

# Grand Rapids Economic Forecast 2019

Paul Isely, Ph.D, Seidman College of Business  
Riley Hall, Research Assistant, Seidman College of Business

- The Current Business Confidence Index for 2018 is 80.8%, a small improvement over last year.
- The Forecast Business Confidence Index for 2019 is 78.6%, a drop from the expectations seen the last few years.
- Employment is expected to grow by 1.1% to 1.5% in 2019, a rate consistent with the growth seen in 2018.
- Overall nominal sales are expected to increase by 2.7%-3.1% for 2019, a slowdown from the last few years.
- Exports are expected to grow by 1.0% to 2.0% in 2019, reversing the increased expectations from 2018.
- All indicators signal the West Michigan economy will grow at a slower pace in 2019 compared to 2018.



Paul Isely



Riley Hall

## Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties or KOMA) was conducted in November and December 2018. A survey was mailed to the CEOs and business leaders of nearly 1,150 organizations based on a representative sample. We tried to ensure that the sample reflected different sectors of the regional economy and the geographical diversity of the area. Eventually, 212 organizations responded, resulting in a strong response rate of 18.5%. However, due to the possibility of a non-random response sample, the survey should be interpreted with caution. The survey was timed for the week after the Midterm elections to allow respondents time to digest some of the possible implications of the elections.

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). Because 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. 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 past 23 years are shown in **Figure 1**.

Last year, respondents' expectations for 2018 and their view of 2018 at the end of the year were nearly identical. This is a strong indicator that the economy has stopped accelerating. Organizations currently view their confidence now (end of 2018) and through 2019 as dropping for the first time since the Great Recession in 2008. The expectations of businesses are falling much faster than those in non-profit and government sectors. An expected confidence level of 78.6% overall is still good, but it shows that businesses believe 2019 will not be as good as 2017 or 2018 have been.

