



# Mid-Year Review 2007

June 2007

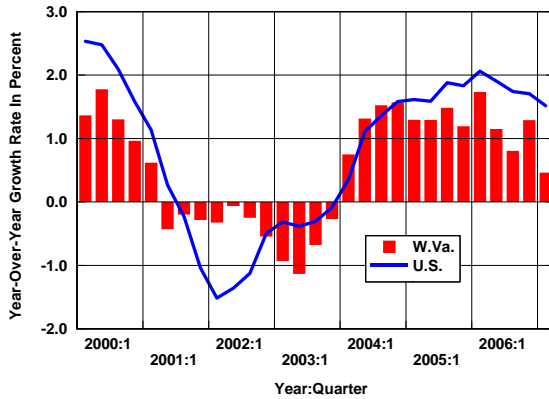
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## Executive Summary

- The West Virginia economy lost steam during the last year, with a major deceleration in employment growth driven by weaker performance in goods-producing sectors. This overall job growth slowdown mirrors the national trend.
- West Virginia's seasonally adjusted job growth slowed substantially during the first quarter 2006 to first quarter 2007 period. Indeed, the state added just 3,500 jobs during the period, significantly below the 12,900 jobs added between the first quarter of 2005 and the same quarter of 2006.
- The goods-producing sector, (natural resources and mining; construction; and manufacturing) lost 1,000 jobs during the last four quarters, compared to job gains of 4,500 during the previous four-quarter period.
- The service-providing sectors also slowed last year, combining to add just 4,500 jobs, with most of that growth coming in wholesale and retail trade. Professional and business services employment declined during the last four quarters.
- Job growth in natural resources and mining has slowed significantly during the last year, with the sector adding just 800 jobs from the first quarter of 2006 to the same quarter of 2007. This growth has come in the natural gas sector, because coal production is down compared to year ago levels.
- Coal production from the state's southern coal fields has fallen by 11 million tons from the first quarter of 2006 to the same quarter of 2007. Increasingly challenging geologic conditions, rising costs, and falling spot prices, combined with regulatory uncertainty, are likely precursors of production decline. Production in the state's northern coal fields is estimated to have risen by 700,000 tons during the year.
- Data from FW Dodge through April 2007 suggest that the value of construction starts will remain strong again this year. Most of that strength will be in nonbuilding activity, driven primarily by power plant construction in Monongalia County. Residential activity is well below 2006 levels, likely reflecting rising mortgage rates and past house price increases.
- House price appreciation has slowed in West Virginia during the last four quarters. That slowdown is particularly evident in the Eastern Panhandle metro areas, where year-to-year single-family house price appreciation has slowed from over 20.0 percent to the low single digits in the first quarter of 2007.
- Manufacturing job losses during the last year were concentrated in primary metals, wood products and furniture, auto parts, and chemical products. These sectors all face intense international competition.
- West Virginia's per capita personal income continues to rise, even after adjustment for inflation, but remains 23.1 percent below the national level.
- West Virginia has posted net population growth of 10,000 residents so far this decade, although without the strong gains in the Eastern Panhandle the state would have posted population losses.
- West Virginia's real gross domestic product growth has lagged significantly below the national average, driven by outright declines in coal mining and manufacturing.
- The state's unemployment rate hit 4.9 percent in 2006, near the national rate of 4.6 percent. The state retains significant numbers of residents not participating in formal labor market activities.
- Due to major changes in employment data reported by the Bureau of Labor Statistics, there is no forecast available for the Mid-Year Review. The next forecast will be released in November 2007.

