West Michigan Economic Forecast

Hari Singh
Grand Valley State University

Follow this and additional works at: http://scholarworks.gvsu.edu/wmbr

Recommended Citation
Available at: http://scholarworks.gvsu.edu/wmbr/vol1/iss1/6

This Article is brought to you for free and open access by the Seidman College of Business at ScholarWorks@GVSU. It has been accepted for inclusion in West Michigan Business Review by an authorized administrator of ScholarWorks@GVSU. For more information, please contact scholarworks@gvsu.edu.
Investors in West Michigan financial institutions also fared well -- their stock prices rose an average of nearly 34 percent. This reflects not only their record earnings during the year, but also speculative demand for their shares created by the expectation that out of state banks will acquire West Michigan banks for a hefty premium.

The news for 1995 was not all rosy, however. Investors in one-third of publicly traded area companies lost money during the year. Eroding market shares and disappointing earnings were behind these losses. Moreover, local companies as a group under-performed when compared with broad measures of market performance such as the Dow Jones Industrial Average. For instance, both the Dow Jones Industrial Average and the Standard & Poors 500 indexes rose about 33 percent in 1995.

The NASDAQ Composite Index, a performance measure of smaller companies traded in the over the counter market, rose a stunning 40 percent. All three of these indexes, but particularly the NASDAQ Composite, were boosted by the frenzy buying of high-tech stocks. Investors' appetite for high-tech stocks by-passed West Michigan where stocks primarily represent manufacturing and financial services firms.

Rather than focus on the better performance of these other stock indexes, investors in West Michigan firms should savor their 22 percent return in 1995. That number is about double the average annual return US stocks have generated over the past seven decades.

Taking a longer view, the news is even better for investors in West Michigan firms. Since July 1993, local stocks have outperformed all three market indexes. Investors have earned an annual return of 17.7 percent from the Dow, 15.1 percent from S&P 500 stocks, 20.0 percent from NASDAQ stocks, and 20.2 percent from West Michigan stocks. Except for the S&P 500 Index, the returns do not include cash dividend payments. For West Michigan firms, cash dividends would add another percent to the annual returns earned by investors.

Stock Performance of West Michigan-Based Companies in 1995

<table>
<thead>
<tr>
<th>Company</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tower Automotive</td>
<td>+94%</td>
</tr>
<tr>
<td>Wolverine World Wide</td>
<td>83</td>
</tr>
<tr>
<td>Ottawa Financial Corp.</td>
<td>47</td>
</tr>
<tr>
<td>Foremost Corp.</td>
<td>43</td>
</tr>
<tr>
<td>Universal Forest Products</td>
<td>42</td>
</tr>
<tr>
<td>Old Kent Financial</td>
<td>42</td>
</tr>
<tr>
<td>Finish Master</td>
<td>34</td>
</tr>
<tr>
<td>Amway Japan Ltd.</td>
<td>29</td>
</tr>
<tr>
<td>Bank West Financial</td>
<td>27</td>
</tr>
<tr>
<td>Autocam</td>
<td>26</td>
</tr>
<tr>
<td>First Michigan Bank</td>
<td>24</td>
</tr>
<tr>
<td>Independent Bank</td>
<td>18</td>
</tr>
<tr>
<td>Herman Miller, Inc.</td>
<td>15</td>
</tr>
<tr>
<td>Amway Asia Pacific</td>
<td>9</td>
</tr>
<tr>
<td>Guardsman Products</td>
<td>5</td>
</tr>
<tr>
<td>Perrigo</td>
<td>-5</td>
</tr>
<tr>
<td>Donnelly Corporation</td>
<td>-6</td>
</tr>
<tr>
<td>Gentex</td>
<td>-7</td>
</tr>
<tr>
<td>Knape &amp; Vogt</td>
<td>-11</td>
</tr>
<tr>
<td>Gantos, Inc.</td>
<td>-11</td>
</tr>
<tr>
<td>X-Rite Inc.</td>
<td>-29</td>
</tr>
<tr>
<td>Ameriwood</td>
<td>-55</td>
</tr>
</tbody>
</table>

West Michigan Economic Forecast

Professor Hari Singh, Economics Department, Seidman School of Business, Grand Valley State Univ.

Highlights

- There is a high level of confidence (around 80%) in the west Michigan economy
- Confidence levels are similar for 1995 and 1996
- The region's employment growth is expected to be around 2.5% for 1996
- Annual growth in sales for 1996 will approximate 5%
- Average growth in export-oriented firms for 1996 will be above 5%

Introduction: During November 1995, the Seidman Business School sent a short survey to the CEOs of 160 organizations in the west Michigan counties of Kent, Ottawa, Allegan and Muskegon. We tried to send the survey to a representative set of organizations in different sectors of the economy. Eventually, sixty two organizations responded, resulting in a response rate of almost 39%. The results of the survey should
be interpreted with caution because of the small sample size and variability in the data. This survey will be repeated twice each year. We welcome more participants in this survey effort. If you wish to participate, do not hesitate to contact the Office for Economic Expansion.

