Seidman Business Review

Seidman College of Business at Grand Valley State University, Grand Rapids, Michigan

Vol. XXVII
Winter 2021

IN THIS ISSUE:

Seidman College of Business | Grand Valley State University

Seidman Business Centers Service and Research

...outreach to the West Michigan Business Community

Family Owned Business Institute
616.331.7359 www.gvsu.edu/fobi
- Family Business Coursework
- Family Business Resource Center
- Research

Koeze Business Ethics Initiative
616.331.7468 www.gvsu.edu/seidman/ethics
- Ethics Consulting – Values Clarification, Conflict, and Curriculum
- Providing Notable Speakers and Facilitators in the Field of Ethics for the West Michigan Community
- Research and Publication in Business Ethics

Michigan Small Business Development Center
616.331.7370 West Michigan Region
www.sbdcmichigan.org/
- Accessing Capital
- Business and Strategic Plan Development
- Business Growth Strategies
- COVID-19 Response Programs
- Cyber Security Awareness
- Entrepreneurial Support
- Export Strategy
- Financial Management
- In-person and Online Business Workshops
- One-on-one Business Counseling
- Secondary Market Research
- Technology Commercialization

Richard M. and Helen DeVos
Center for Entrepreneurship & Innovation
616-331-7582 www.gvsu.edu/cei
- Competitions and Early Stage Funding
- Entrepreneurial Talent Development and Education
- LendGR – Technical Assistance and Consulting
- Mentoring and Coaching
- Veteran Entrepreneurial Training

Van Andel Global Trade Center
616.331.6811 www.vagtc.org
- Import/Export Compliance Assistance
- Import/Export Technical Training & Events
- International Market Research & Business Resources
- Language Translation and Culture Assistance
- Worldwide Credit Reports

Seidman Business Review *is an annual publication of Grand Valley State University's Seidman College of Business, Grand Rapids, Michigan.*

e-mail: gvbizinfo@gvsu.edu

Editor: Dr. Gerry Simons, Professor, Economics Department
Copy Editor: Karen Ruedinger
Design and production: Kruse Design L.L.C.

Educational Opportunities

offered by the Seidman College of Business

Bachelor of Business Administration (BBA)
- Accounting
- Business Economics—Emphasis in General or Real Estate
- Entrepreneurship
- Finance
- General Business
- General Management
- Human Resources Management
- International Business
- Management—Emphasis in MIS
- Marketing—Emphasis in Distribution and Logistics or Sales
- Operations Management
- Supply Chain Management

Bachelor of Arts (BA) or Bachelor of Science (BS) in Economics

Master of Business Administration (MBA)
- Executive MBA (EMBA)
- Professional MBA

Master of Science in Accounting (MSA)
Master of Science in Taxation (MST)

Certificates and Badges
- Advanced Tax Practice Badge
- Corporate Transactions Badge
- Foundations of Tax Practice Badge
- Wealth Planning Badge
- Certified Financial Planning (CFP) Certificate
- Digital Transformation Certificate
- Leadership Certificates

Seidman College of Business | Grand Valley State University

AACSB ACCREDITED

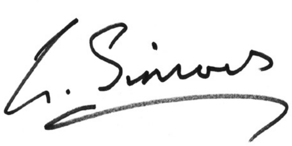
From the Editor...

I can say, without fear of contradiction, that none of us could have predicted the multitude of events that we experienced in 2020. From growing racial tensions, to global pandemics, to election turmoil, 2020 had it all and more. Economists talk about positive or negative "shocks" – dryly referring to unexpected events that either benefit or hurt an economy; and, while we were living through it, 2020 seemed to be made up of a long line of shocks, one after the other, until many of us saw the year in its entirety as one massive economic shock.

However, our purpose with the *Seidman Business Review* is not to dwell on the negatives, nor the positives, but to analyze, interpret, and inform. We would be remiss if we did not discuss the COVID-19 pandemic in our current edition of the Review. So, we have several articles that reflect various impacts of the coronavirus, including an analysis using a "pandemic misery index", as well as the always-popular Grand Rapids Economic Forecast.

We know, though, that there is more to our current business environment than COVID-19. This edition also includes articles on transgender people in the workplace, and health insurance coverage for small businesses, amongst others.

In each "Letter from the Editor" I end by expressing my hope that you will find value in the articles we provide for you. This year, I also want to express my sincere wish that, for you and yours, 2021 will be a good year. So, I'll leave you with an economists' blessing: May your benefits outweigh your costs, and may all your shocks be positive!



Gerry Simons, Professor of Economics

Seidman Business Review 2021 Contents

Grand Rapids Economic Forecast 2021

Paul Isely, Ph.D., Associate Dean, Seidman College of Business

- The Current Business Confidence Index for 2020 is 72.7%, higher than during the last two recessions.
- The Forecast Business Confidence Index for 2021 is 73.9%, showing improved expectations for 2021.
- Employment is expected to grow by 2.3% to 3.9% in 2021, showing a strong improvement over the end of 2020.
- Overall nominal sales are expected to increase by 1.1%-2.0% for 2021 reflecting slower growth than was anticipated at the beginning of 2020.
- Exports are expected to be flat in 2021.
- All indicators signal the West Michigan economy will show solid growth in 2021 after the 2020 recession.

Paul Isely

Introduction

The Confidence Index survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties or KOMA) was conducted in November and December 2020. The survey was mailed to the CEOs and business leaders of nearly 1,000 organizations based on a representative sample reflecting different sectors of the regional economy and the geographic diversity of the area. In total, 155 organizations responded, resulting in a strong response rate of 16.1%. However, due to the possibility of a non-random response sample, the survey should be interpreted with caution. The survey was timed for the week after the elections to allow respondents time to digest some of the possible implications of the electoral process.

A few methodological considerations are worth noting. Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages particularly when calculated without adjusting for outliers (responses beyond plus or minus one standard deviation). Since the average of a small sample is significantly influenced by extreme numbers, averages without outliers are used to provide more reliable results. The histograms, however, depict all the available observations to show the broad picture.

Confidence Index

The confidence index has been tracked by researchers at the Seidman College of Business since 1995. A continuing goal of the survey is to track the overall business confidence of the Grand Rapids area over time. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence) in response to the question: **How confident are you in the regional economy?** The average responses for the private sector and the government/non-profit sector over the past 20 years are shown in **Figure 1**.

Unsurprisingly the confidence index fell over 2020; however, surprisingly the confidence index was well above what was seen in the recessions that started in 2001 or 2007. Part of this might be survivor bias as many service businesses were lost in 2020. Adjusting the confidence index to assume the same response rate as last year would result in 10 more responses. If these were all assumed to have gone out of business and have a confidence of zero, the index is still above the levels seen in the last 2 recessions. This suggests that businesses that responded, view this as a transitory issue and not a fundamental change in the economy. The result is a confidence level similar to the 2003-2005 timeframe between the last recessions.

However, the level of confidence in the economy varies by industry as shown in **Figure 2**. Wholesale/retail trade and the restaurant industries show a lower confidence index at the end of 2020 similar to what was seen in 2007 at the start of the last recession. Whereas the construction industry shows a confidence level close to the 2017-19 peak. Looking ahead to 2021, the restaurant industry shows an expectation of substantial improvement over 2020, but expectations for the construction industry are more muted.

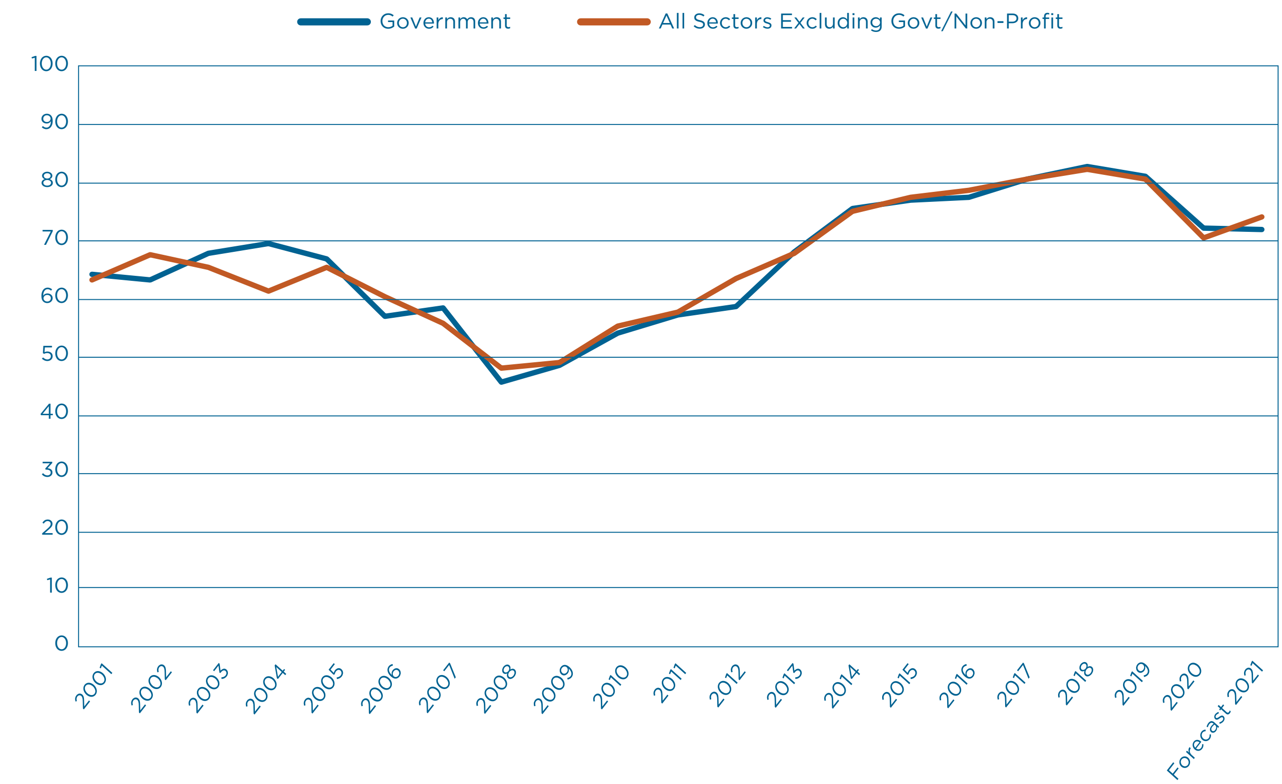
Employment

For 2020, employment for KOMA was projected to grow at an average of 0.3 – 0.7%. The black swan event of COVID-19 caused West Michigan to miss this mark. The numbers from the Bureau of Labor Statistics' Current Employment Survey indicate that employment in the Grand Rapids and Muskegon Metropolitan Areas (which is made up of Barry, Kent, Montcalm, Muskegon, and Ottawa counties) fell by an annualized rate of approximately 8% through November. The unemployment rate for the area was only 4% in November as the labor force decreased by 1% with early retirements and parents with childcare duties leaving the workforce as a result of COVID-19 as contributing factors. The result is a continued lack of talent to hire in many industries.

Responses to the question: **What percent change do you expect in employment for the four counties in 2021?** are shown in **Figure 3**.

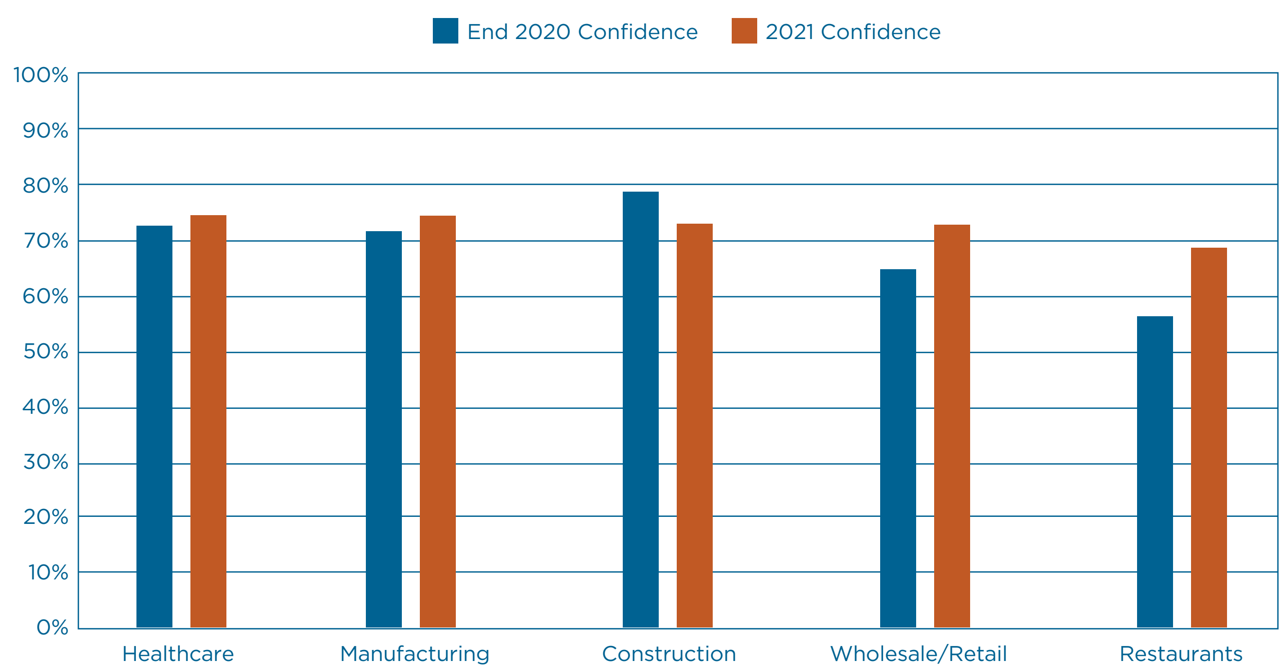
Average employment in the KOMA region during 2021 is expected to grow at 3.2%, provided there are enough people willing to work. This average conceals some variance in responses with 48% of firms expecting employment growth above 3% contrasted to 22% of firms predicting employment shrinkage. This continues the story of businesses seen in the confidence numbers where some industries have had greater negative effects. This is also consistent with the 42% of firms that see themselves returning to pre-COVID-19 sales by July 2021 and the 22% of firms that do not see themselves reaching that point during 2021.

