

Winter 1997

## 1997 West Michigan Economic Forecast

Hari Singh  
*Grand Valley State University*

Lee LaFond  
*Grand Valley State University*

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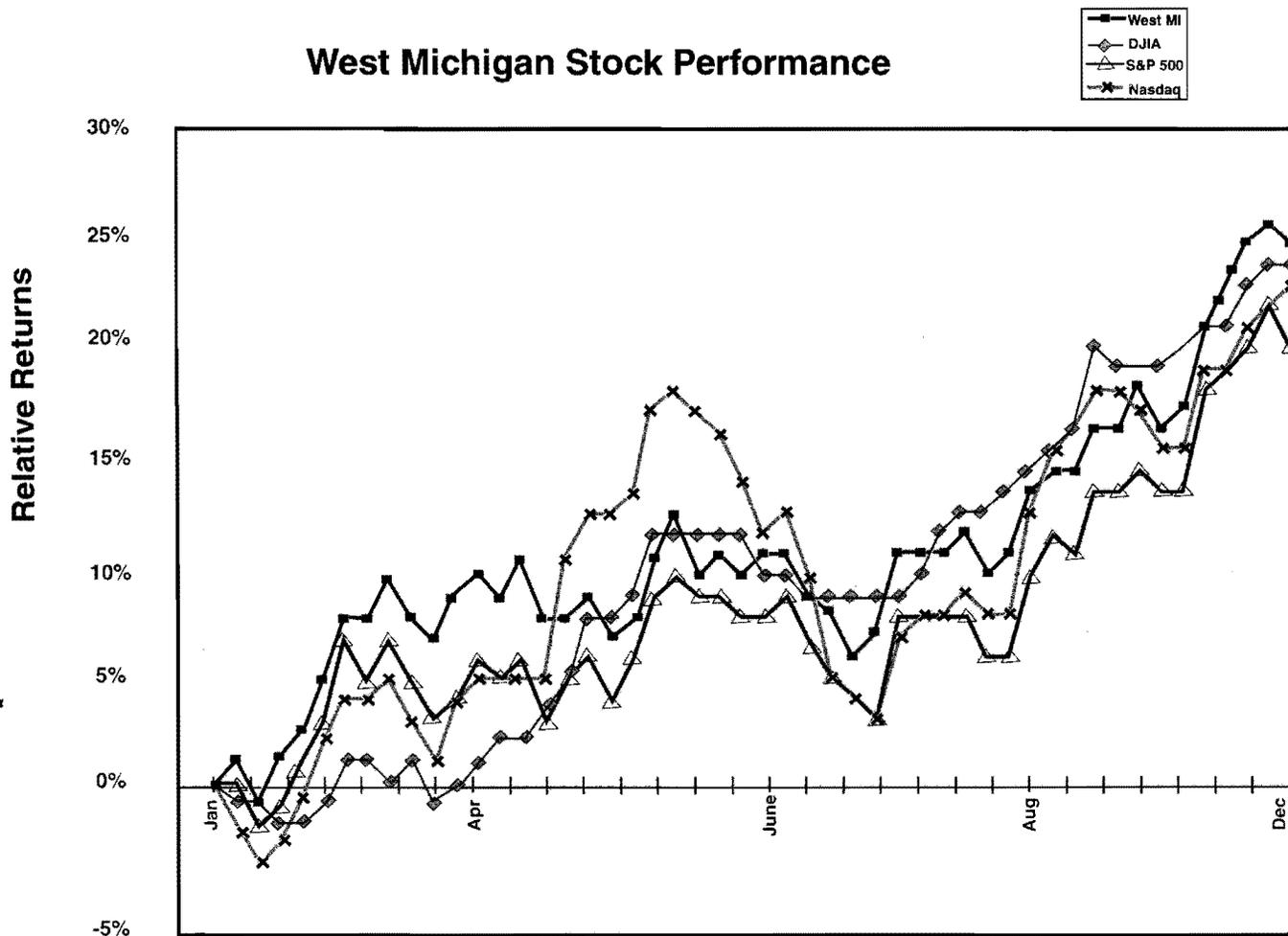
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### Recommended Citation

Singh, Hari and LaFond, Lee (1997) "1997 West Michigan Economic Forecast," *West Michigan Business Review*: Vol. 3: Iss. 1, Article 7.  
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## West Michigan Stock Performance



## 1997 West Michigan Economic Forecast

*Hari Singh<sup>1</sup> / Lee LaFond*  
*Economics Department*  
*Seidman School of Busines*

- The Confidence Index for the west Michigan economy continues to be at a high level (approximately 85%)
- Confidence level is expected to decline marginally for 1997 (approximately 82%)
- Employment growth is expected to be around 2.3% for 1997
- Sales growth is expected to slow marginally to around 4.2%
- Export growth rates continue to be at similar levels around 4.8%
- There is overwhelming confidence that the new arena and changes in the Monroe Mall will revive weekend activity in downtown Grand Rapids

<sup>1</sup>Dean Emery Turner provided encouragement and comments. Margaret Thomas, Director of the Data Center, helped in identifying the organizations for the survey. Sharon Palmitier of OEE did the final formatting. I am grateful for all their help.

