

2018

Grand Rapids Economic Forecast 2018

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Grand Rapids Economic Forecast 2018

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- The Current Business Confidence Index for 2017 is 80.5%, a small improvement over last year.
- The Forecast Business Confidence Index for 2018 is 80.3%, almost identical to the expectations for 2017.
- Employment is expected to grow by 1.1% to 1.5% in 2018, almost half the rate seen in 2017.
- Overall nominal sales are expected to increase by 3.1%-3.5% for 2018, continuing last year's growth.
- Exports are expected to grow by 2.5% to 3.5% in 2018, an uptick after several years of weakness.
- All indicators signal the 2018 economy continuing to grow on par with 2017, except for employment, which is projected to slow during 2018.



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Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan Counties) or KOMA was conducted in November and December 2017. A survey was mailed to the CEOs and business leaders of just over 1,129 organizations based on a representative sample. We tried to ensure that the sample reflected different sectors of the regional economy and the geographical diversity of the area. Eventually, 213 organizations responded, resulting in a strong response rate of 19%, three percentage points higher than last year. However, due to the possibility of a non-random response sample, the survey should be interpreted with caution. In addition, the survey was, like last year, delayed two weeks to allow respondents more time to digest some of the possible tax changes that were moving through Congress.

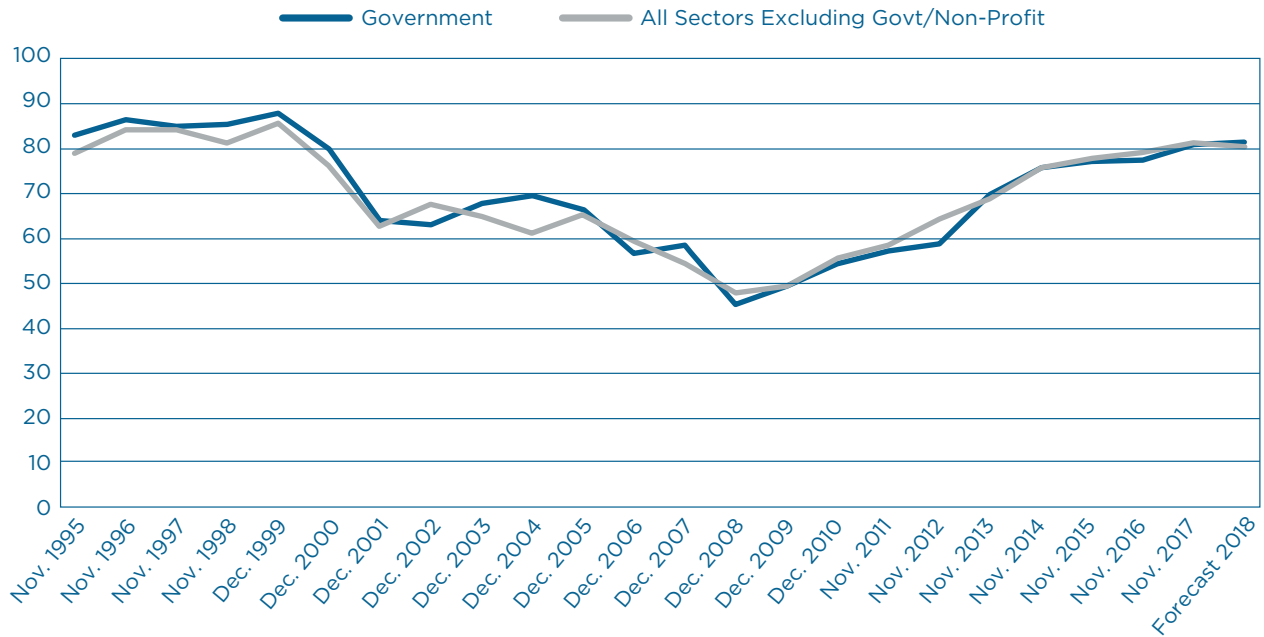
A few methodological considerations are in order. Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages (when calculated without adjusting for outliers—responses beyond one standard deviation). Because 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. 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 past 22 years are shown in Figure 1.