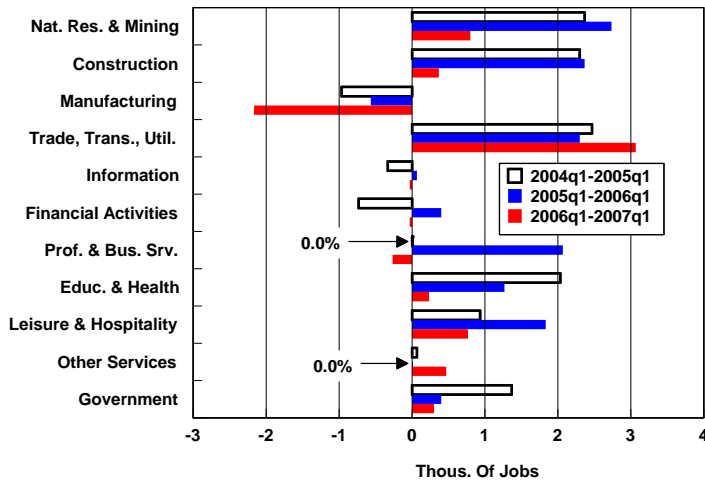
## Highlights of the West Virginia Economy

### W. Va. And U.S. Job Growth Decelerated In Early 2007



- West Virginia and U.S. job growth decelerated significantly during the first quarter of 2007. State growth remained well below the national level.
- West Virginia added just 3,500 jobs during the last four quarters. That's well below 12,900 jobs the state added from the first quarter of 2005 to the same quarter of 2006.
- West Virginia's job growth in the first quarter of 2007, compared to the same quarter one year ago, was just 0.5 percent. That's well below the 1.7 percent growth rate from the first quarter of 2005 to the same quarter of 2006. It's also significantly below the national growth rate of 1.5 percent during the last year.

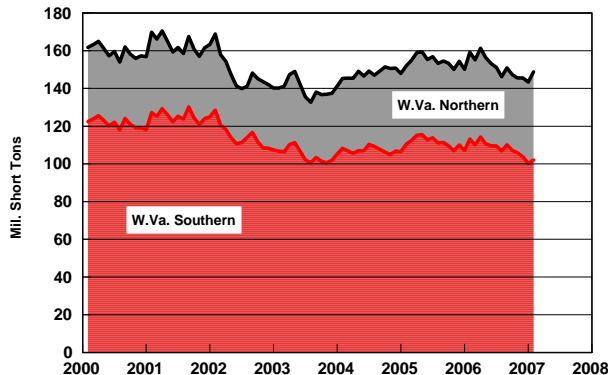
### West Virginia Job Growth Decelerated In Most Sectors During The Last Year



- The combined natural resources and mining; construction; and manufacturing sector lost 1,000 jobs during the last four quarters, compared to job gains of 4,500 during the previous four-quarter period.
- The service-providing sectors combined to add 4,500 jobs during the last year, with most of that growth coming in wholesale and retail trade.
- Natural resources and mining added just 800 jobs from the first quarter of 2006 to the same quarter of 2007. That job growth came in the natural gas sector, because coal production fell during the period.
- Manufacturing job losses during the last year were concentrated in primary metals, wood products, furniture, auto parts, and chemical products. These sectors all face intense international competition.
- Professional, scientific, and technical jobs fell during the last year.

### W. Va. Coal Production By Region

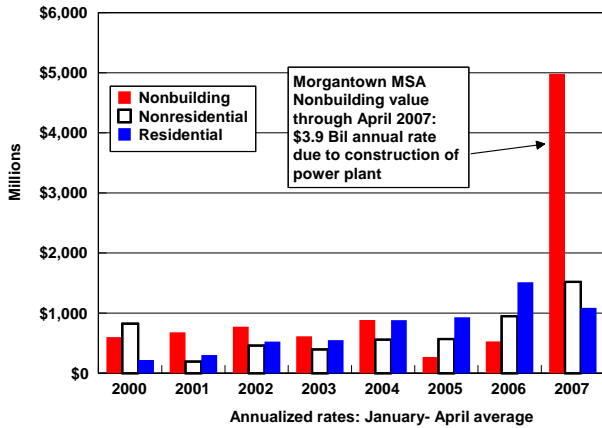
Monthly Data Annualized, Non-seasonally Adjusted  
Three Month Centered Moving Average



