The West Michigan Economy in Review

Gerry Simons
Grand Valley State University

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This past December was the seventh anniversary of the officially recognized start of the economic downturn that became known as the Great Recession—the National Bureau of Economic Research identified December 2007 as a peak in the U.S.’s business cycle, thus marking the end of the economic expansion that dated back to late 2001 and the beginning of the recession that lasted until mid-2009. Michigan, with its reliance on manufacturing, was particularly hard hit by the Great Recession, and has struggled with a lackluster recovery. In this paper, I take a look at the West Michigan economy’s performance over this period.

Any economic analysis of regions within a state faces the problem of limited “hard” data. Some, such as detailed government data on international trade, are not available below the state level, while others, such as the Bureau of Economic Analysis’s measure of average income in a metropolitan area, are only calculated annually and with a significant time lag before the data is released. One exception is with labor market data—the U.S. Department of Labor’s Bureau of Labor Statistics (BLS) provides monthly data on numerous labor market measures, with only a modest time lag. Such data is publicly available on the BLS’s website at www.bls.gov. Despite being limited to the labor market, I have used the BLS’s database to provide what I hope is a revealing overview of our regional economy.

Figure 1 shows the unemployment rate for the Grand Rapids, Holland, and Muskegon Metropolitan Statistical Areas (MSAs). In November 2007, the unemployment rates in these MSAs were 5.5%, 5.2%, and 6.6%, respectively. By July 2009, these unemployment rates had risen to 12.2%, 13.4%, and 15.9%. Even though the U.S. has not been in recession since mid-2009, it was only in the spring of 2010 that the unemployment rates in our region began to fairly consistently, but slowly, fall. The Grand Rapids and Holland MSAs dipped back to the pre-recession levels in spring 2014, with the Muskegon area doing so only by August 2014. Although not shown here, this pattern aligns with Michigan’s statewide unemployment rate, which was 7.3% in November 2007 and 14.1% in July 2009, and fell back below its pre-recession level in September 2014.

The Great Recession and its aftermath were clearly an enormous blow to many in our region—the number of people unemployed in the Grand Rapids MSA alone rose by 25,000 between November 2007 and July 2009—but what do the data tell us about those fortunate enough to have employment? Figure 2 shows the average number of hours worked per week by all private sector employees. This graph needs to be interpreted carefully, as individuals can be counted in the data more than once—a person with two part-time jobs, for example, is counted twice.

Figure 2 shows a significant negative impact of the recession on employee hours. This likely reflects a combination of changes—some workers who kept their job but had their hours cut, and others who lost a full-time job and ended up with part-time employment instead. Between 2007 and 2009, average weekly hours fell by about two in both the Grand Rapids and Holland MSAs, and by about one in the Muskegon MSA. That might not sound like much, but taking into account the number of employees that this represents, it collectively amounts to approximately 2.5 million fewer hours worked per week.
of private sector work per week for the region. As with the regional unemployment rates, these weekly hours returned to their pre-recession levels in mid/late 2014.

Not only did the recession lead to reduced hours for workers, it also resulted in lower “real” pay per hour. Figure 3 shows average hourly earnings adjusted for inflation.

In January 2007, the average hourly earnings of private sector employees in Grand Rapids were $20.55. In simple dollar terms, the average rose to $21.05 by July 2009. But, taking into account the inflation that occurred in the meantime, the real value of those earnings was about $19.69—a lower purchasing power than two years earlier. As with the data in Figure 2, this likely reflects two influences—stagnant pay for workers who kept their job, and other workers who lost their job and moved into lower paying, possibly part-time, work. One interesting feature of Figure 3 is the increase in real earnings that can be seen in the second half of 2008. This was a result of some modest increases in nominal hourly earnings, coupled with some deflation, which helped to boost the purchasing power of that pay.

As of October 2014, average hourly earnings in each of the three MSAs remained below the levels of mid-2009, when the Great Recession was at its worst. Inflation-adjusted hourly earnings were 5.2%, 7.3%, and 14.9% lower in October 2014 than in January 2007, for the Grand Rapids, Holland, and Muskegon MSAs, respectively. Perhaps more alarmingly, the real hourly earnings in October 2014 were 1.2%, 3.2%, and 10.8% lower, respectively, than at the official end of the recession in June 2009.

As many have come to realize, the Great Recession emphasized the need for the West Michigan economy to diversify away from traditional manufacturing jobs. To some extent, the data show a change in the employment focus over the last decade. Figure 4 shows the changes in employment in select sectors for the Grand Rapids, Holland, and Muskegon MSAs combined.

Using October 2014 data, manufacturing jobs now make up 19.6% of the area’s nonfarm employment, compared to 22% in 2004, while Professional and Business Service jobs have grown from just under 12% to almost 15%, and Education and Health Service jobs have grown from about 13% to
almost 16%. As Table 1 shows, these changes reflect a 35% and 28% increase in the number of workers in West Michigan in professional/business services and in education/health services respectively, a 23% increase in leisure/hospitality jobs, and a 5.2% decline in manufacturing employment. The total number of nonfarm employees in the area grew by 6.1% in that 10 year period.

In conclusion, the Great Recession is officially well behind us; but it casts a long shadow. For some measures of our regional economy—unemployment and average hours, for example—we have only recently returned to the pre-recession levels. For others—such as the real value of hourly earnings—we have yet to return to the levels seen at the end of the recession, with the Muskegon area still substantially well behind. And, although it has been painful, the economy is in the process of a much needed transition in the structure of employment, with business, education, and health services posting impressive gains.

![Figure 4: West Michigan Employment by Selected Sector](image)

Table 1.

<table>
<thead>
<tr>
<th>Employment in West Michigan’s three MSAs, by selected sector</th>
<th># of Employees, October 2014 (thousands)</th>
<th>% Change in # of Employees, October 2004 to October 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>119.9</td>
<td>-5.2</td>
</tr>
<tr>
<td>Trade, Transportation, and Utilities</td>
<td>104.2</td>
<td>-2.8</td>
</tr>
<tr>
<td>Education and Health Services</td>
<td>96.8</td>
<td>28.4</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>91.0</td>
<td>35.4</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>57.6</td>
<td>23.0</td>
</tr>
<tr>
<td>Total Non-farm</td>
<td>610.2</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics and author’s calculations