

EASTERN PANHANDLE

ECONOMIC OUTLOOK

2016



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Executive Summary

West Virginia's Eastern Panhandle (EPH) remains one of the state's strongest economic regions. Employment and numerous other economic indicators point to strength in the EPH economy compared to West Virginia overall. In this report, we present a detailed discussion of the current state of the EPH economy along with our forecast for the likely path of economic activity over the next five years.

Key facts behind the recent economic performance of the EPH region are as follows:

- **Employment in the EPH rebounded at a healthy pace after the Great Recession and the region has maintained those job gains over recent years.** Overall, employment in the region stands at around 6,000 jobs, or 14 percent, above the trough experienced in late-2010. Employment was roughly flat from early-2013 through late-2014, but job growth has reemerged in recent months.
- Among the three counties of the EPH, employment growth has been strongest in Berkeley County in recent years.
- **The trade, transportation, and utilities sector has shown the strongest employment growth recently,** driven heavily by the opening of the Macy's fulfillment center in Berkeley County in 2012, which has now expanded to employ around 1,700 workers, with around 3,000 additional temporary jobs during the peak holiday shopping season. The professional and business services and education and health sectors have also showed strength in recent years.
- **Not all sectors have added a significant number of jobs recently.** Employment in the leisure and hospitality sector has been flat over the past two years. Employment in the public sector – the region's largest employer with around 1 in 4 of the region's jobs - has been flat for five years. Growth in construction employment has also been flat.
- **Although the unemployment rate in the EPH has increased in recent months, the rate is lower than it was one year ago and remains substantially lower than the overall West Virginia average.**
- **Labor force participation is significantly higher in the EPH compared to the state overall.** Labor force participation even exceeds national figures in Jefferson and Berkeley counties. The labor force in the region grew by around 1,300 people through the first half of 2015.

- **The EPH has posted by far the largest population increase of any region in the state in recent decades.** Over the past 20 years, population in the EPH has risen by around 66,000, or 56 percent, whereas the remainder of the state has lost around 34,000 residents over that period. The population in the EPH is also younger and more highly educated on average than the overall state population.

Our forecast calls for continued healthy growth in the EPH region over the next five years. Key aspects of our EPH forecast are as follows:

- **We expect employment to grow at an average annual rate of 1.0 percent per year in the EPH over the next five years.** While this rate is down from what has been enjoyed over the past few years, it is double forecast employment growth for West Virginia overall (0.5 percent). At the same time, growth will be moderately lower than what is expected for the nation as a whole (1.2 percent).
- **The manufacturing sector is expected to produce the fastest rate of job growth in the coming years,** with a forecast of nearly 5 percent rate of annual job growth, driven largely by the scheduled 2017 opening of a Proctor & Gamble facility in Berkeley County. Construction is expected to post a strong rate of job growth as well, driven by an expected improvement in homebuilding and activity associated with the P&G facility. Education and health services is also expected to expand at an above average rate. All major sectors are expected to add jobs over the next five years.
- **Unemployment is expected to continue to fall over the next five years, and will likely remain below the state and national rates indefinitely.** This comes on top of a projected increase in the labor force in the region.
- **Income and wages are expected to grow at a healthier pace in the EPH in coming years compared to the state and nation overall.**
- **Population in the EPH is expected to grow at a rate of 1.2 percent annually in coming years.** This stands in sharp contrast to the population decline that is expected in the state overall.

Recent Economic Performance

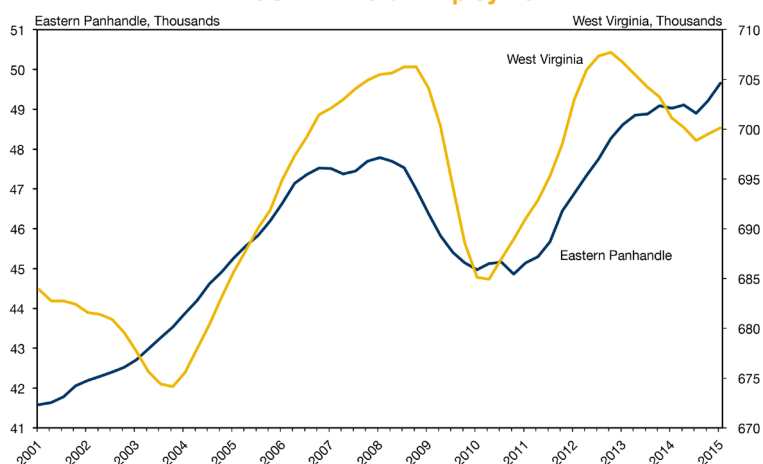
The Eastern Panhandle¹ remained on an expansionary path during 2014 and is one of only a few economic regions in the state to record growth in each of the last two years. Measured job gains for calendar year 2014 did slow appreciably compared to the prior three years, but this slowdown was at least attributable in part to abnormal seasonal patterns in a few sectors. Overall, after shedding nearly 4,400 jobs over the course of the economic downturn, the three-county region bounced back strongly and has maintained those gains. Indeed, local employers have added approximately 6,000 new jobs on a cumulative basis since the fourth quarter of 2010. This easily surpasses the Eastern Panhandle's pre-recession peak level of employment and represents a 14 percent gain in payrolls since the region emerged from recession.²

