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Additional Data

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March 2017 MSA Tables

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A photograph of an industrial welding process, showing bright orange sparks flying from a welding point in a factory setting. The image is overlaid with a red diagonal band and a white grid pattern.

BUSINESS OUTLOOK *for* **West Michigan**

**W.E. UPJOHN INSTITUTE FOR
EMPLOYMENT RESEARCH**

Vol. XXXIII, No. 1 March 2017

BUSINESS OUTLOOK

for **West Michigan**

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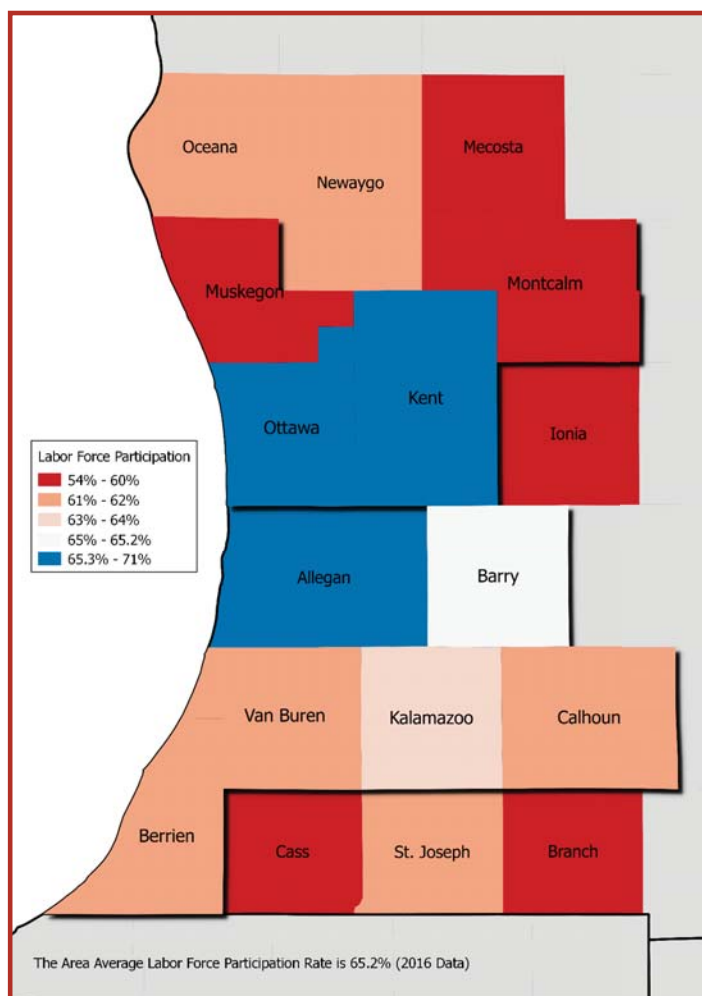
WEST MICHIGAN VIEWPOINT

Labor markets in west Michigan continue to be tight, with many businesses singing the familiar refrain that they cannot find qualified workers. Labor market numbers for west Michigan show that the slack in the labor force from the recession is gradually disappearing. Unemployment rates in the region remain at or below the national rate of 4.9 percent, which many analysts, including those on the Federal Reserve Board, consider to be full employment. Also, the region's labor force participation rate of 65.2 percent (the percentage of the working-age population employed or currently looking for employment) is above the national rate. Together, these indicators signal that there are fewer people "in the wings" waiting for the right moment—higher wages or better career opportunities—to come back into the labor force.

There may be a little more room yet to draw people into the labor force. While west Michigan's labor force participation rate today is 65.2 percent, which is higher than the national rate of 62.7 percent, it is still less than the region's rate before the recession of 68.7 percent. If the region had the same rate now as in 2006 (holding the unemployment rate at today's rate), there would be another 13,500 jobs in west Michigan.

The region actually added 19,210 jobs in the 2016 calendar year, an increase of 2.3 percent from the beginning of that year. Yet areas with higher job growth also experienced higher labor force participation rates, which suggests tight labor markets in growing areas. For example, the Grand Rapids MSA added 12,700 jobs in 2016 while facing a labor force participation rate of 68.7 percent. Muskegon, on the other hand, experienced little job growth and exhibited a labor force participation rate of 57.1 percent. The map displays labor force participation rates of other counties in west Michigan, suggesting a checkerboard of tight labor markets in the region.

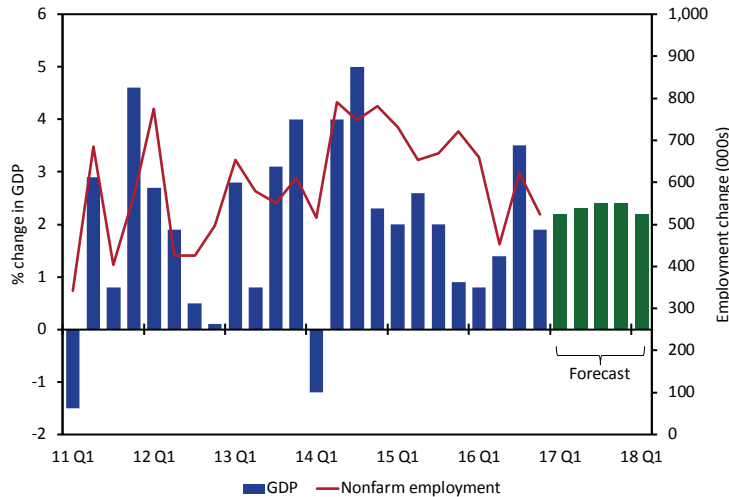
Can high participation be an impediment to future growth in west Michigan? A recent survey of business services staff from Michigan Works! Southwest revealed two interesting findings that may address this question, at least in the short run. From talking with area businesses, staff members learned that a large share of employers plan to hire in 2017 but recognize that low wages and little wage increase over the past several years may make it difficult to fill vacancies without raising wages. At the state level, the University of Michigan's latest forecast calls for employment growth of 0.7 percent—or an additional 32,700 jobs—from the fourth quarter of 2016 to the fourth quarter of 2017, a slowdown from the 2.3 percent employment growth the year before. Although west Michigan employment has grown faster than that of the state as a whole, and although the region is slowly gaining in its share of state employment and labor force, employment in the region may slow in 2017, easing hiring and wage pressures.



NATIONAL ECONOMY

Unlike a year ago, when concerns about China's economy and a collapse in its stock market had the U.S. economy stumbling out of the starting gates, this year started with a bang. The stock market finished 2016 in record territory and began 2017 with an initial spurt, employment growth was robust, and 2016 fourth quarter GDP growth was at 2 percent. All these positive signs prompted the Federal Reserve to raise interest rates for the second time in three months, to a range of between 0.75 and 1 percent.

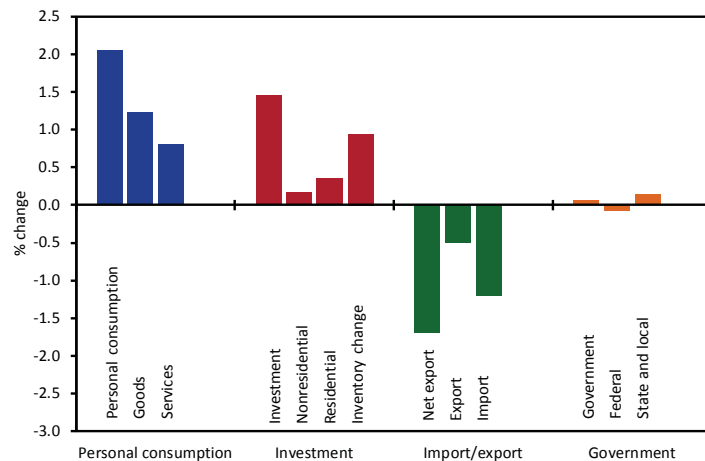
Gross Domestic Product and Nonfarm Employment



Rising estimates of GDP growth could be related to promises by the new administration for regulatory and tax reform, changes to health care, and a "border adjustment tax."

While 2017 was marked by a strong start, much of that growth was built on expectations going into 2017. Analysts saw the markets responding to hopes of further economic stimulus, this time from fiscal policy instead of monetary policy. The new administration promised a large boost in infrastructure spending, lower business taxes, and a reduction in regulations, which were enough to make markets almost giddy with enthusiasm. Consumer confidence achieved its highest level since 2000, buoyed to some extent by lower consumer debt but more by expectations of the effect of these campaign promises on the economy. Similarly, the Small Business

Major Activity Contribution to GDP Change in Current Quarter



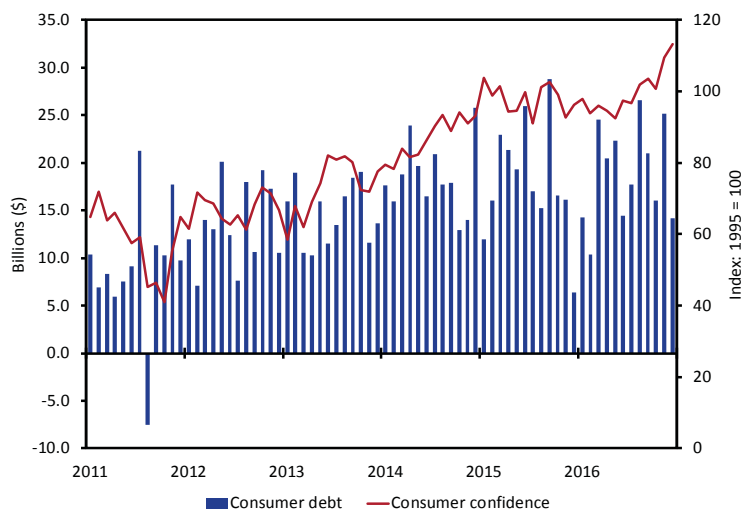
Despite high consumer spending and investment, exports created a drag on growth, as a persistently strong dollar made exporting goods and services difficult.

