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1998 West Michigan Economic Forecast

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For more specific insight, the survey asked for the owner's expectations of change in their employment in the next six months. Average response was an increase of six percent. In response to a question on the expectation of change in sales in the next six months, the average was an increase of over ten percent. We can speculate as to whether the difference is due to existing labor capacity for expansion, or more cautious plans when it comes to adding employees. When asked for long term employment change, twenty nine percent said they felt their employment would rise by 50 percent or more in the next two years.

Legal Form	Average Full-Time Equivalent Employees
Sole Proprietorship or Partnership	2.8
Both Corporate Forms	10.6
Average of All	6.9

1998 West Michigan Economic Forecast¹

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- The Confidence Index for the west Michigan economy continues to be at a high level (approximately 85%)
- Confidence level is projected to decline marginally for 1998 (approximately 82%)
- Employment growth is expected to be around 2% for 1998
- Sales growth is projected to slow marginally to around 4%
- Export growth rates are also expected to be lower, around 3.4%

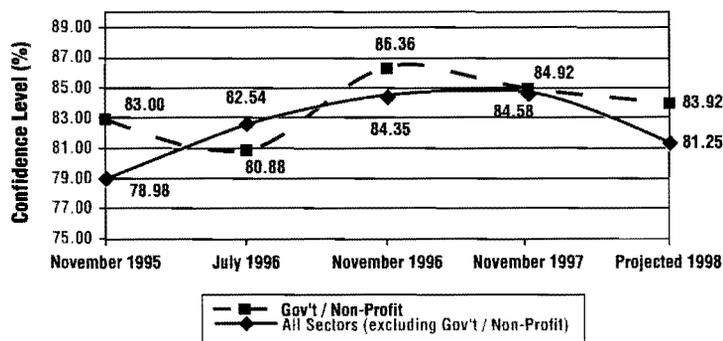
Introduction:

We conducted our fourth survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan counties) during November 1997. A survey instrument was mailed to the CEOs of 270 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the region. Eventually, eighty seven organizations responded, resulting in a response rate of 32.2%. The results of the survey need to 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:

Figure 1
Confidence Index
 Caution: Wide Variation in Data



¹ Dean Emery Turner provided encouragement and comments. Sharon Palmitier of OEE did the final formatting. We are grateful for all their help.

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 zero percent (no confidence at all) to one hundred percent (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 78% to 85%.

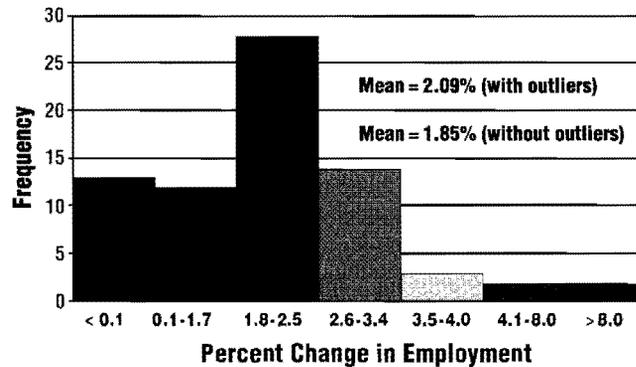
Figure 1 shows the confidence index actual estimates at the point of time when each survey was conducted: November 1995, July 1996, November 1996 and November 1997. One common pattern we have noticed is that respondents tend to provide a relatively higher estimate at the point of time we conduct the survey and their projections for the following year have been marginally lower. This sentiment can be summarized as: "things are pretty good now but the good times are not likely to last."

Consistent with this pattern, in November 1997, respondents had a high level of confidence for the west Michigan economy, ranging from 84% (average of the private sector) and 85% (average of the public/non-profit sector). For 1998, the expectations are marginally lower, 81% (private sector projection) to 84% (public/non-profit sector projection).

At the present, good times seem to be tempered by the realization that the regional economy may slow somewhat in 1998. This expectation is corroborated by a marginal decline in expected employment and sales projections as discussed subsequently.

