

WEST MICHIGAN VIEWPOINT

2003 and 2004 Employment Forecast for West Michigan

Though 2002 was not a good year for the three metropolitan areas in west Michigan, it could have been worse. Total employment fell a slight 0.1 percent in the three metropolitan areas of Benton Harbor, Grand Rapids-Muskegon-Holland, and Kalamazoo-Battle Creek during 2002, a loss of 700 jobs. However, if the three metro areas had followed national trends, they would have lost nearly 7,600 jobs this past year.

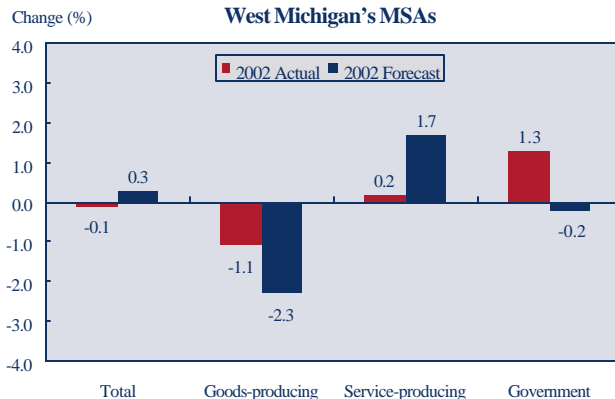
Similarly, while the areas' manufacturers had to lay off workers in 2002, they fared far better than their national counterparts. Last year, manufacturing employment in the three metro areas fell by 1.7 percent, compared to a 5.5 percent drop nationwide. In terms of jobs, the areas' manufacturers were forced to trim 3,800 workers from their payrolls in 2002, but had they followed the national trend, they would have cut more than 12,100 jobs. West Michigan outperformed the nation again.

that employment would drop by 2.3 percent when it fell by only 1.1 percent. As highlighted above, the west Michigan manufacturing sectors not only outperformed their national counterparts, but their resiliency surprised us as well.

Our errors did not stop there. We were too optimistic regarding the region's service-producing sector, predicting that it would climb 1.7 percent when it rose only 0.2 percent. The error suggests that the region's service sectors are not as independent of the area's manufacturing base as we believed. Finally, we thought government employment would be hindered by the growing budget woes at the state level; however, government employment grew by 1.3 percent instead of our predicted 0.2 percent decline.

Our forecasts for the individual MSAs were also wide of the mark, except for the Kalamazoo-Battle Creek MSA (Table 1).

Chart 1
Review of Last Year's Forecast
West Michigan's MSAs



Review of Last Year's Forecast

Overall, our forecast last year was very close to the mark; we forecasted a slight 0.3 percent increase for the three metropolitan areas of west Michigan, while current employment estimates show that employment fell by 0.1 percent. Unfortunately, the reason for the closeness of our overall forecast was due to major offsetting errors in our employment forecasts for the major components of the region's economy.

As can be seen in Chart 1, we were too pessimistic regarding the region's goods-producing sector, predicting

Table 1
Review of Last Year's Employment Forecast

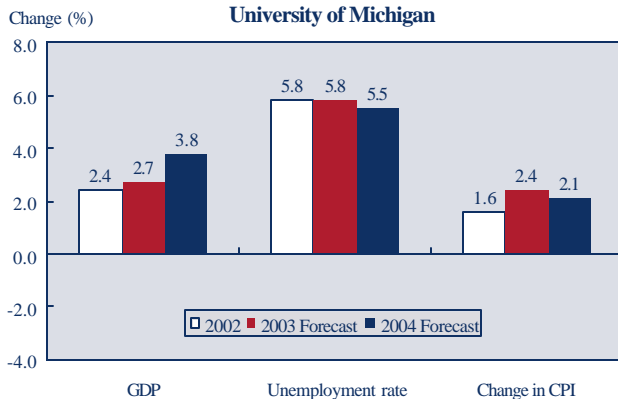
	% Change		
	2002 Actual	2002 Forecast	Error
Benton Harbor MSA			
Total	0.4	-0.1	0.5
Goods-producing	0.0	-2.8	2.8
Service-producing	0.2	1.1	-0.9
Government	2.2	-0.3	2.5
Grand Rapids-Muskegon-Holland MSA			
Total	-0.4	0.4	-0.8
Goods-producing	-1.9	-2.3	0.4
Service-producing	-0.1	1.8	-1.9
Government	2.4	-0.4	2.8
Kalamazoo-Battle Creek MSA			
Total	0.6	0.5	0.1
Goods-producing	1.0	-2.1	3.1
Service-producing	0.8	1.5	-0.7
Government	-0.8	0.3	-1.1
West Michigan			
Total	-0.1	0.3	-0.4
Goods-producing	-1.1	-2.3	1.2
Service-producing	0.2	1.7	-1.5
Government	1.3	-0.2	1.5

