

Spring 1999

1999 West Michigan Economic Forecast

Hari Singh
Grand Valley State University

Tom Droog
Grand Valley State University

Follow this and additional works at: <https://scholarworks.gvsu.edu/wmbr>

Recommended Citation

Singh, Hari and Droog, Tom (1999) "1999 West Michigan Economic Forecast," *West Michigan Business Review*. Vol. 5: Iss. 1, Article 2.

Available at: <https://scholarworks.gvsu.edu/wmbr/vol5/iss1/2>

This Article is brought to you for free and open access by the Seidman College of Business at ScholarWorks@GVSU. It has been accepted for inclusion in West Michigan Business Review by an authorized editor of ScholarWorks@GVSU. For more information, please contact scholarworks@gvsu.edu.

1999 West Michigan Economic Forecast

Hari Singh¹ Tom Droog
Economics Department

- The projected confidence index for the west Michigan economy has dipped below 80% for the first time in four years
- Employment growth is expected to be around 1.5% for 1999
- Sales growth is projected to slow to around 3%
- Export growth rates are also expected to be lower, around 2.5%

Introduction: We conducted our fifth survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan Counties) during November 1998. A survey instrument was mailed to the CEOs of 267 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy, as well as the geographical diversity of the region. Eventually, 82 organizations responded, resulting in a response rate of 31%. 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, the data is presented highlighting two aspects. 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).

Confidence Index: A major part of our survey effort is to historically track the overall business confidence of West Michigan by a confidence index. Recall that this confidence index is scaled from 0% (no confidence at all) to 100% (complete confidence). During our four surveys of the region so far, the confidence index has continued to depict a high level of confidence for the economy, ranging from 80% to 85% for the private sector. The surprising result in this 1998 survey is that for the first time the projected confidence in 1999 has dipped below 80% to approximately 77%.

Figure 1 shows the confidence index estimates **at the point of time** when each survey was conducted. Note that the confidence level is 81% for November 1998 and drops significantly to 77% for the 1999 projections. This is consistent with past surveys in which the respondents felt that the good times may not last in the next year. The estimates for the Government/Nonprofit sector are relatively higher. However, because of a larger sample size, we rely more on the private sector estimates.

Figure 1
Caution: wide variation in data
West Michigan Confidence Index

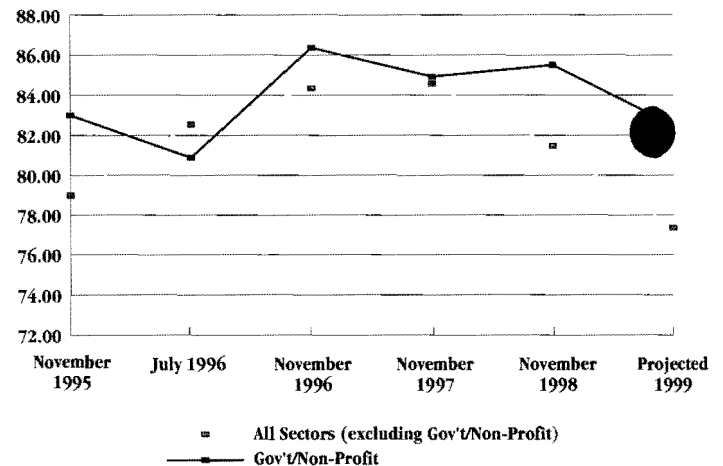
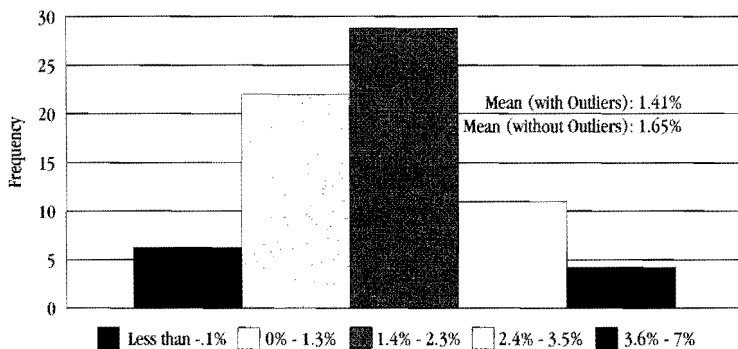


