



SOUTH JERSEY BUSINESS SURVEY

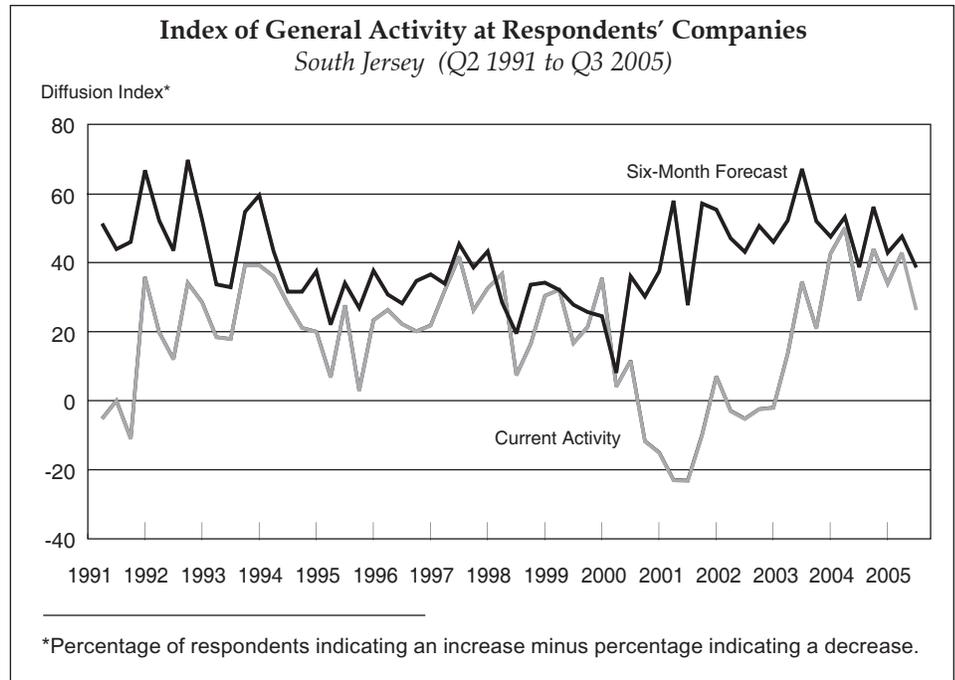
Third Quarter 2005

Firms participating in the survey reported continued growth in business during the third quarter, but the survey's indicators suggest that the pace of growth was slower than in the previous quarter. Although participants noted some slackening in the national economy, the company-level indexes point toward continued growth in the region. Business costs continued to increase, and a sizable percentage of firms reported higher prices for their own goods. Among respondents, the outlook for their own businesses over the next six months remains favorable, but they are substantially less optimistic about the state, regional, and national economies.

Current Activity Indexes Suggest Growth

The index of general activity at individual companies decreased from 42.9 in the second quarter to 26.3 in the third quarter, but the index has been positive for 10 consecutive quarters (see Chart). Over 40 percent of the firms reported higher levels of activity during the third quarter, down from 55 percent in the second quarter. The survey's indicator for sales, up slightly from the previous quarter, suggests steady growth. Firms reported less customer traffic in the third quarter, a sign of some slowing; the customer traffic diffusion index fell 18 points.

Firms perceived that economic conditions in the national economy declined significantly in the third quarter. The index of general activity for the nation (reflecting firms' assessment of the level of business activity nationally) dropped 42 points. Indicators for the region and state also fell, but modestly.



Evidence of a slower growth rate for the region's businesses this quarter was also evident in replies to questions about employment and hours worked. Twenty-eight percent of the firms reported employment increases, down from 36 percent in the second quarter. The current employment index fell nearly nine points. The workweek index remained positive but fell 10 points.

Higher Prices Reported

Firms continued to report higher business costs this quarter. The prices paid index rose 11 points, to its highest reading in the survey's 15-year history. Nearly half of the firms indicated they had paid higher prices for raw materials excluding energy; no firms reported paying lower prices for these inputs. Higher prices for the firms'

own goods were also more widespread this month.

Six-Month Outlook Is Less Optimistic

The six-month outlook of the executives surveyed was less optimistic this quarter. Indexes measuring the perception of growth of the economies of the nation, region, and state decreased significantly. The index of future activity at individual companies fell from 58.6 in the second quarter to 46.6 in the third (see Chart). Fifty-six percent of the firms expect increases in business activity over the next six months, down from 62 percent in the second quarter, and 60 percent expect increases in sales over the next six months, the same percentage as in the second quarter. The future employment index

Special Question
(Third Quarter 2005)

What has been the effect of recent higher energy prices on your firm's sales and expected sales for the next three months?

