



Long-Term Forecast Update 2004

July 2004

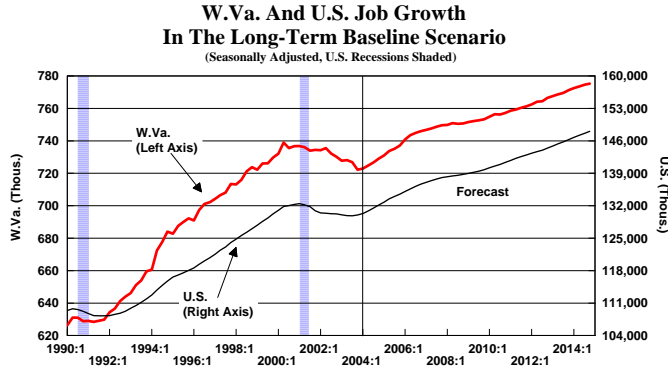
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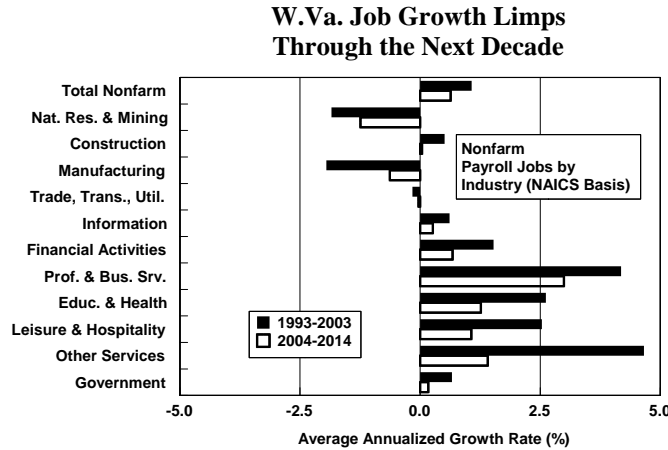
Executive Summary

- West Virginia's seasonally-adjusted jobs have stabilized so far in 2004, which is a welcome change from the 16,100 jobs lost from March 2001 to December 2003. However, while the losses have largely stopped, the state job market has not strongly rebounded either.
- Seasonally-adjusted West Virginia coal mining jobs are up 1,200 from January to May 2004, reflecting high coal prices. EIA reports that spot prices for selected grades of Central Appalachian coal are above \$55 per ton and near \$45 per ton for Northern Appalachian coal. High coal prices are partly related to rising worldwide demand (including China), and also due to supply constraints related to permitting issues. A recent judicial decision suggests that permitting procedures will continue to be an issue for the industry.
- West Virginia's total job loss from March 2001, the beginning of the national recession, to March 2004 hit 15,000, which translates into a percentage loss of -0.7 percent per year. That was similar to the national rate of job loss during the period (-0.5 percent per year).
- Likewise, the state's seasonally-adjusted unemployment rate dropped to 5.2 percent in May 2004, after peaking at 6.2-6.3 percent during most of 2003. The state rate has remained near the national rate during the last three years. The state's falling unemployment rate is at least partly attributable to an improving job market, but is also probably related to out-migration of unemployed residents.
- West Virginia's real personal income growth accelerated during the last two quarters (fourth quarter of 2003 and first quarter of 2004), after posting little growth during the previous year.
- Assuming that the national economy continues to grow during the next decade (see Table 1), the West Virginia long-term forecast calls for state job growth to improve in late 2004, with solid job gains through 2006. However, the forecast calls for overall job growth to average just 0.6 percent per year during the 2004-2014 period. That's half the expected rate of job growth for the nation and it is significantly below the 1.1 percent per year rate that the state posted during the 1993-2003 period.
- As summarized in Table 2, most of the net job growth in the state is expected in the service-providing sectors, primarily health care; professional and business services; and leisure and hospitality. The goods-producing sector (natural resources and mining; construction; manufacturing) continues to lose jobs
- Table 3 summarizes the outlook for population and real income growth. Note that the state's population is expected to stabilize around current levels (about 1.8 million residents). This sets the stage for continued increases in the state's median age, with population declines in the younger age groups balanced by population increases in the older age groups.
- The state's real per capita personal income growth is expected to lag well behind the national average. That pushes the per capita personal income gap up from 22.7 percent in 2004 to 26.2 percent by 2014.