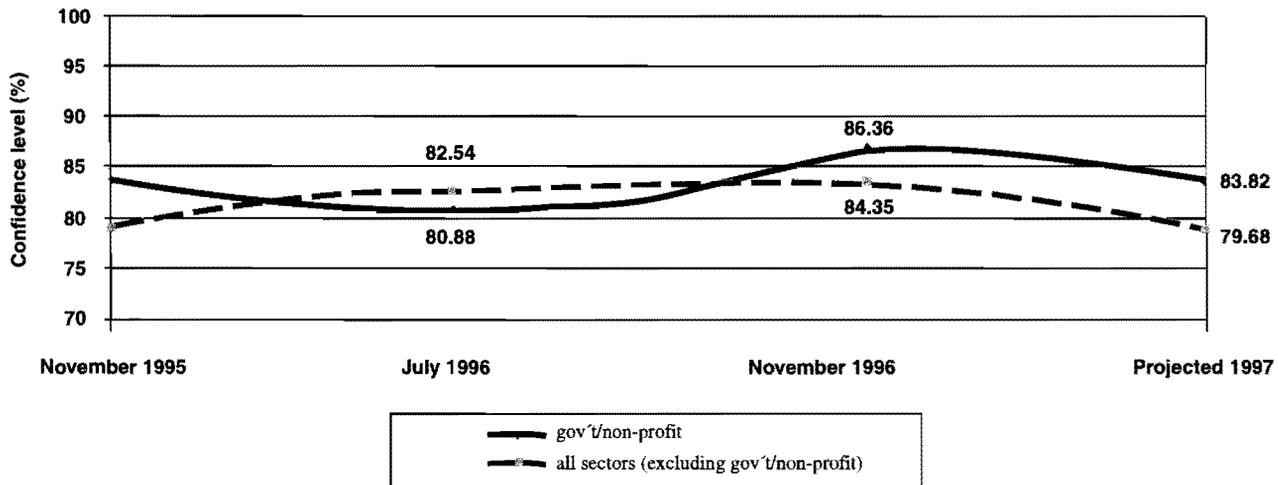
## Introduction:

During November 1996, we conducted our third survey forecast for the KOMA region (Kent, Ottawa, Muskegon and Allegan counties). A survey instrument was mailed to the CEOs of 206 organizations based on a representative sample. Care was taken to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the region. Eventually, seventy seven organizations responded, resulting in a response rate of 37.4%. The results of the survey should be interpreted with caution because of the small sample size and the dispersion in the responses.

In order to give some sense of the variation in the responses we present the data with two features. First, we provide histograms to show the entire distribution of responses. Second, we report estimates with and without outliers (defined as beyond one standard deviation from the mean in each case).

## Figure 1 Confidence Index

Caution: Wide variation in data.



## Confidence Index:

A major part of the survey effort is to develop a confidence index for the region. Recall that this confidence index is scaled from zero percent (no confidence at all) to one hundred percent (complete confidence). Since we have taken three surveys of the region so far, the confidence index has continued to depict a high level of confidence for the economy, ranging from 78% to 85%.

Figure 1 shows, the confidence index estimates at the point of time when each survey was conducted: November 1995, July 1996 and November 1996. One common pattern we have noted is that respondents tend to provide a relatively higher estimate at the point of time we conduct the survey and their projections for the following year have been marginally lower. This sentiment can be summarized as: "things are pretty good now but next year they will not be as good." However, each projected period, once it unfolds, turns out to be quite good too. Accordingly, respondents revise their expectations upwards and predict a marginal decline in the following period. This kind of cautious optimism is also exhibited in nationwide forecasts, where we expect the economy to slow down in the "next period" and are pleasantly surprised that the slowing down does not occur or is not as sharp as expected.

