



SOUTH JERSEY BUSINESS SURVEY

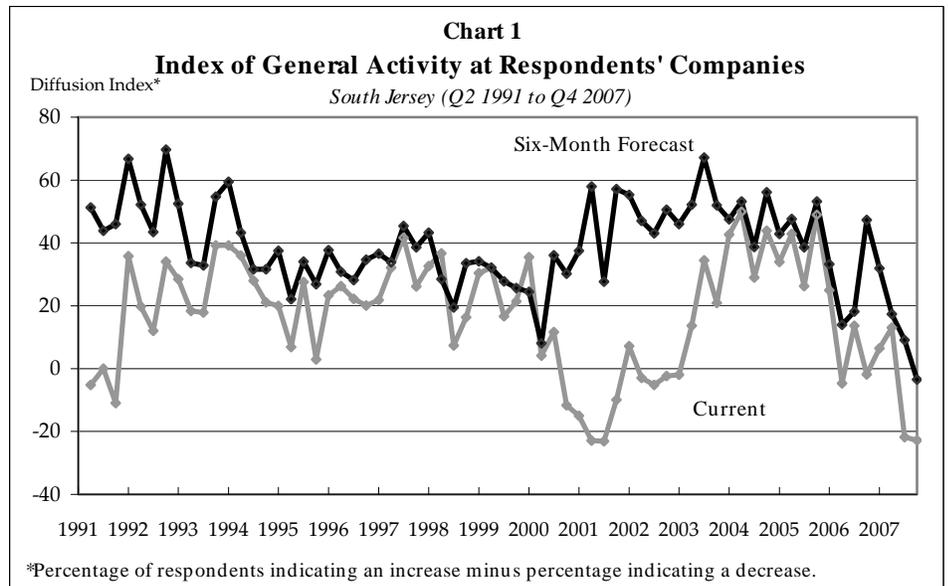
Fourth Quarter 2007

Firms responding to the *South Jersey Business Survey* reported overall declines in business activity for the second consecutive quarter. The firms perceived deterioration in overall business conditions for the nation, state, and region in the fourth quarter. On balance, however, firms reported slightly higher sales for the fourth quarter than they did for the third quarter. Responses to a special question indicate that the state of the general economy is perceived to be, by far, the most important problem currently facing the South Jersey firms polled. The outlook for future business conditions at individual companies paralleled the decline in current activity, and now the number of firms that believe activity at their businesses will decline over the next six months is higher than the number that believe it will increase.

Current Indicators Fall

The survey's broadest measure of performance, the index of general activity at individual companies, fell from -21.8 in the third quarter to -22.8 in the fourth quarter, the lowest reading since 2001 (see Chart). The percentage of firms reporting lower levels of activity in the fourth quarter (39 percent) exceeded the percentage reporting higher levels (16 percent). The survey's indicator for sales rebounded from -10.9 in the third quarter to 3.5, but the low reading suggests that sales grew only slightly from the third quarter. The indicator for customer traffic fell again in the fourth quarter and was negative for a second consecutive quarter.

Firms' perceptions of the health of the



economies of the region, state, and nation declined further in the final quarter of the year after dropping significantly in the third quarter. After falling precipitously from -2.9 in the second quarter to -36.4 in the third quarter, the general activity index for the nation (reflecting firms' assessments of the level of business activity nationally) fell further to -49.1 in the fourth quarter. Similar declines were evident in the indexes for the state and regional economy.

There was no growth in employment again this quarter among firms polled: The percentage of firms indicating a decrease in employment in the fourth quarter (14 percent) was higher than the percentage indicating an increase (9 percent); 56 percent indicated no change. The current employment index was negative for the second consecutive quarter. Work hours were also in decline: The percentage of firms

reporting shorter work hours (18 percent) was greater than the percentage reporting longer work hours (11 percent).

In a special question this quarter, firms were asked about the most important problem currently facing their businesses (see Special Question). Over three-quarters of business executives cited general business conditions as the most important problem. Labor benefits costs were cited by 48 percent of the firms, followed by government regulation (33 percent), domestic competition (31 percent), and wage costs (30 percent).

Cost Increases Remain Widespread

Thirty-five percent of the South Jersey businesses surveyed reported higher prices for raw materials (excluding energy) in the fourth quarter, about the same percentage as in the third quarter. No respondents reported a decline in raw mate-

rial prices. With regard to labor costs, 30 percent of the firms reported higher wage and benefit costs in the fourth quarter. As for the prices received for their own products, the percentage reporting an increase (19 percent) was only slightly higher than the percentage reporting a decrease (14 percent). The corresponding prices received index, although up from -10.9 in the third quarter to 5.3 in the fourth quarter, still suggests that not all cost increases are being passed through to customers.

