Grand Rapids' Economy During the COVID-19 Recession

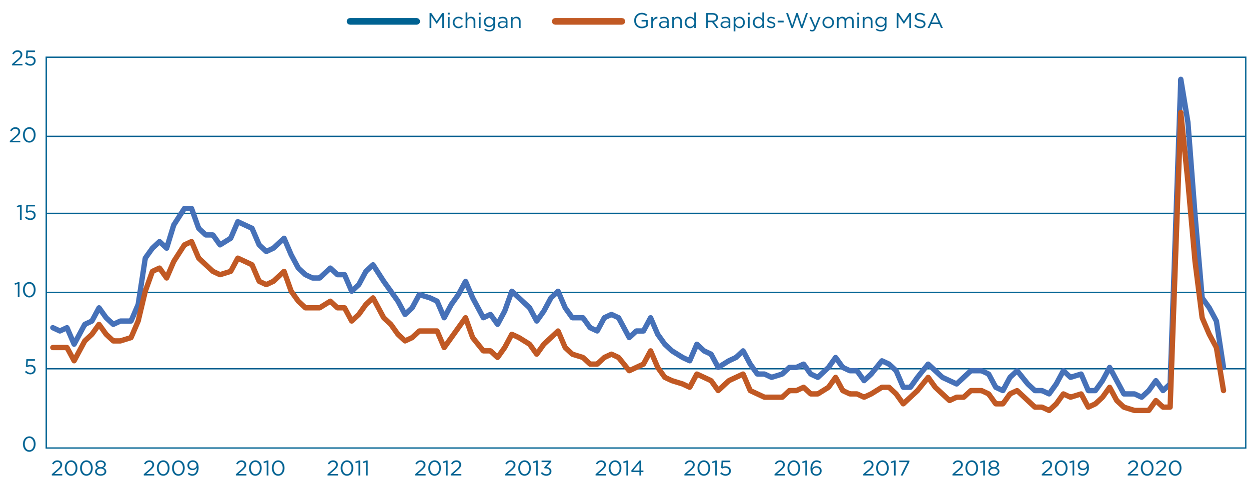
Gerry Simons, Ph.D., Professor, Department of Economics

Towards the end of 2020, the business and economic news in the U.S. juggled fears of a double-dip recession with hopes for a vaccine assisted recovery. While the direction the economy will take is uncertain, it can be useful to look at our state and local economy to see the impact the COVID-19 pandemic has had and the lessons learned.

The economic picture for Michigan is a complicated one. The public's attention during the pandemic has often been, understandably, on unemployment and retail sales, particularly restaurants, bars, and other businesses where people come into close contact with each other. While many lost their jobs in the early months of the pandemic, and others switched to working at home. While international travel was out of the question for most people, what happened to international trade? In addition, the situation for the state as a whole is not necessarily indicative of the economic experience in Grand Rapids.

To give us some historical perspective, **Figure 1** shows the monthly unemployment rate for the Grand Rapids-Wyoming MSA[1] and Michigan as a whole, from January 2008-October 2020. Throughout the entire time period shown in **Figure 1**, the metro Grand Rapids unemployment rate was consistently below that for the state as a whole. During the Great Recession of 2007-2009, the unemployment rate peaked in July 2009 at 15.4% for the state and 13.3% for the MSA. By February 2020, the unemployment rate had fallen to 3.6% and 2.5% for the state and the MSA respectively, only to rise during the spring lockdown to highs of 23.6% for the state and 21.5% for the MSA in April 2020. By October 2020, both unemployment rates were back down to levels last seen in mid-2019.

