



SOUTH JERSEY BUSINESS SURVEY

Fourth Quarter 2002

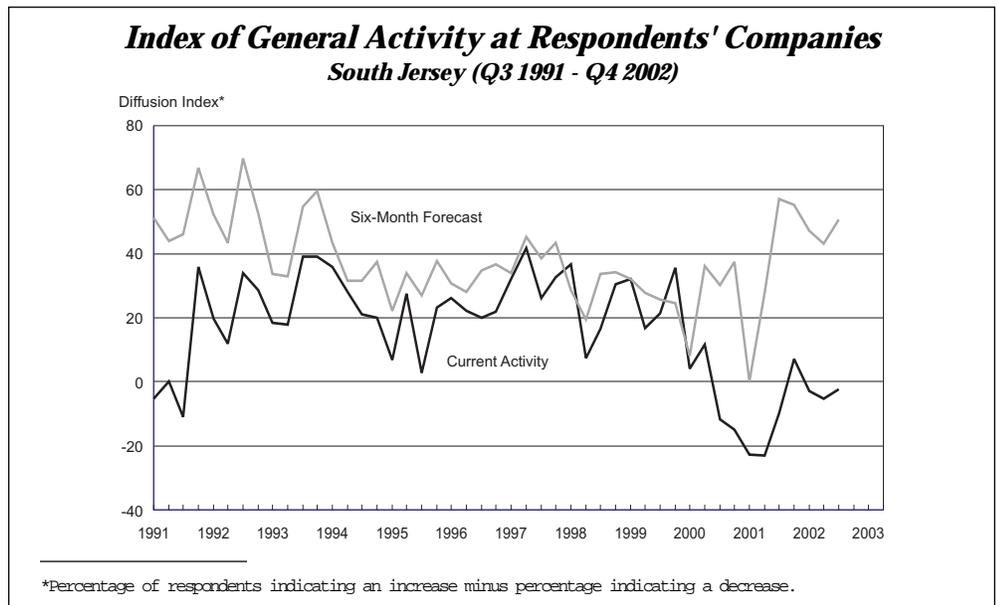
Economic activity at firms responding to the *South Jersey Business Survey* was nearly flat in the fourth quarter. Indicators for general business activity and sales at individual companies improved only slightly from the third quarter and continue to suggest no overall growth. Employment among the surveyed firms was also little changed from the third quarter. Expectations for the next six months, however, improved from their readings in the previous quarter, and a significant share of firms indicated they would increase employment in the first half of 2003.

Current Indicators Suggest No Growth

The index of general business activity at individual companies improved slightly from -5.2 in the third quarter to -2.4 in the fourth quarter (see Chart). Slightly more firms reported a decline in the level of business activity (30 percent) than reported an increase (28 percent); 40 percent of the respondents indicated no change in activity from the third quarter. Indicative of the lack of any significant growth among the surveyed firms were the results on sales in the fourth quarter. The percentage of firms reporting an increase in sales (31 percent) was only marginally higher than the percentage reporting a decrease (30 percent). The current sales index increased marginally from -1.7 in the third quarter to 1.2 in the fourth quarter.

Firms' responses suggest there was still no perception of a turnaround in the economy in the fourth quarter. Most firms perceived that declines had continued in the U.S., the state, and the region during the fourth quarter but the declines were not as large as in the previous several quarters. For example, although the index of general activity for the regional economy remained negative for the fourth quarter, it improved from a reading of -37.9 in the third quarter to -28.9 in the fourth quarter.

The firms' responses indicate little overall employment growth. Only slightly more firms



reported an increase in employment (22 percent) than reported declines (18 percent). The current employment index, however, increased slightly from -3.5 to 3.6, its first positive reading in seven quarters.

Higher Labor Costs Indicated

Nearly 22 percent of the firms surveyed reported decreases in the prices of their final products; 16 percent reported higher prices. For the sixth consecutive quarter, the index of prices received remained negative, although it improved from -13.8 in the third quarter to -6.0 in the fourth quarter. Many firms reported higher prices for nonenergy raw materials (21 percent); only 4 percent reported paying lower prices. Wage costs rose at over 29 percent of the firms in the fourth quarter and 49 percent of the firms reported higher benefit costs. More than 50 percent of the respondents cited higher

benefit costs as one of the most important problems facing South Jersey (see Special Questions). Compared with surveys conducted in previous years, this survey mentioned labor cost and quality more frequently as significant problems at the end of 2002.