<i>Current Sales:</i>	%
Significant Negative Effect	7.1
Moderately Negative Effect	14.3
Slightly Negative Effect	25.0
No Effect	39.3
Positive	14.3
Total	100.0
<i>Expected Sales for 3 months:</i>	%
Significant Negative Effect	3.5
Moderately Negative Effect	14.3
Slightly Negative Effect	42.9
No Effect	25.0
Positive	14.3
Total	100.0

remained near its reading in the second quarter. On balance, firms also expect increases in weekly hours over the next six months.

In special questions this quarter, firms were asked about the effect of recent higher energy prices on sales and expectations. Forty-six percent of the firms indicated that higher energy prices had had some negative effect on current sales, but only 7 percent characterized the effect as significant (see the Special Question). Sixty-one percent predicted that higher energy prices would have a negative effect on sales over the next three months, but most of those thought the effect would be slight.

Summary

According to the latest *South Jersey Business Survey*, the region's economy con-

tinued to grow in the third quarter but at a slower pace. The survey's indicators for general business activity and employment remained positive but were lower than in the second quarter. Nearly half of the firms reported cost increases, although only one-third said they had raised the prices of their own products or services. Firms reported some negative effects of higher energy prices on current sales, as well as on expected sales, over the next three months. The survey's future indicators, reflecting respondents' overall outlook for the next six months, suggest an increasing concern about the future growth of the national economy. However, firms expect the regional and state economies and their own companies to grow over the next six months, but at a slower pace than they previously thought.

South Jersey Business Survey
(Third Quarter 2005)

	Compared with 3 Months Ago					6 Months From Now				
	Previous Diffusion Index	Diffusion			Previous Diffusion Index	Previous Diffusion Index	Diffusion			Previous Diffusion Index
		Lower	Same	Higher			Lower	Same	Higher	
1. What is your assessment of the level of general business activity?										
1.1 in the nation?	19.0	38.6	40.4	15.8	-22.8	23.8	36.8	38.6	14.0	-22.8
1.2 in the state?	26.2	7.0	63.2	26.3	19.3	33.3	19.3	42.1	28.1	8.8
1.3 in the region?	28.6	3.5	66.7	26.3	22.8	33.3	21.1	38.6	29.8	8.8
1.4 at your company?	42.9	14.0	43.9	40.4	26.3	47.6	8.8	33.3	47.4	38.6
2. How are the following business indicators behaving at your company?										
2.1 Sales (Manufacturers use shipments)	38.1	15.8	24.6	56.1	40.4	50.0	0.0	31.6	54.4	54.4
2.2 Inventories of the products you sell	7.1	14.0	35.1	17.5	3.5	11.9	3.5	43.9	8.8	5.3
2.3 Customer traffic or inquiries	26.6	29.8	28.1	38.6	8.8	35.7	3.5	36.8	43.9	40.4
2.4 Number of employees	33.3	3.5	64.9	28.1	24.6	31.0	3.5	47.4	35.1	31.6
2.5 Weekly hours	26.2	8.8	61.4	24.6	15.8	35.7	3.5	50.9	29.8	26.3
2.6 Prices actually received	23.8	10.5	50.9	33.3	22.8	23.8	3.5	36.8	42.1	38.6
2.7 Prices paid for raw material (other than labor or energy)	38.1	0.0	24.6	49.1	49.1	45.2	1.8	10.5	50.9	49.1
2.8 Cost of labor:										
2.8.1 Wages	45.2	1.8	52.6	42.1	40.4	50.0	0.0	17.5	66.7	66.7
2.8.2 Benefits	47.6	0.0	38.6	57.9	57.9	54.8	0.0	22.8	63.2	63.2
2.9 Spending for:										
2.9.1 Acquisition of new space	21.4	7.0	73.7	10.5	3.5	14.3	8.8	50.9	21.1	12.3
2.9.2 Renovation of existing space	11.9	3.5	56.1	24.6	21.1	16.7	3.5	43.9	22.8	19.3
2.9.3 Equipment	21.4	3.5	54.4	38.6	35.1	31.0	5.3	38.6	35.1	29.8

- The *South Jersey Business Survey* is conducted quarterly and is based on responses from members of the Chamber of Commerce of Southern New Jersey.
- Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. Items may not add to 100 because of omission by respondents.