Grand Rapids Economic Forecast 2013

Paul Isley

Grand Valley State University

Follow this and additional works at: http://scholarworks.gvsu.edu/sbr

Recommended Citation
Available at: http://scholarworks.gvsu.edu/sbr/vol19/iss1/4
Grand Rapids Economic Forecast 2013
Paul Isely, Ph.D., Department of Economics
Seidman College of Business

- Business confidence index in 2013 is poised to match the confidence in 2012 at 63%
- Employment is expected to grow by 1.7% to 2.3% in 2013
- Overall nominal sales are expected to increase by 2.4% for 2013
- Exports continue to be a bright spot; expected growth is 5.4% during 2013
- All indicators signal a continuous but slow improvement in 2013

Introduction
The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties) was conducted in November 2012. A survey was mailed to the CEOs of nearly 1000 organizations based on a representative sample reflecting the different sectors and the geographical diversity of the regional economy. Responses came from 213 organizations, a response rate of 23%. Due to the small sample size, the survey should be interpreted with caution.

A few methodological considerations are in order. 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 significantly 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 213 because a few respondents did not provide their employment or sales data.

Confidence Index
A continuing goal of our survey is to historically track the overall business confidence of the Grand Rapids area with a confidence index. The confidence index respondents use...
a scale from 0% (no confidence at all) to 100% (complete confidence). The average responses for the private sector and the government/non-profit sector over the last 18 years to the question: How confident are you in the regional economy? are shown in Figure 1.

Last year, the private sector confidence index surpassed 60% for the first time since the recession that began in 2007. At this level it is consistent with the confidence levels expressed in the survey during 2001–2005. Prior to 2001, the confidence index was generally around 80% for the private sector. In November 2012, it increased to 63.4%, and it is expected to hold steady in 2013 at 63.1%. The government and nonprofit sector, however is expecting a better year in 2013, with the index increasing from 58.6% for 2012 to a projected 65.2% for 2013.

For the first time in the last five years, the projected confidence is remaining above the 60% benchmark. The regional economy is expected to continue the slow growth seen in 2012 during 2013, continuing the reverse of a long consolidation process.

Employment
Due to the restructuring in manufacturing, the regional labor market in West Michigan had been repairing at a very slow pace since the recent recession. For 2012, employment was projected to grow at an average of 1.5–2%. Actual employment growth was much faster. The numbers from the Local Area Unemployment Statistics (LUAS) survey indicate that employment in KOMA has grown by approximately 3.6%. It appears that our projection last year was less optimistic than what actually happened in 2012.

Expectations for 2013 were affected partially by the fact that 41% of the respondents returned their surveys within a day before the presidential election. In addition there continues to be a tight credit market for small businesses, a persistently high unemployment rate, fiscal uncertainty and higher debt at the federal level, and ongoing concerns about the Eurozone. We continue to see benefits in West Michigan from the resurgence of manufacturing.

The respondents answer the following question: What percent change do you expect in employment for the four counties in 2012?

In 2012 the distribution was clustered in the 0–2% range, but now it is clustered in the 0–3% range. In addition 43% of respondents expect to hire more than 2%. Only 13 respondents expect to reduce their work force. Average employment is expected to grow at 2% which is a strong improvement from the 2012 expectations. Given these expectations, regional employment should grow at or above 2% in 2013.

More than half of the respondents (58%) expect to hire next year. Of those persons being hired, about 70% are expected to be permanent workers. This continues to suggest hiring in West Michigan at a rate faster than the country as a whole.

Sales
For sales, the respondents answer the following question: What percent change in sales do you project for the four counties in 2013? In times of robust economic growth, sales have grown at an annual rate of 5%. We can see in Figure 3 that respondents are clustered around 1–3% much as they were last year. We should expect sales to grow at a rate of 2.4% in 2013.

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

Export Growth
Exports have been a bright spot in the West Michigan economy the last few years. This year exports are expected to
grow at a slower rate than the last few years at approximately 5.4% (without outliers) and 6.6% (with outliers). Actual growth will be 5.5–6.5% for 2013. However, since the expected growth of exports is based on a much smaller sample of only 92 respondents, it should be viewed with caution.

**General Expectations**

The slow improvement in employment, sales, and exports has also influenced the expectations for achieving a robust regional growth rate of 5% in the near future. (Figure 5). Approximately 48% expect a robust growth by December 2014. A significant majority (52%) expected a robust growth only after December 2014. These numbers are less pessimistic than last year; however, given the continued global uncertainty and the continuous bickering at the Federal level, this pessimism is understandable.

**General Outlook**

At the national level, expected growth will average 2–3% for 2013. The economy will continue to grow slowly, but also slowly accelerate from 2012. Nationwide employment will continue to improve in 2013. Full-time hiring will increase significantly as businesses become progressively more confident about the future. However, it is not likely that the employment situation will improve dramatically. By the end of 2013 the unemployment rate should still be above 7.0%.

At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above the 60% benchmark. Employment will grow by approximately 2%. Nominal sales will increase by 2.4%. In spite of its volatility, exports have always been a bright spot during the Great Recession and are projected to continue to grow next year by 5.4%.

The same possible pitfalls that existed last year remain for 2013. These include a significant meltdown in the Eurozone, further downgrading of U.S. debt, and/or some other external shock.

**Acknowledgments**

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