

# SOUTH JERSEY

B U S I N E S S

Federal Reserve Bank  
of Philadelphia

Survey

Second Quarter 1998

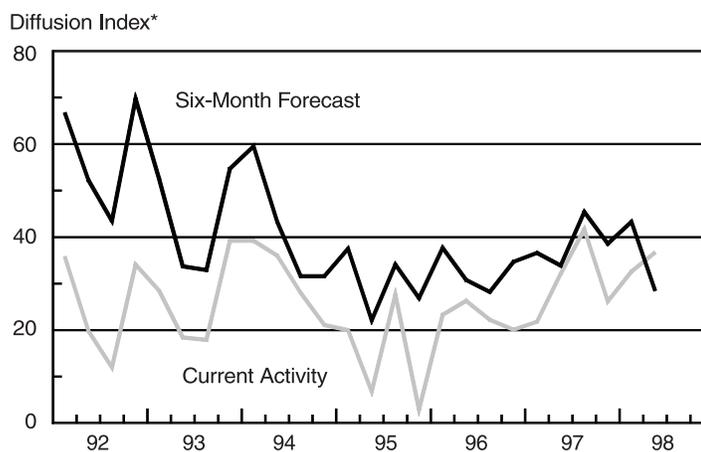
Respondents to the *South Jersey Business Survey* report continued growth at their firms in the second quarter. However, they perceived a modest slowing of the economy at the state and regional levels and a more pronounced slowing at the national level in the second quarter. Firms' expectations for the next six months suggest the pace of growth will slow for their own businesses as well.

### Current Indicators of Company Performance Remain Strong

The survey's broadest measure of overall economic performance, the general activity diffusion index for individual companies, edged slightly higher in the second quarter, increasing to 36.7 from 32.6 in the first quarter (See Chart 1). Although nearly 37 percent of survey participants indicated no change in their companies' business activity compared with the first quarter, the percentage reporting increases (49 percent) remained significantly larger than the percentage reporting declines (12 percent).

Despite the increases at their own firms, South Jersey businesses polled for the survey perceive that general business activity slowed both nationally and in the state during the quarter. The index of national economic conditions dropped significantly, to 6.5 from 25.5. The index of state business activity, reflecting respondents' perception of growth in the state, declined more modestly, to 12.9 from 17.1. The regional activity indicator

**Chart 1**  
*Index of General Business Activity at Respondents' Companies South Jersey (1992-1998)*



\* Percentage of respondents indicating an increase minus percentage indicating a decrease. Indexes represent firms' responses to question 1.4 in the accompanying table.

showed a similar decline. The survey was taken before the release of the preliminary estimate of real gross domestic product (GDP), which showed GDP growth slowed to 1.4 percent in the second quarter from 5.5 percent in the first.

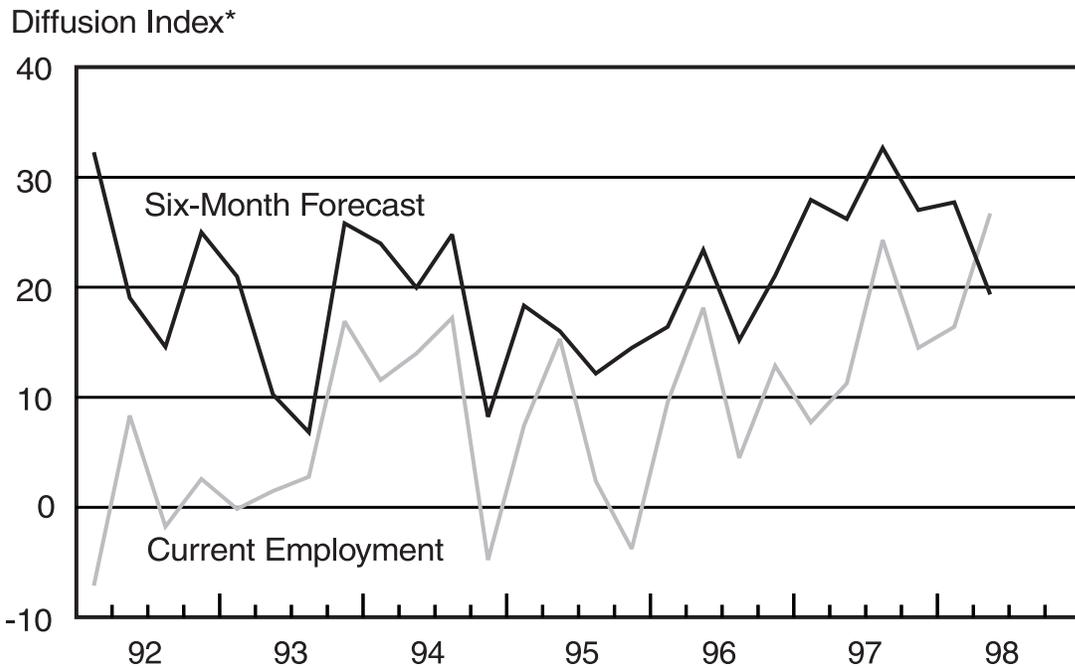
When asked about their own companies' sales performance during the second quarter, 54 percent reported higher sales, compared with the first quarter, and 16 percent reported lower sales. The current sales index increased slightly, to 38.5 from 34.8. Respondents in all major sectors reported continued

increases in sales and shipments during the quarter.