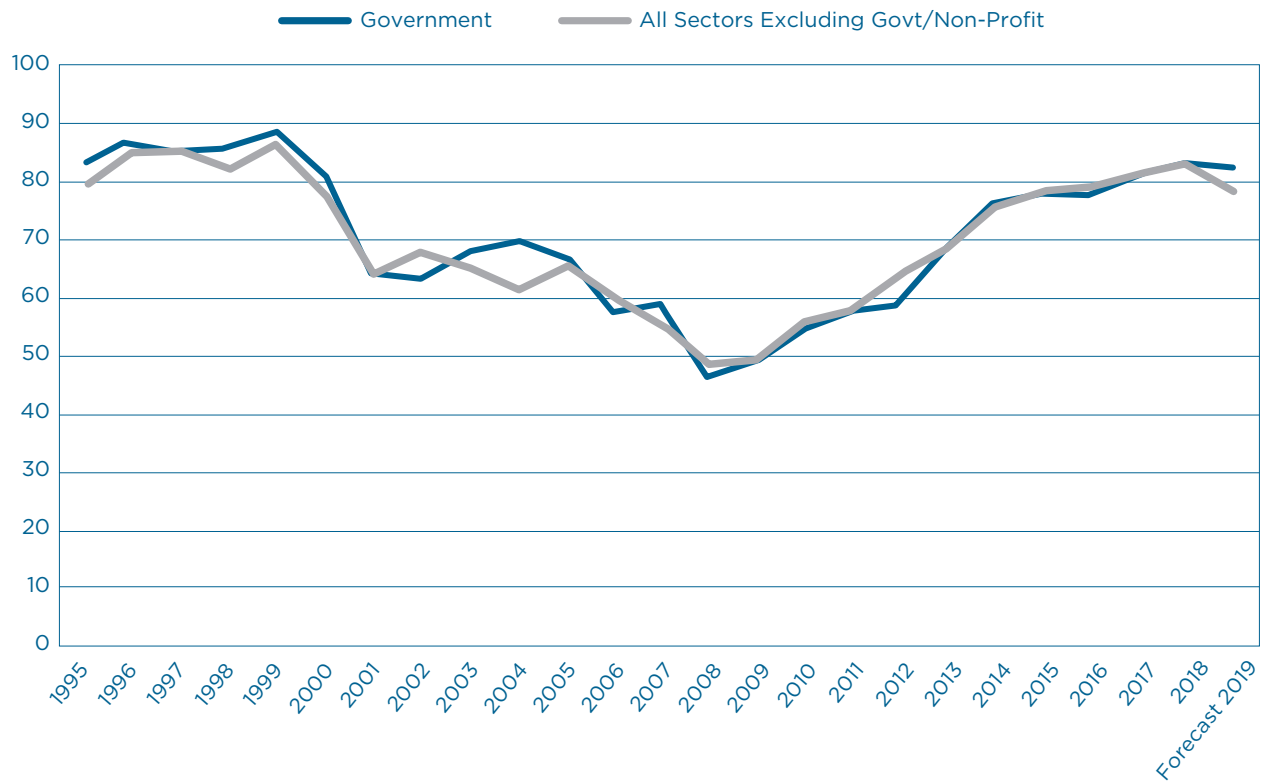
## Employment

For 2018, employment for KOMA was projected to grow at an average of 1.1 – 1.5%. The numbers from the Current Employment Survey indicate that employment in the Grand Rapids and Muskegon Metropolitan Areas (which is made up of Barry, Kent, Montcalm, Muskegon, and Ottawa counties) has grown by approximately 1.7% annualized rate through October. This is slightly higher than the estimate, but the final two months are still to be added.

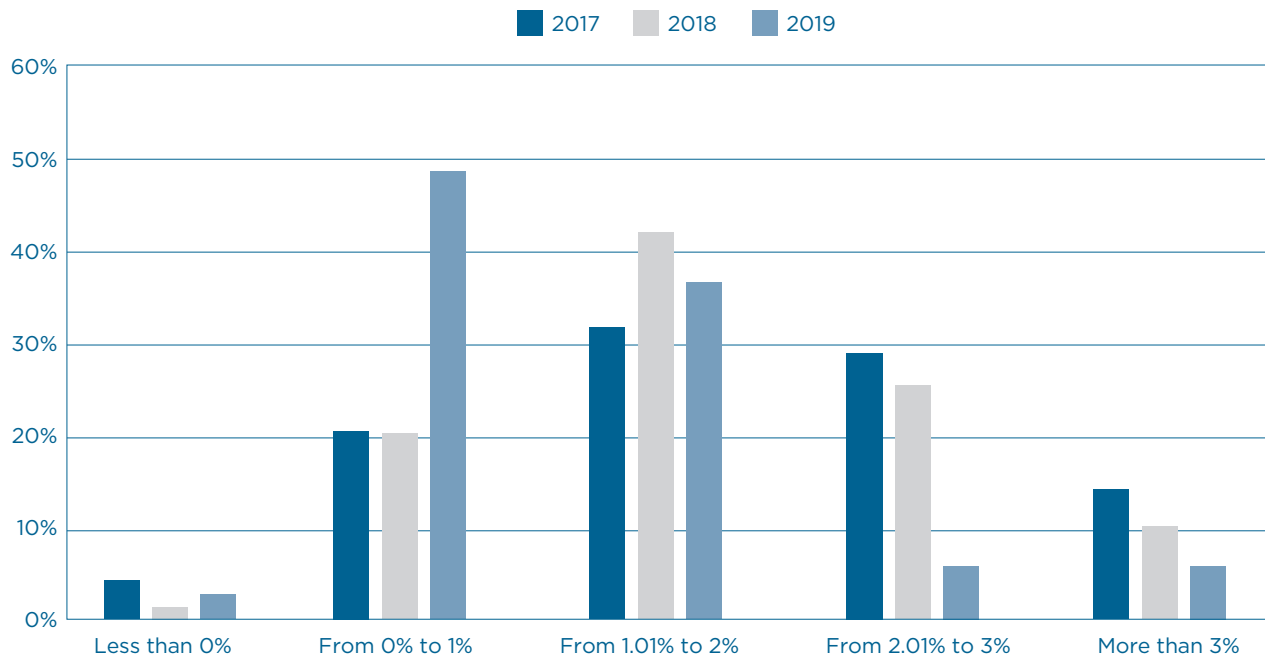
The average responses to the question: **What percent change do you expect in employment for the four counties in 2019?** are shown in **Figure 2**.

