

# SOUTH JERSEY

B U S I N E S S

Federal Reserve Bank  
of Philadelphia

Survey

## Fourth Quarter 2000

Economic conditions deteriorated at the end of 2000, according to businesses polled for the fourth quarter *South Jersey Business Survey*. Most indicators of fourth-quarter business conditions declined sharply from the previous quarter. Perceptions of economic growth in the national and regional economies also deteriorated markedly. On balance, however, expectations for growth over the next six months did not show the same degree of decline, and individual company expectations remain generally optimistic.

### Current Indicators Decline Markedly

The survey's broadest indicator of business performance, the index of general business activity at individual companies, fell from 11.6 in the third quarter to -11.7 in the fourth quarter, the lowest reading since the beginning of the survey in 1991 (see Chart). More firms reported decreases in activity (38 percent) than reported increases (27 percent), and nearly 34 percent reported no change.

Survey respondents also indicated a broad-based perception of decline in the national, state, and regional economies during the fourth quarter. Only 4 percent of firms surveyed perceived an improvement in the nation's economy during the fourth quarter; over 65 percent of those polled perceived deterioration. The current activity index for the national economy, which was already low in the third quarter, fell from -12.8 to -61.6.

Indexes of perceived changes in the state and regional economies showed a parallel decline.

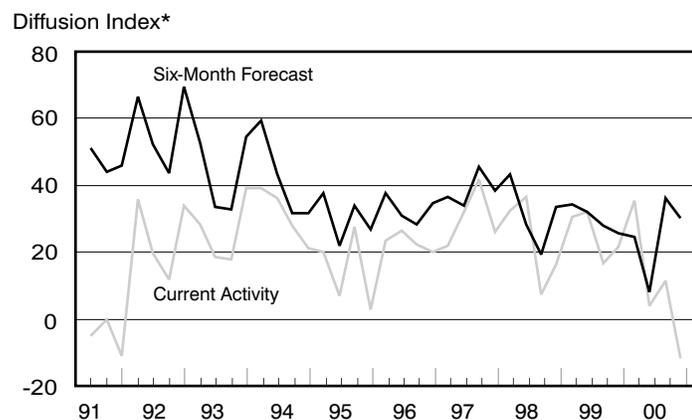
A sharp deterioration of conditions was also evident in firms' responses regarding sales (or shipments) during the fourth quarter. The current sales index fell from 27.9 in the third quarter to -11.6. Survey responses regarding sales show a wide range of experience among firms, with 28 percent reporting

increases, 40 percent reporting declines, and 26 percent reporting activity level with the third quarter.

Firms' responses regarding employment did not show the same degree of deterioration as the responses for other current indicators. The percentage of firms reporting increases in employment (19 percent) was higher than the percentage reporting decreases (17 percent) for the 20th consecutive quarter.

### Chart

**Index of General Business Activity at Respondents' Companies  
South Jersey (1991-2000)**



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

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The current employment index, however, decreased from 15.1 in the third quarter to 1.2. Additionally, the percentage of firms reporting increases in weekly hours (21 percent) was slightly larger than the percentage reporting decreases (19 percent).

**Cost Pressures Still Evident in Prices**

Higher costs for labor and raw materials were evident in fourth-quarter survey responses. Thirty-six percent of firms reported higher prices for raw materials (excluding energy); only 5 percent reported lower prices. The current prices paid index increased from 19.8 in the third quarter to 31.3 in the fourth quarter. Nearly 47 percent of firms reported higher wage costs in the fourth quarter; 48 percent reported higher benefits costs. Responses to a special question regarding the most serious problems facing South Jersey businesses suggest that labor costs, including the cost of hiring qualified workers, are a significant burden (see Table 1). The percentage of firms that believed regulatory burdens had increased last year (20 percent) exceeded the percentage that thought regulatory burdens had eased (11 percent).

