

Executive Summary

The New River Gorge Area has endured a significant amount of economic volatility over the past several years. Employment in the area rebounded rapidly just after the Great Recession. However, employment has fallen again sharply over the past three years, largely driven by severe losses in the coal industry. In this report, we present a detailed discussion of the current state of the New River Gorge Area economy along with our forecast for the likely path of economic activity over the next five years.

Several key facts behind the New River Gorge Area's recent economic performance are as follows:

- **After gaining nearly 3,000 jobs between early-2010 and early-2012, the New River Gorge Area has lost nearly all of those job gains since early-2012.** Employment in the region is now slightly above where it stood at the trough of the Great Recession. While job losses have occurred in all four counties of the region, conditions have been relatively worse in Fayette County.
 - **Leisure and hospitality and healthcare have been two of the strongest sectors in the region in recent years.**
 - **Job losses have been driven largely by the coal industry, where around one-third of the jobs have been lost since 2012.** Trade, transportation, and utilities has also lost a significant number of jobs in recent years, shedding nearly 10 percent of its workforce since 2007.
 - **Unemployment in the region has been volatile in recent years, but overall has not shown consistent improvement since the Great Recession.** Unemployment currently stands at about one percentage point above the state average.
 - **The region has suffered labor force attrition in recent years.** Overall, the area's labor force has fallen by more than 7 percent over the past four years.
 - **Per capita personal income has been flat over the past two years.** Per capita personal income is noticeably higher in Raleigh County.
- Our forecast calls for moderate growth in the New River Gorge area over the next five years. Key aspects of the outlook are as follows:**
- **We expect employment to increase at an average annual rate of 0.2 percent in the region over the next five years.** However, several additional quarters of job loss are expected before a return to job growth.
 - **The construction sector is expected to produce the fastest rate of job growth going forward,** with a forecast of 1.9 percent average annual job growth. Professional and business services, healthcare services and leisure and hospitality are other major sectors expected to add jobs at above-average rates.
 - **Unemployment is expected to improve over the next five years,** but will likely remain higher than the state and national averages.
 - **Per capita personal income is expected to rise at an annual average rate of 1.9 percent** over the next five years. This rate of growth is on par with West Virginia as a whole.
 - **Population has declined in the region over the past decade, and population losses are expected to continue at a moderate pace in coming years.** Most of the area's population loss will likely be driven by declines in Fayette County.

Recent Economic Performance

The New River Gorge Area¹ has struggled for much of the last three years. After enduring an extended period of economic weakness that lasted from 2006 through 2010, the region experienced a dramatic improvement as payrolls surged to more than 2.4 percent above their pre-recession peak by mid-2012. Since that point, however, the New River Gorge Area's economy has gone on to surrender nearly all of the 2,900 jobs that employers added during the economic recovery.²

COUNTY DIFFERENCES With more than two-thirds of the New River Gorge Area's jobs located there, Raleigh County serves as the region's economic center. Fayette County accounts for a wide majority of the balance of economic activity found in the four-county area. Generally, all four of the region's counties have experienced an overall loss in jobs in recent years, but the pace of declines has not occurred in a uniform fashion. Employers in Raleigh County have cut approximately 1,600 jobs since the beginning of 2012, but the overall level of employment remains slightly above what was observed prior to the Great Recession. A few service-providing sectors have expanded enough to offset a portion of the deep job losses recorded at the county's mines and manufacturing facilities.

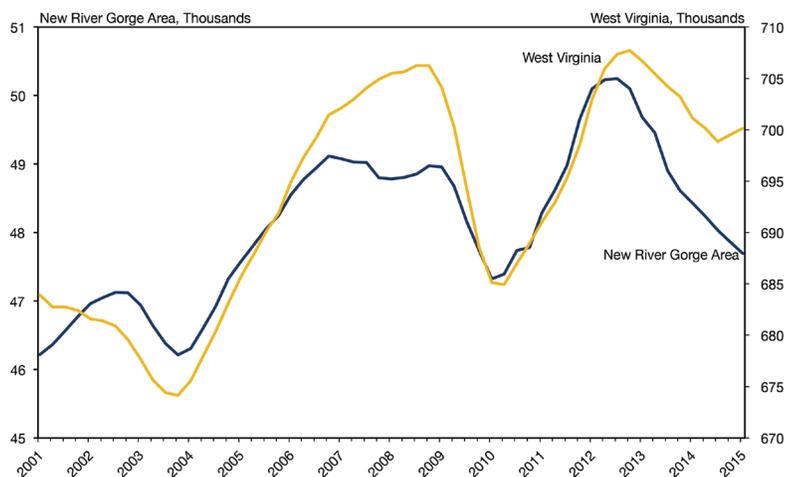
Although Raleigh County has experienced a larger absolute decline in employment since early-2012, Fayette County has suffered the area's largest percentage job losses in recent years. Employers in the county have cut more than 1,300 jobs on net since the first quarter of 2012—a 12 percent cumulative decline in payrolls. A sizeable share of these job losses have been recorded by the local coal industry, but significant declines have also been recorded across many of the county's other goods-producing as well as service-providing sectors. Overall, the drop in employment in during the past few years has caused the level of payrolls in Fayette County to sink to its lowest point since 1991. Both Monroe and Summers counties have seen total employment fall at a relatively consistently rate since 2008, but job losses have been concentrated within a couple of sectors.