Expectations Continue to Deteriorate

South Jersey firms' outlook continued to deteriorate. The index of future activity at individual companies dropped from 9.1 in the third quarter to -3.5 in the fourth quarter, the lowest reading since 2001 (see Chart). The percentage of firms expecting a decline in business activity at their individual companies over the next six months (23 percent) now exceeds the percentage expecting improvement (19 percent).

Firms remain pessimistic about employment growth over the next six months. The future employment index,

which fell last quarter to its first negative reading since the start of the survey in 1991, increased only moderately. Although 47 percent expect to hold employment levels steady over the next six months, the percentage of firms expecting to increase employment (12 percent) only slightly exceeded the percentage expecting to decrease it (11 percent).

Summary

According to the latest *South Jersey Business Survey*, economic conditions in the nation, state, and region deteriorated in the fourth quarter. Sales indicators for the individual companies polled in the South Jersey region suggest only a slight growth in sales, but firms cited overall declines in activity compared to the previous quarter. Overall employment levels were reported lower. Firms expect further deterioration in overall business conditions for the nation, state, and region over the next six months. The firms' outlook suggests that they expect no growth in their own businesses over the first half of the year.

Special Question (Fourth Quarter 2007)

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

Percentage of Firms Choosing Specified Problem*		
	2007 %	2006 %
General economic conditions	75.9	**
Labor costs—benefits	48.1	53.8
Government regulation	33.3	26.9
Competition—domestic	31.3	26.9
Labor costs—wages	29.6	32.7
Labor—quality	20.3	38.5
Credit availability	16.7	5.8
Cost of raw materials	12.9	13.5
Credit cost	11.1	9.6

* Totals sum to more than 100 percent because respondents could cite up to four problems. Categories cited by less than 5 percent of the firms include shortage of raw materials, foreign competition, and labor shortages.

** "General economic conditions" was not an available choice for the 2006 survey.

South Jersey Business Survey (Fourth Quarter 2007)

	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?	-36.4	52.6	29.8	3.5	-49.1	-9.1	43.9	28.1	10.5	-33.3
1.2 in the state?	-47.3	61.4	19.3	5.3	-56.1	-12.7	52.6	24.6	7.0	-45.6
1.3 in the region?	-38.2	56.1	24.6	5.3	-50.9	-10.9	45.6	28.1	10.5	-35.1
1.4 at your company?	-21.8	38.6	33.3	15.8	-22.8	9.1	22.8	42.1	19.3	-3.5
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)	-10.9	17.5	28.1	21.1	3.5	18.2	17.5	31.6	12.3	-5.3
2.2 Product Inventories	-9.1	12.3	21.1	10.5	-1.8	-5.5	10.5	24.6	8.8	-1.8
2.3 Customer traffic/inquiries	-7.3	31.6	33.3	19.3	-12.3	10.9	22.8	26.3	22.8	0.0
2.4 Number of employees	-9.1	14.0	56.1	8.8	-5.3	-3.6	10.5	47.4	12.3	1.8
2.5 Weekly hours	1.8	17.5	45.6	10.5	-7.0	5.5	12.3	45.6	10.5	-1.8
2.6 Prices actually received	-10.9	14.0	36.8	19.3	5.3	9.1	7.0	42.1	14.0	7.0
2.7 Prices paid for raw material (not labor or energy)	34.5	0.0	12.3	35.1	35.1	23.6	1.8	15.8	31.6	29.8
2.8 Cost of labor:										
2.8.1 Wages	20.0	3.5	45.6	29.8	26.3	30.9	5.3	36.8	33.3	28.1
2.8.2 Benefits	38.2	5.3	43.9	29.8	24.6	47.3	5.3	33.3	36.8	31.6
2.9 Spending for:										
2.9.1 Acquisition of new space	-16.4	15.8	33.3	12.3	-3.5	-5.5	17.5	28.1	5.3	-12.3
2.9.2 Renovation	0.0	15.8	24.6	19.3	3.5	3.6	10.5	28.1	8.8	-1.8
2.9.3 Equipment	3.6	10.5	35.1	17.5	7.0	7.3	12.3	29.8	10.5	-1.8

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 because of omission by respondents