

2015

Grand Rapids Economic Forecast 2015

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Grand Rapids Economic Forecast 2015

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The Current Business Confidence Index for 2014 is 75%, its highest reading since the 1990s.

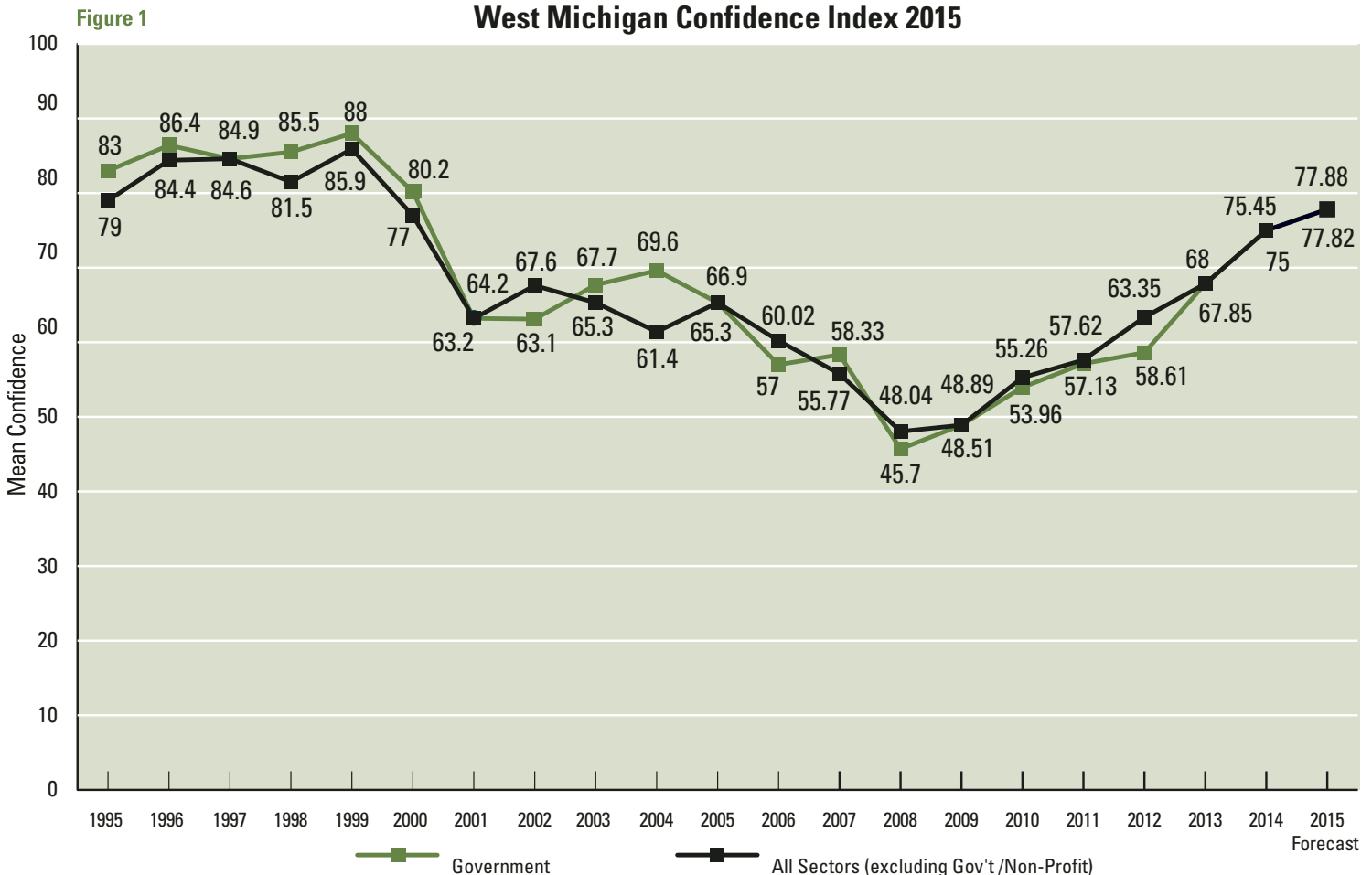
- The Forecast Business Confidence Index for 2015 is 77.8%.
- Employment is expected to grow by 2.8%–3.2% in 2015.
- Overall, nominal sales are expected to increase by 2.5%–2.9% for 2015.
- Export growth in 2015 is forecast to be weaker than last year; expected growth is 6.7%–7.7% during 2015
- All indicators signal the 2015 economy continuing to grow as last year.

