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Grand Rapids Economic Forecast 2008

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Grand Rapids Economic Forecast 2008

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- Business confidence has declined significantly for 2008
- Employment is expected to be relatively flat in 2008
- Overall sales are expected to grow at a lower rate of 1.5% for 2008
- Exports continue to be a bright spot; expected growth is 5% during 2008
- The decline in regional confidence and sales reflect the ongoing restructuring and an expected slowdown of the national economy

Introduction
The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan Counties) was conducted in November 2007. A survey was mailed to the CEOs of 673 organizations based on a representative sample. We drew a representative sample for the different sectors of the regional economy and geographical diversity of the area. Eventually, 159 organizations responded. Due to the small sample size the survey should be interpreted with caution.

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 overtly influenced by extreme numbers, the averages without the outliers tend to be more reliable. The histograms, however, depict all the observations to show the broad picture.

Confidence Index
A major goal of our survey is to historically track the overall business confidence of the Grand Rapids metropolitan area by a Confidence Index. The Confidence Index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence). The current results need to be interpreted in a larger historical context. During our surveys of the region for the last twelve years, when the economy has been growing steadily at a robust rate, the Confidence Index has depicted a high level of confidence, generally around 80% for the private sector. In response to the question, “How confident are you in the economy for 2008?” here are the average responses for the private sector and the government/non-profit sector over the last 13 years (Figure 1).

Let’s examine the private sector responses after adjusting for outliers. In the previous survey, the Confidence Index was lower at 60.2% at the end of 2006, amid economic evidence that the economy was growing slowly. The results this year indicate that business confidence of the private sector has come down to 55.77%. Respondents are expecting a marginal improvement in confidence to 59.78 for 2008. The government and nonprofit sectors are slightly higher, presently (58.33%) but projected to decline in 2008 to 54.06%. This is the first year that overall confidence has fallen below the 60% benchmark. Factors that continue to depress expectations for 2007 and 2008 include the sub-prime housing market crisis, high energy prices, and weak job growth prospects due to restructuring.

The mortgage finance hardships along with the slump in the housing market could not have come at a worst time.

Figure 1

West Michigan Confidence Index 2008

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Employment

Due to the ongoing restructuring in the manufacturing sector, the regional labor market in West Michigan has been repairing at a very slow pace. Last year employment was projected to grow at 0.70%. Figure 2 indicates projected employment growth for 2008. Overall, the growth in employment for 2008 is relatively flat. The mean without the outliers indicates that total employment will grow at only 0.14%.

Employment data traditionally has quite a bit of noise—it is difficult to find out exactly what is going on due to sample variances. What is interesting is that we get our employment numbers from two sources which are giving different signals for the Grand Rapids area. The establishment survey (nationwide sample of 160,000) which samples businesses and government agencies indicates that employment has increased marginally. This survey does not include self-employed workers. However, the household survey (nationwide sample of 60,000) indicates the number of employed workers in the Grand Rapids area has fallen marginally. The discrepancy between these two surveys may have to do with the fact more self-employed workers are leaving the area. It may also be that the household survey counts persons with multiple jobs only once whereas the establishment survey counts multiple job holders for each payroll. If individuals’ jobs are increasingly fragmenting, they will be double counted in the establishment survey. However, it is difficult to pin down the exact differences.

The economic situation in Michigan has been relatively worse compared to the national economy. West Michigan has traditionally relied more on the manufacturing sector. Employment in the manufacturing sector continues to decline as more consolidation in the workforce takes place, particularly in auto and auto-related industries, and there has been recent weakness in the furniture industry due to the construction slowdown. The full economic impact of the consolidation and buy-outs of American automakers has yet to take place. This will have a relatively less negative impact in the west compared to the east side; however, the consolidation and job losses in manufacturing will continue in West Michigan. New jobs will be created in the services sector particularly in health, education, and financial services.

Our survey indicates that 55% of respondents are likely to hire new workers in 2008. Most respondents who intend to hire expect to employ permanent workers (73%) as opposed to temporary workers (27%). However, given that new job applicants will enter the labor market; net job opportunities will be quite limited.

Sales

In times of robust economic growth, sales have grown at an annual rate of 5%. Sales projections made by respondents for last year were 2.58% without outliers. Next year sales growth is expected to slow to 1.45% (Figure 3). The expectations of our respondents indicate it may take considerable time before the higher trend growth rate of 5% is achieved. Note: our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy.

Export growth

During good times in the late 1990s, the expected growth in exports has generally averaged higher than 5%. Last year, exports were projected to grow at 5.8% without outliers. In 2008, exports are projected by respondents to grow at 5.76% with outliers and 4.36% without outliers (Figure 4). Given the volatility in exchange rates and uncertain prospects for worldwide growth, it is not surprising that expectations for growth in exports are volatile. The falling dollar relative to the Euro has helped the exports sector recently. Overall, exports continue to show a robust growth
pattern. Compared to domestic sales, export growth is a bright spot for the regional economy. This year we surveyed a larger proportion of service firms to make the sample more representative of the economy. This resulted in a decline of the respondents who export their output. Since the expected growth of exports is based on a much smaller sample, it should be viewed with caution.

The expectations about achieving a robust regional growth rate of 5% appear to have become gloomier. The results indicate that compared to last year, respondents have become significantly more pessimistic about the return of good economic times. An overwhelming majority of the respondents (87%) expect a significant economic rebound (a robust 5% annual growth) only after 2008. A majority (57%) do not see a return of good times until after 2009. This finding corresponds to the historically low business confidence for 2008 compared to previous years.

These results are consistent with Dr. Brian Long’s West Michigan Supply Management survey of purchasing managers (N.A.P.M.) that shows a significant drop in production and employment in the second half of 2007.

What is the final word on the national and regional economy? At the national level, there is considerable fiscal stimulus. The Federal Reserve Bank is in the process of lowering interest rates to prevent a further slow down in the economy. The declining housing market continues to be a drag on economic growth. The real growth in output for 2008 is expected to slow down due to impact of the continued high energy prices and the consolidation in the housing market. The amount of job growth has slowed significantly. There is talk of a possible recession. The growth in real output at the national level will be between 1% to 2%. There will be considerable variation in GDP growth in the quarterly estimates.

At the regional level, since the consolidation in the manufacturing sector is likely to continue, the outlook is less optimistic. Employment will be mostly flat (0.14%) and sales will grow at a slower pace (1.45%) for 2008. Due to the falling dollar, export growth continues to be a good opportunity (5% annual growth).

West Michigan will continue to diversify away from manufacturing into specialized services such as health care, financial intermediation, and education. In spite of difficult times, the state needs to ensure it will create a highly qualified work force for the future. State resources need to be leveraged to position ourselves strategically in growth sectors of the future. Besides health care and homeland security, state policies need to promote more renewable energy production options within the state so that more job opportunities are created in Michigan.

Acknowledgments

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