



SOUTH JERSEY BUSINESS SURVEY

Fourth Quarter 2006

Economic activity in the South Jersey region held steady in the fourth quarter, according to firms surveyed for the *South Jersey Business Survey*. Although firms noted weakness in activity and sales, the index for employment rose notably in the fourth quarter. Firms continued to report overall higher costs, especially for labor. The outlook for future business conditions at individual companies improved notably at year's end, following two quarters of lowered expectations.

Indicators Suggest Steady Overall Activity

The survey's broadest measure of performance, the index of general activity at individual companies, decreased from 13.6 in the third quarter, to -1.8 in the fourth quarter. In the fourth quarter, nearly 33 percent of the respondents reported higher levels of business activity at their companies, but 35 percent reported lower levels. The index fell precipitously in the first two quarters of 2006, dipping into negative territory. It temporarily reversed the decline in the third quarter (see Chart).

The firms' responses about sales growth paralleled the decline in the overall activity index. The survey's indicator for sales fell from 4.5 in the third quarter to -7.3. The percentage of firms reporting lower sales during the quarter (33 percent) was slightly greater than the percentage reporting higher sales (26 percent).

Weakness in activity is less evident in replies about employment and hours

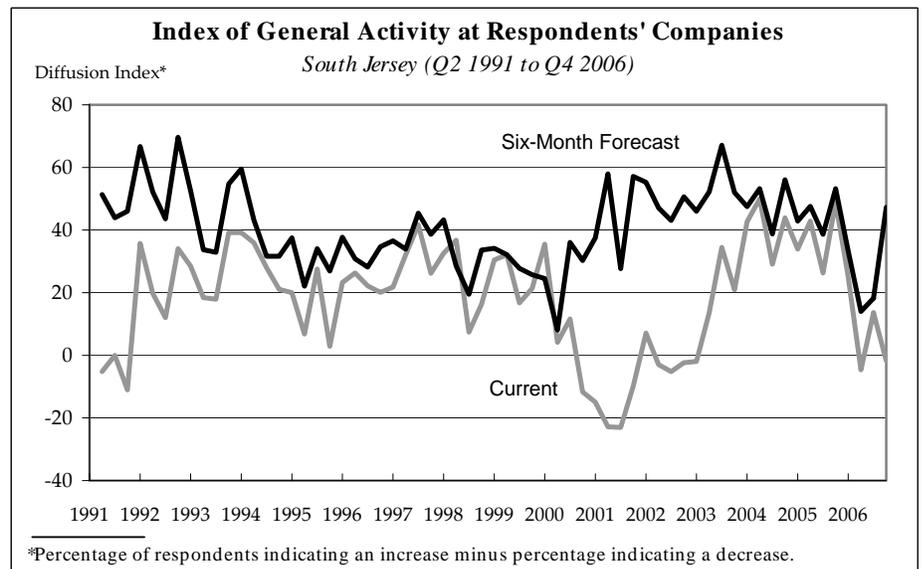
worked. The percentage of firms reporting an increase in employment (24 percent) was somewhat higher than that of firms reporting a decrease (14 percent). The current employment index rose 27 points from its very low negative reading in the third quarter. The average workweek index edged slightly higher: 26 percent of the firms reported increased hours; 18 percent reported a decrease.

Firms continued to perceive that conditions in the regional and state economies have deteriorated overall, but they thought conditions for the national economy had improved at year's end. The general activity index for the nation (reflecting assessments of the level of business activity nationally) increased 35 points. The indexes for the state and region remained negative but improved from their readings in the third quarter.

Price Pressures Continue, Labor Costs a Major Concern

Firms continued to report higher costs in the fourth quarter. Nearly one-third of the South Jersey businesses surveyed indicated higher prices for raw materials in the fourth quarter. The prices paid index for these materials was basically unchanged from its reading in the third quarter. Thirty-five percent of the firms reported higher wage costs in the fourth quarter; 42 percent reported higher benefit costs.

Although 56 percent of the firms reported no change in prices for their own products and services, the percentage reporting increases (16 percent) was higher than the percentage reporting decreases (13 percent). The prices received index changed little from its reading in the third quarter.



