

Winter 2020

West Michigan and the Global Economy

Gerry Simons

Grand Valley State University, simonsg@gvsu.edu

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

Recommended Citation

Simons, Gerry (2020) "West Michigan and the Global Economy," *Seidman Business Review*. Vol. 26 : Iss. 1 , Article 6.

Available at: <https://scholarworks.gvsu.edu/sbr/vol26/iss1/6>

West Michigan and the Global Economy

Gerry Simons, Ph.D., Professor, Department of Economics



In its October 2019 World Economic Outlook, the International Monetary Fund (IMF) forecast global economic growth for 2019 at 3%, the lowest since 2008-09, the time of the Great Recession. The IMF also projected that economic growth would continue to fall over the next few years for the “Group of Four” – the U.S., the 19-country Eurozone, China, and Japan – even though global growth during that time would increase, buoyed by

economic recoveries in emerging markets. The IMF estimates that this Group of Four has a combined GDP equivalent to approximately 62% of global GDP, so a slowing of growth for the group is a significant drag on the global economy.

In its November 2019 Economic Outlook, the Organization for Economic Co-operation and Development (OECD) made similar projections, stating that the outlook for the global economy is “unstable.”

Table 1 shows 2018 growth in real GDP for the Group of Four, as well as OECD projections for 2019-2021 (growth in “real GDP” – GDP adjusted for inflation – is the most meaningful measure of overall growth in an economy). The 2021 projections should be interpreted cautiously, as a lot can change in that time. However, the modest growth projections for 2020 are a reasonable reflection of the economic weaknesses and trends seen over the past year. China’s economy is expected to grow by only around 6% for each of the next two years – a substantial decline since the double-digit growth in real GDP that it was experiencing only a decade ago. Projected growth in the U.S., Japan, and the Eurozone is effectively stagnant.

Table 1. Annual % Change in Real GDP for “Group of Four”

	2018	2019*	2020*	2021*
China	6.6	6.2	5.7	5.5
Eurozone	1.9	1.2	1.1	1.2
Japan	0.8	1.0	0.6	0.7
U.S.A.	2.9	2.3	2.0	2.0

*Projections.

Source: OECD, Economic Outlook, November 2019.

Table 2 shows recent and projected economic growth in the four largest economies in the Eurozone – Germany, France, Italy, and Spain. Collectively, these countries make up approximately 74% of the Eurozone’s economy, and the

OECD’s projections clearly indicate considerable weakness in all four economies. Germany is traditionally seen as the powerhouse for European economic growth, so the close-to-zero growth projection for 2020 is particularly worrisome.

Table 2. Annual % Change in Real GDP for Four Largest Eurozone Economies
(relative share of Eurozone GDP in parentheses)

	2018	2019*	2020*	2021*
Germany (29%)	1.5	0.6	0.4	0.9
France (20%)	1.7	1.3	1.2	1.2
Italy (15%)	0.7	0.2	0.4	0.5
Spain (10%)	2.4	2.0	1.6	1.6