Highlights of the West Virginia Long-Term Forecast

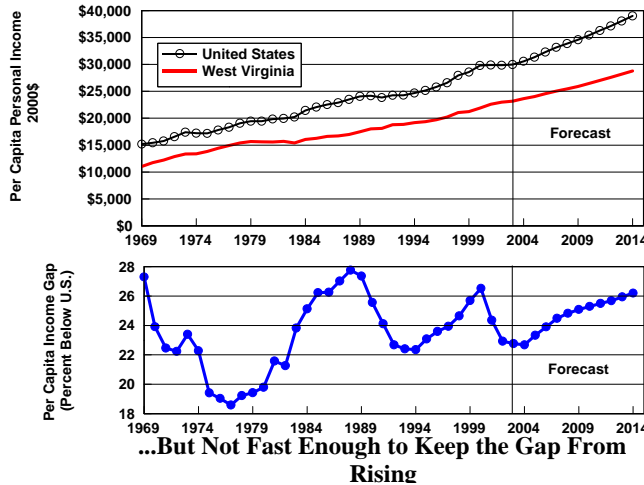


- West Virginia jobs are expected to rebound during the last half of 2004, as they are nationally.
- However, it's expected to take until 2006 for the state to regain its 2000 peak level.
- Job growth in the state is expected to lag well behind the national rate, with state jobs rising by 0.6 percent per year, compared to 1.2 percent nationally.
- At 0.6 percent per year, the forecast calls for growth during the next decade to be significantly slower than growth during the last decade (+1.1 percent per year).



- Coal mining jobs rebound strongly during the next two years, as currently high coal and natural gas prices spur coal production in the state. Possible permitting delays may complicate the near term outlook for coal mining job growth.
- Manufacturing loses jobs, but at a slower rate, as stronger U.S. and world demand and a gradually weakening U.S. dollar help to slow, but not stop, job losses in steel and chemicals.
- Service-providing sectors also face threats, with regulation and international competition likely to slow growth in call centers, state and federal funding issues affecting health care, and increased competition in the gaming sector coming from Pennsylvania and eventually from other states as well.

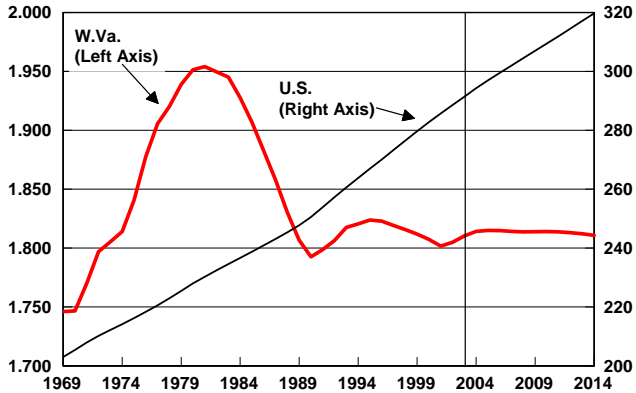
W.Va. Real Per Capita Personal Income Grows During The Forecast...



- Job losses in the goods-producing sector combined with sluggish gains in the service-providing sector set the stage for slow growth in real per capita personal income in West Virginia.
- At 2.0 percent per year, real per capita personal income growth falls well behind the expected national growth rate of 2.5 percent per year.
- With state income growth falling well behind the national average, the income gap with the nation is forecast to rise from 22.7 percent in 2004 to 26.2 percent by 2014.

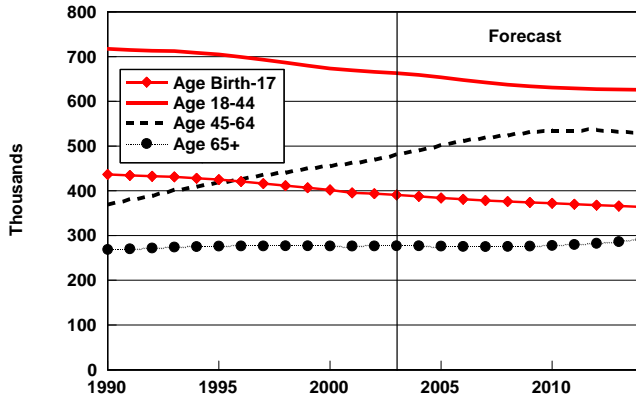
W.Va. Population Does Not Grow During the Forecast

(Millions of Residents)



- The forecast calls for slow job growth, combined with modest income growth, to produce little or no net migration into the state during the next decade.
- Since the state generates no population growth from natural increase (births-deaths), the lack of in-migration implies no population growth during the forecast.
- This contrasts strongly with the steady gains expected for the U.S.

