

Winter 2020

Grand Rapids Economic Forecast 2020

Paul Isely

Grand Valley State University, iselyp@gvsu.edu

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Grand Rapids Economic Forecast 2020

Paul Isely, Ph.D, Associate Dean

- The Current Business Confidence Index for 2019 is 81.0%, essentially the same as last year.
- The Forecast Business Confidence Index for 2020 is 77.5%, a drop from the expectations seen the last few years.
- Employment is expected to grow by 0.3% to 0.7% in 2020, an expectation that is less than half the expectation for 2019.
- Overall nominal sales are expected to increase by 2.2%-2.8% for 2020, a slowdown from last 2019.
- Exports are expected to grow by 1.0% to 5% in 2020, increasing from 2019.
- All indicators signal the West Michigan economy will continue to slow heading into 2020, particularly employment growth.



Paul Isely

Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties or KOMA) was conducted in November and December 2019. A survey was mailed to the CEOs and business leaders of nearly 1,150 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, 202 organizations responded,

resulting in a strong response rate of 17.6%. However, due to the possibility of a non-random response sample, the survey should be interpreted with caution. The survey was timed for the week after the elections to allow respondents time to digest some of the possible implications of the elections.

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. 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 23 years are shown in **Figure 1**.

Last year, respondents' expectations for 2019 were higher than their view of 2019 at the end of the year. This is a strong indicator that the economy started to decelerate. Organizations currently view their confidence now (end of 2019) and through 2020 is dropping for the second year in a row. The expectations of businesses are falling much faster than those in non-profit and government sectors. An expected confidence level of 77.5% overall is still good, but it shows that businesses believe 2020 will not be as good as 2018 or 2019 have been.

Employment

For 2019, employment for KOMA was projected to grow at an average of 1.1 – 1.5%. 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 0.6% annualized rate through November. This is slightly lower than the estimate, but the final month is still to be added along with other data revisions.

The average responses to the question: **What percent change do you expect in employment for the four counties in 2020?** are shown in **Figure 2**.

Average employment in the KOMA region during 2020 is expected to grow at 0.5%, about the same as 2019's actual growth. This is likely again to be optimistic, as the average disguises the drop in firms expecting growth above 1%, which went from 48% of respondents last year to only 16% of respondents this year. For 2020, firms' expectations are tightly bound between 0 and 1% with nearly 80% of respondents calling for growth in this range (up from almost 50% last year). In addition, the percentage of firms predicting negative employment growth, although still small, has doubled in the last two years. So the average expected employment increase has slowed, and number of firms that are looking to contract is beginning to grow.