Survey, administered by the National Federation of Independent Business, peaked at the end of 2016, registering the highest level of optimism in the past 43 years. However, as the administration is quickly finding out, there can be a large difference between campaign promises and working with Congress to enact policy. The inability of Congress to pass the first item on the administration’s agenda—health care reform—may have subdued expectations about Congress’s ability to implement policy changes on other items such as tax reform and infrastructure spending.

Expectations aside, other signs would lead observers to take a more tepid view of future growth. The major components of fourth quarter GDP growth point to a fairly soft foundation for expansion. Inventory buildup was the major source of investment, instead of a needed increase in nonresidential investment to replace aging equipment and boost productivity. Total investment was completely offset by a decline in net exports because of the strong dollar. Therefore, even though the administration’s promised policy initiatives were targeted at businesses, it was consumers who kept the economy going at the end of 2016.

Nonetheless, forecasters are calling for slightly higher GDP growth in 2017. The outlook for GDP growth lies within the 2.0–2.5 percent range throughout 2017, a slightly more optimistic view than previous forecasts had for the year. However, forecasters expect the economy to add jobs at a slower pace than in previous years,

Consumer Confidence and Change in Consumer Debt



Consumer confidence has soared as the risk of recession in the next six months (as calculated by Moody’s Analytics) fell from 21 percent to 6 percent.

starting with around 185,000 per month in the early part of the year and ending the year at around 160,000 jobs per month. They see this slowdown in employment as being coupled with a continued decline in the unemployment rate, which they expect to end the year at around 4.5 percent. Even the risk of a recession has been revised downward, from 21 percent to 6 percent, to reflect a rosier view of the future.

The labor market shows continued strength as the economy moves into 2017. Unemployment rates are lower than at any time since the downturn began in 2007, and the labor force participation rate, while still low, is starting to creep back up. The number of long-term unemployed has steadily fallen and is back to what may be considered more normal levels, while the percentage of the labor force who are discouraged about finding a job or are working part-time because they can’t find a full-time job has also diminished. Voluntary quit rates are back to prerecession levels, while separation rates (layoffs and discharges) are at their lowest since the BLS started recording labor force dynamics in 2000. So far, private-sector compensation has not budged much from the recent trend line of a 2 percent annual rate. Yet with few sources from which to hire additional qualified workers, it appears that businesses—barring an unanticipated downturn in the economy—may have to increase wages to gain the talent they need by attracting workers from other firms and drawing them out of the woodwork.

GREAT LAKES ECONOMY

Employment in the five Great Lakes states continued to grow at a relatively brisk pace during 2016, and all indications are that growth should continue unabated at least into the first half of 2017. The economies of Michigan, Indiana, Illinois, Ohio, and Wisconsin have generated continuous year-over-year job growth since the latter half of 2010, adding, in total, 1.8 million jobs at an annual rate of 1.5 percent. The calendar year of 2016 was no exception, with the five states producing another 232,000 jobs but at a slightly slower clip of 1.0 percent.

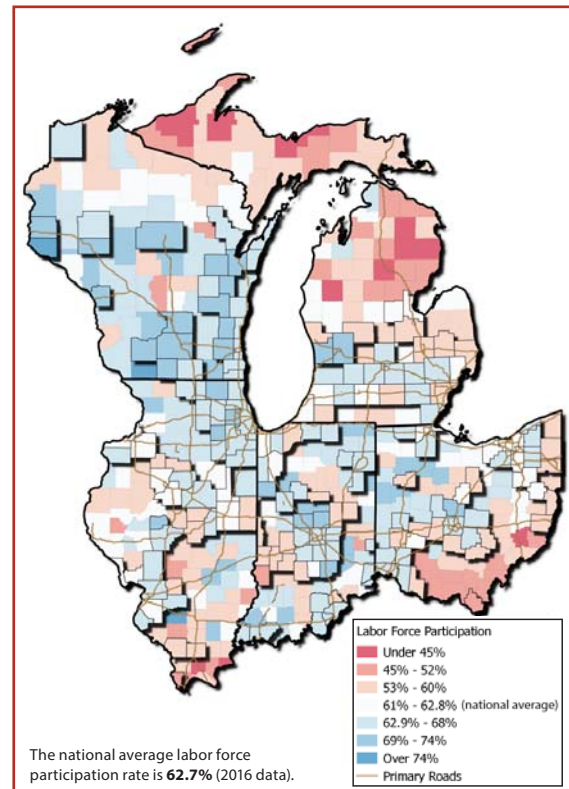
Much of the employment growth over this time has been spurred by a rebound in manufacturing jobs. Manufacturing is still a large part of the Great Lakes economies, with the five states claiming 23 percent of U.S. manufacturing jobs while accounting for 15 percent of U.S. total nonfarm employment. Manufacturing job growth exceeded total nonfarm employment growth from 2010 through 2016 in every Great Lakes state but Illinois, helping the regional labor market recover from the recession. Michigan boasted the largest rebound from 2010 to the end of 2016, gaining 121,000 manufacturing jobs, which was the most of any of the five states. Still, it was not able to entirely make up the 151,000 manufacturing jobs it had lost from 2007 through 2010. No state did, and the share of manufacturing in the five Great Lakes states declined from 14.3 percent of total nonfarm employment in 2007 to 13.0 percent in 2016.

While employers from all sectors appear to be struggling to find qualified workers, the manufacturing sector seems to have the greatest difficulty at this time. One reason may be that in the manufacturing sector, the loss of jobs in the region occurred over a longer run, despite the recent uptick. Consequently, many workers left the area or the sector for jobs elsewhere, or simply decided to leave the labor force. This is reflected in the decline in labor force participation rates in the region, which fell from 66.5 percent in 2006 to 63.5 percent in 2016.

The rates in Michigan and Ohio, 60.6 and 61.5, respectively, are below the national average of 62.7 percent, while the other three states are above the national rate.

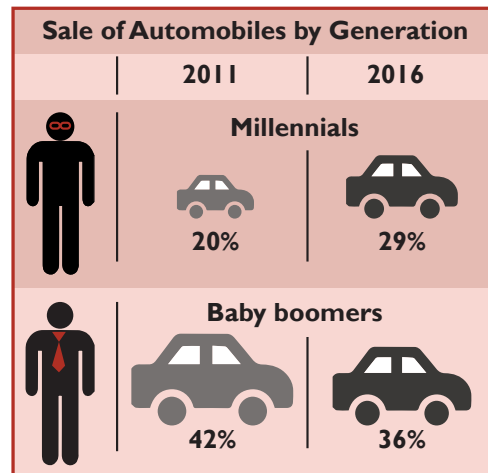
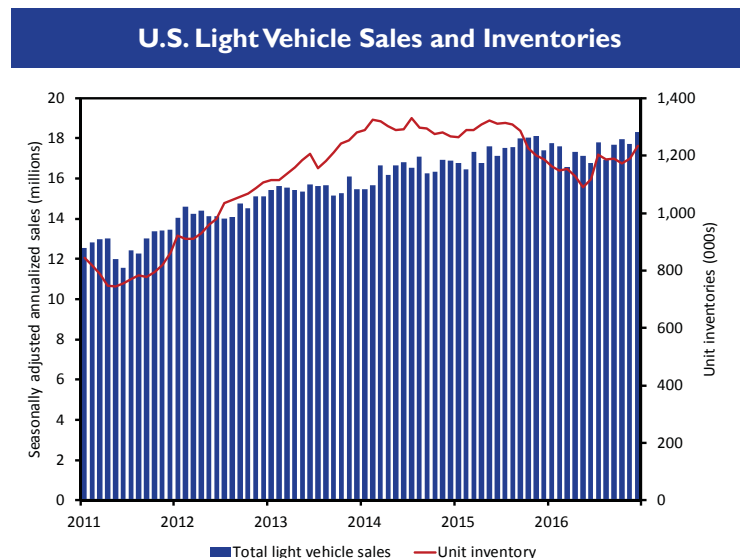
The map of the five-state region shows the uneven participation rates across counties in the region. The metropolitan areas (except Detroit in Wayne County) are those with the highest labor force participation rates, while the rural areas have the lowest rates. Places that have lost a large part of their manufacturing base, such as Detroit and Flint, Michigan, and Gary, Indiana, have low participation rates, while other, more diversified local economies have been able to maintain their workforce to a larger extent.

