



SOUTH JERSEY BUSINESS SURVEY

Second Quarter 2006

Firms in South Jersey reported notable slowing in business growth during the second quarter. The firms surveyed reported a decline in overall business conditions at their companies and only a slight growth in sales. The percentage of firms reporting increased sales was slightly larger than the percentage reporting decreased sales. Just under half of the firms reported higher business costs, and about one-fifth reported higher prices for their own products. The outlook for future business conditions at individual companies was significantly less optimistic than in the first quarter.

Indicators Suggest No Growth

The survey's broadest measure of performance, the index of general activity at individual companies, fell from 25.0 in the first quarter, to -4.7 in the second quarter. The index had been positive for 12 consecutive quarters (see Chart). Only 26 percent of the respondents reported higher levels of business activity (down from 50 percent in the first quarter); 30 percent reported lower levels of activity. The survey's indicator for sales plummeted 29 points; the percentage of firms indicating higher sales was only slightly greater than that reporting a decrease (30 percent versus 26 percent).

Firms' perceptions of the health of the economies of the region, state, and nation deteriorated significantly. Last quarter, 29 percent perceived improvement in the

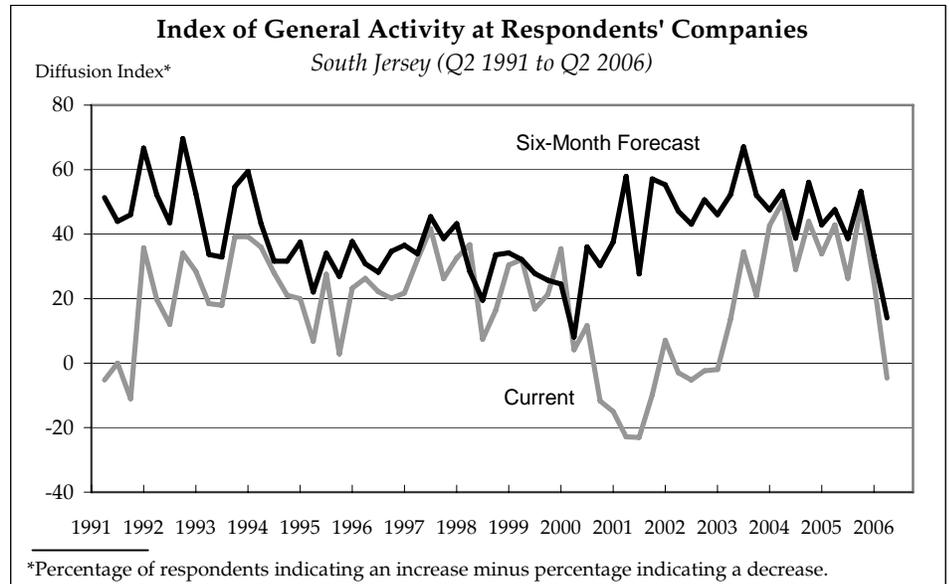
national economy; only 9 percent saw improvement this quarter. The general activity index for the nation (reflecting firms' assessments of the level of business activity nationally) fell from -4.2 in the first quarter to -14.0. Also, for the second consecutive quarter, more firms thought conditions in the region and state had deteriorated than thought they had improved.

There was no overall growth in employment among the firms polled: The percentage of firms reporting increases was the same as the percentage reporting decreases (16 percent). The workweek index fell seven points: Longer work hours were reported by 16 percent of the firms; 12 percent reported shorter hours.

Higher Costs and Prices Reported

Forty-seven percent of the South Jersey businesses surveyed indicated higher prices for raw materials in the second quarter, slightly lower than the 50 percent that reported higher prices in the first quarter. The prices paid index for these materials declined four points from the first quarter. Forty percent of firms reported higher wage costs in the second quarter; 42 percent reported higher benefit costs.

Higher prices for firms' own products were reported by 19 percent of respondents, notably larger than the 12 percent reporting lower prices; 65 percent reported stable prices. The responses suggest that not all cost increases are being passed on to customers.



Expectations Are Less Optimistic

South Jersey firms were significantly less optimistic about the future this quarter. The index of future activity at individual companies dropped notably, from 33.3 in the first quarter to 14.0 in the second quarter. This is the lowest reading since the second quarter of 2000 (see Chart). The percentage of firms expecting an increase in business (35 percent) continued to exceed that expecting a decrease (21 percent). Firms' expectations for future growth of the economies of the nation, region, and state were also significantly less optimistic; indexes for these three variables fell from positive readings in the first quarter to negative readings in the second quarter.

