



Potomac Highlands Region Outlook

FORECAST: 2002-2007

August 2003

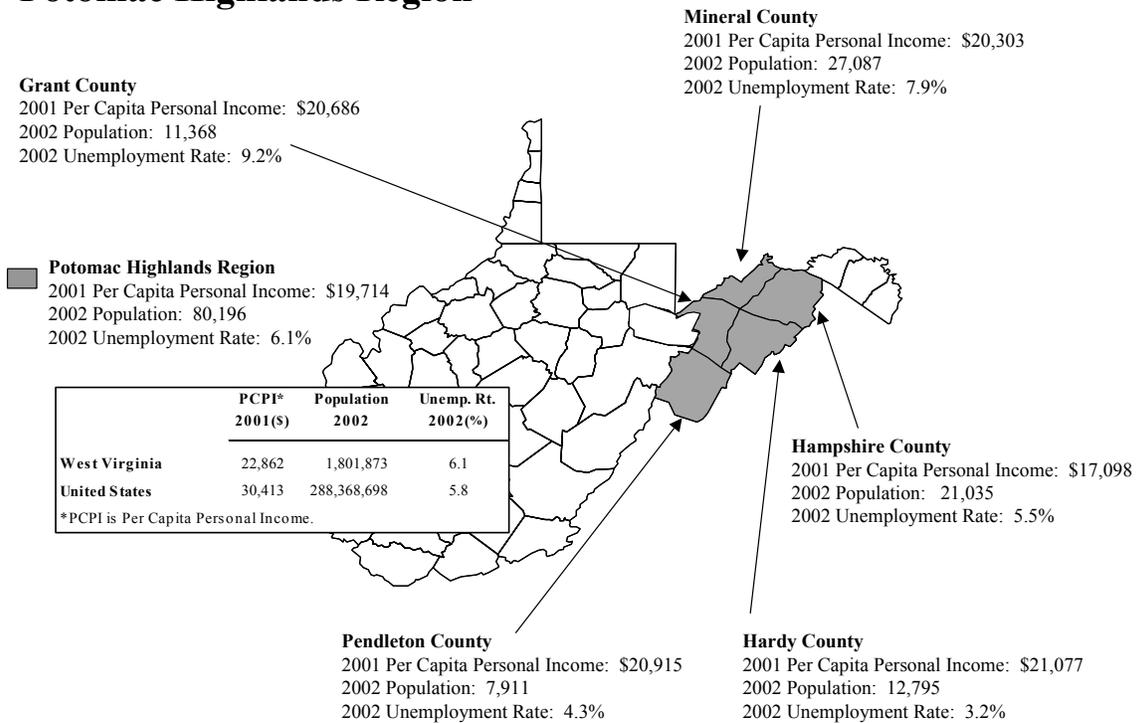
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Executive Summary

The Potomac Highlands Region largely escaped the impact of the national recession of 2001. The region added 840 jobs in 2001, in contrast to the job losses posted by the state and the nation, and likely followed that up with continued (although slower) growth in 2002. Job gains in the region were distributed across the Potomac Highlands counties (Grant, Hampshire, Hardy, Mineral, and Pendleton). Job gains look to have softened in 2002, as a surge in construction employment in Grant County in 2001 dissipated, and as large manufacturing layoffs hit the region's goods-producing sector. Sustaining job growth in 2002 were continued advances in the service-producing sector, especially services, trade, and government. Slower job gains in 2002 were reflected in an increase in the region's unemployment rate, from 4.6 percent in 2001 to 6.1 percent in 2002.

Figure 1
Potomac Highlands Region



The forecast for the Potomac Highlands Region calls for slightly negative job growth early on, with positive job growth resuming after the first year of the forecast. Overall regional job growth is expected to trail the state's rate of job growth. However, the region is forecast to post higher growth than both the U.S. and West Virginia in trade and services. Regional job growth also exceeds state growth in government and transportation, communication, and public utilities. Placing a damper on overall job growth are job losses in the goods producing sectors of mining, manufacturing, and construction. Since most of these job losses take place before 2004, overall job growth picks up during the remaining forecast period.

The region's population is forecast to experience continued growth. Inflation-adjusted per capita personal income growth continues, after a slight downturn early in the forecast period. Overall regional population and income growth is expected to exceed state growth. These results assume the national economy avoids a severe downturn. The forecast figures fall far short of both those projected for the nation and those posted by the Potomac Highlands during the last half of the 1990s.

Risks to the baseline outlook revolve around a sluggish rebound from the uncertainty created by the war with Iraq. The baseline national forecast assumes that consumer and business spending recovers significantly during the last half of 2003, boosting overall growth. With strong increases in federal spending (and tax cuts) and with the Federal Reserve supporting economic growth by keeping short-term interest rates low, the U.S. economy is expected to avoid a double-dip recession in 2003. However, if consumers and businesses do not ramp up spending significantly in late 2003 and into 2004, then U.S. growth will be significantly slower and we could even experience another recession. This scenario would produce slower growth in the region and, if the national downturn is severe enough, could produce a regional recession.

The Potomac Highlands Region in Perspective

The Potomac Highlands comprises 2,732 square miles, or 11.3 percent of West Virginia's total land area of 24,228 square miles. Of West Virginia's 1,801,873 residents, 80,196 (4.5 percent) live in the Potomac Highlands. Even though the Potomac Highlands population density was only 29.4, the densities differed between counties. For example, Grant, Hardy, and Pendleton counties have densities below 24 persons per mile. Hampshire and Mineral counties have 32.9 and 83.8 persons per square mile, respectively. West Virginia's 2002 population density was 75 persons per square mile.

The 2000 Census asked residents whether they had lived in the same county and state back in 1995. Only 6.2 percent of Grant County residents had moved to the county from another state. This was below both the national (8.4 percent) and state (8.1) rates of in-migration from other states. However, the remaining counties in the Potomac Highlands exhibited rates of in-migration between 9.6 percent and 12.4 percent. It is likely that the region's proximity to Pennsylvania, Maryland, and Virginia could explain the high levels of in-migration from other states.

