



# SOUTH JERSEY BUSINESS SURVEY

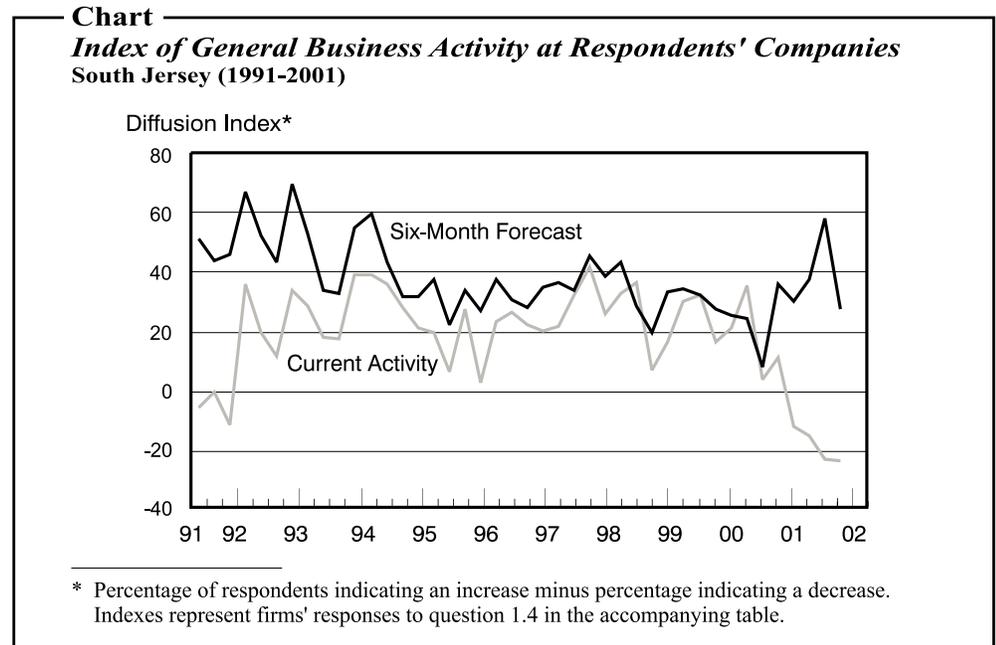
Third Quarter 2001

Economic conditions in the region weakened in the third quarter, according to businesses polled for the *South Jersey Business Survey*. Current indicators from the survey suggest declines in sales and continued cutbacks in employment during the third quarter. Over one-third of the firms reported declines in orders and shipments after the terrorist attacks of September 11. Although expectations about the future weakened considerably in this quarter's survey, the majority of firms expect recovery in business by the end of the first quarter of next year.

## Current Indicators Reflect Weakening Business

The index of current general business activity at individual companies edged lower, decreasing from -22.9 in the second quarter to -23.1 in the third quarter, its lowest reading since the survey's beginning in 1991 (see Chart). More than 43 percent of the firms surveyed reported declines in business during the third quarter; only 20 percent reported increases. Similarly, 43 percent reported declines in sales or shipments during the quarter, and 25 percent reported increases. Almost 34 percent of the firms reported a decline in shipments after the September 11 terrorist attacks (see Special Questions). Nearly 39 percent reported declines in new orders since September 11.

Concern about the U.S. economy and the impact of the events of September 11 is most evident in firms' perceptions of overall changes in the national, state, and regional economies. More than 89 percent of the firms thought the U.S. economy declined in the third quarter, and about 80 percent



perceived declines in the state and region.

Current weakness in business is also evident in the firms' responses regarding employment. Only 8 percent of the firms polled reported increases in employment during the third quarter, but 22 percent reported decreases. The diffusion index of current employment remained negative for the second consecutive quarter, although it increased from -28.1 in the second quarter to -13.8 in the third quarter.

Firms reported little pressure on their nonlabor costs. More firms reported decreased prices for raw materials and purchased inputs (12 percent) than increased prices (8 percent). There is also little pressure on prices of final products: more firms reported price reductions (19 percent) than increases (9 percent) this quarter.