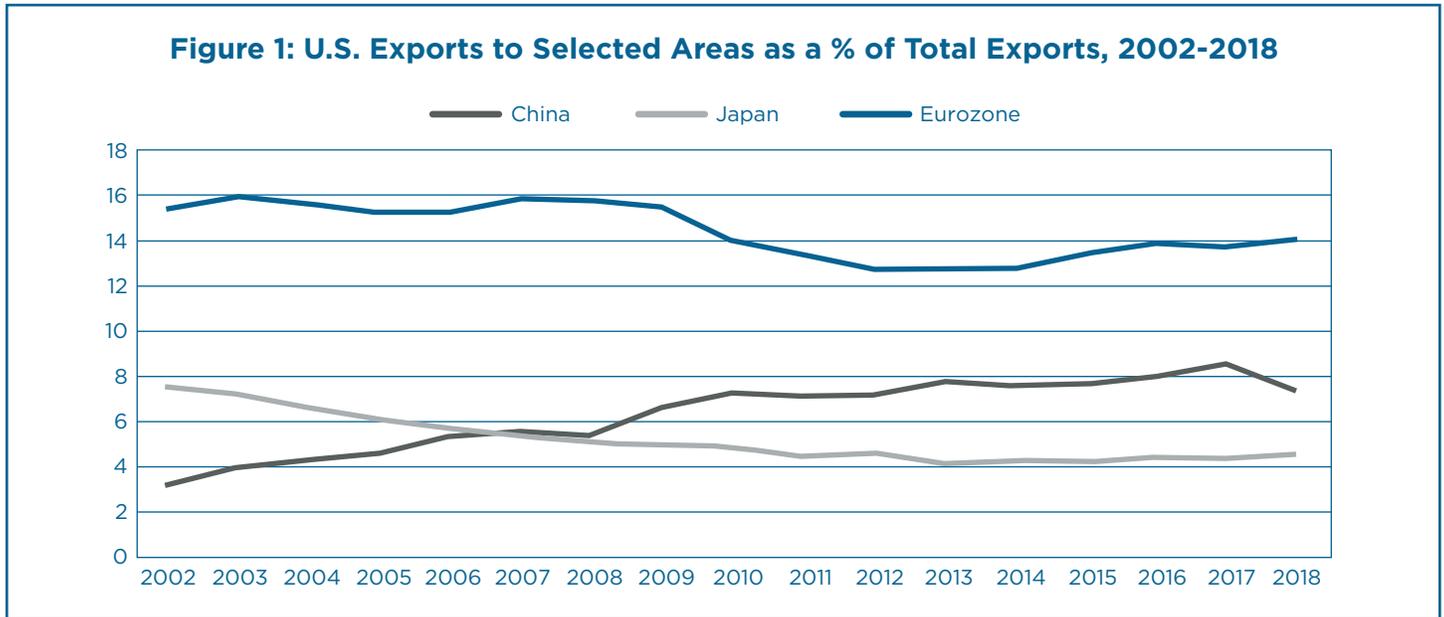
*Projections.

Source: OECD, Economic Outlook, November 2019.

How much of a concern are these projected slowdowns for West Michigan and the State of Michigan as a whole?

Figure 1 shows exports from the U.S. to the Eurozone, China, and Japan as a percentage of total exports. Exports to these regions combined made up approximately 26% of

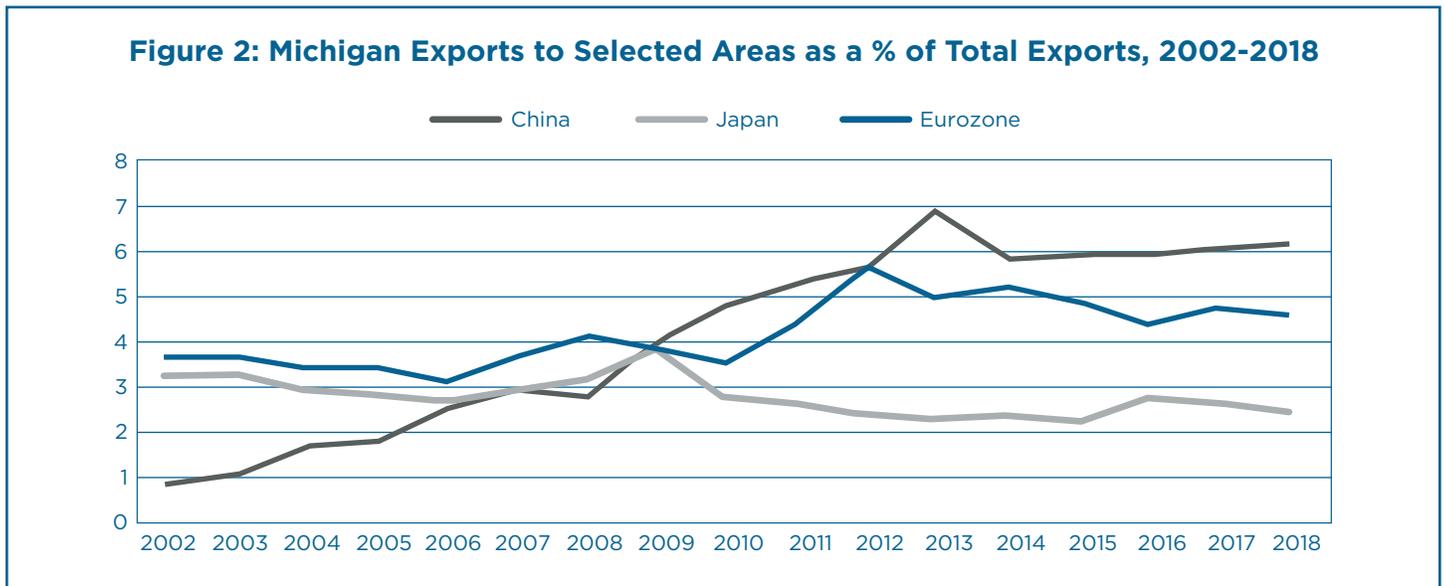
total exports in 2018 (the most recent year available) – with exports to China increasing in relative share since 2008. These percentage values represent a growth in dollar exports from a combined value of approximately \$180 billion in 2002 to \$428 billion in 2018.



