West Virginia Economic Outlook

Mid-Year Review 2003

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BUREAU OF BUSINESS AND ECONOMIC RESEARCH
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Where Greatness is Learned

Executive Summary

- The National Bureau of Economic Research has announced that the national recession ended in November 2001. However, both the state and the nation are suffering through a "jobless" recovery, with fewer jobs than a year ago. On a seasonally-adjusted basis, the state has lost 6,900 jobs since March 2001, the start of the national recession.

- The state's unemployment rate has risen from 4.8 percent in 2001 to 6.1 percent in 2002, and now sits at 6.0 percent (seasonally adjusted in April 2003). The national rate was 5.8 percent in 2002 and hit 6.0 percent in April 2003 (seasonally adjusted).

- The state has fared better than the U.S. during the last two years, in terms of job losses, and our unemployment rate is very close to the national average. In fact, the rate of job loss since March 2001 has been roughly twice as bad nationally as it has been in West Virginia.

- West Virginia has sustained real per capita personal income growth during the last two years, while national growth hit the skids. Thus, the state has made progress in closing the income gap with the nation, for the first time since the mid-1990s.

- West Virginia's population hovers near 1.8 million. Natural increase remains negative while net migration has been negative or essentially zero.

- National growth remains sub-par, but Global Insight expects faster growth to finally take hold during the second half of 2003. This outlook hinges on sustained consumer spending (buoyed by low interest rates and tax cuts), rebounding business investment, steady residential construction activity, and a falling dollar. The major risks to the outlook revolve around the (very real) possibility that consumers will save their tax cuts instead of spending them and that businesses may hold off on investment spending longer than expected. The bottom line in this pessimistic scenario is sustained, slow real GDP growth in the 2.0 percent per year range, which, in turn, generates minimal job gains.

- For West Virginia, rebounding national growth would gradually pull up state growth as well, but job growth is likely to be muted during the rest of the year. Further, accelerating national growth means gradual erosion in our income growth advantage. The possibility of surging natural gas prices means more cost pressure on the chemical and primary metals sectors, which are already suffering under intense international and domestic competition. A falling U.S. dollar should help, but weak European and Japanese growth will reduce the impact. High natural gas prices do have the potential to drag coal prices up, and may help to sustain coal-mining jobs.

- Due to the Bureau of Labor Statistics' switch from SIC to NAICS, the West Virginia State Econometric Model is under construction this summer. It will be back on-line for the West Virginia Economic Outlook Conference in Charleston on November 13, 2003.

The Glass Is Half Empty

As usual for the state economy, there's some good news and there's some bad news. Let's get the bad news out of the way first: the state economy remains stuck in a "jobless" recovery that began in late 2001. As Figure 1 shows, in terms of job gains, the state lost momentum during 2000 and has now fallen back to 1999 employment levels. The state's unemployment rate is also up, from 4.8 percent in 2001 to 6.1 percent in 2002 (and to 6.0 percent (seasonally adjusted) in April 2003).

Figure 1
W.Va. and U.S. Total Nonfarm Jobs: 1990 - 2003
(Seasonally Adjusted, U.S. Recessions Shaded)

