



POTOMAC HIGHLANDS REGION OUTLOOK

Forecast: 2000-2005
Released June 2001

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BUREAU OF BUSINESS AND ECONOMIC RESEARCH
COLLEGE OF BUSINESS AND ECONOMICS
WEST VIRGINIA UNIVERSITY
www.bber.wvu.edu

Executive Summary

The Potomac Highlands region produced solid economic gains during the 1990s, posting positive net job growth, adding to inflation-adjusted per capita personal income, attracting new residents, and pushing down the rate of unemployment. However, economic growth in the region generally fell short of the pace set by the nation, West Virginia, Virginia, and Maryland. Job losses in mining, construction, and transportation, communications, and public utilities, slowed gains in the region (as did comparatively slow government job growth), while manufacturing job growth outpaced the state and the nation during the 1990s.

The forecast calls for the region to continue on its upward trajectory during the 2000-2005 period, if the national economy avoids recession, but for regional growth to fall short of that expected for the nation. Regional growth rates are forecast to remain near the levels set during the last decade. The region is likely to continue to post population gains well in excess of the state rate of growth. The unemployment rate for the region is forecast to remain close to the West Virginia rate during the forecast, leaving it above the national rate.

Potomac Highlands Region in Perspective

The Potomac Highlands region consists of Grant, Hampshire, Hardy, Mineral and Pendleton counties of West Virginia. The region is located below the Eastern Panhandle of West Virginia as shown in Figure 1. Population for the region was 79,445 in 2000. The counties comprised 4.4 percent of the total state population. Resident employment in the region was 36,120 in 2000 and the Potomac Highlands accounted for 4.6 percent of employed state residents.

FIGURE 1
Potomac Highlands Region
Data for 2000

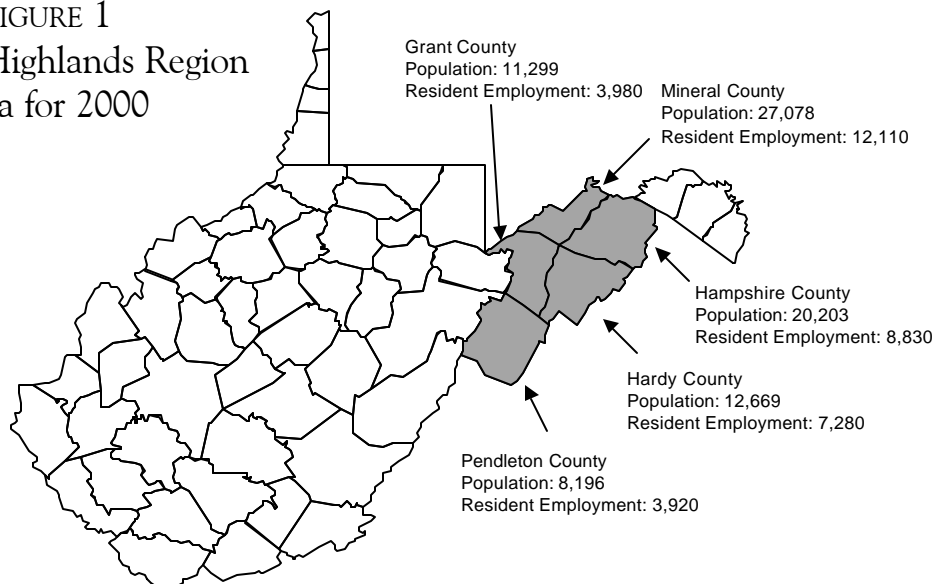


Table 1 summarizes various economic indicators that can be used to assess the overall performance of the Potomac Highlands region and contains relevant data for the Washington, DC PMSA and two neighboring states, Maryland and Virginia, for comparison. Mineral County is the largest in the region in terms of population with 27,078 residents, followed by Hampshire County (20,203), Hardy County (12,669) and Grant County (11,299). Pendleton County was the smallest with 8,196 residents in 2000.