In response to a special question, firms indicated that labor costs and quality were their most important current business concerns (see Special Question). Labor benefit costs topped the list of the most important problem, cited by 54 percent of the polled firms. The second and third most important problems were labor quality and wage costs, which both increased their ranking from when the question was asked two years ago.

Expectations Improve Significantly

South Jersey firms were significantly more optimistic about future conditions at year's end. The index for future activity at individual companies rose sharply in the fourth quarter, increasing 29 points (see Chart). After dropping in the second quarter of 2006 to its lowest reading since 2000, the index of future activity remained at a relatively low mark in the third quarter. The percentage of firms expecting an increase in activity over the next six months increased from 41 percent in the third quarter to 56 percent in the fourth quarter. Firms' expectations for future

growth of the state and region were also more optimistic than in the third quarter

Firms remain generally optimistic about employment growth over the next six months. The percentage of firms expecting an increase in employment (22 percent) still exceeds the percentage expecting a decrease (11 percent); however, the future employment index edged seven points lower than in the third quarter.

Summary

According to the latest *South Jersey Business Survey*, economic conditions in the region remained steady in the fourth quarter. Sales growth was reported to be slightly lower, but overall employment increased at about one quarter of the polled firms. Firms expect improvement in the economies of the state, region, and nation over the next six months. The polled executives were significantly more optimistic about the future growth of their own companies than in the third quarter.

Special Question (Fourth Quarter 2006)

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

Percentage of Firms Choosing Specified Problem*		
	2006 %	2004 %
Labor costs—benefits	53.8	60.0
Labor—quality	38.5	27.5
Labor costs—wages	32.7	17.5
Competition—domestic	26.9	30.0
Government regulation	26.9	25.0
Labor—shortages	19.2	12.5
Cost of raw materials	13.5	12.5
Credit cost	9.6	2.5
Credit availability	5.8	5.0
Competition—foreign	3.8	10.0
Shortage of raw materials	0.0	7.5

* Totals sum to more than 100 percent because respondents could cite up to three problems.

South Jersey Business Survey (Fourth 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?	-31.8	21.8	47.3	25.5	3.6	9.1	12.7	47.3	30.9	9.1
1.2 in the state?	-31.8	36.4	38.2	18.2	-18.2	-13.6	16.4	49.1	25.5	9.1
1.3 in the region?	-27.3	34.5	36.4	21.8	-12.7	4.5	12.7	47.3	32.7	20.0
1.4 at your company?	13.6	34.5	27.3	32.7	-1.8	18.2	9.1	27.3	56.4	47.3
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)	4.5	32.7	25.5	25.5	-7.3	22.7	16.4	18.2	45.5	29.1
2.2 Product Inventories	-4.5	12.7	25.5	20.0	7.3	-4.5	14.5	27.3	18.2	3.6
2.3 Customer traffic/inquiries	-4.5	23.6	32.7	32.7	9.1	13.6	5.5	30.9	49.1	43.6
2.4 Number of employees	-18.2	14.5	54.5	23.6	9.1	18.2	10.9	56.4	21.8	10.9
2.5 Weekly hours	0.0	18.2	49.1	25.5	7.3	0.0	7.3	56.4	23.6	16.4
2.6 Prices actually received	4.5	12.7	56.4	16.4	3.6	22.7	10.9	50.9	20.0	9.1
2.7 Prices paid for raw material (not labor or energy)	27.3	7.3	30.9	32.7	25.5	36.4	3.6	30.9	34.5	30.9
2.8 Cost of labor:										
2.8.1 Wages	50.0	1.8	54.5	34.5	32.7	59.1	3.6	43.6	38.2	34.5
2.8.2 Benefits	54.5	0.0	41.8	41.8	41.8	63.6	1.8	38.2	41.8	40.0
2.9 Spending for:										
2.9.1 Acquisition of new space	-4.5	7.3	40.0	10.9	3.6	-4.5	9.1	32.7	18.2	9.1
2.9.2 Renovation	9.1	7.3	36.4	18.2	10.9	18.2	9.1	32.7	23.6	14.5
2.9.3 Equipment	50.0	7.3	43.6	20.0	12.7	22.7	7.3	40.0	25.5	22.7

- 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