TRAVEL & TOURISM Given the sheer number of natural scenic attractions and outdoor-oriented activities in the New River Gorge Area, including whitewater rafting, camping, hiking trails, biking, and zip-line tours, travel and tourism plays a major role in the region's economy.

The leisure and hospitality sector accounts for a larger-than-normal share of jobs in the region and has generally been one of the area's few sources of stability since 2008. Its performance has weakened somewhat after the boost created by the region's hosting of the 2013 US National Boy Scout Jamboree, but overall employment in the sector remains more than 10 percent above its early-2010 trough.

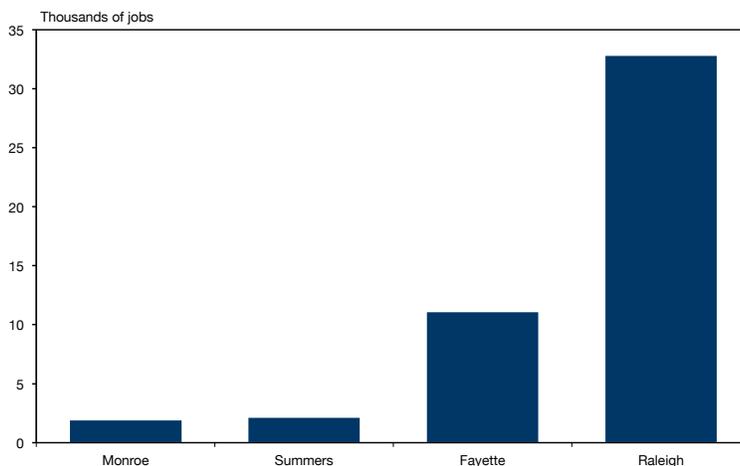
SERVICE-PROVIDING SECTORS Trade, transportation and utilities ranks as the largest source of private sector employment in the New River Gorge Area. Unfortunately, the sector has experienced a fairly consistent trend of job losses dating back to the mid-2000s. Most of these declines can be traced back to the region's retail trade sector, where issues such as a shrinking base of consumers, volatile wage growth and the closure/decline of several large retail stores and developments over time

FIGURE 1: Total Employment



Source: US Bureau of Labor Statistics; WorkForceWV
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 New River Gorge area is comprised of four counties: Fayette, Monroe, Raleigh and Summers.

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

have caused payrolls to contract by nearly 10 percent since 2007. Similar trends have been observed for the area's wholesale trade segment, reflecting in part the decline in overall regional retail trade activity as well as the shrinking economic footprint of the mining and manufacturing sectors.

Education and healthcare services also comprises a large share of the New River Gorge Area's economy, reflecting in part the region's large share of elderly and/or disabled residents as well as the broader national increases in demand for healthcare services. Employment in this sector has nearly doubled in the past two decades within the region. In addition, while payrolls have slipped slightly since mid-2012, the sector remains well above pre-recession levels and still accounts for nearly one-in-five jobs in the region. The public sector has been a relatively stable source of employment for the region overall, thanks in part to a sizeable federal government presence; however, declining coal severance tax collections and a shrinking population have weighed on state and local government spending and prompted moderate cuts in government jobs over the past two years.

NATURAL RESOURCES & MINING In addition to travel and tourism, the New River Gorge Area's economic heritage has traditionally from resource-based extractive industries—particularly coal mining. The sector as a whole accounts for just 6 percent of the region's total employment, but due to the coal industry's high capital intensiveness and wage rates, it produces the equivalent of more than one-fourth of the region's economic output. All of the coal production in the region occurs in Raleigh and Fayette counties, which ranked 7th and 10th statewide, respectively, in terms of mined coal tonnage during 2014.