Pendleton County registered the highest per capita income level of \$19,581 in 1999 in the Potomac Highlands region. Hampshire County registered the lowest per capita personal income in the region, trailing behind the region, the state, and the national averages with a per capita income of \$16,246. The Potomac Highlands region registered a per capita personal income level of \$18,335 in 1999, 35.8 percent below national per capita personal income of \$28,546 and 12.4 percent lower than the state per capita income level of \$20,921. The Washington, DC PMSA recorded a per capita personal income level (\$38,403) above that of the region, the state and the nation. Per capita personal income in both Maryland and Virginia were above the regional and state levels for 1999 as well. Personal income is a very broad measure of income, which includes earnings from work; dividends, interest, and rent; and transfer income.

TABLE 1
Potomac Highlands Region Selected Economic Indicators by County

	Population		Resident Employment	Per Capita Personal Income		Covered Job Growth	Unempl. Rate	Median Household Income	Poverty Rate
	Av. An. G.R.		2000	Av. An. G.R.		Av. An. G.R.	2000	1997(\$)	1997(%)
	2000	1990-2000(%)		1999 (\$)	1990-1999(%)	1990-1999 (%)			
Grant, W.Va.	11,299	0.8	3,980	18,913	2.9	-1.7	7.0	27,808	13.6
Hampshire, W.Va.	20,203	2.0	8,830	16,246	3.6	1.6	4.2	27,976	16.0
Hardy, W.Va.	12,669	1.4	7,280	19,469	4.7	4.8	2.6	29,355	12.9
Mineral, W.Va.	27,078	0.1	12,110	18,722	4.1	-0.1	6.1	29,672	14.3
Pendleton, W.Va.	8,196	0.2	3,920	19,581	5.2	0.3	10.1	27,366	13.4
Potomac Highlands Region	79,445	0.9	36,120	18,335	4.0	0.9	5.5	n/a	n/a
Washington DC PMSA	4,923,153	1.5	2,630,689	38,403	4.2	1.2	2.4	34,980	19.3
Virginia	7,078,515	1.4	3,529,902	29,794	4.2	1.8	2.2	40,209	11.6
Maryland	5,296,486	1.0	2,696,543	32,517	3.9	1.0	3.9	45,289	9.5
West Virginia	1,808,344	0.1	779,000	20,921	4.1	1.4	5.5	27,432	16.8
U.S.	281,421,906	1.2	135,208,000	28,546	4.3	1.7	4.0	37,005	13.3

Population data are from the Census 2000 Release.

Resident employment estimates for West Virginia are from the West Virginia Bureau of Employment Programs (WVBEP). MSA, state and U.S. data from BLS.

Per capita personal income data are from the U.S. Bureau of Economic Analysis (REIS).

Covered Employment data are from WVBEP and state LMIs.

Unemployment Rate data are from WVBEP and BLS.

Median household income and poverty rates are from the U.S. Census Bureau.

Av. An. G.R. is the Average Annual Growth Rate.

Hardy County in West Virginia recorded the highest covered job growth (4.8 percent) in the region during the 1990-1999 period, far above the job growth rate for the region. Job losses in Grant and Mineral County, which is also the largest county in terms of resident population, pulled down the regional growth rate.