Among West Virginia residents in 2000, 25.8 percent claimed to have been born in another state. The counties of the Potomac Highlands were much more likely to have residents that were not born in West Virginia. This figure ranges from 33.1 percent in Grant County to 62.1 percent in Hampshire County. For the U.S. population, 40.0 percent claim they were born outside their current state of residence – with over 12 percent being foreign-born. However, neither the state nor the region has any sizable foreign-born population.

The Potomac Highlands workers tend to have long commutes to work. Among the Potomac Highlands counties, the mean commuting times all exceeded the national mean commuting time of 25.5 minutes. The average commute for residents of Pendleton and Hampshire counties exceeded 35 minutes. Hardy County, with a mean commute time of 26 minutes, was the only county in the Potomac Highlands to have a shorter average commute than the West Virginia average of 26.2 minutes.

About 64 percent of Potomac Highlands employed residents work within their own region. Most of the remaining working residents commute to either Virginia (17 percent) or Maryland (16 percent). Grant County, at 89 percent, has the largest proportion of its employed residents working in the region. Hampshire and Mineral county residents are the most likely to travel outside of the region for work with 49 percent and 47 percent, respectively, commuting elsewhere. While 40 percent of Hampshire County's employed residents work in Virginia, 41 percent of Mineral County's working population travels to jobs in Maryland. Grant, Hardy, and Pendleton County residents are most likely to stay within their own counties to work, with at least 60 percent of each county's employed population working where they live.

Interestingly, only 11 percent of the workers in the Potomac Highlands come from outside the region. So, 89 percent of all the Potomac Highlands jobs belong to the region's residents. Most of the remaining jobs are filled by residents of Maryland, Virginia, and other counties in West Virginia. Mineral County is unique in that only 78 percent of its jobs are filled by residents of the Potomac Highlands. The remaining counties all have at least 90 percent of their respective jobs filled by people from the region. However, there are varying levels of intra-region commuting among counties. For example, Pendleton and Mineral counties both have fewer than 6 percent of their jobs filled both non-county region residents. So, even though 92 percent of Pendleton County's jobs are filled by residents of the Potomac Highlands, 89 percent of those jobs are filled by Pendleton County residents. On the other hand, Hardy County fills 31 percent of its jobs using residents of the other 4 counties in the region.

Public transit is not an important part of the Potomac Highlands transportation infrastructure. Despite 4.7 percent of U.S. residents and 0.8 percent of West Virginians claiming to use some form of public transit to get to work, all five Potomac Highlands counties had public transit usage levels of 0.5 percent or lower. Perhaps to make up for the lack of public transit, commuters in the Potomac Highlands rely more on carpooling as a means to travel to work. In fact, every county in the region had higher rates of carpooling than either the state (12.7 percent) or the nation (12.2 percent). Carpooling rates range from 15.2 percent in Mineral County to 22.9 percent in Hampshire County.

At 75.2 percent, West Virginia has a very high rate of housing that is owner-occupied. In other words, apartment dwelling is far less popular in West Virginia than in other states. In contrast, the national rate of owner-occupied housing is only 66.2 percent. All counties in the Potomac Highlands have owner-occupied housing rates exceeding the state average. Hardy, Grant, and Hampshire counties all have rates above 80 percent. Perhaps one reason for such high rates of owner occupation is the relatively low housing prices both in the Potomac Highlands and in West Virginia in general.

The 2000 Census provides a means of comparing home value figures between counties, states and metropolitan areas. Although Census median home values in all the Potomac Highlands counties exceed the state median home value of \$72,800, no Potomac Highlands county has a median home value that is above \$79,000. These values fall far short of the U.S. median value of \$119,600.

Mobile homes are far more prevalent as a means of shelter in the Potomac Highlands than in the U.S. This could partially explain the region's lower relative housing prices. With rates exceeding West Virginia's 16.9 percent, Hampshire, Hardy, Grant, and Pendleton counties have between 18.6 percent and 22.4 percent of their respective housing as mobile homes.

In addition to home ownership, renting an apartment is also fairly economical in the Potomac Highlands. For example, no county in the Potomac Highlands has a median gross monthly rent that exceeds the state figure of \$401.

Median ages are presented in Table 1. Grant, Mineral, and Pendleton counties all had median ages exceeding the state median age of 38.9 years. Hampshire County was the lone county to have a lower median age than West Virginia.

As Table 1 indicates, four counties had very similar per capita personal income levels, all hovering in the \$20,000 to \$22,000 range, while Hampshire County lingered far behind at \$17,098. Personal income is a broad measure of income flowing to residents within a region. It consists of earnings from work (wages and fringe benefits), asset income (dividends, interest, and rent), and transfer income (Social Security, Medicare, Medicaid, and welfare payments). Per capita personal income is computed by dividing the total personal income of a region by its population.

The Potomac Highlands surpassed West Virginia with respect to per capita personal income growth between 1996 and 2001. With annual per capita personal income growth of 4.3 percent, however, the region's per capita income growth still trailed the income growth posted by Maryland, Virginia, and the nation. Table 1 exhibits nominal personal income, meaning that it is not adjusted for inflation. Since we use the growth rates of nominal per capita income for all states and regions for our comparisons, the inflation adjustment is not necessary.

