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Grand Rapids Economic Forecast 2001

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• The Confidence Index for the Grand Rapids economy has declined from 86% to 77%
• Employment growth is expected to be 2.2%
• Sales are projected to grow about 3%
• Export growth rates are expected to be higher, around 7%

Introduction

We conducted our seventh survey forecast for the Grand Rapids MSA (Kent, Ottawa, Muskegon and Allegan counties) in December 2000. A survey instrument was mailed to the CEOs of 700 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the region. One hundred organizations responded. The results of the survey need to be interpreted with caution because of the small sample size and the dispersion in the responses.

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.

Figure 1

West Michigan Confidence Index

1 Hari Singh is Chair of the Economics Department. Nancy Boese is a Business Consultant with Seidman Business Services. Special thanks to Zara Tchaoucheva, a Research Assistant at Seidman Business Services, who helped administer the survey and format the data.
A major part of our survey effort is to historically track the overall business confidence of the Grand Rapids metropolitan area with a Confidence Index. This Confidence Index is scaled from zero percent (no confidence at all) to one hundred percent (complete confidence).

Before we consider the present expectations, some historical perspective is in order. During our surveys of the region for the last six years, the Confidence Index has continued to depict a high level of confidence in the economy, generally upwards of 80% for the private sector.

In the previous survey, the Confidence Index rebounded to around 86% during January 2000. This came in the wake of a survey indicating that the Confidence Index during November 1998 had dipped to 81%. More ominous in November 1998 were the projections for 1999 of about 77%. Recall that 1998 was a time of the Asian crisis, and there was concern about the contagion effect of this crisis reaching American shores. The Federal Reserve Bank had reduced interest rates on three consecutive occasions by 25 basis points each to restore confidence. Then, in 1999 the threat of the Asian crisis damaging our economy dissipated, and the Federal Bank took back the three decreases in interest rates—clearly the Federal Reserve orchestrated a soft landing.

Now we have come full circle to another slowdown in the juggernaut economy that is fueling the longest business cycle expansion ever recorded. The technology stocks have taken a beating; labor costs are rising; and consumer debt levels are high. It is clear that the economy's growth rate is slowing. The big question: Will the Federal Reserve Bank be able to steer a soft landing like it did in 1999—or will we find ourselves in a recession? More about this later; first, let us look at our regional indicators.

Figure 1 (left) shows the Confidence Index estimates at the point of time when each survey was conducted. Note that the confidence level for the private sector has now dropped to about 77% from 86% in January 1999. This downward shift of expectations in the Grand Rapids area is a microcosm of what is happening to the national economy. The expectations for calendar year 2001 are projected to be lower, around 75%. Two factors are driving down the expectations for 2001. First, there is a normal tendency for respondents to be pragmatic—their projected estimates for the year generally tend to be marginally lower than what they feel now. Second, the fall in the Confidence Index reflects concerns about the slowdown—and the possibility that we may be in for a hard landing. Note that although the estimates for the government/nonprofit sector are relatively higher, because of a larger sample size, we rely more on the private sector estimates.

In summary, the overall confidence in the West Michigan economy is quite robust, but there are palpable concerns about an economic slowdown and a possible recession.

**Employment**

Figure 2 indicates projected employment growth for 2001. Respondents have projected employment growth for 2001 at approximately 2.2%.
First, consider this estimate within the context of what we know as of December 2000. In spite of a tight labor market, total employment growth for the Grand Rapids MSA has been quite robust. The unemployment rate is presently at 2.9%, and the total number of workers employed surged to around 606,000 during October 2000. Although the employment numbers for the calendar year are not final yet, employment growth will probably average 3% for 2000.

Second, consider the basic constraints of employers. Approximately 60% of the employers indicate that hiring skilled workers is either "a serious" or "a pressing problem." The shortage of skilled workers will continue to be the major constraint on the region's growth potential. Employers have broadened their job search to throughout West Michigan. Increasingly employers are looking for skilled workers at the national level, with a small proportion recruiting internationally. As the pool of available skilled workers in West Michigan gets more restricted, employers will continue to widen their search base. Not surprisingly, employers expect to increase their own work force by an average of 2.5% for 2001. They are more optimistic about their own hiring possibilities for 2001 compared to the overall projected growth of 2.2% for the region.

So, what is the bottom line? The employment projections of approximately 2.2% growth in employment for 2001 are realistic—reflecting the tightening constraint faced by firms.

Sales
Sales projections made by respondents for last year were 4%. The results of the current survey indicate that respondents have lowered their expectations of sales for 2001 to 3.1% (Figure 3). This is consistent with the decline in the Confidence Index.

Export growth
From respondents who export their output, the expected growth of exports in 1999 was projected to be 6% for the year 2000. Exports are likely to increase at the margin—the projected growth rate (for those who expect changes in exports) for 2001 is 7.5% (Figure 4). The increase in export expectations is probably due to new products and better conditions in Asia and Latin America. Since the estimate is based on a small sample and there is a wide variation in data, it should be interpreted with caution.

In general, what does year 2001 have in store for us? The regional economy in Grand Rapids will continue to mirror national trends. Although we have the longest expansion ever, recently the national economy has been slowing at a fast rate. The projected growth in real output for the national economy in the year 2001 is expected to average around 3% (Consensus forecast from The Economist, December 15 - 19, 2000). Most economists expect the Federal Reserve Bank to continue to try to keep the growth rate of real output between 3% and 4%. But as the production slows, the economy is more vulnerable to negative shocks; and the imbalances of a trade deficit, a debt overhang,
and the ongoing market correction can produce a negative momentum of their own.

Now consider the bright side. Between 1992 and 2000, business investment has almost doubled its share of GDP (9% to 16%). From 1995 to 2000, growth of firms' investment in information technology grew by an annual rate of about 25%. Recent reports suggest that this investment has led to a surge in labor productivity—keeping employment costs and inflation in check. However, productivity is difficult to measure accurately, and part of the increase is clearly cyclical. Most economists believe that productivity growth, without the cyclical effect, is currently 3% to 4%.

The Fed has lowered interest rates by 50 basis points in early January 2001 to cushion the slowing economy. If within the next year or so productivity continues to grow at a robust and stable rate, and barring any negative shocks, we may achieve a soft landing by stabilizing output growth at 3% to 4%. If this happens, Alan Greenspan would have navigated a soft landing for the second time, and the expansion will continue to set a new record. Certainly, this is something to hope for as we welcome the dawn of another exciting year!

Acknowledgments
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