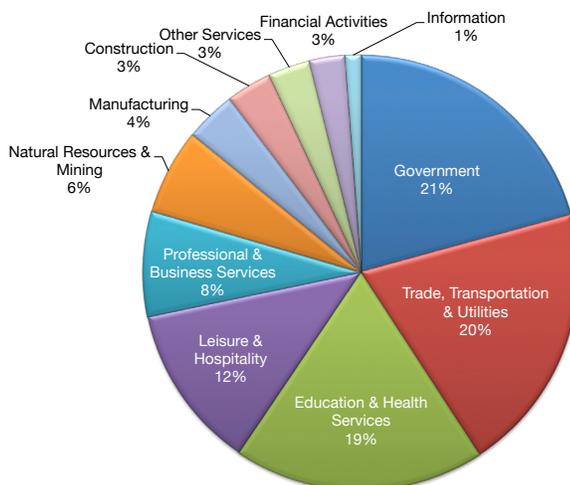
Unfortunately, the area's coal industry, along with other portions of the Central Appalachian Coal Basin, has faced serious downward pressure in recent years. Many decades of heavy mining activity in the region have led to a large decline in coal reserves. This has caused the remaining coal seams to be more sparsely located, shallower in depth and/or thinner, which raises extraction costs significantly and can make some deposits too expensive to mine at prevailing market prices. In addition to these geological issues, the environmental regulatory climate, weak global demand for metallurgical coal and the emergence of shale gas use in electricity generation have all combined to weigh significantly on local coal production and employment. Indeed, the combined level of seasonally-adjusted production for Raleigh and Fayette counties has fallen more than 38 percent since 2011 and marks the lowest mine output for the region since the early 1990s. Coal employment has not fallen quite as far, but mines in the two counties have cut more than 1,000 jobs since the beginning of 2012.

CONSTRUCTION & MANUFACTURING Aside from the boost created by the Summit Bechtel Reserve development and a few infrastructure projects during the 2010 to 2012 timeframe, the New River Gorge Area's construction sector has experienced a prolonged downturn, with local construction companies shedding more than 1,000 jobs since 2006. New home construction in the four-county area, though above the post-recession trough, has fallen appreciably as broader economic conditions have deteriorated.

The annualized pace of new nonbuilding construction projects started, which consist mostly of infrastructure-related items, have remained in a range of \$40-\$60 million over the past several years. By contrast, spending on new nonresidential construction projects has totaled less than \$10 million in the past year and has fallen to levels not seen since late 2009. Regional manufacturing activity remains weak. Most of this drop-off is largely a result of the fabricated metal shops and mining machinery manufacturers in Fayette and Raleigh counties seeing a drop-off in business activity as mines have idled or closed in recent years. On a positive note, the region's wood products manufacturers appear to be stabilizing while Monroe County's small high-tech sector has expanded steadily since the early 2000s.

UNEMPLOYMENT RATE After remaining in line with statewide average between 2005 and early-2012, the New River Gorge Area's unemployment rate has departed from this historical trend over the past few years. Overall, the region's jobless rate has been increasingly volatile during the last three years. Upon falling to 6.8 percent by late-2014, the four-county area's unemployment rate has since spiked to 8.0 percent by the second quarter

FIGURE 3: New River Gorge Area Employment Distribution by Sector (2014)



Source: WorkForceWV

Note: Construction and Natural Resources & Mining reflect averages through 3rd quarter.

of 2015. This rapid increase now places the local average rate nearly a full percentage point above an already-elevated statewide figure and nearly three percentage points higher than the national average.

