

WEST MICHIGAN VIEWPOINT

Employment Forecast for 2006 and 2007 for West Michigan Metropolitan Areas

2005 Was a Great Year—for the Rest of the Nation

Nationwide, 2005 was a solid growth year: the Gross Domestic Product (GDP) grew by an almost ideal 3.5 percent, which is very close to the natural rate of growth—the combined increase in the nation’s labor force and in its productivity. Employment grew by 1.5 percent as employers added more than two million workers. The core inflation rate, excluding food and energy prices, increased by only 2.2 percent during the year. In addition, the economy survived a 17.1 percent increase in energy prices and the most deadly and costly hurricane season on record.

Unfortunately, Michigan did not share in the fruits of the nation’s growth. Employment in the state fell by 0.6 percent, representing a loss of 27,000 jobs. More particularly, employment in the state’s struggling auto industry—assemblers and suppliers—declined by 7.1 percent, or by 17,100 jobs. Added to that, Michigan’s office furniture manufacturers cut 1,000 workers from their payrolls. Although the nation’s unemployment rate fell to 4.9 percent in December, the state’s unemployment rate stood at 6.7 percent.

The six metropolitan areas of west Michigan fared better than the rest of the state, but they still lagged behind the na-

tion. Employment fell by only 0.1 percent in the six metro areas, while it grew by 1.5 percent nationwide.

Nationwide, 2006 Looks like Another Good Year

Most forecasters expect the national economy to grow at a sustainable rate of between 3.3 and 3.6 percent in 2006. Of course, there are doubters. There are some who worry about the financial situation of national households, given that they appear to be consuming at an unsustainable rate. Others question whether housing prices can maintain their buoyancy. Still other worriers point to the flat yield curve and remind us that the last time short-term interest rates equaled long-term rates, as they do now, the nation stumbled into a recession. Still, almost all forecasters continue to predict a strong national economy in 2006.

Revisiting Last Year’s Forecast

We were too optimistic last year. Our forecast depended on the region’s manufacturing sector turning around. We predicted that goods-producing employment would increase by a modest 0.3 percent for the year (Figure 1). Instead, the furniture industry was able to meet the increased demand through productivity gains, not through adding workers, and the region’s auto suppliers suffered the fallout of the Big Three’s decline in market share.

Goods-producing employment in the region fell by 1.9 percent during the year, which was disappointing. On the other hand, our forecasts for the region’s private service-providing and government sectors were very close to the actual figures. In fact, our last year’s forecast for service-providing employment was closer than it should have been, as the unexpected decline in goods-producing employment should have dragged down service-providing employment as well, which would have made our estimate farther off the mark.

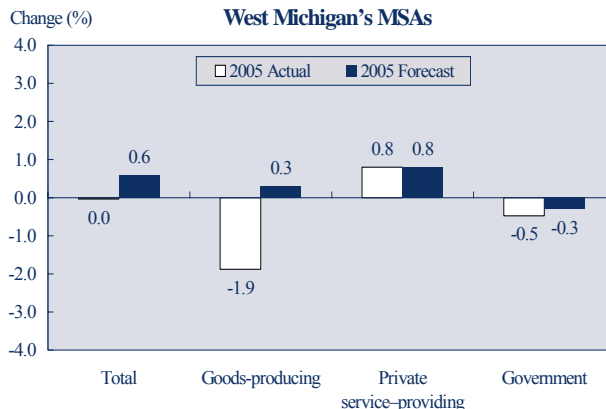
Table 1
Change in Employment from 2004 to 2005 (%)

	West Michigan	Rest of Michigan	U.S.
Total nonfarm	-0.1	-0.7	1.5
Total private	0.0	-0.8	1.7
Goods-producing	-1.9	-2.8	1.2
Service-providing	0.6	-0.3	1.6
Private service-providing	0.8	-0.2	1.8
Manufacturing	-2.1	-3.5	-0.6
Durable goods	-2.7	-4.2	0.3
Nondurable goods	-1.0	-0.5	-2.1
Wholesale trade	3.6	-0.6	1.5
Retail trade	-0.4	-1.0	1.3
Financial activities	2.1	0.1	1.4
Professional and business svcs.	1.7	-1.3	3.0
Educational and health svcs.	1.5	0.4	2.3
Leisure and hospitality	1.0	0.8	2.4
Government	-0.5	-0.4	0.9

NOTE: West Michigan = Battle Creek, Grand Rapids–Wyoming, Holland–Grand Haven, Kalamazoo–Portage, Muskegon–Norton Shores, and Niles–Benton Harbor MSAs.