Average employment in the KOMA region during 2019 is expected to grow at 1.3%, the same as last year. However, this disguises the drop in firms expecting growth above 2%, which went from 36% of respondents last year to only 12% of respondents this year. For 2019, firms expectations are tightly bound between zero and 2% with 86% of respondents calling for growth in this range (up from 62% last year). So although the average expected employment increase is the same as last year, this is a much more pessimistic report.

**Figure 1: West Michigan Confidence Index Forecast 2019**



**Figure 2: Respondents' Anticipated Change in Employment for 2019 as Compared to Expectations in 2017 and 2018**

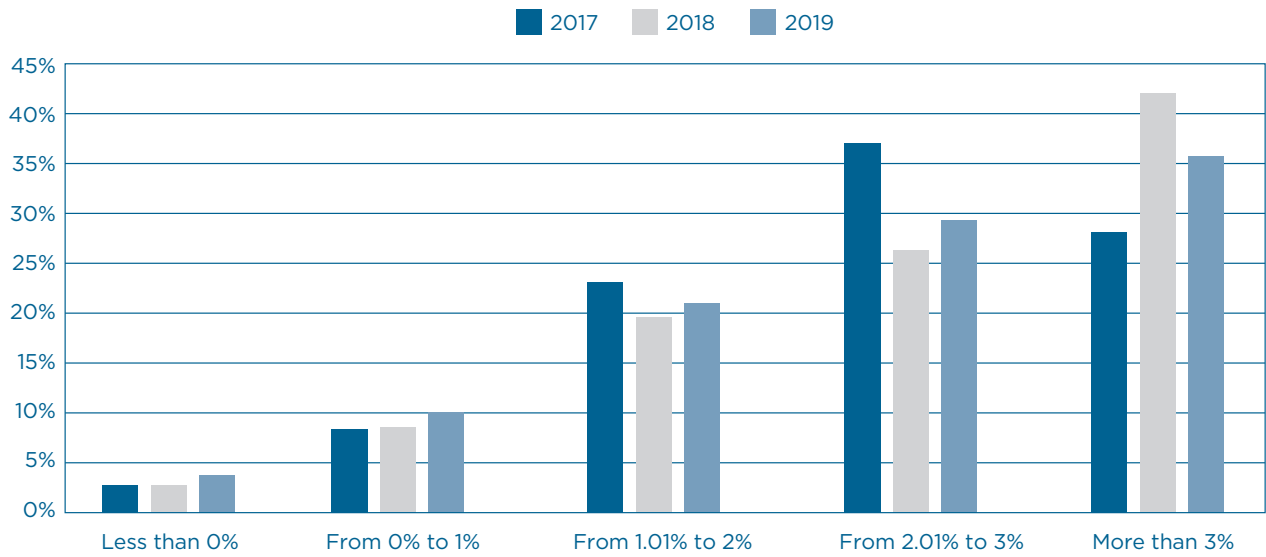


## Sales

For sales, the respondents answered the following question: **What percent change in sales do you project for the four counties in 2019?** During the late 1990s, sales grew at an annual rate of 5%. Last year, the percentage of respondents expecting a growth rate above 3% peaked at 42% of

respondents. For 2019, the percent of firms looking for sales growth above 3% has begun to drop and is now at 36%. This has dragged down the expected sales growth in 2019 to 2.9% from 3.3% last year. This is another indication that the current expansion has peaked. Average responses are shown in **Figure 3**.

