Greater Grand Rapids Economic Forecast

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Greater Grand Rapids Economic Forecast

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- The Confidence Index for the West Michigan economy has rebounded to 86%.
- Employment growth is expected to be 2% or higher.
- Sales growth is projected to grow at 4%.
- Export growth rates are expected to increase to 6%.

Introduction

Seidman School of Business of GVSU conducted the sixth annual economic survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan counties) in January 2000. The survey instrument was mailed to the CEOs of a representative sample of 500 organizations. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the region. One hundred ten organizations responded. 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 in a histogram format to show the entire distribution.

![Figure 1](image-url)

West Michigan Confidence Index

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We are grateful to Latchezara Tchaoucheva, a Research Assistant at Seidman Business Services, who helped us administer the survey and format the data.
Confidence Index

A major focus of our survey effort is to historically track the overall business confidence of West Michigan with a confidence index. The confidence index is scaled from 0% (no confidence at all) to 100% (complete confidence). Our surveys of the region for the past five years have depicted a high level of confidence in the economy, generally above 80% for the private sector.

The surprising result in the last survey, conducted in November 1998, was that the projected confidence index for 1999 had dipped below 80% for the first time, to about 77%. Recall that 1998 was a time of the Asian crisis, and there was concern about the contagion effect of this crisis reaching American shores. The Federal Reserve Bank had reduced interest rates on three consecutive occasions by 25 basis points each to restore confidence. However, in 1999 the threat of the Asian crisis damaging our economy dissipated. The Federal Bank took back the three decreases in interest rates, and the Millennia bug turned out to be a real wimp!

In this context of restored confidence, it is not surprising that the West Michigan Confidence Index is on the rebound to 86% at the present time. Figure 1 shows the confidence index estimates at the point in time when each survey was conducted. Note that the confidence level for the private sector is almost 86% for January 2000 and drops marginally to 83% for the projection. This is consistent with past surveys, suggesting that respondents feel that the good times may not last through the next year. In order to be pragmatic, their projected estimates for the year generally tend to be marginally lower. The estimates for the Govt./Nonprofit sector are relatively higher. However, because of a larger sample size, we rely more on the private sector estimates.

The results of this confidence index which samples generally large or medium size firms is consistent with the results obtained by Dr. Thomas Dandridge, Director, Center for Entrepreneurship, Seidman School of Business. His sample of West Michigan businesses (with fewer than 25 employees) indicates a confidence level of 83% in January and a projected confidence index of above 80% for 2000. The projected level has gone beyond 80% for the first time. The overall confidence in the West Michigan economy is high and appears robust across firms of all sizes.

This renewed confidence for the West Michigan economy mirrors the national economic outlook. Although the national economy has been growing at a fast rate and we have the longest expansion ever, going beyond nine years, the projected growth in real output for the national economy in the year 2000 is expected to average 3.5% (Consensus forecast from The Economist). Most economists expect the Federal Reserve Bank to continue to temper the growth rate to prevent overheating. In spite of talk about the new paradigm, a rate higher than 4% is likely to create inflation—and when the Federal Reserve Bank slams the brakes, the possibility of a hard landing cannot be ruled out! Consequently, our best scenario for the national economy is that we continue to grow at a sustainable rate of 3.5% to 4.0%.

Employment

Figure 2 indicates anticipated employment growth for 2000. Respondents projecting employment growth for 2000 expect approximately a 1.85% increase.

First, consider this estimate within the context of what we know as of January 2000. Total employment growth averaged 3.2% for 1999.
Second, note that George Erickcek from the WE. Upjohn Institute of Employment Research has projected overall employment to grow at 2.7% for 2000. Although the furniture industry has lost about 500 jobs, other parts of the regional economy are creating jobs at a fairly robust rate.

Third, consider the basic constraints of employers. The general comments of the respondents indicate that the shortage of skilled workers will be the major constraint on the region’s growth potential. The respondents of this survey are generally more pessimistic about job growth because of the difficulties they encounter in hiring and retaining skilled workers.

Seventy-two percent of the respondents have broadened their job search to throughout West Michigan. Twenty-five percent of the respondents are looking for skilled workers at the national level. A small proportion (3.6%) are recruiting internationally. As the pool of available skilled workers in West Michigan gets more restricted, it is not surprising that employers are widening their search base. The traditional sources for obtaining workers (employee referrals are used by 70%, newspaper advertisements by 82%) are giving way to more innovative ways (presently 38% of the respondents advertise jobs on the Internet and 55% rely on networking).

So what is the bottom line? The respondents’ employment projections for 2000 of approximately 1.85% growth in employment seem pessimistic—reflecting the tightening constraint they face, rather than what they may actually achieve. Our personal projection of employment growth is around 2.5% for 2000.

Sales
Sales projections made by respondents for last year were approximately 3%. The results of the current survey indicate that respondents have raised their expectations of sales for 2000 to around 3.8% growth (Figure 3).

This is consistent with the rebound in the confidence index. The retail sales increase estimated by Sales and Marketing Management (New York, 1998, pp. 171) for the area is 29.8% compound growth for 1997–2002. Our personal projection is more optimistic: 4% to 4.5% for 2000. Note 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
The expected growth in exports for 1999 among respondents who export their output was projected to be only 2.5% because of the Asian crisis. The good news is that exports are likely to be on the rebound—the projected growth rate for the firms that export in 2000 is 6% (Figure 4). Some of the respondents attribute the expected increase to new products and better conditions in Asia and Latin America. Since the estimate is based on a small sample and there is a wide variation in data, it should be interpreted with caution.

Acknowledgment:
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