Introduction

The survey for the greater Grand Rapids economy, Kent, Ottawa, Muskegon, and Allegan counties (COMA), was conducted in December 2014. A survey was mailed to the CEOs and business leaders for just over 964 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, 170 organizations responded, resulting in a response rate of 18%, which is consistent with previous years. However, due to possibility of a non-random response sample, 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 170 because a few respondents did not answer all questions.

Figure 1 West Michigan Confidence Index 2015

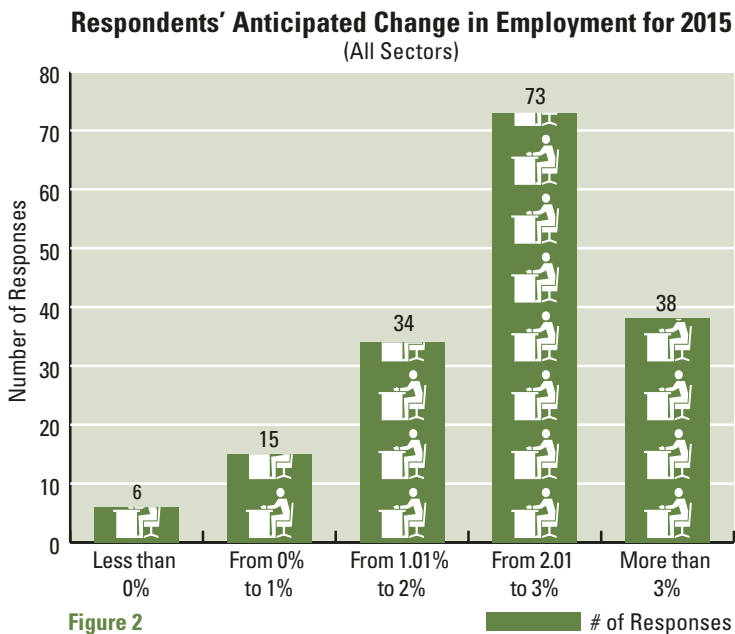


Confidence Index

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). In the average responses over the last 19 years to the question: *How confident are you in the regional economy?* are shown in figure 1.

Last year, the expected private sector confidence index for 2014 was 70%, but by the end of 2014 originations reported their current confidence at 75%, showing firms were positively surprised for the second year in a row. For 2015, organizations expect a 75% confidence level, which is the highest reading since December 1999. There has been a steady increase in confidence since the low seen in 2008, and the West Michigan business leaders surveyed see this improvement continuing during 2015.

The West Michigan confidence is now back to levels seen during the 1990s. The regional economy is expected to continue to grow in 2015, but the rate of this increase is also expected to slow down.



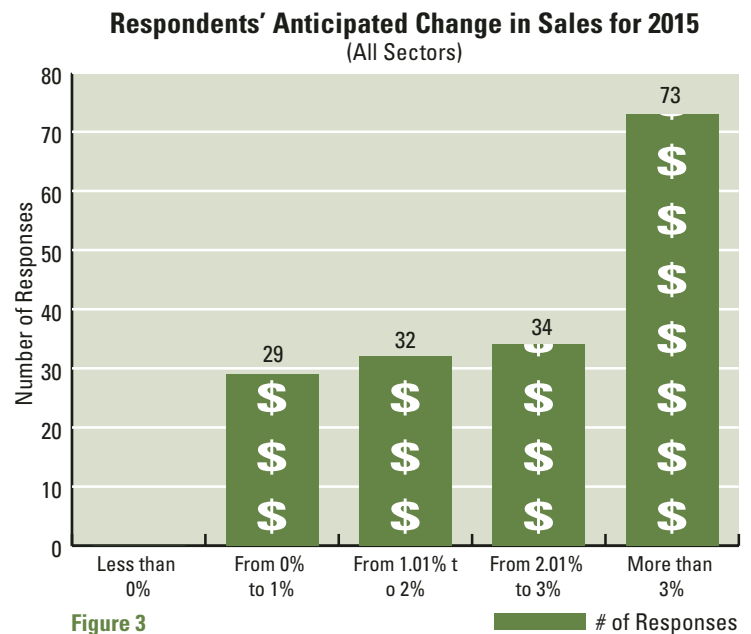
Employment

Michigan's economy was led out of the recession of 2007 to 2009 by automotive manufacturing. This growth is now slowing and employment growth is shifting to services. For 2014, employment for KOMA was projected to grow at an average of 2.7–3.1%. The numbers from the Local Area Unemployment Statistics (LUAS) survey indicate that employment in KOMA has grown by approximately 6.8% from October 2013 to October 2014, reflecting the positive surprise seen by business leaders. The more accurate Current Employment Survey shows a 3.8% employment growth for the covered Metro Statistical Areas. This is also above the top end of the forecast range for last year.

