



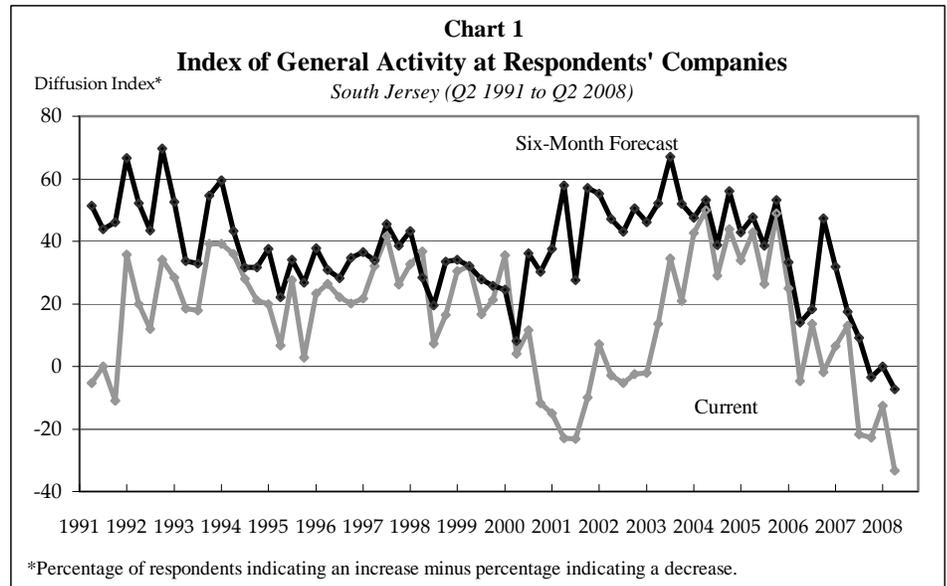
# SOUTH JERSEY BUSINESS SURVEY

## Second Quarter 2008

Firms in the South Jersey region reported a contraction in business activity during the second quarter. Firms also perceived that conditions continued to deteriorate for the national, state, and regional economies during the same period. The firms surveyed noted a decline in business activity, sales, and employment at their own companies. Along with weakening conditions, cost increases continued to be widespread, but many firms reported price declines for their own goods. The outlook for future business conditions has also deteriorated since the previous survey.

### Current Indicators Reflect Continued Weakening

The survey's broadest measure of performance, the index of general activity at individual companies, remained negative for the fourth consecutive quarter, falling from -12.6 in the first quarter to -31.4 in the second quarter (see Chart). More firms reported a decline in business activity (50 percent) than reported an increase (19 percent). The index is now at its lowest level since the beginning of the survey in 1991. The survey's indicator for sales fell to -37.1 from a previous reading of -14.9. Firms reported similar declines in customer traffic and inquiries. Firms' perceptions of the health of the regional, state, and national economies remained negative. For example, 74 percent of the firms perceived deterioration in the national economy this quarter, up slightly from 71 percent in the previous quarter. A similar pattern was evident in the firms' appraisal



of business conditions in the state and region.

There was a notable decrease in employment among the surveyed firms in the second quarter: The percentage of firms indicating a decrease in employment (33 percent) was significantly higher than the percentage indicating an increase (9 percent). The current employment index fell from 1.1 in the previous quarter to -24.3 in the second quarter; it is now at its lowest level since the second quarter of 2001. The percentage of firms reporting shorter work hours (24 percent) was greater than the percentage reporting longer hours (11 percent).

### Costs Pressures Remain, But Some Firms Report Lower Prices

Fifty-three percent of the South Jersey businesses surveyed reported higher prices for raw materials in the second quarter, up slightly from 52 percent in the first

quarter. The prices paid index for raw materials (excluding labor and energy) fell two points but remained high at a reading of 50.0. Cost pressures lessened notably for wages and benefits: Their respective indexes fell 21 points and 17 points.

Weak business conditions were evident in the firms' responses regarding the prices for their own goods and services. The percentage reporting a decrease in prices (27 percent) was greater than the percentage reporting an increase (13 percent). The largest percentage of firms, 37 percent, reported stable prices during the quarter. The prices received index dropped 24 points from the first quarter, to -14.3, its lowest reading since the fourth quarter of 1991.

In special questions this quarter, firms were asked about the effects that cost increases are having on the prices of their goods and services (see Special Questions). Nearly one-half of the firms expect

an increase in their own prices over the remainder of this year. Firms, on average, expect an increase in prices of about 2.4 percent, which is nearly the same rate of increase reported by the firms for the first half of the year.

### Firms' Six-Month Outlook Has Deteriorated

The index of future activity at individual companies fell from zero in the first quarter to -10.0 in the second quarter (see Chart). Overall, firms expect decreased growth: The percentage of firms expecting improvement in conditions (20 percent) was less than the percentage expecting deterioration (30 percent). South Jersey firms remain pessimistic about the outlook for the national, state, and regional economies this quarter. Although many firms expect deterioration in conditions at their own businesses (30 percent), even more expect deterioration at the national, state, and regional levels (39, 50, and 44 percent, respectively).

