

WEST MICHIGAN VIEWPOINT

The 2005 and 2006 Employment Forecast for West Michigan

Not Invited

Someone forgot to tell west Michigan, as well as the entire state, that the employment recovery has begun. Nationwide, employment rose by 1.1 percent during 2004; however, it remained unchanged in the three metropolitan areas of west Michigan and fell by 1.0 percent statewide.

Relative to the nation, the west Michigan metropolitan areas suffered not only from their heavy concentration in manufacturing, but also from the overall weak performance of many of their major sectors—nonmanufacturing as well as manufacturing. As shown in Table 1, west Michigan's employment is twice as concentrated in manufacturing as the nation as a whole, and its manufacturers performed below the national average. If the region's decline in manufacturing jobs during 2004 had been no worse than the nation's, west Michigan would have 600 more manufacturing jobs today.

Another challenge facing west Michigan is that it is underrepresented in some of the nation's rapidly expanding sectors. For example, west Michigan has a below-average

concentration in professional and business service employment, which is one of the United States' fastest growing sectors. Moreover, the region's firms in that sector did not keep up with the national pace of growth.

The one bright spot in the region's economy is education (private) and health care. Not only does the region hold a slightly greater employment concentration in the sector, but its providers substantially outperformed the nation in this high growth sector.

The State Environment Is Not Helpful

The Michigan economy is lagging behind the nation's, as was recently highlighted by the state's having had the dubious honor of posting the nation's highest unemployment rate (tied with Alaska) in January. In addition, the University of Michigan employment forecast for the state calls for only modest employment growth: 0.8 percent in 2005 and 1.7 percent in 2006. Indeed, manufacturing employment is expected to continue to decline statewide in 2005 and 2006, by 0.3 percent and 0.8 percent, respectively. Fortunately,

Table 1
2004 Employment Comparison: West Michigan vs. U.S.

Measure	West Michigan			Employment Growth	
	Employment (000s)	Employment Share (%)	Ratio to U.S. Share	W. Mich. (%)	U.S. (%)
Total nonfarm employment	838.9	100.0		0.0	1.1
Manufacturing	182.6	21.8	2.01	-1.6	-1.2
Durable goods	127.9	15.2	2.26	-0.9	-0.4
Nondurable goods	54.7	6.5	1.61	2.4	-2.5
Trade, transportation and utilities	156.7	18.7	0.97	-0.8	0.9
Wholesale trade	38.3	4.6	1.06	1.1	0.8
Retail trade	96.6	11.5	1.01	-2.3	0.8
Transportation warehousing	21.6	2.6	0.79	1.4	1.5
Information	10.9	1.3	0.55	-2.7	-1.6
Financial activities	35.4	4.2	0.69	0.0	0.9
Professional and business services	89.9	10.7	0.85	1.8	2.6
Education and health services	113.9	13.6	1.05	4.1	2.2
Leisure and hospitality	73.6	8.8	0.92	0.4	2.5
Other services	34.9	4.2	1.01	-3.3	0.6
Government	101.9	12.1	0.74	-0.3	0.2

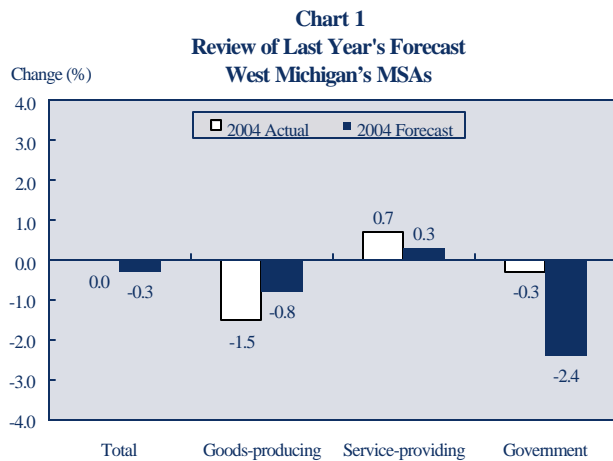
NOTE: West Michigan = Benton Harbor, Grand Rapids–Muskegon–Holland, and Kalamazoo–Battle Creek MSAs.

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

nonmanufacturing employment is expected to grow by 1.1 percent and 2.5 percent in 2005 and 2006. The university is also relatively upbeat about government employment in the state, predicting it will increase by 0.6 percent in 2005 and by another 0.5 percent in 2006.

Revisiting Last Year's Forecast

Overall, our last year's forecast was near the mark. We forecast total employment for 2004 to decline by 0.3 percent, and instead it remained flat. Our forecast for goods producing, while in the correct direction, was still too positive. At the same time, we underestimated the region's employment growth in its service-providing sector. Finally, we clearly overestimated the negative employment impact of the fiscal crisis facing the region's governmental units and public schools.