**Confidence Index:** A major part of the survey effort is developing a confidence index for the west Michigan economy. This confidence index is scaled from zero percent (no confidence at all) to one hundred percent (complete confidence). We asked respondents to tell us their confidence level for the west Michigan economy one year ago, presently and for 1996. The results are reported in Figure 1. Averages of two different estimates of the confidence interval are depicted by the private sector and the govt./non-profit sector. Two major conclusions can be reached on the basis of this index. First, although there is considerable variation, most respondents are relatively confident about the performance of the regional economy (typical responses average close to eighty percent). Second, for 1996, the confidence level is relatively similar to 1995. (The marginal decline from 1995 to 1996 is not statistically significant). Most regional indicators seem to show that the performance of the regional economy this year will almost match last year’s record. For instance, the available numbers for the regional Purchasing Manager’s Index also indicates that 1996 is expected to be similar to 1995. Within this context, no significant changes in the confidence index is not surprising.

**Figure 1**

**Confidence Index**

Cautions: Wide variation in data

---

**Employment:** We asked respondents about the regional prospects for employment growth. The results are depicted in Figure 2. Again, there is considerable variation in respondent estimates. Consequently, two averages are provided: one with all the data and the other excluding outliers (defined as beyond one standard deviation in this analysis). The results indicate that job growth in the region will be in the vicinity of 2.5% to 3%. Note that the Business Outlook (Winter and Fall 1995) by the Upjohn Institute for Employment Research indicates that actual employment growth for 1994 in the region has been 3.1%, and for 1995, the latest available numbers show an annual growth of 2.7%. My personal expectation is that employment growth will be in the 2% to 2.5% range, partly because the shortage of skilled labor in the region implies that hiring will face a significant constraint. If a growth in employment of, say, 2.0% is realized, this will translate into approximately 10,500 new jobs for the Grand Rapids MSA.

**Figure 2**

**Expected Changes in Employment for 1996**

---

**Sales:** The results of the expected sales growth in 1996 are depicted in Figure 3. Although there is variability in the responses, three average estimates: data with outliers, data without outliers and expectations of public and non-profit officials, all indicate growth in sales upwards of 5%. Considering that the “Consensus Economist Forecast” for 1996 of real GDP for the U.S. economy is 2.5% and for inflation is 2.8%, a regional sales forecast of around 5.00% (which incorporates growth in real output and prices) is close to the national trend forecast.

---

1 Footnote: We also asked respondents about their estimates for their specific sector. However, it is difficult to derive regional averages from these estimates due to inadequate sample size and lack of precise knowledge about each sector’s contribution to the regional economy. Consequently, we have relied on their expectations for the entire west Michigan area.

Michigan economy promises to be dynamic and exciting. We will continue to take the pulse of the regional economy in our next survey and report the outcomes in the Update.

**Acknowledgments**

Emery Turner, Dean, Seidman School of Business, provided encouragement and useful comments on the survey instrument. The staff at the Office for Economic Expansion provided logistical support. I am particularly indebted to three individuals from OEE. Capable research assistance and a great deal of diligent effort was provided by Mike Medvecky. Jenny Shangrow helped me in identifying the organizations for the initial survey sample. Sharon Palmitier provided capable assistance with the graphs and slide presentation.

We are very grateful to the following organizations for participating in the survey:

- Acoustical Wall Systems
- Aetna Life & Casualty Co.
- Alexander Marketing Services Inc.
- Alliance
- Alro Steel Corp.
- Ameribank
- American Automobile Association, Inc.
- American Seating Co.
- Ameritech
- Amway Corporation
- Amway Grand Plaza
- Arnie's Inc.
- Association of Builders and Contractors
- Auto-Wares Inc.
- Autodie International
- Autostyle, Inc.
- Baker Furniture Co.
- Benteler Industries Inc.
- Berger Chevrolet Inc.
- Betten Outlet Center
- Bevco Inc.
- Bill Mar Foods Inc.
- Bissell Inc.
- Blackmer Pump
- Blodgett Memorial Medical Center
- Brunswick Bowling & Billiards Corp.
- Bun Basket
- Byron Center State Bank
- Byron Township
- Campbell's Fresh Inc.
- Cascade Engineering
- Citizens Insurance of America
- City of East Grand Rapids
- City of Grand Rapids
- City of Kentwood
- City of Walker
- City of Wyoming
- Coldwell Banker, Schmidt Realtors
- Comerica Bank NA
- Counterpoint North America
- Country Fresh Inc.

