

WEST MICHIGAN VIEWPOINT

The 2004 and 2005 Employment Forecast for West Michigan

Forecasting is difficult, especially if it is the future
—An unknown economist

2003: A Year to Forget

2003 was a disappointing year, to say the least. Although the national recession ended in November 2001, the subsequent recovery, now two years old, totally sidestepped the nation's labor market. From November 2001 to January of this year, employers nationwide cut 716,000 jobs from their payrolls. The nation's manufacturers eliminated 1.5 million jobs during the same period, and the number of workers in manufacturing, 14.3 million, has dropped well below the average for the 1950s, 15.3 million workers. Impressive productivity gains which have postponed the need to hire more workers, coupled with the movement of jobs to other countries, have truly made this a job-lost recovery.

West Michigan employers cut 10,800 workers from their payrolls in 2003, a 1.3 percent decline from 2002. The region's manufacturers eliminated 6,300 jobs, a 3.3 percent decline. In comparison, employers nationwide cut only 0.3 percent of their workforce; however, the nation's beleaguered manufacturers cut 4.8 percent of workers from their payrolls.

All three of the region's metropolitan areas suffered major layoff announcements during the year. In Grand Rapids, the Bosch Corporation closed its Kentwood plant, laying off 1,200 workers. In addition, the area's struggling office furniture industry cut another 2,100 workers—10 percent of its workforce—during the year. In Kalamazoo, Pfizer eliminated more than 1,100 jobs and has transferred much of its research and discovery activities elsewhere. Fortunately, the move was buffered somewhat by the expansion of its animal health research activities in the county. In Calhoun County, State Farm Insurance, a longtime neighbor in Marshall, announced that it was closing its regional office. Finally, in Benton Harbor, Pemco released 230 workers when it shut down in September.

The year also ended on an awful note in the city of Greenville, just north of Grand Rapids, where Electrolux announced that, despite having been offered substantial incentives by the state, it would be moving much of its refrigerator assembly operations to Mexico, eliminating 2,700 jobs. In short, it was a disappointing year.

National Outlook Is Robust

Economic forecasters agree that 2004 and 2005 will be solid growth years for the national economy. Low inflation

will allow the Federal Reserve Board to keep interest rates at historically low levels, which should continue to fuel house sales and construction. Renewed business investment spending is expected to give a long awaited boost to the nation's manufacturing sector. Finally, consumer confidence is trending upward, despite lackluster employment conditions. Most analysts predict car sales will stay above 16.5 million units for each of the next two years.

The Philadelphia Federal Reserve Bank's fourth-quarter survey of professional forecasters reported an average prediction that the nation's Gross Domestic Product (GDP) would grow by 4.3 percent, which would push the unemployment rate down to 5.8 percent. The University of Michigan, which offers one of the few national forecasts for 2005, predicts the nation's GDP will expand by another 3.8 percent in 2005 and that the unemployment rate could drop down to 4.9 percent by the end of next year.

Review of Last Year's Forecast

Last year we thought the recovery would be in full swing by now. We were wrong, as shown in Chart 1 and Table 1. We were expecting a modest 0.3 percent growth in employment for west Michigan's three metropolitan areas for 2003; instead, employment declined by 1.3 percent. There were two major reasons for our error. First, manufacturers were not persuaded by low interest rates to invest in new equipment and furniture. The resulting 3.3 percent drop in goods-producing employment in the region was much deeper than our estimated 1.1 percent decline. Second, the state's budgetary problems caused more severe employment cuts in government than expected. Because we missed both of these events, our predicted 1.0 percent increase in private service-providing employment also was overly optimistic.

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

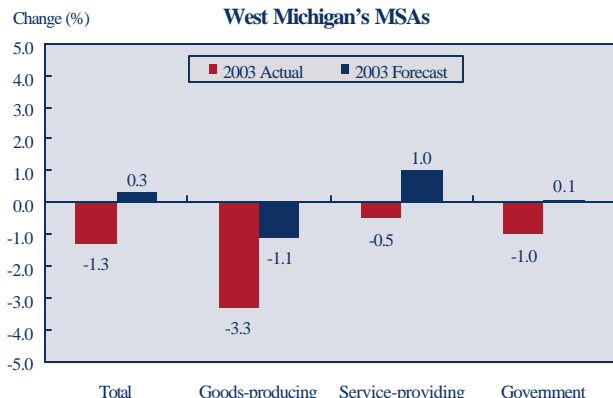


Table 1
Review of Last Year's Employment Forecast

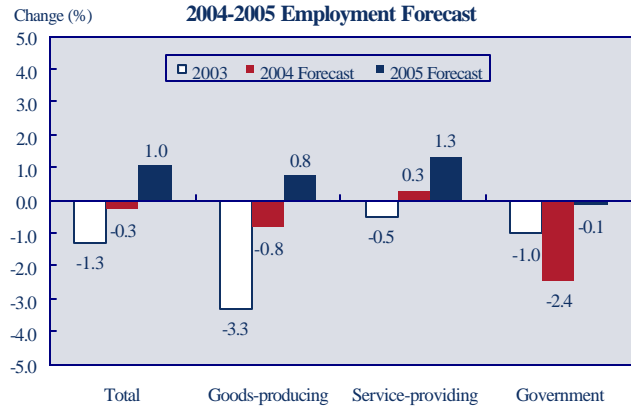
	% Change		Error
	2003 Actual	2003 Forecast	
Benton Harbor MSA			
Total	-1.2	0.5	-1.7
Goods-producing	-1.1	-0.3	-0.8
Service-providing	-1.2	1.1	-2.3
Government	0.0	-0.5	0.5
Grand Rapids-			
Muskegon-Holland MSA			
Total	-1.0	0.1	-1.1
Goods-producing	-3.8	-1.5	-2.3
Service-providing	0.1	0.8	-0.7
Government	2.0	0.2	1.8
Kalamazoo-Battle Creek MSA			
Total	-2.0	0.8	-2.8
Goods-producing	-2.4	-0.1	-2.3
Service-providing	-1.9	1.4	-3.3
Government	-6.3	-0.1	-6.2
West Michigan			
Total	-1.3	0.3	-1.6
Goods-producing	-3.3	-1.1	-2.2
Service-providing	-0.5	1.0	-1.5
Government	-1.0	0.1	-1.1