A similar pattern as described above appears to be at work in the present survey. In November 1996, respondents had a high level of confidence, for the west Michigan economy, ranging from 84% (estimate by the private sector) and 86% (projections by the public/non-profit sector). For 1997, the expectations are marginally lowered to range from 80% (private sector estimates) to 84% (public/non-profit sector projections). Whether, respondents will be pleasantly surprised again and revise their expectations upwards in July remains to be

<sup>2</sup>Traditionally, we have asked respondents about sales and employment growth rates within their specific sectors. In the past, we have not relied on these sectoral estimates because of small sample sizes. In the current survey, we have an additional reason for not utilizing the sectoral estimates: responses relating to different sectors were contaminated because the sectors for some respondents were incorrectly specified. Consequently, we have relied only on the respondent's projections for the overall economy of west Michigan.

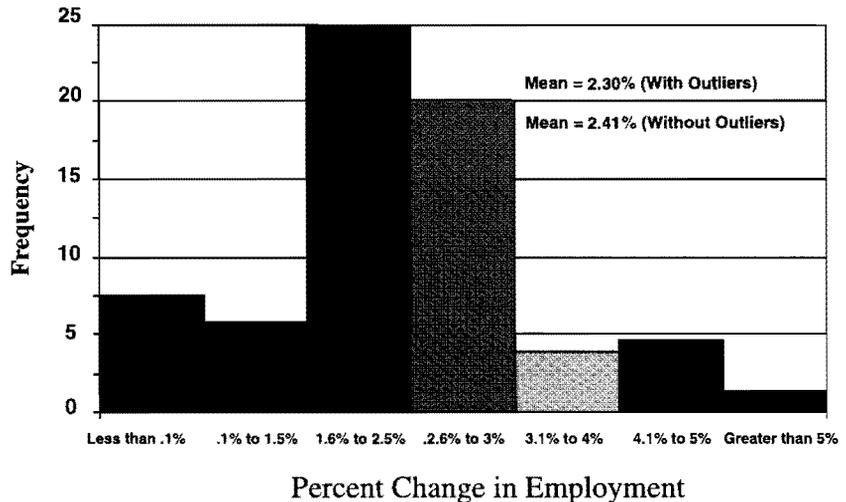
seen. At least for the moment good times seem to be tempered by the realization that the regional economy may slow somewhat in 1997. This expectation is fortified further by marginal decline in expected sales as discussed subsequently.

**Employment:**

During July 1996, respondents had projected employment growth for July 1996 to June 1997 at approximately 2.5%. In this survey, respondents have similar expectations of job growth for the next year. As Figure 2 depicts, the two estimates range from 2.30% (with outliers) and 2.41% (without outliers).

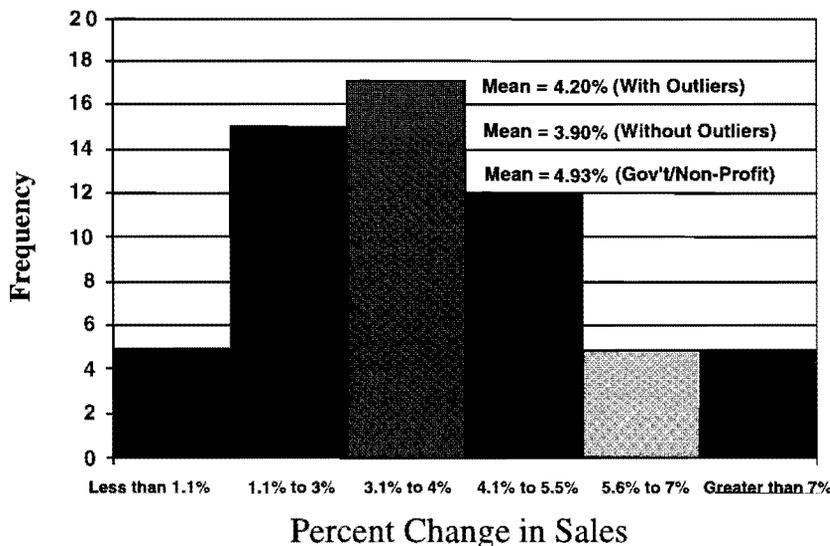
Consider this estimate within the context of what we know as of November 1996. First, total employment rose a strong 1% during the third quarter of 1996. Second, note that the Business Outlook (Fall 1996) by the Upjohn Institute of Employment Research has projected overall employment to grow during the fourth quarter of 1996 at 0.3% and a small decline of -.01% in the first quarter of 1997. Within this context, the employment projections by the respondents of approximately 2.3% growth in employment for 1997 are cautiously optimistic. If an employment growth of 2.3% is realized, approximately 12,300 jobs will be created in for the Grand Rapids area. However, as the general comments of the respondents indicate, the shortage of skilled workers will continue to be a binding constraint on the region.