If those workers on the sidelines were willing to return to the labor force, the region would benefit from an additional 700,000 workers, based on the current population and unemployment rates. The question is whether these individuals possess the skills required by the region's employers. Looking at the number of unfilled vacancies, the answer appears to be that more training and career development need to take place in the public schools and community colleges to meet those needs. In addition, wages will probably have to increase to attract people into current in-demand occupations. During the decade-long decline in manufacturing in the Great Lake states, wages and per capita income fell below the national average. Even during the economic expansion, wages and benefit costs have been nearly flat, with average annual increases of no more than 2 percent. Only recently have there been a few signs of larger raises, particularly for higher-skilled positions, as noted in the most recent Beige Book report from the Federal Reserve Bank of Chicago. The prospect of further national economic growth in the 2.0-to-2.5-percent range in the coming year, reflecting the latest consensus forecast, may push wages up even further.



AUTO INDUSTRY UPDATE

Although forecasts for light vehicle sales from the University of Michigan's forecasting unit trend downward for both 2017 and 2018 at 17.4 and 17.3 million units, respectively, demand remained strong at the end of last year, hitting 17.5 million units for the year. Inventories continued to be a concern coming into 2017, with dealer stock at its highest level since 2009, according to *Automotive News*. Inventories are now at about 85 days of stock, which is eight days more than for the same period in 2016. As a means to deal with bloated inventories, manufacturers have been increasing incentives, which are up 22 percent: incentives averaged \$2,990 in January 2016, and they increased to an average of \$3,635 for January of this year.



The product mix between 2015 and 2016 changed slightly, with light trucks continuing to capture a larger share of the market. In 2015, production of light vehicles totaled 16.7 million units, of which 60.1 percent were made up of trucks and 39.9 percent consisted of cars. That total rose to slightly more than 18 million units produced in 2016—61.7 percent trucks and 38.3 percent cars.

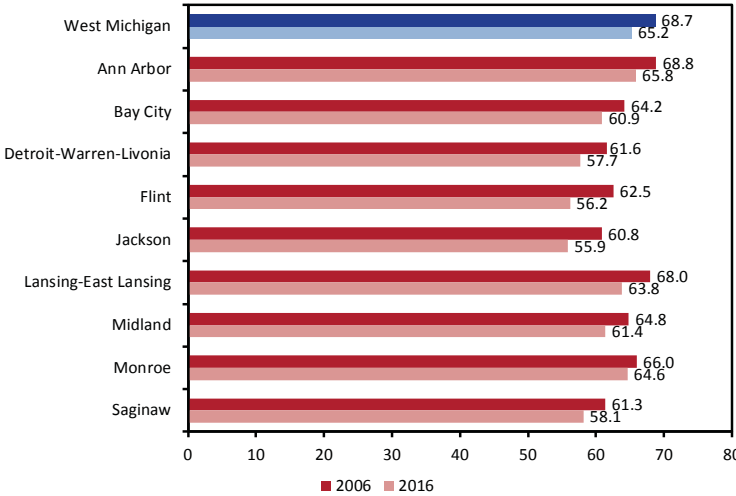
The election of a new president has changed the outlook for two aspects of the regulatory environment. The first could be favorable for the industry, as the new administration is expected to relax mileage regulations set forth in the previous administration. On the less favorable side is the stated intention of the administration to implement a border tax on parts and vehicles imported into the United States. But to actually monitor and collect the tax may prove difficult, as it could disrupt a well-established supply chain. Parts may move back and forth across the border a number of times before becoming part of a car or truck. An example of this “back and forth” might be a transmission control module made in this country that becomes part of a subassembly in Mexico, which then becomes part of a transmission built in the United States, which goes into a car in Mexico that gets sold in the United States. An unresolved question is whether it would be taxed each time it crossed the border, or only in its final form as part of a completed car or truck. According to *Automotive News*, the average price increase needed to offset a border adjustment tax would range from \$282 for Ford (largely based in the United States) to \$6,779 for Volkswagen (heavy production in Mexico and Europe).

Finally, the millennials seem to be entering the automobile market in greater numbers, at least according to a series of articles in *Automotive News*. Their percentage of the market increased from 20 percent in 2011 to 29 percent in 2016 and accounted for sales of 4.1 million units last year. By contrast, baby boomers' share of the market dropped from 42 percent in 2011 to 36 percent in 2016, or 5.1 million units. According to *Automotive News*, the millennials' entry into the market was delayed by the recession and finding a first job, and is now prompted by changing needs as they commute to work and consume household goods.

STATE OF MICHIGAN ECONOMY

The Michigan economy continues to grow in 2017 at a faster pace than the economies of the nation and the other four Great Lakes states. The latest Gross State Product figures (third quarter of 2016) show that Michigan grew at a 4.2 annualized rate, surpassing the national rate of 3.5 percent during that quarter and the Great Lakes states' rate of 3.6 percent. Since then, all indications are that this growth is not letting up in 2017: employment in the first quarter rose at an annualized rate of 2.0 percent—slightly higher than the state's average annual growth rate since the expansion began nearly a decade ago.

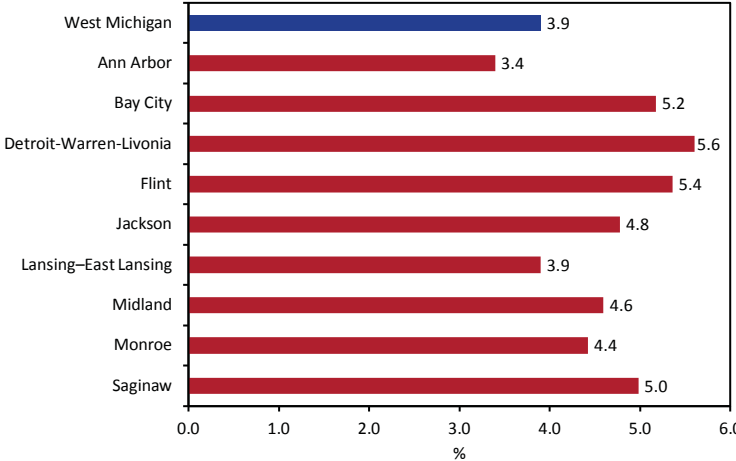
Labor Force Participation in Michigan Metropolitan Areas



Across the state, labor force participation is down from 2006. Since the Great Recession, many workers have left the labor force entirely. While the labor force participation rate in 2016 in west Michigan is below the rate for 2006, it remains among the highest in the state.

Manufacturing has been a major driver of this growth, as auto and truck production continue to hit record levels. Some are worried that the auto sector may have reached a ceiling, as inventories are beginning to mount and car companies are offering larger incentives to entice consumers to drive more cars off the lots. Yet University of Michigan forecasters see continued job growth in the state for the next two years: 41,600 jobs in 2017 and another 50,000 jobs in 2018. The state's labor force participation rate of 60.6 percent, down from a

Unemployment Rate in Michigan Metropolitan Areas (Q4 2016, seasonally adjusted)



Metropolitan areas in Michigan are either at or near full employment, with unemployment rates either less than or just above 5 percent. Low unemployment rates, along with low labor force participation, suggest that employers across the state may have to pull workers back into the labor force to fill demand.

Michigan Statistics (seasonally adjusted)

Measure	2016 Q4	2016 Q3	% change, Q3 to Q4	2015 Q4	% change, Q4 to Q4
Employment (by place of work)					
Total nonfarm employment	4,355,000	4,332,530	0.5	4,276,790	1.8
Goods-producing	761,000	757,400	0.5	749,230	1.6
Natural resources and mining	7,100	7,100	0.0	7,400	-4.1
Construction	155,300	150,030	3.5	149,700	3.7
Manufacturing	598,600	600,270	-0.3	592,130	1.1
Durable goods	452,170	453,270	-0.2	446,900	1.2
Nondurable goods	146,430	147,000	-0.4	145,230	0.8
Private service-providing	2,989,530	2,977,060	0.4	2,929,830	2.0
Trade, transportation, and utilities	773,130	774,030	-0.1	772,030	0.1
Transportation and utilities	134,630	133,130	1.1	134,670	0.0
Wholesale trade	168,630	169,330	-0.4	172,030	-2.0
Retail trade	469,870	471,570	-0.4	465,330	1.0
Information	58,430	59,000	-1.0	56,870	2.7
Financial activities	216,500	216,800	-0.1	210,030	3.1
Professional and business services	670,070	666,070	0.6	645,100	3.9
Educational and health services	669,400	667,500	0.3	656,830	1.9
Leisure and hospitality	432,200	422,630	2.3	419,170	3.1
Other services	169,800	171,030	-0.7	169,800	0.0
Government	604,470	598,070	1.1	597,730	1.1
Unemployment					
Number unemployed	245,100	237,680	3.1	240,840	1.8
Unemployment rate (%)	5.1	4.9		5.0	
State indexes (1996=100)					
Local components					
UI initial claims	8,743	9,527	-8.2	8,892	-1.7
New dwelling units ^a	25,233	17,069	47.8	12,915	95.4

NOTE: Employment numbers for durable, nondurable goods, transportation and utilities, wholesale trade, and retail trade are seasonally adjusted by the W.E. Upjohn Institute. Other numbers are seasonally adjusted by the Bureau of Labor Statistics. Categories may not sum to total due to rounding. ^aSeasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from DODGE Data & Analytics; and on employment data from the Michigan Department of Technology, Management and Budget; Bureau of Labor Market Information and Strategic Initiatives.

prerecession rate of 64.7, suggests considerable slack in the market. Increasing the labor force participation rate by just 1 percent would add more than 43,000 workers to the state, matching the estimated increase for 2017. There are large pockets of labor market slack in the state, as unemployment rates and labor force participation rates vary across metropolitan areas. Our analysis of web-based job postings from Burning Glass Technologies indicates that there are roughly 750,000 openings in the state and an unemployment rate of 5.0 percent.