National Forecast Calls for Continued Moderate Growth

Turning our sights to 2003, a pall of uncertainty reigns both nationally and locally. On the national level, the key question is whether the business community will grab the economic baton from the tiring consumer. Consumer spending rose at an annualized rate of only 1.5 percent in the fourth quarter, its slowest pace in more than a year. The nation's lackluster employment conditions are finally taking their toll on both consumer confidence and spending.

Meanwhile, low interest rates and improving profits may be enticing businesses to start investing again in brick, mortar, and software. In fact, nonresidential investment spending rose at a 2.5 percent annualized rate in the fourth quarter, the first positive reading in two years. As in a

Chart 2
Short-Term U.S. Baseline Forecast
University of Michigan



track relay, baton passes are risky, and hopefully business investment spending will pick up steam and carry the economy forward. Unfortunately, it does not help that the baton is being passed in an environment of growing international tension due to a possible war with Iraq and the developing situation in North Korea.

Most economic forecasters believe that the economy will continue to grow in 2003, but at a sub-par rate. Most forecasts of this year's GDP growth center around 2.7 percent, as does the most recent University of Michigan forecast which is presented in Chart 2. The year's expected output growth would be sufficient to keep the nation's unemployment rate at 5.8 percent for all of 2003. Consumer prices are expected to rise by only 2.4 percent during the year. If this consensus forecast becomes a reality, it would mean that output growth in 2003 would be only slightly better than last year's 2.4 percent gain.

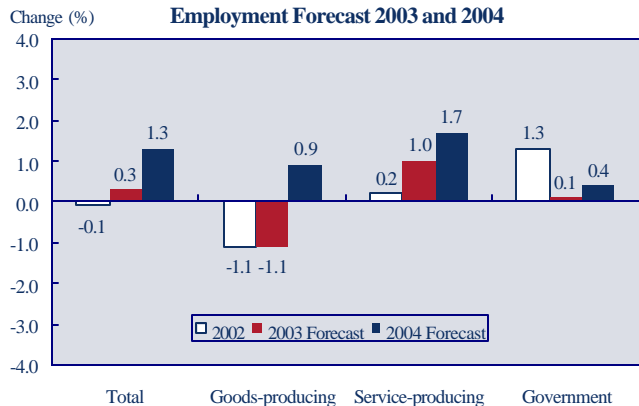
Productivity improvements will be capable of handling most of the year's expected growth, meaning that employment conditions will not rebound in 2003. The national economy is expected to accelerate in the final quarters of 2003 and achieve a 3.8 percent rate of expansion in 2004, according to the University of Michigan.

West Michigan Forecast: A Modest Improvement

Looking ahead, the west Michigan economy also faces several major risks. Hopefully, we will finally see a turnaround this year for the area's office furniture industry. The industry's trade group, BIFMA, is forecasting a 5.6 percent increase in industry shipments in 2003; however, this is down from its previously released forecast of nearly 8 percent. Also, 2003 is expected to be a moderately good year for auto and light truck manufacturers, with anticipated sales of 16.1 to 16.5 million units. Still, most forecasters are calling for 2003 sales to be below the volumes reported in the past three years, suggesting that the area's auto suppliers may see a reduction in orders. Finally, Pfizer may reveal its future plans for the former Pharmacia facilities in Kalamazoo County.