Figure 1: West Michigan Confidence Index Forecast 2021



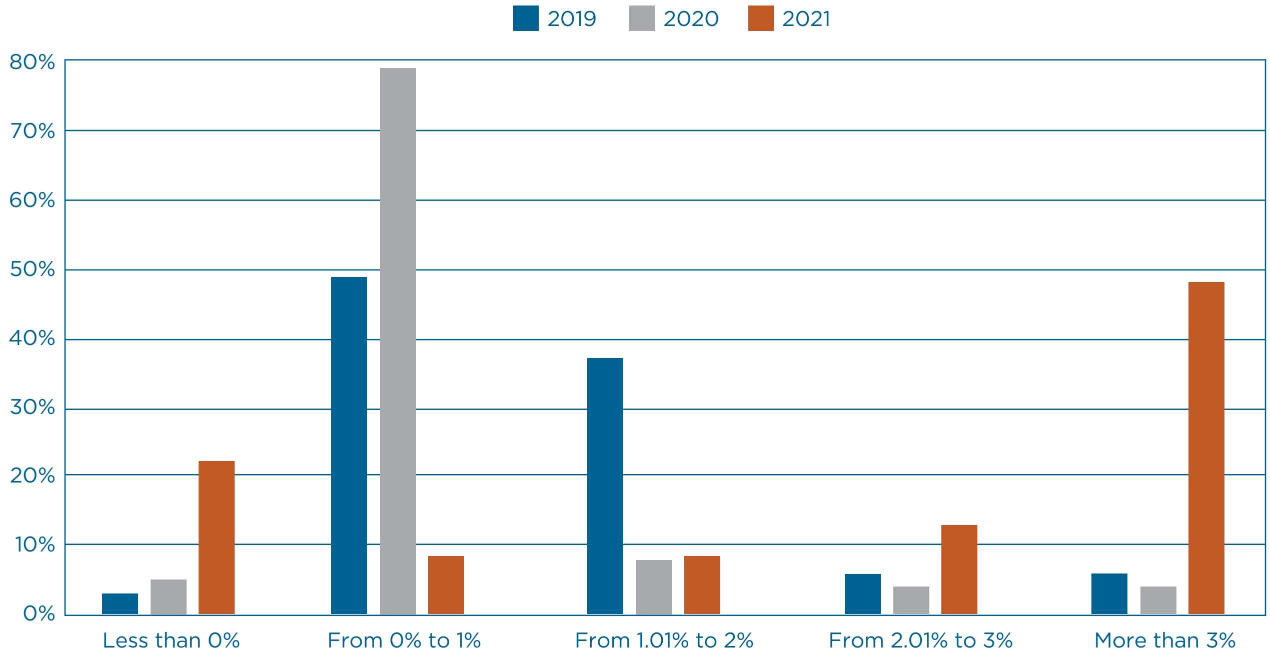
Seidman Confidence Survey 2020

Figure 2: Confidence by Industry



Seidman Confidence Survey 2020

Figure 3: Anticipated Change in Employment for 2021



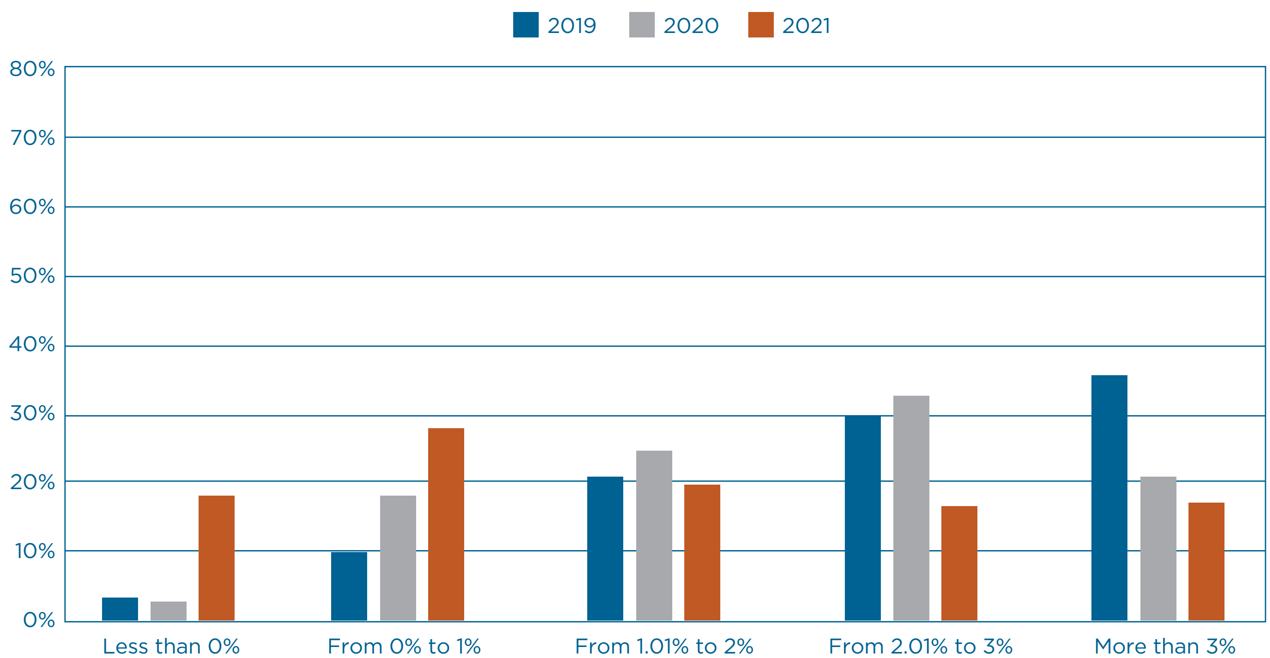
Seidman Confidence Survey 2020

Sales

The sales related survey question is: **What percent change in sales do you project for the four counties in 2021?** Results are shown in **Figure 4**.

Respondents expecting a growth rate above 3% peaked at 42% in 2018. That percentage had fallen to 21% for 2020 and 17% for 2021. The expected sales growth rate in 2021 is 1.5%. This is another indication firms expect 2021 to be a year of healing.

Figure 4: Anticipated Change in Sales for 2021



Seidman Confidence Survey 2020

General Outlook

Multiple economic forecasting surveys (**Table 1**) from late in 2020 predict economic growth of around 4.0% for the year. These surveys also establish expectations for inflation at or below the Federal Reserve target of 2%. This shows the potential for the U.S. economy to return to pre-pandemic levels near the end of 2021 or early in 2022.

These surveys are consistent with expectations from the confidence index survey suggesting strengthening confidence (73.9%), strong employment growth (3.2%), sales growth (1.5%) and stagnant export growth (0.4%). Generally, the expectation of growth in West Michigan is a little slower than the U.S. as a whole moderated in part due to the industry mix within the region.

Over the year following COVID-19's first effects on the U.S. economy in March of 2020, the federal government is expected to pump around $3 trillion into the economy – effectively increasing outlays by nearly two thirds. This has minimized the negative economic effects of COVID-19 and has set the economy up for a fast recovery. In the short run, personal savings in November 2020 was almost double ($1 Trillion more) than November 2019, according to the Bureau of Economic Analysis. This could support increased consumer spending once the fear of the virus fades.

The data for West Michigan and the United States both show that 2021 will provide a strong comeback from the COVID-19 driven recession, with much of that growth occurring in the second half of the year.

Table 1: Economic Forecasting Survey Data

Survey	GDP Growth 2021	Inflation 2021
Philadelphia Federal Reserve Survey of Professional Forecasters (Nov)	4.0%	1.9% (core CPI)
Federal Open Market Projections (Sept)	4.2%	1.8% (PCE)
Wall Street Journal Economic Forecasting Survey (Dec)	3.7%	2.1% (CPI)

https://www.philadelphiafed.org/research-and-data/
https://www.wsj.com/graphics/econsurvey/
https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20201216.htm

Acknowledgments

This study could not be completed without the assistance of the SBDC West Michigan Region staff. We are very grateful to all the organizations that participated in the survey. ■

Pandemic Misery Index: Economic and Health Implications of COVID-19 in West Michigan

Erkmen G. Aslim, Ph.D., Assistant Professor, Department of Economics
Carlos I. Navarro, Private Enterprise Research Center, Texas A&M University

Erkmen G. Aslim

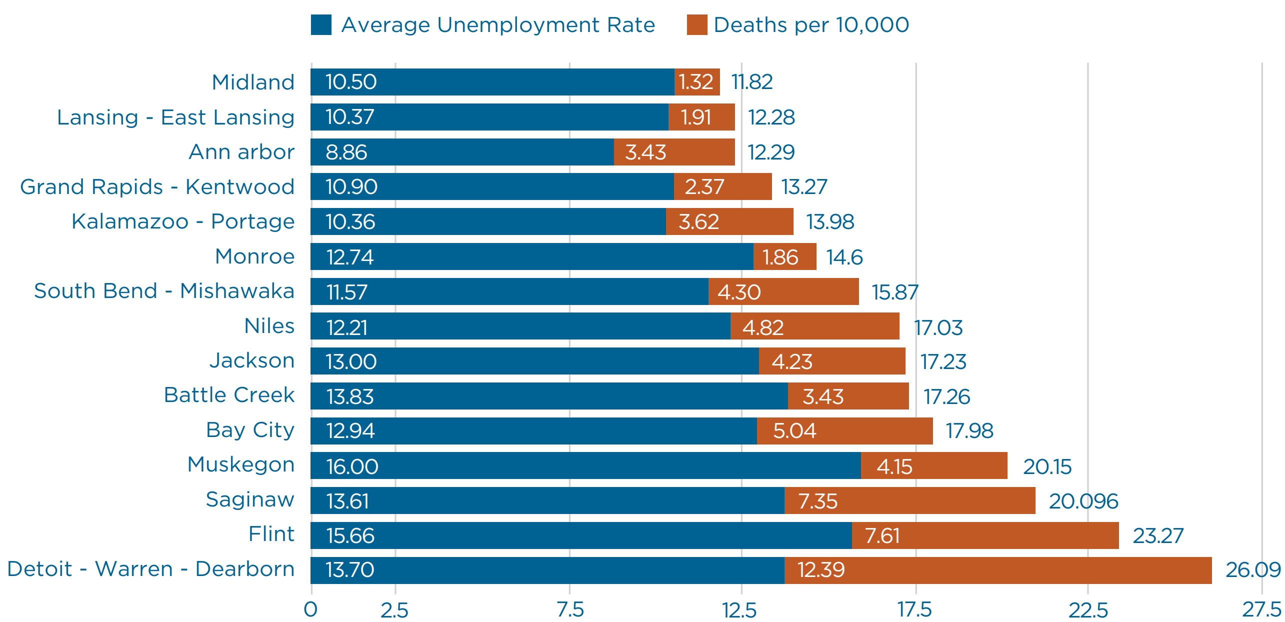
Carlos I. Navarro

The pandemic caused by the coronavirus disease 2019 (COVID-19) has shocked the modern economy in an unprecedented manner. The pandemic has put millions of people out of work in a matter of weeks and has killed over 240,000 people in the US and over 1.3 million worldwide.[1] Governments around the world have tried to stem the spread and mortality of the virus by implementing social-distancing and shelter-in-place measures while trying to minimize the burden on their economies. These measures have had global and local consequences to economic activity and employment. Virtually every community in the United States has been negatively affected by the virus. However, depending on national, state, and local policies, some communities have fared better than others. Our focus in this study is to analyze the economic and public health implications of the pandemic in West Michigan.

Pandemic Misery Index

Jansen, Navarro, and Rettenmaier (2020) use a Pandemic Misery Index (PMI) to measure the effectiveness of state and local policies in dealing with the COVID-19 pandemic. Specifically, the PMI is calculated by adding the percent unemployment rate with the COVID-19 deaths per 10,000 people. This provides a relative measure of health and economic implications of the pandemic. We replicate the PMI calculation using up-to-date unemployment estimates from the Bureau of Labor Statistics, COVID-19 data from The New York Times, and population estimates from the U.S. Census Bureau. As seen in **Figure 1** below, we have calculated the PMI at the Metropolitan Statistical Area (MSA[2]) level for Michigan MSAs.[3] The average unemployment rate corresponds to the mean unemployment rate by MSA from March to September 2020. Deaths per 10,000 is the total deaths in the area, due to COVID-19, from March to September 2020.

Figure 1: Pandemic Misery Index, March - September 2020



Authors' calculations using data from the Bureau of Labor Statistics, the New York Times, and the U.S. Census Bureau

[1] Johns Hopkins University; Coronavirus Resource Center; https://coronavirus.jhu.edu/map.html

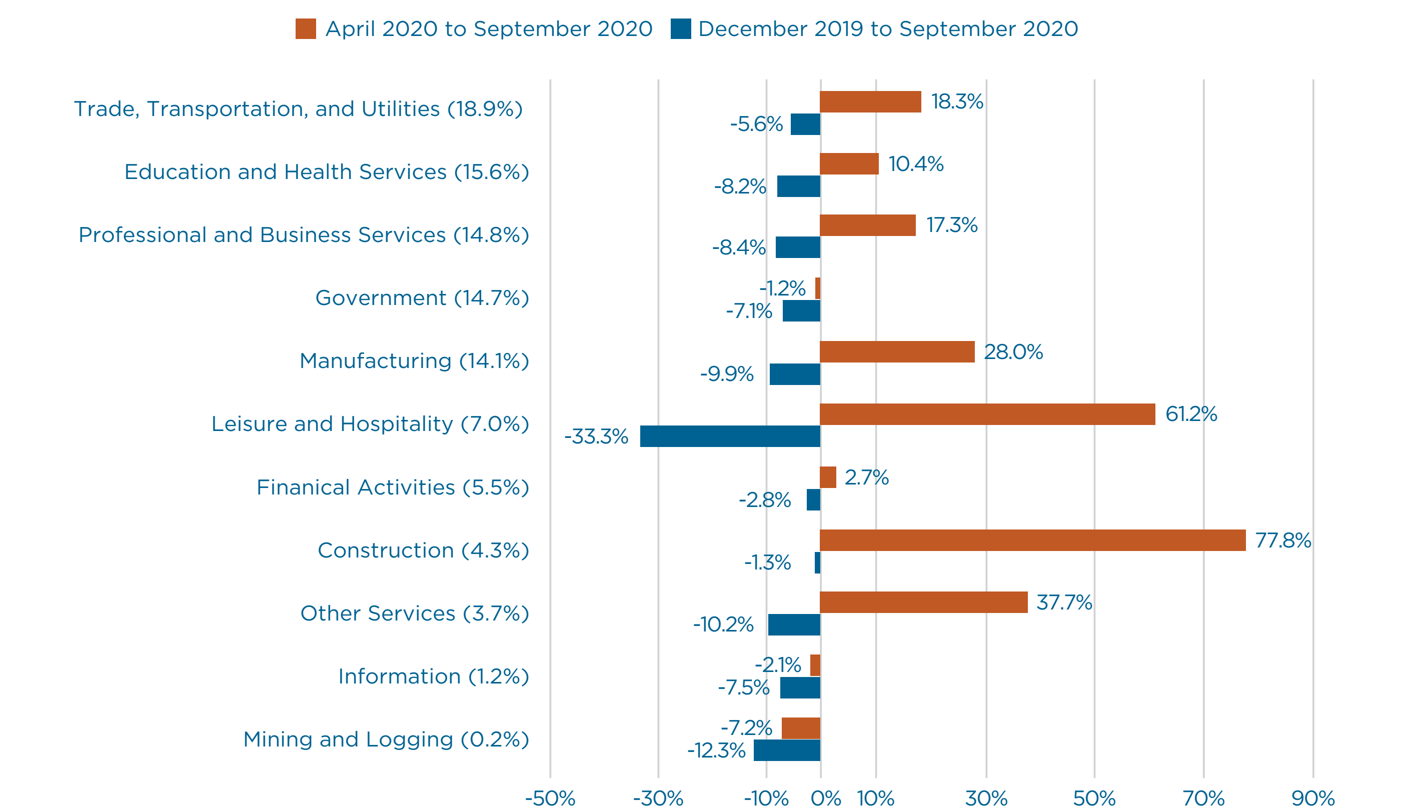
[2] In 2018, the Office of Management and Budget changed the definition of the Grand Rapids-Wyoming MSA (from Barry, Kent, Montcalm, and Ottawa counties to Ionia, Kent, Montcalm, and Ottawa counties) and renamed it the Grand Rapids-Kentwood MSA.

[3] To compare Michigan's ranking among other states, see the Private Enterprise Research Center's state-level study at http://perc.tamu.edu/PERC-Blog/PERC-Blog/2020-Pandemic-Misery-Index-How-the-States-Stack-Up

Figure 1 depicts, in ascending order, the PMI of Michigan MSAs. With the lowest amount of deaths per 10,000, Midland has the lowest PMI in the state at 11.82. Grand Rapids-Kentwood landed in fourth place with an average unemployment rate of 10.9% and a death rate of 2.37, ending up with a PMI of 13.27. Largely due to having the lowest average unemployment rate in the state, Ann Arbor yielded a PMI of 12.29, the third lowest in the state. The highest index value of 26.09 existed in the Detroit-Warren-Dearborn MSA, with the highest death rate in the state (roughly 12 people per 10,000) and the fourth highest average unemployment rate. Muskegon exhibited the highest average unemployment rate and had a PMI of 20.15. Among Michigan MSAs, the average PMI was 16.94 from March to September 2020.

Employment Estimates in Michigan and Grand Rapids
Figure 2 displays the change in employment by industry in the state of Michigan. On the vertical axis we have sorted every industry by the share of employment in the state. The percentage in parenthesis next to each industry shows the share of total nonfarm employment in that industry for Michigan (Figure 2) and in Figure 3 for the Grand Rapids-Wyoming MSA (percentages may not add up to 100% due to rounding).These data are seasonally adjusted. The total nonfarm employment in Michigan was 4.013 million workers as of September 2020. Trade, Transportation, and Utilities (TTU) is the largest industry, by employment in Michigan, with 18.9% of nonfarm workers. Since December 2019, employment decreased by 5.6%. However, with 759,000 workers as of September 2020, TTU employment has increased since April 2020 by 18.3%. Further, we observe the largest employment increases in the construction industry since April 2020.

