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Grand Rapids Economic Forecast 2009

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Grand Rapids Economic Forecast 2009

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- Business confidence index has dipped below 50% for the first time in 14 years
- Employment is expected to decline by 1% in 2009
- Overall nominal sales are expected to fall by 0.5% for 2009
- Exports continue to be a bright spot; expected growth is 5% during 2009
- The sharp decline in regional confidence, employment, and sales reflect the impact of a prolonged recession

Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan Counties) was conducted in November 2008. A survey was mailed to the CEOs of approximately one thousand 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 area. Eventually, 249 organizations responded. Due to the small sample size, the survey should be interpreted with caution.

Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages (when calculated without adjusting for outliers—responses beyond one standard deviation). Since the average of a small sample is overly influenced by extreme numbers, we use the averages without the outliers to provide more reliable results. The histograms, however, depict all the available observations to show the broad picture. Note that the total numbers in the histogram figures do not add up to exactly 249 because a few respondents did not provide their employment or sales data.

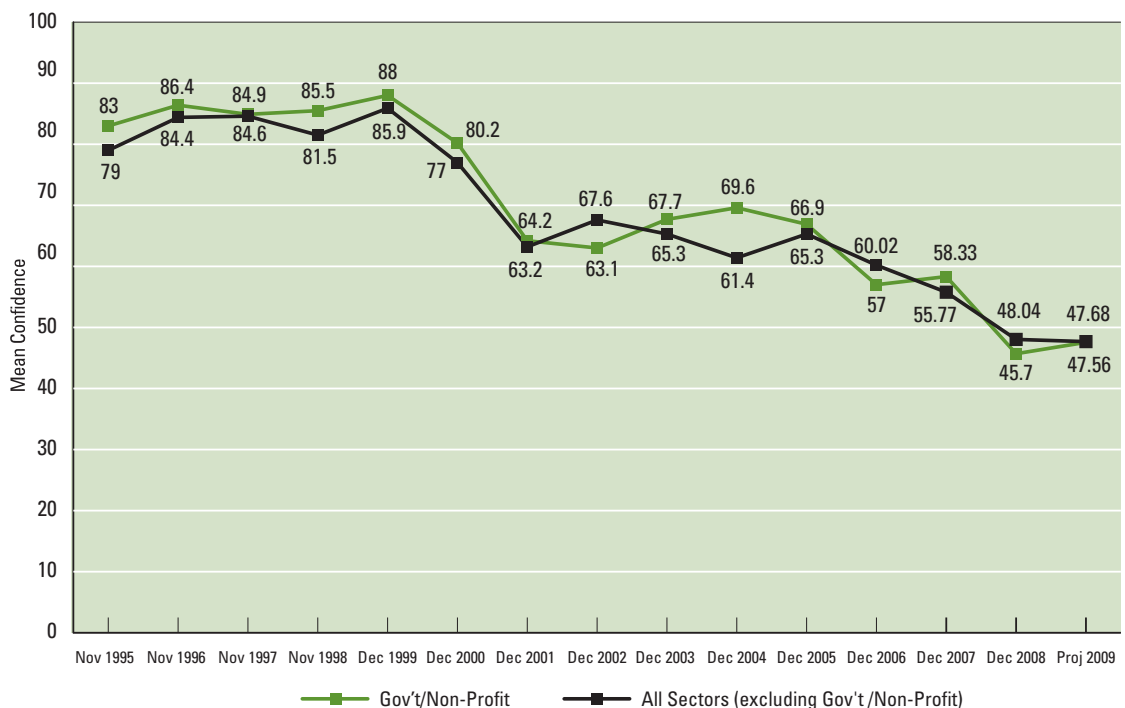
Please note that when values go down, the percentage numbers are shown in *absolute value terms* to avoid a *double negative* in the sentences.