As shown in the accompanying charts, we are forecasting a 0.3 percent increase in employment in the three metro areas in 2003, improving to 1.3 percent in 2004. Employment in the Kalamazoo-Battle Creek MSA is expected to rise by 0.8 percent, while employment in the Benton Harbor MSA (Berrien County) is forecasted to

Chart 3
West Michigan
Employment Forecast 2003 and 2004



increase by 0.5 percent. However, employment in the four-county Grand Rapids-Muskegon-Holland MSA is expected to increase by only 0.1 percent in light of the recent announcement that Bosch is closing its Kentwood plant. Indeed, we are forecasting a 1.1 percent reduction in goods-producing employment (manufacturing and construction) in west Michigan during 2003.

Bosch's recent announcement that it is closing its powertrain and fuel injection component plant in Kentwood will push goods-producing employment in the Grand Rapids-Muskegon-Holland area deeper into negative territory. With the loss of the plant's 1,200 workers, in addition to continued lackluster conditions in the area's struggling office furniture industry, we are forecasting employment in the goods-producing sector to decline by 1.5 percent in 2003, before rebounding by 0.8 percent in 2004. Goods-producing employment in the Kalamazoo-Battle Creek area is forecasted to drop by only 0.1 percent; however, this forecast does not account for any potential employment changes at Pharmacia during 2003 or 2004.

Employment in west Michigan's service-producing sector is expected to rebound in 2003 by 1.0 percent. The lack of substantial employment growth in the region's service sector during 2002—only a 0.2 percent increase—was surprising and suggests that the ties between the

region's service and manufacturing sectors may be stronger than previously believed. Although the area's goods-producing sector is still expected to decline by an identical 1.1 percent in 2003, we expect that pent-up demand from 2002 for consumer and business services will generate job growth in 2003. Lastly, the state's budget crisis is expected to keep government employment flat for the next two years.

I have always believed that forecasting is a dangerous sport, and that it should be avoided when possible because the unknowns can be overwhelming. While our employment forecasts do not call for a return of the robust growth enjoyed in the 1990s, it is comforting to know that west Michigan outperformed the nation in 2002 and that we will most likely do it again in 2003.

Chart 4
Benton Harbor MSA
2003-2004 Employment Forecast

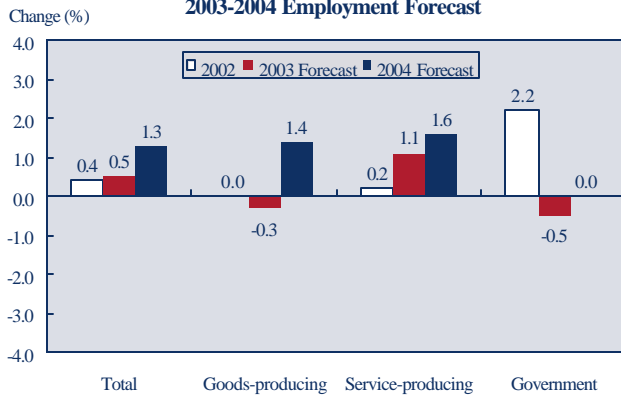


Chart 5
Grand Rapids-Muskegon-Holland MSA
2003-2004 Employment Forecast

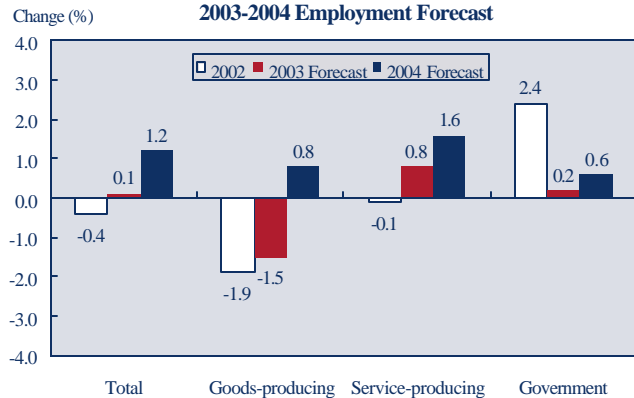


Chart 6
Kalamazoo-Battle Creek MSA
2003-2004 Employment Forecast

