



Mid-Year Review 2005

July 2005

BUREAU OF BUSINESS AND ECONOMIC RESEARCH
 COLLEGE OF BUSINESS AND ECONOMICS
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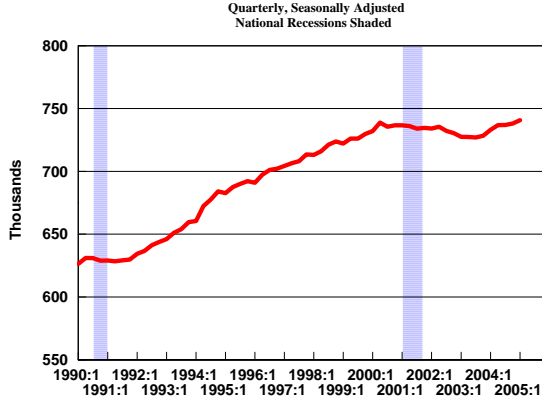


Executive Summary

- The state jobs recession is finally dead. After losing 8,300 seasonally-adjusted jobs from the first quarter of 2001 to the fourth quarter of 2003, the state has subsequently added 12,400 jobs by the first quarter of 2005. In other words, the state is once again breaking new ground in employment.
- The state's employment gains since the fourth quarter of 2003 translate into an annualized growth rate of 1.4 percent, which is just below the national rate of 1.6 percent.
- West Virginia's seasonally adjusted unemployment rate stabilized at 5.0 percent in the first quarter of 2005, after falling steadily from a high of 6.2 percent in the second quarter of 2003. The national unemployment rate hit 5.3 percent in the first quarter of 2005.
- The mining sector has added 3,000 jobs since the fourth quarter of 2003, as high energy prices translate into additional production activity in the state. Spot market prices for selected grades of Northern and Central Appalachian coals remain about double their 2002 levels (both over \$55 per ton).
- Job losses in manufacturing have slowed, as wood products, fabricated metals, and other durables generated net job gains. However, chemicals and primary metals continued to lose employment.
- Construction employment has risen by 3,400 since the last quarter of 2003, as surging residential and infrastructure building drive demand for additional workers. Residential construction in the state is responding to low mortgage interest rates. Thirty-year fixed mortgage rates hit 5.84 percent in 2004, well below their 2000 level of 8.06 percent.
- West Virginia single family home prices surged by 6.9 percent in 2004, but that increase was well below the national average of 10.8 percent.
- West Virginia's real GSP rose by 2.7 percent in 2004, up from its 1.1 percent growth rate in 2003. However, the state lagged national growth, which hit 4.2 percent.
- The outlook calls for the state to add 5,600 jobs per year during the next five years, which translates into an average annual growth rate of 0.7 percent. This is far better than the 0.3 percent per year rate of the 1999-2004 period, but is below the expected national job growth rate of 1.1 percent. Tables 1 and 2 (below) summarize the state outlook.
- Most of the net job growth is forecast to come in health care; leisure and hospitality; and professional and business services. Mining jobs are forecast to grow, as energy prices remain high. Manufacturing employment losses continue, with chemicals accounting for the bulk of the expected job loss. Wood products, fabricated metals, transportation equipment, other durables, and plastics add jobs.
- State per capita personal income growth (after adjustment for inflation) averages 2.3 percent per year during the forecast. This is below the growth rate expected for the nation (2.6 percent), which implies that the state's income gap with the nation will rise from 20.9 percent in 2005 to 21.8 percent by 2009.
- Continued job and income growth sets the stage for the state's population to stabilize in the neighborhood of 1.8 million residents. The forecast calls for the state to continue to post population losses in the younger age groups (birth-17 and 18-44), while adding residents in the 45-64 and 65-and-older age groups.