PERFORMANCE BY COUNTY All three counties within the Eastern Panhandle Region experienced job losses during the economic downturn, but their individual trajectories since the recovery began through mid-2015 have varied. Berkeley County generally represents the Eastern Panhandle's economic center, containing nearly two-thirds of the jobs found in the region as well as accounting for the bulk of job losses and gains the region has experienced in recent years. Berkeley County saw total employment decline nearly 12 percent on net between late-2007 and late-2010, but payrolls have gone on to rebound by 21 percent on a cumulative basis from the trough observed at the end of 2010.

Jefferson County, which contains nearly 30 percent of the jobs located within the region, experienced a more moderate episode of job losses during the downturn but has also witnessed a slower rebound in recent years. After seeing an initial gain of 1,400 jobs (10 percent) between the first quarters of 2010 and 2012, total payrolls at businesses located within the county have remained largely unchanged over the past three years. Even with this relatively sluggish performance, the current level of employment is still on par with its pre-recession peak. While the Eastern Panhandle's two larger counties have registered solid gains in employment since the end of the Great Recession, Morgan County's recovery has been more modest and shorter-lived as job losses ended in late-2013 and total employment has generally remained stable during the last several quarters.

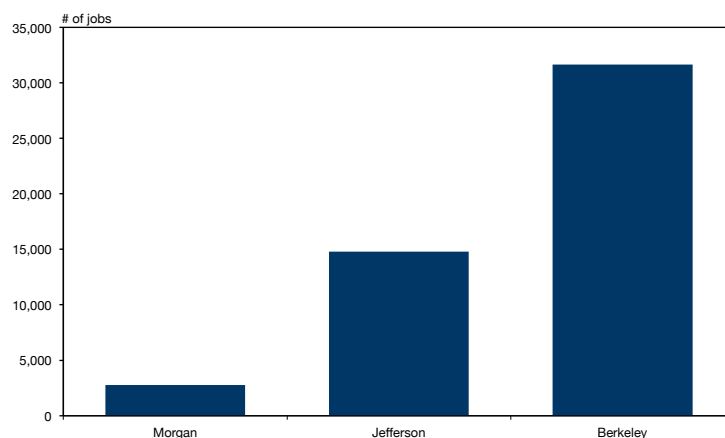
COMMUTER JOBS Although payroll levels within the region have expanded in recent years and serve as an important barometer for the Eastern Panhandle's growth, more than 40 percent of the Eastern Panhandle's workforce holds a job in the neighboring areas of Northern Virginia, Suburban Maryland or downtown Washington DC. The Greater Washington DC-area economy has rebounded strongly from the Great Recession, but it did endure an episode of little to no growth between late-2012 and mid-2014. The direct impacts of sequestration on federal government hiring and its knock-on effects to staffing levels at the numerous defense and non-defense contracting companies located in the area were the primary causes of this weakness. Over the past year, however, both private- and public-sector hiring activity across the DC metro area has improved significantly as the effects of federal spending sequestration have generally faded.

FIGURE 1: Total Employment



Source: US Bureau of Labor Statistics
Note: Series are presented as 4-quarter moving averages.

FIGURE 2: Total Employment by County (2014)



Source: US Bureau of Labor Statistics

1. For the purposes of this report, The Eastern Panhandle Region is comprised of three counties: Berkeley, Jefferson and Morgan counties.

2. Sources for historical information are noted in each figure.

TRADE SECTOR Despite what has generally been a relatively healthy economic recovery, most of the Eastern Panhandle's growth since the economic downturn ended can be traced to a few sectors. The trade, transportation and utilities sector has recorded the strongest gains in employment, largely as a result of the Macy's fulfillment center opening in 2012. Staffing numbers for year-round operations at the facility have expanded to approximately 1,700 workers, with an additional 3,000 or so temporary employees on staff for winter months. At the same time, however, local retail sector employment has increased steadily since the beginning of 2012 as consumer spending activity in the area has benefited from a healthier labor market and continued population growth.

PROFESSIONAL & BUSINESS SERVICES Professional and business services firms have recovered nearly 900 workers since late 2010, with a notable pick-up in growth over the past few quarters. The Eastern Panhandle's adjacency to Northern Virginia and Suburban Maryland have allowed it to capture a range of business support activities, particularly IT, legal and accounting services, for regional employers over the years. Job growth within this sector was hampered between late-2012 and mid-2014 as sequestration's impacts filtered into reduced hiring activity by federal (civilian and defense) contractors and subcontractors in the area.