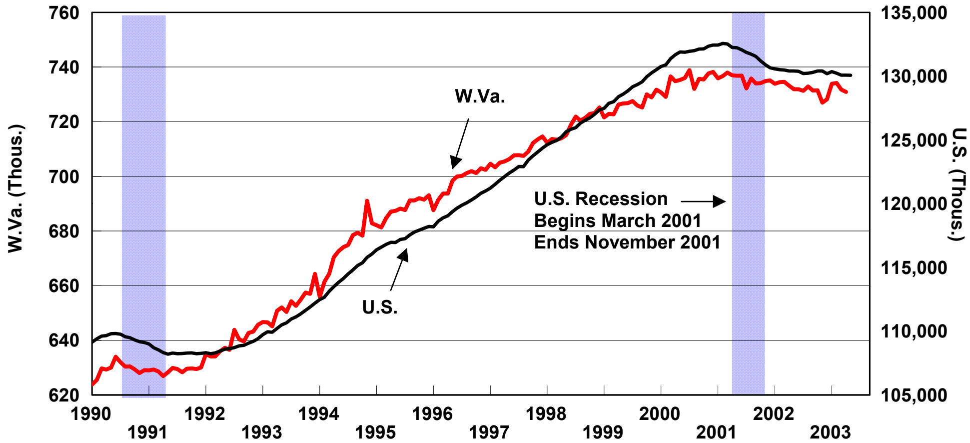
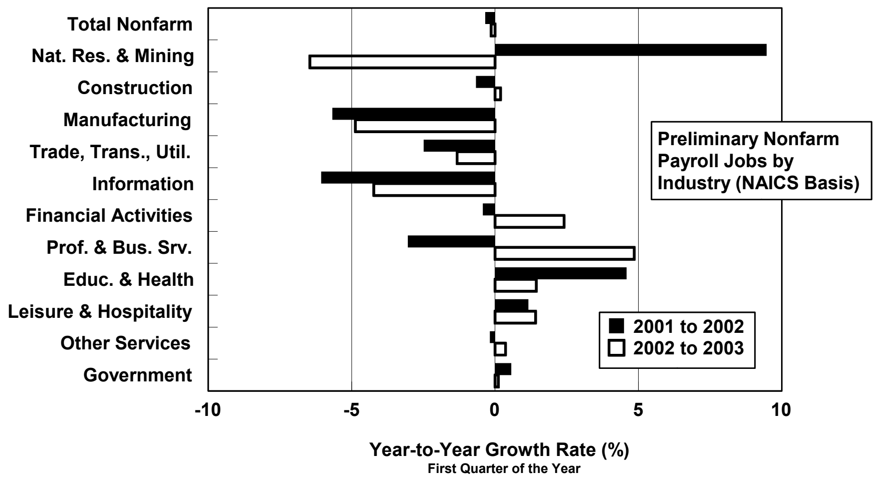


Figure 2 shows how this overall weak performance has worked itself out across industries. The figure compares first quarter job growth (on a year-to-year basis) for the 2001-2002 period and the 2002-2003 period. Overall, the state's rate of job loss has moderated a little, with the state losing jobs at a -0.3 percent rate from the first quarter of 2001 to the same quarter in 2002. The comparable rate for the 2002 to 2003 period was just –0.1 percent. Note the big swing for natural resources and mining from the 2001-2002 period to the 2002-2003 period. This reflects the energy "boomlet" that hit the state during 2000-2001, spurring increases in coal prices and employment. That mini-boom disappeared by 2002-2003 and coal jobs have dropped back close to 2000 levels.

Construction jobs have stabilized at high levels, with low mortgage interest rates spurring residential construction, while manufacturing employment has continued to be hammered, with job losses spread across both the durable and non-durable manufacturing sectors. Within durables, glass products, primary, and fabricated metals have had the worst job losses during the last year as these sectors have been hammered by weak durable-goods demand and fierce competition from foreign and domestic sources. Within the non-durable manufacturing sector, food products (poultry processing in the Potomac Highlands) and chemical products have lost the most jobs during the last year.

Most of the state's service-producing sectors grew during the last year, with the fastest gains coming in professional and business services (primarily administrative support services, including temporary help supply and call centers and other business management services). In particular, the administrative support sector rebounded last year after unusually weak performance during 2001-2002.

Figure 2
W.Va. Job Growth (Barely) Improves From Early 2002 to Early 2003



Also contributing to service-producing job growth last year were the financial services sector, education and health care, leisure and hospitality, other services (repair and maintenance, personal, religious and civic organizations), and government.

Two service producing sectors have consistently lost jobs during the last two years: trade, transportation, and utilities, as well as information services. Job losses have been evenly spread across the trade, transportation, and utilities sectors. The largest losses in retail trade have come in the general merchandise sector, which includes K-Mart, Wal-Mart, Ames, Sears, among many other retailers. The information sector, composed of publishing and broadcasting firms (like newspapers, radio, television) and telecommunications firms (wired and wireless), has also lost jobs during the last two years.

