



SOUTH JERSEY BUSINESS SURVEY

Second Quarter 2002

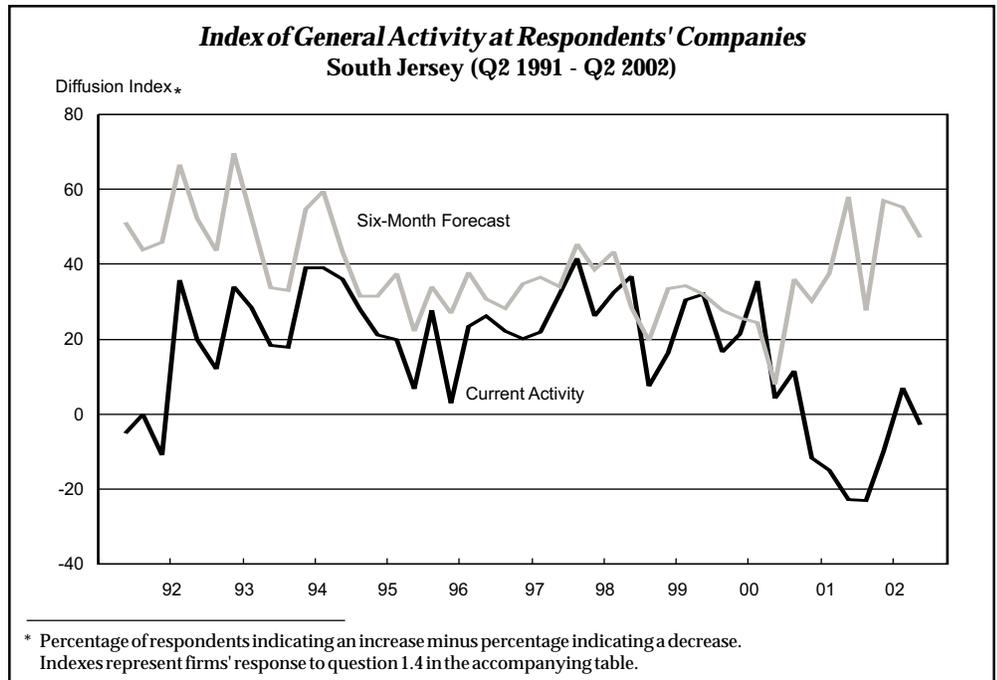
Firms responding to the *South Jersey Business Survey* indicate that business was essentially flat in the second quarter. Despite signs of recovery in last quarter's survey, about the same percentage of firms reported deterioration in business activity as reported improvement this quarter. The firms surveyed reported steady employment and a longer average workweek. Although a significant percentage reported paying higher prices for inputs, their own product prices were, on balance, lower. Although the firms' forecasts moderated from last quarter, overall expectations suggest a pickup in activity in the second half of the year.

Current Indicators Suggest No Improvement

The index of general business activity at individual companies declined from 7.1 in the first quarter to -2.9 (see chart). Over 41 percent of the respondents indicated no change in activity from the first quarter. Slightly more firms reported a decline in the level of business activity (31 percent) than reported an increase (28 percent). Indicative of the lack of overall growth among the firms surveyed, the percentage reporting an increase in sales (32 percent) was lower than the percentage reporting a decrease (34 percent). The current sales index declined from 2.3 in the first quarter to -1.5.

The businesses polled perceived that the national, state, and regional economies deteriorated in the second quarter. Only 12 percent of the firms thought the national economy improved in the second quarter; 44 percent thought it deteriorated. Similar perceptions were recorded for the state and regional economies. The general activity index for the state economy fell appreciably from -15.3 in the first quarter to -33.8. The comparable index for the region fell less dramatically, from -14.1 to -22.1.

Although there were no signs of improvement in the survey's broad indicators for the second quarter, there was some improvement in the employment situation. Although the firms did not report an overall expansion of employment, the employment index increased from -11.8 to zero. The index



had been negative for the four previous quarters. Although 59 percent of the firms reported no change in the number of workers, 19 percent reported increases in employment, the same percentage that reported decreases. The average workweek, however, increased this quarter, with more firms reporting an increase (21 percent) than a decrease (9 percent). The current workweek index increased from 2.3 to 11.8.

For Many, Prices Decline Despite Higher Costs

Nearly 18 percent of the firms polled reported lower prices for their products in the second quarter; only 4 percent reported higher prices. The current prices received index declined from -11.8 to -13.2, its fourth consecutive negative reading. While competition and sluggish conditions may be behind the downward pressure on firms' own product prices, many firms continue to report higher production costs. Almost 21 percent of the firms reported higher prices of raw materials and other inputs this quarter; only 3 percent reported price declines. The current prices paid index increased

from 15.3 in the first quarter to 17.7. Wage costs rose at 25 percent of the firms, and 34 percent reported higher benefit costs.

