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The Grand Rapids Economic Index

Slower Growth Rates

By William Peterson

The recession which caused economic activity to reach a low point in 1982 ended with a substantial recovery which began late in 1982 and has continued to the present time. There were small adjustments along the way, but the overall upward movement has not yet shown signs of reaching a peak. Nevertheless, the rate of growth has not been as rapid in recent months. The composite index of economic activity for Grand Rapids reached a level of 113.6 in December 1984, 9.5 percent above its level of 103.7 a year earlier. From December 1983 to December 1984, however, the growth was 7 percent, and the growth from December 1984 to December 1985 is expected to be 4 percent. That's not bad, but it is useful to consider the reasons for the slower growth.

Residential construction activity, which grew at a very rapid rate in 1983, has continued to grow but at a much more moderate pace. It had reached a very low point in 1982, so its growth rates have been high as a consequence of a low starting position. Residential construction activity grew 66 percent during 1983. The growth in 1984 was about 15 percent, and it is expected to be over 20 percent in 1985. While this is excellent progress in the recovery of the construction industry, it is far from the horrid rate of the 1983 recovery. During the three-year period from December 1982 to December 1985, growth in residential construction activity in the Grand Rapids area is expected to be 234 percent. By comparison, residential construction activity for that same period for the United States as a whole is expected to be 154 percent. Non-residential construction activity reached its low point in 1982, when the index value was 59.2. This means that non-residential construction activity was 59.2 percent of its average activity in 1977. It grew 26 percent from December 1982 to December 1983. Growth in 1984 and expected growth in 1985 are 38 percent and 5 percent respectively. Growth during the three-year period from December 1982 to December 1985 was 183 percent for Grand Rapids compared with 126 percent for the United States as a whole.

The use of industrial electric power, our best measure of industrial production in Grand Rapids, shows a pattern which is very similar to what it is in the United States as a whole: rapid growth in 1983 and low growth rates in 1984 and 1985. This provides some evidence that there is a movement of employment away from industrial production activity toward service industries. This often means lower incomes and lower spending for goods and services.

The employment index provides further confirmation of this idea. Employment grew 2.4 percent from December 1982 to December 1983, 3.2 percent the next year, and (expected) over 4 percent during 1985. Continued increases in employment coupled with declines in the rate of growth in overall activity suggest that people are now working in jobs that pay lower wages.

This might help to explain why retail sales activity appears to be growing at a lower rate. Retail sales growth activity is difficult to capture in simple month-to-month percentage changes because there are some rather substantial changes from one month to the next which distort the meaning of the changes. It is safer to look at total retail sales for each year and compare years rather than months. Real retail sales in 1983 were 6.9 percent above sales in 1982. Sales for 1984 were 8.3 percent above 1983, and the sales for 1985 are expected to be 6.5 percent above sales for 1984. By comparison, sales for the United States as a whole are up 5.8 percent in 1983, 5.8 percent in 1984 and (expected) 2.3 percent in 1985 in real terms.

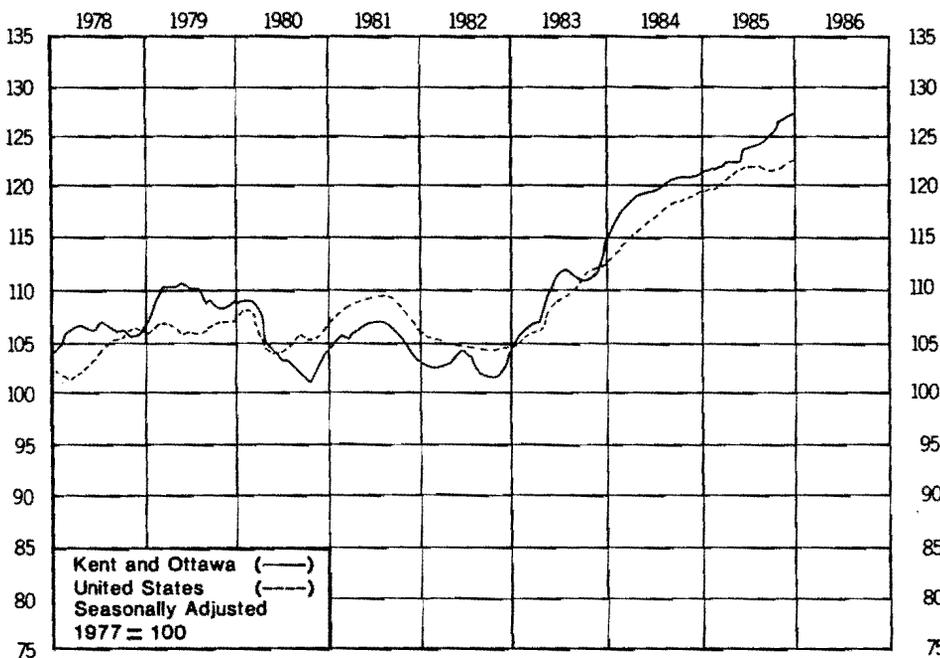
The composite index is made up of a weighted average of five economic indicators: bank debits, retail sales, residential and non-residential construction, industrial power consumption, and employment, all of which are adjusted for seasonal variations and for the effects of inflation.

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 of the F.E. Seidman School of Business.

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GRAND RAPIDS ECONOMIC ACTIVITY INDEX



Seidman School Management

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