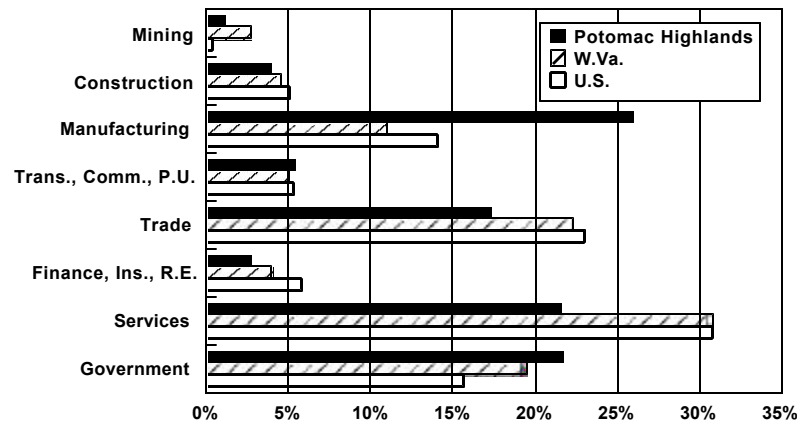
Pendleton County had the highest unemployment rate in the MSA in 2000 at 10.1 percent, almost double the state average of 5.5 percent. Hardy County recorded the lowest unemployment rate (2.6 percent) among the five counties of the region. The unemployment rate for the Potomac Highlands region equaled that of the state at 5.5 percent but was 1.5 percentage points above the national rate in 2000. The Washington, DC PMSA recorded a lower unemployment rate (2.4 percent) than the region, the state and the nation but Virginia registered an even lower unemployment rate (2.2 percent) in 2000.

Compared to the state's median household income of \$27,432 for 1997 (the most recent year for which data is available), almost all counties fared better than the state but not as well as the nation's \$37,005. Median household income for the state of Maryland was \$45,289, higher not only than the region, but also Washington, DC PMSA, the state and the nation. Unlike personal income, median household income is calculated using money income, which excludes non-cash sources of income like fringe benefits, Medicare, and Medicaid.

All counties of the region registered poverty rates lower than the state. The poverty rate is the share of a region's population whose income falls below certain thresholds that vary by family size and composition. Hampshire County recorded the highest poverty rate in the region in 1997 (at 16.0 percent), almost equaling that of the state (16.8 percent). Hardy County registered the lowest poverty rate at 12.9 percent in the region and Maryland had the lowest poverty rate in the area for 1997 (the most recent year for which data is available) at 9.5 percent.

The employment shares shown in Figure 2 can be used to track the industrial composition of the economy. Mining is not as significant for the region in terms of employment as it is in some other parts of the state. Mining is a bigger part of the regional economy than it is nationally (where it accounts for 0.4 percent of total jobs), but mining accounts for a smaller share of jobs in the region than it does for the state.

FIGURE 2
Potomac Highlands Region Employment Shares
Compared to the State and Nation for 2000



Manufacturing plays an important role in the region, accounting for 26.0 percent of total nonfarm jobs in 2000, compared to 14.0 percent for the nation. Large employers in the region include lumber and wood product manufacturers and food products (primarily poultry processing). Employment shares in construction; finance, insurance and real estate; trade, and services fell below the national and state averages. Employment share in transportation, communication and public utilities was almost at par with the state and national averages, while share of government employment was above that of the state and the nation.

The region is also a major agricultural center in the state, primarily due to its focus on poultry processing. According to the 1997 Census of Agriculture, the region accounted for 52.6 percent of West Virginia's sales of agricultural products (including both crops and livestock). Further, poultry sales accounted for the lion's share of agricultural sales (86.7 percent) in the region and the region was by far the dominant supplier of poultry in the state, accounting for 91.5 percent of state poultry sales in 1997.

Recent Developments

The Potomac Highlands region registered job growth at an average annual rate of 0.9 percent per year between 1990-1999, performing below the Washington, DC PMSA, Virginia, Maryland, the state and the nation. West Virginia job growth during the same period was 1.4 percent per year. As Figure 3 shows, the region suffered due to job losses in mining; construction; and transportation, communication and public utilities.