Figure 1: Unemployment Rate 2008-2020



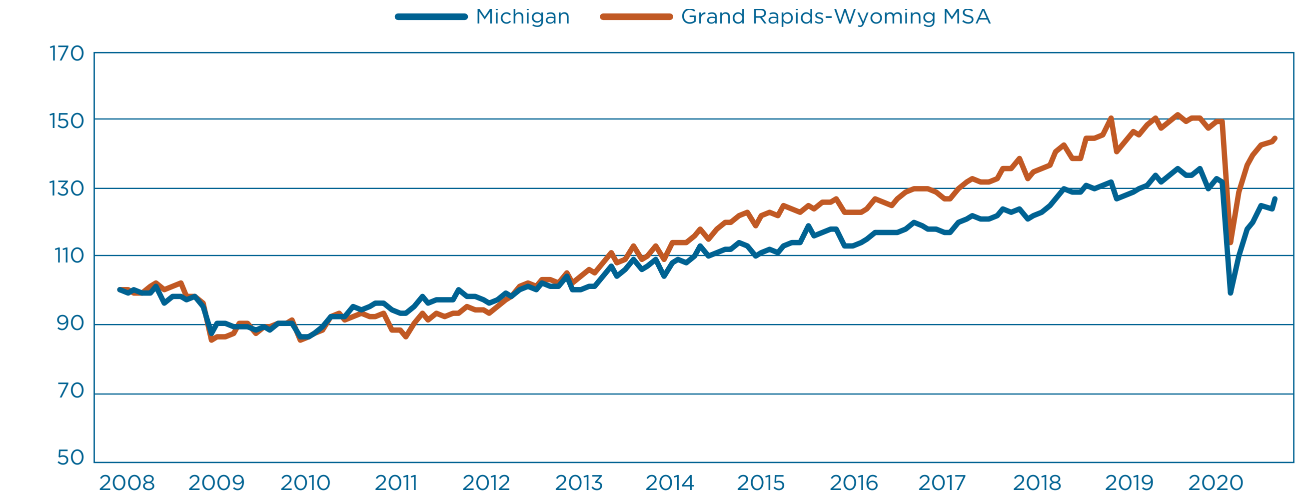
Source: Bureau of Labor Statistics

The unemployment rate, however, only gives us a partial picture of the labor market. Some workers might remain employed, but have a reduction in hours or wages. Others might drop out of the labor force, which would be the case for those unwilling to work due to concerns about contracting COVID-19. With limited state and regional labor market data, one solution to this is to look at earnings. **Figure 2** shows total weekly earnings of private sector employees for the same areas and time period as **Figure 1**. Here, earnings have been adjusted relative to their value in January 2008, so a value of 150 on the vertical axis means that earnings are 1.5 times what they were in January 2008. For the time period since May 2012, the line for the Grand Rapids-Wyoming MSA is higher than that for the state, showing that total earnings have risen more rapidly in the MSA since 2008 than for the state overall. By March 2020, total earnings in Michigan were approximately 32% higher than in January 2008, compared to an increase of approximately 51% for the MSA. Total weekly earnings for both the state and the MSA fell by just over 24% from March to April 2020. By October 2020, both state and MSA earnings were back up to their levels from early 2019.

Taken together, **Figures 1 and 2** indicate that the state and metro Grand Rapids economies have a great deal of economic resilience. What is perhaps most surprising is not the severity of the deterioration in these economic measures in the spring of 2020 following the statewide lockdown, but the speed with which both measurements started to recover.

[1] In 2018, the Office of Management and Budget changed the definition of the Grand Rapids-Wyoming MSA (from Barry, Kent, Montcalm, and Ottawa Counties to Ionia, Kent, Montcalm, and Ottawa Counties) and renamed it the Grand Rapids-Kentwood MSA. However, the Bureau of Labor Statistics continues to use the earlier definition to make historical comparisons easier.

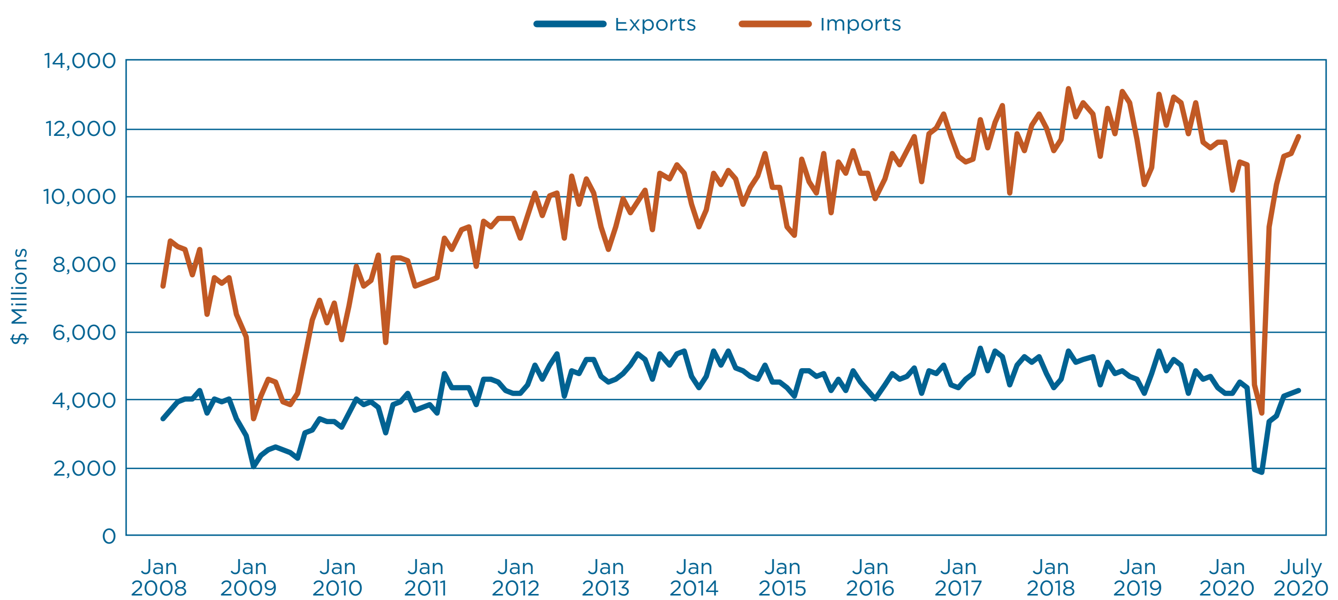
Figure 2: Total Weekly Earnings of Private Sector Employees



Source: Bureau of Labor Statistics and author's calculations

Figure 3 shares this pattern of a significant decline followed by a rapid partial recovery. Here we see imports and exports for Michigan from January 2008-October 2020 (unfortunately, there are no reliable data for international trade for regions or areas within the state). From March to April 2020, Michigan's exports fell by about 55% while imports fell by almost 60%. By October 2020 both exports and imports had nearly returned to pre-pandemic levels.

