2017

Grand Rapids Economic Forecast 2017

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The Current Business Confidence Index for 2016 is 78.3%, a small improvement over last year. The Forecast Business Confidence Index for 2017 is 80.7%. Employment is expected to grow by 2.0%-2.2% in 2017. Overall nominal sales are expected to increase by 2.8%-3.2% for 2017. Export growth in 2017 is forecast for continued weakness; expected growth is between 1.6% and 3.6% during 2017. All indicators signal the 2017 economy continuing to grow, but the pace, particularly in employment, will be slower than seen in 2016.

Introduction
The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties) was conducted in November and December 2016. A survey was mailed to the CEOs and business leaders for just over 966 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, 154 organizations responded, resulting in a response rate of 16%, which is a little lower than previous years, but still large enough to make inferences. However, due to possibility of a non-random response sample, the survey should be interpreted with caution. In addition, the survey was delayed two weeks this year to allow leaders more time to digest the results of the presidential election.

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.

Confidence Index
The confidence index has been tracked by researchers at the Seidman College of Business since 1995. A continuing goal of the 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 zero percent (no confidence at all) to one hundred percent (complete confidence). In response to the question: How confident are you in the regional economy? The average responses for the private sector and the government/non-profit sector over the last 21 years are shown in Figure 1.

Figure 1: West Michigan Confidence Index Forecast 2017

- Government
- All Sectors Excluding Govt/Non-Profit

![Figure 1: West Michigan Confidence Index Forecast 2017](image)
For the last three years, the respondents have underestimated the strength in the coming year. Last year, the private sector confidence index expected for 2016 was 77.6%, but by the end of 2016, survey respondents reported their current confidence at 78.6%, showing firms were positively surprised yet again, but barely. For 2017, private organizations expect an 81.2% confidence level. This brings the confidence index above 80 for the first time since the 1990s. Over the last three years, the confidence level has been basically flat; however, this year the expectation has noticeably improved. This is good news for continued growth in the West Michigan region.

**Employment**

For 2016, employment for KOMA was projected to grow at an average of 2.6 – 3.0%. The numbers from the Current Employment Survey indicate that employment in the Grand Rapids area has grown by approximately 2.4% from November 2015 to November 2016 which is consistent with the slight overall estimation seen in the confidence index last year.

The respondents answer the following question: *What percent change do you expect in employment for the four counties in 2017?*

Compared to 2016, the expectations on job growth have become more muted. The expected job growth has decreased by a third. This is primarily a drop in expectations of the most optimistic survey respondents with those expecting more than 3% growth dropping from 33% of the respondents in 2016 to less than 15% of respondents for 2017. For the first time in several years, the majority of firms see less than 2% job growth for the coming year. This continues the moderation in job growth that began three years ago. Average employment in the KOMA region is expected to grow at 2.1% which is strongly below last year’s expectations and last year’s actual employment growth.

Although there is a slowdown in the expected growth in employment, the number of firms expecting to hire this year continues to increase and has reached 85% for 2017, up from 82% last year and 78% the year before. Of those persons being hired, about 75% are expected to be permanent workers, which shows firms’ level of optimism for 2017, but it is still below the rate seen in 2015 when 80% of the hires were expected to be permanent.

**Sales**

For sales, the respondents answer the following question: *What percent change in sales do you project for the four counties in 2016?* During the late 1990s, sales grew at an annual rate of 5%. Last year 23% of respondents were expecting growth above 3%. For 2017, the percent of firms looking for sales growth above 3% has increased to 28%. More striking is the strong increase in firms expecting more than 2% growth, with the number jumping from 46% last year to 65% in 2017. The result is average expected sales growth increases from 2.5% last year to 3.0% in 2017. The increase could be because of an increase in prices and/or quantities. As inflation is expected to grow next year, much of the sales growth is likely a result of price increases, however, this number is strong enough to indicate increases in real output.
Export Growth
Exports have traditionally been a bright spot in the West Michigan economy. This year, exports growth is expected to continue a slowdown started two years ago, with expected growth dropping to 2.6% in 2017. This reflects the slowdown in the rest of the world and the strength of the dollar. However, the numbers appear to be stabilizing with slow growth where few expect large growth.
General Outlook

At the national level, expected growth indicated by the major economic surveys and the Federal Reserve (in December of 2016) will average between 2.2% and 2.5% for 2017. The economy will continue the slow growth seen recently. Nationwide employment will continue to improve in 2017. 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 already are leading to increases in wages in almost all sectors.

At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above 80%. Employment will grow by approximately 2.1%. Nominal sales will increase by 3.0%. In spite of its volatility, exports have always been a bright spot, but this engine of growth is expected to continue the recent slowdown and grow at only 2.6%.

Public policy will generate major uncertainties for 2017. The incoming presidential team is looking to change many longstanding policies. These changes have both positive and negative potential, but it will take some time to understand what will get changed and how this will affect the economy. The biggest downside concern to economists is the anti-trade and anti-immigration rhetoric. The United States has benefited greatly from trade over the last 50 years by keeping costs down and increasing choices. Moving away from trade will likely generate more inflation. In addition, there are skilled labor shortages around the United States. The ability to increase production will be constrained if skilled labor cannot be imported. The unknowns surrounding the policies being proposed make it harder to plan for 2017 and 2018 which will likely slow the US economy in the short run until the effects can be understood.

Finally, with the projected growth in GDP, the US economy will likely cross potential GDP sometime in the next 18 months. Potential GDP is the maximum level of output that can be sustained for long periods of time. Historically, when this happens, a recession follows in two to three years. However, this will not affect 2017, so the US and West Michigan economies will end 2017 better than they started them.

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