



SOUTH JERSEY BUSINESS SURVEY

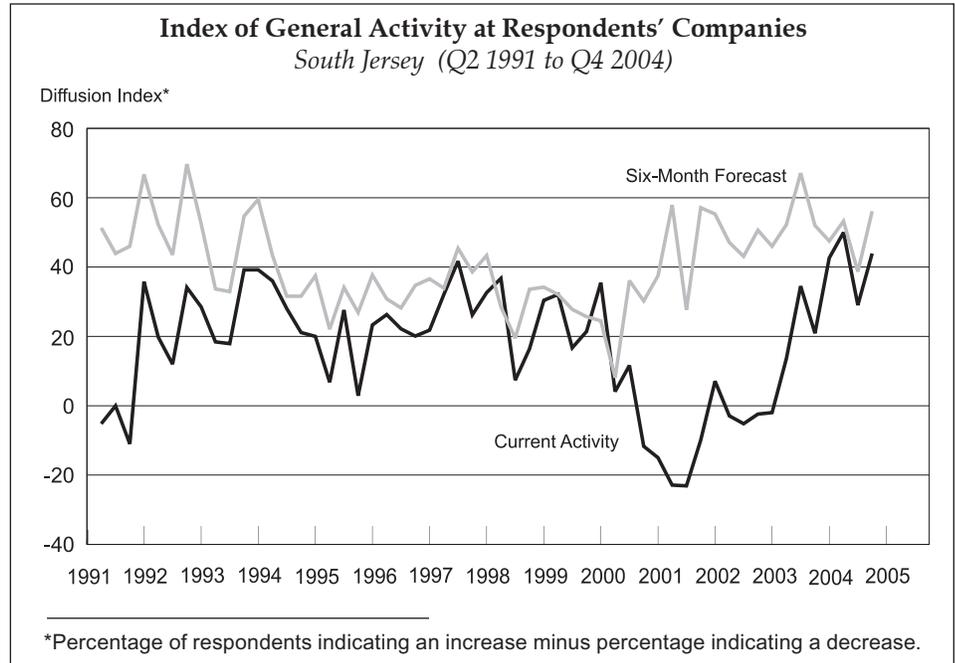
Fourth Quarter 2004

Firms responding to the *South Jersey Business Survey* reported an improvement in business conditions in the fourth quarter of 2004. Indicators for general business activity and sales at individual companies remained positive and improved over readings in the third quarter. A larger percentage of firms also perceived improvement in the national, state, and regional economies at the end of 2004. About one-third of the surveyed firms reported increases in employment during the fourth quarter. Business executives' expectations for the next six months show greater optimism about the future.

Current Indicators Are Higher in the Fourth Quarter

The survey's broadest measure of performance, the index of general activity at individual companies, increased from 29.0 in the third quarter to 43.9 in the fourth quarter. The index has now remained positive for seven consecutive quarters, and it is at its highest reading since the second quarter of 2004 and its second highest reading in the history of the survey (see Chart). Over 56 percent of the firms reported higher levels of activity in the fourth quarter compared to the previous quarter; 12 percent reported lower levels of activity. The survey's indicator for sales paralleled the increase in general activity by increasing about 14 points. Fifty-one percent of the firms reported higher sales in the fourth quarter compared with 44 percent in the third quarter.

In addition to reported improvement in individual company performance, firms perceived that the economies of the region, state, and nation had improved. Forty-six percent said that the U.S. economy im-



proved in the fourth quarter, compared with 31 percent who answered the same question in the third quarter. Percentages of firms that perceived improvement in the state and region also edged higher in the fourth quarter.

The indicator for current employment showed improvement in the fourth quarter. Thirty-four percent of the firms indicated higher employment in the fourth quarter compared with 29 percent in the third quarter. The current employment index increased from 14.5 to 24.4, its highest reading since 1999. On balance, firms also reported higher average work hours in the fourth quarter.

Firms Report Higher Costs

A high percentage of firms (39 percent) reported higher prices for raw materials, although that was lower than the 45 percent that reported higher prices in

the third quarter. The prices paid index remained at a high reading, although it fell three points. Costs of wages rose at 44 percent of the firms; benefit costs rose at 59 percent. More firms reported increases in prices of their own products (22 percent) than reported decreases (5 percent), but the prices received index fell slightly, from 19.4 to 17.1.

In a special question we have asked South Jersey businesses at the end of every year, firms indicated that labor issues were among the most important problems facing their businesses (see Special Question). For the third consecutive year, firms cited benefit costs as the top concern, followed by domestic competition and labor quality.