Table 1
Potomac Highlands Region Selected Economic Indicators by County

| | Population | | | Per Capita Personal Income | | Covered Job Growth | Unempl. Rate | Median Household Income | Bachelor's Degree or Higher (Age 25 and up) |
|---------------------|-------------|--------------|------------|----------------------------|--------------|--------------------|--------------|-------------------------|---|
| | Census | Av. An. G.R. | Median Age | Av. An. G.R. | Av. An. G.R. | | | | |
| | 2000 | 1990-2000(%) | 2000 | 2001(\$) | 1996-2001(%) | 1996-2001(%) | 2002(%) | 2000(\$) | 2000(%) |
| Grant, W. Va. | 11,299 | 0.8 | 39.3 | 20,686 | 4.5 | 0.3 | 9.2 | 28,916 | 11.4 |
| Hampshire, W.Va. | 20,203 | 2.0 | 38.5 | 17,098 | 3.6 | 0.2 | 5.5 | 31,666 | 11.3 |
| Hardy, W. Va. | 12,669 | 1.4 | 38.9 | 21,077 | 4.8 | 2.9 | 3.2 | 31,846 | 9.4 |
| Mineral, W. Va. | 27,078 | 0.1 | 39.1 | 20,303 | 4.6 | 3.7 | 7.9 | 31,149 | 11.7 |
| Pendleton, W. Va. | 8,196 | 0.2 | 41.1 | 20,915 | 4.8 | -4.6 | 4.3 | 30,429 | 10.8 |
| Potom. High. Region | 79,445 | 0.9 | n/a | 19,714 | 4.4 | 1.5 | 6.1 | n/a | 11.1 |
| Wash., DC PMSA | 4,923,153 | 1.5 | 34.9 | 41,754 | 5.2 | 2.9 | 3.7 | 62,216 | 41.8 |
| Maryland | 5,296,486 | 1.0 | 36.0 | 35,279 | 5.1 | 2.2 | 4.4 | 52,868 | 31.4 |
| Virginia | 7,078,515 | 1.4 | 35.7 | 32,338 | 5.1 | 2.7 | 4.1 | 46,677 | 29.5 |
| West Virginia | 1,808,344 | 0.1 | 38.9 | 22,862 | 4.3 | 0.7 | 6.1 | 29,696 | 14.8 |
| U.S. | 281,421,906 | 1.2 | 35.3 | 30,413 | 4.6 | 2.0 | 5.8 | 41,994 | 24.4 |

Population data are from the March 2000 Census Release.

Washington D.C. and U.S. resident employment data are from the BLS - labor force data.

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

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

Covered Employment data is from Maryland, West Virginia and Virginia LMI, and DC DOES.

Unemployment Rate data are from WVBEF and BLS.

Table 1 also exhibits median household incomes for each county in the Potomac Highlands. Except for Grant County, the remaining counties in the region have median household incomes exceeding that of West Virginia (\$29,696). However, all counties fall far behind the figure of \$41,994 posted by the nation. Median household income differs from per capita personal income by concentrating on income that is available to households, not individuals. Also, household income excludes in-kind payments, like Medicare and Medicaid.

At 6.1 percent, the Potomac Highlands 2002 unemployment rate tied that of West Virginia, but exceeded the national rate of 5.8 percent. Unemployment rates differed markedly within the region. For example, Grant and Mineral counties posted fairly high unemployment rates of 9.2 percent and 7.9 percent, respectively. Impressively, Hardy and Pendleton counties each displayed rates of unemployment of 4.3 percent or below. It is important to note, however, that from 1999 to 2002 Pendleton County's labor force declined. So, the low unemployment rate may not actually signal economic prosperity. It may indicate, instead, that the county's unemployed residents either migrated to another location for work or dropped out of the labor force altogether.

According to Table 1, the Potomac Highlands added jobs at a faster annual rate (1.5 percent) than West Virginia (0.7 percent) between 1996 and 2001. However, the region still trailed the nation's annual job growth rate of 2.0 percent. This fast growth was largely driven by Hardy and Mineral counties, with rates of 2.9 percent and 3.7 percent, respectively. In fact, Mineral County experienced faster job growth than any of the surrounding states. Pendleton County's rapid loss of jobs can be largely attributed to the exit of the Hanover Shoe manufacturing plant and is not a trend across all of its other industries. Annual job growth is discussed in more detail below.

Educational attainment is one area where the Potomac Highlands does not fair very well. As is well known, West Virginia ranks among the bottom of the 50 states and Washington, DC with respect to the percentage of its population that has earned a bachelor's degree or higher. This is important because educational attainment is a major determinant of a worker's potential wages. The Potomac Highlands rate of college educational attainment (11.1 percent) even falls short of the state's level of 14.8 percent. The component counties fall far short, with no county exceeding 12 percent. As the wage gap between college- and high school-educated workers widens, the relative importance of a college degree continues to increase.

High school educational attainment in the Potomac Highlands also falls behind figures posted by other areas. For example, Pendleton, Hampshire, Grant, and Hardy counties each posted high school educational attainment figures of 72.0 percent or below. Mineral County, on the other hand, with 80.3 percent of its residents earning at least a high school diploma, nearly matched the national rate of 80.4 percent.

West Virginia's poverty rate was 17.9 percent in 2000, one of the highest figures in the nation. Although the Potomac Highlands, at 14.5 percent, had a higher poverty rate than the nation (12.4 percent), each respective Highlands county was at least 1.5 percentage points below the state poverty rate. Pendleton County, with an 11.4 percent rate of poverty, was the lone county to dip below the national rate.

The Industrial Mix in The Potomac Highlands

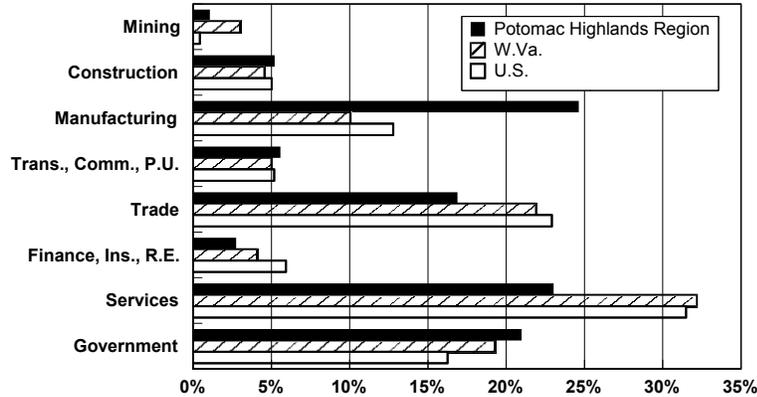
Figure 2 illustrates the share of total employment dedicated to certain industries for the Potomac Highlands, U.S., and West Virginia. With 24.6 percent of its employed residents working in manufacturing in 2002, this sector is the Potomac Highlands most important source of employment. Interestingly, the nation and the state have fewer than 13 percent of their respective working populations employed in manufacturing. While manufacturing composes over 55 percent of Hardy County's employment, no other counties' employment consists of more than 18 percent manufacturing jobs. In fact, of the Potomac Highland's 6,010 residents employed in the manufacturing sector in 2002, 3,500 were from Hardy County. The county's manufacturing employment is heavily concentrated in poultry processing and wood products manufacturing. These two sectors contain the county's 1st and 3rd largest, and 2nd and 6th largest employers, respectively.