EDUCATION & HEALTH The education and health services sector has also been a key driver of new job growth in recent years. Even with a drop-off in new hiring activity during late 2012 and early 2013, the sector as a whole has added more than 1,000 workers since the fourth quarter of 2010 and has roughly doubled in size in the past two decades. Although most of these gains are connected to the broader national trend of expanding

healthcare demand, an expanded footprint and operations at American Public University System in Jefferson County have also contributed to the sector's growth during the past several years.

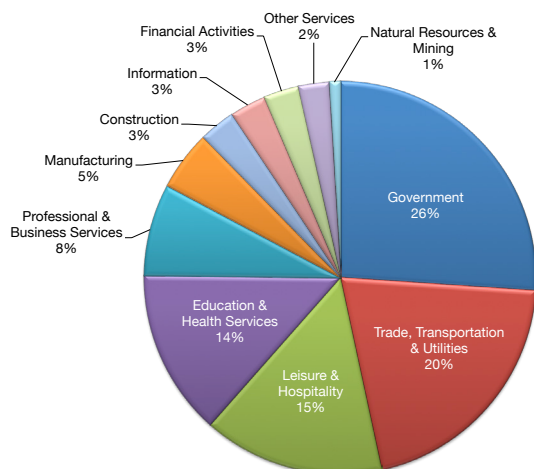
LEISURE & HOSPITALITY The leisure and hospitality sector remains a large player in the region's economy, but has seen no measurable growth over the past two years. Several newly-built midscale hotels and restaurants as well as an improved regional and national backdrop for consumer and business travel and tourism spending have buoyed activity for the sector. However, the expansion of gaming into Pennsylvania and Maryland has hurt the region's largest private leisure tourism attraction—Hollywood Casino at Charles Town Races.

PUBLIC SECTOR While a large number of residents commute (or tele-commute) into Maryland, Virginia and Washington DC to work for federal agencies, the public sector accounts for the largest share of jobs located within the Eastern Panhandle—accounting for more than 1 in 4 jobs in the three-county area. Aside from state and local government offices, the US federal government has a sizable presence, with offices and facilities for Treasury, Veterans Affairs, Customs, the National Parks Service and other agencies employing nearly 4,800 workers. Overall public sector employment in the region has remained flat for the past 5+ years as hiring activity at all levels of government has been limited by weak revenue growth.

CONSTRUCTION The Eastern Panhandle's construction sector has experienced limited growth over the past few years. After new single-family housing starts in the region plunged nearly 90 percent between 2006 and 2011, homebuilding activity rebounded roughly 80 percent by the first half of 2013. Since then, however, new home construction has remained at a steady annualized pace of approximately 650 units. Nonresidential activity has been relatively limited over the past few years, although site development for the planned Procter & Gamble manufacturing facility has provided a modest boost. Spending on new infrastructure and other non-building projects has totaled nearly \$80 million during the past 12 months, representing roughly one-third the level of activity prior to the Great Recession's onset.

AGRICULTURE While the Eastern Panhandle contains a limited amount of mining operations, most of the region's jobs associated with natural resources-related activity are linked to agriculture. According to the 2012 Census of Agriculture, the three-county region contains nearly 1,400 total farm operations that generated approximately \$70 million in cash receipts from sales, a 60 percent cumulative increase since 2007. The primary types of farm operations found in the area include cattle ranching, horses and apple orchards. While containing fewer farm

FIGURE 3: Eastern Panhandle Employment Distribution by Sector (2014)



operations, Jefferson County accounted for more than half of the region's agricultural sales receipts. Overall, farms there received \$36 million in sales during 2012.³

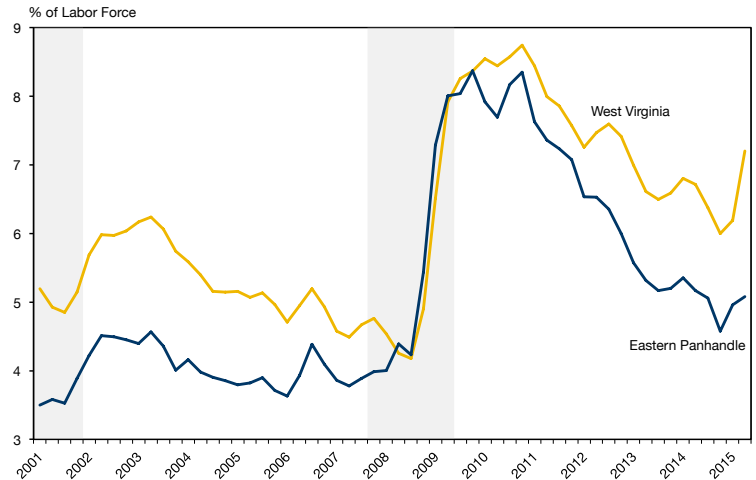
UNEMPLOYMENT Since reaching a peak of 8.4 percent during the fourth quarter of 2009, the Eastern Panhandle's unemployment rate has generally remained on a steady downward trend since the end of 2010. By late 2014, the region's jobless rate fell to 4.6 percent, marking its lowest reading in six years. Over the past two quarters, the local unemployment rate has jumped 50 basis points to 5.1 percent, but despite this gain the region's unemployment rate is still below its year-ago level. Moreover, the area's jobless rate is more than two percentage points lower when compared to the statewide average. All three counties in the area have an unemployment rate below the state average, but Jefferson County (4.5 percent) is the only one to come in below the national average.