A notable share of respondents (22 percent) reported higher prices of final goods in the fourth quarter. This was about the same percentage that reported higher prices in the third quarter. Fewer firms, however, reported lower prices. The current prices received index increased from 7.0 in the third quarter to 14.0 in the fourth quarter.

**Forecasts Remain Optimistic Despite Slower Business**

The future activity index for individual companies declined only moderately, from 36.1 in the third quarter to 30.2 in the fourth quarter (see Chart). Nearly 47 percent of firms surveyed expect growth in business activity over

**Table 1**

What are the most important problems your business is facing at this time?	Percentage of firms choosing specified problem*
Labor Costs — Benefits .....	44.2
Labor Costs — Wages .....	37.2
Labor — Quality .....	33.7
Competition — Domestic .....	31.4
Labor — Shortage .....	25.6
Government — Regulation .....	24.4
Cost of Raw Materials .....	11.6
Credit Availability .....	5.8
Credit Cost .....	2.3
Shortage of Raw Materials .....	2.3
Competition — Foreign .....	2.3

\* The percentages sum to more than 100% because each participant could cite up to three problems.

the first half of 2001; only 16 percent expect deterioration. Interestingly, more firms expect deterioration in the national, state, and regional economies over the first half of 2001 than expect improvement.

The respondents' confidence in growth of their own companies was most evident in responses regarding employment plans. Nearly 33 percent of the firms surveyed expect growth in their payrolls over the next six months, and only 7 percent expect to make cuts. The future employment index, at 6.8, was the same as in the previous two quarters.

**Summary**

South Jersey businesses reported a marked halt to growth in the fourth

quarter of 2000. For the first time since 1991, more firms reported declines in business activity during the quarter than reported increases. Despite the deterioration in general business conditions, employment held relatively steady: about the same percentage of firms surveyed reported declines in employment as reported increases. Surprisingly, the broad-based declines in most current indicators were not accompanied by the same deterioration in firms' expectations over the next six months. Confidence remains relatively solid among the firms surveyed inasmuch as most firms expect growth over the first half of 2001.

**South Jersey Business Survey**  
(Fourth 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?	65.1	27.9	3.5	-61.6	31.4	48.8	14.0	-17.4
1.2 in the state?	52.3	38.4	5.8	-46.5	25.6	54.7	14.0	-11.6
1.3 in the region?	55.8	33.7	9.3	-46.5	25.6	54.7	16.3	-9.3
1.4 at your company?	38.4	33.7	26.7	-11.7	16.3	33.7	46.5	30.2
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers please use shipments)	39.5	25.6	27.9	-11.6	8.1	26.7	50.0	41.9
2.2 Inventories of the products you sell	15.1	38.4	16.3	1.2	10.5	41.9	16.3	5.8
2.3 Customer traffic or inquiries	26.7	27.9	36.0	9.3	4.7	39.5	41.9	37.2
2.4 Number of employees	17.4	62.8	18.6	1.2	7.0	54.7	32.6	6.8
2.5 Weekly hours	18.6	53.5	20.9	2.3	5.8	51.2	30.2	24.4
2.6 Prices actually received	8.1	62.8	22.1	14.0	4.7	62.8	20.9	16.2
2.7 Prices paid for raw materials (other than labor or energy)	4.7	36.0	36.0	31.3	0.0	45.3	26.7	26.7
2.8 Cost of Labor								
2.8.1 Wages	2.3	46.5	46.5	44.2	0.0	41.9	47.7	47.7
2.8.2 Benefits	1.2	46.5	47.7	46.5	0.0	43.0	46.5	46.5
2.9 Spending for:								
2.9.1 Acquisition of new space	10.5	59.3	19.8	9.3	10.5	55.8	19.8	9.3
2.9.2 Renovations of existing space	7.0	64.0	20.9	13.9	12.8	44.2	31.4	18.6
2.9.3 Equipment	9.3	57.0	29.1	19.8	7.0	44.2	39.5	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.

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