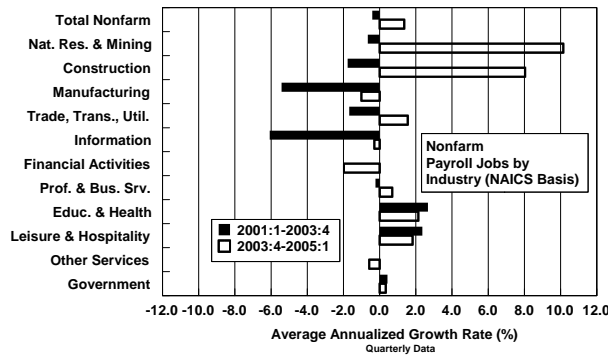
Highlights of the West Virginia Forecast

West Virginia Payroll Employment



- The state jobs recession ended in 2003, with the state dropping 8,300 seasonally-adjusted jobs from the first quarter of 2001 to the fourth quarter of 2003.
- From the fourth quarter of 2003 to the first quarter of 2005, the state added 12,400 jobs, which translates into an average annual growth rate of 1.4 percent.
- West Virginia's job growth since the beginning of 2004 has been just below the national growth rate of 1.6 percent.
- West Virginia's seasonally adjusted unemployment rate was 5.0 percent in the first quarter of 2005, well below its average of 6.1 percent in 2003.

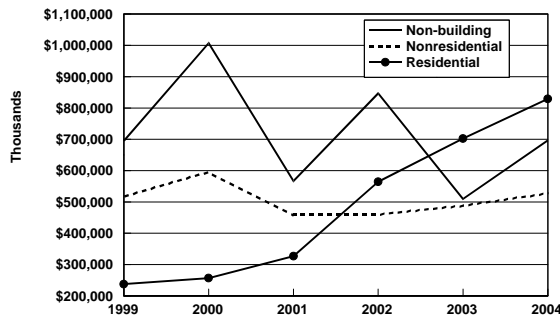
W.Va. Mining and Construction Jobs Rebound During 2004



- Mining added 3,000 jobs since the fourth quarter of 2003, as the energy sector has ramped up production in response to high prices.
- Spot coal prices for selected grades of Northern and Central Appalachian coals remain about double their 2002 levels.
- Job losses in manufacturing have moderated, with wood products, fabricated metals, and other durables contributing net job gains.
- Chemicals (-1,000) and primary metals (-900) continued to post large job losses.
- Health care and leisure and hospitality have added 3,900 jobs since the end of 2003.

West Virginia Value of Construction Starts by Type

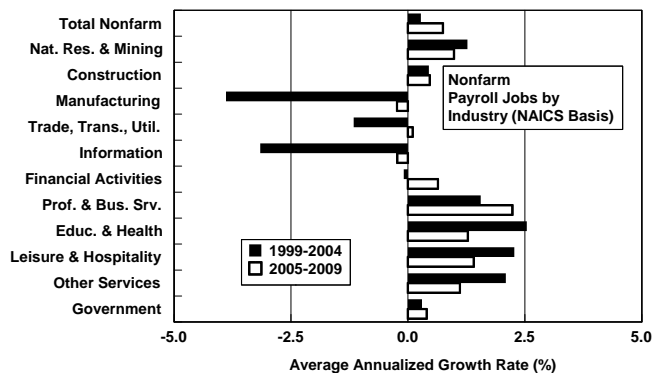
F.W. Dodge



F.W. Dodge data was acquired with funding support from Bruceton Banks, as part of the Morgantown MSA Economic Monitor Project.

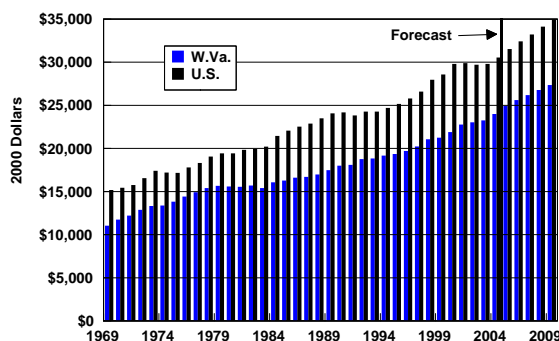
- Construction employment is up 3,400 jobs since the fourth quarter of 2003.
- The value of construction contracts, measured by F.W. Dodge, rose from \$1.699 billion in 2003 to \$2.053 billion in 2004.
- The increase in construction contracts in 2004 was driven by strong increases in residential building and non-building (infrastructure) activity.
- Residential activity accounted for the majority of activity in 2004, with 39 percent of the value concentrated in Berkeley and Jefferson counties.
- Strong residential activity reflects low mortgage interest rates. Thirty-year mortgage rates hit 5.84 percent in 2004, well below their 2000 level of 8.06 percent.
- West Virginia single family home prices surged by 6.9 percent in 2004, but that increase was well below the national average of 10.8 percent.