Firms' outlook for decreased growth in their businesses over the next six months

is mirrored by responses concerning employment plans. The percentage of firms expecting lower employment (24 percent) was notably higher than the percentage expecting increased employment (13 percent), and the future employment index decreased seven points.

### Summary

According to the latest *South Jersey Business Survey*, economic conditions in the nation, state, and region deteriorated during the second quarter of 2008. Activity, employment, and sales indicators for the individual companies polled suggest a contraction in business conditions during the quarter. Although cost pressures were widespread, many firms were unable to pass on cost increases to their own customers, and many firms reported price declines for their own products and services during the quarter. Regarding the future, more firms now expect deterioration in their own businesses over the second half of the year than expect improvement.

Special Questions (Second Quarter 2008)	
<b>1a) What impact will cost increases since the beginning of the year have (or are expected to have) on the prices of your own finished products or services over the next six months?</b>	
We expect price decreases.	12.9%
We expect steady prices.	24.3%
We expect price increases.	48.6%
Of < 2.5%	20.1%
Between 2.5-5%	44.1%
Between 5-7.5%	14.7%
Between 7.5-10%	14.7%
> 10%	5.9%
No Response	14.3%
Total	100.0%
Average	2.4%
<b>1b) Since the beginning of the year, we have already increased our prices by:</b>	
0%	37.1%
<2.5%	8.6%
Between 2.5-5%	24.3%
Between 5-7.5%	5.7%
Between 7.5-10%	2.9%
> 10%	1.4%
No Response	20.0%
Total	100.0%
Average	2.3%

South Jersey Business Survey (Second Quarter 2008)	Compared with Three 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?	<b>-71.3</b>	74.3	21.4	1.4	<b>-72.9</b>	<b>-29.9</b>	38.6	38.6	5.7	<b>-32.9</b>
1.2 in the state?	<b>-73.6</b>	80.0	17.1	1.4	<b>-78.6</b>	<b>-47.1</b>	50.0	28.6	5.7	<b>-44.3</b>
1.3 in the region?	<b>-62.1</b>	75.7	21.4	1.4	<b>-74.3</b>	<b>-40.2</b>	44.3	31.4	8.6	<b>-35.7</b>
1.4 at your company?	<b>-12.6</b>	50.0	30.0	18.6	<b>-31.4</b>	<b>0.0</b>	30.0	34.3	20.0	<b>-10.0</b>
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)	<b>-14.9</b>	45.7	28.6	8.6	<b>-37.1</b>	<b>-2.3</b>	24.3	30.0	14.3	<b>-10.0</b>
2.2 Product inventories	<b>-10.3</b>	21.4	27.1	2.9	<b>-18.6</b>	<b>-10.3</b>	12.9	27.1	2.9	<b>-10.0</b>
2.3 Customer traffic/inquiries	<b>-11.5</b>	51.4	31.4	14.3	<b>-37.1</b>	<b>1.1</b>	24.3	38.6	15.7	<b>-8.6</b>
2.4 Number of employees	<b>1.1</b>	32.9	51.4	8.6	<b>-24.3</b>	<b>-4.6</b>	24.3	41.4	12.9	<b>-11.4</b>
2.5 Weekly hours	<b>8.0</b>	24.3	52.9	11.4	<b>-12.9</b>	<b>5.7</b>	20.0	44.3	12.9	<b>-7.1</b>
2.6 Prices actually received	<b>9.2</b>	27.1	37.1	12.9	<b>-14.3</b>	<b>5.7</b>	10.0	45.7	12.9	<b>2.9</b>
2.7 Prices paid for raw material (not labor or energy)	<b>51.7</b>	2.9	12.9	52.9	<b>50.0</b>	<b>46.0</b>	1.4	17.1	40.0	<b>38.6</b>
2.8 Cost of labor:										
2.8.1 Wages	<b>37.9</b>	5.7	62.9	22.9	<b>17.1</b>	<b>25.3</b>	4.3	54.3	20.0	<b>15.7</b>
2.8.2 Benefits	<b>55.2</b>	4.3	44.3	42.9	<b>38.6</b>	<b>39.1</b>	1.4	37.1	40.0	<b>38.6</b>
2.9 Spending for:										
2.9.1 Acquisition of new space	<b>-8.0</b>	14.3	32.9	12.9	<b>-1.4</b>	<b>-4.6</b>	14.3	25.7	11.4	<b>-2.9</b>
2.9.2 Renovation	<b>11.5</b>	14.3	37.1	14.3	<b>0.0</b>	<b>5.7</b>	11.4	28.6	15.7	<b>4.3</b>
2.9.3 Equipment	<b>6.9</b>	17.1	40.0	18.6	<b>1.4</b>	<b>1.1</b>	14.3	30.0	22.9	<b>8.6</b>

- 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.
- A 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.