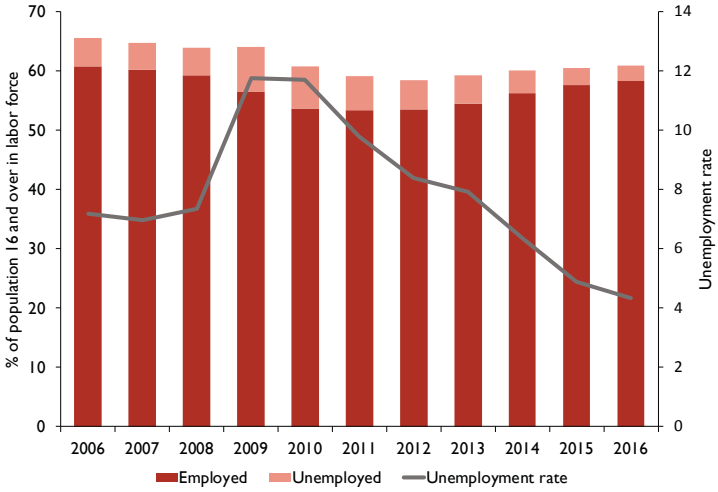
An encouraging sign for Michigan's manufacturing sector, and the economy in general, is the investment in research and development (R&D). In a recently released survey by the National Science Foundation, Michigan ranked third in the country in 2014, behind California and Massachusetts, in the amount invested by businesses in R&D. Evidence points to the auto industry as responsible for a sizable portion of this investment.

Other sectors of the Michigan economy are also doing well. Employment in the private service-providing sector grew by 2.0 percent, adding nearly 60,000 jobs in 2016, and the trend appears to be continuing. Professional and business services, financial activities, and leisure and hospitality all topped 2.0 percent. Initial unemployment insurance claims in the state are down, and new dwelling units nearly doubled from 2015 to 2016.

BATTLE CREEK MSA

The labor force participation rate in Battle Creek was 60.9 percent in 2016, below the national rate of 62.7 percent and below the local rate of 65.5 percent in 2006. The unemployment rate is also lower in 2016 than it was in 2006 (see figure below). As discussed in the Viewpoint on page 1, in parts of west Michigan the labor force participation rate is above the national average, and further growth may be hindered by a labor shortage. However, in Battle Creek, some room to grow remains, assuming that workers' skills fit the needs of employers.

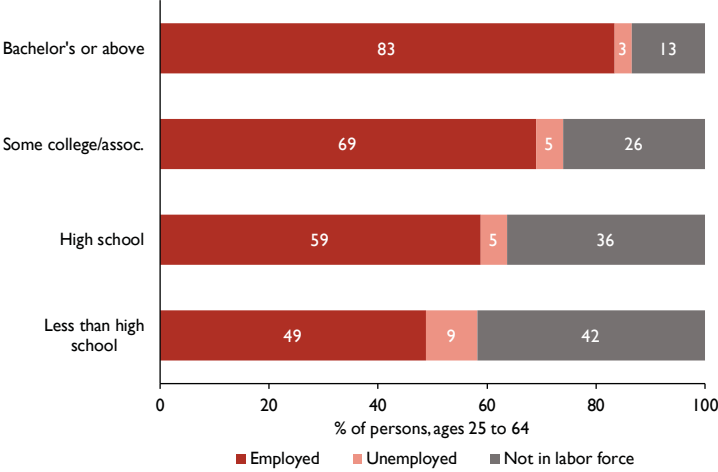
Battle Creek Labor Force and Unemployment



The labor force participation rate, which is the percentage of the working-age population employed and unemployed, was 60.9 percent in Battle Creek in 2016, lower than the national rate of 62.7 percent. This means employers looking for workers have a smaller pool to draw upon, unless they can coax workers back into the labor force.

The figure below shows the labor force status by educational attainment for people aged 25 to 64. The increased employment returns to education are apparent, as only 49 percent (or one in two) of those without a high school diploma are employed, compared to 83 percent (five in six) of those with at least a bachelor's degree. Similarly, those with some college or an associate's degree are employed at a higher rate than those with

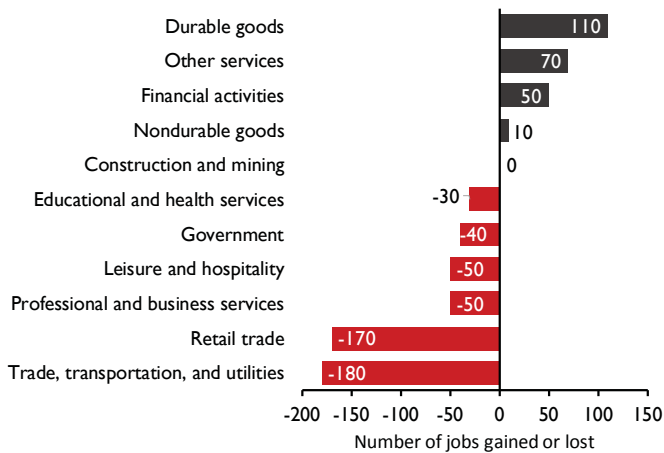
Battle Creek MSA Education and Employment Status



Each level of education attained improves a person's chances of finding employment by at least 10 percentage points.

US Census American Community Survey, 2015

Q3 to Q4 Employment Growth by Sector



Total nonfarm employment fell by 0.2 percent. Industry change was modest in both growth and decline, possibly due to the overall tight labor market hindering growth.

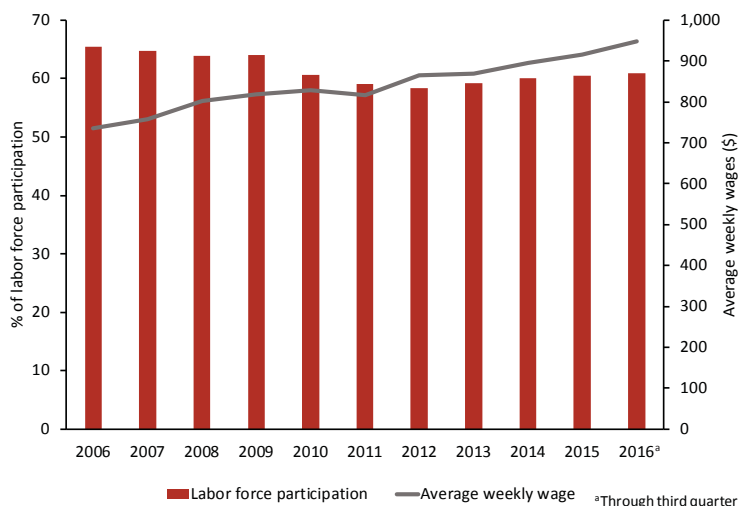
only a high school diploma. The lack of employment for the less educated is more apparent in the out-of-the-labor-force segment than among those who are unemployed.

Nonfarm employment in Battle Creek fell by 0.2 percent in the fourth quarter of 2016, with losses driven by the services sector. Service-providing employment fell by 0.5 percent, led by retail employment, which lost 170 jobs. Financial and other services were the only growth industries in the service sector. Government employment fell by 40 jobs. Goods-producing employment rose by 0.9 percent, with most growth coming from durable goods manufacturing, which added 110 jobs. Construction employment was unchanged, and nondurable goods employment rose by 10 jobs.

The area's unemployment rate increased slightly, rising to 4.6 percent from 4.2 percent in the previous quarter. The increase in the unemployment rate was not matched by growth in the number of new unemployment insurance claims, which held steady at 115 per week. The figure below shows the labor force participation rate in the Battle Creek MSA compared to the average weekly wage. Nominal wages (not adjusted for inflation) have been rising unevenly since 2006, and since 2013 they have risen steadily. However, wage growth has not been enough to push the labor force participation rate back up to the level of 2006.

More detail on industry employment change is found on our website at research.upjohn.org/bus_outlook/.

Labor Force Participation and Average Weekly Wage

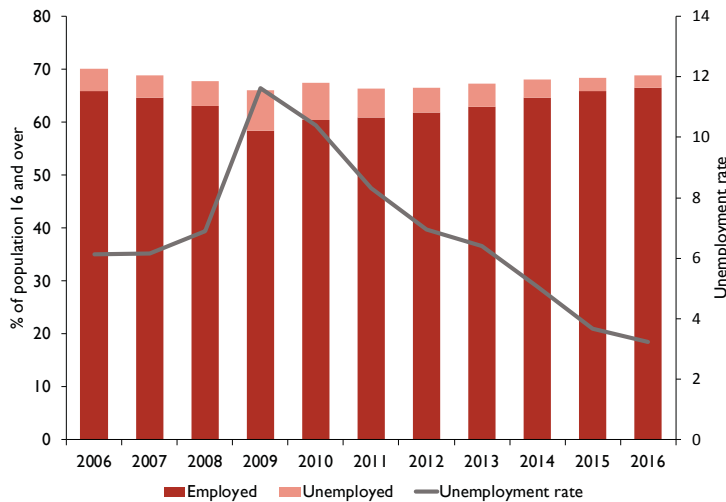


Rising average weekly wages since 2011 have not been enough to boost the labor force participation rate back to prerecession levels.

