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West Michigan Economic Forecast

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Market Returns

West Michigan  5.8%
Dow Jones Industrials  9.2
S&P 500  6.7
NASDAQ Composite  10.1%

Here in West Michigan, the publicly-traded stocks of 16 local companies rose, while seven others fell. The best performance was turned in by Gantos whose stock rose 188 percent on good news about the company's increasing profitability. Investor optimism about Ameriwood's ability to return to profitability lifted its stock by 100 percent. Its stock had fallen 55 percent in 1995. Gentex stock had more than doubled by May, but as June drew to a close, the gain had receded to a still stunning 77 percent year-to-date gain. Tower Automotive gained a "mere" 40 percent, but that is on top of a 94 percent gain last year -- a total 18 month return of 170 percent. At the other end of performance, Autocam's stock turned in the most disappointing performance, falling 27 percent during the six-month period.

Through the first six months of 1996, two major changes have taken place in the composition of the West Michigan Index. Guardsman Products Inc., acquired by Lilly Industries, Inc., was no longer traded after the first week of April. About a week later, the daily stock price of Thomas Edison Inns began to be shown in local press, giving it more visibility and drawing attention to it as a possible investment. In May, the company changed its name to the Meritage Group, Inc.

Stock Performance of West Michigan-Based Firms
Dec. 29 - July 5

Gantos, Inc.  +188%
Ameriwood  100
Gentex  77
Tower Automotive  40
First Michigan Bank  19
Amway Japan Ltd.  19
Universal Forest Products  12
Foremost Corp.  11
Donnelly Corporation  9
X-Rite Inc.  8
Independent Bank  8
Bank West Financial  6
Wolverine World Wide  3
Ottawa Financial Corp.  3
Meritage Group, Inc.  2
Herman Miller, Inc.  1
Old Kent Financial  -5
Perrigo  -5
Knape & Vogt  -9
Finish Master  -10
Amway Asia Pacific  -14
Alternative Postal  -15
Autocam  -27

West Michigan Economic Forecast

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Highlights

Although the confidence index continues to be at a high level, the projected confidence index for next year has slipped marginally.

Correspondingly, expected employment growth is also expected to be slower for next year (2% - 2.5% range).

Expected sales growth for next year follows a similar pattern of a marginal decline and may hover around 5%.

Introduction: During July, 1996, we conducted our second survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan counties). A survey instrument was mailed to the CEOs of 192 organizations based on a representative sample. Care was taken to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the region. Eventually, sixty nine organizations responded. The results of the survey should be interpreted with caution because of the small sample size and the dispersion in the projections.

In order to give some sense of the variation in the responses we present the data with two features. First, we provide histograms to show the entire distribution of responses. Second, we report estimates with and without outliers (defined as beyond one standard deviation from the mean in each case).

Confidence Index: A centerpiece of the survey effort is to develop a confidence index for the region. Recall that this confidence index is scaled from zero percent (no confidence at all) to one hundred percent (complete confidence). When we sampled the region in November 1995 we found a high level of confidence in the CEOs about the economic performance of the West Michigan economy, approximately around 80%.

As Figure 1 shows, the confidence level during July 1996 for the entire region's performance has marginally increased for the private sector respondents and marginally decreased for the executives in the govt./non-profit sector. Taken together, it remains at approximately the same level. When respondents are asked to project their confidence level for the next year (July 1996 - June 1997) both private and govt. sector respondents project a marginal decline. In essence, the confidence index for the next year continues to be relatively high, but has slipped marginally to approximately 78%.

Figure 1
Confidence Index

Confidence level (%) vs. Time

November 1995  July 1996  Expected July '96 - June '97

gov't./non-profit
all sectors (excluding govt./non-profit)
This finding is not surprising for two reasons. First, the projection mimics the slowing down of the national economy in recent months. Second, as we go on to show it coincides with marginal declines in projected employment and sales growth.

**Employment:** During November 1995, respondents had projected employment growth for 1996 at approximately 2.8%. We had indicated that the shortage of skilled labor will act as a drag on the regional economy and actual employment gains may be lower. In this survey, respondents have lowered their expectations of job growth for the next year to approximately 2.4%. As Figure 2 depicts, the two estimates range from 2.35% (with outliers) and 2.54% (without outliers).

Note that the Business Outlook (Spring 1996) by the Upjohn Institute of Employment Research has projected overall employment to grow during the second and third quarter of 1996 at 0.4% each. Within this context, the employment projections by the respondents in the survey are moderately optimistic. My personal expectation is that employment will grow at around 2%, resulting in the creation of approximately 10,500 jobs for the Grand Rapids MSA for the next year (July 1996 - June 1997). The shortage of skilled workers will continue to be a binding constraint on the region.

**Sales:** Growth in expected sales projections made by respondents during November 1995 for 1996 were in the vicinity of 5.25%. The results of the current survey indicate that respondents have again marginally lowered their expectations in this area for next year. The three estimates provided in Figure 3 indicate that sales expectations range from 4.7% (without outliers) to 5.18% (made by Govt. and non-profit executives about private sector sales). A reasonable point estimate will be close to 5.00%. This is marginally higher than the national increase in retail sales volume of 4.8% for March 1995 to April 1996.

