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West Michigan Snapshot

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The West Michigan economy has gone through a lot in the past decade. How is it performing now? In this article, I focus on the labor market and economic growth in the Grand Rapids area to shed some light on the regional economy.

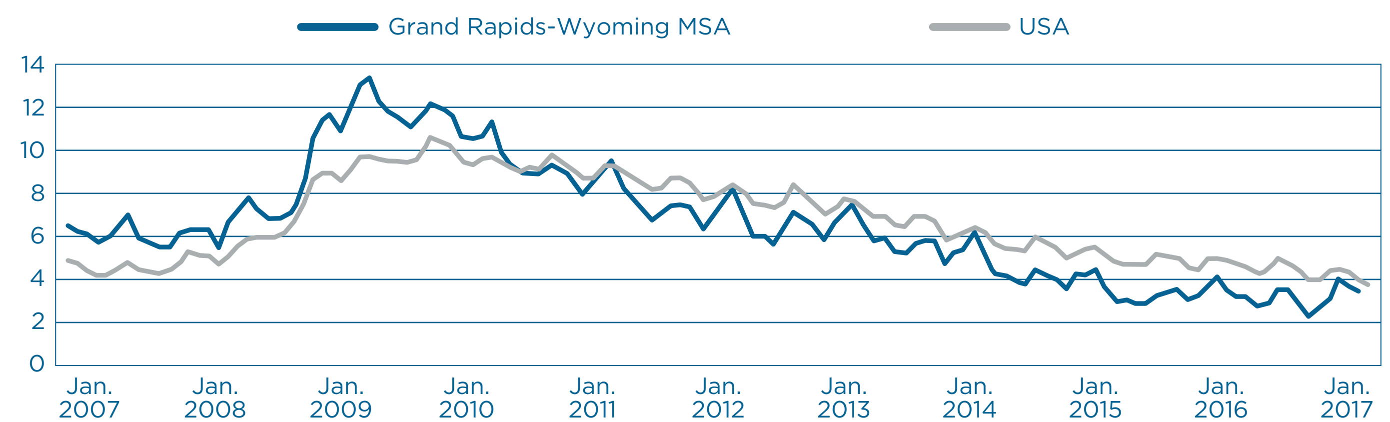
Figure 1 shows the unemployment rates for the U.S.A. and for West Michigan, as measured by the Grand Rapids-Wyoming Metropolitan Statistical Area (MSA), comprised of Barry, Kent, Montcalm, and Ottawa Counties. This chart clearly shows that unemployment in West Michigan has dropped more rapidly over the last six years than for the country as a whole, despite the more severe impact in the region of the Great Recession of 2008-2009. The unemployment rate in West Michigan hit a high of 13.9% in July 2009 compared to the 9.7% national rate at the time. By September 2017, the West Michigan unemployment rate had fallen to 3.6%, compared to 4.1% nationally.

The unemployment rate, though, can decrease for both "good" and "bad" reasons, as individuals are only counted as unemployed when they are actively looking for work. For example, a drop in the unemployment rate because more people are getting a job indicates an improving economy, while a drop in the rate because more people are giving up on finding a job, does not. Figure 2 shows the level of employment in West Michigan. By September 2017, employment was up almost 27% from July 2009 and by over 14% from the pre-recession level in July 2007. In comparison, the Census Bureau estimates that the total population of the MSA has grown by approximately 6% since 2010. Based on these data, West Michigan's low unemployment rate is indicative of a strong and growing regional economy.

Another possibility when interpreting the unemployment rate is that there has been a move from full-time to part-time employment. By itself, such a change is not reflected in the unemployment rate – both part-time and full-time workers count equally as "employed." To see if this has been the case, we can look at the number of hours the employed have worked. Figure 3 shows the average weekly hours worked by all private sector employees in the Grand Rapids-Wyoming MSA. Again, there is the expected drop during the Great Recession, as a large number of workers saw their hours cut, with many moving from full-time to part-time employment. Weekly hours have recovered since then and have returned to the levels seen in early 2007. With 35.7 hours worked on average in August 2017, this indicates that the multi-year drop in the local unemployment rate is not due to a substantial shift to part-time work.

