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The Grand Rapids Economic Index

Moderate Growth Ahead

By William Peterson

The period of rapid growth in the Grand Rapids area appears to be changing to a period of moderate growth. The evidence is given in the composite indexes of economic activity which are shown in Chart 1. The Grand Rapids composite index represents a collection of several indicators of economic and business activity designed to make a general statement about the condition of the Grand Rapids economy from one month to the next. The numbers are index values and have meaning only when compared with a previous time period or another index with the same construction. The chart contains a similar index which measures the same conditions for the United States as a whole.

The U.S. Department of Commerce prepares information about Gross National Product and other aggregate measures of economic activity for large areas, such as the country or the state, but not for counties or cities. Most of us are familiar with the news reports that track the general economic conditions of the United States by reference to the percentage rate of increase in the Gross National Product. The index of economic activity for the United States was constructed only for comparison with the Grand Rapids index, but a study of the two measures of economic activity for the United States shows that percent changes from one quarter to the next are very similar. It is reasonable, therefore, to treat the two indexes shown on Chart 1 as good com-

parable measures of aggregate economic activity.

When United States economic activity is growing rapidly, the same tends to happen in Grand Rapids. The Economic Report of the President (February 1986) shows that the growth in real Gross National Product (adjusted for price level changes) was over six percent from the last quarter of 1982 to the last quarter of 1983. From that point to the last quarter of 1984, the growth rate was a little less than five percent. Forecasters are saying now that growth from the end of 1985 to the end of 1986 will be close to three percent. We can see from Chart 2 that the rate of growth in Grand Rapids economic activity is declining from its high rates of 1983 and 1984. We can also see that such growth rates in the past have matched what was happening in the United States as a whole.

The two charts show clearly that the rapid recovery from the recession of 1982 has reduced its speed. Growth in the Grand Rapids area was over nine percent from the last quarter of 1982 to the last quarter of 1983. From 1983 to 1984 it was about 7.5 percent and from 1984 to 1985 it was just over four percent. It is expected to be less than that for the period 1985 to 1986.

The components of the Grand Rapids composite index include facts about retail sales in the Grand Rapids area. These facts are collected monthly by the Seidman School of Business from a sample of

retailers in the area. The retail sales sample shows that there was a vigorous recovery which began near the end of 1982 and continued into the second quarter of 1985. Retail sales leveled off after that.

The composite index also includes facts about electric power consumption for industrial use (provided by the Consumers Power Company). They are used as a measure of industrial production in the Grand Rapids area. The index of industrial electric power use shows growth at the end of 1982 which levels off mid-1984.

The employment index component of the composite index for Grand Rapids shows that the rapid growth in employment which started at the end of 1982 ended in 1985.

Both residential and non-residential construction activity increased after 1982 in line with other kinds of economic activity in Grand Rapids. Residential construction activity has shown some signs of a turnaround as of the end of 1985 but non-residential construction activity continues to grow.

All of these indexes are adjusted for seasonal variation and for the artificial effects of inflation. These and many other facts about the Grand Rapids area are collected by Dr. William Peterson, Professor of Economics, Seidman School of Business. Additional facts and interpretations can be obtained by writing to him.

Chart 1

Grand Rapids Economic Activity Index

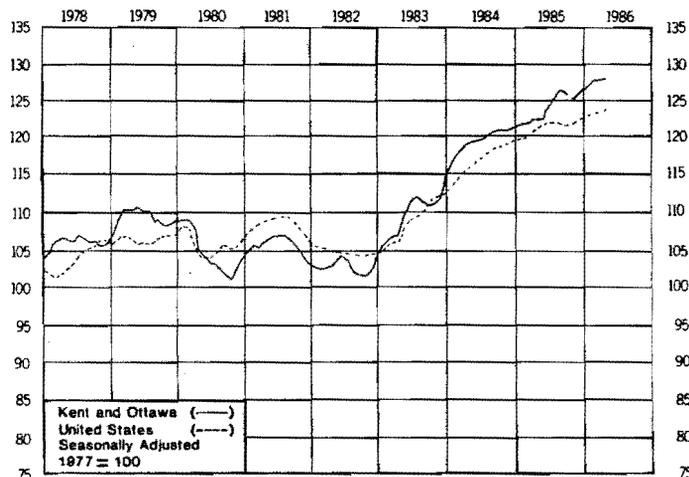


Chart 2

Economic Growth