At 23.0 percent of total employment, the services sector is the second most significant employer of Potomac Highlands residents. This sector includes education, health care, computer programming, call centers, tourism, and legal services, to name a few. However, the importance of this sector is far higher for both the state (32.2 percent) and the nation (31.5 percent). There was a wide degree of variance in the services employment shares across counties. For example, Pendleton County, at 37.0 percent, had a larger share of its employment in this sector than did the U.S. or West Virginia. Grant and Hardy counties, however, each had fewer than 20 percent of their respective residents employed in this industry.

Government is the third most important employer in the Potomac Highlands. Like manufacturing, this sector (with its 21.0 percent share of total employment) is more important to this region than it is for either the state (19.3 percent) or the nation (16.3 percent). Hampshire County employs a far higher proportion of its labor force in government, at 32.7 percent. In contrast, Hardy County only has 10.7 percent employed in this sector. The remaining counties are between 21 percent and 28 percent.

At 22.9 percent, the U.S. employs a larger share of its population in wholesale and retail trade than both West Virginia (21.9 percent) and the Potomac Highlands (16.9 percent). The Potomac Highlands counties, with the exception of Mineral County (a neighbor of the Cumberland MSA), employ far fewer than 20 percent in this sector. This is the Potomac Highlands third most important employer.

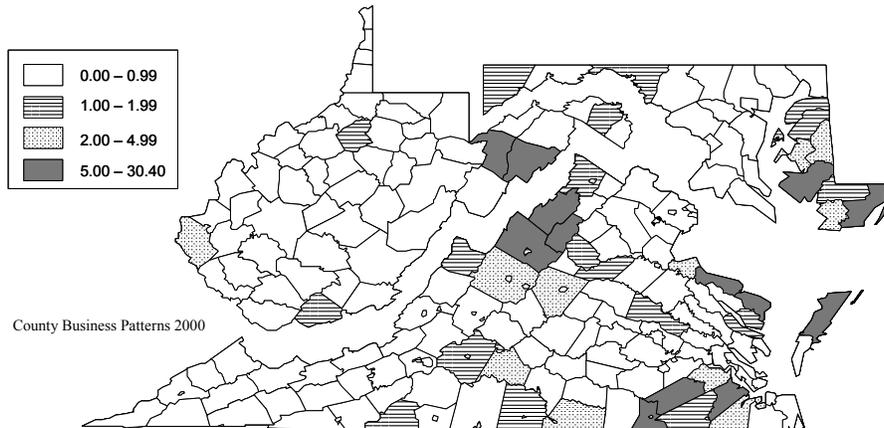
Figure 2
Potomac Highlands Region
Employment Shares Compared to the State
And Nation for 2002



As Figure 3 indicates, food-processing jobs, especially poultry processing jobs, are heavily concentrated in Hardy and Grant counties, along with Shenandoah, Rockingham, and Page counties in northern Virginia. While Grant County’s concentration of food processing jobs is almost 18 times that of the U.S., Hardy County’s share is over 26 times the national rate. Hardy County’s largest and third-largest employers in 2002 were both poultry processing firms, Pilgrim’s Pride Corporation and Conagra Poultry, respectively. Grant County’s largest employer in 2002 was Perdue Products, Inc., another poultry processor. However, in October 2002, Perdue closed its Grant County plant resulting in the loss of several hundred jobs. With the release of annual employment estimates for 2003, the plant’s closing will significantly affect Grant County and the Potomac Highlands. The remaining Potomac Highlands counties do not have significant employment in this sector.

Figure 3
Concentration of Food Processing Jobs (Naics 311)

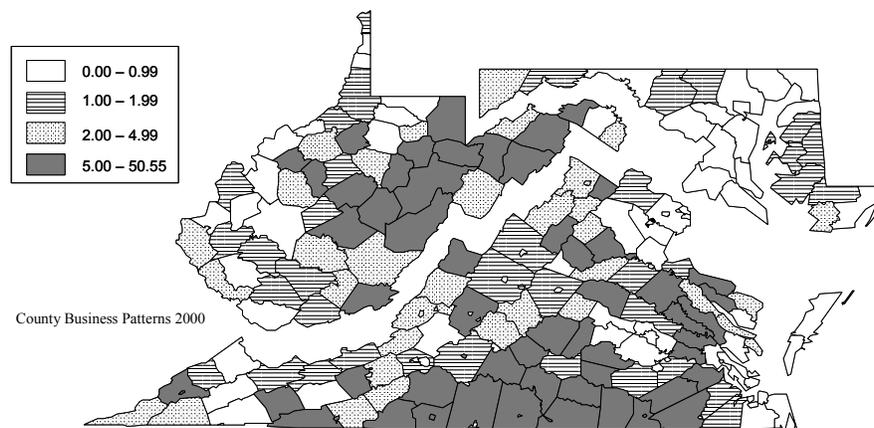
$\frac{\text{Food Processing Share of Jobs Locally}}{\text{Food Processing Share of Jobs Nationally}}$



Another very important manufacturing employment sector in the Potomac Highlands is the wood products industry, which includes forestry and logging operations, sawmills, and manufacturers of such wood products as furniture, veneer, plywood, pallets, flooring, windows, doors, manufactured homes, and mattresses. Figure 4 shows the concentration of wood products jobs based on a comparison with the national concentration in this sector. Again, while Grant County employs almost 11 times the national employment concentration in this sector, Hardy County employs nearly 16 times the national rate. American Woodmark Corporation, Hardy County's second largest employer, and Fertig Cabinet Company, the county's sixth largest employer, are both in this sector.