Firms remain generally optimistic about employment growth over the next six months, but they are less optimistic than in the first quarter. Although the future employment index fell nine points, the percentage of firms expecting an increase in employment (23 percent) still exceeds the percentage expecting a decline (12 percent).

In special questions this quarter, firms were asked about changes in employment expected over the next six to 12 months

(see Special Questions). Thirty-three percent of the respondents expect employment to increase; 14 percent expect it to decrease. Some upward movement in wages is evident in responses concerning wage rates being offered to new hires or contracts. Fifty-eight percent of the firms indicated that wage rates are increasing for new hires. Nearly one-third of the firms increasing wages said the percentage increases are higher than they were 12 months ago.

Summary

South Jersey firms perceive that economic conditions in the nation, state, and region have deteriorated in the second quarter. Sales and employment indicators for the individual companies polled for the survey suggest zero to only slight growth during the quarter. Nearly one-half of the firms reported higher costs, but only one-fifth reported higher prices for their own products. Overall, firms remained optimistic about growth over the next six months, although most of the measures of optimism fell precipitously from readings in the previous quarter.

Special Questions

(Second Quarter 2006)

1. What percent change in employment do you plan over the next six to 12 months?

Total Increase	32.5%	
Increase of 0-3%		9.3%
Increase of 4-6%		11.6%
Increase of 7-9%		2.3%
Increase of 10% or more		9.3%
Total Decrease	14.0%	
Decrease of 0-3%		4.7%
Decrease of 4-6%		9.3%
Decrease of 7-9%		0.0%
Decrease of 10% or more		0.0%
Stay at current levels	51.2%	
No Response	2.3%	

2. How much are you increasing wage rates for new hires or contracts?

Total Increase	58.1%	
Increase of 1-3%		27.9%
Increase of 4-6%		20.9%
Increase of 7-9%		9.3%
Increase of greater than 9%		0.0%
No Increase	37.2%	
No Response	4.7%	

If you are increasing wage rates, is the percentage increase higher than, lower than, or the same as 12 months ago?

Higher	32.0%
Lower	4.0%
Same	64.0%

South Jersey Business Survey (Second Quarter 2006)

	Compared with 3 Months Ago					Six Months from Now				
	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index
1. What is your assessment of the level of general business activity?										
1.1 in the nation?	-4.2	23.3	65.1	9.3	-14.0	33.3	20.9	55.8	11.6	-9.3
1.2 in the state?	-16.7	37.2	55.8	4.7	-32.6	20.8	27.9	48.8	11.6	-16.3
1.3 in the region?	-4.2	27.9	60.5	9.3	-18.6	29.2	25.6	46.5	16.3	-9.3
1.4 at your company?	25.0	30.2	44.2	25.6	-4.7	33.3	20.9	34.9	34.9	14.0
2. Business Indicators at your company:	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index
2.1 Sales (or Shipments for Manufacturers)	33.3	25.6	32.6	30.2	4.7	25.0	16.3	27.9	37.2	20.9
2.2 Product Inventories	0.0	16.3	30.2	20.9	4.7	-12.5	11.6	37.2	14.0	2.3
2.3 Customer traffic/inquiries	12.5	27.9	32.6	32.6	4.7	29.2	11.6	34.9	37.2	25.6
2.4 Number of employees	0.0	16.3	60.5	16.3	0.0	20.8	11.6	53.5	23.3	11.6
2.5 Weekly hours	12.5	11.6	67.4	16.3	4.7	16.7	9.3	65.1	14.0	4.7
2.6 Prices actually received	8.3	11.6	65.1	18.6	7.0	16.7	7.0	53.5	25.6	18.6
2.7 Prices paid for raw material (not labor or energy)	45.8	4.7	20.9	46.5	41.9	29.2	0.0	25.6	41.9	41.9
2.8 Cost of labor:										
2.8.1 Wages	41.7	0.0	55.8	39.5	39.5	41.7	0.0	37.2	48.8	48.8
2.8.2 Benefits	66.7	4.7	48.8	41.9	37.2	41.7	4.7	30.2	51.2	46.5
2.9 Spending for:										
2.9.1 Acquisition of new space	0.0	14.0	37.2	27.9	14.0	4.2	4.7	44.2	23.3	18.6
2.9.2 Renovation	16.7	2.3	53.5	27.9	25.6	-4.2	4.7	44.2	27.9	23.3
2.9.3 Equipment	20.8	0.0	51.2	39.5	39.5	20.8	0.0	46.5	37.2	37.2

- 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.
- The diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease. Items may not add to 100 because of omission by respondents