Figure 3: International Trade in Michigan



Source: U.S. Census Bureau

A relevant question to ask after viewing the above graphs is *why?* Why were these measures of the state and local economy improving, while the pandemic continued? Even before the news of vaccine break-throughs in November 2020, both the Organization for Economic Co-operation and Development (OECD, 2020) and the International Monetary Fund (IMF, 2020) reported that the global economy was recovering faster than expected from the COVID-19 pandemic. In their analysis, Carlsson-Szlezak, Swartz, and Reeves (2020) emphasized that an important aspect to understanding the recovery is the relative size of certain sectors. They distinguished between three types of sectors that differ in how they were impacted by the pandemic: (1) sectors that are not impacted substantially by either lockdowns or social distancing restrictions; (2) sectors that are significantly impacted by lockdowns but not so much by social distancing restrictions; and (3) sectors that are significantly impacted by lockdowns and social distancing restrictions and are unlikely to experience much recovery until a vaccine is in widespread use.

Table 1: Employment in Grand Rapids-Wyoming MSA

Sector	Share of Nonfarm Employment in February 2020	% Change in Employment, March 2020-April 2020	% Change in Employment, March 2020-October 2020
Total Nonfarm		-23.0	-6.23
Trade, Transportation, and Utilities	17.0%	-18.5 (Better than average)	-4.8 (Better than average)
Durable Goods Manufacturing	14.6%	-32.4 (Worse than average)	-11.8 (Worse than average)
Healthcare and Social Assistance	14.1%	-12.8 (Better than average)	-3.0 (Better than average)
Professional and Business Services	13.3%	-23.2 (Average)	-2.7 (Average)
Leisure and Hospitality	8.7%	-56.6 (Worse than average)	-17.1 (Worse than average)

Source: Bureau of Labor Statistics

Table 1 shows the five largest sectors by employment in the Grand Rapids-Wyoming MSA, and how employment in those sectors changed from March to April 2020, and from March to October 2020. The first percentage change captures how these sectors fared during the first month of the stay-at-home order that began on March 24 in Michigan, while the second percentage change captures the recovery period before the "pause" restrictions were introduced in November.

Trade, Transportation, and Utilities (TTU) and Healthcare and Social Assistance (HSA) stand out for having smaller percentage declines in employment compared to the state as a whole for both time periods. Essentially, businesses/providers in these sectors were less harmed at the beginning of the pandemic and recovered more quickly, compared to the MSA overall. Professional and Business Services (PBS) had an average decline in employment at first, but recovered better than average. Finally, Durable Goods Manufacturing and Leisure and Hospitality both had worse than average declines in employment and their recovery was worse than average also. Though not shown here, the data for Michigan as a whole show a very similar pattern. However, the share of nonfarm employment in Durable Goods Manufacturing is noticeably smaller for the state as a whole (10.6%) compared to the MSA (14.6%).

These findings generally support the analysis of Carlsson-Szlezak, Swartz, and Reeves (2020), with the exception of Durable Goods Manufacturing. They place that sector in category 2 (affected by lockdowns but not by social distancing), but at least in terms of employment, recovery in that sector through October 2020 has been worryingly slow, with employment levels almost 12% lower than in March 2020. Looking more closely at this sector, approximately 20.2% of Durable Goods Manufacturing in the Grand Rapids-Wyoming MSA is from the auto industry, and 17.1% is from the furniture industry. The change in employment for March-October 2020 was worse than average for both – approximately -12% and -13.3% respectively.

So, what can we take away from all of this? First, the metro Grand Rapids economy generally performs better than Michigan as a whole. The overall vibrancy of the metro area is a key ingredient in its ability to bounce back following economic turmoil.

Second, the (still partial) recovery is substantially due to the TTU, HAS, and PBS sectors. These sectors account for approximately 44% of nonfarm employment in the Grand Rapids-Wyoming MSA, and bounced back quite rapidly from the economic shock of the initial months of the pandemic.

Third, the significant roles that Durable Goods Manufacturing and the Leisure and Hospitality sectors play in the MSA is a concern for continued economic recovery during the pandemic. These two sectors account for approximately 23% of metro Grand Rapids employment, and the economy will likely not return to pre-pandemic levels without their full recovery. Because progress in these sectors is likely dependent on the widespread use of effective vaccines, it might well take until spring/early summer of 2021 before the state and MSA economies return to pre-pandemic levels. ■

References

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