



SOUTH JERSEY BUSINESS SURVEY

Third Quarter 2006

The economy of the South Jersey region continued to grow in the third quarter, but at a slow rate, according to firms surveyed for this quarter's *South Jersey Business Survey*. Indicators for both overall business activity and sales at respondents' companies suggest the pace of growth was sluggish and remained below the pace recorded earlier in the year. Consistent with the weakness in activity and sales, the index for employment fell in the third quarter. Firms continued to report overall higher costs, and more than one-fifth reported higher prices for their own products. The outlook for future business conditions at individual companies, although slightly improved, remained significantly less optimistic than at the beginning of the year.

Indicators Recover But Suggest Continued Modest Growth

The survey's broadest measure of performance, the index of general activity at individual companies, increased from -4.7 in the second quarter, to 13.6 in the third quarter. The index had been positive for 12 consecutive quarters before falling precipitously in the second quarter (see Chart). Nearly 32 percent of the respondents reported higher levels of business activity at their companies in the third quarter; 18 percent reported lower levels. The firms' responses about sales growth demonstrate continued, though sluggish growth. The survey's indicator for sales held steady this quarter, but the percentage of firms reporting higher sales during the quarter (27 percent) was only slightly

above that of firms reporting lower sales (23 percent).

Special questions this quarter corroborate the other evidence of continued sluggish growth in the quarter (see Special Questions). The percentage of firms reporting a drop in demand for their products in the past three months (27 percent) was only slightly greater than the percentage reporting an increase (23 percent). Also, the percentages of firms saying underlying demand for their products was less than expected and those saying it was more were the same (23 percent), suggesting that conditions are essentially unchanged from three months ago.

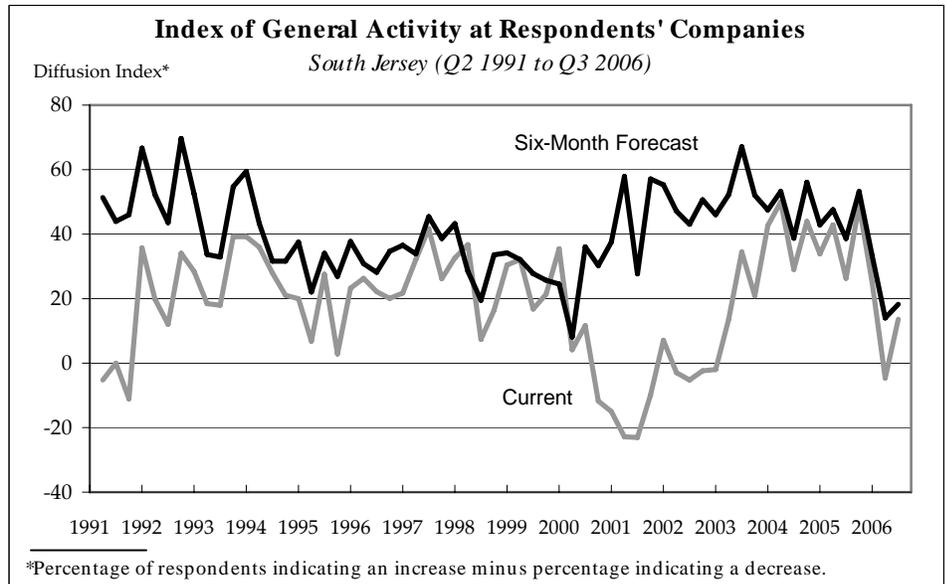
Firms, on balance, continued to perceive that conditions in the state, regional, and national economies have deteriorated. Last quarter, only 9 percent saw improvement in the national economy; 14 percent perceived growth this quarter.

The general activity index for the nation (reflecting assessments of the level of business activity nationally) fell from -14.0 in the second quarter to -31.8. Also, for the third consecutive quarter, more firms thought conditions in the region and state had deteriorated than thought they had improved.

Employment also decreased among the firms polled; the percentage of firms indicating a decline in the number of employees in the third quarter (27 percent) was higher than the percentage indicating an increase (9 percent). The percentage of firms reporting longer work hours was the same as the percentage reporting shorter hours (14 percent).

Fewer Firms Report Higher Costs

Firms continued to report higher costs in the third quarter. Nearly one-third of the South Jersey businesses surveyed in-



indicated higher prices for raw materials in the third quarter, whereas nearly one-half had indicated higher prices in the second quarter. Correspondingly, the prices paid index for these materials decreased 15 points. Fifty percent of the firms reported higher wage costs in the third quarter; 55 percent reported higher benefit costs.