Figure 4
Concentration of Wood Products Jobs (Naics 113, 321, & 337)

Wood Products Share of Jobs Locally
 Wood Products Share of Jobs Nationally



The Potomac Highlands share of employment in finance, insurance, and real estate, at 2.7 percent, is less than one-half that of the nation. It also falls below West Virginia's 4.1 percent employment share in this industry. Hampshire County was the lone county in the region whose sectoral employment share of 4.5 percent exceeded the state's share.

Grant County also has the highest percent of its citizens employed in Transportation, Communications, and Public Utilities, at 10.1 percent, reflecting the presence of the Mount Storm power plant. The remaining counties linger both above and below the Potomac Highlands 5.6 percent employment share in this sector. The state and the nation are around 5 percent.

In 2002, Grant County had 13.8 percent of its residents employed in construction. So, out of 4,350 employed residents, 600 worked in construction. This figure has fluctuated quite radically in the recent past, from 380 in 2000 to 950 in 2001. This likely reflects construction activity at the Mount Storm power plant related the installation of pollution abatement equipment. The other four counties in the Potomac Highlands employ between one and five percent of their residents in the construction sector. This region, with an employment share of 5.2 percent in this industry, is just slightly lower than both the state and nation.

The share of the Potomac Highlands employment in mining was very small, at only 1.1 percent, similar to the U.S. share of 0.4 percent. However, two counties relied on mining employment to a similar degree as did West Virginia. Grant (3.0 percent) and Pendleton (2.7 percent) counties each hovered near to the state's rate of 3.0 percent. The remaining counties had barely any mining employment.

Finally, although not reflected in the non-farm employment data, agriculture remains an important part of the Potomac Highlands regional economy. Indeed, as a share of total personal income in 2001, farm income accounted for 1.8 percent of the Potomac Highlands region total, compared to 0.03 percent for the state, and 0.5 percent for the nation. Further, according to the 1997 Census of Agriculture, the region accounted for over 52 percent of West Virginia's sales of agricultural products (including both crops and livestock). Poultry sales accounted for most of the agricultural sales in the region and the region was by far the dominant supplier of poultry in the state in 1997.

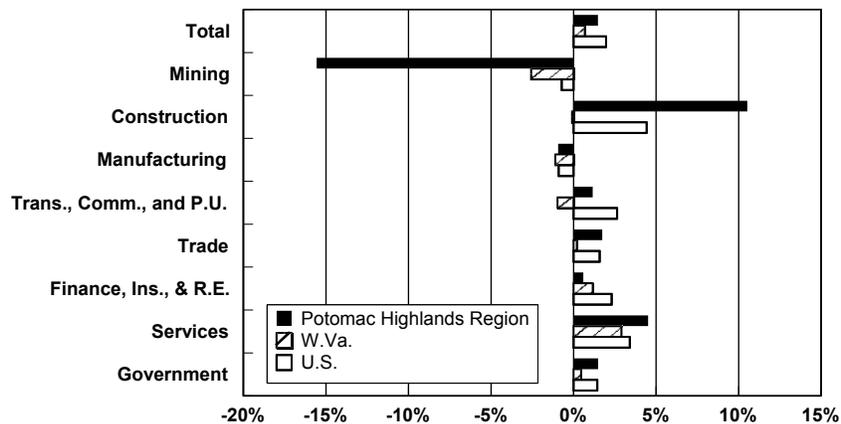
Recent Developments

The Potomac Highlands population grew at an average annual rate of 0.9 percent during the 1990s. Despite trailing the U.S. population growth of 1.2 percent annually, the region's population grew far faster than the 0.1 percent annual rate posted by West Virginia. This growth was fueled largely by Hardy and Hampshire counties, who both added population more quickly than did the nation. The three westernmost counties still experienced positive population growth equal to or above that of West Virginia, but slower than the surrounding states and regions.

The Office of Management and Budget recently designated Hampshire County part of the new Winchester Metropolitan Statistical Area (MSA). Other components of this MSA include Winchester City and Frederick County in Virginia. The region also includes part of the Cumberland MSA, which includes Allegany County in Maryland and Mineral County in West Virginia. The MSA designation may be advantageous to the metropolitan area's component counties because it streamlines the process for securing federal infrastructure grants and may increase the area's visibility to firms that are considering relocation or expansion.

Between 1996 and 2001, the Potomac Highlands Region experienced average job growth of 1.5 percent annually. Overall for the U.S., average annual job growth was 2.0 percent. West Virginia lagged behind with 0.7 percent new jobs per year. In fact, the region had higher job growth in construction, trade, government, and services than both the state and the nation. Except for the mining and manufacturing industries, no other sectors experienced negative job growth during that time. Figure 5 shows the level of job growth across various industries for the Potomac Highlands, West Virginia, and the U.S. between 1996 and 2001.

**Figure 5
Potomac Highlands Region
Annual Job Growth: 1996-2001**



Each county, with the exception of Pendleton County, experienced positive average annual job growth during this period. Pendleton County lost jobs at an annual rate of 4.4 percent. However, this is mainly due to the closing of the Hanover Shoe manufacturing plant. While Hampshire and Grant counties each had weak growth below 0.6 percent, Mineral and Hardy counties both added jobs far faster than both the state and the nation.

Construction was the Potomac Highlands fastest growing sector between 1996 and 2001, with annual job growth at 10.5 percent, exceeding the sector's national growth of 4.4 percent. This occurred during a time when West Virginia actually lost construction jobs, albeit at a very slow pace. Except for Pendleton County, the remaining four counties in the region all had experienced average annual construction job growth exceeding both the state and nation. Grant County led the way, gaining over 575 construction jobs from 2000 to 2001, with most of those jobs likely driven by the installation of pollution abatement equipment at the Mount Storm power plant.

