



SOUTH JERSEY BUSINESS SURVEY

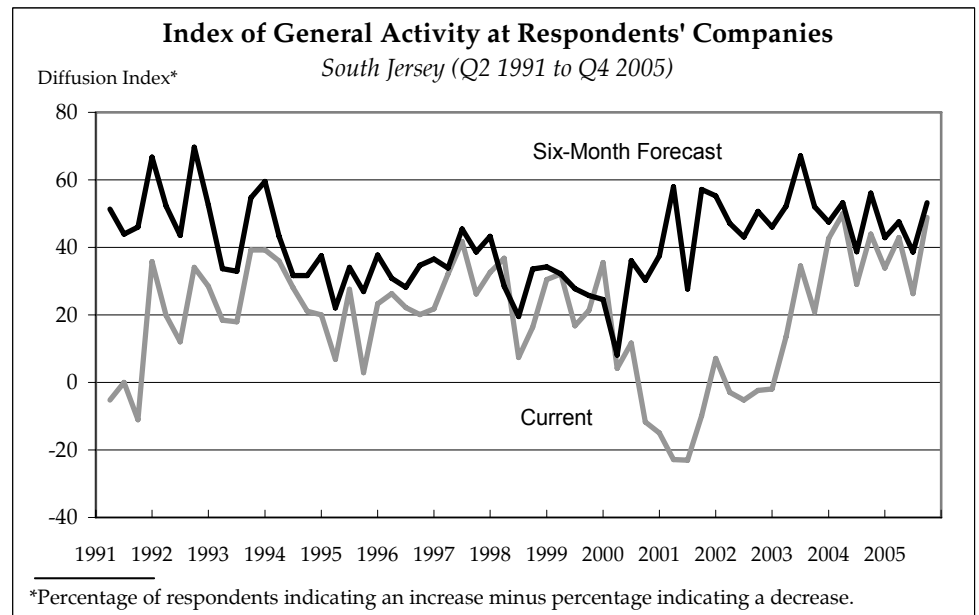
Fourth Quarter 2005

Firms in the South Jersey region indicated continued growth in business during the fourth quarter. The firms surveyed noted growth in both overall business activity and sales. The percentage of firms reporting increased employment and increased average work hours, however, was lower than in the third quarter. Firms continued to report higher business costs, but the survey's price indexes suggest less upward price pressure compared to the third quarter. The outlook for future business conditions was slightly more optimistic than in the third quarter.

Current Indicators Show Improvement

The survey's broadest measure of performance, the index of general activity at individual companies, increased from 26.3 in the third quarter to 48.9 in the fourth quarter. The index has been positive for 11 consecutive quarters, and this is the highest reading since the second quarter of 2004 (see Chart). Nearly 64 percent of respondents reported higher levels of activity in the fourth quarter compared to the previous quarter; 15 percent reported lower levels. The survey's indicator for sales remained at a high reading: Over 57 percent of the firms reported higher sales during the quarter, and 51 percent indicated an increase in customer traffic or inquiries.

Firms perceived that the economies of the region, state, and nation showed



some improvement during the quarter. Forty percent of the firms perceived improvement in the national economy, but 23 percent perceived deterioration. The general activity index for the nation (reflecting firms' assessment of the level of business activity nationally) increased from a very low reading of -22.8 in the third quarter to 17.0 this quarter.

There was moderate growth in employment among firms polled, but the percentage of firms reporting higher employment decreased from 28 percent in the third quarter to 21 percent in the fourth quarter. The current employment index remained positive but decreased from 24.6 to 12.8. Firms also reported an increase in average hours worked in the fourth quarter: The average workweek index remained posi-

tive, signifying an increase, but the index was mostly unchanged from its third-quarter reading.

Higher Costs and Prices Reported But Price Pressures Moderate

About 43 percent of the South Jersey businesses surveyed indicated higher prices for raw materials in the fourth quarter, but this was slightly lower than the 49 percent that reported higher raw material prices in the third quarter. The prices paid index for these materials decreased 13 points but remains at a relatively high reading. Forty-five percent of firms reported higher labor costs in the fourth quarter; 60 percent reported higher benefit costs.

Although 57 percent of the firms reported no change in prices for their

own products, the percentage reporting increases (28 percent) was almost two times the percentage reporting price reductions (15 percent). The prices received index, however, declined 10 points from its reading in the third quarter, suggesting less price pressure.