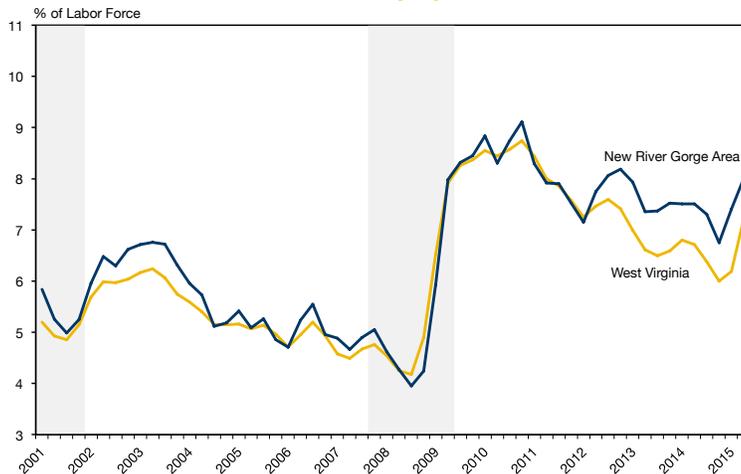
Each of the area's four component counties have seen their unemployment rates rise since the latter half of 2014. Monroe County is the only portion of the New River Gorge Area with an unemployment rate below the statewide average at 6.2 percent during the second quarter of 2015. Summers County contains the second-highest of the region at 7.5 percent. Raleigh County's jobless rate came in at a seasonally-adjusted average of 7.8 percent during the second quarter of 2015. In addition to typically having the region's highest unemployment rate, Fayette County has also experienced the most dramatic increase in the jobless rate since the beginning of the year. Indeed, after reaching nearly a 6-year low of 7.7 percent by the fourth quarter of 2014, Fayette County's unemployment rate has jumped 1.4 percentage points to 9.1 percent.

Reflecting the region's struggling labor market, as well as its underlying demographic trends, the New River Gorge Area has recorded significant labor force attrition since 2011. Overall, the region's workforce has declined by more than 7 percent (4,300 people) in the past four years. Workforce participation rates are also very low throughout the four-county region. In most cases, less than half of the population either holds a job or is actively looking for a job. Summers County's labor participation rate is especially low at 42.3 percent - more than 10 percentage points lower than the statewide average of 53 percent.

INCOME Per capita personal income (not adjusting for inflation) for the New River Gorge Area was estimated at approximately \$34,500 during calendar year 2014. This marked a 0.3 percent rate of growth versus 2013. Even though average incomes in the region have been mostly unchanged over the past two years, the New River Gorge Area has enjoyed a fairly strong rate of growth in nominal per capita income levels over the past six years, averaging 2.7 percent growth per year since 2008. Income growth has generally been in line with the statewide average, but has outpaced national-level growth of 2.1 percent annually over this time period.

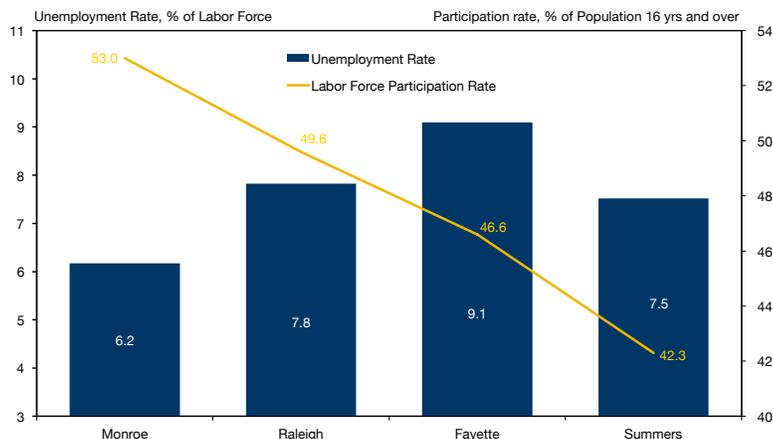
Raleigh County residents received income levels of approximately \$39,400 per person during 2014, ranking it as the 9th-highest among West Virginia's 55 counties. The region's three remaining counties have per capita income levels well below the state average Fayette County, ranging between \$27,000 and \$30,000 in 2014. Per capita incomes in Raleigh and Fayette counties are boosted to some extent by the high wages that are paid to coal miners, but income levels in most of the region are held down to a great extent by the source of

FIGURE 4: Unemployment Rate



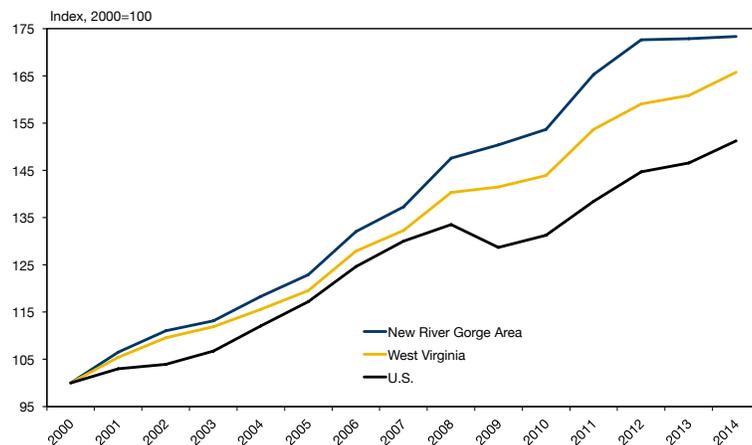
Source: US Bureau of Labor Statistics
*Shaded regions indicate recessions