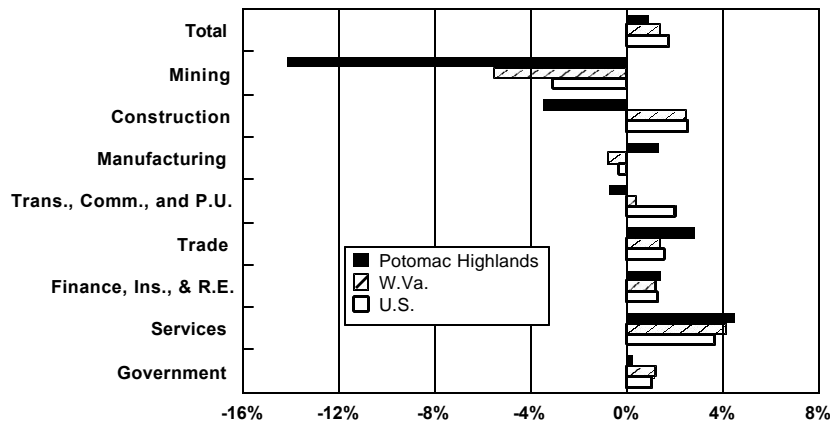
The region registered positive job growth in manufacturing, trade, finance, insurance and real estate, services, and government. Services includes a wide variety of activities, such as health care services, travel and tourism services, and business services, to name just a few. For the region, West Virginia, and the nation, this sector has been an engine of job growth.

Population gains in the region came at an average annual rate of 0.9 percent per year during the 1990-2000 period. The pace of population growth in the region far exceeds the slow, but positive, growth for West Virginia. National population growth averaged 1.2 percent per year during the same period, while the state posted an annual average population growth rate of 0.1 percent.

The unemployment rate (5.5 percent) in the Potomac Highlands region equaled that of the state but was higher than the national rate of 4.0 percent in 2000. The region has recorded unemployment rates higher than the Washington, DC PMSA and neighboring states of Virginia and Maryland.

The Potomac Highlands region recorded annual per capita personal income growth of 4.0 percent during the 1990-99 period, below the statewide (4.1 percent), the national growth rates (4.3 percent) as well as Virginia, and the Washington, DC PMSA but slightly higher than the rate posted by Maryland.

FIGURE 3
Annual Covered Job Growth: 1990-1999
The Potomac Highlands Region, W. Va., and the U.S.



Forecast: 2000-2005

The outlook for the Potomac Highlands region depends in part on the overall macroeconomic performance of the U.S. and world economies. No state or regional economy is entirely insulated from outside events. Likewise, the outlook for the region depends on assumptions about national and international economic performance.

The forecast for the region discussed below depends on a forecast for the U.S. economy developed by Standard and Poor's DRI in March 2001. This forecast is summarized in Table 2 below. The U.S. outlook assumes that the U.S. economy narrowly avoids recession in 2001 and continues to post positive growth through 2005. Specifically, the forecast calls for real GDP growth to decelerate from 5.0 percent growth in 2000, to just 1.7 percent in 2001, and then rebound to 3.3 percent by 2002.

Slowing output growth drives soft employment gains during 2001 and 2002, with the U.S. economy adding jobs at a rate less than 1.0 percent per year until 2003. Matching the slowdown in job growth is a gradual increase in the unemployment rate, which rises from 4.0 percent in 2000, to 5.3 percent by 2002.

The federal funds rate (the market interest rate at which banks make overnight loans to one another) falls from 6.2 percent in 2000 to 4.8 percent by 2002, as the Federal Reserve loosens monetary policy in order to boost spending and steer the economy away from recession. This is matched by declines in the 10-year treasury yield, which drops from 6.0 percent in 2000 to 5.2 percent by 2002.

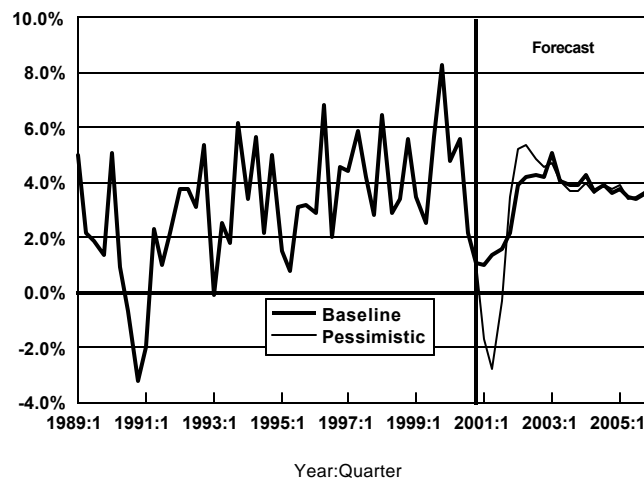
Overall inflation remains under control, with consumer prices (measured by the personal consumption deflator) rising by less than 2.0 percent per year through 2005. The federal budget runs surpluses through 2005, as tax revenues exceed spending in the near term. On the international front, U.S. export growth softens during 2001, as world growth slows. U.S. import growth also slows during the 2001-2005 period as U.S. economic growth softens from the torrid pace of the late 1990s.