GRAND RAPIDS–WYOMING MSA

The labor force participation rate in Grand Rapids was 68.8 percent in 2016, (see figure below), well above the national rate of 62.7. While a high labor force participation rate suggests a healthy local economy, there remains concern that the lack of available labor may be hindering economic expansion. Labor force participation is below the level from 2006, but at that time there was a higher number of unemployed workers still in the labor force. Currently, 66.5 percent of the adult population is employed, which is above the 2006 rate of 65.8 percent.

Grand Rapids-Wyoming Labor Force and Unemployment

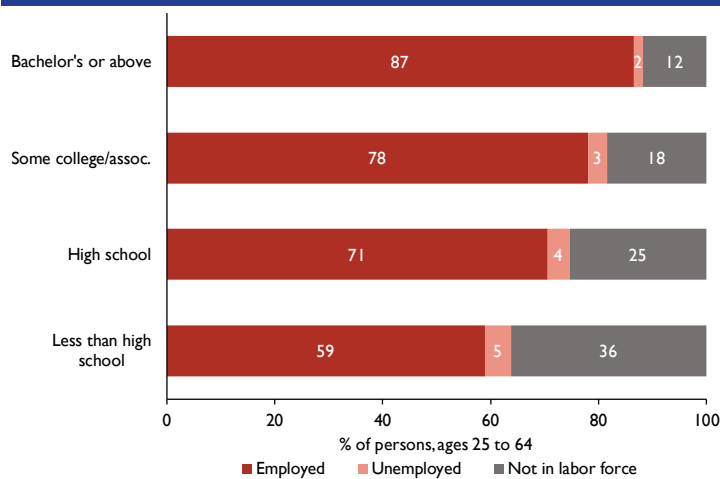


The labor force participation rate (LFPR) in the Grand Rapids–Wyoming MSA was 68.8 percent in 2016, more than six points above the national rate of 62.7. The LFPR is the percentage of the population 16 and over that is either employed or unemployed. The high labor force participation rate means employers face challenges in finding new workers, as there are fewer people outside the labor force to draw from.

The area’s unemployment rate increased to 3.4 percent from 3.2 percent in the third quarter. Initial claims for unemployment insurance rose by 29 percent over the quarter, to 520 claims per week.

Total nonfarm employment grew in the Grand Rapids–Wyoming MSA by 0.7 percent, or 3,830 jobs, during the fourth quarter of 2016. Gains were led by growth in educational and health services, which added 1,050 jobs. Professional and business services added 640 jobs during the fourth quarter. Construction employment

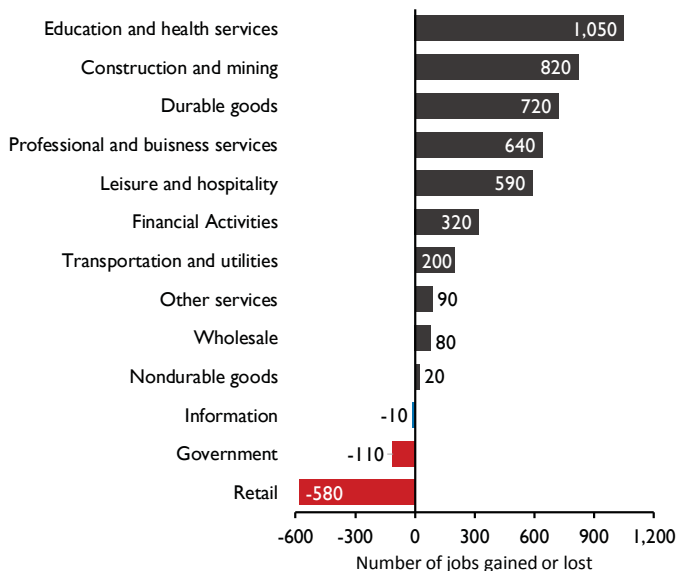
Grand Rapids-Wyoming MSA Education & Employment Status



Employment rises and unemployment falls as education increases. Of the population 25 to 64, among the percentage of those with at least a bachelor’s degree, only 2 percent are unemployed and 12 percent are out of the labor force, suggesting a high demand for skilled workers.

U.S. Census American Community Survey, 2015

Q3 to Q4 Employment Growth by Sector



Total employment in the Grand Rapids MSA improved by 0.7 percent over the fourth quarter. In spite of the tight labor market, nearly every industry grew during the quarter.

led job growth for the goods-producing sector, adding 820 jobs over the quarter. Durable goods manufacturing added 720 jobs, while nondurable goods manufacturing was little changed, adding just 20 jobs. Government employment fell by 0.2 percent, or 110 jobs, during the third quarter and by 0.7 percent from the fourth quarter of 2015.

Labor force participation in the Grand Rapids–Wyoming area has nearly returned to the level of 2006 as the number of employed persons has risen. Nominal wage growth (unadjusted for inflation) increased in 2014 and 2015 along with the labor force participation rate, which had been flat through 2012. It is possible that the wage growth helped pull workers back into the labor force.

More detail on industry employment change can be found on our website at research.upjohn.org/bus_outlook/.

Labor Force Participation and Average Weekly Wage

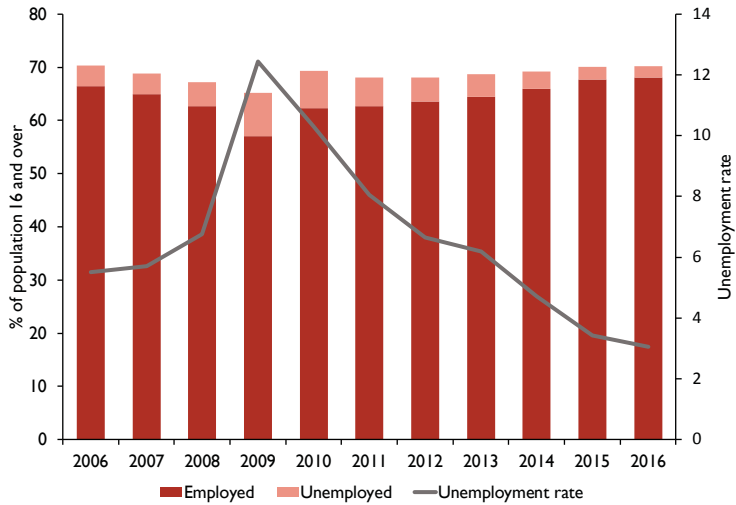


Wage growth has been steady in the area, while the labor force participation rate has remained high.

HOLLAND—OTTAWA COUNTY

The labor market in Ottawa County is extremely tight: as shown in the figure below, 68.0 percent of persons 16 and over are employed and 2.1 percent are unemployed, for a total labor force participation rate of 70.1 percent—more than seven points higher than the national rate of 62.7. The percentage of employed persons is higher than in 2006, when the rate was 66.4 percent.

Ottawa County Labor Force and Unemployment

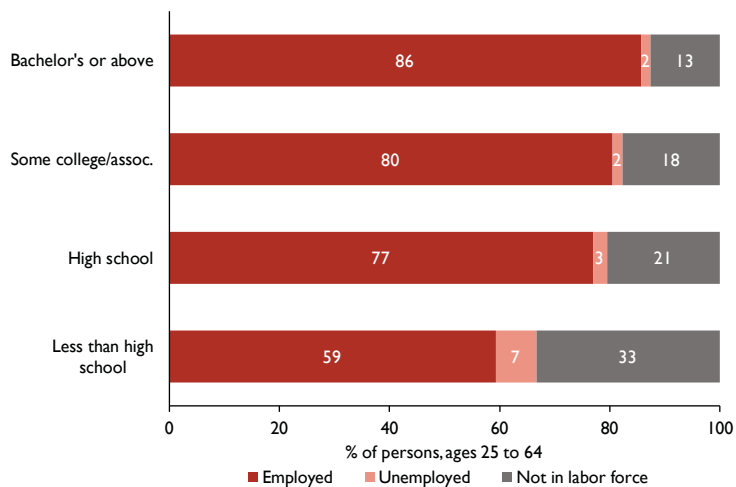


In Ottawa County, 70.1 percent of the population is either employed or unemployed, a labor force participation rate that is above the national rate of 62.7 percent. The high labor force participation rate suggests hiring is hindered by a lack of available workers.

The unemployment rate increased to 3.2 percent during the fourth quarter of 2016, up from 3.0 percent in the third quarter. During the same period, the rate of initial claims for unemployment insurance picked up by 9.4 percent, to 140 claims per week.