The second fastest growing industry in the Potomac Highlands between 1996 and 2001 was services, with 4.5 percent annual job growth. The state and nation also experienced high job growth in services, however, they still lagged far behind the Potomac Highlands growth rate. During this five-year period, job gains came from health services, like nursing, personal, and home health care, along with social services, such as job training, child day care, and residential care services. Mineral County saw its services sector increase by 768 jobs between 1996 and 2001. Much of this growth in services jobs can be attributed to the explosion of the county's business services sector, from 71 jobs in 1996 to 629 in 2001. The only the Potomac Highlands county to lose jobs in the services sector was Hampshire County.

The Potomac Highlands saw jobs in its trade sector grow at 1.7 percent annually, compared to national growth of 1.6 percent and state growth of only 0.2 percent. Trade, the region's third fastest growing sector, includes jobs in both wholesale and retail trade. Grant and Hampshire counties each lost trade jobs at 2.4 percent annually. The remaining three counties in the region, however, saw positive trade job growth of at least 3.2 percent annually. Both Mineral and Hardy counties showed impressive growth in retail trade jobs, each gaining over 200 jobs during this period. This growth is largely reflected in the opening of Wal-Mart Supercenters in Moorefield and Keyser.

Except for Grant County, which experienced marginal government job losses, all other counties in the Potomac Highlands added government jobs between 1996 and 2001. This helped the Region achieve an annual growth rate in this sector of 1.5 percent, surpassing both the nation (1.4 percent) and the state (0.5 percent). Hampshire, Hardy, and Pendleton counties each saw government jobs grow by over 2 percent annually. Of the 295 new government jobs in Hampshire, Hardy, and Mineral counties, 200 came in the form of local government jobs. Pendleton County saw an addition of 79 Federal government jobs during this period, nearly doubling its previous number of federal jobs.

Although it trailed the U.S. rate of 2.6 percent, the Potomac Highlands still had annual job growth of 1.2 percent in the transportation, communications, and public utilities sector. West Virginia saw job losses of 1.0 percent annually in this sector. Within the finance, insurance, and real estate sector, the region trailed both the state and nation. Commercial banking was the region's most active area in finance, insurance, and real estate. Grant and Mineral counties lost commercial banking jobs, while Hardy County enjoyed job gains. The gains in the transportation, communications, and public utilities sector occurred mostly in the area of trucking and warehousing. Grant County was the only to post job losses in this sector, mainly in the electric services industry.

Following the trends of both West Virginia and the U.S., the Potomac Highlands mining sector, the region's worst performer, experienced negative job growth from 1996 to 2001. Mining jobs really got hammered during that period, declining at an average annual rate of 15.6 percent. Grant County felt the brunt of this decline, seeing its mining jobs fall from 474 in 1996 to 130 in 2001.

Manufacturing jobs declined at an average rate of 0.9 percent annually in the Potomac Highlands from 1996 to 2001. Despite this decline, the region still tied the nation's performance in this sector. West Virginia lost manufacturing jobs at an annual rate of 1.1 percent. However, counties within the region posted different levels of growth. For instance, Pendleton and Hampshire counties each experienced job losses from 1996 to 2001. Hampshire County lost 50 jobs in this sector. Pendleton County witnessed its number of manufacturing jobs dwindle from 626 in 1996 to 87 in 2001. Again, this is largely due to the closing of the Hanover Shoe manufacturing plant. The remaining counties in the Potomac Highlands saw modest job gains in manufacturing.

Forecast: 2002-2007

The outlook for the Potomac Highlands Region depends in part on the performance of the national and international economies. Table 2 summarizes the U.S. forecast that underlies the Potomac Highlands outlook.

The national forecast (produced by Global Insight in May 2003) calls for the national economy to rebound in 2004 from sub-par growth in 2002 and 2003. In particular, real GDP growth is forecast to accelerate from 2.4 percent in 2002, and 2.3 percent in 2003, to 4.6 percent in 2004. Rising growth in the value of output spurs national job gains during the period, with job growth rebounding from losses of -0.9 percent in 2002 and -0.1 percent in 2003, to growth of 1.8 percent in 2004. In turn, job gains drive the U.S. unemployment rate down from 5.9 percent in 2003, to 5.5 percent by 2004.

Underlying the rebounding national growth during the last half of 2003 and into 2004 is driven by the assumption that the quick U.S. military victory achieved in Iraq in the first quarter of 2003 reduces economic uncertainty (and oil prices) enough to spur growth (especially business investment) during the second half of 2003 and into 2004.

Table 2
U.S. Forecast
Global Insight May 2003

| | Years | | | | | |
|--|---------------------------------|----------|--------|--------|--------|--------|
| | Actual | Forecast | | | | |
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| | Annual Percent Change | | | | | |
| Real GDP | 2.4 | 2.3 | 4.2 | 3.3 | 3.2 | 3.1 |
| Industrial Production | -0.8 | 0.4 | 6.6 | 6.1 | 3.2 | 2.6 |
| Nonfarm Employment | -0.9 | -0.1 | 1.8 | 1.8 | 1.6 | 1.3 |
| Personal Income | 2.8 | 3.6 | 4.8 | 4.9 | 5.1 | 5.3 |
| Personal Consumption Deflator | 1.4 | 1.9 | 1.6 | 1.8 | 1.9 | 2.1 |
| | Unemployment and Interest Rates | | | | | |
| Unemployment Rate | 5.8 | 6.0 | 5.9 | 5.7 | 5.6 | 5.5 |
| Federal Funds Rate | 1.7 | 1.3 | 1.7 | 2.0 | 2.2 | 2.9 |
| Ten-Year Treasury Note Yield | 4.6 | 4.1 | 5.0 | 5.5 | 5.6 | 5.7 |
| | Federal Government | | | | | |
| Federal Budget Surplus (NIPA, FY, \$Bil) | -199.9 | -314.3 | -386.5 | -348.9 | -251.1 | -173.7 |
| | International Trade | | | | | |
| Real Export Growth (GDP Basis) | -1.6 | 2.6 | 10.6 | 8.7 | 7.9 | 7.6 |
| Real Import Growth (GDP Basis) | 3.7 | 3.1 | 8.5 | 5.9 | 5.2 | 4.9 |
| Trd.Wtd. Value of U.S. \$ vs Industrial Countries (1996=1.00) | 1.216 | 1.103 | 1.072 | 1.047 | 1.030 | 1.018 |