Survey respondents also reported continued employment growth at their businesses. Of the firms polled, 33 percent reported increases in employment and only 6 percent reported decreases. The current employment index increased from 16.4 to 26.6, its highest reading in

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**Chart 2**  
***Current and Future Employment***  
**South Jersey (1992-1998)**



\* Percentage of respondents indicating an increase minus percentage indicating a decrease. Indexes represent firms' responses to question 2.4 in the accompanying table.

the history of the series (see Chart 2).

The survey's cost indexes also increased in the second quarter. Eighteen percent of businesses reported higher costs for raw materials, and 43 percent reported higher costs for labor. The associated indexes also rose: the prices paid index (reflecting prices for raw materials) increased from 7.1 to 11.0; the cost of wages index increased from 33.4 to 42.2; and the benefits cost index increased from 29.8 to 33.0. For prices received for the firms' own goods and services, the percentage of firms reporting higher prices (17 percent) is only somewhat higher than the percentage reporting declines (8 percent). But the prices received index also rose from

-1.4 to 9.1.

#### **Forecasts Diminish Appreciably**

The firms in the survey expect a flattening of growth in the national, state, and regional economies over the second half of 1998. Although firms remain more optimistic about their own business, expectations are diminished from what they were in previous surveys. More than 40 percent of the firms expect increases in business activity for their companies over the next six months; only 12 percent expect declines. However, the future activity index for respondents' companies fell from 43.3 to 28.5, near its lowest reading since 1996 (see Chart 1). The fall in expectations was more

evident in responses about the national and state economies. Although 40 percent expect improvement for their own companies over the next six months, only 20 percent expect improvements in the region's economy, 17 percent expect improvements in the state's, and 19 percent in the nation's.

Waning optimism was also evident in the executives' forecasts for future employment. The future employment index fell from 27.6 to 19.3, its lowest reading since the third quarter of 1996 (see Chart 2). Weekly hours of employees are, on balance, expected to increase: more firms expect increases in hours (27 percent) than decreases (13 percent). Nearly 43 percent of

respondents expect to pay more for wages, and 38 percent expect the cost of benefits to increase.

**Summary**

Although preliminary indicators for the national economy suggest growth slowed in the second quarter, most

indicators of business activity at individual companies in the *South Jersey Business Survey* suggest healthy growth for the region’s economy in the second quarter. One-third of respondents indicate a rise in employment during the quarter. However, respondents suggest that growth may slow at their firms in

the second half of the year. Fewer firms expect a rise in sales over the next six months, and fewer firms report plans to hire additional workers, compared with expectations in previous surveys.

**South Jersey Business Survey**  
(Second Quarter 1998)

	Compared with 3 Months Ago				6 Months from Now			
	Lower	Same	Higher	Diffusion Index	Lower	Same	Higher	Diffusion Index
1. What is your evaluation of the level of general business activity?								
1.1 in the nation?	18.3	50.5	24.8	6.5	18.3	55.0	19.3	1.0
1.2 in the state?	11.9	58.7	24.8	12.9	18.3	60.6	16.5	-1.8
1.3 in the region?	14.7	52.3	27.5	12.8	16.5	57.8	20.2	3.7
1.4 at your company?	11.9	36.7	48.6	36.7	11.9	45.0	40.4	28.5
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers please use shipments)	15.6	22.0	54.1	38.5	10.1	27.5	51.4	41.3
2.2 Inventories of the products you sell	11.9	29.4	14.7	2.8	12.8	32.1	11.9	-0.9
2.3 Customer traffic or inquiries	13.8	33.0	45.0	31.2	9.2	40.4	41.3	32.1
2.4 Number of employees	6.4	56.9	33.0	26.6	12.8	49.5	32.1	19.3
2.5 Weekly hours	6.4	56.9	31.2	24.8	12.8	54.1	26.6	13.8
2.6 Prices actually received	8.3	66.1	17.4	9.1	6.4	67.0	17.4	11.0
2.7 Prices paid for raw materials (other than labor or energy)	7.3	45.0	18.3	11.0	3.7	45.9	21.1	17.4
2.8 Cost of Labor								
2.8.1 Wages	0.9	52.3	43.1	42.2	0.9	50.5	43.1	42.2
2.8.2 Benefits	0.9	60.6	33.9	33.0	0.9	55.0	37.6	36.7
2.9 Spending for:								
2.9.1 Acquisition of new space	5.5	64.2	17.4	11.9	6.4	55.0	23.9	17.5
2.9.2 Renovations of existing space	6.4	66.1	15.6	9.2	5.5	63.3	18.3	12.8
2.9.3 Equipment	2.8	56.9	36.7	33.9	5.5	50.5	38.5	33.0

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.