**Export growth:** From the respondents who export their output, the expected growth in exports during November 1995 for 1996 was 5.7%. Since the projection is based on a small sample and there is a wide variation in the estimates, it should be interpreted with caution. In the current survey, their projection of export growth for 1996-97 has slipped to approximately 4.6% (Figure 4).

**General Comments:** In the open ended questions there was a wide variety of comments. The major common themes are discussed for each sector.

In the manufacturing sector, the ability to hire and retain skilled workers continues to be an increasingly important concern. Many manufacturing firms have begun to focus more attention on export opportunities in Europe and to a lesser extent in Asia. In terms of government policies, manufacturing CEOs would like to see a tax credit for new investments and subsidies for training skilled labor.

In the services sector, shrinking margins because of competitive pressures is a major on going issue. In order to compete more effectively, employers would like government policies that provide more flexibility in labor hiring and work hours. Retailers would prefer to use an "electronic shelf tag" pricing system rather than the present requirement of a price tag on each item. Cost reductions would be possible with the former because the price data on the shelves could be centralized and coordinated with the check out counters.

In the public sector, most regional govt. officials continue to point out the need for a viable and comprehensive economic development plan to encourage and manage growth opportunities. A plan which has the ability to be implemented because it has the backing of major stakeholders. As a small step in this direction, one suggestion is that the state government should provide specific incentives for local governing agencies to undertake more functional consolidation. There could also be a focused long term commitment to five or six major development initiatives.
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The Market-Oriented Approach to Urban Growth Management
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How best to accommodate the steady growth in population and employment in the Grand Rapids metro area is a hot topic these days. This comes as no surprise because growth means change. Some of the changes are good: a greater variety of higher quality goods, services and cultural events, a better range of employment opportunities, and a larger pool of qualified workers. Some of the changes are not so good: congested roads and recreation areas, unsightly development, loss of farmland and open space, pressure on natural environments, and higher housing and labor prices. Given how bad things have gotten in other growing areas, many people wonder if changes in key public policies now might cost effectively reduce some of the negative effects of growth later.

Recognizing that effectively addressing the problems associated with regional growth requires cooperation among many local government agencies, business organizations (such as the Chamber of Commerce and the Home Builders Association) have joined with public and non-profit organizations in encouraging local elected officials to participate in the Metro Council. As a first step toward managing growth, the Metro Council assembled a study team to look at growth trends, identify the problems associated with growth, and make recommendations about how to deal with these problems. Rather than reinventing the wheel, the study team started with the common threads from similar exercises conducted elsewhere, and wove them into a “Metropolitan Development Blueprint”.

The Blueprint targets urban sprawl as the source of many of the problems associated with growth. As an alternative to sprawl, it envisions development directed into relatively compact centers to which local agencies can provide public services cost effectively. In addition, the Blueprint envisions a network of open lands and greenways that helps define communities, provides recreation opportunities, and protects watersheds and wildlife habitat.

Given the Blueprint, attention now turns to implementation. Achieving the vision of land development embodied in the Blueprint will require significant changes in the way most local public service providers do business. Experience in other metro areas demonstrates how difficult it can be not only to convince local jurisdictions to change policies, but also to get them to do it in a coordinated way. Given the limits in their political power, metro governments elsewhere have discovered that flexibility and an entrepreneurial spirit are essential to induce changes in local policies.

There are many ways to attack the problems associated with growth. Policy options range from direct regulation to laissez faire, and each approach has its strengths and weaknesses. In between are policies, which are currently getting a lot of attention, that take advantage of market mechanisms. Market-oriented policies are attractive because they reduce the amount of information and analysis government requires to make good decisions. They give the right signals to the right people: the hundreds of thousands of metro-area households and businesses who use land, transportation, and urban public services.

Space does not allow anything approaching a comprehensive description of market-oriented policies, but the following discussion shows the logic that underlies a market-oriented approach to local policy.

Transportation. This is the major issue: transportation systems and technology are primary determinants of urban development. We build highways in suburban areas in part to reduce urban congestion and in part to improve access to suburban land. Businesses and households take advantage of that suburban access, sometimes too much advantage: 28th Street used to be a beltline bypass and downtown Grand Rapids used to be the region’s commercial center. Though it’s tempting to build more low-cost rural bypasses, many people recognize that doing so will not eliminate traffic congestion (it may exacerbate it) nor encourage development in the central areas that want it and that contain the public infrastructure to support it.

Two general policies recommend themselves:

1. Improve access to those areas we most want developed.
   Yes, it costs less to build a rural bypass than to add lanes to an urban freeway. But the long-run benefits of maintaining patterns of access may outweigh the added cost.

2. Design the highway system to facilitate congestion pricing.
   None of us like highway tolls. But congestion tolls (tolls that vary by time of day) do all the things that prices typically do in markets. They (1) allocate scarce highway space to those who value it most, (2) decrease congestion and travel times, (3) encourage use of high occupancy vehicles; (4) provide the funding necessary to maintain and expand the system; and (5) impose the financial burdens on the rush-hour drivers who demand the capacity.

Public Services. Public-services policies tend to encourage low-density development. Many fringe jurisdictions allow development and impose no service fees in areas that lack improved streets, sewer, water, or drainage. When the area eventually develops enough to require improvements, these jurisdictions often lack the funds to build them. In addition, service fees rarely vary with cost, a practice that can subsidize development in farther-flung and lower-density areas.