



SOUTH JERSEY BUSINESS SURVEY

Second Quarter 2001

Firms surveyed for the *South Jersey Business Survey* reported deterioration in business conditions during the second quarter. Most indicators of activity suggest declines in overall business, compared with the first quarter. The firms' responses, however, indicate that the current weakness in business will be short-lived. Expectations of growth over the next six months have improved from the previous survey.

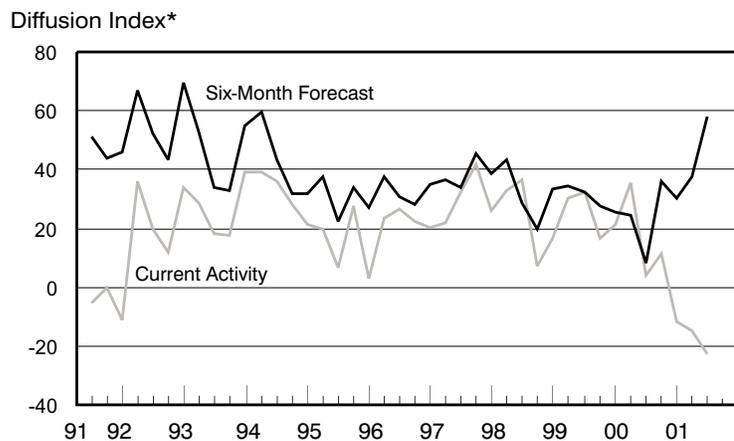
Current Indicators Suggest Declines

More firms reported declines (40 percent) in their companies' activity during the second quarter than reported increases in activity (18 percent). The survey's broadest measure of business, the index of general business activity at individual companies, declined from -15 in the first quarter to -22.9. The index, which declined markedly in the fourth quarter, has now declined in three of the last four quarters (see Chart). Surveyed respondents also indicated a broad-based perception of economic decline in the second quarter: over 63 percent perceived deterioration in the national economy and over 50 percent perceived deterioration in the state and regional economies.

Other broad indicators of performance during the quarter point to slight declines among the regional companies. The index of current sales declined from -7.5 in the first quarter to -14 in the second. The percentage of firms reporting declines in sales (39 percent) exceeded the percentage reporting increases (25 percent) for the third consecutive quarter. Inventories of goods for sale fell sharply in the second quarter, however. The index of current inventories fell from 8.8 in the first quarter to -24.5. In

Chart

**Index of General Business Activity at Respondents' Companies
South Jersey (1991-2001)**



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

response to a special question about inventories of their own goods for sale, 40 percent of firms said current levels were just right, and only 19 percent said inventories were too high (see Special Question).

Weakness is also evident in firms' responses about employment. The current employment index fell precipitously, from 3.8 in the first quarter to -28.1 in the second quarter—the first negative reading of the index since the end of 1995. Over 42 percent of firms polled reported reductions in employment compared with the first quarter; only 14 percent reported employment increases. Almost 39 percent reported lower weekly hours; 18 percent reported higher work hours.

Responses also indicated that in addition to payroll reductions, South Jersey firms are holding back on capital spending

just like firms nationwide. Sixty-seven percent reported no change in their spending for acquisition of new space, but 18 percent reported decreased spending and 9 percent reported increased spending. Similar declines were reported for spending on renovations of existing space. Spending for equipment is also lackluster: the percentage of firms reporting increases (19 percent) only narrowly exceeded the percentage reporting decreases (14 percent).

Forecasts Remain Optimistic and Even Improve

Despite the reported decline in current business activity, firms expect growth in their own businesses over the rest of this year. More than 61 percent expect increases in activity over the next six months; only 3 percent expect decreases. The index of

future activity for individual companies increased from 37.5 in the first quarter to 57.9 in the second, its highest level since 1994 (see Chart). Firms' expectations about the economy of the nation, state, and region over the next six months also show remarkable improvement. Over 50 percent expect improvement in the U.S. economy over the next six months; in contrast, only 31 percent expected improvement in the previous quarter. Firms indicated similar expectations for the regional and state economies.

A sizable 60 percent of firms anticipate growth in sales at their own firms over the next six months, and 44 percent expect to hire additional workers. The future employment index also reflected this optimism, increasing from 30.0 in the first quarter to 36.9 in the second quarter.

Special Question
Second Quarter 2001

Choose the statement that best characterizes your inventory situation.

Inventories are:	Percentage
about the right level for current economic conditions	40.4%
too high and are expected to increase in the third quarter	8.5%
too high and are expected to decrease in the third quarter	10.7%
too low and are expected to increase in the third quarter	17.0%
too low and are expected to decrease in the third quarter	23.4%
Total	100%

Summary

South Jersey businesses reported overall declines in activity and sales in the second quarter. Firms reported declines in inventories of goods during the quarter, and their spending for space and capital equipment remains lackluster. For the first

time in more than five years, more firms reported declines in employment than reported increases. Despite the reported deterioration in current conditions, firms exhibit optimism about their own businesses, as well as the national, state, and regional economies.

South Jersey Business Survey
(Second Quarter 2001)

	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?	63.2	31.6	3.5	-59.7	15.8	29.8	50.9	35.1
1.2 in the state?	56.1	38.6	3.5	-52.6	14.0	35.1	45.6	31.6
1.3 in the region?	56.1	35.1	7.0	-49.1	12.3	31.6	50.9	38.6
1.4 at your company?	40.4	42.1	17.5	-22.9	3.5	33.3	61.4	57.9
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers report shipments)	38.6	35.1	24.6	-14.0	5.3	31.6	59.6	54.3
2.2 Inventories of the products you sell	29.8	45.6	5.3	-24.5	17.5	50.9	12.3	-5.2
2.3 Customer traffic or inquiries	15.8	64.9	19.3	3.5	1.8	45.6	50.9	49.1
2.4 Number of employees	42.1	42.1	14.0	-28.1	7.0	45.6	43.9	36.9
2.5 Weekly hours	38.6	40.4	17.5	-21.1	5.3	45.6	43.9	38.6
2.6 Prices actually received	7.0	71.9	17.5	10.5	1.8	70.2	22.8	21.0
2.7 Prices paid for raw materials (other than labor or energy)	1.8	61.4	19.3	17.5	3.5	63.2	14.0	10.5
2.8 Cost of Labor								
2.8.1 Wages	0.0	77.2	21.1	21.1	1.8	70.2	24.6	22.8
2.8.2 Benefits	1.8	68.4	28.1	26.3	1.8	68.4	26.3	24.5
2.9 Spending for:								
2.9.1 Acquisition of new space	17.5	66.7	8.8	-8.7	10.5	56.1	26.3	15.8
2.9.2 Renovation of existing space	15.8	68.4	5.3	-10.5	12.3	59.6	19.3	7.0
2.9.3 Equipment	14.0	64.9	19.3	5.3	8.8	61.4	28.1	19.3