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



Sources: US Bureau of Labor Statistics; US Census Bureau

FIGURE 6: Per Capita Personal Income



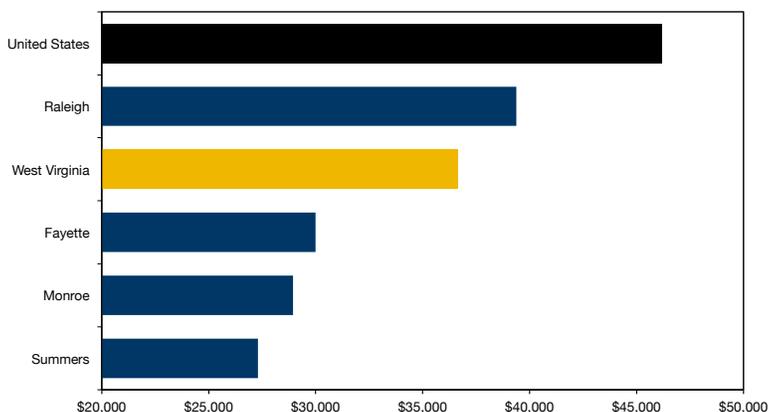
Source: US Bureau of Economic Analysis
*Note: The 2014 figure for the New River Gorge Area is an estimate.

income earned by residents. Indeed, due to a combination of demographic and socioeconomic circumstances, federal government transfer payments such as Social Security, Medicare, etc. account for at least one-third of total personal income received in Fayette, Monroe and Summers counties. In fact, nearly 44 percent of income received by Summers County residents came from federal government transfer payments.

POPULATION The New River Gorge Area's population trends have been quite volatile over the past two decades, having gone through a few episodes of gains that were followed by losses. The region's population has declined by approximately 2,500 residents since 2000, but the underlying trends for the four counties have varied. Monroe County has generally gained residents since 2000 while Fayette and Summers counties have seen their population numbers decline at a fairly steady rate, losing more than 5 percent in the past 14 years. Raleigh County has accounted for most of the region's recent population volatility by gaining more than 1,000 residents between 2006 and 2011, only to lose roughly an equal number over the subsequent three-year period.

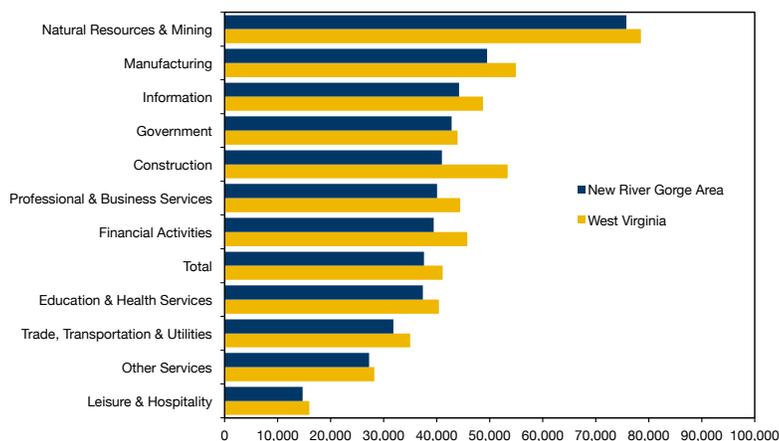
Just as with the rest of the state, the size of the New River Gorge Area's population has been negatively affected by deaths consistently outnumbering births. Part of this is due to the area's larger-than-normal share of elderly residents, but also due to higher death rates from a host of causes among younger people living in the region. Finally, rates of educational attainment in the area lag both statewide and national figures as less than 15 percent of residents aged 25 years and over hold at least a bachelor's degree.