W.Va. Job Growth Improves During the Forecast



- The state economy is forecast to continue to expand during the next five years, assuming the national economy avoids recession.
- The forecast calls for job growth to average 0.7 percent per year, which translates into 5,600 net new jobs per year.
- State job growth during the forecast is expected to fall short of the national rate (1.1 percent), but to exceed average growth during the 1999-2004 period.
- Most of the net job growth is forecast to come in health care; leisure and hospitality; and professional and business services.
- Mining jobs continue to grow during the forecast as energy prices remain high.
- Manufacturing job losses slow, with the chemicals sector forecast to continue to lose jobs.

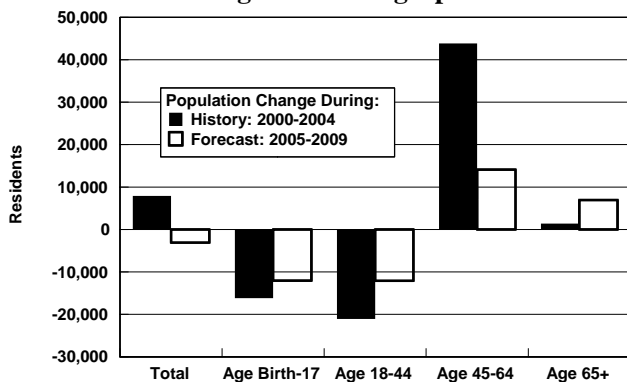
West Virginia Per Capita Personal Income Continues To Climb...



...But Remains Well Below the Nation

- Rebounding job gains set the stage for continued per capita personal income growth, although the forecast calls for state growth to lag behind the national average.
- The percentage income gap between the state and the nation is forecast to stabilize in the vicinity of 22 percent.
- That's significantly below income gaps posted during the 1990s, when it averaged 23.8 percent.

West Virginia's Demographic Transition



- With solid job gains and steady income growth, the forecast calls for the state's population to stabilize near 1.8 million.
- Population stability, however, is associated with demographic aging of the state's population.
- The state is forecast to continue losing residents in the younger age groups (birth-17 and 18-44 age groups) and to gain residents in the older age groups (45-64 and 65+ age groups).
- West Virginia remains the only state in the nation to record more deaths than births each year.

National Outlook

- Table 3 summarizes the June 2005 national forecast by Global Insight, a global economic forecasting and consulting firm. The U.S. outlook calls for real GDP growth to fall to 3.5 percent in 2005 from 4.4 percent in 2004, as the economy slows to its long-term growth rate of 3.0 percent by 2009.
- Global Insight believes the Federal Reserve Board will remain undeterred by recent slowdown in growth. Federal Reserve rate hikes are expected to bring the federal funds rate to 4.0 percent by 2006, which will drive other long-term rates, such as the 30-year fixed mortgage rate, higher throughout the forecast. Despite recent drops, mortgage rates are forecast to increase steadily from a 5.95 percent in 2005 to 7.42 percent in 2009.
- The foreign exchange value of the U.S. dollar fell by -19.4 percent from 2002 to 2004. The forecast calls for the continued depreciation of the dollar against major trading partners by an additional 7.8 percent by 2009. As the U.S. dollar depreciates, foreign goods and services tend to become more expensive in the U.S., while U.S. produced goods and services tend to become cheaper abroad.
- Oil prices are expected to climb over \$50/barrel (West Texas Intermediate), and are expected to remain close to that level in 2006. Thereafter, the forecast calls for prices to trend down to \$43.87 in 2009.
- Global Insight expects Congress to respond to political pressure by stemming fiscal stimulus in order to gradually reduce the federal budget deficit to 2.0 percent of GDP by 2009 from 3.8 percent in 2004.
- Consumer spending slows but remains a key driver of the economy, fueled by strong income and employment growth. Nominal personal income is expected to grow at 6.5 percent this year and remain above 5.0 percent through 2009.
- Manufacturing growth has slowed due to high oil prices, an early-year slowdown in capital spending, a stronger dollar, and poor growth in overseas markets. Industrial production growth is expected to dip over 2005 and 2006 to 2.4 percent before rebounding over the latter half of the forecast.