Figure 1: West Michigan Confidence Index Forecast 2020

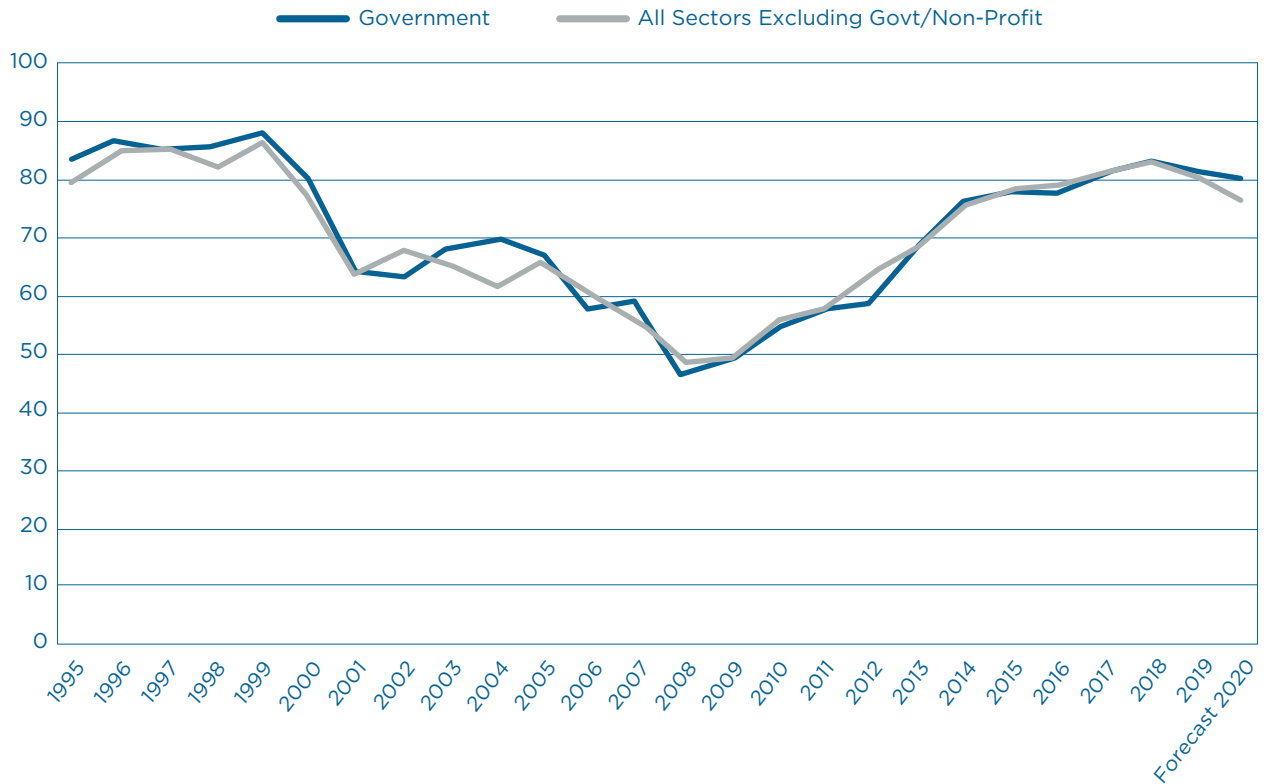
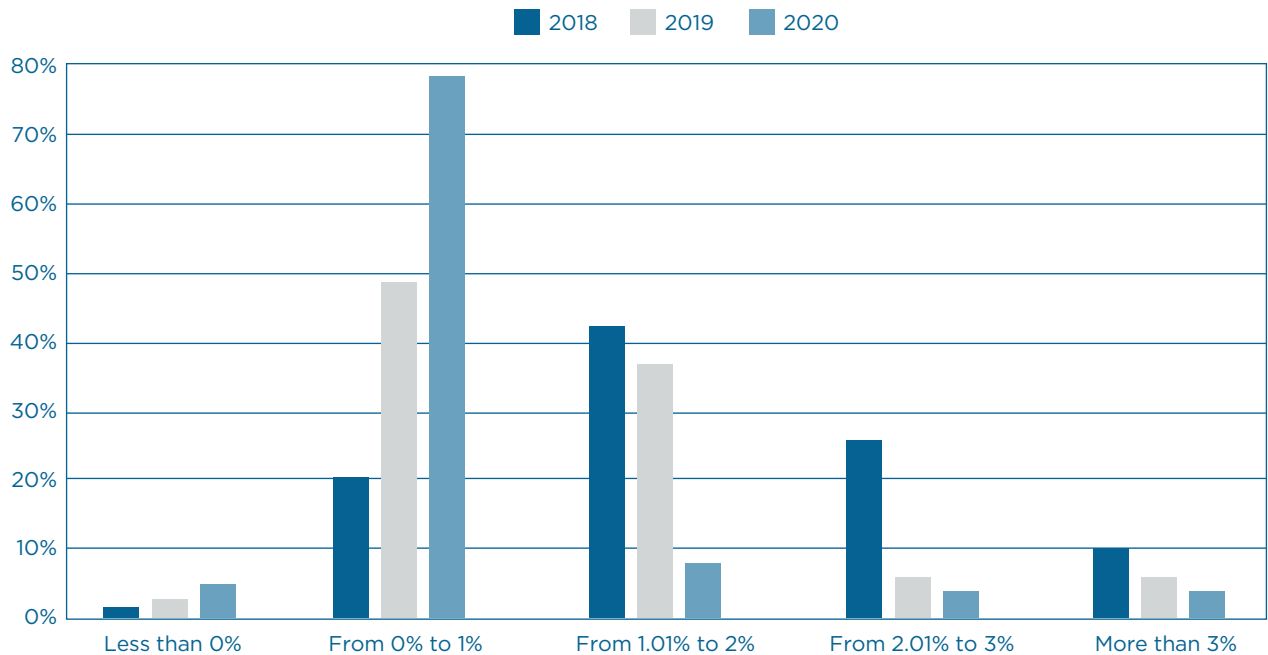


