

SOUTH JERSEY

Federal Reserve Bank
of Philadelphia

B U S I N E S S

Survey

Second Quarter 2000

Although their business continued to expand, firms responding to the *South Jersey Business Survey* experienced a slower pace of growth in the second quarter than in the first quarter. All the survey's business indicators fell substantially from their readings in the first quarter. Perceptions of the national and regional economies were decidedly negative, and expectations for the next six months also deteriorated.

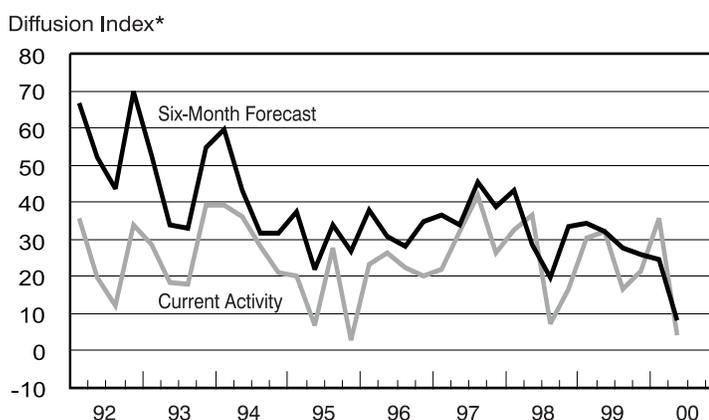
Current Indicators Decline

The survey's broadest indicator of business performance, the index of general business activity at individual companies, fell from 35.5 in the first quarter to 4.1 in the second quarter (see Chart). Nearly 46 percent of the firms indicated no change in the level of activity, and the percentage reporting increases (28 percent) was only slightly greater than the percentage reporting decreases (24 percent). In the previous quarter, 51 percent reported increases.

The survey also suggests a substantial change in respondents' perceptions of economic growth in the nation, state, and region. Only 11 percent of the firms perceived an improvement in the U.S. economy during the second quarter; only 14 percent perceived an improvement in the region's economy. The current activity index for the national economy fell from 18.9 in the first quarter to -20.3 in the second, and the index for the regional economy fell from 18.9 to -10.8.

The slowing of growth is also evident in firms' responses regarding sales. The current sales index decreased markedly from 42.3 in the first quarter to 14.9 in the

Chart
Index of General Business Activity at Respondents' Companies
South Jersey (1992-2000)



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

second. Nearly 37 percent of the firms reported increases in sales during the quarter, but nearly 56 percent reported increases in the previous survey.

Firms' responses about employment growth did not show the same deterioration as other indicators. The current employment index fell modestly, from 23.3 to 17.6. Over 28 percent of the firms reported adding workers to their payrolls. Additionally, the percentage of firms reporting an increase in weekly hours (24 percent) continued to exceed the percentage reporting a decrease (14 percent).

Cost Pressures Evident But Product Prices Steady

Despite increases in the prices paid for raw materials and labor, firms reported

steady prices. The current prices paid index fell marginally from 30.0 in the first quarter to 25.6 in the second quarter. Twenty-seven percent of the firms reported paying higher prices for raw materials during the second quarter. Over 47 percent of the firms reported higher costs for wages, and 42 percent reported higher benefits costs. The current indexes for wages and benefits, however, were virtually unchanged from the levels recorded in the first quarter. The current prices received index, however, suggests overall steady prices. Nearly 18 percent of the firms reported receiving higher prices

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for their own goods, but 16 percent reported receiving lower prices. The current prices received index declined from 18.9 in the first quarter to 1.4 in the second quarter, its lowest reading since the third quarter of 1998.

Expectations Have Diminished

The future activity index for individual companies declined from 24.5 in the first quarter to 8.1 in the second quarter (see Chart). Although 49 percent of firms expect no change in their business activity over

the next six months, the percentage expecting growth (28 percent) only moderately exceeds the percentage expecting declines (20 percent). Indexes for expected sales and customer traffic showed similar declines.

The percentage of firms expecting increases in employment over the next six months declined from 39 percent in the first quarter to 24 percent in the second. The future employment index declined accordingly: from 33.3 in the first quarter to 6.8 in the second quarter.

Summary

Firms in South Jersey reported a slowing of growth during the second quarter. Respondents indicated a notable slowdown in sales for their businesses and also perceived a slowing in growth in the nation, state, and region. Cost pressures continue from both higher prices of purchased inputs and higher wages and benefits, but prices of final goods remain near steady.

South Jersey Business Survey

(Second Quarter 2000)

	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?	31.1	58.1	10.8	-20.3	27.0	59.5	12.2	-14.8
1.2 in the state?	23.0	64.9	12.2	-10.8	24.3	58.1	16.2	-8.1
1.3 in the region?	24.3	60.8	13.5	-10.8	25.7	58.1	13.5	-12.2
1.4 at your company?	24.3	45.9	28.4	4.1	20.3	48.6	28.4	8.1
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers please use shipments)	21.6	39.2	36.5	14.9	18.9	40.5	33.8	14.9
2.2 Inventories of the products you sell	13.5	41.9	16.2	2.7	8.1	47.3	17.6	9.5
2.3 Customer traffic or inquiries	23.0	47.3	28.4	5.4	10.8	60.8	24.3	13.5
2.4 Number of employees	10.8	59.5	28.4	17.6	6.8	62.2	24.3	6.8
2.5 Weekly hours	13.5	58.1	24.3	10.8	9.5	62.2	20.3	10.8
2.6 Prices actually received	16.2	58.1	17.6	1.4	6.8	68.9	13.5	6.7
2.7 Prices paid for raw materials (other than labor or energy)	1.4	51.4	27.0	25.6	0.0	43.2	29.7	29.7
2.8 Cost of Labor								
2.8.1 Wages	0.0	48.6	47.3	47.3	0.0	47.3	44.6	44.6
2.8.2 Benefits	0.0	54.1	41.9	41.9	0.0	52.7	37.8	37.8
2.9 Spending for:								
2.9.1 Acquisition of new space	12.2	66.2	9.5	-2.7	6.8	64.9	12.2	5.4
2.9.2 Renovations of existing space	8.1	55.4	23.0	14.9	5.4	52.7	25.7	20.3
2.9.3 Equipment	8.1	55.4	27.0	18.9	5.4	55.4	27.0	12.2

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.