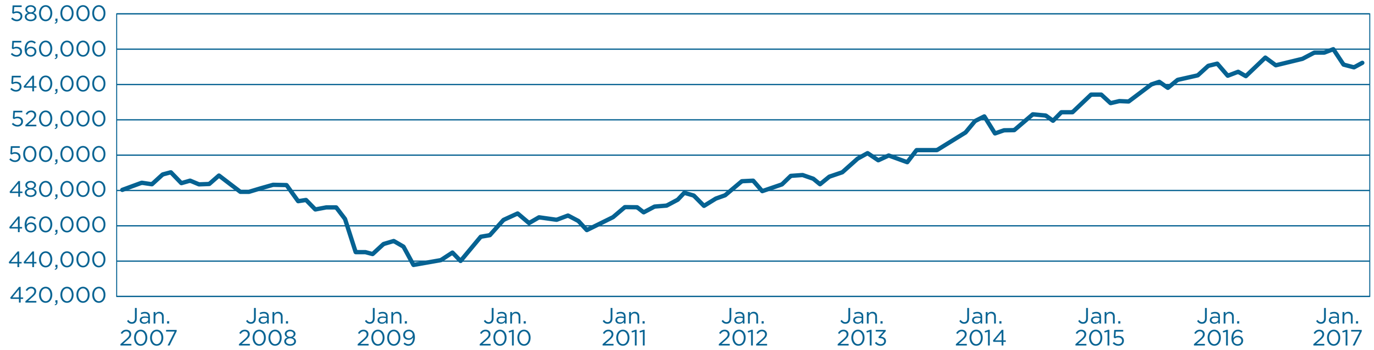
The data shown in Figures 1-3 indicate good news for the West Michigan economy, and this is also demonstrated by the Federal Reserve Bank's measurement of economic growth in the Grand Rapids-Wyoming MSA as reflected in its Economic Conditions Index, shown in Figure 4. This monthly index has been averaging 3.7% growth at an annual rate in 2017, compared to an average of 1.1% in 2007.

Figure 1: Grand Rapids-Wyoming MSA and National Unemployment Rates (not seasonally adjusted)



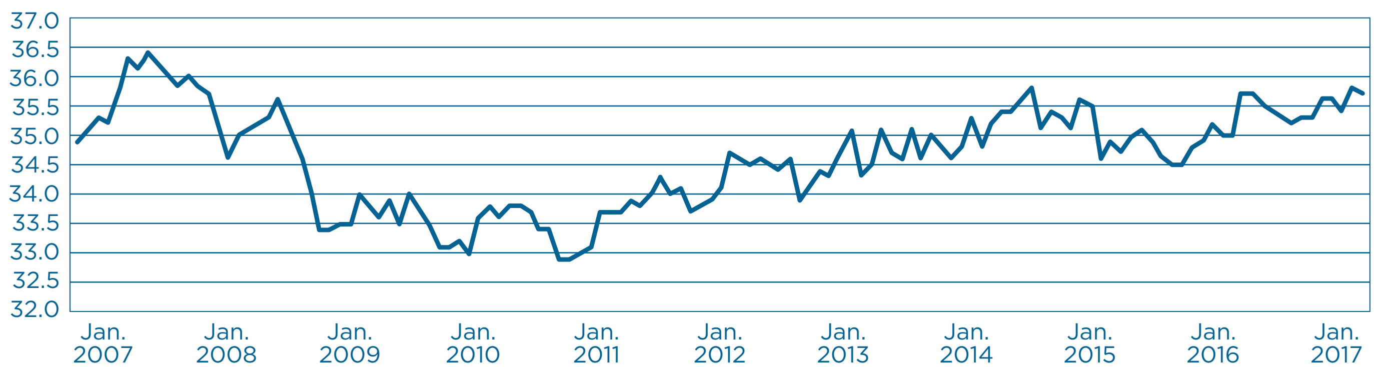
Source: Bureau of Labor Statistics

Figure 2: Employment in Grand Rapids-Wyoming MSA (not seasonally adjusted)