Employment:

**Figure 2
Projected Increase in Employment for 1998**

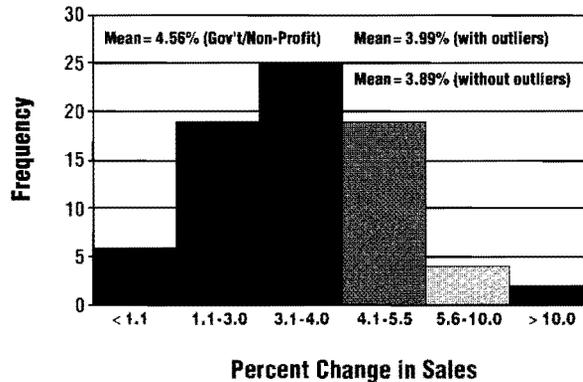


During November 1996, respondents had projected employment growth for 1997 at approximately 2.3%. In the current survey, respondents expect job growth to be marginally lower, around 2% for 1998. As Figure 2 depicts, the two estimates range from 2.09% (with outliers) to 1.85% (without outliers).

Consider this estimate within the context of what we know as of November 1997. First, total employment growth has been averaging around 2.33% annually for 1997, quite close to our projection of 2.3%. Second, note that the Business Outlook (Fall 1997) by the W.E. Upjohn Institute for Employment Research has projected overall employment to grow during the fourth quarter of 1997 at 0.4% and 0.1% in the first quarter of 1998. Consequently, the projections by the respondents of approximately 2% growth in employment for 1998 seem realistic. If employment growth for 1998 is indeed 2%, approximately 11,090 jobs will be created in the Grand Rapids MSA next year. The general comments of the respondents indicate that the shortage of skilled workers will be a critical constraint on the region's growth potential.

Sales:

**Figure 3
Projected Increase in Sales for 1998**

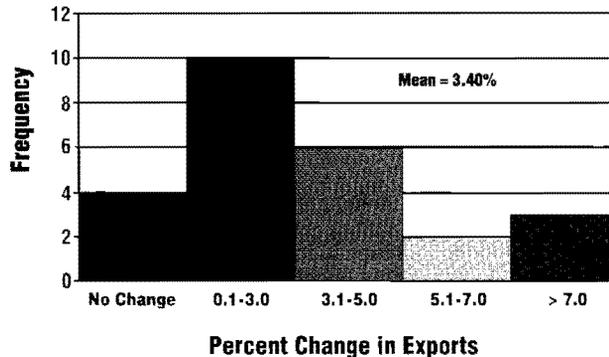


Sales projections made by respondents during November 1996 for 1997 were around 4.2%. The results of the current survey indicate that respondents have marginally lowered their expectations of sales for 1998. The three estimates provided in Figure 3 indicate that sales expectations range from 3.9% (without outliners) to 4.6% (projections made by gov. and non-profit executives about private sector sales). A reasonable point estimate is approximately 4%.

This projection can be put in context by two observations about retail sales. First, the 1997 retail sales growth (estimated by Sales and Marketing Management, 1997, New York, pp. 102,173) for the area has been 4.92% for 1995-96. Second, the national increase in retail sales volume is averaging currently at 4.9% annually¹. In conformity with other projections, expected sales in 1998 are marginally lower compared to 1997. 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.

Export Growth:

**Figure 4
Projected Increase in Exports**



From the respondents who export their output, the expected growth in exports for 1998 is projected at 3.4% (Figure 4). During Nov. 1996, respondents had estimated a growth rate in exports of 4.8% for 1997. Some respondents have expressed concerns about the ongoing economic crisis in Asia. This expectation has tempered export projections for 1998. 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 other areas of ongoing concern include: the prevalence of fraud in Workers' Compensation and the need to tighten eligibility requirements, environmental regulation with adequate cost-benefit rationale, and reform of bankruptcy laws. In the public sector, the need for more political support for county wide coordination efforts is a major theme.

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

¹The Economist, December 6-12, 1997, pp. 112.

Michigan and the Asian Currency Crisis

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"I am saying that currency trading is unnecessary, unproductive and immoral. It should be stopped. It should be made illegal."

- Dr. Mahathir Mohamad, Prime Minister of Malaysia, September 1996.¹

"Interfering with the convertibility of capital at a moment like this is a recipe for disaster."

- George Soros, billionaire investor, in response to above comments.²

"He (Dr. Mahathir) has not made life any easier for the Philippine economy... I just wish the prime minister would not say those things anymore."

- Deogracias Vistaan, president of the Bankers Association of the Philippines.³

The recent crisis in the Asian currency markets set off shock waves that have been felt around the world. The effects on financial markets in the U.S. have received a lot of media attention, but what of other, perhaps less immediate, repercussions? With several Asian nations in economic turmoil, what might happen to America's and Michigan's trade status with that region?