SOURCE: Michigan Department of Labor and Economic Growth, and U.S. Bureau of Labor Statistics.

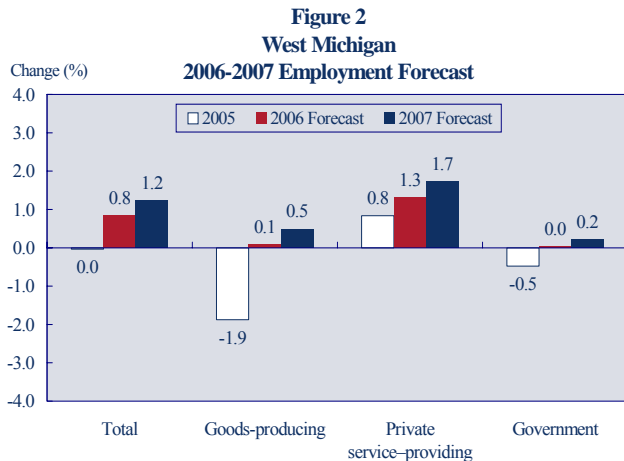
Figure 1
Review of Last Year’s Forecast
West Michigan’s MSAs



2006–2007 Employment Forecast for West Michigan

As we do every year, we built our employment forecast for 2006 and 2007 for the region from the ground up. Last fall and early winter, we held focus group meetings with area business leaders in Battle Creek, Grand Rapids, and Muskegon. (We want to thank Battle Creek Unlimited, The Right Place, Inc., Muskegon Area First, and Verizon for their support and assistance in organizing these focus groups.) In addition, we factored in all of the known plant closings, contractions, and expansions in each of the metro areas.

Overall, we are forecasting an employment increase of 0.8 percent in 2006 in the six west Michigan metropolitan areas,

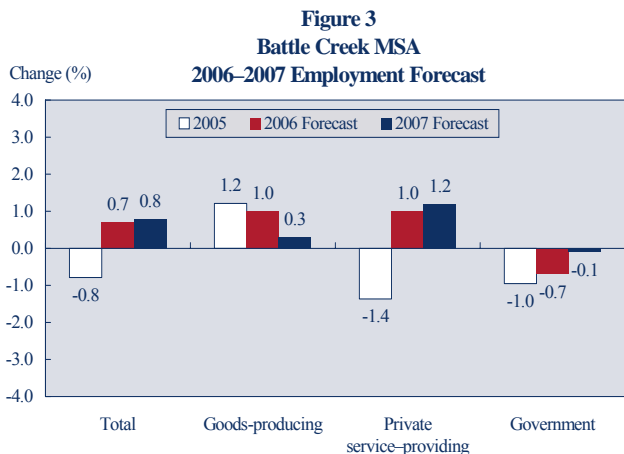


stemming from a healthy 1.3 percent gain in employment in the region’s private service-providing sector (Figure 2). Employment in the region’s goods-producing and government sectors is expected to remain flat during the year.

As you can see in Figures 3 through 8, all of the individual metropolitan areas are expected to experience positive employment growth in 2006. However, each faces its own unique challenges and opportunities.