Interest rates remain low through the end of 2003, as the Federal Reserve keeps the federal funds rate (the overnight interest rate on reserves traded among banks) below 2.0 percent through the fourth quarter of 2004. As economic growth rebounds in 2004, the Federal Reserve raises overnight rates from 1.7 percent in 2004 to 2.9 percent by 2007. This helps to drive longer-term rates up as well, with the 30-year mortgage rate expected to rise from 6.5 percent in 2002 to the 7.0 percent range for the 2006-2007 period. Rising interest rates take some of the vigor out of the housing market, with housing starts and existing home sales expected to moderate in 2003-2004.

Slower economic growth and tax cuts have already driven the federal budget into deficit, and the cost of war, increased homeland security spending, and likely additional tax cuts are expected to widen the deficit significantly from a surplus of 0.7 percent of GDP in 2001 to a deficit of 2.9 percent of GDP in 2003. While real federal spending on goods and services jumps during the next two years, state and local real purchases virtually come to a halt, as state governments struggle to balance budgets.

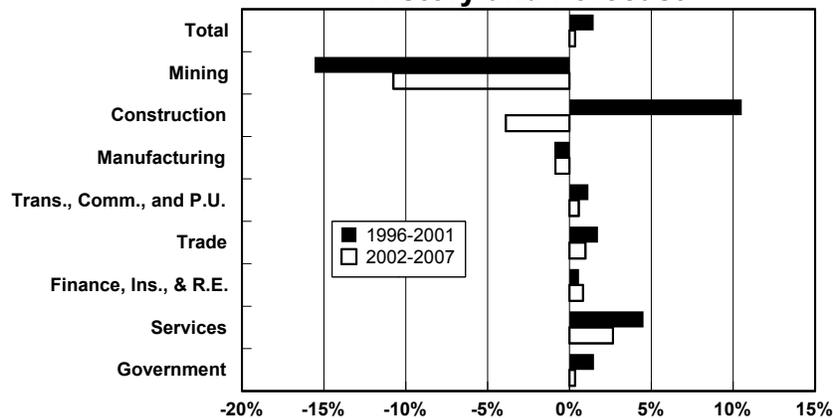
Finally, the dollar is expected to continue its current slide, with its value versus an average of industrial countries currencies falling by 16 percent from 2002 to 2007. The declining dollar and gradually rebounding world income growth help to stabilize the U.S. trade deficit, although it remains at historic highs.

Gradually accelerating national growth during the next five years sets the stage for continued growth in the Potomac Highlands Region. Table 3 summarizes the forecast for the Potomac Highlands Region.

As Figure 6 shows, the outlook calls for job growth in the region to decelerate from 1.5 percent per year during the 1996-2001 period to 0.3 percent per year during the next five years. This job growth deceleration occurs nearly across the board, and reflects slower expected national growth during the period. Remember that the last half of the 1990s were boom years nationally, and that rate of growth is not expected to be maintained during the next five years.

The Potomac Highlands mining job losses continue, while construction jobs decelerate from the massive gains during the last half of the 1990s to sizable annual declines during the next five years. Figure 6 exaggerates overall construction trends, because of a huge rise in construction jobs (nearly 600) in Grant County in 2001. These jobs appear to have been essentially temporary, arriving in 2001 and then disappearing in 2002. It is likely that the 2001 rise in construction jobs in Grant County was driven by activity related to the installation of pollution abatement equipment at the Mount Storm power plant. Construction activity at the plant may temporarily surge again during the forecast period, as Dominion Virginia Power (owner of the Mount Storm plant) agreed in 2003 to expand its pollution abatement efforts at all its plants (likely including Mount Storm).

**Figure 6
Potomac Highlands Region
Annual Job Growth:
History and Forecast**



Manufacturing jobs in the Potomac Highlands stabilize during the later part of the forecast as national economic growth gradually increases demand for regional production. Initially the sector experiences an employment decline in 2003, primarily because the large poultry processing layoffs (Perdue Farms) that occurred in Grant County in late 2002, are not fully reflected in the annual data until 2003.

The forecast calls for manufacturing job growth in the region to rebound in 2004 through the end of the forecast. Wood products job growth rebounds slowly as the sector adjusts to international competition and slower construction activity nationwide.

Most jobs generated in the Potomac Highlands during the next five years are expected to come in the service-producing sectors, particularly services, trade, and government. Services includes health care, social services, and business services. This job growth is connected both to population gains in the region (which spurs gains in locally-oriented services, like health care) and to resurgent national growth, which helps to generate stronger gains in business services.

Steady job gains in the region translate into continued population growth in the Potomac Highlands Region of 385 residents per year. This is greater than the small losses predicted for the state, and somewhat slower than the 0.9 percent per year growth rate for the nation.

The Potomac Highlands unemployment rate is forecast to rise from 6.1 percent in 2002 to 6.7 percent in 2003, as goods producing job declines take their toll. The region's unemployment rate is forecast to gradually trend back down to 5.8 percent by 2007, as rebounding job growth slowly takes up the slack in the local labor market.

Job growth in the region also drives some inflation-adjusted increases in personal income. On a per capita basis, real personal income is forecast to rise at an average annual rate of 1.5 percent per year. This is slightly above the state income growth rate of 1.4 percent, but falls well below the national rate of 2.8 percent per year.

