

Winter 2021

Grand Rapids Economic Forecast 2021

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Grand Rapids Economic Forecast 2021

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- The Current Business Confidence Index for 2020 is 72.7%, higher than during the last two recessions.
- The Forecast Business Confidence Index for 2021 is 73.9%, showing improved expectations for 2021.
- Employment is expected to grow by 2.3% to 3.9% in 2021, showing a strong improvement over the end of 2020.
- Overall nominal sales are expected to increase by 1.1%-2.0% for 2021 reflecting slower growth than was anticipated at the beginning of 2020.
- Exports are expected to be flat in 2021.
- All indicators signal the West Michigan economy will show solid growth in 2021 after the 2020 recession.



Paul Isely

Introduction

The Confidence Index survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties or KOMA) was conducted in November and December 2020. The survey was mailed to the CEOs and business leaders of nearly 1,000 organizations based on a representative sample reflecting different sectors of the regional economy and the geographic diversity of the area. In total, 155 organizations responded, resulting in a

strong response rate of 16.1%. 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 electoral process.

A few methodological considerations are worth noting. 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 particularly when calculated without adjusting for outliers (responses beyond plus or minus one standard deviation). Since the average of a small sample is significantly influenced by extreme numbers, averages without outliers are used 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 track the overall business confidence of the Grand Rapids area over time. 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 20 years are shown in **Figure 1**.

Unsurprisingly the confidence index fell over 2020; however, surprisingly the confidence index was well above what was seen in the recessions that started in 2001 or 2007. Part of this might be survivor bias as many service businesses were lost

in 2020. Adjusting the confidence index to assume the same response rate as last year would result in 10 more responses. If these were all assumed to have gone out of business and have a confidence of zero, the index is still above the levels seen in the last 2 recessions. This suggests that businesses that responded, view this as a transitory issue and not a fundamental change in the economy. The result is a confidence level similar to the 2003-2005 timeframe between the last recessions.

However, the level of confidence in the economy varies by industry as shown in **Figure 2**. Wholesale/retail trade and the restaurant industries show a lower confidence index at the end of 2020 similar to what was seen in 2007 at the start of the last recession. Whereas the construction industry shows a confidence level close to the 2017-19 peak. Looking ahead to 2021, the restaurant industry shows an expectation of substantial improvement over 2020, but expectations for the construction industry are more muted.

