

Grand Rapids Economic Forecast 2016

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- The Current Business Confidence Index for 2015 is 77.5%, a small improvement over last year.
- The Forecast Business Confidence Index for 2016 is 76.7%.
- Employment is expected to grow by 2.6% to 3.0% in 2016.
- Overall nominal sales are expected to increase by 2.3%–2.7% for 2016.
- Export growth in 2016 is forecast to be much weaker than last year; expected growth is between 2.4% and 4.4% during 2016.
- All indicators signal the 2016 economy continuing to grow, but the pace will be slower than in 2015.



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Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties) was conducted in November and December 2015. A survey was mailed to the CEOs and business leaders of 970 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, 188 organizations responded, resulting in a response rate of 19%, which is consistent with previous years. However, due to possibility of a non-random response sample, the survey should be interpreted with caution.

Figure 1

West Michigan Confidence Index 2016



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.

Confidence Index

The confidence index has been tracked by researchers at the Seidman College of Business since 1995. A continuing goal of the 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.

For 2014 business leaders underestimated the strength of the economy, and to a lesser degree that happened again in 2015. Last year, the private sector confidence index expected for 2015 was 75%, but by the end of 2015, survey respondents reported their current confidence at 77.5%. As with 2014, firms were positively surprised, but less so. For 2016, organizations expect a 76.7% confidence level, which, although higher than last year, has essentially been flat for 3 years. The level of confidence also remains about 10 points lower than the index reported in the 1990s. The regional economy is expected to continue to grow in 2016, but the rate of this increase is also expected to continue to slow down.

Employment

For 2015, employment for KOMA was projected to grow at an average of 2.8–3.2%. The numbers from the Local Area Unemployment Statistics (LAUS) survey indicate that employment in KOMA grew by approximately 3.0% from October 2014 to October 2015 which is dead center in the projected range.

The respondents answer the following question: *What percent change do you expect in employment for the four counties in 2016?*

Compared to 2015, when nearly 45% of the respondents expected job growth between 2 and 3%, 2016 shows firms dividing into two camps. Firms looking at above 3% employment growth now make up 33% of the respondents compared to 23% last year. However, firms looking at growth below 2% now make up 43% of respondents compared to 33% last year. This suggests business leaders see employment growth continuing the moderation seen in 2015. Average employment in the KOMA region is expected to grow

at 2.8% which is slightly below last year's expectations and last year's actual employment growth.

The number of firms expecting to hire this year continues to increase and has reached 83% for 2016 up from 78% last year and 69% the year before. Of those persons being hired, about 70% are expected to be permanent workers, which shows firms level of optimism for 2016 is a little lower than that seen in 2015 when 80% of the hires were expected to be permanent.

Respondents' Anticipated Change in Employment for 2016 Compared to the Expectations for 2015

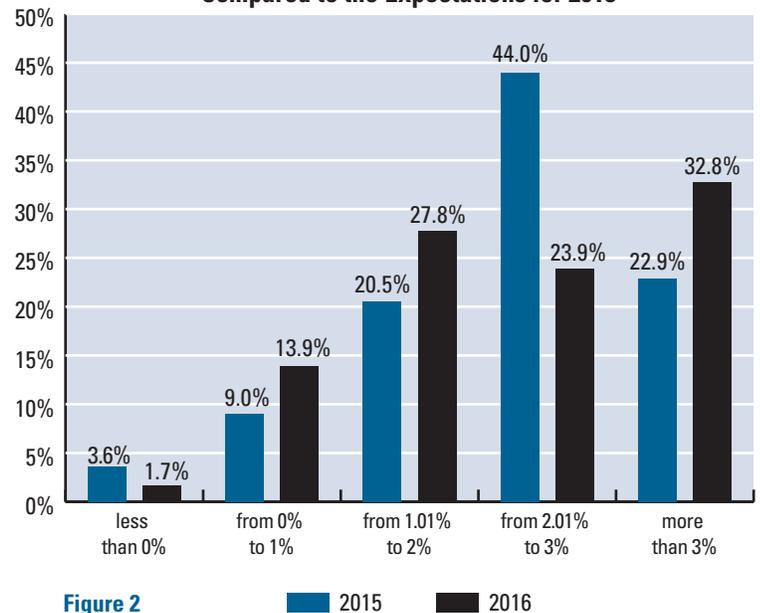


Figure 2

Respondents' Anticipated Change in Sales for 2016 Compared to Expectations for 2015