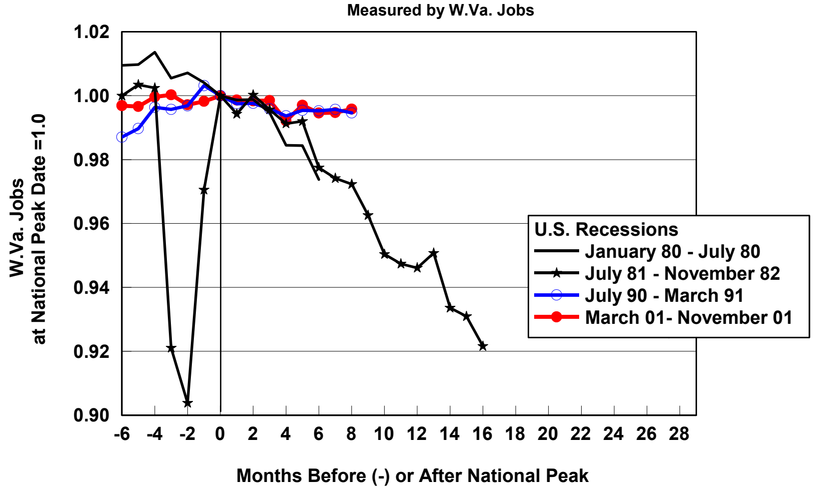
The Glass Is Half Full

If the bad news is that the state remains mired in joblessness, what's the good news? The good news (such as it is) is that we're doing better than the national economy (see Figure 1). Indeed, since March 2001, the state's job loss amounts to –0.9 percent compared to a national rate of job loss of –1.9 percent during the same period. Further, while manufacturing employment in the state has been pummeled during the same period, with the state losing jobs 9.9 percent of its manufacturing jobs, it's been worse nationally, where job losses have hit 12.7 percent.

In addition, the national recession turned out to be a fairly short one (lasting eight months, while the average peacetime post-WWII recession lasted 11 months), and it was not particularly severe in West Virginia. Figure 3 compares the state's job performance during national recessions since 1980. As the figure shows, the current recession was nearly identical in amplitude to the recession of the early 1990s. Indeed, during that national recession the state lost 3,400 jobs, a decline of –0.5 percent from July 1990 to March 1991. From March 2001 to November 2001, the state has lost 3,100 jobs, a decline of –0.4 percent. The recessions of the early 1980s were much more severe for both the state and the nation and indeed just considering the period of national recession from July 1981 to November 1982, the state lost over 50,000 jobs, a decline of 7.8 percent during this period alone (the state continued to drop jobs even after the national recession ended).

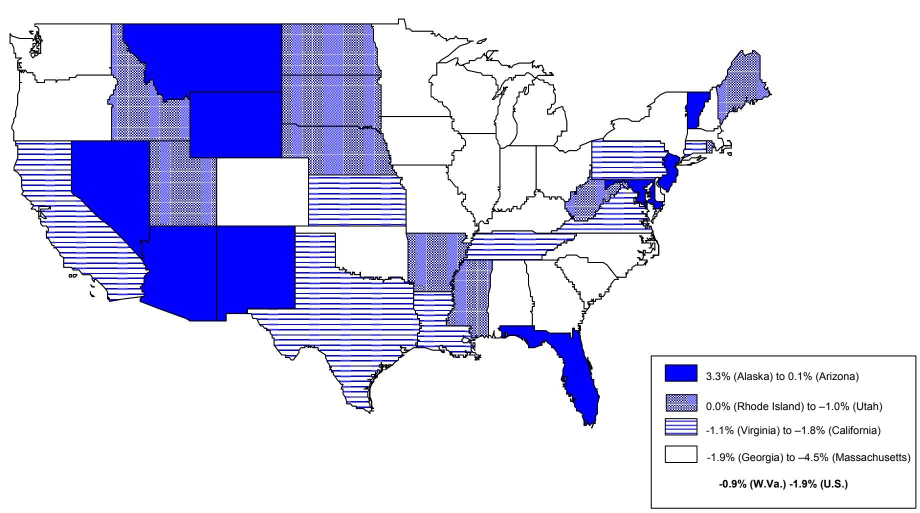
Figure 3
During 2001 U.S. Recession State Performance Was Similar To The 1990s

