Grand Rapids Economic Forecast 2014

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Grand Rapids Economic Forecast 2014

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- Business confidence index in 2014 is 71%, the highest level for the index since December 2000
- Employment is expected to grow by 2.7% to 3.1% in 2014
- Overall nominal sales are expected to increase by 2.4%–2.8% for 2014
- Exports continue to be a bright spot; expected growth is between 8% and 9.2% during 2014
- All indicators signal the 2014 economy growing faster than during the last 2 years

Introduction

The survey for the greater Grand Rapids economy, Kent, Ottawa, Muskegon, and Allegan Counties (KOMA), was conducted in November and December 2013. A survey was mailed to the CEOs and business leaders for just over 1000 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 area. Eventually, 227 organizations responded, resulting in a response rate of 21%, which is consistent with previous years. However, due to possibility of a non-random response sample, the survey should be interpreted with caution.

A few methodological considerations are in order. Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages (when calculated without adjusting for outliers—responses beyond one standard deviation). Since the average of a small sample is significantly influenced by extreme numbers, we use the averages without the outliers to provide more reliable results. The histograms, however, depict all the available observations to show the broad picture. Note that the total numbers in the histogram figures do not add up to exactly 227 because a few respondents did not answer all questions.

![West Michigan Confidence Index 2014](image-url)
Confidence Index
A continuing goal of our survey is to historically track the overall business confidence of the Grand Rapids area with a confidence index. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence). In response to the question: How confident are you in the regional economy? the average responses for the private sector and the government/non-profit sector over the last 19 years are shown in figure 1.

Last year the private sector confidence index expected for 2013 was 63%, but by the end of 2013 organizations reported their current confidence at 68%, showing firms were positively surprised last year. For 2014, organizations expect a 71% confidence level, which is the highest reading since December 2000, but it is still below those reported in the late 1990s. There has been a steady increase in confidence since the low seen in 2008, and the West Michigan business leaders surveyed see this improvement continuing during 2014.

For the first time since 2000, the projected confidence is above 70%. The regional economy is expected to not only continue to grow in 2014, but also grow faster than the rate seen in 2013.

Employment
Michigan’s economy has been led out of the recession of 2007 to 2009 by automotive manufacturing. The Current Establishment Survey shows this is true in West Michigan where 7% of the jobs added in the Grand Rapids MSA since October 2009 have been transportation equipment manufacturing, even though the sector employs less than 3% of the workforce for the region. For 2013, employment for KOMA was projected to grow at an average of 1.7–2.3%. The numbers from the Local Area Unemployment Statistics (LUAS) survey indicate that employment in KOMA has grown by approximately 2.3% from October 2012 to October 2013 bringing employment above the level seen in October 2008. This is on the top end of the forecast range for last year and is likely to be a little higher for 2013 once the data for the end of the year are published.

In 2013, 14% of respondents expected hiring growth greater than 3% in 2013, but 40% expect hiring to grow this fast in 2014. In addition, less than 1% of respondents expect to reduce their work force compared to 6% last year. Productivity gains are a drag on employment growth, as 43% of those surveyed are purchasing equipment to decrease the need for workers. Average employment in the KOMA region is expected to grow at 2.9%, which is a strong improvement from the 2013 expectations.

More than two thirds of respondents (69%) expect to hire next year, which is up from 58% last year. Of those persons being hired, about 76% are expected to be permanent workers. This continues to suggest hiring in West Michigan at a rate faster than the country as a whole.

Sales
For sales, the respondents answer the following question: What percent change in sales do you project for the four counties in 2014? During the late 1990s, sales grew at an annual rate of 5%. We can see in Figure 3 that respondents are clustered around the 1% to 3% range, much as they were the last two years; however approximately a quarter of respondents now believe growth will be above this range. We should expect sales to grow at a rate of 2.6% in 2014.

Note that our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy. Consequently, the increase could be in prices and/or quantities.

Export Growth
Exports have been a bright spot in the West Michigan economy the last few years. This year, exports are expected to pick up compared to last year with respondents expecting an
8.6% increase for 2014. However, since the expected growth of exports is based on a much smaller sample of only 72 respondents, it should be viewed with caution.

**General Expectations**

The slow improvement in employment, sales, and exports has also influenced the expectations about achieving a robust regional growth rate of 5% in the near future. (Figure 5) Approximately 46% expect a robust growth by December 2015. A significant majority (54%) expected a robust growth only after December 2015, if ever. These numbers are essentially the same as last year. It appears that about half the respondents do not believe that growth as was seen in the late 1990s is realistic for the foreseeable future and probably believe that we are on a new slow, but steady, growth path.

**General Outlook**

At the national level, expected growth will average between 2.5% and 3.5% for 2014. The economy will continue the slow acceleration seen in 2013. Nationwide employment will continue to improve in 2014. Full-time hiring will increase significantly as businesses become progressively more confident about the future. However, it is not likely that the employment situation will improve dramatically. By the end of 2014, the unemployment rate should still be above 6.4%.

At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above 70%. Employment will grow by approximately 2.9%. Nominal sales will increase by 2.6%. In spite of its volatility, exports have always been a bright spot during the Great Recession and are projected to continue to grow next year by 8.6%.

Three major pitfalls exist for 2014. Early in 2014 we face another possible showdown over the debt limit that has the potential to limit growth in the near term. During 2014 we will also see the beginning of the Federal Reserve wind down of the extraordinary measures used since the last recession which needs to be handled with care. Finally, there are always concerns about external shocks from around the world, particularly since data from Asia has been weaker as 2013 came to a close.

**Acknowledgments**

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