Confidence Index

A major goal of our survey is to historically track the overall business confidence of the Grand Rapids metropolitan area by a confidence index. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence). The current results need to be interpreted in a larger historical context. During our surveys of the region for the last fourteen years, when the economy has been growing steadily at a robust rate, the confidence index has depicted a high level of confidence, generally around 80% for the private sector. In response to the question: *How confident are you in the economy for 2009?* here are the average responses for the private sector and the government/non-profit sector over the last 14 years (Figure 1).

Consider the private sector confidence index. Since the 2001 recession, the confidence index has been in the vicinity of the

Figure 1 West Michigan Confidence Index 2009



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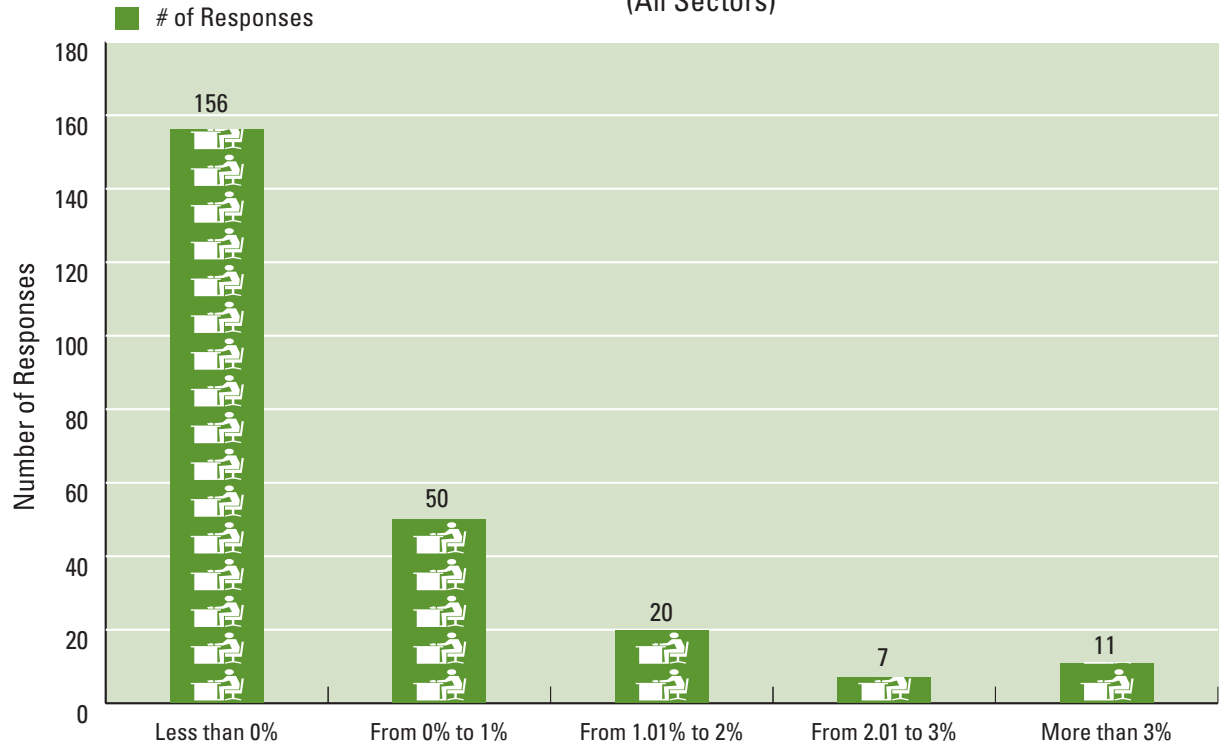
sixties and the high fifties. However, the confidence index in November 2008 was 48.04%. For the first time in 14 years, the confidence index has slipped below the 50% benchmark. It is projected to be marginally lower at 47.68 for 2009. The government and nonprofit sectors have similar numbers (45.7% for 2008 and 47.56% projected for 2009). West Michigan had not recovered completely from the 2001 recession, and we are now in the midst of another prolonged recession. Factors that continue to depress expectations for 2008 and 2009 include the sub-prime housing market crisis, significant tightening of credit, and rising unemployment due to the prolonged recession. The dramatic corporate failures of large companies and banks throughout 2008 have bruised consumer and business confidence significantly. The problems of the big three auto manufacturers add further pessimism to the mix.