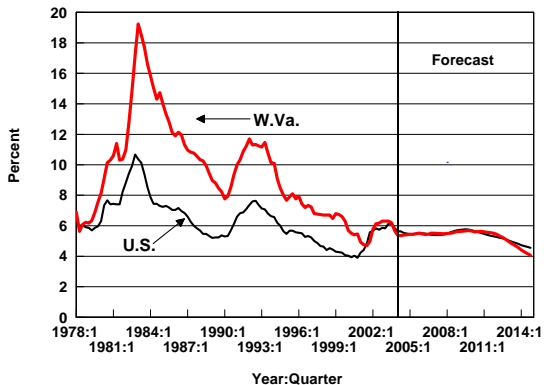
W.Va. Population Losses Are Concentrated in the Younger Age Groups



- This population stability masks large changes in the underlying age distribution in the state.
- The forecast calls for the state's population under age 18 to fall by 23,000 from 2004 to 2014. The state's population age 18-44 is forecast to fall by 33,000.
- Population gains are concentrated in the older age groups, especially age 45-64.
- Note that the baby-boom generation starts to hit the 65-and-older age group in 2011.

W.Va. Remains Close To The U.S. Rate Of Unemployment

Seasonally Adjusted Rates



- Gradual job growth, combined with population stability, drives the state unemployment rate down from 5.4 percent in 2004 to 4.2 percent by 2014.
- The state rate stays close to the national rate during the forecast, eliminating the large unemployment rate gaps experienced during the 1980s and 1990s.

National Outlook

- The national forecast calls for strong GDP growth in 2004 to gradually give way to slower, but still positive, growth during the next ten years.
- Gradual tightening by the Federal Reserve drives the federal funds rate up from 1.1 percent in 2004 to 3.0 percent by 2006, and then to 5.5 percent by the end of the forecast. This helps to drive longer-term rates, like the 30-year fixed mortgage rate, up from 6.1 percent in 2004 to 7.9 percent by 2014.
- Fiscal policy is also expected to tighten during the forecast, as the federal budget deficit is forecast to drop from \$481.6 billion in 2004 to \$139.2 billion by 2014.
- Overall, steady output growth drives gains in employment, which pushes the national unemployment rate down from 5.6 percent in 2004 to 4.6 percent by the end of the forecast period.
- Strengthening world economic growth, combined with a gradual depreciation in the trade-weighted value of the U.S. dollar, begins the process of unwinding the large U.S. merchandise trade deficit during the forecast.

Table 1
U.S. Long-Term Forecast
Global Insight May 2004

	Actual 2003	Years										
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		Annual Percent Change										
Real Gross Domestic Product	3.1	4.8	3.6	3.4	3.3	2.5	2.7	3.1	3.1	2.9	3.2	3.1
Industrial Production	0.3	4.8	5.3	4.3	4.6	3.6	3.6	3.8	3.8	3.4	3.5	3.5
Nonfarm Employment	-0.3	1.0	1.9	1.6	1.2	0.7	0.6	1.0	1.2	1.0	1.2	1.3
Nominal Personal Income	3.3	5.1	5.0	5.6	5.8	5.3	5.4	5.9	6.1	5.9	6.0	6.1
Personal Consumption Deflator	1.8	2.0	1.5	1.6	2.1	2.3	2.3	2.5	2.7	2.6	2.6	2.7
Total Population	1.0	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Population Age 16+	1.2	1.2	1.1	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Population Age 65+	0.9	1.0	1.1	1.3	1.6	2.0	2.2	2.4	2.7	3.8	3.2	3.1
		Unemployment and Interest Rates										
Unemployment Rate	6.0	5.6	5.5	5.5	5.4	5.6	5.8	5.6	5.4	5.2	4.9	4.6
Federal Funds Rate	1.1	1.1	2.4	3.0	3.2	4.1	5.1	5.5	5.5	5.5	5.5	5.5
30-Year Fixed Mortgage Rate	5.8	6.1	6.5	6.6	6.7	7.3	7.9	8.0	8.0	7.9	7.9	7.9
		Federal Government										
Federal Budget Surplus (Unified, FY, \$Bil)	-374.2	-481.6	-346.7	-263.8	-260.8	-264.4	-258.1	-230.2	-173.6	-127.4	-134.2	-139.2
		International Trade										
Real Export Growth (GDP Basis)	2.0	10.4	12.2	10.0	8.8	8.0	7.6	7.3	7.1	6.8	6.7	6.6
Real Import Growth (GDP Basis)	4.0	7.4	5.5	5.3	5.7	3.8	4.2	5.6	5.7	5.3	5.9	6.4
Trd.Wtd. Value of U.S. \$ vs Industrial Countries (2000=1.000)	0.916	0.841	0.807	0.796	0.782	0.776	0.767	0.760	0.754	0.749	0.745	0.741