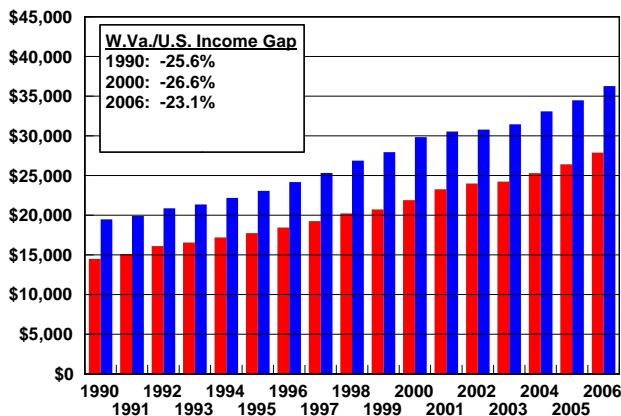
- Current estimates suggest that West Virginia coal production fell from 153.6 million tons in 2005 to 151.9 million tons in 2006, a drop of 1.1 percent.
- The statewide drop in coal production was concentrated in the southern coal fields. Northern production was roughly stable from 2005 to 2006.
- Nationally, coal production rose by 30 million tons, an increase of 2.6 percent.
- Softening production in the southern part of the state is related to increasingly difficult geologic conditions and falling prices for coal produced in southern West Virginia. Regulatory uncertainty related to clean water concerns remains an issue for surface mines.
- West Virginia natural gas production hit 209.2 Bcf in 2005, the latest data available from EIA. That translates into an annual rate of growth of 3.7 percent per year since 2001, which far outpaces the production losses nationally.