Risks to the Outlook

- One risk to the state forecast is the risk of significantly slower national growth. This might arise from accelerating inflationary pressures, if oil prices spike higher, if Congress pursues a looser fiscal policy, and if strong productivity growth fails to materialize. Also a continued weakening of the dollar could further contribute to inflation. Accelerating inflation would force the Federal Reserve to ratchet up interest rates, pulling the rug out from under business investment and construction activity. This, in turn would significantly slow national economic growth.
- Slower national growth would contribute to slower state growth, since many of our major industries sell goods and services outside of the state. This would impact the energy sector as well as major goods producing sectors and professional and business services.
- In addition, significantly higher interest rates would slow growth in residential and non-residential construction activity in the state, just they would nationally.
- The energy sector continues to face competitive pressures from domestic and foreign producers, as well as regulatory risks related to long-term clean air and water concerns.
- The chemicals sector is subject to intense international competitive pressures, coupled with strong increases in input prices (oil and gas). Large plant closures and layoffs remain a risk in chemicals, as well as the steel sector.
- Gaming activity has contributed to strong growth in the leisure and hospitality sector recently. As our neighboring states move to legalize and expand activity in this sector, competitive pressures will come to bear on establishments located in West Virginia. This has the potential to slow job gains.

Table 1
West Virginia Employment, Labor Force, and Unemployment Rate Forecasts
(Thousands)

Indicator	Quarters*				Years				Annual Growth		
	Actual	Forecast			Forecast				W.Va.	U.S. (%)	
	2005:1	2005:2	2005:3	2005:4	2006:1	2006	2007	2008	2009	2005-2009**	2005-2009**
Nonfarm Payroll Employment By Industry											
Total Jobs	740.7	742.6	744.3	745.8	749.3	743.3	757.0	762.0	765.8	5.6	0.7
Goods Producing	123.9	124.2	123.5	123.4	123.8	123.7	124.4	124.7	124.8	0.3	0.2
Natural Res. & Mining	24.6	24.9	25.4	25.6	25.7	23.8	25.9	26.0	26.1	0.3	1.0
Mining	23.5	23.8	24.3	24.6	24.6	22.5	24.8	24.9	25.0	0.2	1.0
Coal Mining	16.2	16.3	16.8	16.9	16.9	15.8	16.7	16.6	16.7	0.0	0.2
Other Mining	7.3	7.4	7.5	7.6	7.7	6.7	8.1	8.3	8.3	0.2	2.6
Natural Resources	1.1	1.2	1.1	1.1	1.1	1.2	1.1	1.1	1.2	0.0	1.5
Construction	36.5	36.5	36.0	35.8	36.1	36.2	36.6	36.8	36.9	0.2	0.5
Manufacturing	62.7	62.8	62.1	62.0	62.0	63.0	61.9	61.9	61.8	-0.1	-0.2
Durable Mfg.	39.5	39.8	39.1	39.1	39.2	39.2	39.8	40.2	40.6	0.3	0.8
Wood Products	8.5	8.6	8.5	8.5	8.6	8.5	8.7	8.8	8.9	0.1	1.6
Nonmetallic Minerals	4.1	4.1	4.1	4.1	4.1	4.3	4.0	3.7	3.5	-0.1	-3.8
Primary Metals	7.1	7.2	6.5	6.5	6.5	7.3	6.5	6.8	6.8	-0.0	-0.2
Fabricated Metals	6.8	6.9	6.9	6.9	6.9	6.5	6.9	7.0	7.1	0.1	0.8
Trans. Equip.	4.7	4.8	4.8	4.8	4.9	4.9	5.1	5.3	5.5	0.2	3.3
Other Dur.	8.3	8.3	8.3	8.3	8.3	7.8	8.4	8.6	8.7	0.1	1.2
Non-Durable Mfg.	23.2	23.1	23.0	22.9	22.8	23.8	22.1	21.7	21.2	-0.5	-2.0
Food Products	3.6	3.6	3.6	3.6	3.6	3.8	3.5	3.5	3.4	-0.0	-1.2
Chemicals	10.6	10.5	10.4	10.3	10.2	11.0	9.7	9.3	8.9	-0.4	-3.8
Plastics & Rubber	4.1	4.2	4.2	4.2	4.3	4.0	4.5	4.6	4.8	0.1	3.4
Other Non-Dur.	4.9	4.8	4.8	4.7	4.7	5.0	4.4	4.3	4.1	-0.2	-4.0
Service Producing	616.9	618.4	620.8	622.4	625.5	614.8	632.6	637.3	641.0	5.3	0.9
Trade, Trans., & Utilities	138.1	138.3	138.2	138.2	138.4	137.0	138.3	138.4	138.7	0.1	0.1
Wholesale Trade	23.4	23.4	23.4	23.5	23.5	23.1	23.4	23.4	23.4	-0.0	-0.0
Retail Trade	89.0	89.1	89.0	89.0	89.3	88.6	89.5	89.6	89.9	0.2	0.2
Utilities	6.1	6.1	6.0	6.0	6.0	6.2	5.7	5.5	5.5	-0.1	-2.5
Transportation & Warehousing	19.6	19.7	19.7	19.7	19.7	19.1	19.7	19.8	20.0	0.1	0.4
Information	12.0	12.0	11.9	11.9	11.8	11.9	11.8	11.8	11.8	-0.0	-0.2
Financial Activities	29.9	30.2	30.4	30.5	30.6	30.5	30.7	30.9	31.0	0.2	0.6
Profess. & Business Services	58.0	58.2	59.0	59.7	60.3	58.0	61.9	63.3	64.2	1.4	2.2
Educational & Health Services	112.3	113.1	113.6	113.6	114.3	111.1	116.5	117.9	119.1	1.5	1.3
Educational Services	9.9	10.3	10.2	10.3	10.3	10.1	10.4	10.5	10.6	0.1	1.0
Health Care & Social Assst.	102.4	102.8	103.4	103.4	104.0	101.0	106.1	107.5	108.5	1.4	1.3
Leisure & Hospitality	68.7	69.2	69.5	70.1	70.7	67.9	71.9	72.6	73.4	1.0	1.4
Other Services	54.7	54.7	55.0	55.2	55.8	55.3	57.0	57.2	57.4	0.6	1.1
Government	143.1	142.6	143.2	143.3	143.7	143.1	144.4	145.1	145.4	0.6	0.4
Federal Civilian	21.6	22.5	22.4	22.4	22.4	21.8	22.5	22.5	22.5	0.1	0.3
State & Local	121.5	120.1	120.8	120.9	121.3	121.3	121.6	122.5	122.9	0.5	0.4
Labor Force	792.2	793.1	793.6	793.9	799.5	788.4	806.9	811.4	815.2	5.5	0.7
Employed	752.8	754.1	755.1	756.1	761.4	746.5	767.9	772.3	775.5	5.3	0.7
Unemployment Rate(%)	5.0	4.9	4.8	4.8	4.8	5.3	4.8	4.8	4.9	-0.0	-0.1