TABLE 2
U.S. Forecast
Standard and Poor's DRI March 2001

	Years					
	Actual	Forecast				
	2000	2001	2002	2003	2004	2005
	Annual Percent Change					
Real GDP	5.0	1.7	3.3	4.4	4.0	3.7
Industrial Production	5.6	0.1	2.1	4.1	3.4	2.9
Nonfarm Employment	2.0	0.5	0.8	1.7	1.7	1.8
Personal Income	6.3	4.5	4.6	5.7	5.5	5.5
Personal Consumption Deflator	2.4	1.9	1.6	1.6	1.7	1.9
	Unemployment and Interest Rates					
Unemployment Rate	4.0	4.9	5.3	4.9	4.7	4.4
Federal Funds Rate	6.2	5.1	4.8	5.3	5.5	5.5
Ten-Year Treasury Note Yield	6.0	4.9	5.2	5.6	5.7	5.8
	Federal Government					
Federal Budget Surplus (NIPA, FY, \$Bil)	256.5	245.0	162.4	130.4	102.3	149.9
	International Trade					
Real Export Growth (GDP Basis)	9.1	1.9	5.4	8.5	8.6	8.5
Real Import Growth (GDP Basis)	13.6	5.0	6.7	7.7	7.0	6.4

The baseline U.S. forecast assumes that the Federal Reserve succeeds in guiding the U.S. economy to a soft-landing. Of course, this assumption may be faulty. DRI also examines an alternative scenario in which the outlook is not so rosy. In this scenario, the Federal Reserve keeps interest rates too high for too long. Combining this with steep declines in consumer confidence (driven by larger stock price declines) tips the U.S. economy into recession during the last half of 2001. However, as Figure 4 shows, DRI expects that the recession under this scenario would be similar in magnitude to the mild recession of the 1990s.

FIGURE 4
U.S. Real GDP Growth Baseline and Alternative
Forecasts from Standard and Poor's DRI
March 2001



The baseline U.S. outlook produces a solid foundation for growth in the Potomac Highlands region. The outlook calls for growth in regional jobs and per capita income, with growth rates similar to expected state results, although below expected national growth rates. The outlook also calls for the regional labor market to continue to tighten (illustrated by gradual declines in the unemployment rate), while population growth in the region continues to outpace state results and match forecast growth for the nation. The Potomac Highlands region forecast is summarized in Table 3.