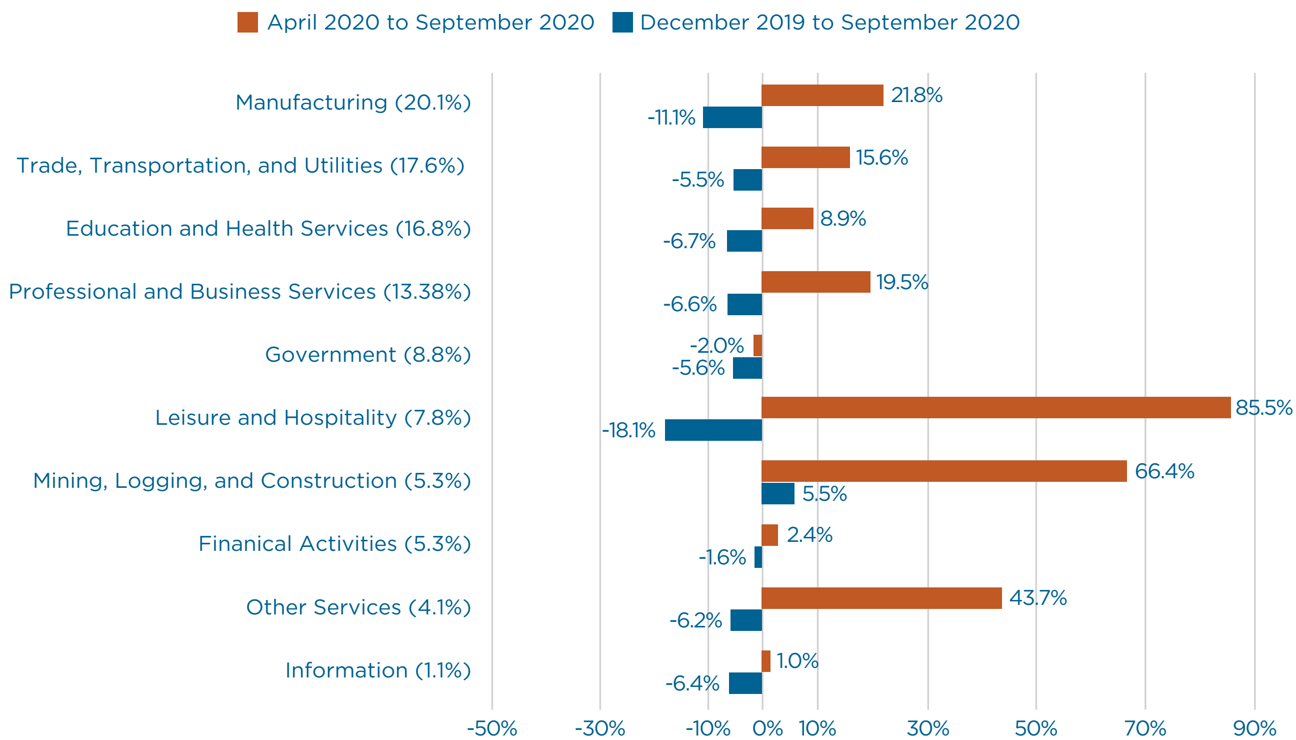
Figure 2: Employment Change (in %) by Industry in Michigan, December 2019 – September 2020 vs. April 2020 – September 2020



Bureau of Labor Statistics

Figure 3, on the other hand, displays the change in employment by industry in the Grand Rapids-Wyoming MSA. The total nonfarm employment in the Grand Rapids area was 521,600 workers as of September 2020. Manufacturing is the largest employing industry in the MSA, with 1 in every 5 workers employed in this industry. From December 2019 to September 2020, 11.1% of manufacturing jobs in the MSA have been lost. Since April 2020, manufacturing employment has grown 21.8%. The largest growth since April was captured by the leisure and hospitality industry, with an 85.5% increase in employment. However, as of September 2020, leisure and hospitality employment was down by 18.1% since December 2019.

Figure 3: Employment Change (in %) by Industry in Grand Rapids – Wyoming, MI, December 2019 – September 2020 vs. April 2020 – September 2020



Bureau of Labor Statistics

Testing the effectiveness of existing policies, as well as the economic and public health responses to the crisis, has been at the forefront of research since the start of the pandemic. We use the PMI to measure how well communities are faring as they survive the COVID-19 hiatus. Of the two largest metropolitan areas in Michigan, Detroit and Grand Rapids, Grand Rapids has been relatively less affected economically and in terms of public health. It is important to point out that Detroit's population is almost four times that of Grand Rapids. Although population density as well as pre-existing health and economic conditions may play a role in individual access to health care and jobs, it is evident from this analysis that the policy efforts for recovery in Michigan should start from the Detroit-Warren-Dearborn metro area, with a specific focus on the leisure and hospitality industry. ■

References

Dennis W. Jansen, Carlos I. Navarro, and Andrew J. Rettenmaier (2020); Pandemic Misery Index: States and Texas MSAs, PERCspectives on Policy, Private Enterprise Research Center; Texas A&M University. Retrieved October 10, 2020 from: http://perc.tamu.edu/publication?id=212, http://perc.tamu.edu/PERC-Blog/PERC-Blog/2020-Pandemic-Misery-Index-How-the-States-Stack-Up, & http://perc.tamu.edu/PERC-Blog/PERC-Blog/2020-Pandemic-Misery-Index-Assessing-Metropolitan.

New York Times, Total Coronavirus Disease 2019 deaths; retrieved from Tableau COVID-19 Data Hub. Retrieved September 25, 2020 from: https://www.tableau.com/COVID-19-coronavirus-data-resources.

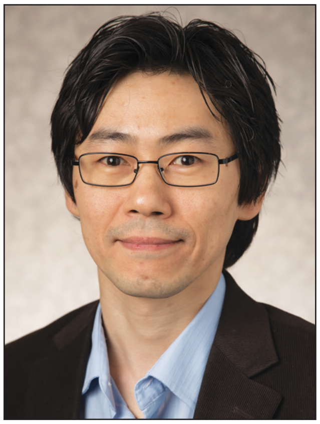
United States Census Bureau, 2019 Population estimates. Retrieved September 25, 2020 from: https://www.census.gov/data/tables/time-series/demo/popest/2010s-counties-total.html.

Bureau of Labor Statistics, Unemployment Rate from the Local Area Unemployment Statistics (LAUS) release, Smoothed Seasonally Adjusted Metropolitan Area Estimates. Retrieved October 10, 2020 from: https://www.bls.gov/lau/metrossa.htm.

U.S. Bureau of Labor Statistics, Employment by Industry (multiple series) in Grand Rapids-Wyoming MSA and Michigan. Retrieved October 10, 2020 from: https://fred.stlouisfed.org/.

Grand Rapids Housing Market – 2020 In Review

Laudo M. Ogura, Ph.D., Associate Professor, Department of Economics
Paul Isely, Ph.D., Associate Dean, Seidman College of Business



Laudo M. Ogura

Paul Isely

The COVID-19 pandemic slowed home sales during the 2nd quarter of 2020, but price growth gained traction. The Grand Rapids regional economy was severely affected by the slowdown caused by the public health crisis, with employment in Kent County decreasing from approximately 350,000 workers in April 2019 to roughly 265,000 in the same month of 2020 reflecting a 24.3% decline (U.S. Bureau of Labor Statistics, 2020a). However, unemployment rates stayed relatively low among workers in high-paying occupations. For instance, nationally the peak unemployment rate was 7.7% in April (decreasing to 3.7% in November) for management and professional occupations, while in service occupations the unemployment rate reached 27.2% in April (U.S. Bureau of Labor Statistics, 2020b). On the other hand, the inventory of homes for sale remained at a very low 1.2 month supply in the region through September (Grand Rapids Alliance of Realtors - GRAR, 2020). In addition, the pandemic had at least two positive effects on the housing market. First, mortgage rates went down due to the economic slowdown. The 30-year fixed rate dropped from 3.72% in December 2019 to 2.67% in December 2020. Second, the pandemic helped increase the perceived value of housing, with stay-at-home orders making homes safe havens for work, study, and leisure.

In fact, housing prices went up even at the national level, rising by 8.4% in the past 12 months through October (based on the Case-Shiller index by the S&P Dow Jones Indices LLC, 2020), compared to an average growth rate of 3.5% in 2019. Sales of existing homes were unchanged in the first nine months of the year compared to the same period in the previous year (National Association of Realtors, 2020). However, construction activity rose by 6.5% in 2020 compared to the same period in 2019 despite the 14% year-over-year decline during the 2nd quarter (U.S. Census Bureau, 2020), showing that there was an increase in the expected demand for housing.

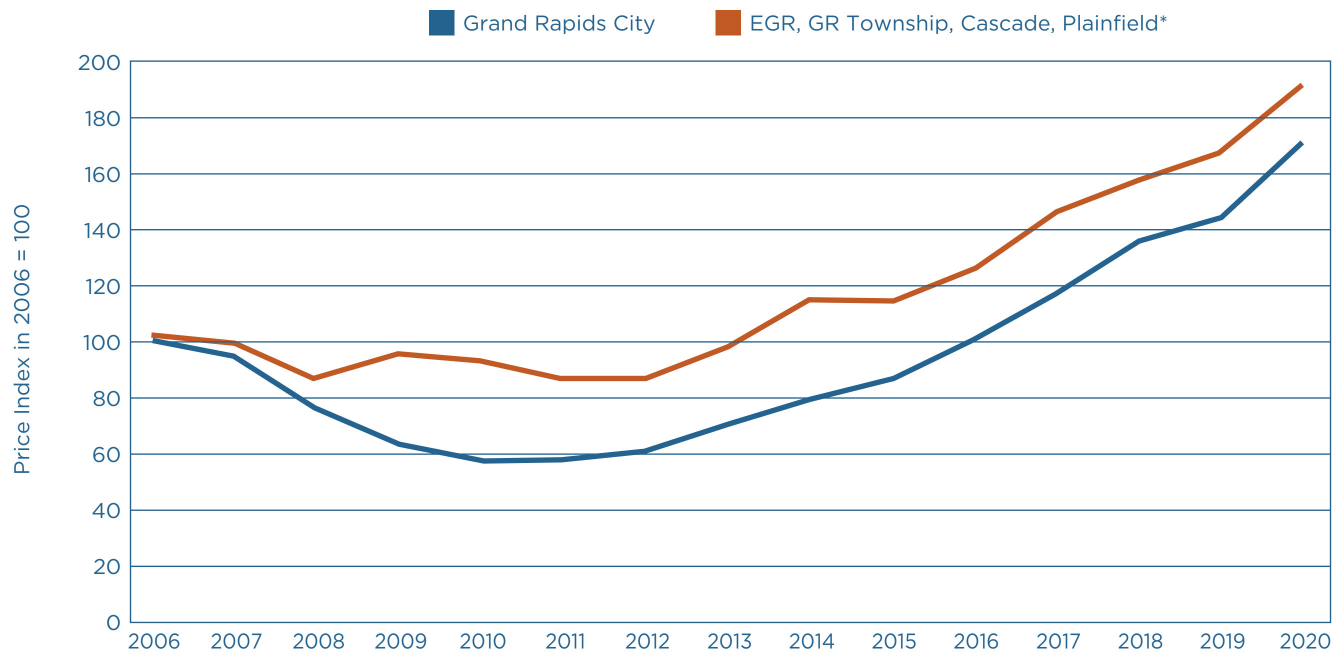
In the City of Grand Rapids, the repeat-sale price index estimates (**Figure 1**) suggest that home prices rose by an average of 16.9% in 2020 based on data through September. This growth rate is much higher than the 6.8% increase seen during 2019. In northern and eastern municipalities within Kent County (East Grand Rapids, Grand Rapids Township, Cascade, and Plainfield), home prices rose by 14.3% in 2020, a much higher rate than in 2019 when it reached 6.6%. Hence, housing price growth has accelerated in the region despite the economic uncertainties caused by the COVID-19 pandemic.

Figure 1 shows housing price index estimates since 2006, the year in which prices peaked for the decade within the City of Grand Rapids. The data were restricted to reflect market conditions for typical, non-distressed, single-family home sales (details are in the Technical Notes at the end of the article). In comparison, the local Greater Regional Alliance of Realtors (GRAR, 2020) reported that the average price of single-family homes sold in the region through September was 8.9% higher in 2020 than in the same period in 2019. Hence, price seems to have increased more in the City of Grand Rapids and in the municipalities noted than in the overall region. The GRAR also reported a -3.2% change in the number of home sales through September in 2020 compared to the same period in 2019. Based on local government records for the same period, there was a 12.4% decline in sales in the City of Grand Rapids and a 3.5% decline in the northern and eastern municipalities (see **Figure 3** for sales data by quarter). Note that the decline happened almost entirely in the 2nd quarter of the year, with sales in the 3rd quarter recovering to 2019 levels and agents reporting lots of bidding activity.

One concern was that the COVID-19 pandemic and restrictions to work, school, and leisure activities would end up hurting the demand for living in central, urban areas. However, so far housing demand in downtown Grand Rapids seems to be holding up. Within the 49503 zip code encompassing the downtown, prices continued to increase even during the 2nd quarter of the year (**Figure 3**). Sales did go down in the 2nd quarter but at rates similar to other areas of the city (**Figure 2**).

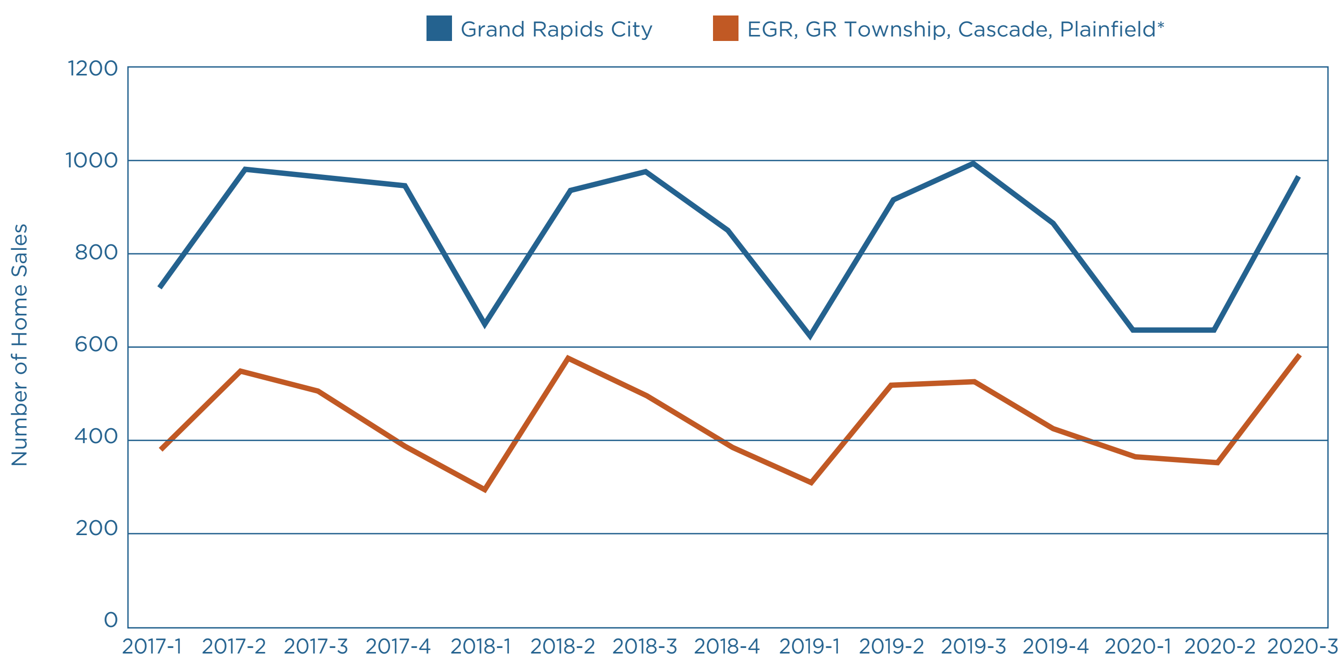
Given the strength of the housing market, even during the pandemic, housing stock versus demand levels is a potential concern. During the first half of the last decade, the number of families in the Grand Rapids metropolitan area grew by 43% with new residential building levels meeting this need (U.S. Census Bureau, 2020). Over the last 5 years, the region has built homes at a rate of 7 percentage points higher than new family growth. However, the rise in construction was mostly the result of a large increase in multi-family unit construction. If the pandemic-induced preference for single-family housing continues, this housing mix will likely do little to slow single-family home price rise, but it should instead reduce the growth in multi-family housing rental rates.