Total employment in Ottawa County was little changed in the second quarter of 2016, falling by 0.1 percent, or 90 jobs, over the quarter. Losses in construction and mining employment of 360 jobs erased a gain of 220

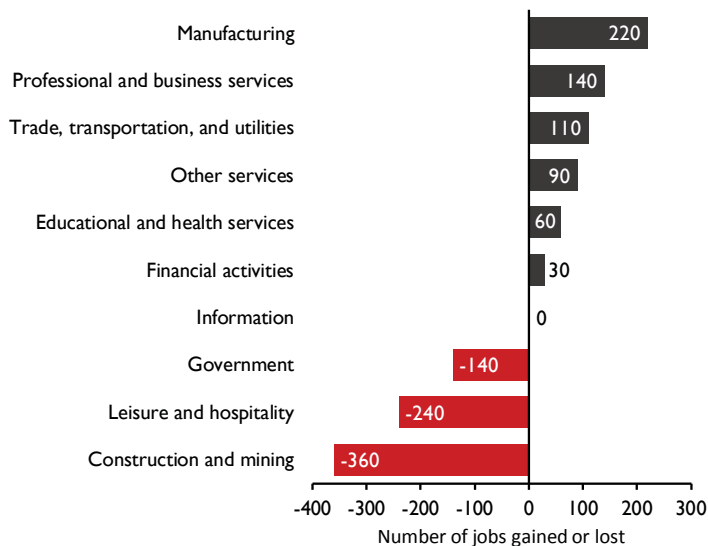
Ottawa County Education and Employment Status



Employment percentages were higher in Ottawa County than in most other MSAs for all educational levels.

US Census American Community Survey, 2015

Q1 to Q2 Employment Growth by Sector



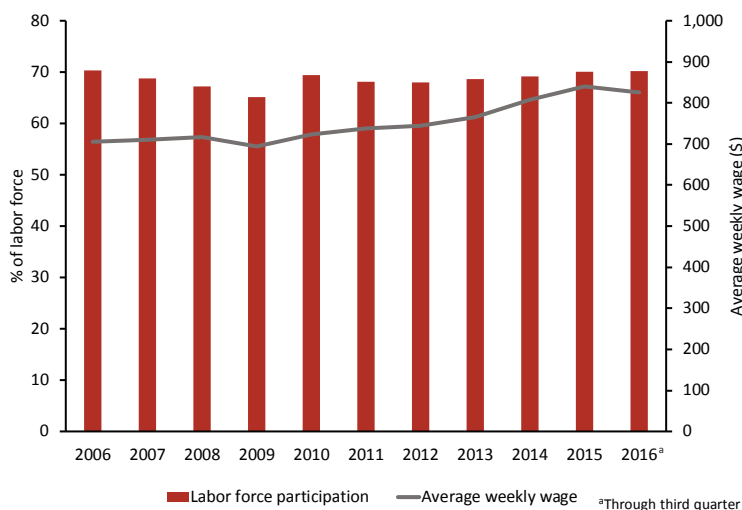
Employment fell by 0.1 percent in the second quarter of 2016 in Ottawa County. The figure shows a few industries with large declines, offsetting more modest growth in other industries.

jobs in manufacturing. The service-providing sector grew by 190 jobs, with modest gains across all industries save leisure and hospitality, which fell by 240 jobs. Government employment shrank by 140 jobs over the quarter.

Labor force participation in Ottawa County (figure below) rebounded quickly in 2010 following the Great Recession and then hit a plateau. Average weekly wages have grown steadily since 2010, though they fell slightly through the third quarter of 2016.

More detail on industry employment change can be found on our website at research.upjohn.org/bus_outlook/.

Labor Force Participation and Average Weekly Wage

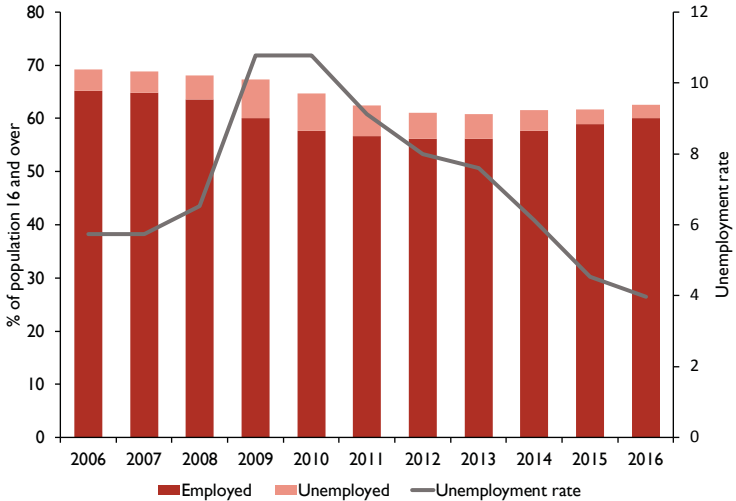


After falling in 2009, average weekly wages have improved in Ottawa County through 2015. The labor force participation rate has remained high during that period.

KALAMAZOO-PORTAGE MSA

Labor force participation in the Kalamazoo-Portage MSA is at 62.5 percent, still below the prerecession mark of 69.1, even though the unemployment rate in 2016 was lower than in 2006. The figure below shows the labor force participation rate (both the employed and the unemployed) shrinking during the Great Recession and afterward, from 2008 through 2013. The labor force participation rate did not begin growing again until 2014 and remains below the 2006 level. Employers looking for workers may have to lure them back into the labor force rather than drawing from the unemployed.

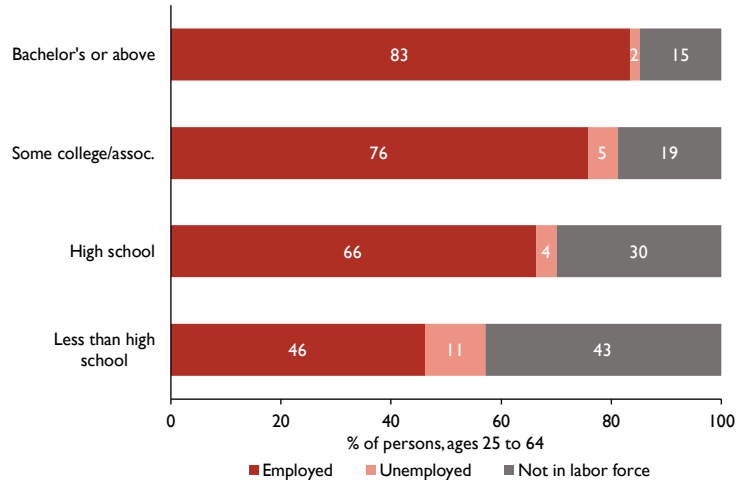
Kalamazoo-Portage Labor Force and Unemployment



The Kalamazoo-Portage MSA posted a labor force participation rate of 62.5 in 2016, nearly on par with the national rate of 62.7. The labor force is made up of both the employed and the unemployed as a percentage of the population 16 and over. Low unemployment suggests that employers may have to find workers not currently in the labor force.

The unemployment rate in Kalamazoo increased to 4.2 from 3.8 in the third quarter. Even though the unemployment rate rose, the rate of initial claims for unemployment insurance was little changed, falling 1.2 percent.

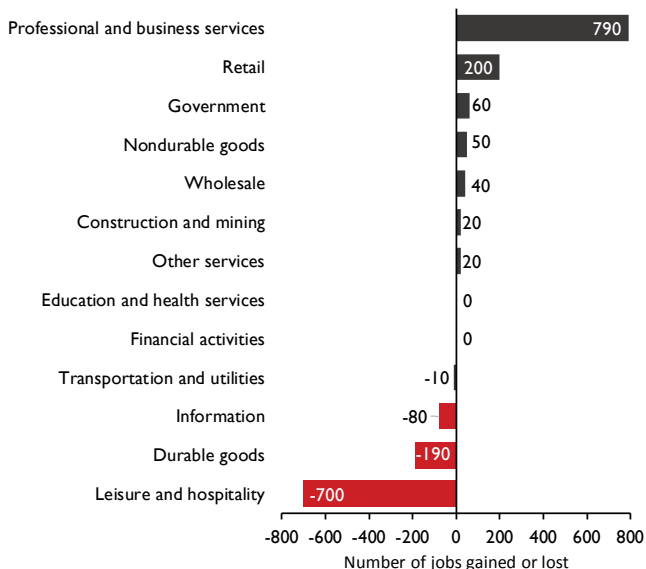
Kalamazoo-Portage MSA Education and Employment Status



Simply completing high school meant that a Kalamazoo-Portage resident's chances of being employed jumped 20 percentage points, from less than half to nearly two-thirds.