Last year, after three years of respondents underestimating the strength in the coming year, respondents' expectations for 2017 and their view of 2017 at the end of the year were nearly identical. This is an indicator that the economy has stopped accelerating. Organizations currently view their confidence now (end of 2017) and through 2018 to stay above 80. This continues the strong showing from 2016-2017 and is comparable to the surveys from the 1990s. Two consecutive years with confidence above 80 is good news for continued growth in West Michigan for 2018.

Figure 1: West Michigan Confidence Index Forecast 2018

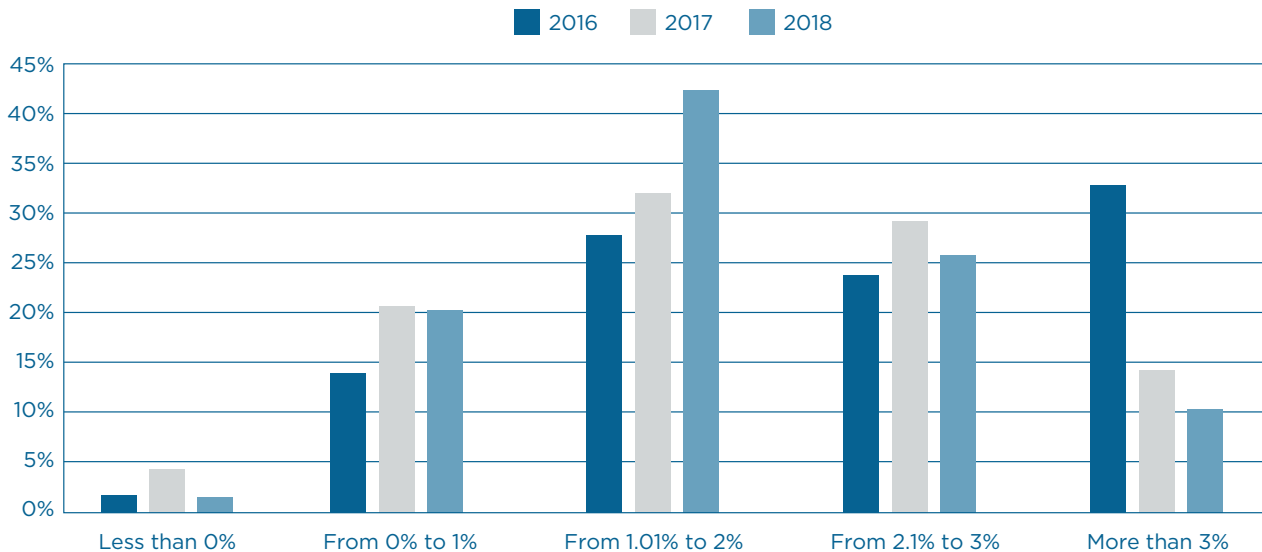


Employment

For 2017, employment for KOMA was projected to grow at an average of 2.0 - 2.2%. The numbers from the Current Employment Survey indicate that employment in the Grand Rapids and Muskegon Metropolitan Areas (which is made up of Barry, Kent, Montcalm, Muskegon, and Ottawa counties) has grown by approximately 2.0% from October 2016 to November 2016. This is consistent with the estimation seen in the confidence index last year.

The average responses to the question: **What percent change do you expect in employment for the four counties in 2018?** are shown in Figure 2.

Figure 2: Respondents' Anticipated Change in Employment for 2018 as Compared to Expectations in 2016 and 2017



Job expectations for 2018 are considerably more muted compared to expectations a year ago. This is the second year in a row in which job growth is seen as slowing. This is primarily a drop in expectations of the most optimistic survey respondents, with those expecting more than 3% growth dropping again this year. The silver lining is that although firms expect slower growth, 42% of respondents see employment continuing to grow between 1% and 2% for the year. Average employment in the KOMA region is expected to grow at 1.3%, which is significantly below last year's expectations and last year's actual employment growth.

