



# SOUTH JERSEY BUSINESS SURVEY

## Third Quarter 2004

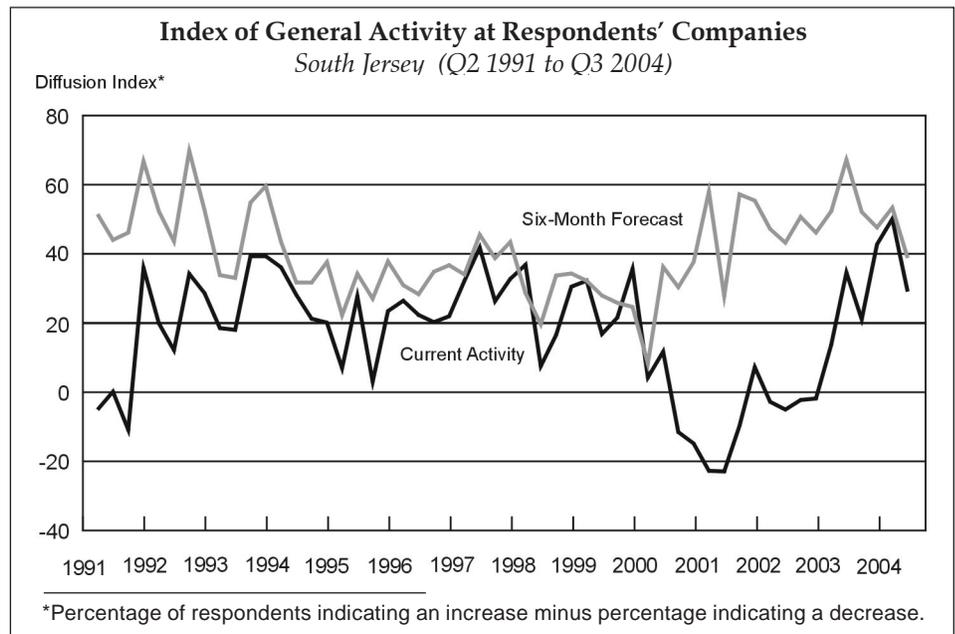
Firms responding to the *South Jersey Business Survey* reported that business activity continued to grow in the third quarter. Indicators for general business activity and sales at individual companies remained positive, although readings were significantly lower than the record highs in the second quarter. Participants also perceived that the economies of the nation, state, and region grew during the third quarter but at a slower pace. Indicators of business executives' expectations for the next six months suggest diminished optimism about the future.

### Current Indicators Suggest Slowed Growth in Third Quarter

The index of general activity at individual businesses decreased from a record high of 50.0 in the second quarter to 29.0 in the third quarter (see chart). The index has now remained positive for six consecutive quarters but has fallen back to its readings in the second half of 2003. Nearly 44 percent of the firms reported increases in business at their companies in the third quarter; 15 percent reported decreases. The survey's indicator for sales also remained positive but fell 21 points.

Firms perceived that the economies of the region, state, and nation grew more moderately in the third quarter, as shown by the corresponding indexes, which fell from their highest readings in 14 years in the previous survey. Only 31 percent of the respondents saw improvement in the U.S. economy in the third quarter, compared with 66 percent last quarter. A slightly higher portion of firms, 40 percent, noted improvement in the region this quarter (61 percent indicated improvement in the second-quarter survey).

There was continued weakness in employment at the firms surveyed. The diffusion index for current employment, although positive for the fifth consecutive quarter, decreased from 21.0 to 14.5. Respondents reporting higher employment (29 percent) increased slightly from the second-quarter survey, but the percent reporting



lower employment (15 percent) increased even more. On balance, firms reported an increase in average work hours in the third quarter, but the number of firms reporting an increase was not as great as in the second quarter.

### Firms Report Higher Costs

Many firms reported higher prices for raw materials (45 percent) in the third quarter; only 3 percent reported lower prices. The prices paid index fell from 45.2 in the second quarter, a record high, to 41.9 in the third quarter. Costs of wages rose at 37 percent of the firms; benefits rose at 45 percent. More firms reported increases in prices of their final products (26 percent) than reported decreases (7 percent). The prices received index declined, however, from 25.8 in the second quarter to 19.4 this quarter.

In special questions this quarter (see Special Questions) firms were asked about compensa-

tion cost increases since the beginning of the year. Over 66 percent of firms indicated that compensation costs had risen since the beginning of 2004. The largest percentage of firms (49 percent) indicated that costs had increased between 2 percent and 4 percent. Thirty-four percent reported cost increases of more than 4 percent. Nearly 46 percent of those firms said that health benefit costs were the most important factor contributing to the rise; 42 percent indicated higher wages were the most important factor. Twelve percent said higher health-care benefits and wages contributed equally to the rise in costs.