The collapse of several key Southeast Asian currencies during the summer and fall of 1997 is a textbook example of poor currency management bearing many similarities to the currency problems of the European Union in 1992 and Mexico in 1994. Taking a cue from unflattering economic

¹"Malaysia's Mahathir and Soros Trade Charges," Wall Street Journal, September 22, 1997.

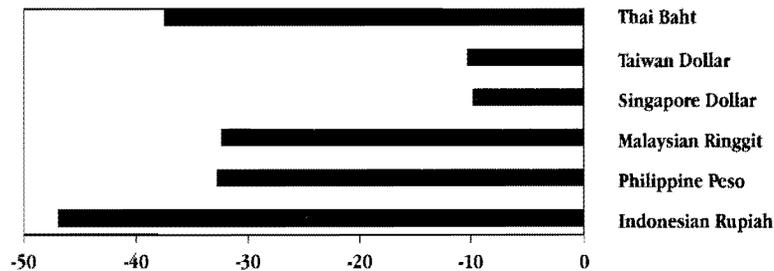
²Ibid

³"Mahathir Roils Asia Markets Again," Wall Street Journal, October 2, 1997.

reports and excesses in government spending, currency traders in June began to dump their holdings of Thai baht. The Thai Central Bank, like those of Britain, Italy, and Mexico earlier this decade, responded in predictable ways – attempting to shore up the lagging currency with foreign reserves and higher interest rates, which in turn added to the country's economic woes.

Following Thailand's decision to abandon its currency's peg to the U.S. dollar in July, the value of the baht plummeted, bringing several regional currencies with it (see Figure 1), as nervous investors sought refuge in the West. However, unlike Europe in 1992, and despite the widely publicized claims of Malaysia's prime minister, billionaire investor George Soros did not add to the fall of all of these currencies – his investment fund had actually betted against the Malaysian ringgit falling with the baht.

Figure 1
% Change Against U.S. \$, July 2 - Oct 31, 1997



The cheaper Asian currencies means that Asian exporters may benefit as they can raise their prices (in terms of their domestic currency) and still remain competitive in dollar terms. Thailand's agricultural exports, for example, are expected to flourish from the weakened baht. Conversely, the currency depreciations bode ill for American businesses exporting to the region, as they may be forced to lower their dollar prices in order to remain competitive. In November, several Wall Street economists cut back on their forecasts of growth in the U.S. economy for 1998. Their estimates of GDP growth fell from an average of 2.56% to 2.04%, based largely on their predictions that U.S. exports to Asia will decline. "I see the Asian contagion spreading from net exports to weaker profits for U.S. companies to slower business investing in capital projects to declining consumer spending stemming from weaker stock markets" said David Jones, chief economist of the government-bond firm Aubrey G. Lanston.

Table 1
1996 U.S. Trade Status with Selected Asian Countries

	U.S. exports as a % of total U.S. exports	1995-96 % change U.S. exports	1995-96 % change U.S. imports	Trade balance \$ millions
Thailand	0.85	12.6	-0.13	-4,125
Taiwan	2.17	-4.6	3.2	-11,498
Singapore	1.97	8.9	9.6	-3,654
Malaysia	1.00	-3.4	2.0	-9,304
Philippines	0.72	15.7	16.5	-2,037
Indonesia	0.47	18.1	10.4	-4,248

Source: International Trade Administration, Department of Commerce.

In October, Federal Reserve Chairman Alan Greenspan told Congress that the fallout from the currency crisis "can be expected not to be negligible." As Table 1 indicates, the countries in the core of the currency crisis are not of overwhelming significance for the U.S. economy – they account for only 7.18% of U.S. exports. However, Asia as a whole, with its recent high growth rates, has been an important stimulus to world growth. With 32% of U.S. exports going to Asia, a widespread slowdown in that continent is likely to have a dampening effect on the U.S. economy, and Wall Street's fears may be realized if the already lagging Japanese economy is severely hit. To add to the problems, forecasts for Latin American growth have been revised downwards following October's market turmoil. Brazil's sharp increase in interest rates to defend the *real* will slow growth there and may have significant spillover effects on other Latin American economies.