Measured by W.Va. Jobs



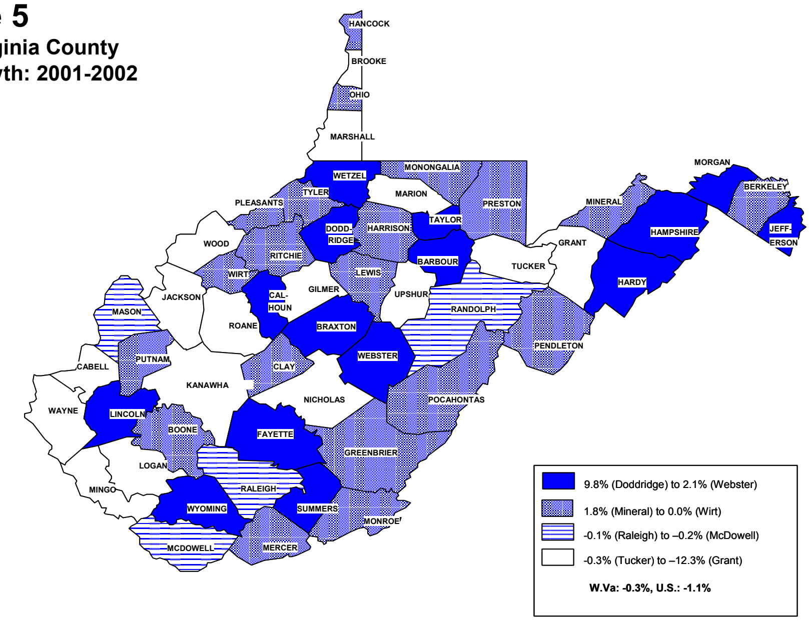
In fact, West Virginia's job growth has not only been better than the national average since March 2001, it has been better than most states. Indeed, the state ranked 21st in the nation in terms of job growth during the period, even though we lost jobs. As Figure 4 shows, states with the worst job losses during the last two years were located primarily in the manufacturing-dependent Midwest region. Also producing strong job losses during the period were states in the Northeast and some states in the South, including North Carolina, South Carolina, Georgia, and Mississippi. By and large, the worst rates of job loss have come in states concentrated in manufacturing, but note also the heavy losses in states with a significant amount of activity in financial services, telecommunications, and internet-boom related sectors (examples here include New York, Massachusetts, Colorado, California, and Washington).

Figure 4
Nonfarm Job Growth
March 2001 to April 2003



Just as national job losses have been unevenly spread across the country, West Virginia's job losses from 2001 to 2002 have been concentrated in the larger, metropolitan counties, like Wayne (-3.7 percent), Marshall (-3.4 percent), Wood (-2.0 percent), Kanawha (-1.1 percent), Cabell (-0.9 percent), and Brooke (-0.4 percent). As Figure 5 shows, counties posting job growth during the 2001-2002 period were spread around the state and are frequently small counties for which a few new jobs generate large growth rates. Exceptions here include counties in the Eastern Panhandle and Potomac Highlands, as well as counties in the north central part of the state. Grant County posted the largest job losses during the year, with those losses concentrated in construction and manufacturing.

Figure 5
West Virginia County Job Growth: 2001-2002

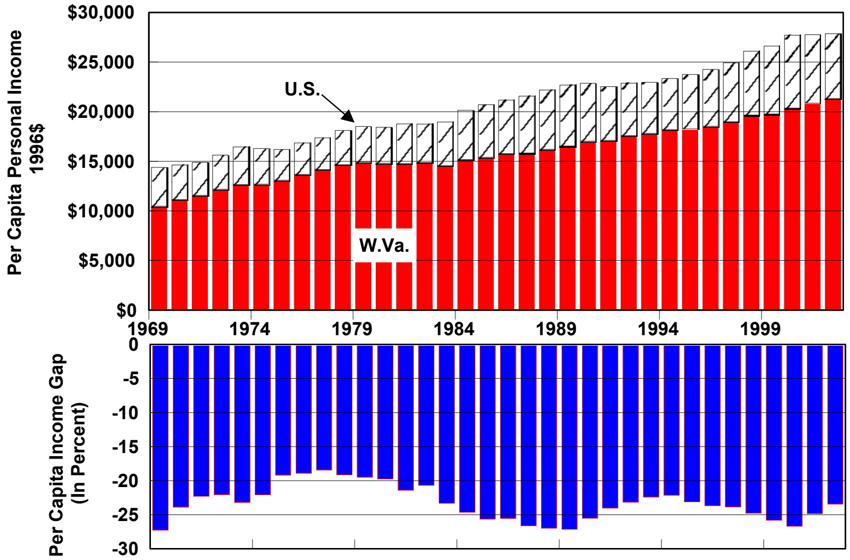


A Box of Chocolates

With job losses coming at a slower rate in the state than the nation, we should expect the states per capita income gap to stabilize. In fact, as Figure 6 shows, the gap closed a bit in 2001, for the first time in six years, and we have followed that up with another good year in 2002. The state's income gap with the U.S. now stands at 23.4 percent (according to the preliminary data for 2002). That's well down from 26.7 percent in 2000. Further, the Bureau of Economic Analysis (the group that produces personal income estimates) estimates that West Virginia has ranked 48th in the U.S. during 2001 and 2002, above Arkansas and Mississippi, but below New Mexico.