Even though the uncertainty arising from the military conflict with Iraq has subsided, there are still downside risks to the baseline national forecast. These include the possibility of further weakness in consumer confidence (and consumer spending) related to sluggish job growth, combined with reluctance on the part of businesses to ramp up investment spending in the face of persistently low capacity utilization rates. Should consumer spending and business investment growth rates remain uncharacteristically low, the result would be weaker than expected growth in late 2003 and into 2004 (or perhaps a double-dip recession).

For the region, this scenario would reduce, but probably not eliminate, economic growth. Export-oriented sectors, like business services (especially call centers) and manufacturing would be most at risk.

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 Global Insight.

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 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 reflect the number of persons whose usual place of residence was within the state or county on July 1. 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.gov.

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

| | Actual | | | Forecast | | | | | Annual Growth | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------------|--------------------------|------------------------------|------------------------|-----------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Potm. High 2002-2007* | Potm. High (%) 2002-2007* | W.Va.(%) 2002-2007* | U.S.(%) 2002-2007* |
| Covered Nonagricultural Employment by Industry** | | | | | | | | | | | | | |
| Total | 21,755 | 21,955 | 22,797 | 22,862 | 22,305 | 22,428 | 22,781 | 22,966 | 23,256 | 79 | 0.3 | 0.7 | 1.3 |
| Goods Producing | 7,615 | 7,356 | 7,906 | 7,542 | 6,958 | 6,868 | 6,957 | 6,953 | 6,950 | -118 | -1.6 | -0.8 | 0.2 |
| Mining | 306 | 286 | 260 | 251 | 236 | 217 | 194 | 168 | 142 | -22 | -10.8 | -3.6 | -2.5 |
| Construction | 922 | 973 | 1,616 | 1,277 | 1,131 | 1,032 | 1,097 | 1,071 | 1,048 | -46 | -3.9 | 0.5 | 2.1 |
| Manufacturing | 6,387 | 6,097 | 6,030 | 6,014 | 5,591 | 5,619 | 5,667 | 5,713 | 5,760 | -51 | -0.9 | -0.7 | -0.5 |
| Service Producing | 14,140 | 14,599 | 14,891 | 15,320 | 15,347 | 15,560 | 15,824 | 16,014 | 16,306 | 197 | 1.3 | 1.0 | 1.5 |
| Trans., Comm., P.U. | 1,069 | 1,030 | 1,106 | 1,114 | 1,122 | 1,129 | 1,135 | 1,141 | 1,146 | 6 | 0.6 | -0.6 | 1.4 |
| Trade | 4,094 | 4,036 | 4,055 | 4,113 | 4,085 | 4,159 | 4,209 | 4,237 | 4,318 | 41 | 1.0 | 0.2 | 0.5 |
| Finance, Ins., R.E. | 651 | 636 | 624 | 660 | 667 | 673 | 679 | 681 | 688 | 6 | 0.8 | 1.5 | 2.1 |
| Services | 3,674 | 4,043 | 4,294 | 4,532 | 4,607 | 4,716 | 4,876 | 5,020 | 5,167 | 127 | 2.7 | 2.1 | 2.5 |
| Government | 4,652 | 4,854 | 4,812 | 4,901 | 4,865 | 4,884 | 4,925 | 4,934 | 4,986 | 17 | 0.3 | 0.2 | 0.7 |
| Civilian Labor Force, Employment, and Unemployment | | | | | | | | | | | | | |
| Labor Force | 37,430 | 36,860 | 38,120 | 37,130 | 36,686 | 36,782 | 37,189 | 37,300 | 37,675 | 109 | 0.3 | 0.5 | 1.0 |
| Employment | 35,230 | 34,810 | 36,350 | 34,850 | 34,236 | 34,415 | 34,863 | 35,115 | 35,489 | 128 | 0.4 | 0.6 | 1.2 |
| Unemployment Rate | 5.9 | 5.6 | 4.6 | 6.1 | 6.7 | 6.4 | 6.3 | 5.9 | 5.8 | -0.1 | -1.1 | -2.0 | -1.0 |
| Population | | | | | | | | | | | | | |
| Total Population | 79,163 | 79,499 | 79,877 | 80,196 | 80,453 | 80,784 | 81,313 | 81,918 | 82,505 | 385 | 0.6 | -0.1 | 0.9 |
| Real Personal Income (Thousands of 1996 Dollars) | | | | | | | | | | | | | |
| Total | 1,342,690 | 1,389,418 | 1,437,253 | 1,483,775 | 1,483,293 | 1,510,567 | 1,536,669 | 1,567,397 | 1,601,497 | 23,544 | 1.5 | 1.4 | 2.8 |
| Wage and Salary | 491,704 | 507,854 | 561,402 | 563,523 | 545,794 | 548,010 | 555,269 | 558,386 | 564,351 | 166 | 0.0 | 1.2 | 2.7 |
| Other Labor Income | 68,225 | 71,702 | 77,584 | 81,591 | 81,508 | 84,049 | 87,005 | 88,183 | 89,887 | 1,659 | 2.0 | 0.1 | 4.6 |
| Proprietors' Income | 105,964 | 109,932 | 112,207 | 119,543 | 122,545 | 131,454 | 137,441 | 140,753 | 142,515 | 4,594 | 3.6 | 2.0 | 4.6 |
| Dividends, Interest, Rent | 220,854 | 235,837 | 237,068 | 247,249 | 244,457 | 247,625 | 249,762 | 258,358 | 266,346 | 3,820 | 1.5 | 0.9 | 1.7 |
| Transfer Income | 302,224 | 310,973 | 326,294 | 354,935 | 366,679 | 374,465 | 380,569 | 392,902 | 407,935 | 10,600 | 2.8 | 1.8 | 3.0 |

The Potomac Highlands Region consists of Grant, Hampshire, Hardy, Mineral, and Pendleton counties in West Virginia.

*This column contains the average yearly change during the 2002-2007 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 2003.

U.S. forecast is from Global Insight (formerly DRI-WEFA), May 2003.

Potomac Highlands Region Outlook

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