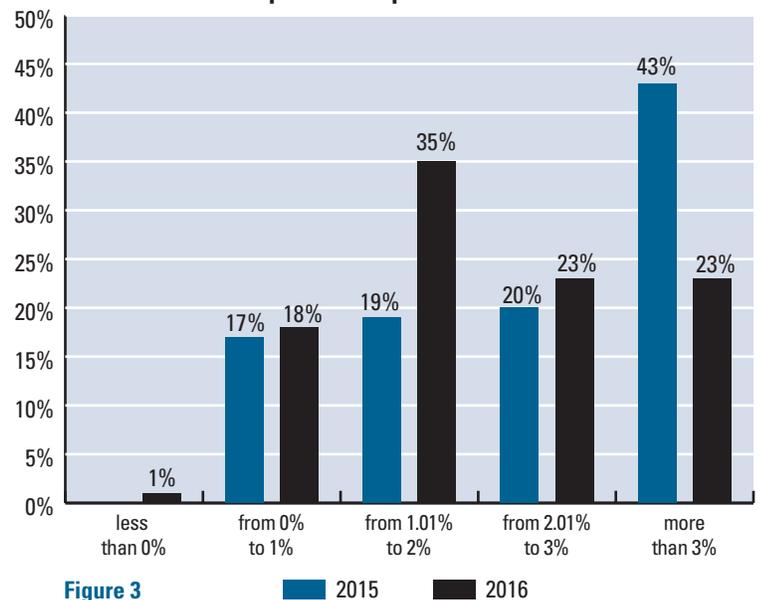


Figure 3

Sales

For sales, the respondents answer the following question: *What percent change in sales do you project for the four counties in 2016?* During the late 1990s, sales grew at an

annual rate of 5%. Last year 43% of respondents were expecting growth above 3%. For 2016, the percent of firms looking for sales growth above 3% has dropped to 23%. Now more than a third of firms expect sales growth to be between 1% and 2%. The result is average expected sales growth drops from 2.7% last year to 2.5% in 2016. The increase could be because of an increase in prices and/or quantities. Since sales growth is barely above inflation, this means the relatively slow sales growth is most likely to increase due to prices, not because firms are building more product. This also means the employment growth expected next year is likely to face headwinds.

Three major uncertainties exist for 2016. First, the United States continues to stand alone in economic growth. The headwinds internationally are affecting domestic growth, and the effects are now starting to show in decreased export growth. Second, it is an election year in the United States. Many of the candidates are influencing consumer confidence negatively. In addition, the unknowns surrounding the policies being proposed make it harder to plan for 2017 and 2018. The combination can slow growth in the United States. Finally, anecdotal evidence is that wages are starting to move. This might be obscured by the mix of experienced versus inexperienced workers, but it is not showing in the aggregate data yet. New labor contracts and moving minimum wages should start to cause all wages to increase, putting pressure on firms' profitability. Overall, the US and West Michigan economies ended 2015 better than they started them, and 2016 will see more of the same.

Respondents' Anticipated Change in Exports for 2016 Compared to Expectations for 2015

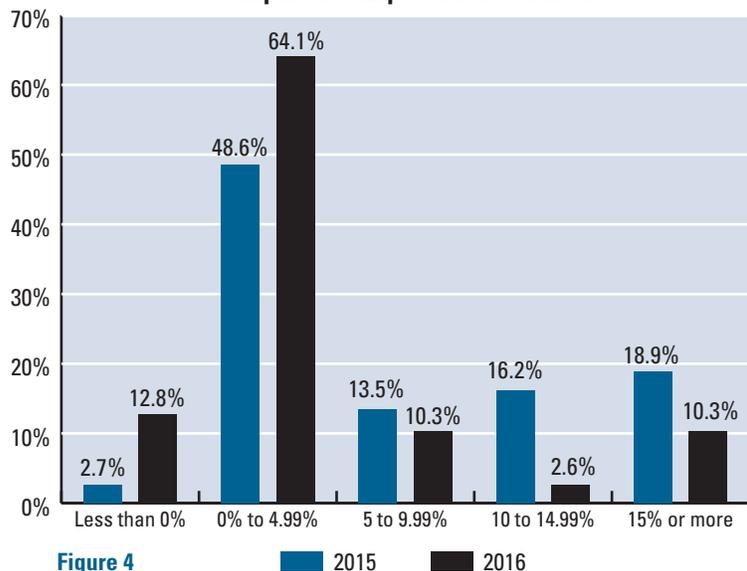


Figure 4

■ 2015 ■ 2016

Export Growth

Exports have traditionally been a bright spot in the West Michigan economy. This year, exports growth is expected to continue a slowdown started last year, with expected growth dropping to 3.4% in 2016. This reflects the slowdown in the rest of the world. In fact, this year 13% of respondents expect exports to fall.

General Outlook

At the national level, expected growth will average between 2.0% and 3.0% for 2016. The economy will continue the slow acceleration seen started in 2014. Nationwide employment will continue to improve in 2016. Full-time hiring will continue to increase, but not at the rate seen over the last year in West Michigan. In addition, tightness in the labor markets already are leading to increases in wages in almost all sectors. At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above 70%. Employment will grow by approximately 2.8%. Nominal sales will increase by 2.5%. In spite of its volatility, exports have always been a bright spot, but this engine of growth is expected to slow considerably to 3.4%.

Acknowledgments

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