Figure 1: Housing Price Indexes (HPI) for the Grand Rapids Area*



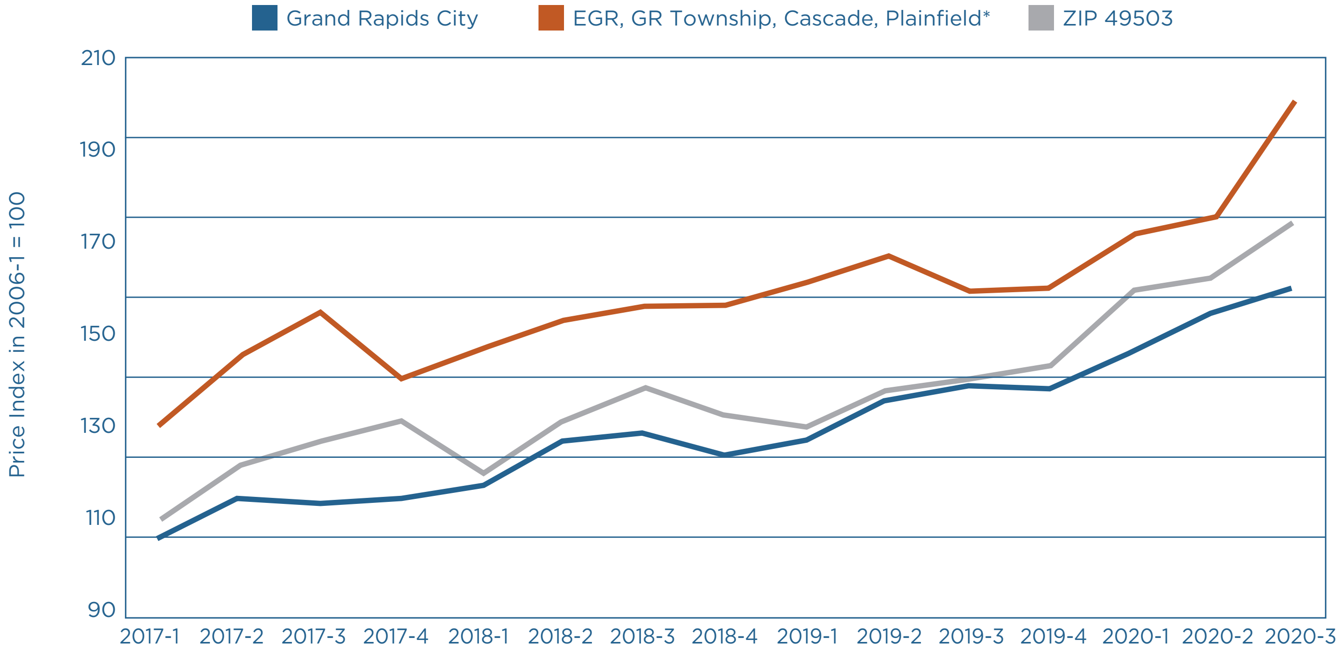
The 2020 index is based on data through September. See Technical Notes at the end of the article for details.
* The municipalities are the City of East Grand Rapids (EGR), Grand Rapids Township (GR Township), Cascade Township, and Plainfield Charter Township.
Source: Sales data retrieved from BS&A Software (2020).

Figure 2: Housing Sales by Quarter for the Grand Rapids Area*



* The municipalities are the City of East Grand Rapids (EGR), Grand Rapids Township (GR Township), Cascade Township, and Plainfield Charter Township.
Source: Sales data retrieved from BS&A Software (2020).

Figure 3: Housing Price Indexes (HPI) by Quarter for the Grand Rapids Area*



See Technical Notes at the end of the article for details.
* The municipalities are the City of East Grand Rapids (EGR), Grand Rapids Township (GR Township), Cascade Township, and Plainfield Charter Township.
Source: Sales data retrieved from BS&A Software (2020).

Conclusions

Home prices maintained an upward trend during 2020 in the Grand Rapids region despite the employment decline due to COVID-19. In fact, housing prices grew faster in 2020 compared to 2019. The volume of home sales dropped during the 2nd quarter of 2020 due to the stay-at-home order but recovered quickly in the 3rd quarter. Prices kept rising due to the low inventory of homes for sale combined with higher demand for housing due to low mortgage rates, government stimulus, reduced discretionary spending, and greater perceived value of housing as people spend more time at home. In the near future, if the economy continues to recover, low home sale inventories and moderate construction activity should keep prices and sales rising in 2021, although at lower rates than in 2020.

Technical Note

The housing price indexes shown in **Figure 1 and 3** are estimated using the repeat-sales method, which compares prices of the same houses as they are resold over time. Data from January 2000 to September 2020 were used. Indexes were set at 100 in 2006 (or quarter 1 of 2006 in the case of **Figure 3**), so that they can be interpreted as the amount of money needed to buy a house for every $100 that was needed to buy the same house in 2006. The repeat-sales method is a way to control for variation in the quality of the different houses sold in each year. The method excludes houses that were not resold during the period of analysis and disregards the impact of improvements or deterioration of each house and/or neighborhood. This approach is widely used to measure average price changes in a broad housing market. In order to better measure the changes in market conditions for typical homes, we excluded the following type of sales: cheap parcels sold for less than $30,000 or that never reached a price of at least $50,000; expensive parcels that were sold for more than $1,000,000 during the period; transfers from or to government, nonprofit, or financial institutions, which reflect non-market transactions; and parcels that had large variations in price, usually the case when parcels were developed or redeveloped. In **Figures 1** and 3, it should be noted that other municipalities in Kent County and the 49503 zip code area have a relatively small number of repeat sales, making the estimates less accurate especially when analyzing prices by quarter. ■

References

BS&A Software (2020). Property Sale Search [Data file]. Retrieved from https://bsaonline.com/MunicipalDirectory/.

Greater Regional Alliance of Realtors – GRAR (2020). Monthly Market Update - Comparative Activity Report September 2020. Retrieved from https://www.grar.com/monthly-market-update.

National Association of Realtors (2020). Existing Home Sales [EXHOSLUSM495S], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/EXHOSLUSM495S.

S&P Dow Jones Indices LLC (2020). S&P/Case-Shiller U.S. National Home Price Index [CSUSHPINSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CSUSHPINSA.

U.S. Bureau of Labor Statistics (2020a). Employed Persons in Kent County, MI [LAUCN260810000000005], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/LAUCN260810000000005.

U.S. Bureau of Labor Statistics (2020b). Unemployed persons by occupation and sex. Retrieved from https://www.bls.gov/web/empsit/cpseea30.htm.

U.S. Census Bureau (2020). Housing Starts: Total: New Privately Owned Housing Units Started [HOUST], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HOUST.

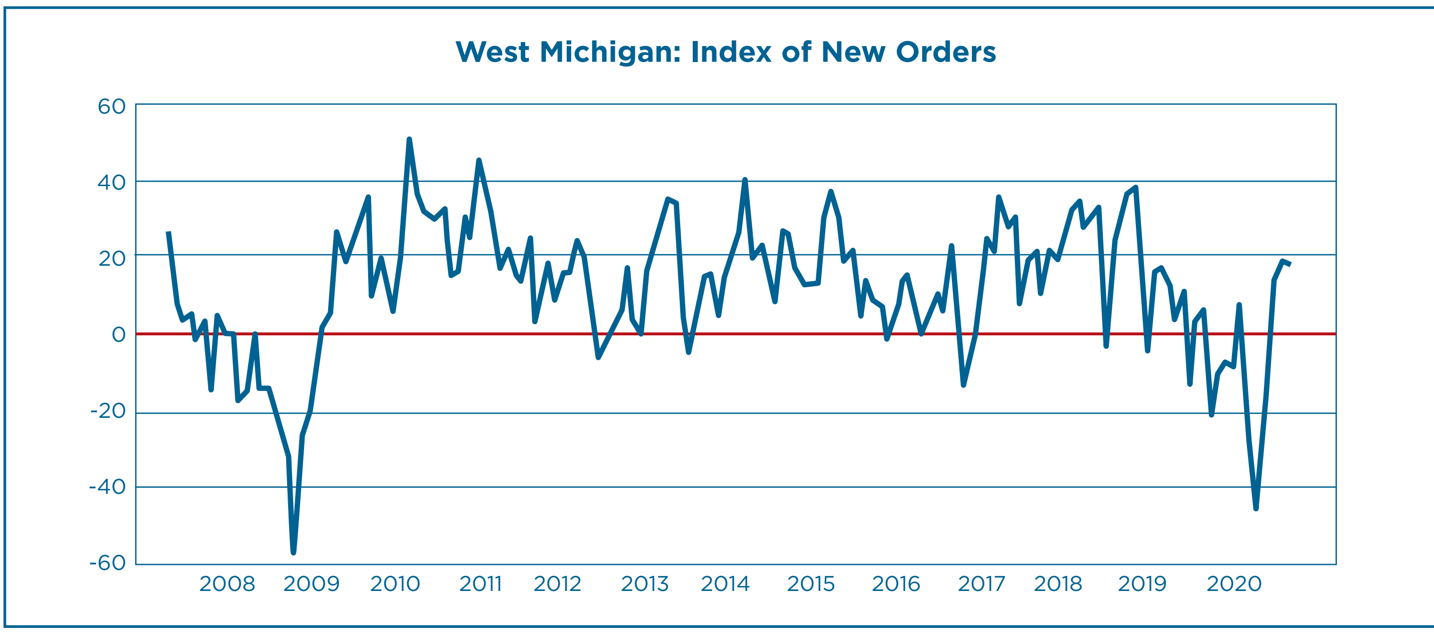
West Michigan's Supply Chain Disruption

Brian G. Long, Ph.D., C.P.M.

A frequent criticism of the capitalistic system is that private ownership and individual decision-making periodically result in the entire economy sliding into an economic downturn, otherwise known as a recession. For over 70 years, the formal definition of a recession has been recognized as two consecutive quarters of negative growth in our nation's Gross Domestic Product, or GDP. In more recent years, the National Bureau of Economic Research (NBER) has further refined this definition to include an analysis of real income, employment, industrial production, and wholesale-retail sales. Hence, NBER has determined that the recent Great Recession for the U.S. began in December 2007 and bottomed out around June 2009. Although June 2009 has been termed the end of the recession, it may more accurately be described as the beginning of the recovery. By most estimates, it took about seven years for us to dig ourselves out of the deepest economic hole since the Great Depression.

The ensuing record-breaking expansion lasted until February 2020 when we were blindsided by the COVID-19 recession. In response, the government mandated significant shutdowns of many retail and industrial firms resulting in the biggest decline (although temporary) in economic activity in U.S. history.

In December 2008, our local NEW ORDERS survey index fell to an all-time low of -57, and four months later, rebounded to +3. By contrast, the index NEW ORDERS, which measures future business activity, only fell to a low of -45 in April 2020, and rebounded to a positive growth rate of +13 by July. Subsequent reports have all been positive, and barring future shutdowns, suggest that the worst may be behind us.



Source: Current Business Trends, a monthly Grand Valley State University publication

No two recessions have ever been exactly alike, and the COVID-19 slump is clearly no exception. By early 2020, Michigan had recovered from a 2019 General Motors strike which stymied the growth for some automotive parts suppliers. According to our monthly survey, both the NEW ORDERS and EMPLOYMENT indexes had returned to positive in early 2020, and the outlook looks positive for the foreseeable future.

Whereas all previous recessions have been driven by economic imbalances, the COVID-19 recession was almost entirely driven by the forced closure of all businesses and activities except those determined by various governmental units to be "essential," such as those producing, selling, or transporting most forms of food and medicine. In addition, SOME repair businesses, SOME medical services, SOME governmental units, SOME transportation services like UPS and FedEx and almost all grocery and drug stores were allowed to stay open. In the case of one local manufacturing firm on the brink of closing, a reprieve was granted when a sizeable order was received from a major medical manufacturer. Many manufacturers and retailers that were allowed to stay open often posted record sales, while other "non-essential" firms waited for permission to reopen. Unlike other recessions, many permanent layoffs were avoided when the federal government offered a multi-trillion dollar relief package to help support businesses and individuals impacted by the shutdown. Furthermore, business conditions for most of our local firms were fairly solid on the eve of the pandemic, which allowed them to reopen with at least some orders already on the books.

2010-2020: A Decade of West Michigan Growth
For a ten-year period, the growth of the West Michigan economy set post-war records. Using NBER's December 2007 figures as the peak before the Great Recession, total employment in West Michigan's three largest counties, Ottawa, Kent, and Kalamazoo, stood at about 559,200. Over the next 18 months, Michigan's Department of Technology, Management & Budget (DTMB) reported a 6.7 percent employment decline to a June 2009 low of 521,200. By contrast, employment for the entire state declined by 8.4 percent. As West Michigan recovered from the Great Recession, total employment for the three largest counties grew to 648,700, an expansion of 16.0 percent from the previous 2007 peak. Construction of new housing did not keep up with the percent employment growth, and housing shortages began to pop up throughout West Michigan. By contrast, the state employment for Michigan gained only 3.2 percent during the same time period. This meager gain has now been more than obliterated by the current recession.

Although West Michigan is blessed with many different types of manufacturing, a major portion of the recent growth came from our automotive parts suppliers. About 14 percent of the world's office furniture is made in West Michigan, so growth in this industry also contributed to the economic boom.

Table 1: Michigan vs. West Michigan Employment

Location	December 2007	June 2009	February 2020	September 2020
State of Michigan	4,620,000	4,232,000	4,770,000	4,474,000
Percent Change from December 2007		-8.4%	+3.2%	-3.2%
Ottawa, Kent, and Kalamazoo Counties	559,200	521,200	648,700	615,600
Percent Change from December 2007		-6.8%	+16.0%	+10.1%

Source: Michigan Department of Technology, Management & Budget

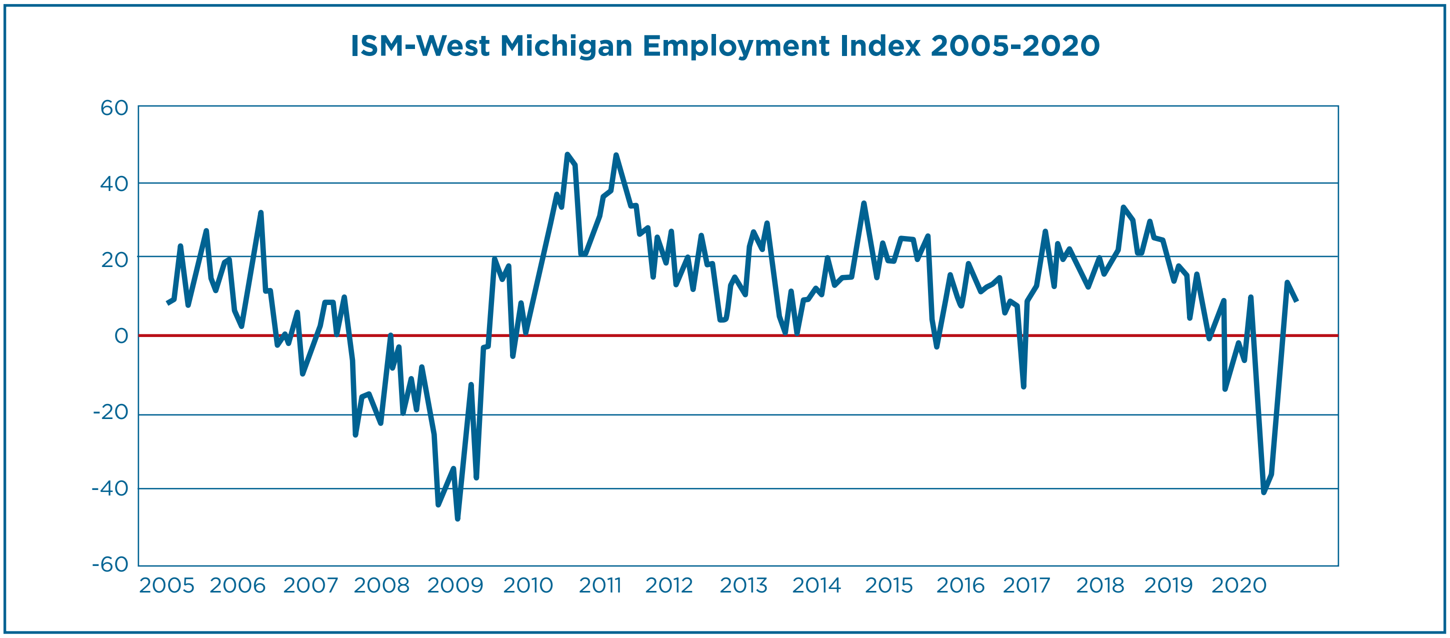
West Michigan Supply Chain Disruption
The theory of modern supply chain management states that every firm should know the ENTIRE supply chain for every product, commodity, or service they purchase that becomes assembled into their final product or service. Hence, if a firm purchases electric motors, they need to know the secondary supply chain for the motor manufacturer. The motor manufacture in turn buys wire, and the wire manufacture buys copper. Somewhere in the world, there is the proverbial "hole in the ground" from which the raw copper ore was mined. Recent history has shown that knowledge of the entire supply chain offers the opportunity for cost reduction, but also alerts supply chain managers to potential threats for supply chain disruption.

Supply chains in recent years have become increasingly convoluted. Needless to say, many local firms have now realized that they have lost track of the details in their supply chains. Supply chain disruptions that have been experienced during the COVID-19 recession have come from (1) suppliers that were shut down, (2) transportation systems that were partially shut down, and (3) U.S. ports and custom checkpoints that caused delays. Most firms had not experienced these kinds of disruptions since the 1970's when an ill-conceived government program of wage-price controls created a similar configuration of shortages. In short, the "magic pipeline," which had for many years delivered goods and services without significant interruption had broken down.