Risks to the West Virginia Long-Term Forecast

- As always, risks to the national and world economies translate into risks for the state economy as well. If the national economy slips into recession during the forecast period, that will certainly slow growth in West Virginia and will likely produce a statewide recession as well.
- The coal mining sector remains an important part of the state economy. Strong worldwide growth (including growth in China) has contributed to recent increases in coal prices. Should that growth slow, pressure on coal prices will be reduced. Further, the industry still faces regulatory issues related to clean air and water regulations. A recent judicial decision suggests that permitting will continue to be an important issue affecting the industry in the state.
- Steel and chemicals manufacturing will continue to face strong competitive pressures from both domestic and international rivals. A gradually falling U.S. dollar exchange rate will help with international competitiveness. However, restructuring in the steel sector is likely to continue during the forecast period. In addition, increases in natural gas prices have the potential to put further pressure on chemical producers, including those located in the state.
- The state has the potential to add to its stock of professional and business services jobs, with the biometrics sector, and more generally, homeland security related sectors likely to add jobs.
- The forecast window now includes the beginnings of the transition of the baby-boom generation from the 45-64 age group into the 65-and-older age group. This transition poses challenges for the state in terms of funding retirement programs and in terms of restructuring government activities to accommodate an increasing share of older residents.

**Table 2
West Virginia Employment, Labor Force, and Unemployment Rate Forecasts
(Thousands)**

Indicator	Actual	Forecast										Annual Growth			
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2004-2014**	2004-2014**
Total Jobs	726.2	725.8	734.3	743.8	748.2	750.5	752.5	756.2	759.8	764.3	769.0	773.6	4.8	0.6	1.2
Goods Producing	119.1	119.5	121.0	120.5	119.7	118.7	117.4	116.2	115.5	114.7	113.8	113.1	-0.6	-0.6	0.5
Natural Res. & Mining	21.7	22.2	23.5	23.1	22.7	22.2	21.6	21.1	20.8	20.4	20.0	19.6	-0.3	-1.2	-3.3
Mining	20.4	21.2	22.5	22.1	21.7	21.2	20.7	20.2	19.9	19.5	19.1	18.8	-0.2	-1.2	-3.5
Coal Mining	14.5	15.2	16.5	16.1	15.7	15.2	14.7	14.3	13.9	13.6	13.2	12.8	-0.2	-1.6	n/a
Other Mining	5.9	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.9	5.9	5.9	5.9	-0.0	-0.1	n/a
Natural Resources	1.3	1.1	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	-0.0	-0.0	-1.8
Construction	32.7	33.1	33.1	33.1	33.3	33.2	33.0	33.1	33.2	33.2	33.2	33.3	0.0	0.0	2.5
Manufacturing	64.7	64.2	64.3	64.2	63.8	63.4	62.7	62.0	61.6	61.1	60.6	60.2	-0.4	-0.6	-0.4
Durable Mfg.	39.8	39.8	40.3	40.5	40.5	40.5	40.2	39.8	39.7	39.5	39.2	39.1	-0.1	-0.2	-0.2