Source: International Trade Administration, and author's calculations

Figure 2 shows Michigan's exports to the Eurozone, China, and Japan, as a percentage of the State's total exports. As with the nation as a whole, the relative share of State exports to China has grown since the Great Recession, though the growth has been more substantial for Michigan than the U.S. The share of Michigan's exports going to the Eurozone has also grown over the past decade, while the Eurozone's share of U.S. exports has declined slightly. These shares

represent a growth in dollar exports from a combined value of approximately \$2.7 billion (7.8% of total exports) in 2002 to \$7.7 billion (13.1% of total exports) in 2018. The disparity in the combined share for Michigan compared to the nation is due in large part to the disproportionate importance of exports to Canada. Exports to Canada accounted for approximately 18% of U.S. exports, but 41% of Michigan's exports.



Source: International Trade Administration, and author's calculations

The importance of these regions for West Michigan is more difficult to ascertain, as government data on local exports to individual countries are not available. Some aggregate data are available though – the U.S. International Trade Administration (ITA) provides information on its database for exports from Metropolitan Statistical Areas (MSAs) to select regions (though not individual countries). Although the ITA does not give MSA exports to the Eurozone, it does give exports to the European Union as a whole. **Table 3** shows 2018 exports from the Grand Rapids-Wyoming and

Muskegon-Norton Shores MSAs to the E.U. and to our NAFTA partners (Canada and Mexico), and comparison values for Michigan as a whole. For both of these West Michigan MSAs, the share of exports to the E.U. is larger, and the share of exports to Canada and Mexico is smaller, than for the State. Although data on West Michigan exports to China and Japan are not provided by the ITA, the circumstantial evidence here is that China, Japan, and the Eurozone combined are more significant export markets for West Michigan than for the State.

Table 1: Annual % Change in Real GDP for “Group of Four”

	Exports to E.U.* as % of Total	Exports to Mexico and Canada as % of Total
Grand Rapids-Wyoming MSA	21%	51%
Muskegon-Norton Shores MSA	36%	43%
Michigan	13%	62%

(Data for Holland-Grand Haven MSA not available)

*Including U.K.

Source: International Trade Administration, and author’s calculations

The information provided here is a clear indication that West Michigan is by no means immune to the forecasted anemic economic growth in China, Japan, and the Eurozone. The slowdowns in these economies is likely to result in decreases in exports to these markets, coinciding with probable drops

in demand from domestic consumers as the U.S. economy itself slows. West Michigan exporters might find some relief from improved growth in emerging economies, though that is unlikely to outweigh the export losses in the short term. ■