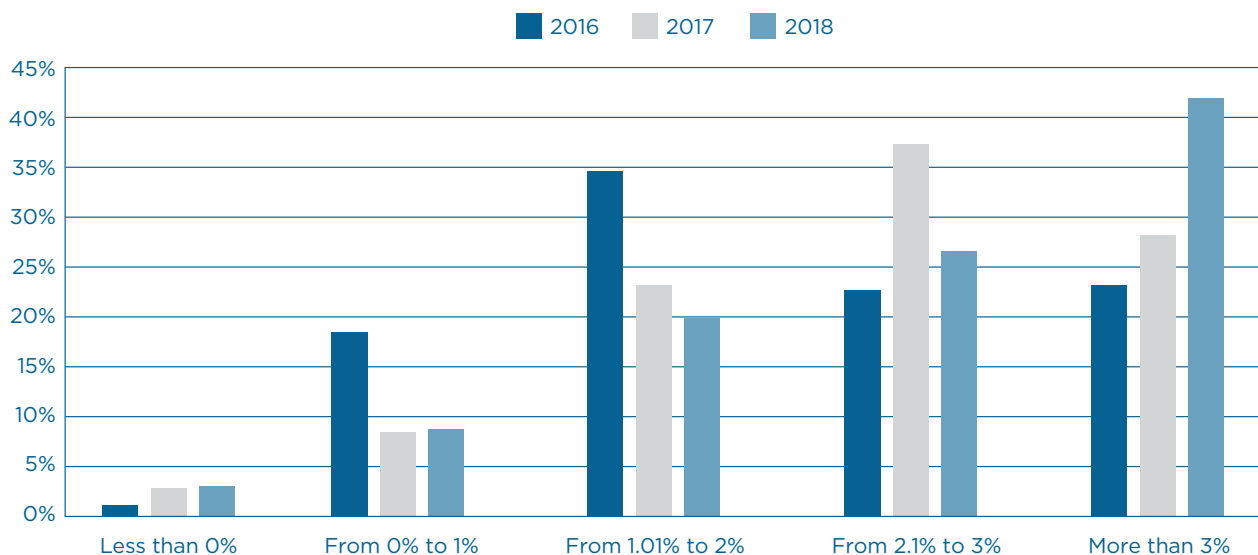
Although there is a slowdown in the expected growth in employment, the number of firms expecting to hire this year continues to increase and has reached 87% for 2018 up from 85% last year and 82% the year before. Consistent with the

last few years, about 75% of those being hired are expected to be permanent workers.

Sales

For sales, the respondents answer the following question: **What percent change in sales do you project for the four counties in 2018?** During the late 1990s, sales grew at an annual rate of 5%. Last year 28% of respondents were expecting growth above 3%. For 2018, the percent of firms looking for sales growth above 3% has jumped to 42%. There has been a steady improvement over the last three years, with the most common response in 2016 being 1%-2%, the most common response in 2017 being 2%-3%, and for 2018 more than 3%. The growth in sales continues to outpace inflation, so this has been a real increase in output over the last four years. Average responses are shown in Figure 3.

Figure 3: Respondents' Anticipated Change in Sales for 2018 as Compared to Expectations in 2016 and 2017



