First Quarter 2002

Indicators from the South Jersey Business Survey showed signs of recovery in the first quarter. Although most of the survey’s broadest indicators provided the first evidence of growth in six quarters, employment continued to decline at many firms. The majority of firms expect recovery in their business over the next six months as recovery is expected in the nation, state, and region.

Indicators Show Signs of Improvement

The index of general business activity at individual companies moved higher in the first quarter and recorded its first positive reading in six quarters (see Chart). For the first time since the third quarter of 2000, more firms reported increases in the level of business activity (38 percent) than reported decreases (31 percent), and the current general business activity index increased from -9.9 in the fourth quarter to 7.1 in the first quarter. Similarly, 33 percent of the firms reported growth in sales during the first quarter while 31 percent reported declines. The current sales index improved marginally, increasing from zero in the fourth quarter to 2.3.

Concern about the existence of a recovery was evident when the poll was taken in early April. Most firms perceived that declines had continued in the nation, state, and region in the first quarter but the declines were not as large as in the previous several quarters. For example, the index of general activity for the state’s economy remained negative in the first quarter but increased from -36.3 in the fourth quarter to -15.3.

Although signs of improvement are evident in the broad indicators, firms in general did not report any overall employment growth. For the fourth consecutive quarter the percentage of firms reporting declines in employment (25 percent) was greater than the percentage reporting increases (19 percent). However, although still negative, the current employment index improved slightly from -7.7 in the fourth quarter to -5.9. Additionally, more firms reported increases in average workhours than decreases for the first time in four quarters.

Prices Steady Despite Higher Costs

Twice as many firms reported decreases in the prices of their final products (22 percent) than reported increases (11 percent). For the third consecutive quarter the current index of prices received remained negative, and it declined from -4.4 in the fourth quarter to -11.8 in the first quarter. Many firms reported paying higher prices for nonenergy raw materials (21 percent); only 6 percent reported paying lower prices. Wage costs rose at over 22 percent of the firms in the first quarter, and 39 percent of the firms reported higher benefits costs. The overall indexes for both wages and benefits, however, moderated slightly from their readings in the fourth quarter.

Firms Expect Recovery to Continue

South Jersey businesses are beginning the second quarter with continued optimism about business prospects over the next six months. Over 62 percent of the firms expect an improvement in business activity over the next six months; only 7 percent expect deterioration. Although the future activity index for individual companies dipped slightly, from 57.1 to 55.3, it remained at a very high level (see Chart). Over 54 percent of the firms expect increases in sales. Slightly more firms
expect increases in inventories over the next six months (14 percent) than declines (9 percent).

Firms’ responses regarding employment plans show improved optimism. The future employment diffusion index increased from 17.6 to 23.5. Over 28 percent of the firms that answered a special question about employment indicated they would hire or rehire workers in the second quarter (see Special Question). An additional 14 percent indicated they would hire or rehire workers in the third or fourth quarter.

**Summary**

Signs of a recovery are evident in the first-quarter *South Jersey Business Survey*. Although the evidence of recovery is still tentative, more firms indicated growth in their businesses than declines. Sluggish economic conditions probably account for the continuing downward pressure on prices despite reported increases in costs. Although firms are not reporting any overall employment increases, employment indicators suggest a leveling off of declines. Firms remain optimistic about recovery for the national, state, and regional economies as well as their own businesses. Firms also remain optimistic about their employment plans for the next six months, which showed some improvement from the previous quarter.

## South Jersey Business Survey
*(First Quarter 2002)*

<table>
<thead>
<tr>
<th>Compared With 3 Months Ago</th>
<th>6 Months from Now</th>
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</thead>
<tbody>
<tr>
<td><strong>1. What is your assessment of the level of general business activity?</strong></td>
<td><strong>Lower</strong></td>
</tr>
<tr>
<td>1.1 in the nation?</td>
<td>29.4</td>
</tr>
<tr>
<td>1.2 in the state?</td>
<td>36.5</td>
</tr>
<tr>
<td>1.3 in the region?</td>
<td>34.1</td>
</tr>
<tr>
<td>1.4 at your company?</td>
<td>30.6</td>
</tr>
</tbody>
</table>

| **2. Please tell us how the following business indicators are behaving at your company?** | **2.1 Sales**<br>(Manufacturers report shipments) | **2.2 Inventories of the products you sell**<br> | **2.3 Customer traffic or inquiries**<br> | **2.4 Number of employees**<br> | **2.5 Weekly hours**<br> | **2.6 Prices actually received**<br> | **2.7 Prices paid for raw materials**<br>(other than labor or energy) | **2.8 Cost of Labor**<br> | **2.9 Spending for:** | **2.9.1 Acquisition of new space**<br> | **2.9.2 Renovation of existing space**<br> | **2.9.3 Equipment**<br> |
|-------------------------|-------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 30.6 | 30.6 | 32.9 | 2.3 | 8.2 | 27.1 | 54.1 | 45.9 | 36.5 | 21.2 | 11.8 | 56.5 | 21.2 | 13.0 | 5.9 | 38.8 | 21.2 | 15.3 | 2.4 | 36.5 | 24.7 | 22.3 | 3.5 | 69.4 | 22.4 | 18.9 | 2.4 | 58.8 | 30.6 | 28.2 | 7.1 | 48.2 | 38.8 | 31.7 | 5.9 | 41.2 | 43.5 | 37.6 | 15.3 | 65.9 | 7.1 | -8.2 | 10.6 | 58.8 | 16.5 | 5.9 | 20.0 | 51.8 | 11.8 | -8.2 | 12.9 | 52.9 | 16.5 | 3.6 | 21.2 | 57.7 | 16.5 | -4.7 | 12.9 | 49.4 | 28.2 | 15.3 |

### Special Question (First Quarter 2002)

Which of the following statements best describes your current employment plans for 2002?

- We are planning to hire or rehire workers in the **second quarter** .......... 28.2%
- We are planning to hire or rehire workers in the **third quarter** .......... 11.8%
- We are planning to hire or rehire workers in the **fourth quarter** .......... 2.4%
- We are planning **no change** in our workforce this year ............. 51.7%
- We are planning to **reduce** our workforce this year .......... 5.9%

Total ............................................. 100.0%