FIGURE 7: Per Capita Personal Income by County (2014)



Source: US Bureau of Economic Analysis
Note: 2014 Figures for counties are estimates

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



Source: US Bureau of Labor Statistics

FIGURE 9: Summary Population Profiles

	New River Gorge Area	West Virginia	United States
Total Population (2014)	150,372	1,850,326	318,857,056
% Population Under 18 (2014)	20.7%	20.5%	23.1%
% Population 65 Years + (2014)	19.0%	17.8%	14.5%
Population with Less than High School Diploma (2013, % of pop. 25 yrs. +)	19.8%	15.4%	13.4%
Population with High School Diploma, No College (2013, % of pop. 25 yrs. +)	41.8%	40.2%	27.8%
Population with Some College (2013, % of pop. 25 yrs. +)	23.7%	25.4%	29.2%
Population with Bachelor's Degree or Higher (2013, % of pop. 25 yrs.+)	14.7%	18.9%	29.6%
Median Age (2014)	42.9	42.0	37.7
Average Household Size (2013)	2.96	2.44	2.65

Source: US Census Bureau

New River Gorge Area Outlook

Expectations for the West Virginia and US economy during the forecast horizon will have a significant impact on the performance of the New River Gorge Area going forward.³ The forecast calls for the region's economic growth to trail state and national averages during the outlook period. However, anticipated growth at the state and national level and an eventual stabilization in the coal industry should enable the area to re-emerge from its current economic downturn and register moderate growth. We anticipate total employment will increase at an average annual rate of roughly 0.2 percent through 2020. Payrolls are expected to post a decline for 2015 and 2016 as a whole, but the New River Gorge Area should begin to stabilize by early 2017 and see steady job growth return over the remainder of the outlook period.

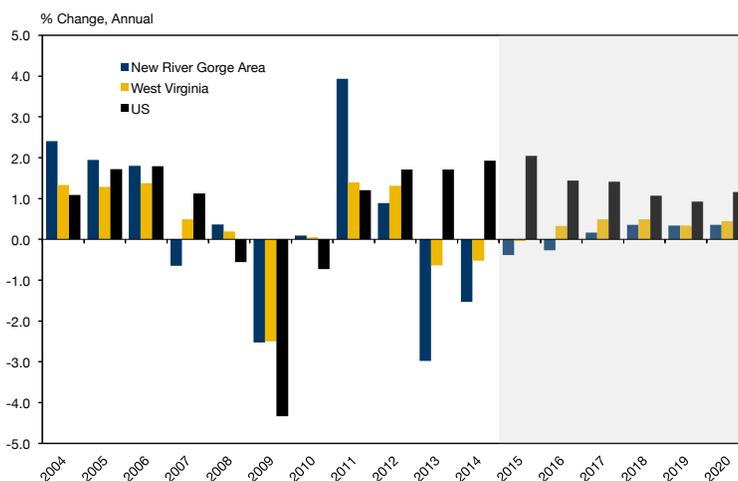
COUNTY DIFFERENCES Among the region's four counties, Monroe County is expected to realize the fastest pace of job growth going forward (0.5 percent per year) and be the only to outperform the state as a whole. Raleigh County will likely see payrolls grow by late 2016, but gains will be moderate overall at 0.3-0.4 percent annually through 2020. Summers County's economy will generally be stable over the next five years, although payrolls will be boosted enough in 2020 from decennial census enumerators to produce slight job growth. The forecast calls for Fayette County to lose jobs over the next five years. Most of these losses are expected to be driven in part by dwindling local coal production, a smaller public sector, and a declining tax base.

SERVICE-PROVIDING SECTORS Service-providing sectors will generate most of the job growth in the New River Gorge Area's economy during the outlook period. However, construction is expected to add jobs at the fastest rate in the region over the next five years. These anticipated gains reflect a rebound from the large declines observed over the course of the previous decade, as the recovery in the region's residential, nonresidential and nonbuilding construction segments will be moderate. Professional and business services will expand at a solid pace 1.7 percent through 2020. Most of these gains will be driven by broader national economic trends that will bolster demand for business support services firms operating in Raleigh County. In addition, hiring of contract labor should also improve as coal production eventually begins to stabilize and/or expand at some of the region's more productive mining operations.

Education and health services is expected to add jobs at a 0.7 percent annual rate over the forecast horizon. Healthcare demand is expected to grow consistently within the region, reflecting the region's large share of elderly residents and above-average proportion of individuals with disabilities. Public sector employment will rise at nearly 0.3 percent annual during the next five years. Weakening coal tax severance receipts and a declining school-age population will weigh on local government payrolls in the region going forward. Virtually all of the anticipated growth in public sector employment can be attributed to hiring related to the decennial census in 2020.