Employment

Due to the ongoing restructuring in the manufacturing sector, the regional labor market in West Michigan had been repairing at a very slow pace since the recession of 2001. The respondents answer the following question: *What percent change do you expect in employment for the four counties in 2009?* Last year employment was projected to be relatively flat. Now we are in the midst of another prolonged contraction. The projected change in employment for 2009 for the private sector is a decline of almost one percent (the average reduction is 0.94%). In the public and non-profit sector, the reduction is slightly smaller (0.54%).

Employment in the manufacturing sector continues to decline as more consolidation in the workforce takes place, particularly in auto and auto-related industries, and there has been recent weakness in the furniture industry due to the global slowdown. The direct and indirect economic impact of the drastic employment reductions among American automakers have been an on-going negative shock to the regional economy.

Figure 2 Respondents' Anticipated Change in Employment for 2009 (All Sectors)

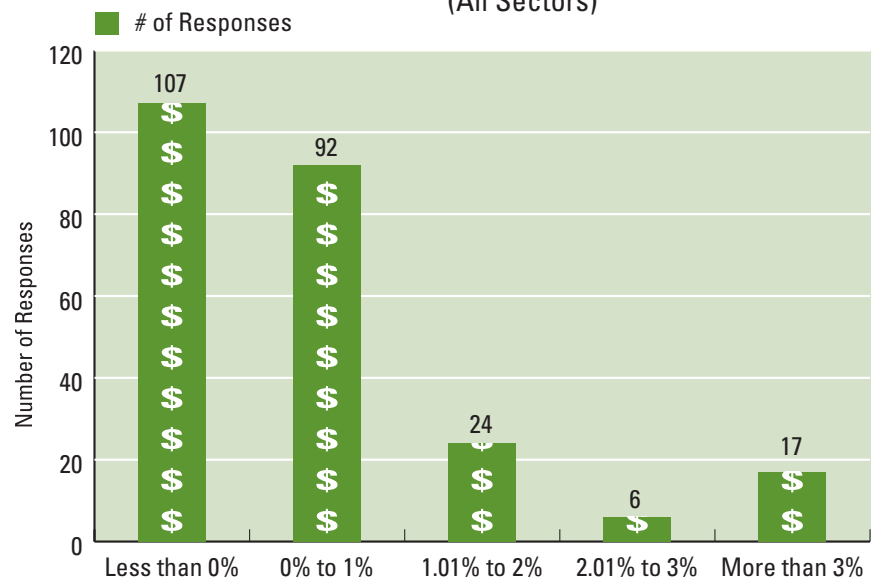


This will have a relatively less negative impact in the west compared to the east side. However, the consolidation and job losses in manufacturing will continue in West Michigan.

Sales

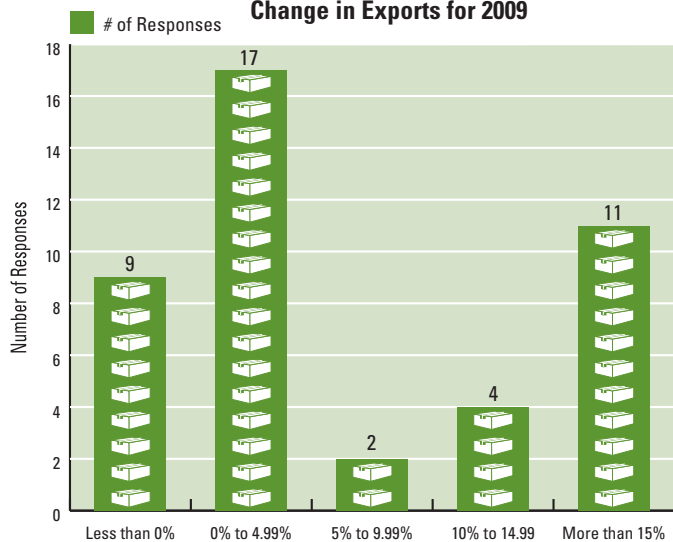
For sales, the respondents answer the following question: *What percent change in sales do you project for the four counties in 2009?* In times of robust economic growth, sales have grown at an annual rate of 5%. Sales projections made by respondents for last year were 1.45% without outliers. Next year, sales are expected to decline by .54%. The expectations of our respondents indicate that sales are likely to be relatively

Figure 3 Respondents' Anticipated Change in Sales for 2009 (All Sectors)



depressed for 2009. Note that our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy. Consequently this decline could be in prices and/or quantities.