* Quarterly data are seasonally adjusted.

**These columns contain the average yearly change during the 2004-2009 period

Table 3
U.S. Forecast
Global Insight June 2005

	Years					
	Actual	Forecast				
	2004	2005	2006	2007	2008	2009
			Annual Percent Change			
Real GDP	4.4	3.5	3.0	3.1	3.3	3.0
Industrial Production	4.1	3.4	2.4	3.6	4.2	3.1
Nonfarm Employment	1.1	1.7	1.5	1.0	1.0	0.8
Nominal Personal Income	5.8	6.5	5.7	5.3	5.9	5.7
Personal Consumption Deflator	2.2	2.3	1.9	1.9	2.2	2.3
Real Export Growth (GDP Basis)	8.6	6.1	6.7	10.3	10.6	8.6
Real Import Growth (GDP Basis)	9.9	7.2	4.5	4.9	5.7	5.0
			Percent			
Unemployment Rate	5.5	5.2	5.1	5.2	5.0	4.9
Federal Funds Rate	1.35	3.18	4.00	4.17	4.52	4.88
30-Year Fixed Mortgage Rate	5.84	5.95	6.39	6.63	6.97	7.42
			Billions of Dollars (FY)			
Federal Budget Surplus (Unified Basis)	-413	-348	-323	-274	-273	-251
			Key Prices			
Trd.Wtd. Value of U.S. Dollar vs Major Trading Partners (2000=1.000)	0.841	0.809	0.757	0.729	0.739	0.746
Oil - West Texas Intermediate (\$ per barrel)	41.47	50.45	48.27	46.25	45.17	43.87



Mark Your Calendar:

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November 17, 2005**

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Mid-Year Review 2005

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