Seidman School Management Memo

Volume 4 | Issue 2 Article 4

4-1-1984

The Grand Rapids Economic Index

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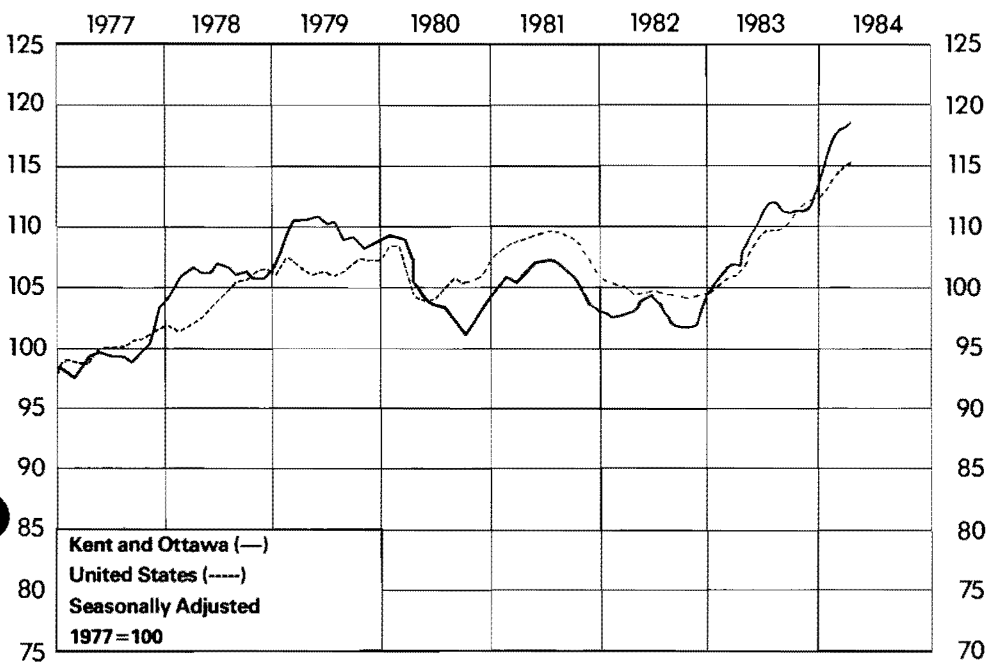
By William Peterson

We all watch numerical indicators to keep us informed about what is going on around us and to give us some clues about what might happen in the future. We listen to a numerical report about temperature and use that information to dress the kids for school. We watch the Dow-Jones Stock Price index to give us some indication of how our investments are doing. Trends in that numerical index may affect our savings plans for the future. Radio and television announcers assault us with numerical indicators such as these daily. The information about temperature and stock prices is readily available. Not so readily available, however, is information about the economic conditions of the community of Grand Rapids. Often we feel the effects of changes in economic conditions in Grand Rapids by our contact with the facts that affect us most directly. While these are important facts, they are often not general enough to inform us about conditions in general. The Grand Valley Economic Activity Index is a numerical indicator that attempts to provide that information. Every month it measures general trends and other changes in the economic conditions in which we work and live.

The indicators of economic activity must be interpreted with some limitations in mind. In general, a larger number means an improvement in well-being of some sort. But it does not suggest that everyone is better off. Neither does it mean the same to all persons. While increased employment means increased well-being to most people, there are clearly some who would disagree. There may be some people who prefer to work half time rather than full time, for example.

The composite index of economic activity is a weighted average of several component indexes. In each case, the upward movement in a component index is considered to be a favorable movement and contributes to the upward movement in the composite index. The composite index moved up from late 1982 to its most recent figure for January, 1984. It suggests that we are better off now than we were at the end of 1982. Activity during the last quarter of 1982 was at its lowest point since 1977. The figures show a recession starting about the middle of 1981, a short recovery in 1982, and another recession, which caused business activity to fall, from late 1981 to late 1982. Now a recovery from that recession is clearly in progress for the Grand Rapids area. What contributed to these movements in the composite index for the Grand Rapids area? The following material explains some of the major movements in the components of the index.