Non-durable Mfg.	8.3	8.5	8.8	9.0	9.2	9.3	9.4	9.4	9.5	9.5	9.5	9.5	0.1	1.1	-0.1
Wood Products	4.4	4.2	4.3	4.4	4.3	4.2	3.9	3.7	3.5	3.3	3.1	3.0	-0.1	-3.4	0.2
Nonmetallic Minerals	8.2	8.1	8.0	7.7	7.4	7.2	7.1	6.8	6.6	6.4	6.2	6.0	-0.2	-3.0	-2.1
Primary Metals	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.5	6.4	6.4	6.3	6.2	-0.0	-0.5	0.3
Fabricated Metals	4.7	4.8	5.1	5.3	5.5	5.7	5.9	6.1	6.3	6.4	6.6	6.7	0.2	3.4	-1.0
Trans. Equip.	7.6	7.5	7.5	7.5	7.5	7.4	7.4	7.4	7.4	7.5	7.5	7.6	0.0	0.1	0.1
Other Dur.	24.9	24.4	24.0	23.7	23.3	22.9	22.5	22.2	21.9	21.6	21.4	21.2	-0.3	-1.4	-0.8
Non-Durable Mfg.	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.9	3.9	-0.0	-0.1	0.4
Food Products	11.6	11.2	10.9	10.6	10.3	10.0	9.7	9.4	9.1	8.9	8.8	8.7	-0.2	-2.5	-0.9
Chemicals	3.9	4.1	4.2	4.3	4.5	4.6	4.7	4.8	4.9	5.0	5.0	5.1	0.1	2.2	-0.7
Plastics & Rubber	5.3	5.2	4.9	4.8	4.6	4.4	4.2	4.0	3.9	3.7	3.6	3.5	-0.2	-3.9	-1.8
Other Non-Dur.	607.2	606.3	613.2	623.3	628.5	631.8	635.1	640.0	644.3	649.6	655.2	660.5	5.4	0.9	1.3
Service Producing	135.5	134.4	134.7	135.4	135.5	134.7	134.3	134.4	134.4	134.3	134.2	134.0	-0.0	-0.0	0.9
Trade, Trans., & Utilities	22.8	22.8	22.8	23.0	23.1	23.0	23.0	23.0	23.2	23.3	23.4	23.6	0.1	0.4	1.3
Wholesale Trade	87.6	86.3	86.5	87.3	87.6	87.0	86.9	87.0	87.0	86.9	86.8	86.6	0.0	0.0	0.1
Retail Trade	6.3	6.3	6.1	5.9	5.8	5.7	5.7	5.7	5.6	5.6	5.5	5.5	-0.1	-1.3	-0.9
Utilities	18.8	19.1	19.2	19.2	19.0	18.9	18.8	18.7	18.6	18.5	18.4	18.3	-0.1	-0.4	3.0
Transportation & Warehousing	12.8	12.8	12.8	12.7	12.7	12.9	12.9	12.9	12.9	13.0	13.1	13.1	0.0	0.3	1.2
Information	31.0	30.7	30.7	31.1	31.5	31.7	31.8	32.0	32.1	32.3	32.6	32.8	0.2	0.7	0.4
Financial Activities	56.4	57.0	59.8	61.9	63.7	64.6	66.1	68.3	70.2	71.9	74.3	76.6	2.0	3.0	3.4
Profess. & Business Services	108.1	107.6	108.8	112.3	113.4	114.9	115.8	115.9	116.6	118.3	120.3	122.0	1.4	1.3	1.2
Educational & Health Services	8.9	7.8	7.8	7.7	7.7	7.7	7.6	7.6	7.6	7.5	7.4	7.4	-0.0	-0.5	-1.1
Educational Services	99.2	99.9	101.0	104.6	105.8	107.3	108.1	108.3	109.0	110.8	112.9	114.7	1.5	1.4	1.5
Health Care & Social Assist.	66.0	66.4	67.8	69.2	70.0	70.6	71.2	71.8	72.4	72.9	73.4	73.9	0.7	1.1	0.7
Leisure & Hospitality	55.2	54.5	55.0	56.4	57.4	58.0	58.4	59.3	60.5	61.4	62.1	62.7	0.8	1.4	1.5
Other Services	142.3	142.9	143.6	144.4	144.2	144.4	144.6	145.5	145.0	145.4	145.4	145.4	0.2	0.2	0.8
Government	21.9	22.2	22.4	22.6	22.7	22.8	23.0	23.7	23.2	23.3	23.4	23.4	0.1	0.6	0.2
Federal/Civilian	120.3	120.8	121.2	121.6	121.5	121.5	121.6	121.8	121.8	122.1	122.1	122.0	0.1	0.1	0.8
State & Local															
Labor Force	787.3	810.8	819.2	819.5	822.4	824.6	826.5	829.1	832.8	835.7	836.9	837.6	2.7	0.3	1.0
Employed	739.1	767.2	774.4	774.7	777.2	778.9	779.8	782.4	786.6	791.7	797.1	802.1	3.5	0.4	1.1
Unemployment Rate(%)	6.1	5.4	5.5	5.5	5.5	5.5	5.7	5.6	5.6	5.3	4.8	4.2	-0.1	-2.4	-1.8

* Quarterly data are seasonally adjusted.