Looking Toward the Future

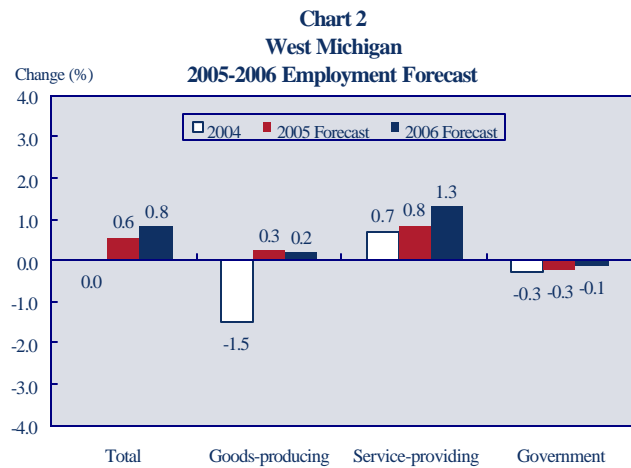
In preparing our 2005 and 2006 forecasts, we factored in all of the information we had on area employers about major plant openings, expansions, reductions, and closings. We should note that the impact of the scheduled closing of the Electrolux plant in Greenville northeast of Grand Rapids is not included in our forecast since it falls outside of the region's metro areas. We foresee employment among the region's auto suppliers remaining flat in the coming year. Companies that have strong supplier relationships with the Japanese Big Three—Toyota, Honda, and Nissan—will do better than those more closely tied to the traditional Big Three. In the Grand Rapids–Holland area we expect a modest turnaround in furniture employment because of both an expected increase in orders and the transfer of work from other regions of the nation.

Finally, we assume that a solution to the current budget crisis facing state and local government will not be found in 2005 or 2006 and that government on all levels will be forced to do more with less. This will not only trim govern-

ment employment but will also adversely affect the quality of government services available for businesses and residents.

As shown in the chart below, we are forecasting modest employment growth in the three west Michigan metropolitan areas for 2005 and 2006. Total employment is expected to increase by 0.6 percent in the region, and nearly all of the employment gains will occur in the region's service sector. Manufacturing employment is expected to increase modestly during both years, while government employment is expected to remain flat or slightly negative.

The individual forecasts for each of the metropolitan areas are also provided (see page 3).



Worries

Forecasters worry a lot. However, the economic fundamentals supporting the current economic expansion appear to be sound. The only exception is a growing concern regarding the federal budget deficit and the nation's continuing trade imbalance. The Federal Reserve is prudently pushing up short-term interest rates and moving to a neutral monetary position. Price pressures, outside of oil and one or two other commodities, are not growing. The nation's international trade imbalance, while worrisome, is not expected to impact the economy in 2005. In short, 2005 looks like a good growth year, nationally.

Locally, our forecast depends upon 1) the region's office furniture industry finally turning the corner in 2005, and 2) the region's auto suppliers holding their own in a tough marketplace.

Chart 3
Benton Harbor MSA
2005–2006 Employment Forecast

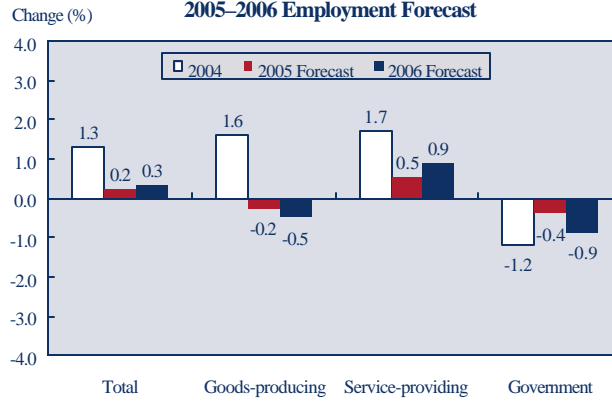


Chart 4
Grand Rapids–Muskegon–Holland MSA
2005–2006 Employment Forecast

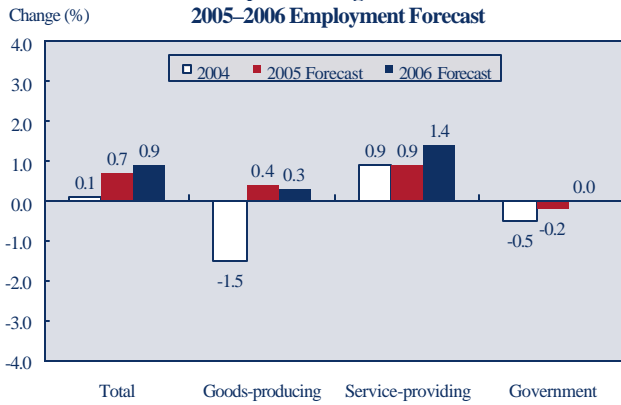


Chart 5
Kalamazoo–Battle Creek MSA
2005–2006 Employment Forecast