### Six-Month Forecasts Decline Somewhat

The six-month outlook of the firms surveyed deteriorated this quarter. Over 45 percent of the responding firms expect increases in the level

## Special Questions

### 1. Has compensation per worker (wages plus benefits) risen at your firm since the beginning of 2004?

Yes ..... 66.1%      No response..... 3.2%  
 No ..... 30.7%      Total..... 100.0%

### 2. If yes, by how much?

0-2% ..... 17.1%  
 2-4% ..... 48.8%  
 4-6% ..... 21.9%  
 6-8% ..... 2.4%  
 More than 8% ..... 9.8%  
 No response ..... 0.0%  
 Total ..... 100.0%

### 3. What is the most important factor contributing to the rise? (choose one)

Health Benefits ..... 46.3%  
 Other Benefits ..... 0.0%  
 Wages ..... 41.5%  
 All Equally ..... 12.2%  
 No response ..... 0.0%  
 Total ..... 100.0%

of general business activity at their respective companies over the next six months, down from 60 percent last quarter. The index of future activity decreased from 53.2 to 38.7. The future sales index fell 18 points, although 40 percent expect sales to increase over the next two quarters. Thirty-six percent of firms expect to increase employment over the next six months, only slightly lower than the 39 percent that chose this response in the second quarter.

### Summary

The third-quarter survey suggests continued growth in the region's economy, but indicators for general activity and sales suggest some slowing of growth. Respondents reported increases in employment, but growth remains moderate. Firms continued to note increases in costs, and more than one-quarter of the firms reported increases in the prices of their own goods or services. Expectations are positive, but lower than in the second-quarter survey.

## South Jersey Business Survey (Third Quarter 2004)

|   | 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?  | 12.9                       | 54.8 | 30.6   | 17.7            | 6.5               | 51.6 | 29.0   | 22.6            |
| 1.2 in the state?   | 14.5                       | 51.6 | 32.3   | 17.7            | 9.7               | 54.8 | 24.2   | 14.5            |
| 1.3 in the region?  | 12.9                       | 45.2 | 40.3   | 27.4            | 8.1               | 46.8 | 33.9   | 25.8            |
| 1.4 at your company?  | 14.5                       | 37.1 | 43.5   | 29.0            | 6.5               | 33.9 | 45.2   | 38.7            |
| 2. Please tell us how the following business indicators are behaving at your company? |                            |      |        |                 |                   |      |        |                 |
| 2.1 Sales<br>(Manufacturers report shipments)   | 16.1                       | 29.0 | 43.5   | 27.4            | 4.8               | 25.8 | 40.3   | 35.5            |
| 2.2 Inventories of the products you sell  | 11.3                       | 41.9 | 17.7   | 6.5             | 11.3              | 32.3 | 11.3   | 0.0             |
| 2.3 Customer traffic or inquiries   | 9.7                        | 32.3 | 50.0   | 40.3            | 6.5               | 27.4 | 45.2   | 38.7            |
| 2.4 Number of employees   | 14.5                       | 51.6 | 29.0   | 14.5            | 4.8               | 37.1 | 35.5   | 30.6            |
| 2.5 Weekly hours  | 6.5                        | 64.5 | 21.0   | 14.5            | 6.5               | 41.9 | 24.2   | 17.7            |
| 2.6 Prices actually received  | 6.5                        | 56.5 | 25.8   | 19.4            | 3.2               | 37.1 | 30.6   | 27.4            |
| 2.7 Prices paid for raw materials<br>(other than labor or energy)                     | 3.2                        | 16.1 | 45.2   | 41.9            | 1.6               | 14.5 | 38.7   | 37.1            |
| 2.8 Labor   |                            |      |        |                 |                   |      |        |                 |
| 2.8.1 Wages   | 1.6                        | 58.1 | 37.1   | 35.5            | 0.0               | 41.9 | 38.7   | 38.7            |
| 2.8.2 Benefits  | 1.6                        | 50.0 | 45.2   | 43.5            | 0.0               | 30.6 | 50.0   | 50.0            |
| 2.9 Spending for:   |                            |      |        |                 |                   |      |        |                 |
| 2.9.1 Acquisition of new space  | 8.1                        | 58.1 | 14.5   | 6.5             | 6.5               | 45.2 | 17.7   | 11.3            |
| 2.9.2 Renovation of existing space  | 3.2                        | 54.8 | 27.4   | 24.2            | 4.8               | 41.9 | 27.4   | 22.6            |
| 2.9.3 Equipment   | 8.1                        | 56.5 | 27.4   | 19.4            | 6.5               | 38.7 | 33.9   | 27.4            |

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.