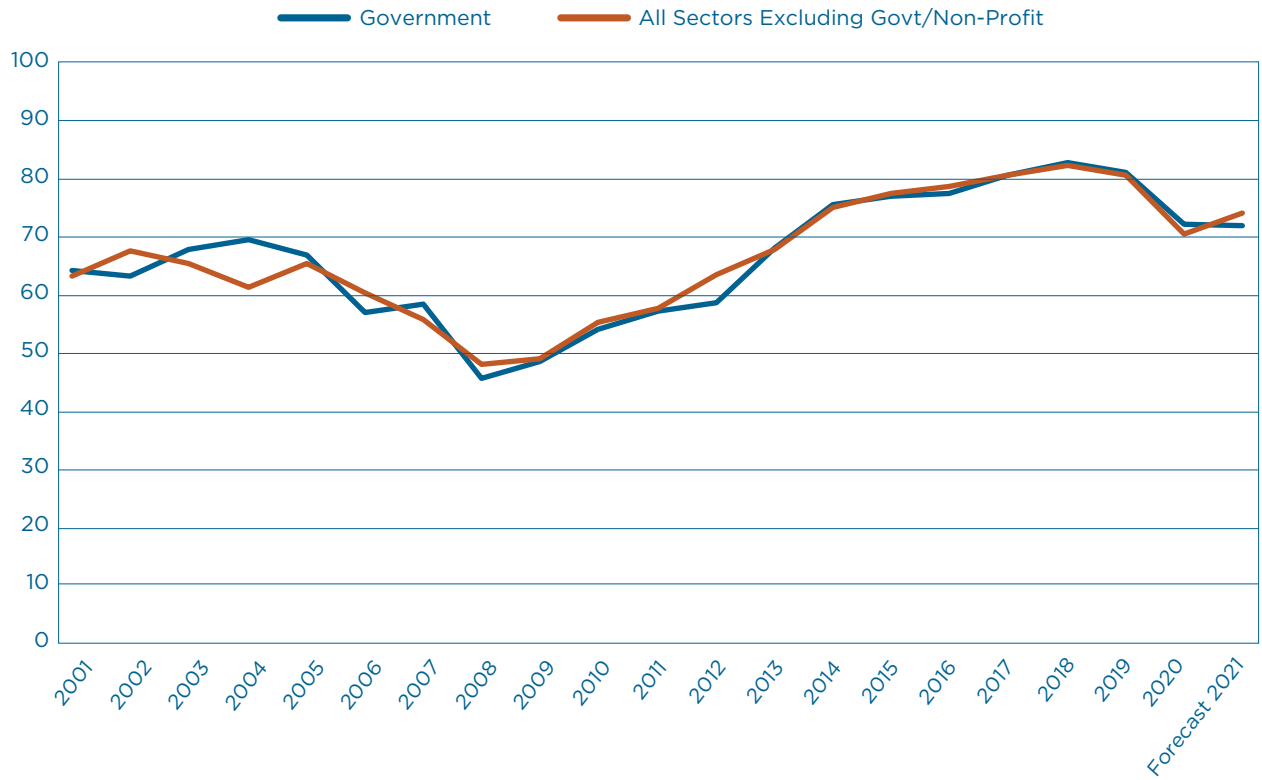
Employment

For 2020, employment for KOMA was projected to grow at an average of 0.3 - 0.7%. The black swan event of COVID-19 caused West Michigan to miss this mark. The numbers from the Bureau of Labor Statistics' 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) fell by an annualized rate of approximately 8% through November. The unemployment rate for the area was only 4% in November as the labor force decreased by 1% with early retirements and parents with childcare duties leaving the workforce as a result of COVID-19 as contributing factors. The result is a continued lack of talent to hire in many industries.

Responses to the question: **What percent change do you expect in employment for the four counties in 2021?** are shown in **Figure 3**.

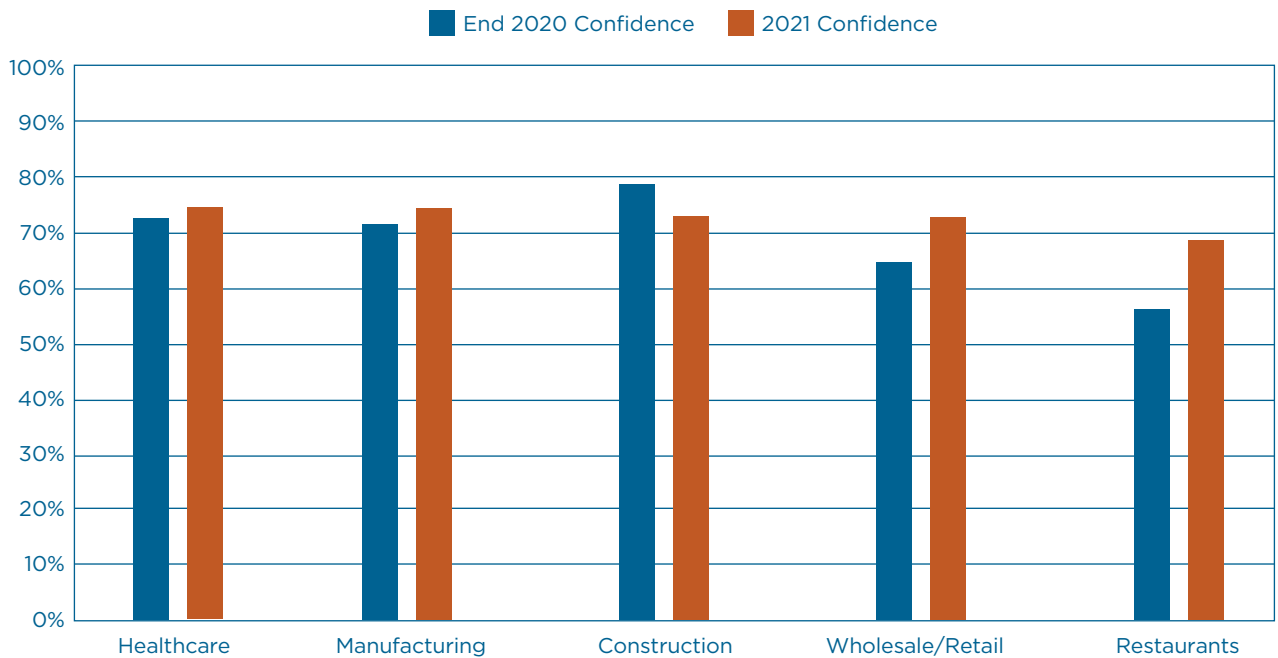
Average employment in the KOMA region during 2021 is expected to grow at 3.2%, provided there are enough people willing to work. This average conceals some variance in responses with 48% of firms expecting employment growth above 3% contrasted to 22% of firms predicting employment shrinkage. This continues the story of businesses seen in the confidence numbers where some industries have had greater negative effects. This is also consistent with the 42% of firms that see themselves returning to pre-COVID-19 sales by July 2021 and the 22% of firms that do not see themselves reaching that point during 2021.