Just like the 1970's, many firms scrambled to find alternate sources of materials to keep their operations going. One firm commented that the internet made the task much easier, although the alternative sourcing sometimes came at higher prices. Although many, but not all, of these bottlenecks have now been cleared, spot shortages still persist. In most economic downturns, weak demand almost always brings the prices of most products and services down. Despite the COVID-19 recession, these shortages in the supply chain have kept many industrial prices for some commodities from falling.

West Michigan Jobs Return

For at least five years prior to the COVID-19 recession, numerous West Michigan firms reported problems filling open positions with qualified candidates. By February 2020, most of our local auto parts suppliers had recovered from the October 2020 General Motors strike. The index of EMPLOYMENT, which had been very strong for the previous two years, returned to normal. Although the pandemic had forced most non-essential manufacturers and distributors to close, the ensuing layoffs were considered to be temporary. The West Michigan Index of EMPLOYMENT turned sharply negative, but retuned to double-digit growth in August. However, as many firms reopened, not all of the workers that were recalled returned to work. Hence, the problem of filling open positions with qualified candidates has returned.



Source: Current Business Trends, a monthly Grand Valley State University publication

Changes Going Forward

Thirty years ago, Just-In-Time inventory (JIT) became a religion for the manufacturing world. Some firms proudly announced that their on-site materials inventories were limited to a few hours supply. However, when the auto industry got caught by hurricane-induced shutdowns from Korean suppliers a few years ago, many firms began to reevaluate their inventory policies. Although there are many costs to maintaining inventory, accounting professionals tend to focus on the opportunity cost of money. As interest rates have continued to fall, so has the overall cost of carrying inventory. With lower inventory carrying costs, many of our local firms are now carrying more inventory. In fact, our local survey now finds that materials inventories are at a 15-year high.

The trend toward shortening the supply chain has also seen a resurgence, especially now that the risks of long supply chains have been exposed. Until recently, many firms were unaware of various small components and sub-assemblies that were coming from China or Mexico. Reshoring, the practice of bringing manufacturing back to the U.S. from overseas, has become a new priority for some firms. When adding the cost of freight, tariffs, inconvenience, and delivery delays, many firms are discovering that the total cost of doing business may be reduced by using suppliers closer to home. At least some West Michigan automotive parts producers may be well situated to take advantage of this new trend. However, the situation for the West Michigan office furniture industry is more problematic. Just like most recessions, most firms are not going to be opening new office space, which usually fuels the demand for new office furniture. It is somewhat obvious that corporate America is in the process of redefining the traditional office concept. Many people who were essentially forced to work from home have now indicated that they would now prefer to permanently work from their own at-home office. Unfortunately, the West Michigan office furniture industry has not focused on the home office market. They have successfully developed new entries in the ever-growing medical service industry, and a few have been designing new "social distancing" office concepts. At this time, it seems uncertain how long it will take for our local firms to turn the corner and service the new office reality.

The permanent damage from any recession comes from the firms, businesses, and organizations that never reopen. Like the recovery uptick from most recessions, the current rebound in many statistics can be attributed to pent-up demand. Therefore, it will take several months before the permanent damage to the West Michigan economy can be assessed. Fortunately, the local economy was strong before the COVID-19 recession, and some firms that reopened or stayed open are already posting job openings. Despite these glimmers of hope, a return to the optimistic economic growth we reported in February 2020 will take some time to materialize. ■

West Michigan Stock Index Increased 10.5% in 2020

Gregg Dimkoff, Ph.D., Professor, Department of Finance

Perhaps many of us are getting spoiled when we see that the West Michigan Stock Index increased "only" 10.5% in 2020. After all, it increased 32.7% in 2019. Compared with the 43.6% increase in the NASDAQ Composite Index this past year, and the 16.3% increase in the S&P 500 Index, 10.5% seems modest. It isn't. After thirty years of earning 10.5%, investors would have increased their investment balance twenty-fold. That level of performance makes people wealthy.

Table 1 below highlights 2020 annual returns for several indices.

Table 1: 2020 Stock Market Returns[1]

Stock Indexes	Returns
West Michigan Index	10.5%
NASDAQ Composite Index	43.6%
S&P 500 Index	16.3%
Dow Jones Industrial Average	7.3%

Table 2 below ranks the fifteen companies comprising the West Michigan Stock Index by their 2020 stock returns.

Table 2: West Michigan Company Returns

	2019 Prices Closing	2019 Prices Opening	Price Change
Whirlpool Corporation	$180.49	$147.53	22.3%
SpartanNash Company	$17.41	$14.24	22.3%
Gentex Corporation	$33.93	$28.98	17.1%
Stryker Corporation	$245.04	$209.94	16.7%
UFP Industries, Inc.	$55.55	$47.70	16.5%
ChoiceOne Financial Services, Inc.	$30.81	$31.96	- 3.6%
Mercantile Bank Corporation	$19.20	$20.00	- 4.0%
Wolverine Worldwide, Inc.	$31.25	$33.74	- 7.4%
Kellogg Company	$62.28	$69.16	- 9.9%
Perrigo Corporation PLC	$44.72	$51.66	- 13.4%
Independent Bank Corporation	$18.47	$22.65	- 18.5%
Herman Miller, Inc.	$33.80	$41.65	- 18.8%
Macatawa Bank Corporation	$8.37	$11.13	- 24.8%
Mercantile Bank Corporation	$27.17	$36.47	- 25.5%
Steelcase Inc.	$13.55	$20.46	- 33.8%

The West Michigan Stock Index weights each stock's return by its market capitalization. Accordingly, the higher a stock's price and the more shares outstanding, the higher the weight, and the greater the impact that stock has on the Index. For instance, Meritage Hospitality Group Inc. has about 6.5 million shares outstanding, while Stryker has nearly 376 million or about 58 times more shares. Further, Stryker's stock price is about 20 times greater than Meritage. These two factors give Stryker a market weight of over 600 times that of Meritage. That explains why the Index rose 10.5% even though the stock prices of only five companies increased while ten fell. In general, the companies with the most weight were the ones that performed best.

[1] The West Michigan Index consists of 15 publicly traded companies headquartered in West Michigan. Each company's return is weighted by its market value -- the number of shares of common stock outstanding multiplied by the company's stock price. The index matches the weighting methodology used by the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted, while the S&P 500 Index uses a somewhat complex method dividing the sum of the market values of each component stock by a proprietary index divisor.

The 2020 performance of each of the fifteen companies comprising the Index is described below. Most of the discussion is based on year-to-date performances as reflected in quarterly earnings reports through the most recent quarter. Companies are grouped by industry or otherwise listed alphabetically.

The Banks

Not a single company was able to avoid investor reactions to the COVID-19 lockdown in mid-March and the disruptions that followed. Some were hit harder than others, but all of them saw their stock prices fall. By the end of the year, stock prices of several had fully recovered, but prices of others were still lower than their January and February levels including all four local banks. They were hit with a double whammy. The shutdown, and people's fears, immediately threw the U.S. economy into a recession. Interests rates fell significantly, and that's bad for banks. Bank earnings fall in low interest rate environments and in recessions.

Second was the fear that many, many businesses and consumers would default on their bank loans. And to some degree, that has happened. Think of movie theater owners, restaurant and bar owners, and the millions of people who lost their jobs. The Federal Government's PPP loans to businesses have helped, but that program may not be extended. The race is on to get people vaccinated and stop COVID-19. Optimism is keeping bank prices from falling even lower, and when the pandemic ends, bank prices should snap back.

Here's a final point about banks: They all are owned by bank holding companies, a structure somewhat unique to the banking industry, and it has been that way for many decades. In fact, it would be rare to find a bank that isn't owned by a holding company anywhere in the U.S. So, for example, when investors say they own stock in Mercantile Bank, that isn't quite true. They actually own stock in Mercantile Bank Corporation which owns Mercantile Bank of Michigan.

ChoiceOne Financial Services, Inc.

ChoiceOne Financial Services, Inc. is the holding company for Sparta-based ChoiceOne Bank and Lakestone Bank & Trust, the latter representing ChoiceOne's acquisition of Lapeer, Michigan-based County Bank Corporation in May 2020.

ChoiceOne has been actively looking for, and completing acquisitions over the past two years. Not only did it wrap up its acquisition of County Bank Corporation in 2020, but it also acquired Community Shores Bank in 2020. The merger was completed on July 1, and consolidated (implemented) in October. Muskegon-based Community Shores changed from a publicly-traded corporation to being privately held in January 2019. It now no longer exists as a separate entity.

In more good news for ChoiceOne, it was named the best small bank in Michigan by Newsweek in October 2020.

Independent Bank Corporation

Even though Independent Bank Corporation's stock price closed the year 18.5% lower than at the beginning of January, the bank had a very good year. Through the first nine months of 2020, its earnings per share increased to \$1.76 from \$1.40 the prior year, a nearly 26% increase. In addition, its return on assets and return on equity – two measures of profitability – were relatively high. With the price per share low and profitability good, the managers approved a share repurchase plan to buy back up to 5% of its shares, approximately one million shares.

Like just about any other bank, however, the specter of COVID-19 uncertainty is keeping the bank's stock price depressed.

Macatawa Bank Corporation

Macatawa Bank Corporation is the holding company for Macatawa Bank. The Holland, MI-based bank has 26 branches across three West Michigan counties: Kent, Ottawa, and Allegan. Its stock price began 2020 at around \$11 per share, and then promptly lost half of its value in March with the first COVID-19 lockdown. It recovered a little, but then dropped again early in the fall, ending the year down almost 25%. Bank earnings were down 11% for the first nine months of 2020 compared with the same period a year earlier. Executives attribute the earnings drop to COVID-19-related effects including lower interest rates and the recession.

Mercantile Bank Corporation

Grand Rapids-based Mercantile Bank Corporation is the holding company for Mercantile Bank of Michigan. Its stock performance through the first nine months of 2020 was similar to that of Macatawa Bank. Its stock price was beaten down in March, recovered, but went down again after third quarter earnings were reported. Its third quarter earnings were down 14.3% from the year earlier period, while earnings for the nine-month period were down almost 16 percent. Lower interest rates on both loans and the bank's short-term investments caused a significant part of the lower earnings.

The Office Furniture Industry

Stock prices of both Herman Miller, Inc. and Steelcase Inc. also were severely affected by the COVID-19 pandemic. Investors were worried about the shift of millions of workers away from company offices to home offices. If a significant number of those workers and their employers remain happy with the new arrangements, demand for office furnishings might permanently remain lower. Even if it doesn't, there has been a drop off in demand. Fewer business owners are adding new offices or renovating existing offices. This is a very worrisome development for the office furniture industry, and it made 2020 a terrible year for their shareowners.

Herman Miller, Inc.

Herman Miller's stock began the year at $41 per share, plummeted to $15 in mid-March, recovered by mid-December, and then fell again the last two weeks of December as worries about COVID-19 intensified. It didn't help that the company reported results from its second quarter (ending November 28) showing profit margins had decreased, organic sales fell 15% compared with the year earlier period, and earnings per share decreased 34%. It is difficult to be optimistic about the near-term outlook for Herman Miller and the office furniture industry.

Steelcase Inc.

Steelcase reached its highest price in nearly 21 years on December 1, 2019 at $21.75 per share. But that price is nowhere near its initial public offering closing price of $37.25 on February 1, 1998. Steelcase's stock price has fluctuated between $4 and $20 in the years since then, giving potential investors many opportunities to buy the stock at a low price.

The stock bottomed out at $7.33 in mid-March, and mostly traded in a narrow range from $11 to $13 per share for the remainder of the year. At -33.8%, its price performance in 2020 was the worst of any stock in the Index. The same factors affecting Herman Miller affected Steelcase: lower sales and lower earnings caused by COVID-19. Sales were down 35% in the third quarter, and the company had no operating income. Even so, the company's price-earnings ratio was 17.5 at year end, a level suggesting investor over-confidence.

The Other Companies

Gentex Corporation

Zeeland, Michigan-based Gentex is a supplier of digital vision, connected car, dimmable glass, and fire protection technologies. Like other companies, its stock price took a significant hit in March, decreasing 35% to $20 per share. The pandemic reduced production of light-vehicles, negatively impacting sales of Gentex's dominant product, dimmable glass mirrors. By the third quarter ending September 30, however, orders were rolling in, and the company was struggling to keep up with demand. Net sales for the third quarter were second highest in the company's history. Earnings increased sharply, as did profit margin, and the company repaid $50 million of debt in the third quarter. By the end of 2020, the company's stock price hit an all-time high. There is even more glee: The company predicts a 15-20% increase in sales revenue for 2021. If that happens, the company's stock price should continue to rise.

Kellogg Company

Battle Creek-based Kellogg's 2020 stock price changes reflected what investors thought about the outlook for COVID-19. The stock price tanked in March, but once investors realized Kellogg's products fit nicely with COVID-19 lockdowns and stay-at-home families, its stock price recovered. But it began to fall slowly as people went back to work and school. Through the first nine months of 2020 (through October 28), sales were up 7.2%, earnings were up 4.4%, and the company reported it was operating at capacity. Even so, its stock price fell nearly 10% in 2020.

Meritage Hospitality Group Inc.

Grand Rapids-based Meritage is the nation's largest owner of Wendy's restaurants, as well as the owner of several other types of restaurants. In total, it owns 341 restaurants, including eight that opened in 2020. It also plans to open 22 new restaurants in 2021 and renovate another 30. Despite the pandemic, Meritage reported a 15.9% increase in sales in the third quarter ending September 27, and a 74% increase in net earnings. Its share price fell a modest 4% in 2020.

Perrigo Corporation PLC

The company has accomplished several notable projects over the past two years including over $1 billion of mergers and acquisitions, a 20% increase in its cash dividend, accumulated $850 million in cash as reported on its balance sheet, announced plans to build new North American headquarters in downtown Grand Rapids, and announced it would repurchase $150 million of its stock. Perrigo reported a 4% increase in both net organic sales (3% is considered good in the industry) and earnings per share through nine months, results company executives described as "very strong." Although Perrigo's stock price fell 13.4% in 2020, its price has been remarkably stable for the past two years, varying between $45 and $60.

SpartanNash Company
Grand Rapids-based Spartan Nash was the worst performing stock in the Index in 2019 due to two unique expenses, but its fortunes reversed in 2020. Its stock price rose 22.3% in 2020, less than a tenth of one percent behind Whirlpool at the top of the list. The company's third quarter was full of good news. Sales were up 10.6%, earnings per share were up 133%, and in October, SpartanNash signed an agreement with Amazon to sell SPTN products in exchange for warrants allowing Amazon to buy up to 15% of SPTN stock if certain sales goals are met. Spartan's stock price jumped 26.3% on the day of the announcement. At year end, after the initial euphoria from that announcement had faded, the stock returned to its previous level before the announcement. Still, the agreement should have long-term benefits for SpartanNash.

Stryker Corporation
Kalamazoo-based Stryker is a major medical technology company. By now you know most companies saw their stock prices drop in March due to uncertainties about the COVID-19 pandemic. Stryker was no exception, but with one difference: Its stock price dropped by almost $100 per share, from $225 to $126. As it turns out, that was only a temporary setback. By the end of the year, Stryker's price had more than recovered, ending the year at $245.04, an all-time high, and a 16.7% gain for the year. Net sales were up 4.2% in the third quarter, while earnings per share grew 32.5%. Stryker has generated nearly nine years of sharply rising share price without letup.

UFP Industries, Inc.
UFP Industries, Inc. was one of only five companies in the Index whose stock price rose during 2020. Its price dropped $17 per share in March, but then it was nothing but good news. By August 1, share price rose to $61, an all-time high for the sixty-five-year-old company. As an example of the good news for shareholders, the company described its third quarter earnings report as the, "Best Quarterly Results in Company History." Sales were up 28%, and earnings were up 49%. A spike in consumer demand for houses and remodeling caused demand for wood products to spike at a time when there was a national shortage. The company also made several acquisitions during the year to strengthen its product offerings.

UFP Industries designs, manufactures, and markets wood and wood-alternative products. It is headquartered in Grand Rapids.

Whirlpool Corporation
Benton Harbor-based Whirlpool's stock price led the way in 2020, finishing with a 22.3% gain. Third quarter results included sales growth of 3.9%, a 74% increase in earnings per share, and $1 billion of additional cash flow. In addition, through its first three quarters of the year, the company achieved $350 million of its annual goal of $500 million of expense reductions. Whirlpool also reiterated its original estimates of earnings for 2020.