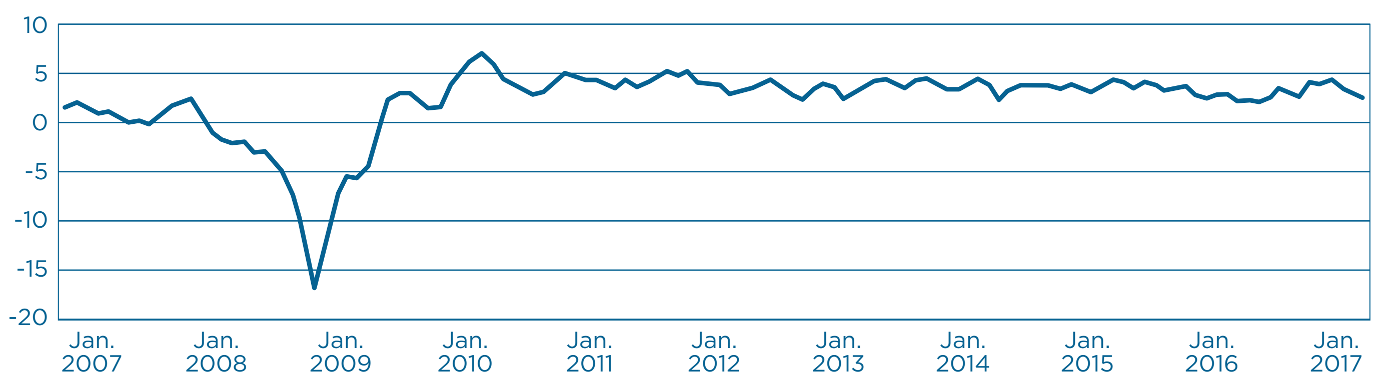
Source: Bureau of Labor Statistics

Figure 3: Grand Rapids-Wyoming MSA Weekly Hours



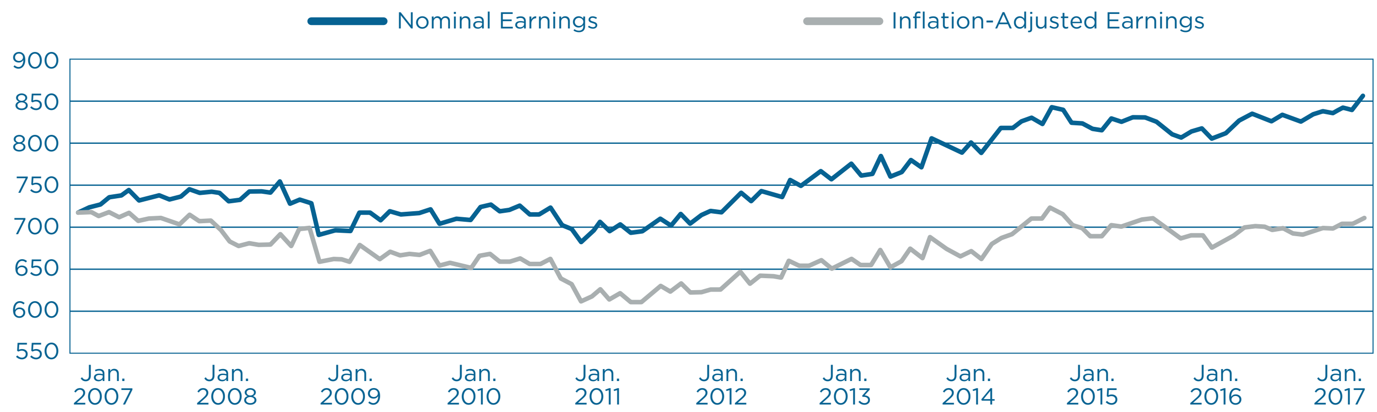
Source: Bureau of Labor Statistics

Figure 4: Grand Rapids-Wyoming MSA Economic Conditions Index



Source: Federal Reserve Bank of St. Louis

Figure 5: Grand Rapids-Wyoming MSA Average Weekly Earnings



Source: Bureau of Labor Statistics and author's calculations

However, there is a grey lining to this silver cloud. Figure 5 illustrates the average weekly earnings for private sector employees in the Grand Rapids-Wyoming MSA. The top line shows nominal earnings – how many dollars workers are earning – while the bottom line shows what those earnings amount to when adjusted for inflation. As expected, nominal earnings fell during the Great Recession, but otherwise increased over the past decade – starting at around $715 in January 2007, dipping to a low of $700 in January 2011, and then rising to $852 by September 2017. However, the change in the inflation-adjusted or "real" value of average weekly earnings is quite different – again starting with $715 in January 2007, then plummeting to $637 by January 2011, before rising to $707 by September 2017. Real average weekly earnings increased by about 11% from January 2011 to September 2017. But the 19% increase in nominal wages since January 2007 has all been eaten away by higher prices, so that the inflation-adjusted value of average weekly earnings was approximately 1% lower in September 2017 than it was in January 2007.

While the West Michigan economy is performing well, employment is strong, and economic growth is solid, employee earnings are barely keeping pace with inflation, with no real gains compared to a decade ago. With such low unemployment, continued strong growth in the region might push employers to increase the pace of nominal earnings raises resulting in real earnings growth. Any such increase in real earnings, though, is likely to be modest, as increased growth in the economy once again spurs inflation. ■