GRAND RAPIDS ECONOMIC ACTIVITY INDEX



More checks are being written, a crude indicator that there is more business activity. More business activity usually means that more people are working and that, in turn, means that more goods and services are being sold. Evidence of those two events shows up in the component indexes. Retail sales activity (after adjusting for price changes) was up over seven percent from 1982 to 1983. The trend in growth of retail sales seems to be continuing into 1984. More people were working at the end of 1983 than at the end of 1982. The index of employment shows that the increase during that time was about 2.8 percent. Further evidence that more people are working and that more manufacturing is taking place can be found in the index of industrial power consumption which is prepared from facts given by the Consumers Power Company. This index shows a remarkable growth from the end of 1982 to the end of 1983. While the percentage increase is about 19 percent, that fact must be interpreted carefully. The industrial power consumption index had reached a very low point at the end of 1982. Its level in January, 1984, while high, is only slightly higher than it was in 1979.

Residential construction activity grew rapidly in the Grand Rapids area from the summer of 1982 to mid-1983. Then it levelled off somewhat. The summer-to-summer growth was remarkable, but the level in the summer of 1982 had been at one of its lowest points since the compilation of the index. (The index had a value of 100 in 1977.) That is true of all components. The index value for residential construction reached a low point of 30.3 in June, 1982. It has since increased to 63.3 in January, 1984, but that is still much below its peak value of 123.7 in April of 1979. Since that peak in 1979, residential construction activity declined each year until 1983.

Non-residential construction activity in the Grand Rapids area has also shown evidence of decline since 1979. Its level was unusually high in the late months of 1979, when the index value went over 200. The index dropped to about 80 during 1980 and stayed there until the beginning of 1983. It has been increasing since January, 1983. Its value in January, 1984, was 103.8.

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Construction activity is used to measure economic well-being because the data are readily available, construction affects most of us positively, and construction activity is a sign of a hopeful view of the future.

The composite index is made up of a weighted average of five economic indicators: bank debits, retail sales, residential and non-residential construction, industrial power consumption and employment, all of which are adjusted for seasonal variations and for the effects of inflation.

An index has been prepared for the United States which makes use of approximately the same components that make up the index for Kent and Ottawa Counties. The movements of this index are shown on an accompanying chart, which gives some evidence of how local economic activity compares with national economic activity. The composite U.S. index is correlated with real U.S. Gross National Product movements. These movements reflect changes in the general economic health of the U.S.

The index and its components are prepared by Dr. William Peterson, Professor of Economics at GVSC. Inquiries and detailed facts about the index can be obtained by writing to Dr. Marvin G. DeVries, Dean, F. E. Seidman College.

Consumer Confidence Continues to Increase

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the government is doing a good job, 55 percent a fair job, and only 14 percent a poor job. They are somewhat concerned about prices, since 63 percent believe prices will increase during the next year, down from 69 percent in October and up from 61 percent in July. When asked to think about prices over the next five years, 81 percent thought prices would increase, the same as in October and up from 77 percent in July. However, area people are slightly more concerned about unemployment than they were earlier in the year. When asked to consider the potential problems of unemployment and inflation, 59 percent thought unemployment would be the more serious economic hardship, up from 55 percent in October and about the same as the 60 percent in January. However, of those who were concerned about inflation, 34 percent considered it to be a potentially serious problem, up from 33 percent in October and 28 percent in July.

The good increase in consumer attitudes is likely to result in increased consumer sales during 1984 as long as no significant changes occur in interest rates and prices.

The survey of consumer attitudes is conducted quarterly as part of the Seidman School's continuing study of local economic activity. Insight Marketing, Inc., a Grand Rapids based market research firm, coordinates the interviews.

Dr. Marvin G. DeVries is the Dean of the F. E. Seidman School of Business, Grand Valley State College.

Medical Service Purchases

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should be on the basis of increased attention with decreased waiting time and lower costs. However, it appears that most Americans will continue to put up with considerable inconvenience and heavy cost burdens in order to obtain what they perceive as higher quality service from the traditional medical doctor.

1. An example of the recent emphasis on health care marketing is the initiation of annual symposia on the subject sponsored by the American Marketing Association and several other organizations.
2. In western Michigan alone, four major hospitals have undertaken such projects in the past year.
3. "The Upheaval in Health Care," *Business Week*. July 25, 1983, pp. 44-58.
4. "I Like You, Doc, and You Care About Me, but a Pox on All Your Waiting Games." *Texas Medicine*. Vol. 79, March, 1983, pp. 33-37.

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