**Figure 3: Respondents' Anticipated Change in Sales for 2019 as Compared to Expectations in 2017 and 2018**

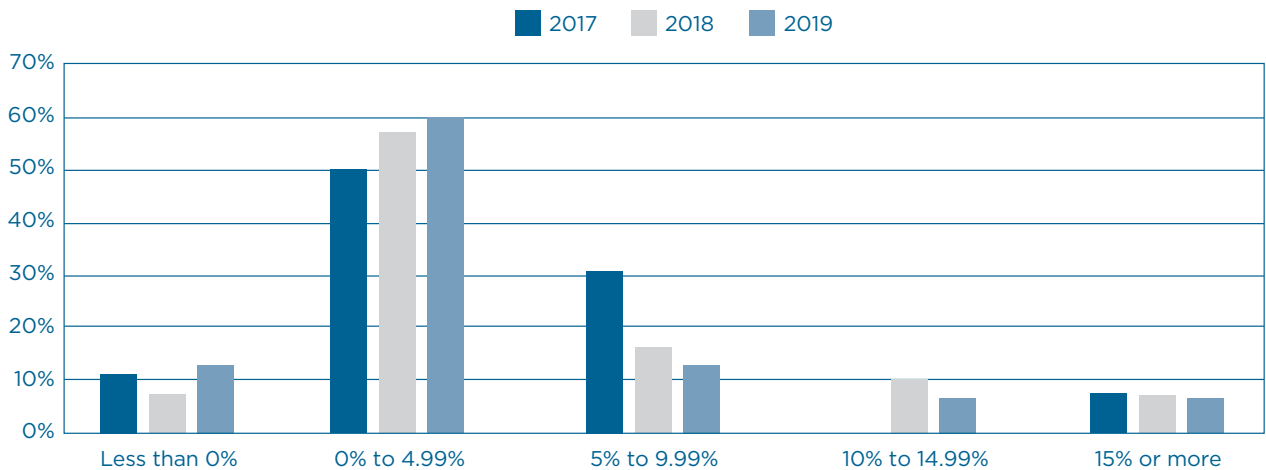


## Export Growth

Exports have traditionally been a bright spot in the West Michigan economy. However, over the last few years, export growth has been weak. Last year started with an expectation for a slight increase for the first time in three years, but those expectations have reversed this year. Average responses are shown in **Figure 4**.

The optimism in exports was being helped by increases in global economic output. Currently, forecasts for world economic growth are being scaled back, and there is increased concerns about a trade war. As such, West Michigan exporters are expecting slow growth for the year.

**Figure 4: Respondents' Anticipated Change in Exports for 2019 as Compared to Expectations in 2017 and 2018**



## General Outlook

Surveys (**Table 1**) from late in 2018 show an expectation for economic growth of around 2.5% for 2019. These surveys also show expectations for inflation at or above the Federal Reserve target of 2%. This shows both a slowdown from the strong growth seen over the summer of 2018 and a continuing pickup in the level of inflation. Each of the surveys also showed greater strength in the first part of the year that weakened as the year continued, as shown in **Table 1**.

These surveys are consistent with the expectations of our survey respondents with weakening confidence (78.6%), flat employment growth (1.3%), weakening sales growth (2.9%) and weaker export growth (1.5%).

The primary uncertainty for the year surrounds the global economic slowing combined with the escalating trade tensions. The U.S. economy has also used up much of the “sugar rush” from the tax cuts in 2018 and will be moving forward without this powerful stimulus. The uncertainty on trade has undercut some of the potential benefits of the tax cuts as businesses

have been reluctant to invest in the face of the uncertainty mounting internationally.

Finally, three important indicators are pointing to an increased likelihood of a recession nearing. First the U.S. economy crossed potential GDP late in 2017. Potential GDP is the maximum level of output that can be sustained for long periods of time. Historically, when this happens, a recession follows in around two years. Second, the yield curve started inverting in parts during late 2018. An inverted yield curve is an indicator of a potential recession looming. Third, labor compensation adjusted for inflation is growing faster than productivity growth adjusted for inflation. This is a sign of a very tight labor market with compensation pressures. Historically, labor gets the most benefits late in the economic cycle, so this points to a potential recession looming.

The data for West Michigan and the United States both show that 2019 will likely start well. However, this growth is likely to slow as the year progresses, and the probability of a recession will start to grow.

**Table 1: Results from Surveys**

Survey	GDP Growth 2019	Inflation 2019
Philadelphia Federal Reserve Survey of Professional Forecasters (Nov)	2.7%	2.5% (core CPI)
Federal Open Market Projections (Sept)	2.5%	2.0% (PCE)
Wall Street Journal Economic Forecasting Survey (Dec)	2.3%	2.1% (CPI)
Duke CFO Survey (Dec)	2.7%	3.6% (Input Prices)

<https://www.philadelphiafed.org/research-and-data/>  
<https://www.federalreserve.gov/monetarypolicy/fomcproptabl20180926.htm>

<https://www.wsj.com/graphics/econsurvey/>  
<https://www.cfosurvey.org/>

## Acknowledgments

This study could not be completed without the assistance of the SBDC West Michigan Region staff. We are very grateful to all the organizations that participated in the survey. ■