U.S. Census American Community Survey, 2015

Q3 to Q4 Employment Growth by Sector



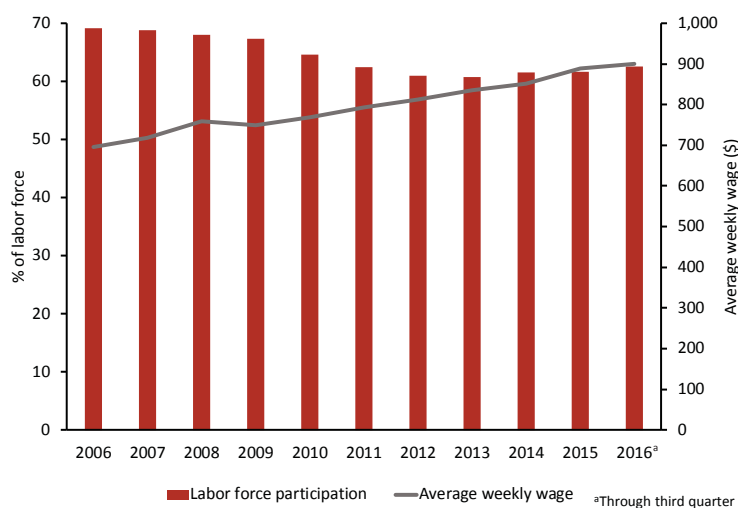
Employment grew by just 0.1 percent in Kalamazoo-Portage over the fourth quarter. The figure shows modest gains and declines across most industries, with just professional and business services posting a large increase and leisure and hospitality a big decline.

Employment was virtually unchanged in Kalamazoo-Portage, increasing by 0.1 percent in the fourth quarter. Durable goods manufacturing employment fell by 190 jobs, which contributed to pushing down employment in the goods-producing sector by 0.4 percent. Construction and nondurable goods employment posted modest gains over the fourth quarter. The service-providing sector grew in spite of offsetting industry sector performance: professional and business services rose by 790 jobs, canceling out losses in leisure and hospitality of 700 jobs over the quarter. Government employment increased by 0.3 percent during the third quarter.

The figure below shows the labor force participation rate along with the average weekly wage in the Kalamazoo-Portage MSA. The labor force participation rate fell through 2012, and growth has been lackluster since then. Wages have been growing since 2009, but possibly not enough to lure workers back into the labor force.

More detail on industry employment change can be found on our website at research.upjohn.org/bus_outlook/.

Labor Force Participation and Average Weekly Wage

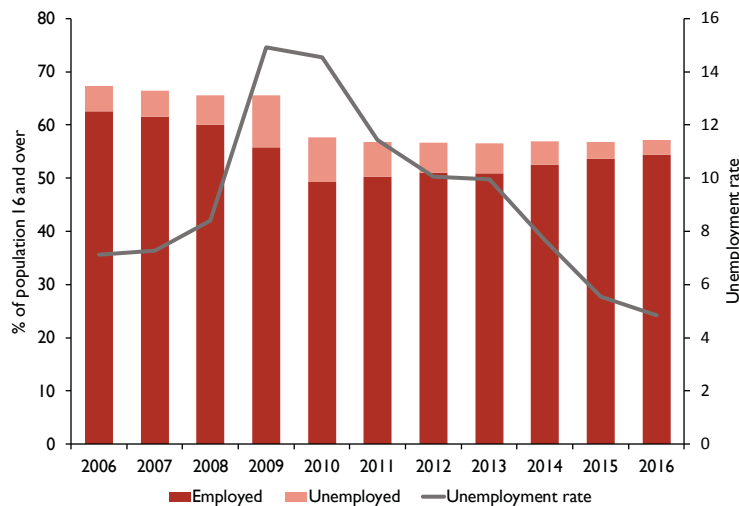


The labor force participation rate has not responded to the rising average weekly wages in the Kalamazoo-Portage MSA. Wages improved from 2009 to 2016, while labor force participation fell through 2013.

MUSKEGON–NORTON SHORES MSA

The labor force participation rate in Muskegon was 57.1 percent in 2016, below the national average of 62.7 percent. Labor force participation fell sharply from 2009 to 2010, even after the Great Recession was technically over, and it still has not recovered (figure below). The labor force participation rate currently stands 57.1 percent, over 10 points lower than where it was in 2006, at 67.3 percent. Since 2010, the rate has been relatively flat as unemployment has fallen. It appears that workers who are unemployed—meaning they are actively seeking work—have been finding work, while other workers have dropped out of the labor force.

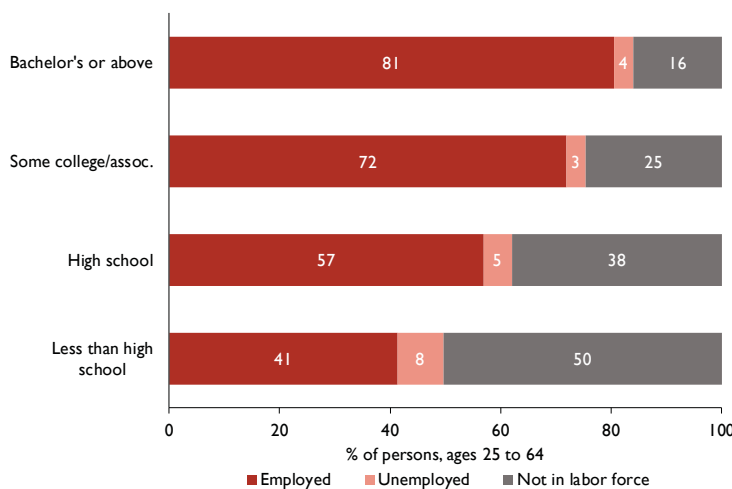
Muskegon Labor Force and Unemployment



In Muskegon, the labor force participation rate—the percentage of the adult working population that is employed or unemployed—was 57.1 in 2016. The national rate was 62.7 in the same period. Unemployment is low, suggesting employers may have to lure workers back into the labor force.

The unemployment rate increased to 5.0 percent over the fourth quarter, from 4.8 in the previous quarter. Even so, the rate of initial claims for unemployment insurance fell by 20.7 percent to 142 per week over the quarter.

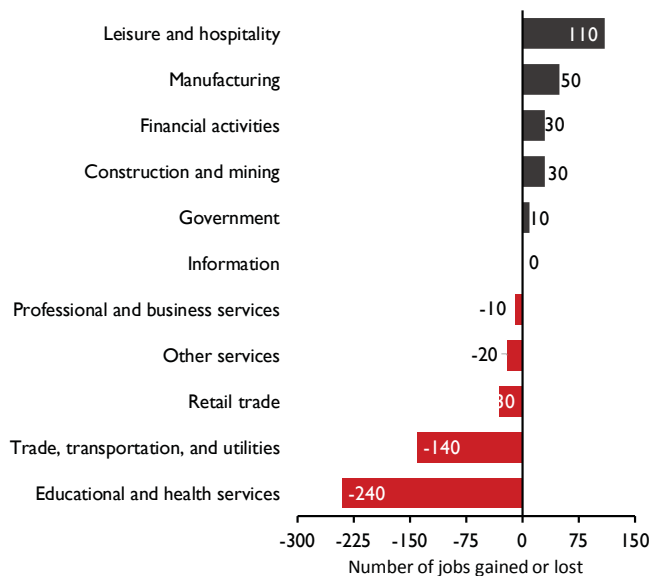
Muskegon MSA Education and Employment Status



A full 50 percent of people between the ages of 25 and 64 in the Muskegon MSA have dropped out of the labor force.

U.S. Census American Community Survey, 2015

Q3 to Q4 Employment Growth by Sector



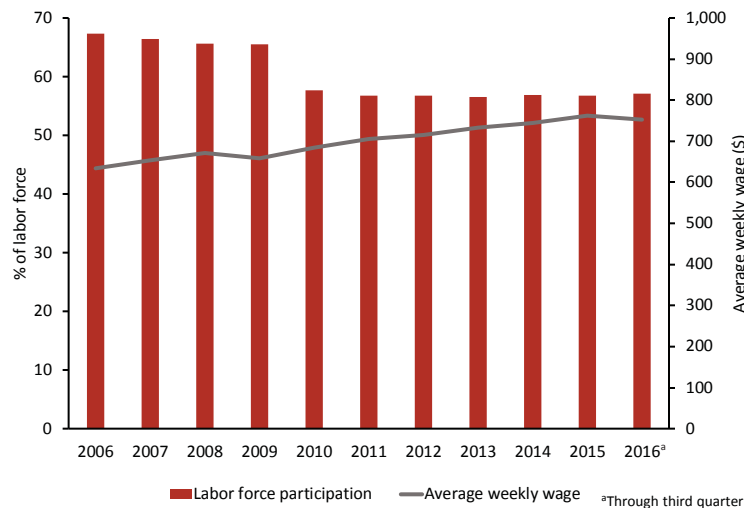
Total employment in Muskegon fell by 0.3 percent, with muted growth and decline across most industries. Labor force participation is below the national average, suggesting some slack remains in the economy.

Nonfarm employment in Muskegon slipped by 0.3 percent over the fourth quarter of 2016. Losses were led by education and health services, which fell by 240 jobs. Leisure and hospitality increased by 110 jobs over the quarter. Gains in the goods-producing sector were modest: construction and mining employment rose by 30 jobs, and manufacturers added 50 jobs over the fourth quarter. Public-sector employment was little changed, adding just 10 jobs.

The average weekly wage is shown compared to the labor force participation rate in the figure below. Labor force participation fell sharply in 2010 and has remained consistently low. The average weekly wage has grown during that period, but the data are not adjusted for inflation, and the wage growth may not be enough to lure workers back into the labor force.

More detail on industry employment change can be found on our website at research.upjohn.org/bus_outlook/.