Figure 2: Respondents' Anticipated Change in Employment for 2020 as Compared to Expectations in 2018 and 2019

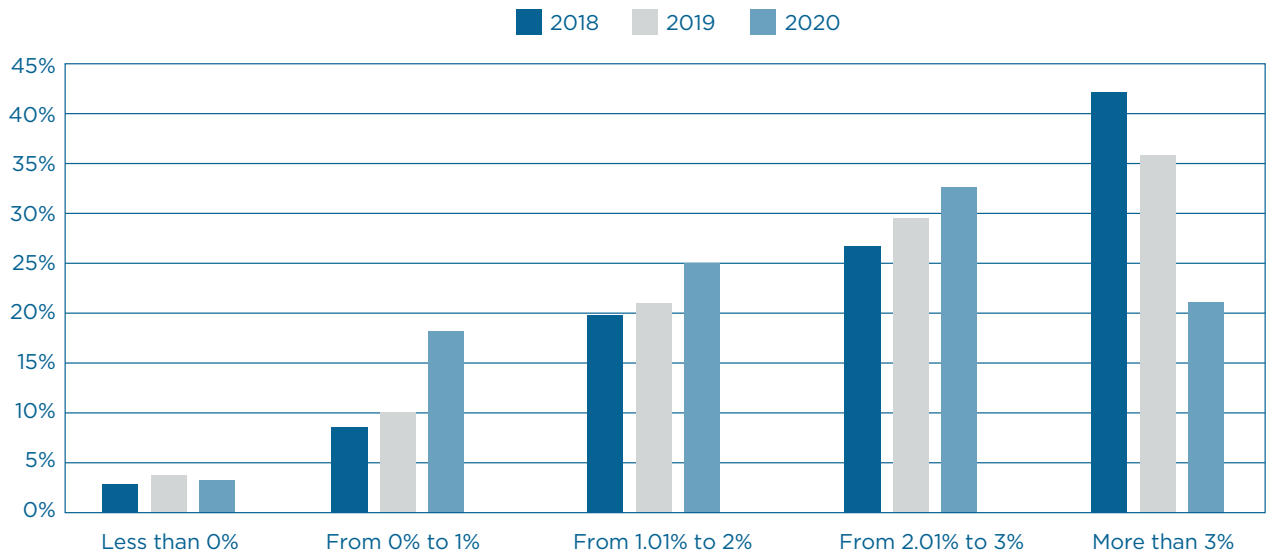


Sales

For sales, the respondents answer the following question: **What percent change in sales do you project for the four counties in 2020?** During the late 1990s, sales grew at an annual rate of 5%. In 2018, the percentage of respondents expecting a growth rate above 3% peaked at 42% of

respondents. That percentage has fallen to 21% for 2020. This has dragged down the expected sales growth in 2020 to 2.5% from 3.3% two years ago. This is another indication that the current expansion has peaked. Average responses are shown in **Figure 3**.