Expectations Remain Optimistic

South Jersey businesses remain generally optimistic about future growth for their own companies, as well as growth in the economy generally. Most of the survey's six-month outlook indicators improved in the fourth quarter. The future general activity index for individual businesses increased from 43.1 in the third quarter to 50.6 in the fourth quarter, and the index continued at a relatively high level (see Chart on front page). A similar increase was recorded in the indicator for future sales. Firms also remained optimistic that

employment will increase over the next six months. Nearly 39 percent of the firms expect to hire workers in the first half of the year; only 7 percent plan reductions. For the entire year, 64 percent of the firms indicated that they expect to add workers (see Special Questions). Half of those expecting to add workers said they would do so in the first quarter of the year.

Summary

Survey indicators showed only scant evidence of improvement in general business conditions during the fourth quarter of 2002. Only slightly more firms reported increases in sales of their companies' products than reported declines. The firms also reported little growth in employment at their businesses for the quarter. Firms' expectations for the future remain generally optimistic, however. The South Jersey businesses polled said they expect business activity to increase in the nation, the state, and the region in the first half of the year, and almost two-thirds of the firms indicated plans to increase employment sometime during the year.

Special Questions (Fourth Quarter 2002)

Which of the following statements best describes your current employment plans for 2003?

We are planning additions to our workforce next year.	64%
We are planning no change to our workforce next year.	31%
We are planning reductions to our workforce next year.	5%

If planning additions to the workforce in 2003, additions are expected to occur in the:

First Quarter	50%
Second Quarter	47%
Third Quarter	35%
Fourth Quarter	27%

Note: Numbers do not add to 100 because firms could indicate more than one quarter in which an increase would occur.

What are the most important problems your firm is facing at this time?

Percentage of Firms Choosing Specified Problem*
(previous years in parenthesis)

		(2001)	(2000)
Labor Costs—Benefits	53%	40%	22%
Labor—Quality	49%	30%	31%
Competition—Domestic	27%	42%	45%
Government Regulation	21%	25%	40%
Labor—Shortages	17%	10%	16%
Labor Costs—Wages	17%	25%	40%
Competition—Foreign	9%	4%	5%
Credit Availability	5%	8%	10%
Credit Costs	5%	4%	0%
Shortage of Raw Materials	0%	1%	7%

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

South Jersey Business Survey

(Fourth Quarter 2002)

1. What is your assessment of the level of general business activity?	Compared With 3 Months Ago				6 Months from Now			
	Lower	Same	Higher	Diffusion Index	Lower	Same	Higher	Diffusion Index
1.1 in the nation?	43.4	48.2	7.2	-36.1	13.3	33.7	47.0	33.7
1.2 in the state?	42.2	2.0	6.0	-36.2	13.3	36.1	44.6	31.3
1.3 in the region?	41.0	45.8	12.1	-28.9	10.8	33.7	49.4	38.6
1.4 at your company?	30.1	39.8	27.7	-2.4	7.2	27.7	57.8	50.6
2. Please tell us how the following business indicators are behaving at your company?								
2.1 Sales (Manufacturers report shipments)	30.1	31.3	31.3	1.2	6.0	25.3	56.6	50.6
2.2 Inventories of the products you sell	16.9	33.7	12.1	-4.8	8.4	39.8	10.8	2.4
2.3 Customer traffic or inquiries	30.1	31.3	32.5	2.4	7.2	37.4	44.6	37.4
2.4 Number of employees	18.1	56.6	21.7	3.6	7.2	45.8	38.6	31.3
2.5 Weekly hours	12.1	66.3	15.7	3.6	3.6	54.2	31.3	27.7
2.6 Prices actually received	21.7	55.4	15.7	-6.0	3.6	57.8	27.7	24.1
2.7 Prices paid for raw materials (other than labor or energy)	3.6	44.6	20.5	16.9	0.0	32.5	34.9	34.9
2.8 Cost of Labor								
2.8.1 Wages	4.8	63.9	28.9	24.1	1.2	48.2	45.8	44.6
2.8.2 Benefits	3.6	45.8	49.2	45.6	2.4	37.4	55.4	53.0
2.9 Spending for:								
2.9.1 Acquisition of new space	12.1	56.6	14.5	2.4	6.0	57.8	18.1	12.1
2.9.2 Renovation of existing space	14.5	60.2	8.4	-6.0	7.2	55.4	19.3	12.1
2.9.3 Equipment	9.6	66.3	18.1	8.4	3.6	63.9	27.7	24.1

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.