2019

Manufacturing and the Grand Rapids Economy

Paul Sicilian
Grand Valley State University

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

Recommended Citation
Introduction
The manufacturing sector is clearly an important part of the local economy in West Michigan. A heavy reliance on manufacturing is a mixed blessing. Employee compensation in manufacturing is above average and manufacturing has relatively large “multiplier” effects on local economies. On the other hand, manufacturing is cyclical so when there is a recession, areas that are dominated by manufacturing suffer relatively more than other areas. Of course, this also means that in economic expansions manufacturing economies do relatively well. There is concern, however, independent of the business cycle effects, which the manufacturing sector in the U.S. is declining, and this may spell trouble for economies, like Grand Rapids, which are focused on manufacturing. Many people believe it is important that the local and state economies diversify so that it can better withstand future recessions. This report uses data from the Bureau of Economic Analysis (BEA) to provide an overview of manufacturing output, employment, and compensation in the Grand Rapids-Wyoming MSA with attention to the impact of the Great Recession and the recovery since. To put the Grand Rapids experience in context, I compare Grand Rapids to the state of Michigan and to the nation.

Figure 1 shows indices of Real Gross Domestic Product from 2001-2017 (base year 2001) for Grand Rapids, Michigan and the nation. Clearly the local and Michigan economies suffered more during the Great Recession than the country overall and continue to lag the country during the current expansion despite the recent relatively rapid growth locally. The relatively large impact of the Great Recession on Grand Rapids’ (and Michigan’s) GDP was likely a result of the size of the manufacturing sector in the local and state economies.

Employment
One way to measure the importance of manufacturing is to consider number of employees. Figure 2 shows manufacturing employment as a percent of total employment for the years from 2001-2016. Two conclusions are evident: First manufacturing accounts for a much larger share of the labor market in Grand Rapids-Wyoming MSA than in the nation or in Michigan. Second, for all three geographies, manufacturing employment share has diminished over this period. Manufacturing employment in Grand Rapids and Michigan have rebounded somewhat from the Great Recession, but there is basically a steady downward trend for the nation.
Manufacturing GDP

Falling employment does not necessarily mean that the manufacturing sector is shrinking. Employment could fall even with rising total output because of increases in labor productivity. Figure 3 presents changes in the real value of manufacturing output from 2001-2016. Output fell during the Great Recession and the decrease relative to 2001 was greater for Michigan and the Grand Rapids area than for the nation. There has been a rebound since the recession ended, such that the real value of manufacturing output was greater in 2017 than in 2001. By 2017, the value of manufacturing output was 11.35% higher than in 2001 for the nation and was 28.34% higher in the Grand Rapids-Wyoming MSA (the value of manufacturing output peaked locally in the period in 2015 with an index value of 129.29).
Yet another way to measure the importance of manufacturing is to compare the value of manufacturing output to the value of total output. It is well-known that the U.S. economy is becoming more of a service economy. So, even if the manufacturing sector is growing, it may be shrinking in size relative to the whole economy. In fact, as demonstrated in Figure 4, that is exactly what is happening for the national economy. The experience for Michigan and Grand Rapids, as presented in Figure 5, tells a different story. As manufacturing is more cyclical than the rest of the economy, it is not surprising to see the drop in the recession years, but by 2017 manufacturing accounted for a slightly larger portion of total output than in 2001.

Source: Bureau of Economic Analysis (www.bea.gov)
Employee Compensation

Employee compensation—pay and benefits—in manufacturing is above average. For example, in 2015 average compensation in manufacturing in the Grand Rapids-Wyoming MSA was $71,586 as compared to $57,027 for all employees (so manufacturing compensation is included in the latter figure). Figure 6 shows that manufacturing compensation from 2001-2016 grew faster in the Grand Rapids-Wyoming MSA than in the rest of the country. In 2001, average compensation in manufacturing in the Grand Rapids market was only 81% of that for the country, but by 2016 it was 5 percent higher than the national average. Average compensation for all employees in the Grand Rapids market is below the national average for the entire period and has fallen from 94% of the national average in 2001 to only 85% by 2016. In fact, as seen in Figure 6, real compensation—both in manufacturing and overall—has barely kept up with inflation over this period. The largest increase has been for average compensation for all employees nationally. On the other hand, real compensation in manufacturing for the country has fallen (in 2001 dollars) from $64,000 in 2001 to $52,054 in 2016.

![Figure 6: Average Annual Real Compensation (2001 Dollars)](source: Bureau of Economic Analysis (www.bea.gov))

Conclusion

The Grand Rapids-Wyoming economy is currently doing well. As demonstrated in Figure 1, its economy is growing much faster than the country overall. Between 2009 and 2017, GDP grew 32% as compared to 18.7% for the country. Local employment reached in nadir during the Great Recession in July 2009. The local unemployment rate that month was 13.3%. Since then, the total non-farm private employment has risen 29%. The Bureau of Labor Statistics reports a preliminary estimate of the local unemployment rate in August 2018 of only 2.7%. While local employee pay is relatively stagnant, this is not different than the rest of the country. Nonetheless, the Grand Rapids economy continues to be dominated by manufacturing. Thus, it is likely, once again, to be more negatively impacted by the next recession than the country overall.