**These columns contain the average yearly change during the 2004-2014 period

**Table 3
West Virginia Population and Income Forecasts**

Indicator	Actual										Forecast										Annual Growth	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2004-2014**	2004-2014**	2004-2014**	2004-2014**	2004-2014**					
Total Population	1,810	1,814	1,815	1,815	1,814	1,814	1,814	1,814	1,814	1,813	1,812	1,811	-0.3	-0.3	-0.0	-0.0	0.8					
Age 0-17	391	387	384	381	378	376	374	372	370	368	366	364	-2.4	-2.4	-0.6	-0.6	n/a					
Age 18-44	663	659	654	648	642	637	634	631	629	627	626	626	-3.3	-3.3	-0.5	-0.5	n/a					
Age 45-64	479	491	501	510	518	525	530	533	535	535	533	530	3.9	3.9	0.8	0.8	n/a					
Age 65 and up	277	277	276	276	275	276	276	278	280	283	286	291	1.4	1.4	0.5	0.5	n/a					
	Population (Thousands)																					
Total Real Income	41,923	42,917	43,622	44,608	45,447	46,172	47,009	48,020	49,049	50,052	51,095	52,155	923.8	923.8	2.0	2.0	3.3					
Wage and Salary	19,747	19,964	20,240	20,544	20,762	20,947	21,127	21,339	21,552	21,780	22,016	22,250	228.6	228.6	1.1	1.1	3.0					
Other Labor Income	5,481	5,718	5,859	5,970	6,077	6,149	6,238	6,326	6,442	6,535	6,624	6,707	98.9	98.9	1.6	1.6	2.6					
Proprietors' Income	2,831	2,981	3,053	3,103	3,167	3,206	3,237	3,278	3,341	3,398	3,462	3,527	54.5	54.5	1.7	1.7	3.1					
Div., Int., Rent	6,343	6,427	6,439	6,518	6,590	6,668	6,799	6,971	7,134	7,288	7,446	7,602	117.5	117.5	1.7	1.7	4.3					
Transfer Income	10,797	11,073	11,300	11,777	12,171	12,517	12,927	13,431	13,927	14,409	14,913	15,441	436.8	436.8	3.4	3.4	3.9					
	Real Personal Income (Millions of 2000 Dollars)																					
Real Per Capita Personal Income	23,158	23,657	24,035	24,581	25,053	25,458	25,917	26,473	27,044	27,607	28,196	28,804	514.6	514.6	2.0	2.0	2.5					
Wage and Salary	10,908	11,005	11,152	11,320	11,445	11,549	11,648	11,764	11,883	12,013	12,149	12,288	128.3	128.3	1.1	1.1	2.1					
Other Labor Income	3,028	3,152	3,228	3,290	3,350	3,390	3,439	3,488	3,552	3,605	3,655	3,704	55.2	55.2	1.6	1.6	1.7					
Proprietors' Income	1,564	1,643	1,682	1,710	1,746	1,768	1,784	1,807	1,842	1,874	1,911	1,948	30.4	30.4	1.7	1.7	2.2					
Div., Int., Rent	3,504	3,543	3,548	3,592	3,633	3,677	3,748	3,843	3,934	4,020	4,109	4,198	65.6	65.6	1.7	1.7	3.4					
Transfer Income	5,964	6,104	6,226	6,490	6,709	6,901	7,127	7,404	7,679	7,948	8,229	8,527	242.4	242.4	3.4	3.4	3.1					
Coal Production (Mil. Tons)	139	143	153	153	151	148	145	142	141	139	137	136	-0.6	-0.6	-0.5	-0.5	1.7					
	Real Gross State Product (Millions of 1996 Dollars)																					
Real Gross State Product	40,346	41,103	41,769	42,407	42,943	43,385	43,828	44,300	44,799	45,296	45,805	46,306	520.3	520.3	1.2	1.2	3.0					

* Quarterly data are seasonally adjusted.

**These columns contain the average yearly change during the 2004-2014 period.



Mark Your Calendar:

**11th Annual West Virginia Economic Outlook Conference
November 10, 2004**

Embassy Suites
Charleston, West Virginia

Long-Term Forecast Update 2004

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