**Table 3
Potomac Highlands Region Employment, Population, and Income Forecasts**

	Actual					Forecast					Annual Growth			
	1997	1998	1999	2000	2001	2002	2003	2004	2005	Pot. High. 2000-2005*	Pot. High. 2000-2005*	Pot. High. 2000-2005*	W.Va.(%) 2000-2005*	U.S.(%) 2000-2005*
Covered Nonagricultural Employment by Industry**														
Total	21,312	21,445	21,765	22,091	22,451	22,785	22,981	23,143	23,276	237	1.1	1.0	1.3	
Goods Producing	7,716	7,403	7,625	7,371	7,391	7,455	7,494	7,508	7,518	29	0.4	-0.7	-0.6	
Mining	579	463	316	297	292	286	273	253	232	-13	-4.8	-4.6	-3.6	
Construction	933	759	922	945	1,011	1,039	1,047	1,066	1,092	30	3.0	0.3	1.8	
Manufacturing	6,204	6,181	6,387	6,129	6,088	6,130	6,173	6,189	6,193	13	0.2	-0.3	-1.5	
Service Producing	13,596	14,042	14,140	14,719	15,060	15,330	15,488	15,634	15,759	208	1.4	1.3	1.7	
Trans., Comm., P.U.	1,007	1,070	1,069	1,027	1,021	1,016	1,011	1,016	1,021	-1	-0.1	0.3	1.9	
Trade	3,975	4,054	4,094	4,088	4,106	4,204	4,248	4,305	4,334	49	1.2	0.5	1.0	
Finance, Ins., R.E.	615	625	651	649	657	663	661	660	658	2	0.3	1.9	1.6	
Services	3,382	3,646	3,674	4,120	4,360	4,464	4,545	4,599	4,666	109	2.5	2.6	2.8	
Government	4,617	4,647	4,652	4,835	4,915	4,983	5,023	5,055	5,079	49	1.0	0.4	0.6	
Civilian Labor Force, Employment, and Unemployment														
Labor Force	35,890	36,180	37,430	38,230	38,801	39,317	39,426	39,680	39,883	331	0.9	0.6	1.2	
Employment	33,870	33,940	35,230	36,120	36,615	37,081	37,392	37,665	37,907	357	1.0	0.7	1.1	
Unemployment Rate	5.6	6.2	5.9	5.5	5.6	5.7	5.2	5.1	5.0	-0.1	-2.1	-1.3	2.0	
Population (Thousands)														
Total Population	77.4	78.1	78.8	79.4	80.2	80.9	81.6	82.3	83.1	0.7	0.9	-0.1	0.9	
Real Personal Income (Thousands of 1996 Dollars)														
Total	1,277,486	1,321,241	1,358,087	1,395,844	1,434,745	1,477,179	1,498,559	1,521,932	1,541,177	29,067	2.0	2.0	3.3	
Wage and Salary	466,361	470,415	490,862	495,320	502,449	509,004	512,251	514,719	516,584	4,253	0.8	1.3	3.7	
Other Labor Income	67,256	66,939	67,742	67,942	69,082	69,648	70,177	70,580	71,256	663	1.0	1.3	2.7	
Proprietors' Income	93,907	103,609	107,629	108,396	107,021	112,846	113,989	112,363	111,497	620	0.6	1.9	3.7	
Dividends, Interest, Rent	216,607	226,741	235,432	243,846	251,706	256,586	256,734	263,377	266,517	4,534	1.8	1.7	1.7	
Transfer Income	294,807	299,290	299,768	310,065	322,744	337,084	345,739	351,426	357,710	9,529	2.9	3.2	4.0	

The Potomac Highlands region consists of Grant County, Hampshire County, Hardy County, Mineral County and Pendleton County of West Virginia.

*This column contains the average yearly change during the 2000-2005 period.

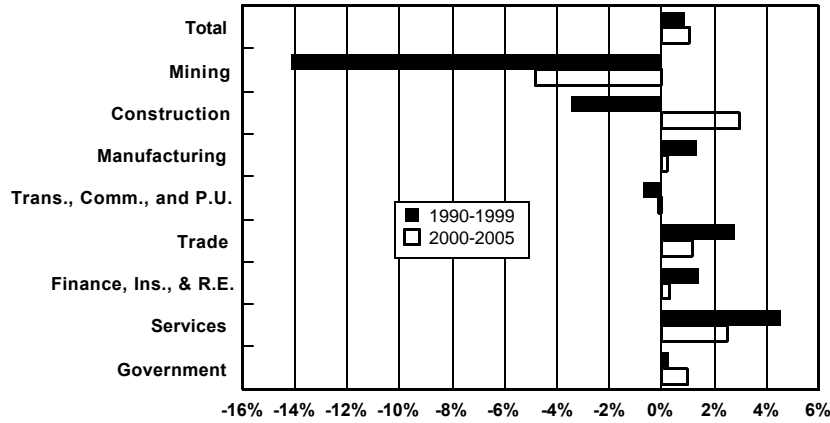
**Covered nonagricultural employment by industry includes employment at firms participating in the West Virginia Unemployment Compensation system. These estimates exclude the self-employed, student workers, most church workers, railroad workers, and unpaid family workers.