Although 59 percent of the firms reported no change in prices for their own products, the percentage reporting increases (23 percent) was higher than the percentage reporting lower prices (18 percent). The prices received index, however, declined slightly from its reading in the second quarter.

Expectations Improve Modestly

South Jersey firms were only slightly more optimistic about future conditions this quarter. After dropping in the second quarter to its lowest reading since 2000, the index of future activity for individual companies increased from 14.0 in the second quarter to 18.2 (see Chart). The percentage of firms expecting an increase in activity over the next six months (41 percent) continued to exceed that of firms expecting a decrease (23 percent). Firms'

expectations for future growth of the national and regional economies – but not the state economy – were notably more optimistic than in the second quarter. In fact, indexes for the region and nation increased from negative to positive readings. Still, the indexes remain well below readings recorded over the past few years.

Firms remain generally optimistic about employment growth over the next six months and were slightly more optimistic than in the second quarter. The percentage of firms expecting an increase in employment (23 percent) is still greater than the percentage of those expecting a decrease. As a result, the future employment index edged seven points higher.

Summary

According to the latest *South Jersey Business Survey*, economic conditions in the region remained sluggish in the third quarter. Sales growth was slight and employment declined. Firms were slightly more optimistic about economic conditions over the next six months, although they are in general less optimistic than at the beginning of the year.

Special Questions

(Third Quarter 2006)

1. Over the past three months, how would you characterize the underlying demand for your products? (Excluding seasonal effects)

Increasing significantly	0.0%
Increasing modestly	22.7%
No change	31.9%
Decreasing modestly	22.7%
Decreasing significantly	4.5%
No response	18.2%
Total	100.0%

2. How does the current underlying demand for your products compare to what you expected three months ago?

Greater than expected	22.7%
About what was expected	45.5%
Less than expected	22.7%
No response	9.1%
Total	100.0%

South Jersey Business Survey (Third Quarter 2006)

	Compared with 3 Months Ago					Six Months From Now				
	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index
1. What is your assessment of the level of general business activity?										
1.1 in the nation?	-14.0	45.5	40.9	13.6	-31.8	-9.3	22.7	40.9	31.8	9.1
1.2 in the state?	-32.6	54.5	22.7	22.7	-31.8	-16.3	36.4	40.9	22.7	-13.6
1.3 in the region?	-18.6	40.9	45.5	13.6	-27.3	-9.3	22.7	50.0	27.3	4.5
1.4 at your company?	-4.7	18.2	50.0	31.8	13.6	14.0	22.7	36.4	40.9	18.2
2. Business Indicators at your company:	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index	Previous Diffusion Index	Lower	Same	Higher	Diffusion Index
2.1 Sales (or shipments for manufacturers)	4.7	22.7	40.9	27.3	4.5	20.9	13.6	31.8	36.4	22.7
2.2 Product inventories	4.7	22.7	22.7	18.2	-4.5	2.3	18.2	31.8	13.6	-4.5
2.3 Customer traffic/inquiries	4.7	22.7	54.5	18.2	-4.5	25.6	13.6	54.5	27.3	13.6
2.4 Number of employees	0.0	27.3	59.1	9.1	-18.2	11.6	4.5	68.2	22.7	18.2
2.5 Weekly hours	4.7	13.6	68.2	13.6	0.0	4.7	9.1	72.7	9.1	0.0
2.6 Prices actually received	7.0	18.2	59.1	22.7	4.5	18.6	9.1	59.1	31.8	22.7
2.7 Prices paid for raw material (not labor or energy)	41.9	4.5	31.8	31.8	27.3	41.9	4.5	22.7	40.9	36.4
2.8 Cost of labor:										
2.8.1 Wages	39.5	0.0	45.5	50.0	50.0	48.8	0.0	31.8	59.1	59.1
2.8.2 Benefits	37.2	0.0	40.9	54.5	54.5	46.5	0.0	27.3	63.6	63.6
2.9 Spending for:										
2.9.1 Acquisition of new space	14.0	22.7	54.5	18.2	-4.5	18.6	18.2	59.1	13.6	-4.5
2.9.2 Renovation	25.6	9.1	68.2	18.2	9.1	23.3	4.5	68.2	22.7	18.2
2.9.3 Equipment	39.5	0.0	45.5	50.0	50.0	37.2	4.5	59.1	27.3	22.7

- 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.
- The 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.