Expectations Improve

Expectations for the next six months are generally optimistic among those

surveyed. The future general activity index for individual companies increased from 38.7 in the third quarter to 56.1, its highest reading in five quarters (see Chart). The percentage of firms expecting an improvement in their own business over the next six months (61 percent) continued to exceed the percentage expecting a decline (5 percent). Other future indicators increased this month. The future expected sales index increased 11 points, and the future employment index increased eight points. The percentage of firms expecting employment increases over the next six months was 44 percent, compared with 36 percent in the third quarter.

Summary

According to the latest *South Jersey Business Survey*, economic conditions showed marked improvement in the final quarter of 2004. The survey's broadest measure of business conditions was positive and higher than in the third quarter, suggesting a faster pace of growth. Thirty-four percent of firms

| Special Question (Fourth Quarter 2004) | | | | |
|------------------------------------------------------------------------|-------|------|------|------|
| What are the most important problems your firm is facing at this time? | | | | |
| Percentage of Firms Choosing Specified Problem* | | | | |
| | 2004 | 2003 | 2002 | 2001 |
| Labor Costs—Wages | 17.5% | 26% | 17% | 25% |
| Labor Costs—Benefits | 60.0% | 67% | 53% | 40% |
| Labor—Quality | 27.5% | 35% | 49% | 30% |
| Labor—Shortages | 12.5% | 11% | 17% | 10% |
| Credit Cost | 2.5% | 0% | 5% | 4% |
| Credit Availability | 5.0% | 4% | 5% | 8% |
| Cost of Raw Materials | 12.5% | 13% | NA | NA |
| Shortage of Raw Materials | 7.5% | 2% | 0% | 1% |
| Competition—Foreign | 10.0% | 13% | 9% | 4% |
| Competition—Domestic | 30.0% | 39% | 27% | 42% |
| Government Regulation | 25.0% | 26% | 21% | 25% |

* Totals sum to more than 100 percent because each participant could cite up to three problems.

reported employment growth in the fourth quarter, and 44 percent reported plans to hire additional workers over the next six months. Survey respondents

expect continued expansion for their businesses over the next six months, as well as expansion for the nation, state, and region over the first half of 2005.

South Jersey Business Survey (Fourth Quarter 2004)

| | 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? | 9.8 | 43.9 | 46.3 | 36.6 | 9.8 | 39.0 | 43.9 | 34.1 |
| 1.2 in the state? | 7.3 | 58.5 | 34.1 | 26.8 | 7.3 | 41.5 | 43.9 | 36.6 |
| 1.3 in the region? | 9.8 | 41.5 | 46.3 | 36.6 | 7.3 | 26.8 | 56.1 | 48.8 |
| 1.4 at your company? | 12.2 | 29.3 | 56.1 | 43.9 | 4.9 | 24.4 | 61.0 | 56.1 |
| 2. Please tell us how the following business indicators are behaving at your company? | | | | | | | | |
| 2.1 Sales (Manufacturers report shipments) | 9.8 | 31.7 | 51.2 | 41.5 | 9.8 | 19.5 | 56.1 | 46.3 |
| 2.2 Inventories of the products you sell | 4.9 | 39.0 | 14.6 | 9.8 | 7.3 | 26.8 | 17.1 | 9.8 |
| 2.3 Customer traffic or inquiries | 12.2 | 26.8 | 53.7 | 41.5 | 7.3 | 31.7 | 46.3 | 39.0 |
| 2.4 Number of employees | 9.8 | 53.7 | 34.1 | 24.4 | 4.9 | 41.5 | 43.9 | 39.0 |
| 2.5 Weekly hours | 7.3 | 61.0 | 24.4 | 17.1 | 7.3 | 43.9 | 36.6 | 29.3 |
| 2.6 Prices actually received | 4.9 | 65.9 | 22.0 | 17.1 | 4.9 | 34.1 | 46.3 | 41.5 |
| 2.7 Prices paid for raw materials (other than labor or energy) | 0.0 | 31.7 | 39.0 | 39.0 | 2.4 | 14.6 | 46.3 | 43.9 |
| 2.8 Cost of labor | | | | | | | | |
| 2.8.1 Wages | 2.4 | 51.2 | 43.9 | 41.5 | 2.4 | 31.7 | 53.7 | 51.2 |
| 2.8.2 Benefits | 2.4 | 34.1 | 58.5 | 56.1 | 4.9 | 9.8 | 70.7 | 65.9 |
| 2.9 Spending for: | | | | | | | | |
| 2.9.1 Acquisition of new space | 9.8 | 58.5 | 17.1 | 7.3 | 9.8 | 58.5 | 12.2 | 2.4 |
| 2.9.2 Renovation of existing space | 9.8 | 51.2 | 26.8 | 17.1 | 12.2 | 58.5 | 12.2 | 0.0 |
| 2.9.3 Equipment | 7.3 | 61.0 | 29.3 | 22.0 | 7.3 | 48.8 | 34.1 | 26.8 |

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.