West Virginia forecast is from the West Virginia Economic Outlook 2001.

U.S. forecast is from Standard & Poor's DRI, March 2001.

Figure 5 summarizes the job growth outlook for the region. The forecast calls for job gains during the 2000-2005 period to come at about the same rate as during the 1990s. The forecast calls for mining job losses to slow, as energy markets improve during the short run. Construction jobs rise during the forecast, as do manufacturing jobs. However, even with the expected growth, manufacturing jobs are expected to remain in a fairly narrow range.

FIGURE 5
Potomac Highlands Region Annual Job Growth:
History and Forecast



For the region, as well as the state and the nation, most net job gains come in service-producing industries, especially trade, services, and government. Services, in particular, is expected to be an engine of job gains for the region, with growth expected across the board, including sectors like business services, travel and tourism, and health care.

Overall, the job outlook calls for solid gains during the next five years. These job gains set the stage for continued population growth in the region. In addition, the region is likely to continue to gain residents that commute to jobs outside of the state. The net result is strong expected population growth during the forecast period, far exceeding the forecast for the state and similar to expected national rates.

Continued job growth generates similar gains in earnings from work, which supports overall inflation-adjusted income gains during the forecast.

Finally, sustained job growth, even combined with strong population growth, generates a gradually declining regional unemployment rate. The forecast calls for the regional unemployment rate to remain well below the average levels of the 1990s.

In conclusion, the baseline forecast for the region calls for continued steady performance during the 2000-2005 period. However, as we did for the national economy, we must consider risks to this forecast. A major risk to the regional outlook is the risk of a national recession. This would likely produce a regional recession as well, and at a minimum, would stall economic growth in the region.

Forecast Data Glossary

Forecast data for West Virginia and the Potomac Highlands region come from the West Virginia Economic Outlook Project. U.S. forecast data are from Standard & Poor's DRI.

Covered Nonagricultural Employment by Industry

Historical employment data come from the West Virginia Bureau of Employment Programs' publication titled *West Virginia Employment and Wages*. Data for 1999 can be found on-line at www.state.wv.us/bep/lmi/. Annual data cover employees at firms participating in the West Virginia Unemployment Compensation system. This covers most employees, except railroad workers, the self-employed, student workers, most church workers, and unpaid family workers. Jobs are counted based on where the establishment is located, not on where the worker lives.

Civilian Labor Force, Employment, Unemployment, and the Unemployment Rate

Historical labor force data are available in the *West Virginia County Profiles*, published by the Bureau of Employment Programs. These data are available on-line at www.state.wv.us/bep/lmi/. Labor force data cover West Virginia residents only. They are counted as participating in the labor force if they are employed or, if unemployed, actively seeking work. The unemployment rate is the number of unemployed residents divided by the labor force.

Population

Historical population estimates are from the U.S. Census Bureau and are available on-line at www.census.gov. Population data for 2000 reflects the number of persons whose usual place of residence was within the state or county on April 1. Population estimates for the 1991-1999 period are derived by the authors using linear interpolation. Census will release official population estimates for the 1991-1999 period later this year. Persons in the military or institutionalized are counted where the military base or institution is located, as long as that is within the U.S.

Real Personal Income

Real personal income is nominal personal income adjusted for the effects of inflation, using the U.S. personal consumption deflator. Personal income includes earnings from work (wages, proprietors' income, fringe benefits); dividends, interest and rent; and transfer income (social security, Medicare, Medicaid, welfare). Historical data are compiled by the U.S. Bureau of Economic Analysis and is available on-line at www.bea.doc.gov.

Potomac Highlands Region Outlook

George W. Hammond, Ph.D., Director, West Virginia Economic Outlook Project
Samia Islam, Graduate Research Assistant

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