Battle Creek MSA

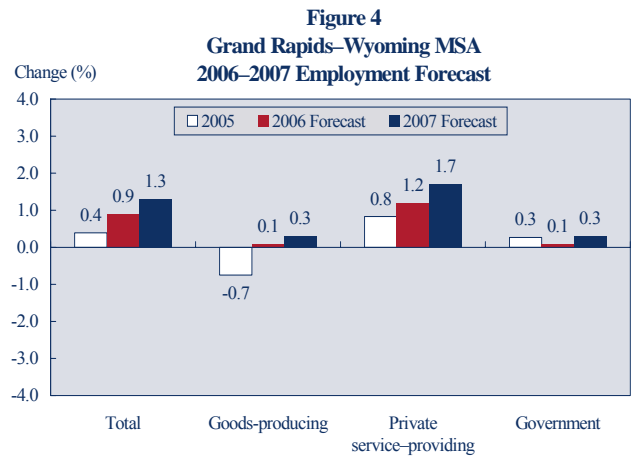
Although total employment fell by 0.8 percent in Calhoun County in 2005, the county’s manufacturers increased their



workforce by a remarkable 1.2 percent. At the same time, however, the area’s service providers suffered serious employment declines. Although the Marshall area has suffered several setbacks, including Eaton’s announcement that it is closing its Hanover plant, we expect continued employment growth in the county’s goods-producing sector in 2006, with employment increasing by 1.0 percent. In addition, we fully expect the county’s private service providers to rebound in 2006.

Grand Rapids–Wyoming MSA

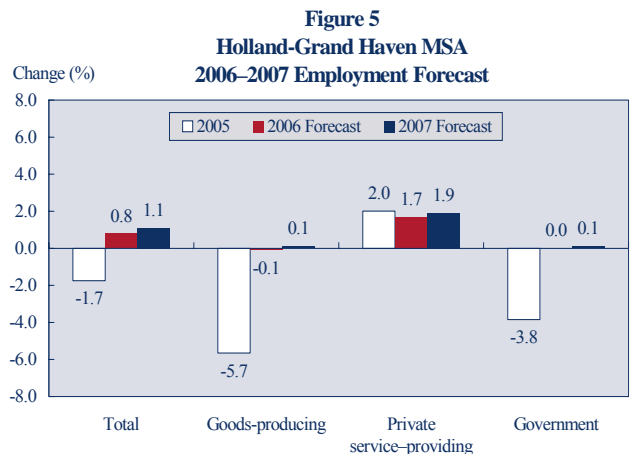
Employment grew by 0.4 percent in the four-county Grand Rapids–Wyoming MSA in 2005, despite a 0.7 percent decline in its goods-producing sector. In 2006, we expect the area’s manufacturers, especially its office furniture sector, to have an increase in orders; however, we also believe that much of the



new activity will be handled through productivity improvements. We expect manufacturing employment to remain flat. Even so, Grand Rapids continues to expand as a regional health and business center, and it will be this role that will push its employment levels up by 0.9 percent in 2006.

Holland–Grand Haven MSA

Ottawa County was hit hard in 2005 with a 5.7 percent drop in goods-producing employment, which was due to layoffs by both its office furniture makers and its auto suppliers. However, the area also experienced a healthy 2.0 percent jump in



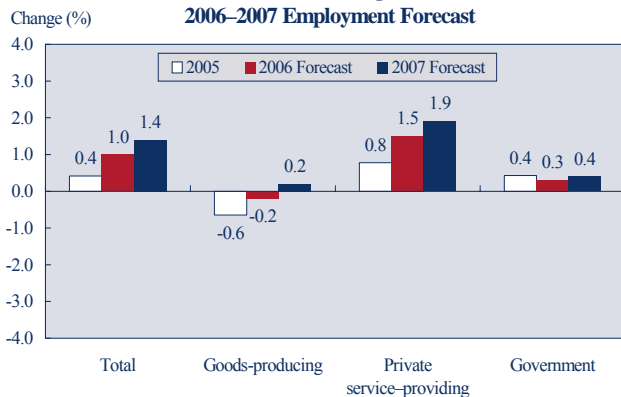
private service-providing employment. Although Gentex and several of the county's office furniture manufacturers are expected to increase employment, we predict goods-producing employment will remain flat in 2006. Construction employment may be flat this year as well, as there is some evidence that the county's residential stock could be overbuilt.