LABOR FORCE In contrast to broader statewide trends, the Eastern Panhandle's initial recorded declines in the unemployment rate were accompanied by solid labor force growth as 2,300 people joined the labor force between the fourth quarters of 2010 and 2012. Over the course of 2013 and 2014, however, preliminary data indicate the region experienced measurable labor force attrition that was likely related to slowdown in growth in the Greater DC Area over that time period. On a positive note, the Eastern Panhandle's labor force has added approximately 1,300 people since the beginning of 2015. In addition, all three counties in the region have labor force participation rates well above the statewide average and Jefferson and Berkeley counties are actually several percentage points higher in comparison to the rest of the nation.

INCOME Per capita personal income in the Eastern Panhandle was estimated at nearly \$35,200 during calendar year 2014, without adjusting for inflation. Overall, per capita income levels in the region have been essentially unchanged over the past two years, lagging the performance seen at both the state and national level. Per capita income in the region has held steady in recent years due to the fact that population growth has exceeded gains in wage and non-wage sources of income. Overall, since 2008, the region has seen nominal per capita income levels increase at a rate of 1.6 percent per year.

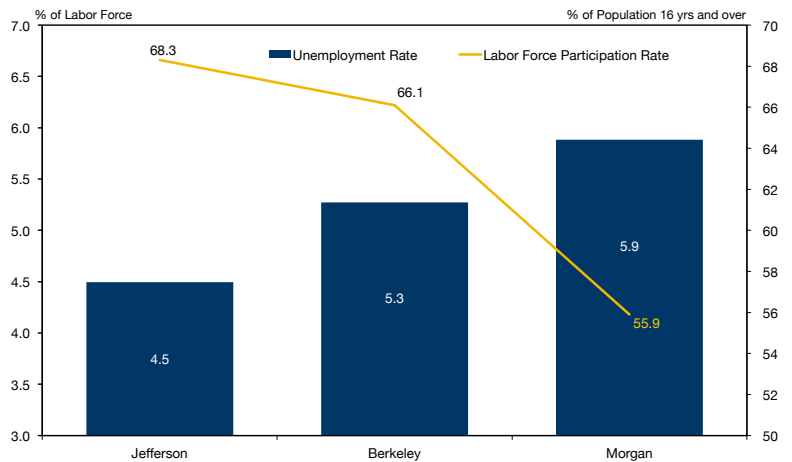
Of the three counties that comprise the Eastern Panhandle region, residents in Jefferson County have the highest per capita income at roughly \$39,800, putting it almost \$4,000 above the statewide average and placing it sixth among West Virginia's 55 counties. Per capita income levels in Morgan and Berkeley counties were

FIGURE 4: Unemployment Rate



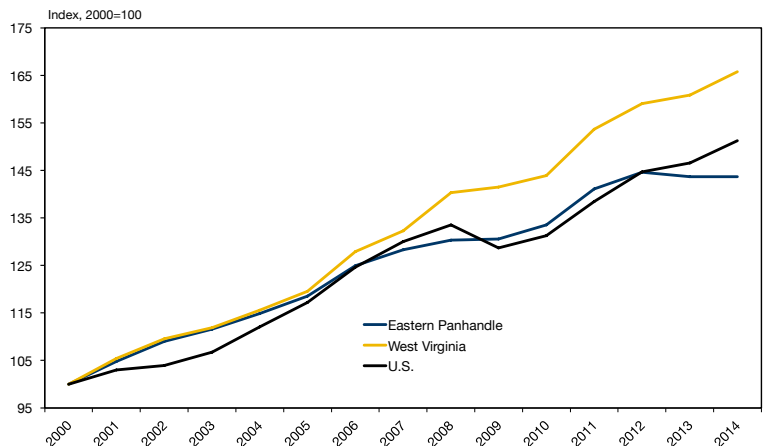
Source: US Bureau of Labor Statistics
 Note: Shaded regions indicate recessions