**TABLE 1**

<table>
<thead>
<tr>
<th>General Concerns</th>
<th>Manufacturing Sector</th>
<th>Services Sector</th>
<th>Local Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiring and retaining technically skilled workers in the area. Michigan Single Business Tax, reform of liability laws, tightening worker’s compensation.</td>
<td>Major Issue: Rapid changes in technology and demand causing production equipment and jobs skills to be obsolete quickly.</td>
<td>Major Issue: Shrinking margins partly because of competition from superstores.</td>
<td>Major Issue: Providing more mechanisms for cooperation among local city/county officials.</td>
</tr>
<tr>
<td>Specific Change in Policy: Reform of rules that allow Federal prison industries to manufacture furniture and sell it at “super preference” to government agencies.</td>
<td>Specific Change in policy: A Michigan State Law which requires individual pricing of items preventing retailers from adopting cost savings by a wider use of “electronic shelf tags.”</td>
<td>Policy Change: Lobbying for greater sharing of state revenues.</td>
<td>Policy Change: To develop a long-term master plan for sustainable regional growth based on cooperation among different stakeholders.</td>
</tr>
</tbody>
</table>

**General Comments**

The survey asked general open-ended questions about potential problems, opportunities and desired changes in government policies. Based on the survey responses and some follow up conversations, a selected list of the issues are summarized in Table 1. One issue which I would like to single out is the need for more cooperation among city/county officials and the development of a regional master plan by the stakeholders which can be implemented in a phased manner. West

![Figure 4](https://example.com/figure4.png)
Cutler Sports Apparel
D & W Food Centers, Inc.
Daane's Food Markets Inc.
DeJager Construction Inc.

Dell Engineering
Diesel Technology
DLP Inc.
Donnelly Corporation
Eagle Ottawa Leather Co.
Empire Distributing Inc.
Envirosystems Furniture Inc.
Ernst & Young
Farm Credit Services of West Michigan
Fase Realty
Finishmaster Inc.
First Michigan Bank Corp.
FKI Automotive
Foremost Insurance Company
Fox Jewelry Company
G M Corp/ A C Delco Systems
General Motors CPC-Grand Rapids
Gentex Corp.
Goodwill Industries
Gordon Food Service
Grand Rapids Auto Auction
Grand Rapids Chamber of Commerce
Grand Rapids Press
Grand Valley Health Plan
Great Lakes BCN
Greenridge Realty Inc.
Greiner Inc.

Guardsman Products
Guager Distribution
Haskell Steel Co.
Haworth Inc.
Herman Miller Inc.
Holland Chamber of Commerce
Holland Community Hospital
Horizon Group
Howard Miller
Howmet Corporation
Hudsons
Irwin Seating
J & H Oil Company
J C Penney Company
J. W. Messner
Keebler Co.
Kent County
Knape & Vogt Manufacturing Co.
Kraftwood Industries
L G Cook Distributors Inc.
Lacks Enterprises Inc.
Lakeshore HMO, Inc.
Lazzy Boy
Lescoa Inc.
M C Sporting Goods
Magic Steel Corp.
Maly's of California
MEGA

Meijer Companies, Ltd.
Meridian Inc.
Michigan Bulb Company
Michigan District 77
Michigan Plastic Products Co.
Michigan Senate
MS & JK Inc.
Muskegon County Administration
Nicholas Plastics
Nucraft Furniture Co.
Old Kent Bank
Ottawa County Board of Commissioners
Ottawa Savings Bank
Oven Fresh Bakery
Owen-Ames-Kimball Co.
Perrigo Co.
Plainfield Township
Prince Corporation
Rapistan Demag Corp.
River City Food Co., Inc.
Rogers Department Store
Russ' Restaurants
Ryder Truck Rental
S Abraham & Sons
S P X Corp.
S. J. Wisinski & Co.
S.E. Gilmore Inc.
Shoreline Container
Sligh Furniture Co.
Smith, Haughney, Rice & Roegge
Smiths Industries
Sparta State Bank
Spartan Stores Inc.
Staffing Inc.
Standale Supply & Lumber Company
Steelcase Inc.
Stiles Machinery
Teledyne Vehicle Engineering
Textron Inc.
The Knoll Group
Thorn Apple Valley Inc.
Travel Consultants
Trendway Corp.
United Technologies Automotive
United Way
Warner, Norcross & Judd
Waste Management
Waterfield Mortgage Co.
Westdale
Westshore Engineering & Surveying
Williams Distributing
Wolverine World Wide, Inc.
Woodland Realty Inc.
Worden Co.
X-Rite Inc.
Zeeland Lumber and Supply Inc.
Zelenka Nursery