Figure 4 Exporting Respondents' Anticipated Change in Exports for 2009



Export growth

During good times the expected growth in exports has generally averaged higher than 5% in the late 1990s. Last year, exports were expected to grow at 4.36%. Given the fluctuation in exchange rates and a world-wide recession, it is not surprising that expectations for growth in exports are volatile. Overall, exports continue to show a robust growth pattern, averaging at 6.14% (Figure 4). Compared to the domestic outlook, export growth is a bright spot for the regional economy. However, since the expected growth of exports is based on a much smaller sample of only 43 respondents, it should be viewed with caution.

The expectations about achieving a robust regional growth rate of 5% in the near future do not appear to be good (Figure 5). 44% of the respondents do not expect good times to return until after 2010. Roughly the same number, 42%, expect the good times to return within two years, by December 2010. Only a small minority (13%) expect that the economy will turn around dramatically in 2009. This finding corresponds to the historically low business confidence for 2009 compared to previous years.

These results are consistent with Dr. Brian Long's *West Michigan Supply Management Survey of Purchasing Managers* (N.A.P.M.) that shows a significant drop in production and employment in 2008.

What is the final word on the national and regional economy? At the national level, the economy is going through a severe

recession. More than half a million jobs were lost in November of 2008. Unfortunately, significant further job losses seem inevitable. It is not clear when the bottom of this contraction will actually take place. The Federal Reserve Bank has been lowering interest rates to prevent a further slowdown in the economy. However, the impact of lower interest rates has been limited. This is because tight credit conditions for consumers and businesses continue in spite of substantial bailout plans and the provision of more capital. Banks have become more risk averse about lending and are in the process of shoring up their damaged balance sheets. The housing crisis that began this recession continues to be a significant drag on the economy.

An ambitious stimulus package of \$700 billion dollars or more is likely in early 2009. This package could include a middle class tax cut and significant infrastructure spending. In spite of this projected stimulus package and lower interest rates, economic conditions are likely to get worse before they get better. Nationwide unemployment will continue to rise as large corporations downsize to improve their balance sheets and small businesses face tighter credit conditions. Unemployment is likely to crest above 10% in 2009. The economy will continue to contract for most of 2009 with a possible turn-around in the fall. There will be considerable variation in GDP growth rates each quarter. Overall, nationwide GDP may contract between 1% and 2% for the entire twelve months of 2009.

At the regional level, since the consolidation in the manufacturing sector is likely to continue, the outlook is also not optimistic. Employment will shrink by approximately 1% and nominal sales will go down marginally by approximately 0.5%. In spite of a world-wide slowdown, export growth has a potential upside. However, the average projected growth of 6.14% seems too optimistic. Exports may grow in the 4% to 5% range.

West Michigan will continue to find a foothold by diversifying away from manufacturing into specialized services such as health care, professional services, and education. In spite of difficult times, the state needs to ensure that it will create a highly-qualified workforce for the future. State resources need to be leveraged to position West Michigan strategically in growth sectors of the future.

Besides health care and homeland security, state policies need to promote more renewable/alternative energy production options within the state. An upgrading of the infrastructure may also take place based on the national stimulus package. Ultimately, a large part of Michigan's future will depend upon whether the big three auto manufacturers can restructure their costs sufficiently and build cars that are competitive with Japanese models.

Acknowledgments

We are very grateful to all the organizations that participated in the survey. ■

Figure 5 Respondents' Anticipated Date of Economic Rebound (All Sectors)