FIGURE 5: Unemployment Rate and Labor Force Participation Rate by County



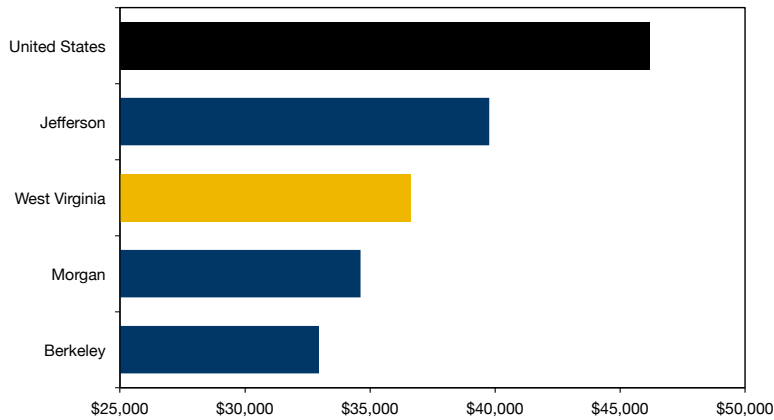
Source: US Bureau of Labor Statistics; US Census Bureau
 Note: Unemployment rate represents 2014Q2; Labor force participation rate is from 2012.

FIGURE 6: Per Capita Personal Income

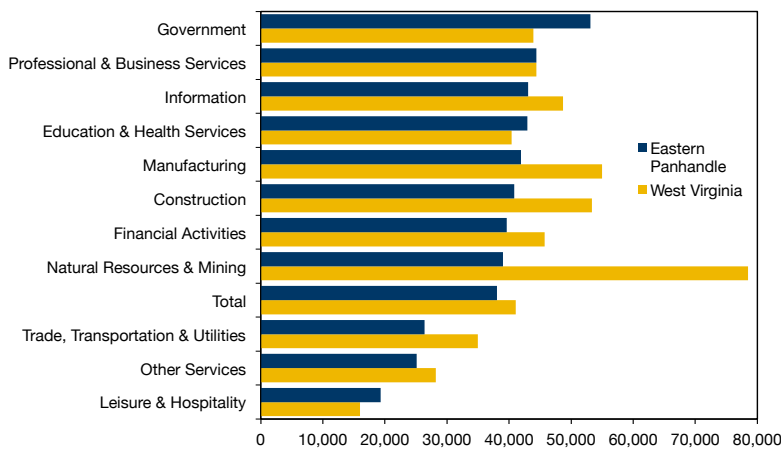


Source: US Bureau of Economic Analysis
 Note: The 2014 figure for Eastern Panhandle is an estimate.

3. Construction data comes from McGraw-Hill Construction.

FIGURE 7: Per Capita Personal Income by County

Source: US Bureau of Economic Analysis

FIGURE 8: Average Annual Salary by Major Sector (2014)

Source: US Bureau of Labor Statistics

FIGURE 9: Summary Population Profiles

	Eastern Panhandle	West Virginia	United States
Total Population (2014)	183,663	1,850,326	318,857,056
% Population Under 18 (2014)	23.3%	20.5%	23.1%
% Population 65 Years + (2014)	14.3%	17.8%	14.5%
Population with Less than High School Diploma (2013, % of pop. 25 yrs. +)	13.9%	15.4%	13.4%
Population with High School Diploma, No College (2013, % of pop. 25 yrs. +)	37.3%	40.2%	27.8%
Population with Some College (2013, % of pop. 25 yrs. +)	27.0%	25.4%	29.2%
Population with Bachelor's Degree or Higher (2013, % of pop. 25 yrs.+)	21.7%	18.9%	29.6%
Median Age (2014)	39.7	42.0	37.7
Mean Household Income (2013)	\$68,998	\$55,787	\$73,767
Average Household Size (2013)	2.61	2.44	2.65

Source: US Census Bureau

lower at \$34,600 and \$33,000, respectively. Incomes tend to be somewhat higher in Jefferson County since a larger share of workers commute into the Washington, DC metro area where wages and salaries tend to be higher. Growth rates in per capita income across the three counties were similar, ranging between 1.8 and 2.1 percent per year.

POPULATION The Eastern Panhandle has consistently ranked as West Virginia's fastest-growing region since the 1990s. Between 1994 and 2014, Berkeley, Jefferson and Morgan counties combined to gain nearly 66,000 residents, or a 56 percent cumulative rate of growth over that time period. By contrast, the state's remaining 52 counties saw a combined loss of roughly 34,000 residents. Population growth in the Eastern Panhandle has been somewhat weaker in recent years when compared to the early- to mid-2000s, but gains have accelerated in the past two years, reaching a 1.4 percent increase during 2014.