Figure 1: West Michigan Confidence Index Forecast 2021



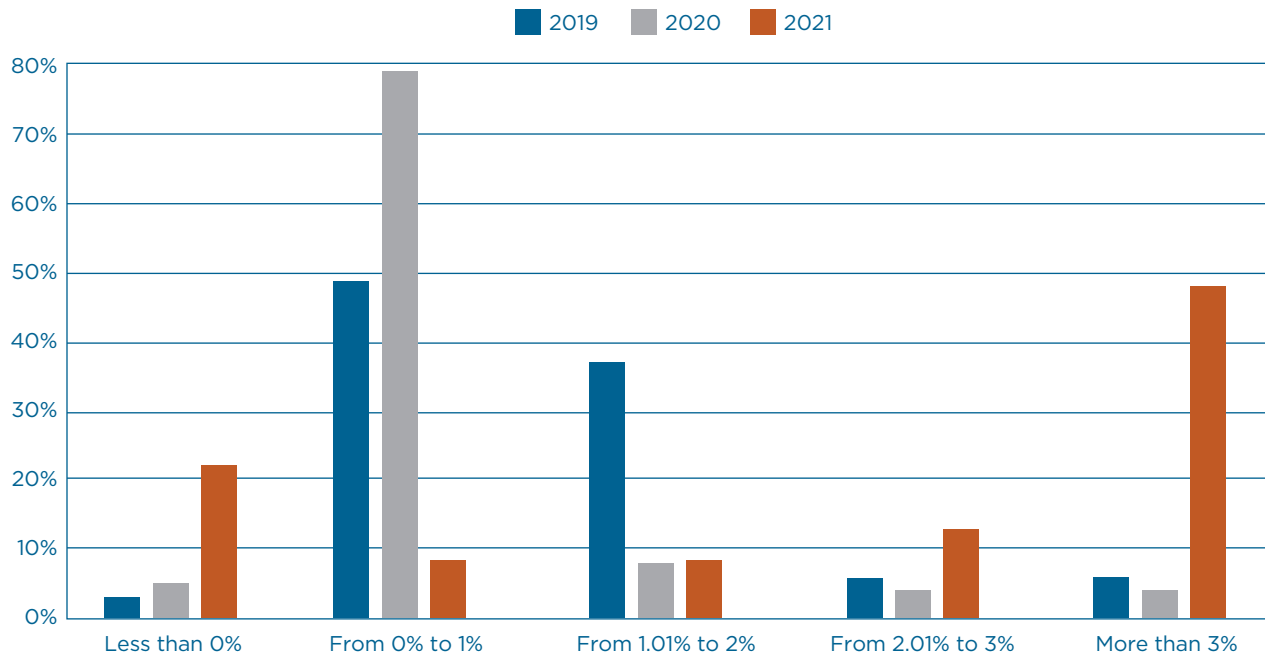
Source: Seidman Confidence Survey 2020

Figure 2: Confidence by Industry



Source: Seidman Confidence Survey 2020

Figure 3: Anticipated Change in Employment for 2021



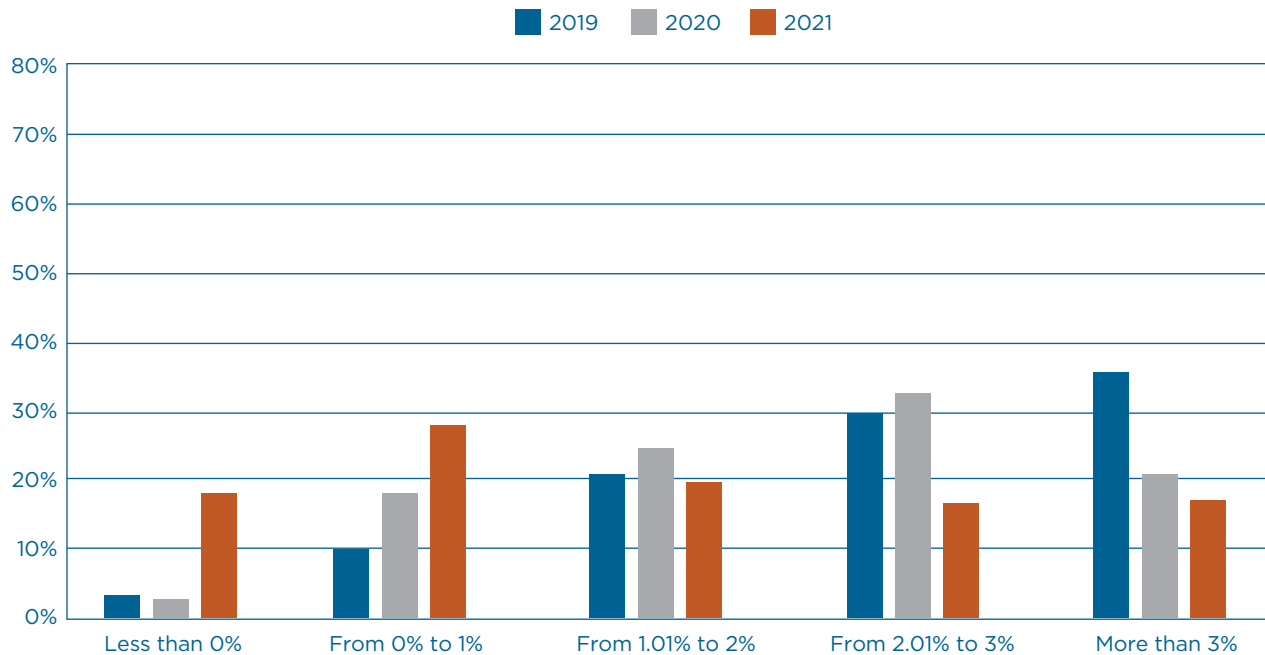
Source: Seidman Confidence Survey 2020

Sales

The sales related survey question is: **What percent change in sales do you project for the four counties in 2021?** Results are shown in **Figure 4**.

Respondents expecting a growth rate above 3% peaked at 42% in 2018. That percentage had fallen to 21% for 2020 and 17% for 2021. The expected sales growth rate in 2021 is 1.5%. This is another indication firms expect 2021 to be a year of healing.

Figure 4: Anticipated Change in Sales for 2021



Source: Seidman Confidence Survey 2020

General Outlook

Multiple economic forecasting surveys (**Table 1**) from late in 2020 predict economic growth of around 4.0% for the year. These surveys also establish expectations for inflation at or below the Federal Reserve target of 2%. This shows the potential for the U.S. economy to return to pre-pandemic levels near the end of 2021 or early in 2022.

These surveys are consistent with expectations from the confidence index survey suggesting strengthening confidence (73.9%), strong employment growth (3.2%), sales growth (1.5%) and stagnant export growth (0.4%). Generally, the expectation of growth in West Michigan is a little slower than the U.S. as a whole moderated in part due to the industry mix within the region.

Over the year following COVID-19's first effects on the U.S. economy in March of 2020, the federal government is expected to pump around \$3 trillion into the economy - effectively increasing outlays by nearly two thirds. This has minimized the negative economic effects of COVID-19 and has set the economy up for a fast recovery. In the short run, personal savings in November 2020 was almost double (\$1 Trillion more) than November 2019, according to the Bureau of Economic Analysis. This could support increased consumer spending once the fear of the virus fades.

The data for West Michigan and the United States both show that 2021 will provide a strong comeback from the COVID-19 driven recession, with much of that growth occurring in the second half of the year.

Table 1: Economic Forecasting Survey Data

Survey	GDP Growth 2021	Inflation 2021
Philadelphia Federal Reserve Survey of Professional Forecasters (Nov)	4.0%	1.9% (core CPI)
Federal Open Market Projections (Sept)	4.2%	1.8% (PCE)
Wall Street Journal Economic Forecasting Survey (Dec)	3.7%	2.1% (CPI)

Source: <https://www.philadelphiafed.org/research-and-data/>
<https://www.wsj.com/graphics/econsurvey/>
<https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20201216.htm>

Acknowledgments

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