Export Growth

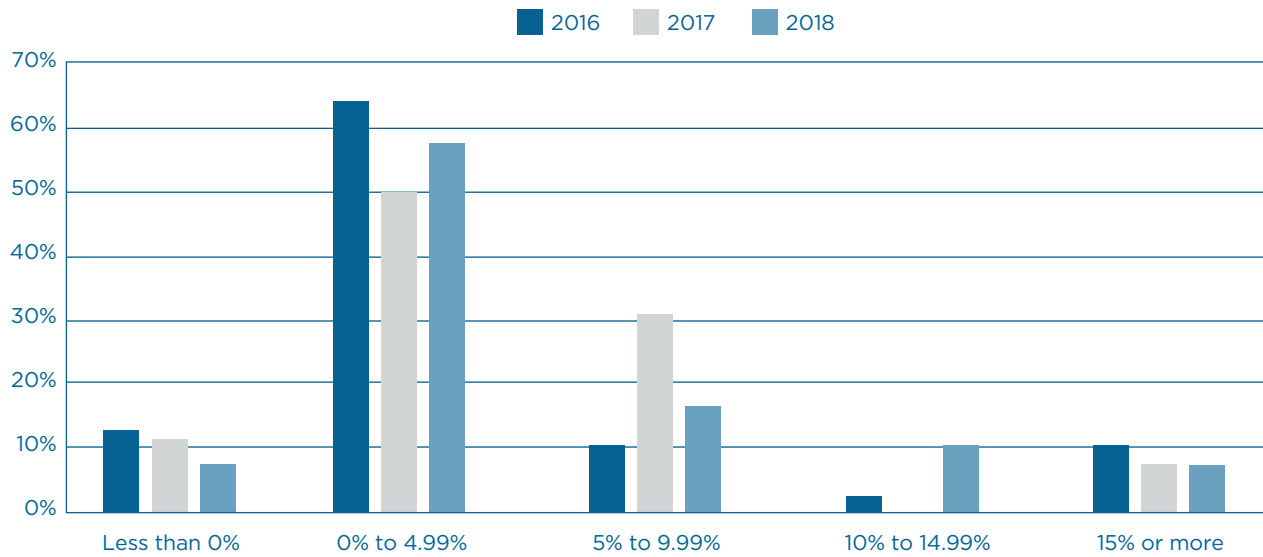
Exports have traditionally been a bright spot in the West Michigan economy. However, over the last few years export growth has weakened. Export growth this year is expected to increase slightly for the first time in three years, with expected growth increasing to 3.0% in 2018. This reflects the growing strength in the rest of the world and shows that firms in West Michigan are starting to be optimistic about exports again. Average responses are shown in Figure 4.

The reason for the optimism in exports is that global economic output increased by approximately 3.6% in 2017 and is expected to increase by about 3.7% in 2018. This growth

reflects improvements in consumer confidence, strong growth in manufacturing, increased investment, and a growing volume of international trade. Growth in the European Union is likely to be muted in 2018, with overall output increasing by around 1.9%. Continuing weakness in the U.K. will result in growth of around 1.5%, and Japan's economy is also stagnating with expected growth in 2018 of only 0.7%.

The bulk of global output growth continues to come from the developing world, Asia in particular. Collectively, emerging economies in Asia are expected to grow by about 6.5% in 2018, with China at around 6.5% in 2018 and India at 7.4%.

Figure 4: Respondents' Anticipated Change in Exports for 2018 as Compared to Expectations in 2016 and 2017



General Outlook

Predictions from the Federal Reserve Bank and from major economic surveys in December 2017 indicate that expected growth in the national economy will average between 2.1% and 2.5% for 2018. This is essentially the same as last year, though the weight of the observations this year are at the higher end of this range. The economy will continue the slow growth seen recently. National employment will continue to improve in 2018. Full-time hiring will continue to increase, though not at the rate seen over the last year in West Michigan. In addition, tightness in labor markets is already leading to increases in wages in almost all sectors.

The economy continues to improve slowly at the regional level. Overall confidence is expected to remain above 80%. Employment will grow by approximately 1.3%. Nominal sales will increase by 3.3%. In spite of its volatility, exports have usually been a bright spot, and this engine of growth is expected to start a rebound following the recent slowdown and grow at 3.0%.

The uncertainties for the year include how the economy reacts to the tax changes enacted at the end of 2017 and potential changes in NAFTA. Right now, our expectation is that the tax changes will increase the growth rate above the baseline by around two tenths of a percentage point. However, many of the nuances of the tax bill are still to be understood at the time of writing this article in late December 2017, so the actual effects could vary. The direction on NAFTA is currently not well understood. However, West Michigan's reliance on a supply chain that spans the three member countries puts it at particular risk when changes to the agreement are made.

Finally, the U.S. economy likely crossed potential GDP sometime in the third quarter of 2017. 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 around two years. However, this will not affect 2018, so the U.S. and West Michigan economies will end 2018 better than at the start of the year but with the risk of a downturn looming.

Acknowledgments

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