Second-Half Forecasts Remain Generally Optimistic

South Jersey businesses remain generally optimistic about future growth, although most of the survey's future indicators fell back slightly in the second quarter. The index of future general activity fell from 55.3 in the first quarter to 47.1, but it remains at a relatively high level (see chart). A similar decline was recorded in the indicator for future sales. A slightly larger percentage of firms expect higher inventory levels in the next six months (16 percent) than lower inventories (12 percent).

In response to special questions, firms provided information on their forecasts for benefit costs in 2003. Fifty-three percent of the firms expect total benefit costs to rise more than 10 percent in 2003. About 62 percent of the firms expect health benefit costs to rise more than 10 percent (36 percent expect them to rise more than 15 percent).

Special Question (Second Quarter 2002)

What increases or decreases in benefit costs do you anticipate in 2003?

	DECREASE				NO CHANGE	INCREASE			
	>15%	10-15%	5-10%	0-5%		0-5%	5-10%	10-15%	>15%
Total Benefit Costs	0%	2%	2%	2%	9%	8%	25%	23%	30%
Health care	0%	2%	0%	2%	11%	8%	17%	26%	36%
Non-health care	0%	2%	0%	3%	14%	29%	29%	16%	8%

Firms' employment forecasts for the next six months are less optimistic than general expectations. For example, although nearly 46 percent of the firms expect growth in sales over the next six months, only 22 percent expect a rise in their employment levels. The future employment index also dipped somewhat in the second quarter, falling from 23.5 to 13.2. Expectations for spending on capital equipment and real estate remain tempered—the indicator

for future capital spending remained near its low levels of the previous five quarters.

Summary

Although nearly all of the *South Jersey Business Survey* indicators fell from their first-quarter readings, the overall level of activity was unchanged in the second quarter. Employment steadied, following the reported losses in the surveys of the previous four

quarters. Although optimism was dampened slightly this quarter, firms remain optimistic that recovery in the national, state, and regional economies will occur in the second half of this year. Few firms expect any deterioration in their own businesses during the next six months. Forecasts for employment and future capital spending remain generally lackluster compared with the firms' overall forecasts.

South Jersey Business Survey

(Second Quarter 2002)

	Compared With 3 Months Ago				6 Months from Now			
	Lower	Same	Higher	Diffusion Index	Lower	Same	Higher	Diffusion Index
1. What is your assessment of the level of general business activity?								
1.1 in the nation?	44.1	41.2	11.8	-32.4	5.9	38.2	42.7	36.8
1.2 in the state?	42.7	45.6	8.8	-33.8	11.8	36.8	39.7	28.0
1.3 in the region?	38.2	42.6	16.2	-22.1	8.8	39.7	41.2	32.4
1.4 at your company?	30.9	41.2	27.9	-2.9	7.4	32.4	54.4	47.1
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers report shipments)	33.8	27.9	32.4	-1.5	8.8	26.5	45.6	36.8
2.2 Inventories of the products you sell	17.7	38.2	13.2	-4.4	11.8	32.4	16.2	4.4
2.3 Customer traffic or inquiries	30.9	27.9	39.7	8.8	8.8	36.8	44.1	35.3
2.4 Number of employees	19.1	58.8	19.1	0.0	8.8	52.9	22.1	13.2
2.5 Weekly hours	8.8	64.7	20.6	11.8	2.9	54.4	27.9	25.0
2.6 Prices actually received	17.7	69.1	4.4	-13.2	8.8	58.8	13.2	4.4
2.7 Prices paid for raw materials (other than labor or energy)	2.9	52.9	20.6	17.7	0	48.5	20.6	20.6
2.8 Cost of Labor								
2.8.1 Wages	1.5	72.1	25.0	23.5	2.9	50.0	36.8	33.8
2.8.2 Benefits	2.9	61.8	33.8	30.9	1.5	41.2	47.1	45.6
2.9 Spending for:								
2.9.1 Acquisition of new space	11.8	58.8	8.8	-2.9	10.3	48.5	16.2	5.9
2.9.2 Renovation of existing space	10.3	50.0	16.2	5.9	8.8	50.0	11.8	2.9
2.9.3 Equipment	13.2	61.8	17.7	4.4	10.3	51.5	26.5	16.2

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.