Labor Force Participation and Average Weekly Wage

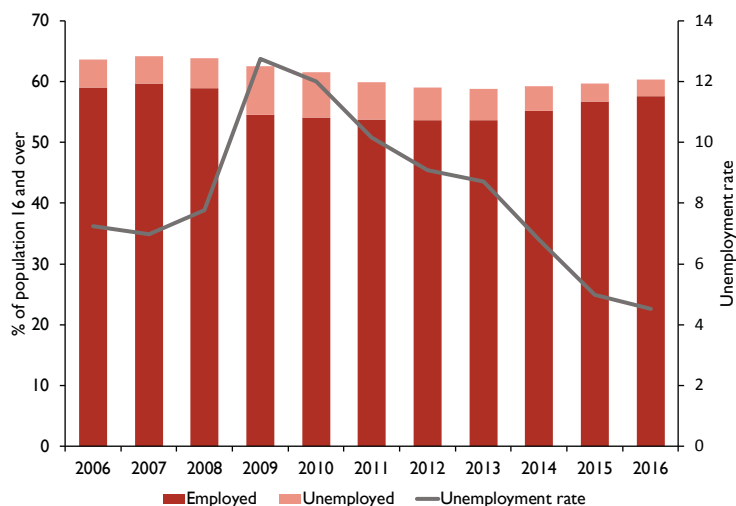


Rising wages have had little effect on the labor force participation rate. The labor force rate has been essentially flat since 2010, while average weekly wages have risen.

NILES–BENTON HARBOR MSA

The labor force participation rate was 60.3 percent in the Niles–Benton Harbor MSA in 2016, over two points below the national rate of 62.7. Labor force participation fell during the Great Recession and for several years afterward and did not begin growing again until 2014 (figure below). Even now, the labor force participation rate remains below 63.6 percent, the level posted in 2006. Unemployment has fallen well below the 2006 level, to 4.5 percent from 7.3. With a smaller pool of persons unemployed and actively seeking work, employers may have to try to draw workers back into the labor force to meet current labor demand.

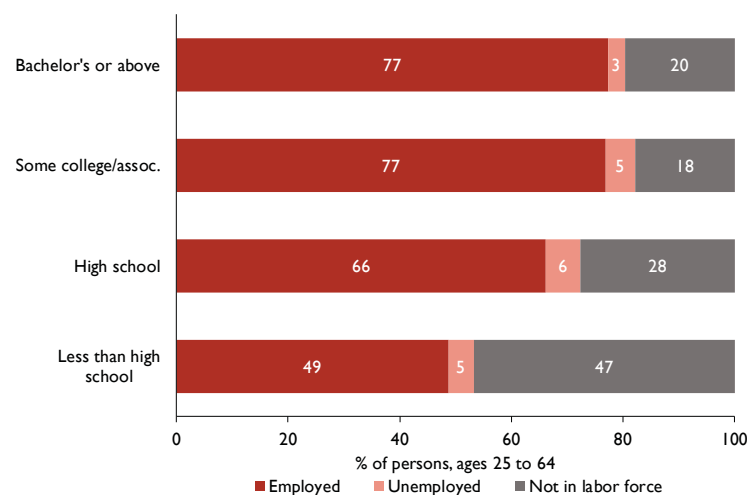
Niles–Benton Harbor Labor Force and Unemployment



The labor force participation rate—the percentage of the employed and unemployed, combined, in the adult population—was 60.3 percent in the Niles–Benton Harbor MSA. The nation posted a rate of 62.7 in the same period. The unemployment rate is lower than in 2006, suggesting employers may have to find workers from those who are currently not in the labor force.

The area’s unemployment rate increased to 4.9 percent from 4.4 percent in the third quarter of 2016. The rate of initial claims for unemployment insurance rose slightly, from 105 per week to 107 per week in the fourth quarter of 2016.

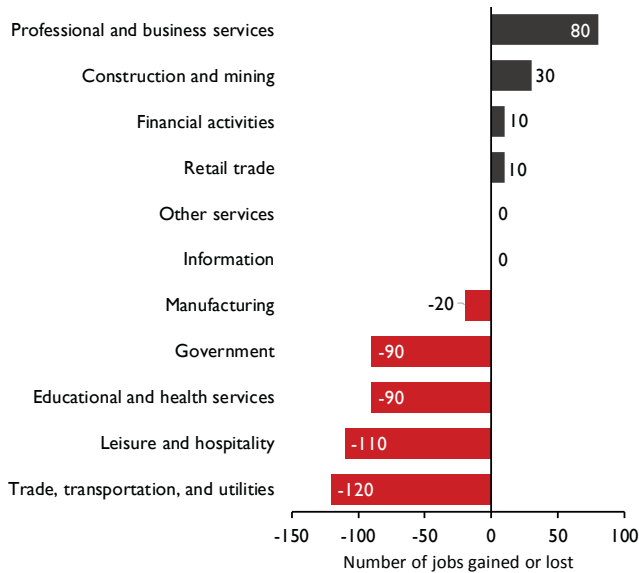
Niles–Benton Harbor Education and Employment Status



Whether one has some college or has completed at least a bachelor’s degree in the population aged 25 to 64, 77 percent are employed. However, fewer than half of those who have not finished high school have an job, and 47 percent are out of the labor force.

U.S. Census American Community Survey, 2015

Q3 to Q4 Employment Growth by Sector



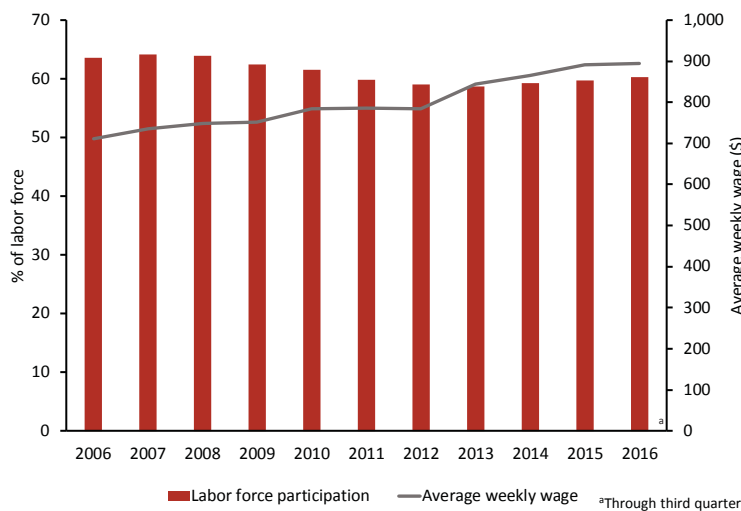
Employment fell by 0.5 percent in the fourth quarter, with losses of around 100 jobs across several industries. Professional and business services posted growth of just 80 jobs.

Total employment in the Niles–Benton Harbor MSA fell by 0.5 percent, or 310 jobs, in the fourth quarter of 2016. The service-providing sector fell by 230 jobs; losses were led by trade, transportation, and utilities, followed by the leisure and hospitality industry. The goods-producing sector was flat: an increase of 30 construction jobs was partly balanced out by a loss of 20 manufacturing jobs. Government employment fell by 90 jobs over the fourth quarter.

The labor force participation rate in Niles–Benton Harbor fell steadily during and after the Great Recession and then flattened out until wages started rising. Nominal wages (not adjusted for inflation) were flat from 2010 through 2012. Wages rose in 2013 as the labor force participation rate bottomed out, and they continued rising as the labor force participation rate also began to slowly rise.

More detail on industry employment change can be found on our website at research.upjohn.org/bus_outlook/.

Labor Force Participation and Average Weekly Wage



The labor force participation rate fell while wage growth was flat from 2010 to 2013, but the rate seems to have slightly rebounded while wages were rising from 2013 to 2016.

PURCHASING MANAGERS INDEX

The survey of purchasing managers, by Brian Long of the Institute of Supply Management at Grand Valley State University, shows improvement at the start of 2017. Following a slower second half of 2016, the index returned to above 50 in the new year. Index values over 50 indicate that the manufacturing sector is growing.

The same held true for the category of “new orders.” Following a slower December, new orders increased at the beginning of the year. “Production,” “purchases,” and “inventories” also increased at the start of the year.

The furniture and auto industries, while looking strong, are both concerned about possibly having reached peak production. As discussed earlier in this issue, U.S. auto sales seem to have hit a high-water mark. And according to Long, some firms in the furniture industry are having record sales but are concerned about “topping out.” But the capital equipment industry, which manufactures equipment used by other industries to produce commodities, had a strong start to the year. According to the most recent *Beige Book* report from the Chicago Federal Reserve, producers of heavy machinery across the region reported end-of-year growth in sales.



The red line in the figure shows a moving average of the purchasing managers index. While most of 2016 indicated that the manufacturing industry was growing, the rate slowed during the year, possibly hampered by the labor shortages across west Michigan.

On the labor side, residents of west Michigan remain relatively secure in their employment status. The figure below shows an index of Google searches on “welfare” and “unemployment” from 2011 through the start of 2017. While the data are somewhat noisy through 2014, the index appears to settle down in the middle of 2015, carrying through to the present. The data are not seasonally adjusted, and there appears to be a peak at the start of each year, but even that bump is modest for 2016 and 2017.