### West Virginia Nonbuilding Construction Surges In Early 2007

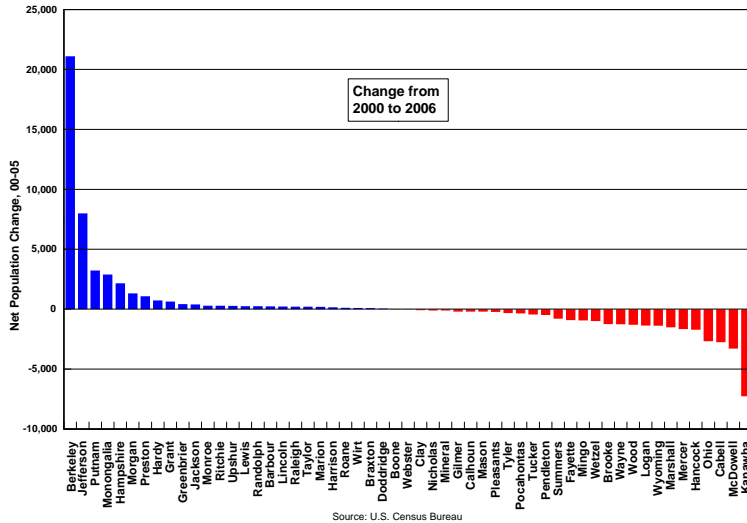
F.W. Dodge



### W.Va. Per Capita Personal Income Rises But Remains Well Below The U.S.



### West Virginia Net Population Change By County

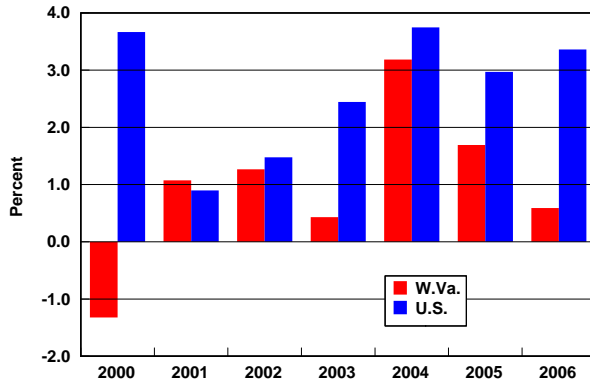


- At nearly 40,000 jobs, construction employment remains roughly 13,000 jobs above levels seen during the early 1990s.
- According to data from FW Dodge, the value of construction starts surged in early 2007, primarily because of power plant construction in Monongalia County.
- Residential activity is substantially weaker this year, compared to the January-April 2006 period.
- Rising mortgage interest rates and past house price increases may finally be putting the brakes to residential construction activity.
- Single-family house price appreciation in West Virginia moderated during the last year, with year-over-year gains averaging 6.0 percent during the last four quarter, compared to 10.9 percent during the previous four quarters.
- Eastern Panhandle metro area house price appreciation has fallen from over 20 percent to the low single digits during the last year.

- West Virginia's per capita personal income hit \$27,897 in 2006, 23.1 percent below the national level of \$36,276.
- West Virginia's income gap with the nation has fallen from -26.6 percent in 2000 and is also below the 1990 level of -25.6 percent.
- Since 2000, West Virginia's per capita personal income has averaged 4.1 percent per year, well above the national average of 3.3 percent per year and well above the national inflation rate of 2.7 percent.
- Strong job gains in natural resources and mining, as well as construction, have contributed to income growth since 2000.
- Rising transfer payments accounted for 34.5 percent of personal income growth in the state since 2000.
- Nationally, transfer payments accounted for 21.3 percent of income growth.
- Per capita personal income includes earnings from work; dividends, interest, and rent; and transfer payments like social security, Medicare, Medicaid, and welfare.

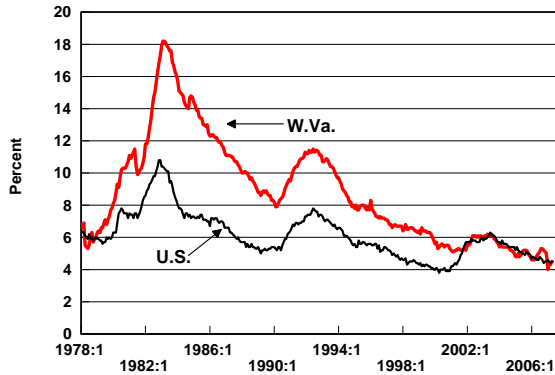
- West Virginia added 10,942 residents from July 2000 to July 2006, according to the latest estimates from the Census Bureau.
- Those population gains were remarkably unevenly distributed across the state.
- Berkeley County added 21,094 residents so far this decade, which means that without Berkeley County, the state would have lost residents since 2000.
- Population losses were concentrated in the Charleston and Huntington areas as well as the Northern Panhandle.
- West Virginia is the only state in the nation with negative natural increase (1,600 more deaths than births) during the last six years.

### W.Va. Real Gross Domestic Product Growth Has Been Slow Compared To The U.S.



- West Virginia’s gross domestic product (GDP) growth averaged 1.4 percent per year during the last six years, after adjustment for inflation.
- West Virginia’s growth has been well below the national rate, which averaged 2.5 percent per year.
- West Virginia’s real GDP growth hit 3.2 percent in 2004 and has decelerated in both 2005 and 2006.
- Coal mining and manufacturing contributed significantly to slowing real GDP growth during the last two years. Indeed, according to this data, real mining gross domestic product fell by 21.8 percent last year, or by \$573 million.
- Gross domestic product by state measures the value of goods and services produced by labor and property located in a state. It is the state analog to national gross domestic product.

### Unemployment Rates For W.Va. And The U.S. Seasonally Adjusted



- West Virginia’s unemployment rate averaged 4.9 percent in 2006, just above the national rate of 4.6 percent.
- West Virginia’s unemployment rate has converged to the national rate during the last two decades, eliminating a substantial gap that arose during the late 1970s and early 1980s.
- West Virginia’s labor force participation rate was 54.7 percent in 2004, the latest data available from BLS.
- That’s well below the national average of 66.0 percent in 2004.
- Even though the state’s unemployment rate is close to the national average, the state retains a substantial number of residents not participating in formal labor market activities.

## Mid-Year Review 2007

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