Wolverine World Wide, Inc.
Rockford-based Wolverine World Wide, Inc. designs, manufactures, sources, markets, licenses, and distributes footwear, apparel, and accessories. Its stock price began the year at around $34 per share, but dove to $12.19 – a nearly 65% decrease – when COVID-19 fears dominated the outlook in early spring. By the end of its second quarter on July 31, the company reported it was significantly outperforming its expectations in every key financial metric. Even so, revenue was down 39% for the second quarter compared to the prior year. Further, eps was $0.08 per share compared with $0.52 in the prior year.

In the third quarter ending September 26, the company's performance continued to fall short of pre-pandemic levels. Revenue was down 14% from a year earlier, while its eps of $0.27 was down from $0.57 a year earlier. Nonetheless, there were bright signs. Inventory was down 22%, and cash on hand was nearly three times higher than prior year levels. Investors remain optimistic about 2021 as evidenced by the company's exceptionally high price to earnings ratio of 79. ■

Grand Rapids' Economy During the COVID-19 Recession

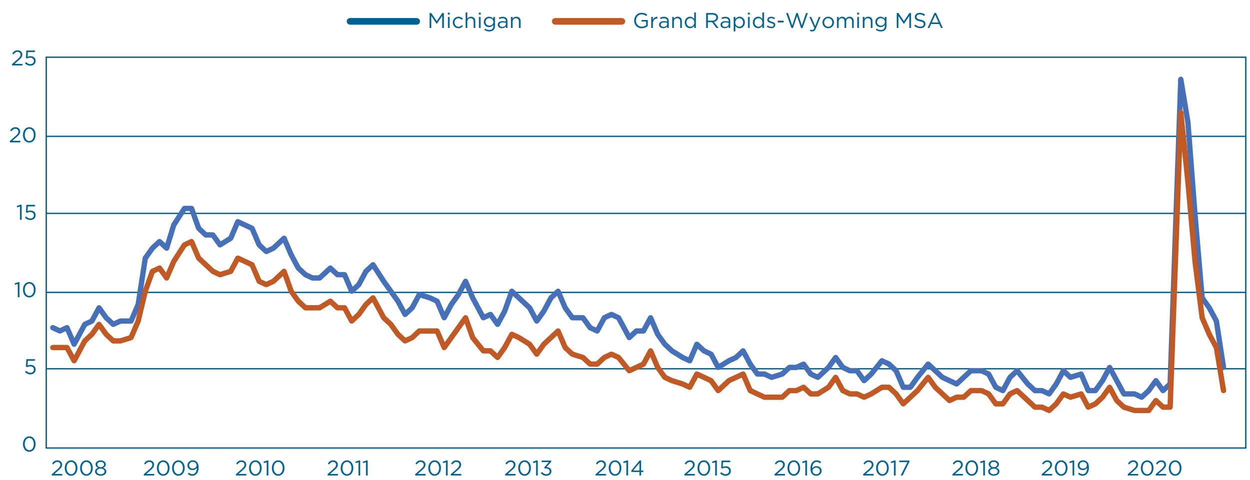
Gerry Simons, Ph.D., Professor, Department of Economics

Towards the end of 2020, the business and economic news in the U.S. juggled fears of a double-dip recession with hopes for a vaccine assisted recovery. While the direction the economy will take is uncertain, it can be useful to look at our state and local economy to see the impact the COVID-19 pandemic has had and the lessons learned.

The economic picture for Michigan is a complicated one. The public's attention during the pandemic has often been, understandably, on unemployment and retail sales, particularly restaurants, bars, and other businesses where people come into close contact with each other. While many lost their jobs in the early months of the pandemic, and others switched to working at home. While international travel was out of the question for most people, what happened to international trade? In addition, the situation for the state as a whole is not necessarily indicative of the economic experience in Grand Rapids.

To give us some historical perspective, **Figure 1** shows the monthly unemployment rate for the Grand Rapids-Wyoming MSA[1] and Michigan as a whole, from January 2008-October 2020. Throughout the entire time period shown in **Figure 1**, the metro Grand Rapids unemployment rate was consistently below that for the state as a whole. During the Great Recession of 2007-2009, the unemployment rate peaked in July 2009 at 15.4% for the state and 13.3% for the MSA. By February 2020, the unemployment rate had fallen to 3.6% and 2.5% for the state and the MSA respectively, only to rise during the spring lockdown to highs of 23.6% for the state and 21.5% for the MSA in April 2020. By October 2020, both unemployment rates were back down to levels last seen in mid-2019.

Figure 1: Unemployment Rate 2008-2020

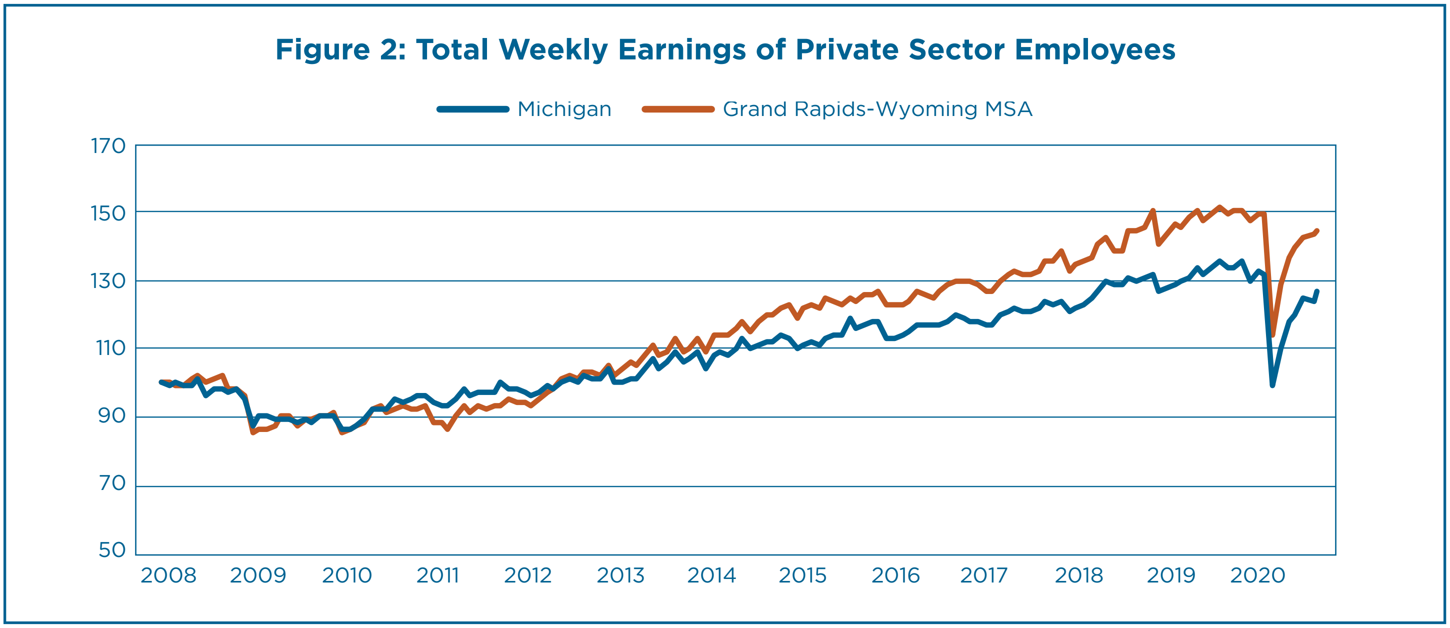


Source: Bureau of Labor Statistics

The unemployment rate, however, only gives us a partial picture of the labor market. Some workers might remain employed, but have a reduction in hours or wages. Others might drop out of the labor force, which would be the case for those unwilling to work due to concerns about contracting COVID-19. With limited state and regional labor market data, one solution to this is to look at earnings. **Figure 2** shows total weekly earnings of private sector employees for the same areas and time period as **Figure 1**. Here, earnings have been adjusted relative to their value in January 2008, so a value of 150 on the vertical axis means that earnings are 1.5 times what they were in January 2008. For the time period since May 2012, the line for the Grand Rapids-Wyoming MSA is higher than that for the state, showing that total earnings have risen more rapidly in the MSA since 2008 than for the state overall. By March 2020, total earnings in Michigan were approximately 32% higher than in January 2008, compared to an increase of approximately 51% for the MSA. Total weekly earnings for both the state and the MSA fell by just over 24% from March to April 2020. By October 2020, both state and MSA earnings were back up to their levels from early 2019.

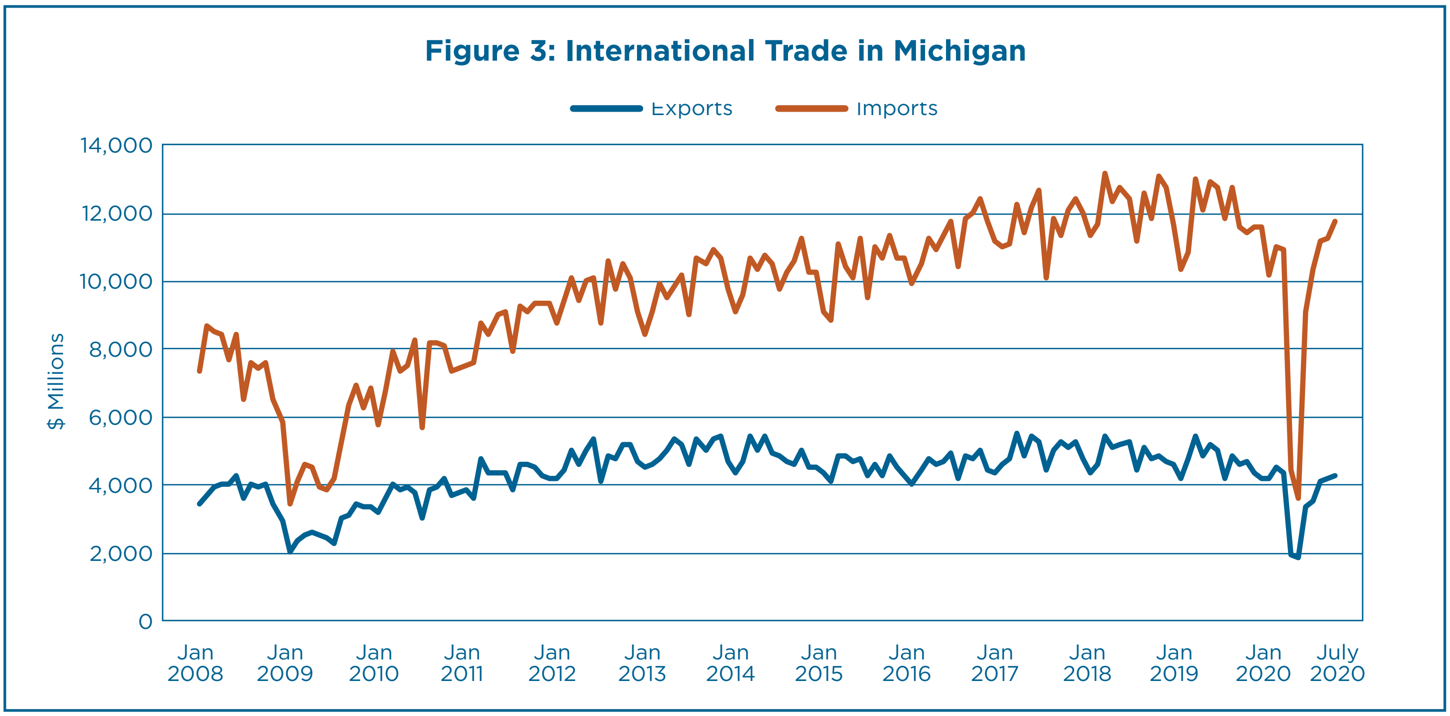
Taken together, **Figures 1 and 2** indicate that the state and metro Grand Rapids economies have a great deal of economic resilience. What is perhaps most surprising is not the severity of the deterioration in these economic measures in the Spring of 2020 following the statewide lockdown, but the speed with which both measurements started to recover.

[1] In 2018, the Office of Management and Budget changed the definition of the Grand Rapids-Wyoming MSA (from Barry, Kent, Montcalm, and Ottawa counties to Ionia, Kent, Montcalm, and Ottawa counties) and renamed it the Grand Rapids-Kentwood MSA. However, the Bureau of Labor Statistics continues to use the earlier definition to make historical comparisons easier.



Source: Bureau of Labor Statistics and author's calculations

Figure 3 shares this pattern of a significant decline followed by a rapid partial recovery. Here we see imports and exports for Michigan from January 2008-October 2020 (unfortunately, there are no reliable data for international trade for regions or areas within the state). From March to April 2020, Michigan's exports fell by about 55% while imports fell by almost 60%. By October 2020 both exports and imports had nearly returned to pre-pandemic levels.



Source: U.S. Census Bureau

A relevant question to ask after viewing the above graphs is "why?" Why were these measures of the state and local economy improving, while the pandemic continued? Even before the news of vaccine break-throughs in November 2020, both the Organization for Economic Co-operation and Development (OECD, 2020) and the International Monetary Fund (IMF, 2020) reported that the global economy was recovering faster than expected from the COVID-19 pandemic. In their analysis, Carlsson-Szlezak, Swartz, and Reeves (2020) emphasized that an important aspect to understanding the recovery is the relative size of certain sectors. They distinguished between three types of sectors that differ in how they were impacted by the pandemic: (1) sectors that are not impacted substantially by either lockdowns or social distancing restrictions; (2) sectors that are significantly impacted by lockdowns but not so much by social distancing restrictions; and (3) sectors that are significantly impacted by lockdowns and social distancing restrictions and are unlikely to experience much recovery until a vaccine is in widespread use.

Table 1: Employment in Grand Rapids-Wyoming MSA

Sector	Share of Nonfarm Employment in February 2020	% Change in Employment, March 2020-April 2020	% Change in Employment, March 2020-October 2020
Total Nonfarm		-23.0	-6.23
Trade, Transportation, and Utilities	17.0%	-18.5 (Better than average)	-4.8 (Better than average)
Durable Goods Manufacturing	14.6%	-32.4 (Worse than average)	-11.8 (Worse than average)
Healthcare and Social Assistance	14.1%	-12.8 (Better than average)	-3.0 (Better than average)
Professional and Business Services	13.3%	-23.2 (Average)	-2.7 (Average)
Leisure and Hospitality	8.7%	-56.6 (Worse than average)	-17.1 (Worse than average)

Bureau of Labor Statistics

Table 1 shows the five largest sectors by employment in the Grand Rapids-Wyoming MSA, and how employment in those sectors changed from March to April 2020, and from March to October 2020. The first percentage change captures how these sectors fared during the first month of the stay-at-home order that began on March 24 in Michigan, while the second percentage change captures the recovery period before the "pause" restrictions were introduced in November.

Trade, Transportation, and Utilities (TTU) and Healthcare and Social Assistance (HSA) stand out for having smaller percentage declines in employment compared to the state as a whole for both time periods. Essentially, businesses/providers in these sectors were less harmed at the beginning of the pandemic and recovered more quickly, compared to the MSA overall. Professional and Business Services (PBS) had an average decline in employment at first, but recovered better than average. Finally, Durable Goods Manufacturing and Leisure and Hospitality both had worse than average declines in employment and their recovery was worse than average also. Though not shown here, the data for Michigan as a whole show a very similar pattern. However, the share of nonfarm employment in Durable Goods Manufacturing is noticeably smaller for the state as a whole (10.6%) compared to the MSA (14.6%).

These findings generally support the analysis of Carlsson-Szlezak, Swartz, and Reeves (2020), with the exception of Durable Goods Manufacturing. They place that sector in category 2 (affected by lockdowns but not by social distancing), but at least in terms of employment, recovery in that sector through October 2020 has been worryingly slow, with employment levels almost 12% lower than in March 2020. Looking more closely at this sector, approximately 20.2% of Durable Goods Manufacturing in the Grand Rapids-Wyoming MSA is from the auto industry, and 17.1% is from the furniture industry. The change in employment for March-October 2020 was worse than average for both – approximately -12% and -13.3% respectively.

So, what can we take away from all of this? First, the metro Grand Rapids economy generally performs better than Michigan as a whole. The overall vibrancy of the metro area is a key ingredient in its ability to bounce back following economic turmoil.

Second, the (still partial) recovery is substantially due to the TTU, HAS, and PBS sectors. These sectors account for approximately 44% of nonfarm employment in the Grand Rapids-Wyoming MSA, and bounced back quite rapidly from the economic shock of the initial months of the pandemic.

Third, the significant roles that Durable Goods Manufacturing and the Leisure and Hospitality sector play in the MSA is a concern for continued economic recovery during the pandemic. These two sectors account for approximately 23% of metro Grand Rapids employment, and the economy will likely not return to pre-pandemic levels without their full recovery. Because progress in these sectors is likely dependent on the widespread use of effective vaccines, it might well take until Spring/early Summer of 2021 before the state and MSA economies return to pre-pandemic levels. ■

References

OECD (2020). *OECD Economic Outlook, Interim Report September 2020*, OECD Publishing, Paris, https://doi.org/10.1787/34ffc900-en.