Expectations Improve

South Jersey firms were somewhat more optimistic about the future this quarter. The index of future activity at individual companies increased from 38.6 in the third quarter to 53.2 in the fourth quarter, the highest reading in four quarters (see Chart). Sixty-two percent of the firms expect increases in activity over the next six months, and only 9 percent expect decreases. Indexes measuring expectations for fu-

ture growth suggest that firms are significantly less optimistic about the economies of the nation, region, and state than their own company's prospects: One-quarter or less expect growth in the economies of the nation, state, and region.

Firms remain optimistic about employment growth. The future employment index remained at a relatively high reading: Nearly 45 percent of the firms expect to hire additional workers over the next six months.

Summary

According to the latest *South Jersey Business Survey*, economic conditions in the region showed some improvement in the final quarter of 2005. The survey's broadest measure of individual

company business conditions was positive and notably higher than in the third quarter, suggesting a somewhat higher rate of growth. Although only 21 percent of firms reported employment growth in the fourth quarter, which was lower than in the third quarter, 45 percent of the firms reported plans to hire additional workers over the next six months. The businesses surveyed expect continued expansion over the first half of 2006, although they were less optimistic about growth for the national, state, and regional economies.

<i>South Jersey Business Survey</i> (Fourth Quarter 2005)	Compared with 3 Months Ago					Six Months From Now				
	<i>Previous Diffusion Index</i>	Lower	Same	Higher	Diffusion Index	<i>Previous Diffusion Index</i>	Lower	Same	Higher	Diffusion Index
1. What is your assessment of the level of general business activity?										
1.1 in the nation?	-22.8	23.4	34.0	40.4	17.0	-22.8	25.5	46.8	25.5	0.0
1.2 in the state?	19.3	14.9	53.2	27.7	12.8	8.8	19.1	59.6	19.1	0.0
1.3 in the region?	22.8	14.9	53.2	29.8	14.9	8.8	21.3	57.4	17.0	-4.3
1.4 at your company?	26.3	14.9	19.1	63.8	48.9	38.6	8.5	27.7	61.7	53.2
2. Please tell us how the following business indicators are behaving at your company.		Lower	Same	Higher	Diffusion Index		Lower	Same	Higher	Diffusion Index
2.1 Sales (Manufacturers: use shipments)	40.4	17.0	25.5	57.4	40.4	54.4	8.5	23.4	68.1	59.6
2.2 Inventories of the products you sell	3.5	23.4	42.6	25.5	2.1	5.3	14.9	59.6	17.0	2.1
2.3 Customer traffic or inquiries	8.8	19.1	29.8	51.1	31.9	40.4	8.5	21.3	70.2	61.7
2.4 Number of employees	24.6	8.5	66.0	21.3	12.8	31.6	10.6	40.4	44.7	34.0
2.5 Weekly hours	15.8	14.9	53.2	29.8	14.9	26.3	6.4	51.1	40.4	34.0
2.6 Prices actually received	22.8	14.9	57.4	27.7	12.8	38.6	4.3	66.0	29.8	25.5
2.7 Prices paid for raw material (other than labor or energy)	49.1	6.4	42.6	42.6	36.2	49.1	2.1	51.1	36.2	34.0
2.8 Cost of labor:										
2.8.1 Wages	40.4	0.0	48.9	44.7	44.7	66.7	4.3	34.0	59.6	55.3
2.8.2 Benefits	57.9	0.0	34.0	59.6	59.6	63.2	2.1	29.8	66.0	63.8
2.9 Spending for:										
2.9.1 Acquisition of new space	3.5	12.8	61.7	19.1	6.4	12.3	12.8	53.2	23.4	10.6
2.9.2 Renovation of existing space	21.1	4.3	55.3	31.9	27.7	19.3	10.6	46.8	34.0	23.4
2.9.3 Equipment	35.1	0.0	66.0	31.9	31.9	29.8	8.5	63.8	25.5	17.0
<p>1. The <i>South Jersey Business Survey</i> is conducted each quarter and is based on responses from members of the Chamber of Commerce of Southern New Jersey.</p> <p>2. Diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease. Items may not add to 100 because of omission by respondents</p>										