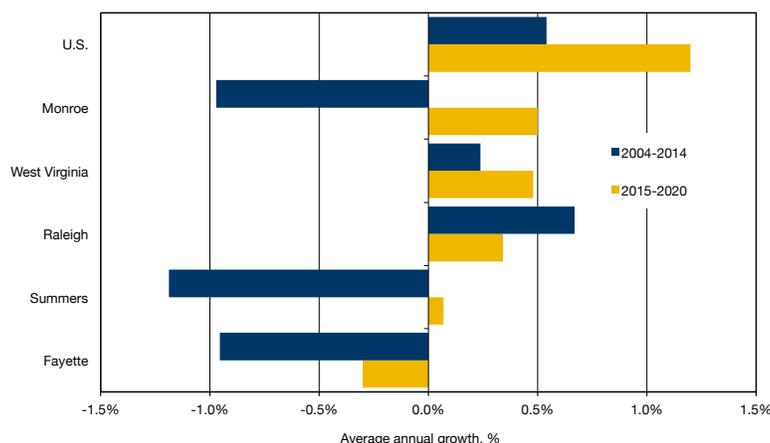
TRAVEL & TOURISM Leisure and hospitality is expected to grow 0.2 percent annually, but will likely see somewhat uneven growth during the outlook period. The region's

FIGURE 10: Employment Growth Forecast



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

FIGURE 11: New River Gorge Area Employment Growth Forecast by County



Sources: US Bureau of Labor Statistics, WVU BBER Econometric Model; IHS Economics

³ All forecast estimates presented herein are derived from the West Virginia University Bureau of Business & Economic Research Econometric Model unless otherwise noted.

wealth of natural amenities and outdoor recreational activities will remain a strength for this sector going forward and allow it to consistently attract spending by tourists. Growth should temporarily be boosted in 2017 and 2019 as the Summit Bechtel Reserve plays host to both the National and World Boy Scout Jamborees. Trade, transportation and utilities sector will likely experience limited gains in activity through 2020, largely as a result of local consumer spending being negatively affected by sluggish growth or outright losses in high-wage jobs found in the coal industry and portions of the manufacturing sector.

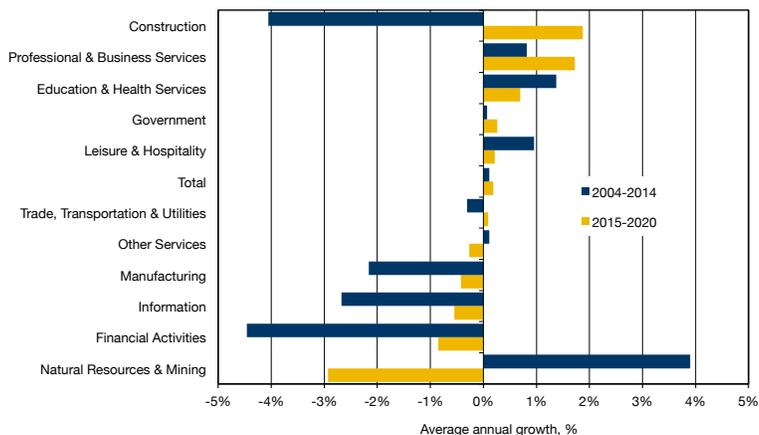
MINING AND MANUFACTURING The New River Gorge Area's natural resources and mining sector is expected to continue losing jobs at an average annual rate of nearly 3 percent between 2015 and 2020. Although the overall magnitude of declines will be smaller in comparison to what has occurred in recent years, the region's coal industry will still struggle further over next the five years. In the near term, an oversupplied global metallurgical coal market and weak domestic thermal market will keep many mines in area idle or running at low capacity. Even as market conditions begin to stabilize within the next two years, high extraction costs will remain a hindrance for many of the area's mining operations and will likely deteriorate further as economically-recoverable reserves continue to deplete. Due in part to the tight linkages many of the region's manufacturers have with the coal industry, the forecast calls for manufacturing payrolls to contract 0.4 percent per year.

While a stronger-than-expected rebound in export demand could provide upside potential for the region's coal mining industry, risks are generally biased to the downside. Over the very near term, financial difficulties for several of the area's major coal operators could lead to possible mine closures and significant job losses if their situations are not resolved in an orderly fashion. Finally, several regulations that will directly or indirectly affect coal production in the area have been advanced by the Obama administration, namely the Clean Power Plan and the Office of Surface Mining Reclamation and Enforcement's Stream Protection Rule. These rules were not included as underlying assumptions for the baseline forecast since they will likely be subjected to lengthy judicial review and could also be potentially altered by future federal election outcomes, but will negatively coal production if they are implemented. For a discussion of these potential impacts see the WVU BBER's report *Coal Production in West Virginia: 2015-2035*.