IMF (2020). *World Economic Outlook, October 2020: A long and Difficult Ascent,* Washington, D. C. https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020

Carlsson-Szlezak, P., P. Swartz, and M. Reeves (2020, November 03). Why the Global Economy is Recovering Faster than Expected, *Harvard Business Review.* http://hbr.org/2020/11/why-the-global-economy-is-recovering-faster-than-expected

Sexual Orientation and Transgendered Status Now Protected From Discrimination in the Workplace: The Bostick Decision

Marie McKendall, Ph.D., Professor, Department of Management

Can an employer fire someone because they don't like the color of an employee's socks? This is often how I begin the discussion of Title VII and discrimination law in my human resource course. Students inevitably respond with, *"No, that isn't permissible"*. When asked why it is not permissible, they say the action is discriminatory. So I ask, *"Is the color of employees' socks protected by federal law?"* No, it is not. So, in most states in the country, it is legal to fire employees for the color of their socks. This may be absurd, but presently, it is legal. The law does not protect against all discrimination in the workplace. And thus, students begin to understand the importance of a protected class.

Protected Classes

The concept of federally protected classes in the workforce originated with Title VII of the Civil Rights Act of 1963. Title VII, in essence, prohibits discrimination against applicants and employees on the basis of membership in a protected class. The five original protected classes were: color, creed, national origin, race, and sex and Subsequent anti-discrimination laws have added: pregnancy, age (40+), and disability. People with disabilities were the last protected class to receive federal discrimination protection in 1990 – a full 30 years ago. States are free to add protected classes to Title VII for enforcement within the state, but a state cannot eliminate a federally protected class. Michigan has added workplace discrimination protection for marital status, all ages, and height/weight.

Briefly, federal discrimination law forbids employers from directly discriminating against anyone in hiring, termination, discipline, compensation, and terms of employment because of their color, creed, national origin, race, sex, age (40+), or disability. Employers also cannot apply a procedure or have a requirement that appears facially neutral (e.g., an educational requirement) that would disproportionately affect a protected class unless the employer can show it is a valid job requirement.

Talk has long swirled that sexual orientation, and more recently, transgender/gender identity should be added to the list of federally protected classes. However, when the House, the Senate, or Presidency was held by Republicans, it didn't seem likely that a law would extend discrimination protection to these groups. That left decisions about what to do up to the states, which resulted in a patchwork of laws. Some states extended no discrimination protection, some states extended protection to both groups, and some states protected one group but not the other. Michigan offered protection from discrimination in employment on the basis of sexual orientation and gender identify, but only to state employees. Therefore, most employees in Michigan prior to 2020 had no protection on the basis of sexual orientation or transgender status.

Definitions

The gender a person is romantically attracted to defines their sexual orientation. Gender identity is a deeply held sense of one's own gender. Transgender is an umbrella term for anyone whose gender identity does not match the gender they were assigned at birth. When a person's gender identity does not match their biological characteristics, they may take steps to live and present in accordance with their gender identity. This is known as gender expression. Such actions might include a name change, use of alternative pronouns, clothing and haircut changes, behavior and voice changes, or biological changes through taking hormones and/or surgery. Not all people can afford or choose to take medication or undergo surgery, and being transgender is not dependent on medical procedures.

The Bostick Vs. Clayton County Decision

In June of 2020, change came from an unlikely source. A conservatively-dominated U.S. Supreme Court ruled (6-3) in Bostick Vs. Clayton County that Title VII of the 1963 Civil Rights Act protects gay, lesbian, straight, bisexual, queer, and transgender employees from discrimination based on sex. In other words, employers may not make employment decisions based on sexual orientation and transgender/gender identity status. As a result, for the first time in three decades, new groups were added to the list of Title VII protected classes.

This ruling applies to all public and private workplaces in the United States with 15 or more employees. The Bostwick case dealt with people who had been fired when they revealed they were gay or when they started presenting as transgendered in the workplace. However, because the discrimination protection was based upon Title VII, the ruling also prohibits treating sexual orientation and transgender/gender identity status differently in all aspects of employment, including hiring, termination, discipline, training, promotion, compensation, and terms of employment.

In addition, the ruling makes workplace harassment of people based on sexual orientation and gender identity/transgender status illegal. Same-sex harassment is already actionable under Title VII. The Bostwick ruling makes it illegal to engage in a pattern of offensive behavior towards an employee because of their sexual orientation or gender identity.

Ramifications for Employers

What does all this mean for employers? As with any major new ruling, it will take a long time before courts begin to form a consensus around the interpretation and implementation of the Bostwick ruling. However, employers can be reasonably or completely certain about the following:

- It is illegal to refuse to hire or to fire someone because of their sexual orientation or transgender/gender identity status.
- It is illegal to base compensation, opportunities, discipline, or other employment decisions on these variables.
- An employer cannot offer different benefits to similarly situated workers on the basis of sexual orientation, transgender status, or gender identity. Companies should review their health care, leave, adoption, and insurance policies to make sure there is equal coverage.
- Title VII gives employers several avenues to defend charges of discrimination, and those defenses will also apply to charges of discrimination against sexual orientation and gender identity/transgender status.
- Sexual orientation and gender identity/transgender status should be added to any company non-discrimination policy, and employees should be educated about the new policy.
- Employers should be mindful of their state civil rights laws. Some states have had this protection in place for years, and there are specific state court cases to guide interpretation. State polices often apply to employers with less than 15 employees.

Questions left unanswered right now include:

- Faith-based organizations will probably argue that adhering to a non-discrimination requirement conflicts with their moral and religious stances. Exactly which employers will be eligible for an exemption and the conditions of those exemptions are unknown.
- Sex-specific dress codes have been considered acceptable under Title VII as long as they do not burden one gender more than the other. In light of Bostick, it is not known whether dress codes that impose gender-based norms on employees will be acceptable or whether employers will be allowed to prohibit employees from dressing in accordance with their gender identity.
- Questions about sex-segregated bathrooms and locker rooms will arise, but the Bostick decision made it clear that the U.S. Supreme Court is not going to prejudge those questions. Both the EEOC and OSHA recommend that employers allow employees to use restrooms, locker rooms, and other sex-segregated facilities consistent with an employee's gender identity. But, these guidelines do not carry the weight of law, and answers to these questions will not be provided in the near future.

The U.S. Supreme Court has become decidedly conservative during the most recent presidential term, and it will be interesting to watch as the Bostick case engenders further case law. Reactions to the ruling have been mixed and have tended to be based on religious beliefs. However, sexual orientation, transgender and gender identity status rarely have anything to do with a person's ability to do a job, and Title VII holds that, in the interest of fairness, factors that are irrelevant to job performance should not be considered. ■

References

Glossary of terms (2020). Human Rights Campaign. Retrieved from https://www.hrc.org/resources/glossary-of-terms

Hotfelder, A. (2020) Sexual orientation discrimination; your rights. *The Employee's Legal Handbook*. Retrieved from https://www.nolo.com/legal-encyclopedia/sexual-orientation-discrimination-rights-29541.html

Hughes, K. (June 29, 2020). Practical questions for employers following the Bostock decision, part 1: sex-segregated facilities. Ogletree Deakins. Retrieved from https://ogletree.com/insights/practical-questions-for-employers-following-the-bostock-decision-part-1-sex-segregated-facilities/

Hughs, K. (Jul 1,2020) Practical questions for employers following the Bostock Decision, Pat 2: dress codes and grooming standards. Ogletree and Deakins. Retrieved from https://ogletree.com/insights/practical-questions-for-employers-following-the-bostock-decision-part-2-dress-codes-and-grooming-standards/

Nagele-Piazzak, L. (June 24, 2020). What does the high-court's LGBTQ ruling mean for employee benefits? Society for Human Resource Management. Retrieved from https://www.shrm.org/resourcesandtools/legal-and-compliance/employment-law/pages/what-does-the-high-court-lgbtq-ruling-mean-for-employee-benefits.aspx

Totenberg, N. (June 15, 2020). Supreme court delivers major victory to LGBTQ employees. NPR. Retrieved from https://www.npr.org/2020/06/15/863498848/supreme-court-delivers-major-victory-to-lgbtq-employees

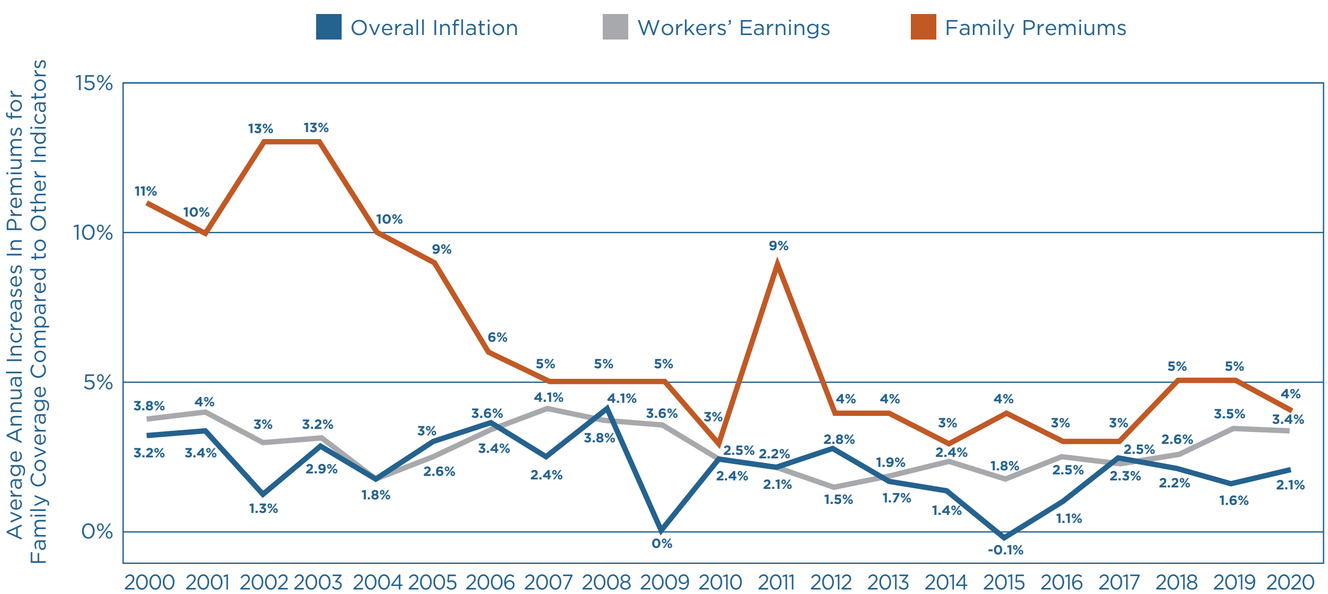
An emerging health insurance option primarily for small business — individual coverage HRA

Jeff S. Rubleski, M.B.A., C.F.P.®, Director, Group Consulting—Blue Cross Blue Shield of Michigan

Health insurance ranks as the top benefit employees seek from their employers due to the cost of health insurance coverage and the fact that most large employers provide health insurance to their full-time workers. Yet in Michigan in 2019, only 29.3% of small private sector employers with fewer than 50 employees offered company-sponsored health insurance to their employees. Comparatively, 96.8% of Michigan private sector large employers with 50 or more employees offered company-sponsored health insurance to their employees.[1] This results in small private-sector businesses having a significant competitive challenge relative to larger employees in the attraction and retention of employee talent. The high cost of health insurance premiums is the main reason why small businesses forgo this critical benefit for their workers. The COVID-19 pandemic has had a devastating financial impact on small businesses, particularly those in the retail, restaurant and hospitality industries, and as the economy reopens, it will be tougher than ever for small businesses to sponsor health insurance coverage for their employees as they struggle for economic survival.

Since 1998, The Kaiser Family Foundation has conducted an annual employer health benefits survey to assess key health insurance trends affecting employers and their covered employees. Kaiser's annual survey is recognized in the employee benefits industry as a preeminent source for measuring employer health insurance trends and the annual increases in health insurance premiums paid by employers and their employees. For the 2020 survey, Kaiser surveyed 1,765 randomly selected, non-federal, public and private employers with three or more workers, in partnership with the University of Chicago.[2] Each year the survey reports the average cost of single and family health insurance coverage. For small employers, with fewer than 50 employees, the 2020 average annual single-coverage premium was $7,483 and $20,438 for family coverage. Over the past five years, average family coverage premiums have risen 22%, with increases of 55% over the past 10 years.[3] **Exhibit 1** shows how annual family health insurance premium increases have outpaced both workers' earnings and overall inflation by a wide margin from 2000 to 2020. The consistent year-over-year increases in health insurance premiums relative to annual inflation and workers' wage increases make employer-sponsored coverage affordability challenging for businesses of all sizes, but daunting for small businesses that often lack the financial resources of larger entities.

Exhibit 1: Annual Health Insurance Premium Increases Have Exceeded Workers' Earning and Inflation by Wide Margin 2000-2020



Kaiser Family Foundation Health Benefits Survey, 2018-2020; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010-2017

[1] Percent of Private Sector Establishments That Offer Health Insurance to Employees, by Firm Size, Kaiser Family Foundation, 2019; Kff.org.
[2] Kaiser Family Foundation 2020 Employer Health Benefits Survey, October 8, 2020; Kff.org.
[3] Ibid

An option to help small businesses fund employee health insurance premiums

Recognizing that small businesses struggle to afford sponsoring health insurance coverage for their employees, the Trump Administration, on October 12, 2017, issued Executive Order 13813, authorizing the Departments of the Treasury, Health and Human Services and Labor to expand the usability of health reimbursement arrangements to help small businesses fund health insurance coverage for employees.[4] The new rules creating the Individual Coverage Health Reimbursement Arrangement (ICHRA) were issued in June 2019, with a start date of January 2020.

Table 1 provides a summary of how the ICHRA differs from employer-sponsored health insurance coverage. ICHRAs initially will have the greatest appeal to small employers that currently do not offer health insurance coverage for eligible employees. However, ICHRAs may be used by employers of all sizes, and it is anticipated by some health insurance industry experts that certain large employers may find ICHRAs ideal for their employee populations due to the unique ICHRA structure and the insurance premium funding flexibility the ICHRA provides to employers.

Table 1: Comparing the ICHRA to traditional health insurance plans

ICHRA	Traditional group health plan
• **Employer determines how much to pay toward health insurance premiums through an ICHRA.** Employer determines how much to pay for single and family coverage. Eligible employees purchase individual health insurance coverage and receive the premium reimbursement from the ICHRA. Employer does not sponsor health insurance coverage. The employer controls the ICHRA and determines eligibility for ICHRA reimbursement.	• **Employer is responsible for funding most of the health insurance premium for covered employees.** Employer has less budget control over funding health insurance premiums due to rising annual premiums and minimum employer premium requirements. Smaller employers often struggle to provide minimum required premium payments for sponsored group coverage.
• **More plan choices for employees** as coverage is purchased in the individual insurance market, with multiple guaranteed issue health insurance options offered by a variety of health insurance carriers in the state of Michigan and in national markets for out-of-state employees.	• **Limited plan choices for employees** typically through one health insurance carrier that the employer selects. Selected coverage may be cost prohibitive for some employees based on the amount of required employee premium contributions for coverage in the health plan.
• Employer is the "financier" of health premiums and permits employees to select individual market coverage that meets their health and budget requirements. Higher rates of reimbursement can be established for older employees who pay more for coverage than younger employees. In addition, reimbursement can vary based on classification of employees such as full-time versus part-time employees, or single versus family coverage.	• Employer is the "sponsor" of coverage and is responsible for following the numerous requirements associated with plan sponsorship, including paying for premiums, eligibility, enrollment and termination of coverage. Employers with 20 or more employees are required to provide COBRA continuation coverage for terminated employees and their dependents.
• Health insurance **coverage continues** when the employee fails to meet eligibility requirements or terminates employment. If the employee continues paying premiums, coverage will remain in effect as insurance coverage is purchased from the insurance carrier by the employee.	• Health insurance **coverage ends** when the employee fails to meet eligibility requirements or terminates employment, with COBRA coverage possible for a limited number of months following loss of coverage. COBRA coverage is often cost prohibitive for the employee to elect after losing employment.
• Account can be used to fund insurance premiums only and can also include reimbursement for qualified medical expenses not covered by the health insurance plan.	• Premiums are dedicated to employer-sponsored benefits and there is no reimbursement for qualified medical expenses not covered by the health insurance plan.