Employment Forecast for 2004 and 2005

We believe that 2004 will be a growth year for west Michigan metropolitan areas; however, much of the growth will not be reflected in the areas' employment forecasts. First, just like the rest of the nation, productivity gains will account for a large share of the expected output growth from the areas' manufacturers and service providers. Second, both the Grand Rapids-Muskegon-Holland and the Kalamazoo-Battle Creek MSAs must first dig themselves out of the economic hole that 2003 left them in. The employment losses at Bosch in Grand Rapids and Pfizer in Kalamazoo occurred in the latter half of 2003; therefore, they will be partially reflected in 2004's average annual numbers. So even though we believe employment will expand this year, the average annual change will be down by 0.3 percent. In addition, the ongoing budget crunch in Lansing is expected to force the region's state universities and colleges as well as its local governments to decrease their workforce by 2.4 percent during the year.

In 2005, the region's economy will finally post positive numbers, as total employment is expected to increase by 1.0 percent, pushed upward by a 0.8 percent employment increase in its goods-producing sector and a 1.3 percent rise in its service-providing sector. Government employment will remain flat, however.

Chart 2
West Michigan
2004-2005 Employment Forecast



Next, we present our employment forecasts for each of the three west Michigan metropolitan areas (page 3). All three will have a similar recovery path. Their manufacturing sectors will expand at an accelerating rate as the year proceeds; however, they will still post slightly negative numbers. The other drag on the regional economy will be government employment, which is fully expected to experience further declines due to the state budget problems in Lansing.

All three of the metropolitan areas are expected to experience a modest employment decline in 2004. However, again that is because all three suffered major employment reductions in their manufacturing sectors during the latter half of 2003, which will be partially reflected in their 2004 statistics. The areas' performance will be better than what the statistics suggest. Still, growth in all three will be dampened by expected employment reduction from state and local government.

In preparing this forecast we factored in announced expansions at Denso in Battle Creek, Stryker in Kalamazoo, Gentex in Zeeland, and Herman Miller in Spring Lake, as well as expected gains in State Farm employment in Kalamazoo. On the downside we included the expected loss of State Farm in Marshall. The negative consequence of Electrolux closing its Greenville plant in 2005 was not included because it is outside of the geographic scope of our model.

Concluding Remarks

Forecasting is a risky business, especially when it requires calling a "turning point" in the regional economy. Clearly, we did not fully appreciate the severity of the economic downturn in the nation's manufacturing base last year, which caused our forecast to be overly optimistic. This year we may be guilty of the opposite error: not appreciating the ability of the region's employers to bounce back. Nevertheless, we are confident that the worst is behind us.

Chart 3
Benton Harbor MSA
2004-2005 Employment Forecast

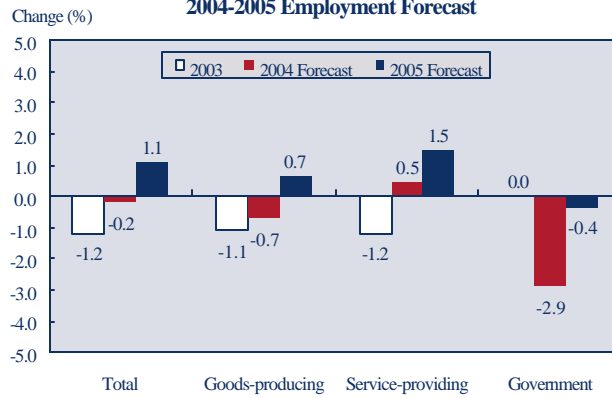


Chart 4
Grand Rapids-Muskegon-Holland MSA
2004-2005 Employment Forecast

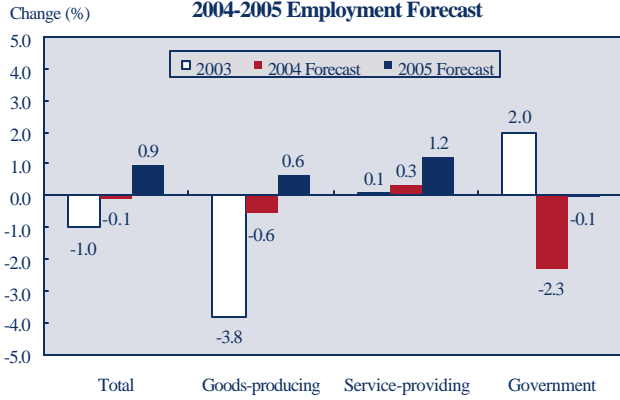


Chart 5
Kalamazoo-Battle Creek MSA
2004-2005 Employment Forecast