**Figure 2**  
**Projected Increase in Employment for 1997**



**Figure 3**

**Projected Increase in Sales for 1997**

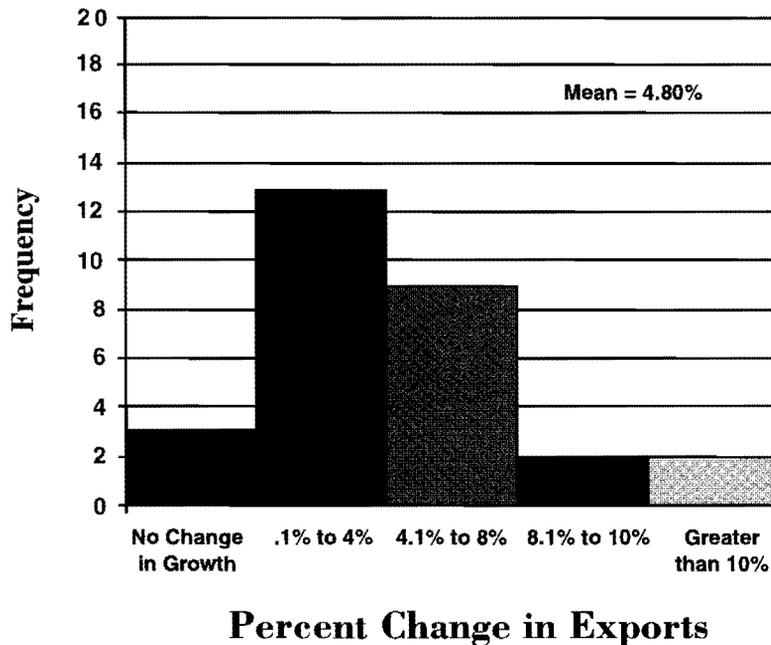


**Sales:**

Sales projections made by respondents during July 1996 for July 1996 to June 1997 was around 5%. The results of the current survey indicate that respondents have marginally lowered their expectations of sales area for 1997. The three estimates provided in Figure 3 indicate that sales expectations range from 3.9% (without outliers) to 4.93% (projections made by Govt. and non-profit executives about private sector sales). A reasonable point estimate will be approximately 4.2%. This projection can be put in context by two observations about retail sales. First, the 1996 retail sale growth estimated by Sales and Marketing Management, 1996, New York, pp. 103) for the area is 5.46%. Second, the national increase in retail sales volume is 4.2% for Sept. 1995 to October 1996.<sup>3</sup> It seems expected sales in 1997 will mimic the national retail sale trend and be marginally lower compared to 1996. Note, however, that our projections for sales are not confined to the retail sector but relate to sales in all sectors of the regional economy.

**Figure 4**

**Projected Increase in Exports for 1997 for Firms Who Export**



**Export Growth:**

From the respondents who export their output, the expected growth in exports for 1997 is projected at 4.8% (Figure 4). During July 1996, respondents had estimated a growth rate in exports of 4.62% (for June 1996 to July 1997). Since the estimate is based on a small sample and wide variation in data, it should be interpreted with caution.

**General Comments:**

In light of the new arena and proposed changes at the Monroe Mall, we asked respondents whether these developments will indeed revive downtown in terms of increasing evening/weekend activity. As Figure 5 shows, the overwhelming sentiment is that the new developments will significantly increase evening/weekend activity in the downtown area. Some respondents pointed out that the arena and new restaurants have already created a new spurt of activity.

In the private sector, most respondents continue to express concern about the ability to hire and retain skilled workers. Some respondents indicated that they have widened the traditional geographical search area for qualified candidates.

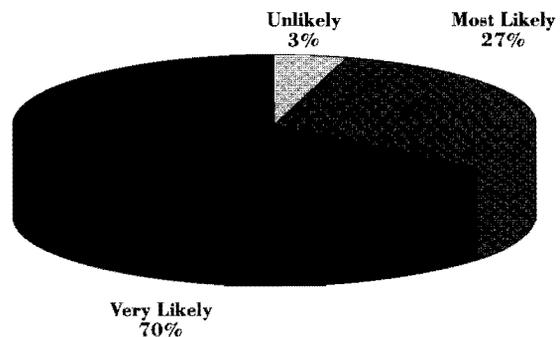
Another area of ongoing concern is the prevalence of fraud in Workers' Compensation and the need to tighten eligibility requirements.

In the public sector, the need for more political support for county wide coordination efforts is frequently voiced. In this context, long term policies backed by the major stakeholders for efficient land use, infrastructure development, and utility services coordination are considered desirable.

**Acknowledgments:** We are very grateful to all the organizations who participated in the survey effort.

**Figure 5**

**Do you think the recent plans for downtown Grand Rapids revitalization will have a significant positive impact on evening/weekend activity?**



<sup>1</sup> The Economist, December 14-20, 1996, pp. 102.