Figure 2
Percentage Change in Employment



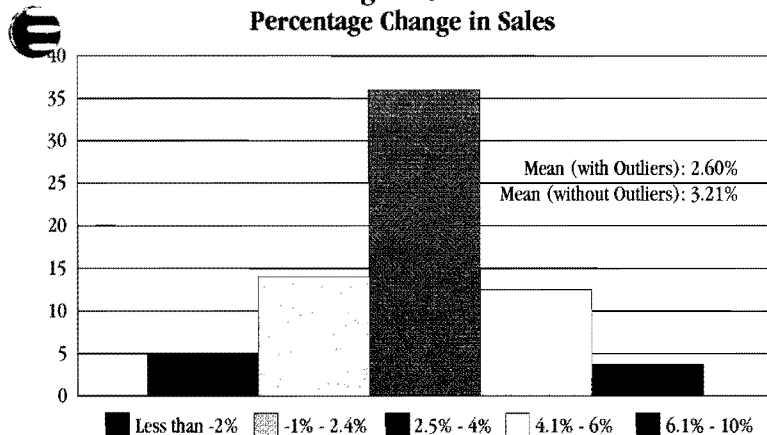
At the present, good times are tempered by the anticipation that the regional economy may slow somewhat in 1999. This expectation is corroborated by a decline in expected employment and sales projections as discussed subsequently.

Employment: During November 1997, respondents had projected employment growth for 1998 at approximately 2%. In the current survey, respondents expect job growth to be lower at 1.5% for 1999. As Figure 2 depicts, the two estimates range from 1.41% (with outliers) to 1.65% (without outliers).

¹Sharon Palmitier of SBS did the final formatting. We are grateful for the help provided by the Seidman School of Business.



Figure 3
Percentage Change in Sales



Sales: Sales projections made by respondents during November 1997 for 1998 were around 4%. The results of the current survey indicate that respondents have lowered their expectations of sales for 1998. The three estimates provided in Figure 3 indicate that sales expectations range from 3.2% (without outliers) to 2.6% (with outliers). Since outliers may tend to distort the picture overtly, a reasonable point estimate is 3%.

The retail sales increase estimated by Sales and Marketing Management, 1998, (New York, p.171) for the area is 29.8% compound growth for 1997-02. In conformity with other projections, expected sales in 1999 are lower compared to 1998. My personal projection is more optimistic: 3.5% for 1999. Our projections for sales are not confined to the retail sector but relate to sales in all sectors of the regional economy.

Export growth: From respondents who export their output, the expected growth in exports for 1998 was projected at 3.4%. Some respondents have expressed concern about the ongoing economic crisis in Asia. This expectation has tempered export projections for 1999 to 2.5%. Since the estimate is based on a small sample and there is a wide variation in data, it should be interpreted with caution.

General Comments: In the private sector, most respondents continue to express concern about the ability to hire and retain skilled workers. Some of them have indicated that they will have to raise wage costs significantly to retain existing workers and hire new employees. The declining markets in Asia have also caused ongoing concern. Barring any nasty surprises, 1999 is expected to be a year of transition to marginally slower growth.

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

Consider this estimate within the context of what we know as of November 1998.

First, total employment growth had averaged at 2.3% annually for 1997. Second, the Business Outlook (Fall 1998) by the Upjohn Institute of Employment Research has projected overall employment to grow during the fourth quarter of 1998 at 0.7% and only 0.2% in the first quarter of 1999. Consequently, the employment projections by the respondents of approximately 1.5% growth in employment for 1999 seem realistic. If an employment growth for 1999 is indeed 1.5%, approximately 8,700 jobs will be created in the Grand Rapids MSA next year. My personal projection is employment growth of approximately 2%. The general comments of the respondents indicate that the shortage of skilled workers will be a main constraint on the region's growth potential.

Figure 4
Percentage Change in Exports (All Sectors)