UNEMPLOYMENT The region's unemployment rate is expected to fall steadily in the coming years, reaching an annual average of approximately 6.3 by 2020. However, we expect the jobless rate will remain stubbornly high in the neighborhood of 8.0 percent for at least the next year. Raleigh and Summers counties will likely see their

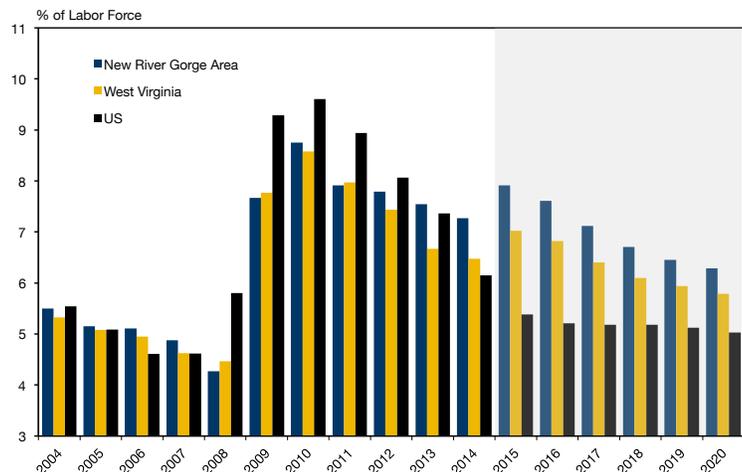
unemployment rates hover in the mid to upper 7.0-percent range through mid-2016 before eventually settling at roughly 6 percent by 2020. Fayette County's jobless rate is expected to hold at or above 9.0 percent over the next several quarters and then gradually decline over the remaining part of the forecast horizon. However, the county's unemployment rate will remain the highest in the region, finishing the outlook period at 7.3 percent. Monroe County is expected to retain the area's lowest jobless rate throughout the next five years and should average just below 5 percent in 2020.

FIGURE 12: New River Gorge Area Employment Growth Forecast by Sector



Sources: US Bureau of Labor Statistics; WorkForceWV; WVU BBER Econometric Model

FIGURE 13: Unemployment Rate Forecast

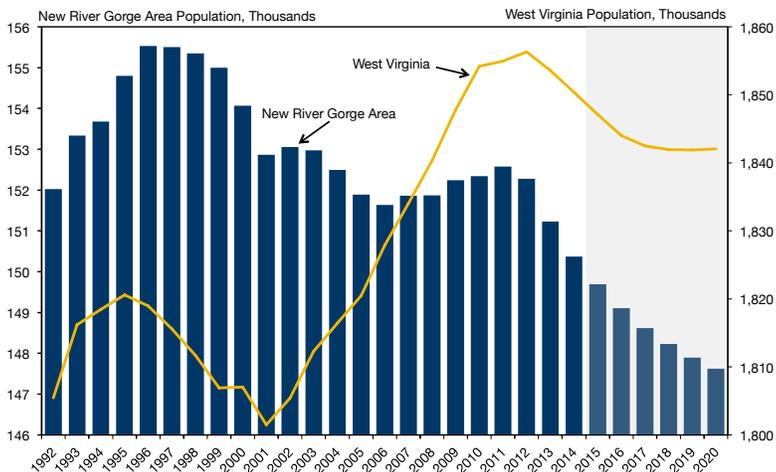


Sources: US Bureau of Labor Statistics; WVU BBER Econometric Model; IHS Economics
Note: Shaded region represents the forecast period

INCOME Inflation-adjusted per capita income growth in the New River Gorge Area is projected to increase at an average annual rate of 1.9 percent through 2020, falling mostly in line with the statewide average while trailing the nation as a whole. While a return to job growth will help wage growth, anticipated weakness in several of the region's high-paying industries will weigh on growth in real wages and salaries earned by residents. Nonwage sources of income, particularly transfer payments, are expected to grow at the fastest rate going forward and as a result will account for more than one-third of earned income by the end of the outlook period.

POPULATION The region's population is expected to shrink at a rate of nearly 0.3 percent annually over the next five years. Monroe County's population will remain mostly stable during the outlook period while Raleigh and Summers counties experience very moderate losses in the number of residents—largely as a result of natural population declines. However, Fayette County will record steady losses in the number of residents through 2020, reflecting expectations for further net migration outflows and natural population declines.

FIGURE 14: Population Forecast



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