



SOUTH JERSEY BUSINESS SURVEY

Fourth Quarter 2001

Economic activity in the South Jersey region continued to decline in the final quarter of 2001. But the declines were not as large as in the third quarter, according to businesses polled for the *South Jersey Business Survey*. Although most indicators of business conditions continued to suggest overall decline in the region, expectations are widespread that growth will return by mid-year.

Current Indicators Mark Continued Declines

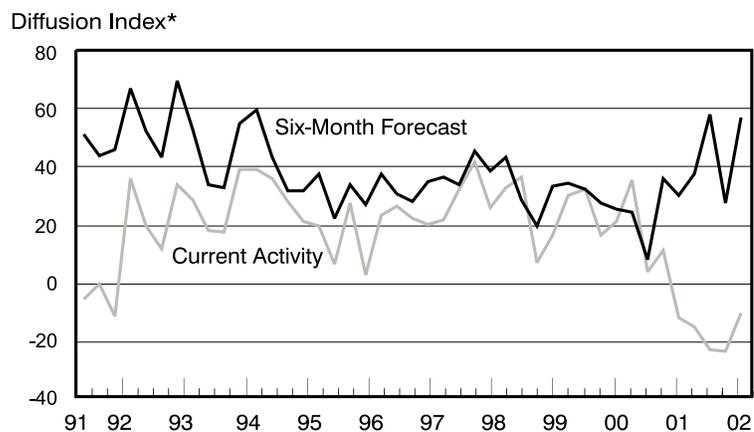
The survey's broadest indicator of regional business conditions, the index of general business activity at individual companies, was -9.9 in the fourth quarter. Although the index has remained negative for five consecutive quarters, it improved markedly from its third-quarter reading (-23.1), the lowest in the 10-year history of the survey (see Chart). Although almost 39 percent of the firms polled reported no change in business activity in the fourth quarter, the percentage reporting decreases in activity (33 percent) was greater than the percentage reporting increases (23 percent). The percentage reporting increases in sales during the fourth quarter (29 percent) was equal to the percentage of firms reporting declines. The current sales index improved significantly from -18.5 to 0. Firms' responses indicate declines in inventories during the fourth quarter: almost 30 percent of the firms reported declines in the inventories of their products, and only 11 percent reported increases.

When the poll was taken in mid-January, most firms perceived overall declines in the national, state, and regional economies. More than 59 percent of the firms polled thought the U.S. economy declined in the fourth quarter, and about 46 percent thought there were declines in the state's economy.

Continued weakness in overall activity was also evident in changes in the firms'

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.

employment levels. The percentage of firms reporting declines in employment (20 percent) was larger than the percentage reporting increases (12 percent) for the third consecutive quarter. But similar to the other broad indicators, the current employment index improved somewhat, increasing from -13.8 to -7.7 in the fourth quarter.

Prices Near Steady But Firms Concerned About Labor Costs

Firms reported near steady prices for their own products in the fourth quarter and little pressure for nonlabor costs. The percentage of firms reporting lower prices for their own products (14 percent) exceeded the percentage of firms reporting higher prices (10 percent). The current prices received index was negative for the second consecutive quarter but was less negative than in the previous quarter. Only 9 percent of firms reported higher prices for raw materials, and about the same percentage (8 percent) reported lower prices.

Labor costs continue to rise. About one-third of the firms reported higher overall costs of wages and benefits in the fourth quarter. Among the most important problems facing South Jersey businesses, labor-related issues (benefits costs, labor quality, and wages) ranked near the top (see Special Question). One year ago only 22 percent of firms cited benefits costs as a major problem.

South Jersey Firms Expect Recovery

South Jersey firms began 2002 with a brighter outlook for economic conditions over the near term. Nearly 64 percent of firms expect an improvement in business activity over the next six months; only 7 percent expect deterioration. Moreover, the future activity index for individual companies increased notably, from 27.7 in the third quarter to 57.1 in the fourth quarter. More firms are also optimistic about recovery in the national, state, and regional economies.

Firms are cautious with regard to their plans to hire additional workers over the

next six months. Although 57 percent of firms expect an improvement in sales, only 24 percent expect to add employees over the next six months. Seven percent plan to reduce employment. Nearly 28 percent of the firms also expect an increase in the average weekly hours of existing employees.

Firms remain cautious about plans for spending on capital equipment and real estate. Only 19 percent of firms expect to increase their spending on equipment over the next six months, and only 12 percent are planning additional spending for acquisition of new space.

Summary

Current indicators reflect a continuation of declines in the South Jersey economy in the fourth quarter but a possible bottoming out. Most indicators, while still negative, improved from their readings in the third quarter. As many firms reported increases in sales in the last quarter of 2001 as reported declines, and employment declines were more modest than in the third quarter. Optimism about growth over the next six months is very prevalent in the survey results. Firms remain cautious about employment prospects. Nevertheless, a return to growth over the first half will result in the need for additional workers, according to the firms polled. While increased optimism is a positive sign, firms remain concerned about many ongoing problems such as competition, labor costs and quality, and government regulation.

Special Question (Fourth Quarter 2001)

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

Percentage of Firms Choosing Specified Problem*
(previous year in parenthesis)

Competition – domestic	41.8%	(44.8)
Labor costs – benefits	39.6%	(22.4)
Labor – quality	29.7%	(31.0)
Labor costs – wages	25.3%	(39.7)
Government – regulation	17.6%	(12.1)
Labor – shortage	9.9%	(15.5)
Credit availability	8.8%	(1.7)
Cost of raw materials	7.7%	(10.3)
Credit cost	4.4%	(0)
Competition – foreign	4.4%	(5.2)
Shortage of raw materials	1.1%	(6.9)

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

South Jersey Business Survey

(Fourth 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?	59.3	27.5	9.9	-49.4	7.7	33.0	52.7	45.0
1.2 in the state?	46.2	40.7	9.9	-36.3	12.1	37.4	45.1	33.0
1.3 in the region?	42.9	38.5	13.2	-29.7	8.8	35.2	49.5	40.7
1.4 at your company?	33.0	38.5	23.1	-9.9	6.6	24.2	63.7	57.1
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers report shipments)	28.6	35.2	28.6	0.0	5.5	20.9	57.1	51.6
2.2 Inventories of the products you sell	29.7	28.6	11.0	-18.7	9.9	34.1	18.7	8.8
2.3 Customer traffic or inquiries	30.8	33.0	28.6	-2.2	7.7	30.8	44.0	36.3
2.4 Number of employees	19.8	67.0	12.1	-7.7	6.6	56.0	24.2	17.6
2.5 Weekly hours	22.0	63.7	13.2	-8.8	4.4	54.9	27.5	23.1
2.6 Prices actually received	14.3	68.1	9.9	-4.4	6.6	57.1	16.5	9.9
2.7 Prices paid for raw materials (other than labor or energy)	7.7	58.2	8.8	1.1	3.3	50.5	13.2	9.9
2.8 Cost of Labor								
2.8.1 Wages	3.3	60.4	33.0	29.7	1.1	46.2	39.6	38.5
2.8.2 Benefits	1.1	62.6	34.1	33.0	2.2	51.6	33.0	30.8
2.9 Spending for:								
2.9.1 Acquisition of new space	12.1	61.5	11.0	-1.1	8.8	52.7	12.1	3.3
2.9.2 Renovation of existing space	12.1	61.5	12.1	0.0	7.7	58.2	11.0	3.3
2.9.3 Equipment	9.9	69.2	17.6	7.7	6.6	62.6	18.7	12.1

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.