Figure 2 shows the responses to the question: *What percent change do you expect in employment for the four counties in 2015?*

In 2014, 40% of respondents expected hiring growth greater than 3% in 2014, but now 22% expect hiring to grow that fast in 2015. In addition, 3.6% of respondents expect to reduce their work force compared to less than 1% last year. This suggests that business leaders see employment growth in 2015 to moderate. Average employment in the KOMA region is expected to grow at 3.0% which is nearly the same as expectations last year, but well below actual employment growth in 2014.

More than three quarters of respondents (78%) expect to hire in 2015, which is up from 69% last year. Of those persons being hired, about 80% 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 question: *What percent change in sales do you project for the four counties in 2015?* During the late 1990s, sales grew at an annual rate of 5%. Over the last few years the respondents have been clustered around the 1%–3% range. This year, sales are expected to grow at 2.7%, only slightly faster than last year.

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

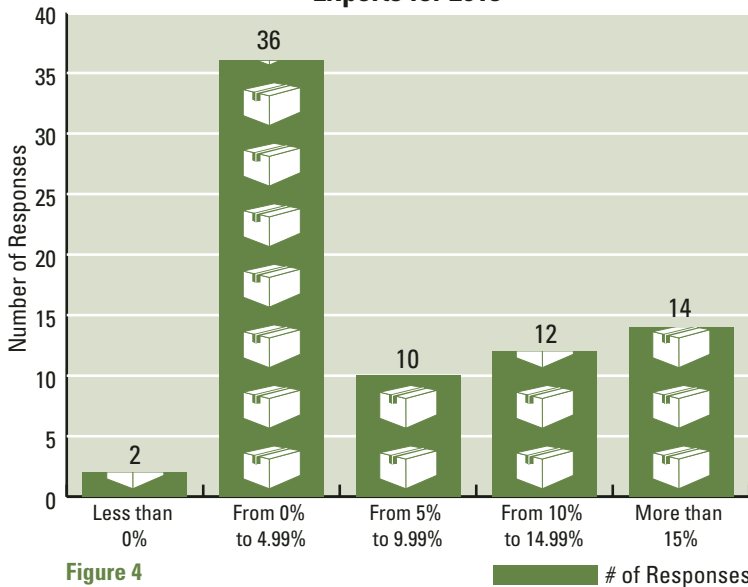
Exports have been a bright spot in the West Michigan economy the last few years. This year, exports are expected to slow down compared to last year, with respondents expecting a 7.2% increase for 2015. This reflects the slowdown in

the rest of the world. However, since the expected growth of exports is based on a much smaller sample of only 74 respondents, it should be viewed with caution.

Acknowledgments

This study could not be completed without the assistance of the SBDC West Michigan Region staff. We are very grateful to all the organizations that participated in the survey. ■

Exporting Respondents' Anticipated Change in Exports for 2015



General Outlook

At the national level, expected growth will average between 2.5% and 3.5% for 2015. The economy will continue the slow acceleration seen in 2014. Nationwide employment will continue to improve in 2015. Full-time hiring will continue to increase, but not at the rate seen over the last year in West Michigan. In addition, tightness in the labor markets will likely lead to increases in wages in sectors like construction and manufacturing.

At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above 70%. Employment will grow by approximately 3.0%. Nominal sales will increase by 2.7%. 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 7.2%.

Two major uncertainties exist for 2015. First, the United States stands alone in economic growth. The headwinds internationally are affecting domestic growth, but so far the effects have been limited. The longer the rest of the world takes to become more vibrant, the larger the effect will be on the United States. During the second half of the year commodity prices dropped drastically, especially energy prices. This is because of increases in supply and decreases in demand internationally. The drop in prices is now large enough that some producers may begin to exit the markets, and this will start to increase prices in the longer term. Overall, the U.S. and West Michigan economies ended 2014 better than they started them, and 2015 will see more of the same.