West Virginia has made progress in closing the income gap because our growth rate has exceeded the national average. Indeed, real per capita personal income growth in the state was 2.7 percent and 2.2 percent in 2001 and 2002, respectively. In comparison, national growth was a paltry 0.2 percent and 0.3 percent.

Figure 6
W.Va. Real Per Capita Personal Income Has Risen Steadily Since the Mid-1980s...



While the W.Va./U.S. Gap Has Fluctuated

While it is good news that the state has made some progress in closing the income gap with the nation, that progress has come about because of a steep drop in the national growth rate, while the state has continued to grind along. Indeed, national real per capita personal income growth during the last half of the 1990s averaged 3.1 percent per year, compared to 2.1 percent per year for the state. Thus, national growth has slowed from the 3.0 percent per year range to essentially nothing, while the state has maintained its average growth rate for the last half of the decade. In other words, what used to look terrible, in comparison to the U.S., now looks pretty good.

It is, however, important to keep in mind that personal income includes income from a variety of sources, including wages, salaries, and fringe benefits; income from dividends, interest, and rent; and transfer income, like social security, Medicare, Medicaid, and welfare.

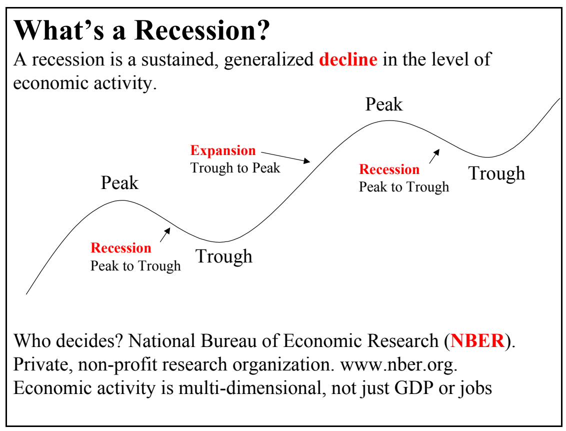
The major contributors to personal income growth for both the state and nation in 2002 were net earnings from work and transfer payments. These two sources of income contributed about equally to the recorded growth rates, while income from dividends, interest, and rent contributed essentially nothing (due to low and falling interest rates and poor corporate earnings performance). West Virginia's growth in earnings was driven by gains in services; government; finance, insurance, and real estate; trade; and mining. Gains in earnings in the mining sector reflect tail-end of the coal "boomlet" of 2001. The strong gains in services earnings in the state, which were nearly double the national rate, reflect the lingering telecom/high-tech/dot.com disaster, which has had a much bigger negative impact on national performance than it has in the state. Earnings from construction, manufacturing, and transportation and utilities fell during the year in the state.

Happy Trails

According to the latest Census estimates, the state may have gained 900 residents in 2002. This is a welcome respite from the estimated 6,300 resident loss in 2001. Remember that we can break the state's population change into two major components: natural increase and net migration. Natural increase is just the annual difference between births and deaths. Unfortunately, West Virginia recorded more deaths than births in both 2001 and 2002, the only state in the nation to do so. This makes the state's population change totally dependent on net migration, which was negative in 2001 and slightly positive during 2002. West Virginia's population is relatively old (compared to the U.S.) and relatively unhealthy. That contributes to negative natural increase. In addition, economic opportunities roughly equalized in the state relative to the U.S. in 2002 and that generated essentially zero net migration.

How Can The Recession Be Over When There Is No Job Growth?

A recession is defined as a sustained, generalized decline in the level of economic activity. Economists, specifically economists at the National Bureau of Economic Research (NBER at www.nber.org), define economic activity broadly to include jobs, income, production, and sales. Indicators of these variables include total nonfarm employment, real personal income less transfer payments, measures of real manufacturing, retail, and wholesale sales, industrial production, and real GDP, among many others. NBER is looking for expansions and contractions that bear some resemblance to the figure below.



The NBER believes the national recession ended in late 2001 primarily because real GDP rebounded in the fourth quarter of 2001, after falling for three consecutive quarters, and has continued to generate growth since that time. Real GDP is now 3.3 percent above its fourth quarter of 2000 level (or its pre-recession peak). Further, real personal income less transfers and real sales (manufacturing, wholesale, retail) have also surpassed their pre-recession peaks.

Mark Your Calendar:

10th Annual West Virginia Economic Outlook Conference
November 13, 2003
Charleston Marriott
200 Lee Street
Charleston, WV

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