Figure 3: Respondents' Anticipated Change in Sales for 2020 as Compared to Expectations in 2018 and 2019



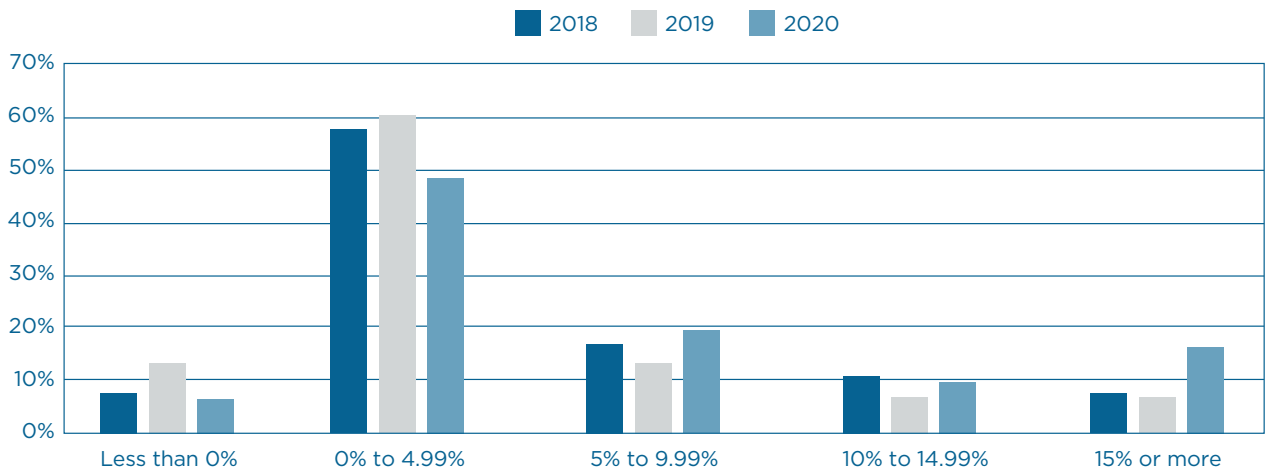
Export Growth

Exports have traditionally been a bright spot in the West Michigan economy. However, over the last few years, export growth has been weak. The expectation for 2020 is a moderate improvement in exports compared to 2019. Expectations of 45% of the reporting firms is for more than 5% export growth compared to only 26% with that

expectation at the start of 2019. Average responses are shown in **Figure 4**.

The optimism in exports is being helped by some positive news about trade agreements occurring near the end of the year.

Figure 4: Respondents' Anticipated Change in Exports for 2020 as Compared to Expectations in 2018 and 2019



General Outlook

Surveys (**Table 1**) from late in 2018 show an expectation for economic growth of around 1.9% for 2020. These surveys also show expectations for inflation at or below the Federal Reserve target of 2%. This shows both a continued slowdown in the economy which will ease inflation pressure, as shown in **Table 1**.

These surveys are consistent with the expectations of our survey respondents with weakening confidence (77.5%), flat employment growth (0.5%), weakening sales growth (2.5%), and strengthening export growth (3.5%).

The primary uncertainty for the year surrounds the presidential election as well as uncertain trade tensions. The uncertainty on trade has undercut some of the potential benefits of the tax cuts as businesses have been reluctant to invest in the face of the uncertainty mounting internationally. Firms are beginning

to understand how to navigate this uncertainty and are more optimistic going forward about trade. The uncertainty created by the Republicans and Democrats moving further apart also generates problems planning for the coming year, and these will not get resolved until the end of the year.

For West Michigan, the weakness in Manufacturing has become the biggest issue. Nationally, although the number of manufacturing workers has increased, the hours that they work has decreased. By some measures, this puts the manufacturing sector and the corresponding transportation sectors in a mild recession.

The data for West Michigan and the United States both show that 2020 will likely continue a measured slowdown. It is possible that the annual growth will be positive, but a recession occurs for part of the year.

Table 1: Results from Surveys

Survey	GDP Growth 2020	Inflation 2019
Philadelphia Federal Reserve Survey of Professional Forecasters (Nov)	1.8%	2.3% (core CPI)
Federal Open Market Projections (Sept)	2.0%	1.9% (PCE)
Wall Street Journal Economic Forecasting Survey (Dec)	1.8%	2.1% (CPI)

<https://www.philadelphiafed.org/research-and-data/>

<https://www.wsj.com/graphics/econsurvey/>

<https://www.federalreserve.gov/monetarypolicy/fomcproptabl20180926.htm>

Acknowledgments

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