Kalamazoo-Portage MSA

Employment in the two-county MSA rose by 0.4 percent in 2005, and we expect employment to increase another 1.0 percent in 2006 from additional growth in its educational and health services, professional and business services, and financial activities sectors. Goods-producing employment is expected to remain flat. In preparing this forecast we did not

Figure 6

Kalamazoo-Portage MSA
2006-2007 Employment Forecast



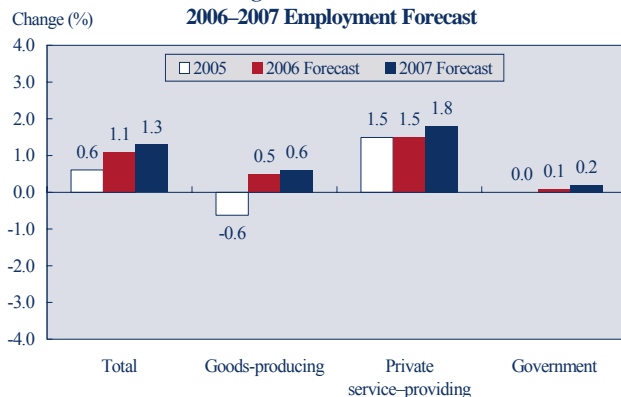
factor in the possible impact of the Kalamazoo Promise, which grants free or reduced Michigan college tuition to every graduate of Kalamazoo Public Schools.

Muskegon-Norton Shores MSA

Muskegon County simply has the right mix of industries for 2006. Because its manufacturing base is concentrated in aerospace and national defense activities, we expect manufacturing employment to increase in 2006. In addition, Muskegon has experienced a net in-migration of households from surrounding areas, which we believe will support additional employment opportunities in construction. Finally, we think that

Figure 7

Muskegon-Norton Shores MSA
2006-2007 Employment Forecast



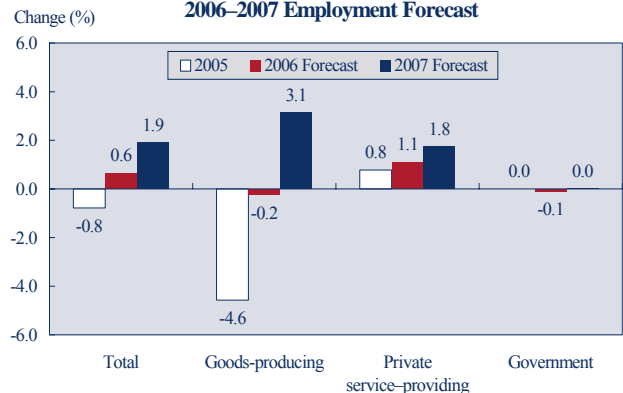
the increase in population will also help spur further service-providing employment growth.

Niles-Benton Harbor MSA

Berrien County was hit with several major layoffs in 2005, including one by Bosch, a major employer. The current manufacturing base appears to be stable, but we are expecting little employment growth. In 2007, however, the county will benefit from two separate development projects—the Four Winds Casino, and Harbor Shores, an upscale planned unit development. Both will bring hundreds of new construction jobs to the county.

Figure 8

Niles-Benton Harbor MSA
2006-2007 Employment Forecast



Concluding Thoughts

In making this year's forecasts, we hope to have learned from last year's mistake, as a result of which we have added some "independence" to the region's service economy. In past forecasts, we were guilty of following the old-school model that service employment depended upon the area's manufacturing sector for growth. This relationship is uncoupling. Service employment, especially in educational and health services and in the leisure and hospitality sectors, is starting to have a life of its own. Therefore, we have boosted our forecasts for private service-providing employment above what our model would generate on its own.

Finally, we are encouraged by the fact that our forecast for modest employment growth in the greater Grand Rapids area is seconded by Hari Singh of Grand Valley State University. Based on his annual November survey of executives in west Michigan, Singh is forecasting a 0.5 percent increase in employment.