## Optimism Wanes and Recovery Period Uncertain

Firms are less optimistic this month about the growth of their own businesses over the next six months. The future activity index for individual companies decreased from 57.9 in the second quarter to 27.7 in the third quarter (see Chart). Despite the decline in expectations in the index, firms on the whole remain positive about the future: nearly 42 percent of the firms surveyed expect growth in business over the next six months, while 14 percent expect declines. Likewise, 34 percent expect increases in employment at their companies over the next six months, and only 11 percent expect decreases.

The uncertainty about the future and the after-effects of the September tragedy is seen in firms' expectations about when a

business turnaround will occur. Among the firms that experienced a downturn in activity either before or after September 11, 33 percent expect recovery by the end of the year, 41 percent expect recovery in the first half of next year, but 26 percent expect recovery after the second half of next year.

### Summary

Current indicators reflect continuing deterioration in business conditions in South Jersey. Widespread perception of a downturn in the national, state, and regional economies was evident in survey responses. Indicators of current company performance did not deteriorate dramatically from their readings in the second quarter but continued to reflect overall declines in business. Nevertheless, over one-third of the firms reported direct negative effects in new orders or sales from the September 11 terrorist attacks. Forecasts for the next six months diminished notably this quarter, and firms are somewhat divided about when a recovery from the current slowdown will occur.

### Special Questions (Third Quarter 2001)

How have the terrorist attacks of September 11 affected new orders and shipments at your business?

	New Orders	Shipments
Significant Decrease	12.3%	9.2%
Some Decrease	26.2%	24.6%
No Effect	49.2%	46.2%
Some Increase	1.5%	1.5%
Significant Increase	10.8%	18.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

If you experienced a downturn in activity either *before* or *after* September 11, when do you expect to see a turnaround?

Has already occurred	13.7%
Fourth quarter 2001	19.6%
First quarter 2002	21.6%
Second quarter 2002	19.6%
After second quarter 2002	25.5%
<b>Total</b>	<b>100.0%</b>

### South Jersey Business Survey

(Third 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?	89.2	9.2	1.5	-87.7	16.9	40.0	36.9	20.0
1.2 in the state?	80.0	18.5	1.5	-78.5	15.4	44.6	33.8	18.4
1.3 in the region?	78.5	21.5	0.0	-78.5	16.9	43.1	32.3	15.4
1.4 at your company?	43.1	36.9	20.0	-23.1	13.8	36.9	41.5	27.7
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers report shipments)	43.1	24.6	24.6	-18.5	10.8	33.8	38.5	27.7
2.2 Inventories of the products you sell	21.5	43.1	12.3	-9.2	10.8	43.1	16.9	6.1
2.3 Customer traffic or inquiries	40.0	29.2	26.2	-13.8	7.7	41.5	35.4	27.7
2.4 Number of employees	21.5	69.2	7.7	-13.8	10.8	43.1	33.8	23.0
2.5 Weekly hours	21.5	58.5	20.0	-1.5	9.2	52.3	27.7	18.5
2.6 Prices actually received	18.5	63.1	9.2	-9.3	3.1	63.1	18.5	15.4
2.7 Prices paid for raw materials (other than labor or energy)	12.3	53.8	7.7	-4.6	6.2	35.4	27.7	21.5
2.8 Cost of Labor								
2.8.1 Wages	3.1	72.3	21.5	18.4	1.5	47.7	38.5	37.0
2.8.2 Benefits	1.5	52.3	41.5	40.0	1.5	47.7	40.0	38.5
2.9 Spending for:								
2.9.1 Acquisition of new space	16.9	46.2	13.8	-3.1	9.2	55.4	9.2	0.0
2.9.2 Renovation of existing space	15.4	43.1	16.9	1.5	7.7	55.4	7.7	0.0
2.9.3 Equipment	26.2	43.1	18.5	-7.7	12.3	41.5	27.7	15.4

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.