Winter 2003

West Michigan Economic Forecast for 2003

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- Broad indicators show that the regional economy is expected to grow at a modest rate for 2003
- The Confidence Index depicts a marginal increase of 4% and is projected at 71% for 2003
- Employment prospects will improve in 2003 with a projected growth of 1%
- Sales growth is expected to grow at a tepid 1.8% for 2003
- 57% of the respondents expect a robust growth of 4% after December 2003

Introduction

Our latest survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan Counties) depicts the expectations of a modest upturn. A survey was mailed to the CEOs of 601 organizations based on a sample representing different sectors of the regional economy and the geographical diversity of the region. A total of 100 organizations responded.

The results of the survey need to be interpreted with caution because of the small sample size. In order to give some sense of the variation in the responses, the data are presented in a histogram format to show the entire distribution of responses.

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. This confidence index is scaled from zero percent (no confidence at all) to one hundred percent (complete confidence).

Some historical perspective will place the latest results in the proper context. Our surveys of the region for the last seven years, when the economy has been growing steadily, have depicted a high level of confidence, generally upwards of 80% for the private sector.

Figure 1

Mean Confidence

West Michigan Confidence Index 2003

¹ Hari Singh is Chair of the Economics Department. Nancy Boese is the Regional Director of the Small Business Development Center. We were aided by invaluable research support from Jared English and Kaloian Kirilov, graduate research assistants at Seidman Business Services.
During the previous survey in November 2001, the Confidence Index had fallen to the lowest level in seven years to 63% amid widespread anecdotal evidence that the economy had slipped into a recession. The September 11 terrorist attacks caused a disruption in airline and other services and further slowed the economy. The results this year indicate that business confidence in the private sector is shoring to 67% and is projected at 71% for 2003 (Figure 1). The expectations by the non-profit sector are lower, probably reflecting shortfalls in revenue.

Observing the fluctuation of the index over the last seven years, we know it is highly sensitive to business expectations and the national business cycle. The regional/national economy has grown at a slow pace in the second half of 2002. The national unemployment rate is hovering around 6%, and the national Gross Domestic Product (GDP) grew at a modest rate in the fourth quarter of 2002. The Federal Reserve Bank has moved aggressively to reduce the short-term interest rate (Federal Funds Rate) to 1.25%. Monetary policy does not have much more room to be effective. President Bush's $670 billion fiscal stimulus proposal is likely to be the focus of intense debate early in 2003. The immediate impact of a fiscal package on a $10.5 trillion economy will be modest. The higher federal budget deficit caused by the fiscal package will raise expectations about inflation and interest rates and lead to some crowding out.

The present modest economic growth has been supported by relatively robust consumer spending, especially in housing and autos. Over the last year, the economy has been working through its over-investments in technology and consolidating for the expansionary phase. Recent numbers indicate that the recovery will gather strength in 2003. Overall investment in software and equipment has started rising. The Institute of Supply Managements monthly survey of purchasing managers index rose to 54.7 in December, suggesting that manufacturing activity is beginning to show an upturn.

**Employment**

Amid all the well-publicized layoffs by major corporations in the West Michigan area, respondents in 2001 did not expect any significant employment growth for 2002. Figure 2 indicates projected employment growth for 2003. Overall, the projected average growth in employment is 0.9%—with considerable variations across organizations and sectors. The unemployment rate for the Grand Rapids MSA peaked in July at 7.5% and has been declining to some extent. Employment opportunities are expected to pick up in 2003. The projected employment growth of less than one percent indicates that employment prospects will improve, but a dramatic turnaround is unlikely. The modest growth in employment will mask considerable variation in job opportunities across different industries.
Sales
Sales projections made by respondents in 2001 for 2002 were around 1.5%. Sales over the holiday season in 2002 have not been very encouraging. Moreover, a significant portion of this holiday season's spending may have borrowed from future consumer demand. The projected average sales growth of 1.8% expected for 2003 (Figure 3) is consistent with the moderate rise in the confidence index and job opportunities in the Grand Rapids area. Viewed in the context of the five-year sales projection for 2002–2007 of 24.7% by Sales and Marketing Management 2002 (based on effective buying income), the annual projected sales growth of 1.8% is pessimistic. In times of robust economic growth, sales have grown at an annual rate of 5%. The expectations of our respondents indicate that it may be a year before the trend growth rate of 4% to 5% is achieved. Note our numbers are for nominal sales of all goods/services produced in the West Michigan economy.

Export growth
For respondents who export their output, the expected growth of exports has generally averaged higher than 5% in the 1990s. However, one feature of the current slowdown is that it is synchronized at the global level. The prospect for any recovery in Japan does not look good. Asia and Latin America are also suffering a significant slowdown. The prospects for robust growth in the European Common Market are also dim. In this context it is not surprising that expectations for export growth is volatile and likely to be modest (Figure 4). A projected growth rate of 3.2% in exports indicates pragmatic optimism.

Trends for 2003
Recent reports suggest that some of the increases in labor productivity in the late 1990s— the key to keeping employment costs and inflation in check — were cyclical. However, most economists believe sustainable productivity growth without the cyclical effect could be 2.5% to 3% in good times. This indicates that the economy can grow at approximately 4% without generating significant inflationary pressure. These fundamental foundations of the economy are intact.

A majority of our respondents (57%) expect the growth rate of 4% in real output to be achieved after December 2003, indicating considerable underlying pessimism about the good times returning soon (Figure 5). We asked respondents what the main reasons were for the slow growth in 2002 (Figure 6). Not surprisingly, the slowdown in the global markets is ranked by most respondents as the number one factor. The expectations of war with Iraq and the threat of terrorism are ranked almost equally as the second and third factors. Note these three factors are overlapping to some extent and reinforce each other.
The effect of the aggressive reductions in interest rates by the Fed will continue to be felt next year. One key to recovery is consumer confidence. Consumption expenditures account for 67% of the national output. The economy cannot regain a robust growth rate unless consumers are confident about their future prospects. With the specter of war with Iraq hanging in the balance, and the spate of high profile corporate scandals and bankruptcies, consumer confidence has been fragile. The Conference Board’s Consumer Confidence Index has been around 80, although in good times it is above 110. Consumer expectations are likely to be tempered by modest sales and job growth. Although business confidence has also been slow to build up over 2002, new business investments are overdue. Look for business investment to lead the recovery this year.

In summary, the West Michigan economy has consolidated over a significant downturn and is poised to grow at a faster pace in 2003. On the basis of what we know presently, barring any unforeseen negative shock and given the momentum of interest rate reductions, a modest growth in real output of 3% in the first half of 2003, strengthening to 4% for the second half of 2003, is a reasonable expectation for the nation. The West Michigan economy will follow this trend.

**When Respondents Anticipate a Robust Growth of 4%**

(percentage of responses)

*Figure 5*

**Ranking for the Reasons for the Present Economic Situation**

*Figure 6*

**Acknowledgments**

We are very grateful to all the organizations that participated in the survey.