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William Peterson

Grand Valley State University

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The Grand Rapids Economic Index

Comparing Economic Activity

By William Peterson

There are more supermarkets in Muskegon than in Kaleva. But, on the other hand, there are more parking spaces in Kaleva. The unemployment rate is lower in Grand Rapids than in the State of Michigan. Grand Rapids is growing faster than Chicago.

These statements suggest several different kinds of comparisons that are useful. The first comparison might be useful for a person trying to decide whether to visit or move to either Kaleva or Muskegon.

The second might be useful to a person trying to evaluate the economic quality of Grand Rapids with a view towards a move. But one does not move from Grand Rapids to Michigan. So the information is less personal. It may be more useful to a person who is trying to urge state legislators to support a bill that would expend state funds for the benefit of Grand Rapids. A community with a higher-than-average unemployment rate might want support for a bill to provide extra relief to a city that suffers more than a fair share of discomfort resulting from economic forces beyond its control. Alternatively, a city Chamber of Commerce may cite the fact as part of a program to encourage new industries to locate in Grand Rapids.

The third comparison has a time dimension that the others do not have. The fact that Grand Rapids grows faster may be of use to a person who is contemplating a move from Chicago to find a quieter place to live. But it might be of more interest to a business manager who believes that rapidly-changing communities have workers who are more adaptable to change and who, therefore, make better employees in the long run.

Comparisons have usefulness in general in addition to being practically beneficial to persons, public agencies, or businesses. The presentation of an economic fact often requires a base of comparison to set its meaning. Everyone knows that retail sales in Grand Rapids in December are greater than in other months of the year. That statement is more useful than one that says that retail sales in Grand Rapids were eighty million dollars in December, 1984. Even more useful is a statement that retail sales in December in Grand Rapids are typically about 160 percent of the average month. That means that a typical retailer that sells an average of \$1,000 worth of merchandise a month can expect to sell \$1,600 in December and less than that in most other months. Growth rates are almost always useful ways to make comparisons. Chicago may have added many more people to its work force during the past three years than Grand Rapids has. But most of us would like to know, in addition to that, how Grand Rapids compares with Chicago in a way that compensates for the huge difference in size. We see that by comparing rates of growth—the change in the number of employed as a ratio of the initial level of employed persons. Index numbers also give a useful comparison basis for tracking trends in several kinds of economic activity.

The preliminary composite index of economic activity for Grand Rapids in March, 1985, was 122.7. That means nothing to you unless you also know that the index had a value of 100 in 1977. It becomes even more useful when you discover that the comparable U.S. index of economic activity had a value of 119.6 in March, 1985. That means that the level of economic activity in Grand Rapids has

been advancing along with the rest of the country.

Indices of economic activity are useful mainly to persons curious about tracking trends in the community, getting a rough idea of the sources and nature of change in the community and comparing that with other communities or with the rest of the country. The two series that are shown on the chart compare Grand Rapids with the United States as a whole using monthly facts that are reasonably fresh, some of which are collected locally.

Grand Rapids as well as the rest of the country suffered recessions in 1980 and 1982. Since then, growth in economic activity has been steadily upward. For both Grand Rapids and the United States as a whole, this growth has been due to consistent upward movements in all of the components of the economic activity indices. This means that retail sales (in real terms) have been greater, construction activity has been greater, industrial power use has been greater, employment has been greater, and check-writing activity has been greater.

One exception is residential construction activity for Grand Rapids, which was growing more rapidly in 1983 than in 1984. For the United States as a whole, residential construction activity began growing in 1982, grew rapidly in 1983, and then slowly in 1984. The level of residential construction activity in Grand Rapids is about 70 now as measured by the index of residential construction activity. This makes it about 70 percent of what it was in 1977. In 1978 the average value of this index was 119—a high point in recent history.

The composite index is made up of a weighted average of five economic indicators: bank debits, retail sales, residential and nonresidential 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 of the F. E. Seidman School of Business.

GRAND RAPIDS ECONOMIC ACTIVITY INDEX