Due to some of its underlying demographic characteristics, trends in the Eastern Panhandle's population tend to resemble broader national conditions than those observed elsewhere in West Virginia. For example, the region's population is appreciably younger compared to the state, causing the Eastern Panhandle has higher birth rates and lower death rates. Consequently, this allows the region to gain residents via natural increase (births minus deaths) while most counties in the state typically see deaths outnumber births. The local population also tends to possess higher levels of educational attainment. Nearly 22 percent of the region's population aged 25 years and older held at least a bachelor's degree during 2013. Jefferson County contained the highest share of college graduates in the region, with more than one in four of the county's residents aged 25 years and older had received a bachelor's or graduate degree.

Eastern Panhandle Region Outlook

Expectations for the US economy during the forecast horizon will have a significant impact on the Eastern Panhandle's performance going forward.⁴ Our forecast calls for economic growth to continue over the next five years. Projected economic growth at the national level during the outlook period bodes well for the Eastern Panhandle's economy and should allow the region to enjoy growth that is well above the state average and approaching the national average through 2020.

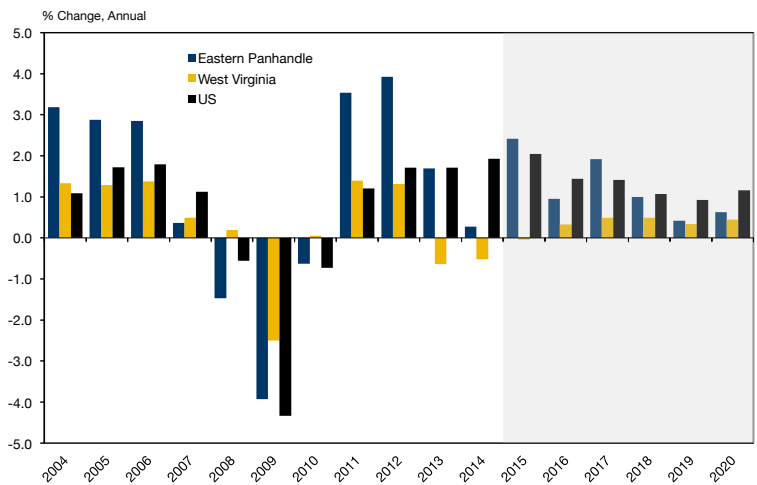
EMPLOYMENT FORECAST We anticipate total employment will increase at a rate of 1.0 percent per year. This represents a slower rate of growth that was observed as the three-county region emerged from recession, but this will put the Eastern Panhandle's performance well ahead of statewide job growth (0.5 percent) but slightly below that of the national average (1.2 percent). Growth for calendar year 2015 is estimated at an above-average pace of just above 2 percent, but part of this increase is driven by weaker-than-normal seasonal patterns in recorded 2014 data for a few key sectors.

COUNTY FORECAST Among the three counties, the forecast calls for Berkeley County to enjoy the strongest rate of growth over the next five years with gains expected to average between 1.1 and 1.2 percent per year. Berkeley County's economy is projected to pace the overall region thanks to strong contributions in particular from the construction, manufacturing and warehousing sectors. Employment levels in Jefferson County are expected to increase at an average annual rate of 0.8 percent through 2020. Payrolls in Morgan County will likely rebound at the slowest rate going forward (0.4 percent annually), reflecting the area's status as a retirement area and bedroom community.

SECTORAL OUTLOOK Among the Eastern Panhandle's major sectors, our forecast calls for manufacturing to record the strongest pace of job growth during the next five years, expanding at a rate of nearly 5 percent per year. The bulk of this growth will be accounted for by the opening of Procter & Gamble's new \$500 million production facility in Berkeley County. Approximately 300 employees are expected to be on staff once operations begin in 2017, with the workforce expected to reach 700 by 2019. Other segments of the area's manufacturing sector, which include machinery, building materials and other goods, are expected to remain stable at worst and have potential to bolster overall growth depending upon broader national economic conditions.