Of course, the weaker Asian currencies means that U.S. companies that purchase merchandise from Asia are likely to face reductions in their costs. This could then mean lower prices for U.S. consumers. Kmart Corp., for example, plans to cut shelf prices in response to their lower costs for Asian products. Kmart's division vice president for investor relations, Robert Burton, claims that "the ultimate beneficiary here is going to be the American consumers."

How does Michigan fit into this picture? As Table 2 indicates, no one of these six Asian economies by itself ranks very highly for Michigan's exports – exports to Thailand are only 0.91% of the state's exports to Canada. If taken as a group, these nations would be Michigan's 7th largest export market. But even so this would account for only 1.75% of the state's exports, and their importance would still be dwarfed by trade with Canada

¹"Some on Wall Street See Slower Growth," Wall Street Journal, November 6, 1997.

²"Asian Echoes Muted for U.S. Importers," Wall Street Journal, October 29, 1997.

and Mexico, which together constitute approximately 69% of Michigan's exports (Figure 2). In 1995, 12.47% of exports from the Grand Rapids Metropolitan Statistical Area went to Hong Kong, Singapore, Korea, and Taiwan, with 20.67% being exported elsewhere in Asia. These Asian exports amounted to approximately \$764 million, up 20% from \$636 million in 1994.

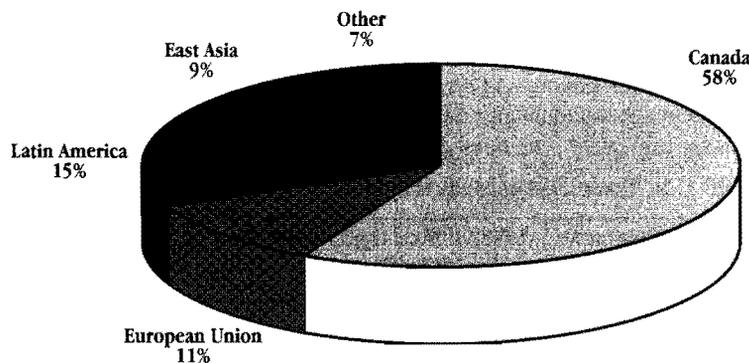
Table 2
Michigan Export Sales to Selected Asian Countries

	1996 Rank*	1996 Sales, Thousands \$	1995-96 % Change	Exports as a % of State's Total
Thailand	18	202,969	45.3	0.53
Taiwan	19	198,752	-32.2	0.52
Singapore	26	110,514	-7.1	0.29
Malaysia	30	69,845	28.1	0.18
Philippines	35	47,737	7.8	0.13
Indonesia	42	36,440	23.9	0.10

Source: International Trade Administration, Department of Commerce.
*Ranking by \$ sales of Michigan's exports market.

The impact on the local economy will be more significant if Japan is severely affected. Japan is Michigan's 3rd largest export market, with approximately \$1.8 billion worth of Michigan products sold there in 1996 – 23.3% more than in 1995. Japan alone was the destination for 14.9% of the Grand Rapids MSA's exports in 1995 (approximately \$343 million), up by 17.22% from 1994.⁶ This underscores the importance that the area plays in the west Michigan economy. About half of Japan's exports go to other Asian economies, and Japanese banks incurred some significant losses during the currency crisis. If, as some analysts are predicting, Japan's economy grows by only 1 to 2% this year, then 1998 may be less than stellar for west Michigan's exporters.

Figure 2
Michigan Export Markets, 1996



Source: International Trade Administration, Department of Commerce. "East Asia" includes: China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand.

⁶"Grand Rapids Metropolitan Data Book," Seidman School of Business, GVSU, 1997.

Some Observations on the Nature of International Information Systems

Doug White, Western Michigan University

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Roger McHaney, Kansas State University

The Global Marketplace:

Organizations are now faced with competition and opportunity all around the world. This type of international opportunity/threat has led to increasing concern with the nature of international business. One avenue of study has been to focus on the understanding of networks and interactions that bind countries, organizations, and people in an interdependent global economy. The pursuit of international understanding has led to the study of the impact resultant from Internet, the world wide web, and trans-global communications capability that is pervading all areas of business.

Suddenly, due to this trans-globalization, companies find themselves faced with a new barrier to trade, the need for information technology and expertise in using such technology. Firms participating in the global arena (and who is not?) suddenly realize a need for timely and accurate information. Managers rely on information technology to provide this information reliably, quickly, and accurately.

Assessing IT Quality:

A great deal of academic attention in information systems has focused on the attempt to measure quality of particular systems. Most studies agree