Source: Jeff Rubleski

[4] Federal Register, https://www.federalregister.gov/documents/2017/10/17/2017-22677/promoting-healthcare-choice-and-competition-across-the-united-states

[5] IRS Notice 2002-45 & Revenue Ruling 2002-41 application for use referenced in Notice 2013-54; https://www.irs.gov/pub/irs-drop/n-13-54.pdf

An ICHRA functions as a health reimbursement arrangement

HRAs have been used by organizations dating back to the 1960s to compensate employees for medical expenses that were not covered by traditional health insurance plans. They were formally defined by the IRS on June 26, 2002, through IRS Notice 2002-45 and Revenue Ruling 2002-41.[5] These IRS decisions provided rules specifying how HRAs could be used to enjoy tax-deductible status for employer funding and tax-free status for employee use of the funds paid through the HRA to compensate employees for qualified medical expenses. The central requirement for all HRAs is that the employer is responsible for 100% funding of specified HRA benefits. The employer has considerable latitude with how the HRA will reimburse employees for qualified medical expenses, making the HRA a popular option for employers of all sizes. An ICHRA follows the HRA guidelines and functions as a health reimbursement arrangement with added flexibility granted by federal regulation.

An ICHRA is not a health insurance plan

The ICHRA requires 100% employer funding and gives employers added flexibility by allowing employers to designate tax-free employee reimbursement from the ICHRA for the employee's purchase of individual policy health insurance coverage. It also allows the same flexibility of the traditional HRA by permitting employers to allow reimbursement of qualified medical expenses from the ICHRA for such expenses as health plan deductibles, co-payments, co-insurance, dental and vision expenses, and a host of other qualified medical expenses. With an ICHRA in place, the eligible employee purchases an individual coverage health policy from any health insurance carrier offering qualified coverage to individuals and their dependents and then receives tax-free reimbursement from the ICHRA established by the employer. Bottom line, ICHRAs provide employers with a potent new funding mechanism to permit the use of tax-deductible employer contributions to allow employees that purchase individual health insurance to receive tax-free reimbursement to pay for individual market health insurance premiums.

Will ICHRAs be implemented by a significant number of employers moving forward?

Only time will tell if this relatively new option available for employers to fund employee-purchased health insurance premiums and qualified medical expenses will gain traction with employers. Since ICHRAs became effective starting January 1, 2020, and with the impact COVID-19 has had in slowing the economy since early 2020, most businesses and their health insurance advisors have limited knowledge of the unique characteristics of the ICHRA and its application for employers. It is unlikely that employers with established employer-sponsored health benefits will consider adopting an ICHRA for some time as it would end the employer's sponsorship of group coverage and create disruption with existing covered employees who are used to receiving health insurance coverage provided by their employer. However, for businesses that do not provide health insurance coverage — about 70% of all small businesses with fewer than 50 employees in Michigan — the ICHRA is worth investigating as a new benefit that helps to retain and attract employee talent.

For more information about ICHRAs, businesses should turn to their health insurance advisor or seek the counsel of a qualified health insurance agent. Qualified health insurance agents can be located through the National Association of Health Underwriters, **www.nahu.org.** ■

Schupan & Sons: A West-Michigan Story of Family Business Resilience

Ana C. Gonzalez L., Ph.D., Assistant Professor, Department of Management and Director of the Family Owned Business Institute

COVID-19 has hit us all hard, individuals and organizations alike but with very different implications. Family businesses are no exception, of course. A survey conducted by the advisory firm Banyan Global found that even though family businesses are as concerned and focused as everyone on the short-term, having working capital and facing revenue decreases, they are not concerned in the long run about the overall health of their business (Liberti, 2020). This could be interpreted as arrogance, but it is not that at all. It is more confidence that, despite the uncertainty that the pandemic has brought to the world, family businesses have survived more than one crisis throughout their existence, and they have the resources and capabilities to manage and even thrive beyond the crisis. In other words, they are resilient.

Resilience is understood as "the reservoir of individual and family resources that cushions the family firm against disruptions and is characterized by individual and collective creativity used to solve problems and get work done" (Brewton et al. 2010, p.156). Family business resilience has three main characteristics: 1) adaptive capacity, which refers to the ability to minimize the impact of environmental shocks; 2) strategic renewal, i.e. the ability to find opportunities despite the circumstances and materialize them into innovative solutions, and 3) appropriation capacity, associated with the use of past experiences and tacit knowledge to handle the post-crisis period (Mzid et al., 2019).

At the Family Owned Business Institute (FOBI)[1], in the early weeks after the lockdown, we interviewed John Barry, President of the Aluminum and Plastic Sales Division at Schupan & Sons, a West Michigan family business to learn if the company had deployed any of these characteristics and to ask about his perspective on the future. Schupan & Sons operates in the recycling industry, though not exclusively collecting and disposal. The company is vertically integrated with manufacturing operations and trading divisions. With over 700 employees, the family business is led by a second generation member, Marc Schupan, and both second and third generations are active in the business. Barry is a third generation company leader.

Adaptive Capacity

When the lockdown started, Schupan remained open as it was considered essential, even though the largest revenue producing division was shut down by the governor -the Beverage Recycling Division - as a contagion preventive measure. They applied early to the Paycheck Protection Plan (PPP) program and received a loan to protect employee jobs, and everyone was sent home with pay. Even though they work in an independent and decentralized way across five states, the leadership team (CEO and division presidents) met weekly for updates and spoke daily, as needed, to support each other and more importantly, to support customers. Barry mentioned that engagement with customers occurred as never before. In his own words, "*We're connecting customers with other customers. Sometimes we hear one customer saying I can only go 90%, but I don't have the other 10%, and you're able to connect them.*" When asked why they were doing that, his answer was blunt: "*If our customers don't do well, neither do we.*" In synthesis, they supported each other and customers and looked for resources available to deal with the emergency. They were able to pivot without firing employees due to the pandemic nor did they have a COVID-19 outbreak.

Strategic Renewal

When asked if the pandemic has triggered new ventures, Barry proudly nodded. This is the story: "*A CRNA[2] came up with the idea of adding an additional layer of protection when intubating a patient. It's a process that involves many aspirations, so the risks are higher for health professionals. The nurse contacted a mechanical engineer who's also a friend of mine for help in the design, and my friend - the engineer - asked me if we could donate the material to build a few for the hospital. I said yes, then asked if they needed a hand manufacturing them, and he said, yes!*" Therefore, they reconfigured the machines, and Schupan manufactured the 20 units they asked for as a gift. Then Barry added, *"When they came to pick them up, only three could fit in his car."* Thus, they redesigned a collapsible unit. Barry negotiated with the nurse and his friend to patent and add the product to Schupan's portfolio[3]. This new product has significant sales potential since the demand for these types of supplies has only increased through the pandemic. Sales of the product were increasing at the time of the interview. Moreover, the product was recently referenced in the *Cleveland Clinic Journal of Medicine for intubation procedures* (Chahar, Dugar and Marciniak, 2020). Having the flexibility to decide, reconfigure, and create is an example that illustrates a common family business strategic renewal capacity.

[1] The Family Owned Business Institute (FOBI) is an academic center at Grand Valley State University Seidman College of Business that champions and serves family businesses through scholarship, education and advocacy. For more information visit gvsu.edu/fobi.
[2] Certified Registered Nurse Anesthetist
[3] For more information visit: https://aero-guards.com/why-aeroguard/

Appropriation capacity

Family businesses are known for their capacity to transfer not only the business across generations but also intangible resources, such as knowledge. This tacit knowledge refers to "the knowledge that is bound up in the activity and effort that produced it" (Horvath, 1999, p. ix). The transmission of this knowledge is very common in family businesses (Gonzalez et al., 2011), and its use provides evidence of appropriation capacity. At Schupan, Barry mentioned that they have learned over time that diversification is a "must-do", and this pandemic was proof of that. When the Beverage Recycling unit was unable to operate, they knew they could rely on the other divisions for sustaining revenue. Barry added that he knew there was going to be a contraction in demand for his division at some point because of the economic downturn, but he had confidence that the other divisions could "*hold the storm*".

In addition, Barry reflected on the company's commitment to customer service, which has been a hallmark since its beginnings. Customer support in service of value creation without exception and diversification to reduce risk, have been key tenets of the business during both good and bad times. This commitment reflects Schupan's appropriation capacity.

About the future after/with COVID-19

Regarding the future, Barry mentioned that there is still a lot of uncertainty to plan for both next quarter and beyond. He continues to foresee a contraction in demand, and the Schupan leadership team is preparing for a *"very tough two following years"*. He did not deny his concerns with this outlook but confirmed that they are ready to deal with the crisis. They are focusing on efficiency, working capital, and on taking care of customers and employees. These principles should keep the company solid and strong for the long run. In this particular case, Schupan is confident that it has the resources and capabilities necessary to face environmental shocks. While not the only example in the region, Schupan & Sons is a good testament to West Michigan's family business resilience. ■

References

Liberti, J.M. (2020, September). *Family Businesses Are Experiencing the COVID-19 Crisis in Unique Ways.* KELLOGG INSIGHT. https://insight.kellogg.northwestern.edu/article/family-businesses-experiencing-COVID-19-crisis

Brewton, K. E., Danes, S. M., Stafford, K., & Haynes, G. W. (2010). Determinants of rural and urban family firm resilience. *Journal of Family Business Strategy, 1*(3), 155–166. https://doi.org/10.1016/j.jfbs.2010.08.003

Chahar, P. (2020, May 13). *Airway management considerations in patients with COVID-19*. Cleveland Clinic Journal of Medicine. https://www.ccjm.org/content/early/2020/05/13/ccjm.87a.ccc033

Gonzalez. A.C., Gonzalez, G., & Diaz, L. (2011). The Role of Tacit Knowledge in the Identification of Entrepreneurial Opportunities: A Study of Family-controlled Businesses. In Understanding Entrepreneurial Family Businesses in Uncertain Environments. In Nordqvist, M., Marzano, G., Brenes, E., Jimenez, G., & Fonseca-Paredes, M. *Understanding Entrepreneurial Family Businesses in Uncertain Environments: Opportunities and Resources in Latin America.* Edward Elgar Pub. https://doi.org/10.4337/9781849804738.00015

Mzid, I., Khachlouf, N., & Soparnot, R. (2018c, March 27). *How does family capital influence the resilience of family firms?* Journal of International Entrepreneurship. https://link.springer.com/article/10.1007/s10843-018-0226-7?error=cookies_not_supported&code=e00aa023-7448-4da8-bb88-209e9cc4c3c1

Down, J., Sternberg, R. J., & Horvath, J. A. (2000). T acit Knowledge in Professional Practice: Researcher and Practitioner Perspectives. *Administrative Science Quarterly, 45*(1), 170. https://doi.org/10.2307/2666987

Seidman Faculty Experts

Asli Akbulut, Ph.D.
- ERP/SAP Systems
- Information Systems

Erkmen G. Aslim, Ph.D.
- Applied Microeconomics
- Health Economics
- Labor Economics

Bishal BC, Ph.D.
- Debt Contracts
- Financial Accounting
- Firm Disclosures

Kyle Brink, Ph.D.
- EEO Law & Diversity
- Human Resource Management
- Organizational Behavior

George Chang, Ph.D.
- Asset Pricing/Investments
- Derivative Securities
- Applied (Bayesian) Financial Econometrics

Suzanne Crampton, Ph.D.
- Human Resource Management
- Organizational Behavior

Christopher John Cruz, Ph.D.
- Applied Microeconomics
- Empirical Macroeconomics and Monetary Economics
- Applied Econometrics

Steven Dahlquist, Ph.D., M.B.A.
- B2B Marketing Strategy
- Sustainable Marketing

Vivek Dalela, Ph.D.
- Relationship Marketing
- Sales
- Supply Chain Management

Sonia Dalmia, Ph.D.
- Applied Econometrics
- Economics of Gender
- Matching Models

Kuhelika De, Ph.D.
- Macroeconomics
- Economics/Monetary Development
- Open Economy Macroeconomics

Marinus DeBruine, Ph.D.
- Business Valuation
- Financial Reporting

Michael DeWilde, M.T.S.
- Business Ethics
- Leadership Development

Gregg Dimkoff, Ph.D.
- Personal Finance
- Insurance
- Economics

Cheryl Dunn, Ph.D.
- Resources-Events-Agents Accounting
- Semantic Accounting Systems
- Data Centric Accounting Architecture

Jean C. Essila, Ph.D., D.B.A.
- Strategic Capacity Planning
- Operations & Supply Chain Management"

Lei (Raymond) Fan, Ph.D.
- Healthcare Operations Management
- Healthcare Analytics
- Hospital Supply Chain Management

Anton P. Fenik, Ph.D.
- Strategic Alliances
- Supply Chain Management
- Marketing Research

Daniel Giedeman, Ph.D.
- Financial Systems
- Economic Forecasting
- Economic History

Christian Glupker, M.B.A.
- Economic Impact
- Money and Banking
- Sports Economics

Stephen Goldberg, Ph.D.
- Accounting Ethics
- Corporate Governance
- International Accounting

Vijay Gondhalekar, Ph.D.
- Asset Pricing
- Behavioral Finance
- Mergers & Acquisitions

Ana Gonzalez, Ph.D.
- Family Business Governance
- Entrepreneurship in Family Business
- Succession in Family Business

Valerie Good, Ph.D.
- Personal Selling & Sales Management
- Marketing Strategy Implementation
- Corporate Social Responsibility"

Chris Harper, MBA, C.P.A.
- Financial Statement Auditing and Attestation
- Family Owned Business
- Financial Accounting

Eric Hoogstra, Ph.D., M.B.A.
- Personal Finance
- Personal Financial Planning
- Business Strategy

Paul Isely, Ph.D.
- West Michigan Economy
- Housing Markets
- Environmental/Resource Economics

Catherine Jones-Rikkers, J.D.
- Alternative Staffing
- Consumer Protection Law
- Workplace Diversity Issues

Eric Kennedy, Ph.D.
- Brand Management
- Consumer Behavior
- Consumer/Brand Relationships

Parag Uma Kosalge, Ph.D.
- Business Process
- ERP/SAP Systems
- Electronic Commerce

Paul Lane, Ph.D.
- Creativity and Design Thinking
- Corporate Social Responsibility/ Social Product Innovation
- New Product Development

Kevin Lehnert, Ph.D.
- Marketing Ethics
- Creativity

Joseph Little, Ph.D.
- Sports Marketing
- International Marketing

Dana McCann, M.B.A.
- Integrated Business Processes
- Enterprise Information Systems
- SAP TS410/TERP10 Certified Instructor"

Marie McKendall, Ph.D.
- Diversity Management
- Human Resource Functions
- Teambuilding

William Mothersell, Ph.D.
- Change Management
- Leadership Development
- Lean Production People Systems

Jaideep Motwani, Ph.D.
- Strategy & Leadership Development
- Lean, Process Improvement, Supply Chain Management & Service Excellence
- Performance Measurement

Paul Mudde, Ph.D.
- Mergers & Acquisitions
- Transition & Acquisition Strategies
- Business & Corporate Strategy

Leslie A. Muller, Ph.D.
- Health Economics
- Public Policy
- Economics of Retirement

Laudo Ogura, Ph.D.
- Urban & Real Estate Economics
- Local Government Policy

Sukesh Patro, Ph.D.
- Corporate governance
- Behavioral finance
- Responsible business

Daniel Pellathy, Ph.D.
- Supply Chain Management
- Purchasing Management
- Operations Management

Joerg Picard, Ph.D., M.B.A.
- Venture Capital & Private Equity
- High-Frequency Trading

Jennifer Pope, Ph.D.
- Nonprofit Marketing
- International Marketing
- Management Education & the CEE Region

Douglas Robideaux, D.B.A.
- Consumer Research
- Promotional Strategy

Anne Sergeant, Ph.D.
- Data Management
- Managerial Accounting

Gerry Simons, Ph.D.
- Emerging Markets
- International Trade & Finance

Claudia Smith Kelly, Ph.D.
- Labor Economics
- Public Economics

Parvez Sopariwala, Ph.D.
- Accounting for Capacity Utilization
- Strategic Analysis of Income

Wei Sun, Ph.D.
- International Finance & Trade
- Emerging Markets
- Financial Economics

Timothy Syfert, Ph.D.
- Entrepreneurship & Small Business Management
- Strategic Planning
- Leadership

Benjamin Walsh, Ph.D.
- Workplace mistreatment (bullying, incivility, sexual harassment)
- Organizational behavior
- Human resource management

Daniel Wiljanen, Ph.D.
- Strategic Human Resource Management
- Executive Development
- Corporate Learning and Development

Thomas Willey, D.B.A.
- Asset Valuation
- Personal Investing

To contact the faculty, call **616.331.7100** or visit **gvsu.edu/seidman**