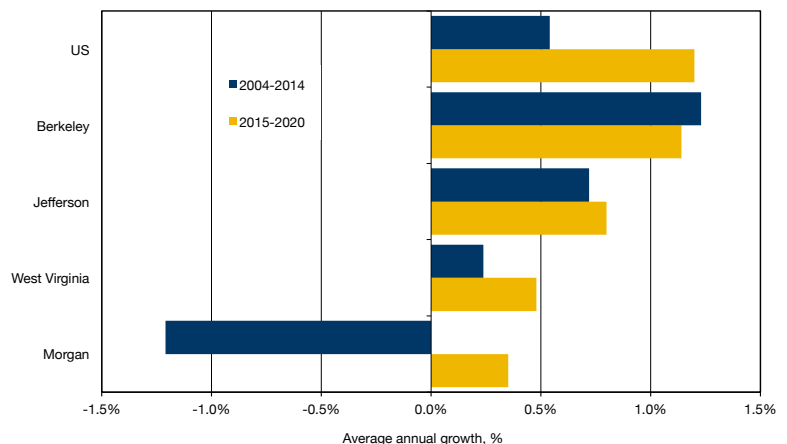
Construction activity is also expected to contribute greatly to job growth in the Eastern Panhandle. Overall, we anticipate construction sector payrolls to increase 4.2 percent annually through 2020. A sizable proportion of growth over the first half of the forecast horizon will be driven by site development and construction related to the P&G facility and its supporting infrastructure. Aside from the P&G facility, nonresidential construction activity should also get a boost as more retail and related developments arise thanks to the region's expanding high-income population and continued commercial/industrial development along the I-81 corridor. Longer term, new residential construction will buoy the sector as several years of relatively limited homebuilding activity combined with steady population growth lead to a tighter housing supply, thereby spurring increased single-family housing construction.

FIGURE 10: Employment Growth Forecast



Sources: US Bureau of Labor Statistics; WorkForce WV; WVU BBER Econometric Model; IHS Economics
 *Note: Eastern Panhandle and WV use covered employment; Shaded region represents the forecast period

FIGURE 11: Employment Growth Forecast by County



Sources: WorkForce WV, WVU BBER Econometric Model; IHS Economics

⁴ All forecast estimates presented herein are derived from the WVU Bureau of Business & Economic Research Econometric Model unless otherwise noted.

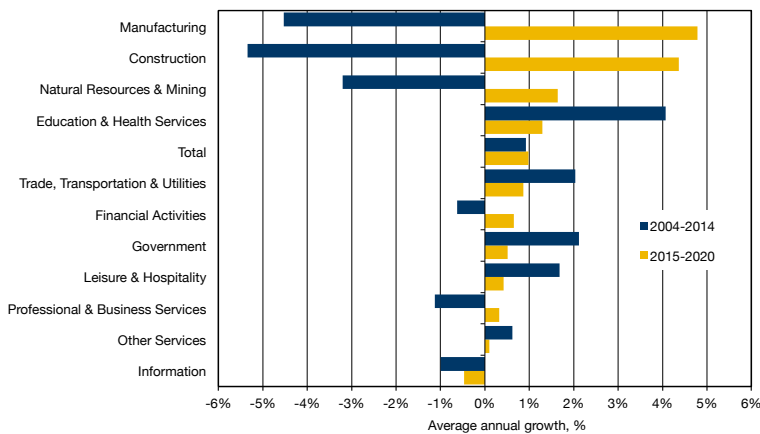
Private education and health services providers operating within the Eastern Panhandle are projected to increase employment at an average annual rate of 1.3 percent through 2020. Political uncertainty surrounding the Affordable Care Act does pose a downside risk to the sector's growth, but an expanding elderly population and the location of several major health care facilities in the region provide enough of an impetus for the sector's expansion during the outlook. Additionally, regulatory scrutiny of for-profit educational institutions, like those found in the Eastern Panhandle, could also present the possibility of further downside risk going forward.

Employment in the region's trade, transportation and utilities sector is projected to increase 0.9 percent per year between 2015 and 2020. Population growth, rising income levels and greater household wealth created by

higher home values and healthy equity markets bode well for Eastern Panhandle retailers. More importantly, however, we anticipate the Macy's and P&G facilities will likely foster more development opportunities of wholesale trade, transportation and warehousing facilities along the I-81 corridor in Berkeley County.

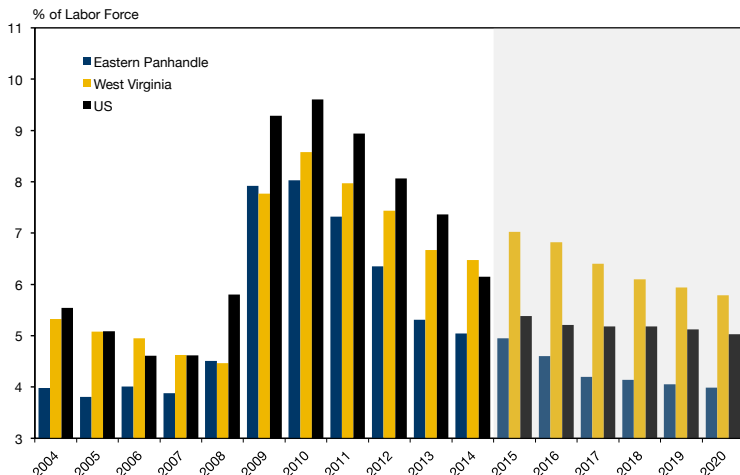
Public sector job growth in the Eastern Panhandle will lag what was observed over the previous decade. Nearly all of the job gains are expected to occur at the state and local levels, as high income levels along with anticipated population growth lead to increased demand for schools and other public services. Federal government jobs in the region are generally expected to remain steady, but hiring of census enumerators will temporarily boost federal payroll counts in 2020. The national political environment will remain a key risk to federal employment in the region during the outlook period, not only for the workers who commute into the DC area but also for the agencies located in the three-county region.

