined from 38.5 to 17.1.

The current employment index also deteriorated this quarter, from 26.6 to 9.8, although the index has remained positive for 11 consecutive quarters. The current reading, however, marks the lowest level for this index since the first

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**South Jersey Business Survey**  
(Third Quarter 1998)

|   | 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?  | 38.2                       | 48.0 | 10.6   | -27.6           | 43.1              | 38.2 | 13.0   | -30.1           |
| 1.2 in the state?   | 34.1                       | 51.2 | 12.2   | -21.9           | 38.2              | 39.8 | 16.3   | -21.9           |
| 1.3 in the region?  | 33.3                       | 51.2 | 13.0   | -20.3           | 30.1              | 47.2 | 17.1   | -13.0           |
| 1.4 at your company?  | 21.1                       | 48.0 | 28.5   | 7.4             | 19.5              | 35.8 | 39.0   | 19.5            |
| 2. Please tell us how the following business indicators are behaving at your company? |                            |      |        |                 |                   |      |        |                 |
| 2.1 Sales (Manufacturers please use shipments)  | 20.3                       | 35.0 | 37.4   | 17.1            | 13.8              | 33.3 | 43.9   | 30.1            |
| 2.2 Inventories of the products you sell  | 14.6                       | 31.7 | 16.3   | 1.7             | 13.0              | 36.6 | 11.4   | -1.6            |
| 2.3 Customer traffic or inquiries   | 18.7                       | 47.2 | 30.9   | 12.2            | 14.6              | 42.3 | 34.1   | 19.5            |
| 2.4 Number of employees   | 15.4                       | 56.1 | 25.2   | 9.8             | 8.1               | 54.5 | 28.5   | 20.4            |
| 2.5 Weekly hours  | 11.4                       | 55.3 | 28.5   | 17.1            | 8.9               | 57.7 | 24.4   | 15.5            |
| 2.6 Prices actually received  | 13.0                       | 63.4 | 12.2   | -0.8            | 5.7               | 60.2 | 20.3   | 14.6            |
| 2.7 Prices paid for raw materials (other than labor or energy)                        | 8.1                        | 56.1 | 13.8   | 5.7             | 6.5               | 45.5 | 22.8   | 16.3            |
| 2.8 Cost of Labor   |                            |      |        |                 |                   |      |        |                 |
| 2.8.1 Wages   | 0.8                        | 62.6 | 31.7   | 30.9            | 1.6               | 44.7 | 45.5   | 43.9            |
| 2.8.2 Benefits  | 0.8                        | 65.9 | 26.8   | 26.0            | 0.8               | 52.8 | 36.6   | 35.8            |
| 2.9 Spending for:   |                            |      |        |                 |                   |      |        |                 |
| 2.9.1 Acquisition of new space  | 11.4                       | 63.4 | 12.2   | 0.8             | 6.5               | 56.9 | 18.7   | 12.2            |
| 2.9.2 Renovations of existing space   | 11.4                       | 54.5 | 18.7   | 7.3             | 6.5               | 55.3 | 18.7   | 12.2            |
| 2.9.3 Equipment   | 11.4                       | 51.2 | 30.1   | 18.7            | 7.3               | 52.0 | 30.9   | 23.6            |

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.

quarter of 1997. In the third quarter, 25 percent of the polled businesses reported increases in the number of employees during the quarter; 15 percent of the firms reported employee reductions. Twenty-nine percent of the surveyed firms reported increases in the average hours worked, and 11 percent reported reductions.

### **Non-wage Input Pressures Moderate; Own Prices Hold Steady**

Although wage costs continue to rise for South Jersey businesses, a lower percentage of firms reported increases in wages during the quarter than in the previous survey — 32 percent compared to 43 percent in the prior survey. The current wage cost index decreased from 42.2 to 30.9. The current benefits cost index also declined slightly from 33.0 to 26.0.

The survey's other cost indexes showed little or no pressure on non-labor prices in the third quarter. Only 14 percent of businesses reported higher costs for raw materials, down from 18 percent in the second quarter. The prices paid index (reflecting prices for raw materials) decreased from 11.0 to 5.7. For the firms' own goods and services,

the percentage of firms reporting lower prices (13 percent) was slightly higher than the percentage reporting increases (12 percent). The prices received index declined from 9.1 to -0.8.

### **Forecasts Turn Less Optimistic**

Most of the firms polled expect declines in economic activity at the national, state, and regional levels through the next six months. For example, more than 43 percent of the firms expect decreases in the level of general business activity for the nation, compared with just 13 percent expecting increases. When responding to the same question for their own companies, however, firms, overall, remained optimistic but somewhat divided: 39 percent expect increases in activity over the next six months compared with just 20 percent expecting declines. The future activity index for respondents' companies fell, from 28.5 to 19.5 (see Chart). The future sales index also remained positive but declined from 41.3 to 30.1.

Tempered optimism is also evident in firms' forecasts for employment growth at their companies. Although firms are expecting to pay higher costs

for wages and benefits, nearly 29 percent of the companies expect to hire additional workers over the next six months. The future employment index increased slightly from 19.3 to 20.4. Businesses also expect weekly hours of their employees to increase: more firms forecast increases in hours (24 percent) than declines (9 percent).

### **Summary**

The firms polled for the *South Jersey Business Survey* believe conditions deteriorated during the quarter for the national, state, and regional economies. On balance, however, the businesses report growth in sales for their own firms, and 25 percent of firms report higher employment levels. The survey responses suggest continued moderation in price pressures for raw materials and their final products. The firms' forecasts for the next six months suggest deteriorating conditions in the national economy may spill over in their own businesses and diminish growth. Despite lower expectations about the national economy, firms' forecasts for their own companies remain reasonably optimistic, although somewhat less so than in previous surveys.

