First Quarter 2007

Economic activity in the South Jersey region was sluggish at best in the first quarter, according to firms polled for the South Jersey Business Survey. Firms responding to this quarter’s survey indicated only slight growth in overall activity during the first quarter but reported declines in employment. Firms perceived that conditions deteriorated for the national, state, and regional economies during the first three months of the year. The outlook for future business conditions at individual companies declined somewhat but remains generally optimistic. Firms were more optimistic, however, about employment growth.

Indicators Suggest Near Steady Overall Activity

The survey’s broadest measure of performance, the index of general activity at individual companies, increased from -1.8 in the fourth quarter to 6.4 in the first quarter. Nearly 32 percent of the respondents reported higher levels of business activity at their companies; 26 percent reported lower levels. The index has hovered around zero over the past four quarters (see Chart).

The firms’ responses about sales growth for the first quarter suggest continued sluggish performance. The survey’s indicator for sales remained negative, although it increased slightly, from -7.3 in the fourth quarter to -4.3. The percentage of firms reporting lower sales during the quarter (30 percent) was slightly greater than the percentage reporting higher sales (26 percent). However, firms noted a slight pickup in customer traffic during the quarter.

Weakness in activity is also evident in replies about employment and hours worked. The percentage of firms reporting a decrease in employment (17 percent) was higher than that of firms reporting an increase (6 percent). The current employment index fell nearly 20 points, although this follows a rise of 27 points in the fourth quarter (see Chart 2). The average workweek among the reporting firms held mostly steady this month: 19 percent of the firms reported increased hours; 17 percent reported a decrease.

Firms perceived that conditions in the national, state, and regional economies had deteriorated during the quarter. The general activity index for the nation (reflecting assessments of the level of business activity nationally) decreased 33 points. The indexes for the state and region remained negative, falling 27 points and 21 points, respectively.

Cost Pressures Still Evident

Firms continued to report higher costs. Over one-third of the South Jersey businesses surveyed indicated higher prices for raw materials (excluding energy) in the first quarter, about the same as in the fourth quarter of 2006. The prices paid index for these materials was basically unchanged from its reading in the third quarter. With regard to their own prices, 21 percent noted in-
creased prices during the first quarter, slightly higher than the 16 percent that reported higher prices in the fourth quarter.

**Expectations Remain Generally Optimistic**

South Jersey firms were less optimistic about overall future conditions but more optimistic about future employment growth. The index for future activity at individual companies, after rising sharply in the fourth quarter, fell back 15 points (see Chart 1). The percentage of firms expecting an increase in activity over the next six months (49 percent) remained significantly higher than the percentage of firms expecting decreases in activity (17 percent). The future indicator for sales, however, was virtually unchanged from the fourth quarter.

Firms were more optimistic about employment growth over the next six months. Twenty-three percent of the firms expect an increase in employment over the next six months; no firms expect declines. The future employment index edged 13 points higher than its fourth-quarter reading (see Chart 2).

**Summary**

According to the latest South Jersey Business Survey, economic conditions were little changed at respondents’ own companies in the first quarter. However, firms perceived a decline in the economy of the nation during the quarter. Sales growth at individual companies was reported to be slightly lower for the quarter, and overall employment decreased. However, firms reported a slight rise in general activity and customer traffic. Firms expect an increase in their business over the next six months. The polled executives were more optimistic about the future growth of employment at their companies.