FIGURE 12: Eastern Panhandle Employment Growth Forecast by Sector



Sources: WorkForce WV, WVU BBER Econometric Model

FIGURE 13: Unemployment Rate Forecast



Sources: US Bureau of Labor Statistics; WVU BBER Econometric Model; IHS Economics
 Note: Shaded region represents the forecast period

The forecast calls for the leisure and hospitality sector to expand slowly going forward. Most of these gains are expected to come largely from businesses tied to local households' spending patterns and business travel. Unfortunately, the region's gaming industry will face increasing pressure over the forecast horizon, particularly within the next year or so. The Hollywood Casino Resort in Charles Town has already seen a significant jump in competition as new venues have opened up in Rocky Gap, Hanover and Baltimore, Maryland. The competitive environment for casino visitors is only expected to rise sharply once the MGM National Harbor Casino Resort opens its doors in Prince George's County, Maryland, in the second half of 2016.

UNEMPLOYMENT Strong job growth will allow the Eastern Panhandle's unemployment rate to fall fairly steadily during the outlook period. However, healthy labor force growth is expected to put a floor on how far the jobless rate will fall in the near term, keeping it close to 5 percent through early-2016. Afterwards, the forecast calls for the unemployment rate to decline moderately before eventually settling at around 4 percent in 2019 and 2020—nearly two full percentage points below the statewide average. Jefferson County is expected to have the lowest unemployment rate throughout the forecast horizon, falling to the low- to mid-3.0 percent range. Morgan County's jobless rate will likely be the highest among the three counties in the region, but at approximately 4.7 percent it will still remain well below the state average.

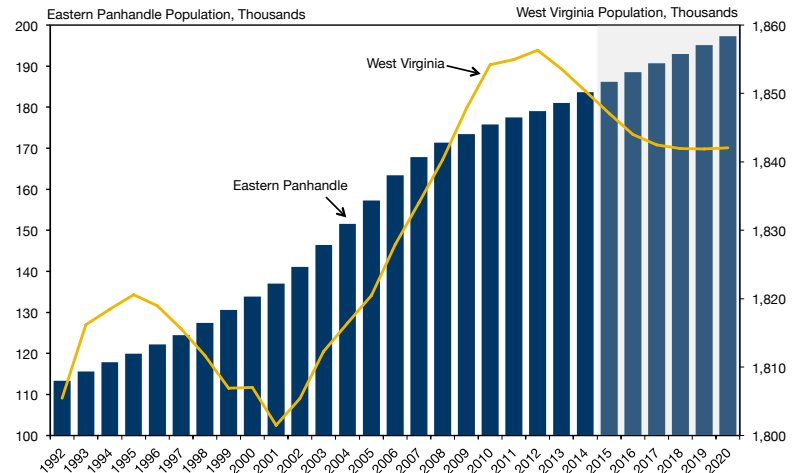
LABOR FORCE Unlike many other parts of West Virginia, the Eastern Panhandle should continue to see solid and consistent growth in the size of its labor force through 2020. In addition to the anticipated flow of migrants into

the region, the size of the under-18 population will only add to the local workforce as these individuals reach working age. Morgan County will be the exception as its labor force will remain fairly steady going forward as new entrants to the workforce will be offset by the labor force exits caused by the county's large share of elderly residents begins to retire.

INCOME Inflation-adjusted per capita income growth in the Eastern Panhandle is projected to increase at an average annual rate of nearly 2.2 percent through 2020, outpacing the state as a whole but slightly trailing the national average. Further tightening in the Eastern Panhandle's and Greater Washington DC Area's labor markets will bolster growth in locally-earned real wages and salaries as well as imported income from commuters. Nonwage sources of income, chiefly government transfer payment programs such as Social Security and Medicare, as well as investment sources such as capital gains/dividends will also lift income levels going forward.

POPULATION The Eastern Panhandle's population is expected to grow by nearly 1.2 percent annually between 2015 and 2020. Though marking a rate of growth one full percentage point below the Eastern Panhandle's average increase from the past two decades, it marks a significant departure from what is expected for many of the state's other regions. Moreover, some of this below-trend growth can be attributed to the expected slight increase in Morgan County's resident population, as the forecast calls for Berkeley and Jefferson counties to add residents at average annual rates of roughly 1.3 and 1.1 percent, respectively, through 2020.

FIGURE 14: Population Forecast



Sources: US Census Bureau; WVU BBER Econometric Model
 Note: Shaded region represents the forecast period