

PARKERSBURG AREA

ECONOMIC OUTLOOK 2018-2023



Parkersburg Area Economic Outlook

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Executive Summary

The Parkersburg Area economy saw moderate growth between 2012 and 2015, but since that time, however, the area has registered steady job losses. In this report, we present a detailed discussion of the current state of the Parkersburg Area economy along with our forecast for the likely path of economic activity over the next five years.

Several key facts behind the Parkersburg Area's recent economic performance are as follows:

- **After gaining 1,500 jobs between 2012 and 2015, the Parkersburg Area has seen employment fall by roughly 3,000 in the subsequent two-year period.** These losses put the overall level of employment at its lowest point since the beginning of 2010.
- **In contrast to statewide economic conditions, the Parkersburg Area's economy has yet to emerge from its slump as large job losses in a few sectors have hampered its ability to recover.**
- **Economic performances have fallen across a fairly wide range in the region's five counties.** Ritchie County, WV and Washington County, OH, have experienced the strongest growth.
- By comparison, Wood County, the region's largest economic center, has fared worst, accounting for most of the area's job losses in recent years.
- **Gains and losses in the Parkersburg Area economy in recent years have been heavily influenced by the natural gas industry.**
- **The trade, transportation, and utilities sector has weighed on the region's economy,** but the effects have been especially noticeable in the past year following several major store closures in the region.
- **Though well below levels seen during the Great Recession, the region's jobless rate has remained stubbornly high compared and recently surpassed the statewide figure.**
- **Since 2012, the Parkersburg Area has seen its labor force contract by nearly 4 percent.** Losses in the area's labor force can be explained in large part by population declines as well as some health-related outcomes that have likely put downward pressure on workforce participation.

- **Regional population losses deepened in recent years as the number of deaths outnumbered births by a widening margin and economic turmoil fueled an increase in outmigration.**
- **Per capita personal income within the Parkersburg Area has increased at a rate of 2.2 percent per year since 2013.** Washington and Pleasants counties possess the highest per capita levels of income in the region.

Our forecast calls for the Parkersburg Area to emerge from its recent economic downturn over the next several quarters. The region should register solid rates of job growth over the next two years or so before gains begin to slow measurably. Key aspects of our forecast are as follows:

- **We expect employment to increase at an average annual rate of 0.4 percent in the region over the next five years.** Job growth in the region is expected to be at its strongest through 2020.
- **Natural resources and mining is expected to post the fastest rate of job growth during the outlook period, with a forecast gain of nearly 4.5 percent per year.** Largely due to growth in natural gas, associated growth should also be seen in the construction and professional business services sectors.
- **Manufacturing payrolls are also expected to outperform the regional average,** due in large part to the Hino Motors expansion at Coldwater Creek.
- **After an initial uptick in the area's unemployment rate in 2018, it is expected to decline over the next five years,** but will likely fall in line with the state average.
- **Per capita personal income is expected to rise at an annual average rate of 1.6 percent over the next five years.** Proprietor's Income and government transfer payments will lead growth in income over the forecast period.
- **Population losses are expected to continue in the area during the outlook period, but the rate of decline will be smaller compared to the past few years.**

Recent Economic Performance

The Parkersburg Area¹ economy has experienced dramatic turmoil in recent years. The region managed to avoid the initial economic downturn that plagued several parts of the state between 2012 and 2015, as payrolls in the five-county region increased by 1,500 over this time frame. Since then, however, the Parkersburg Area economy has struggled significantly, with employers shedding over 3,000 jobs since the beginning of 2015. More recently, even as the overall hiring activity has picked up within most of West Virginia's economic regions, due in large part to growth in the construction and energy sectors, the Parkersburg Area has yet to emerge from its slump as large job losses in a few of the region's service-providing sectors have hampered its ability to recover.²

PERFORMANCE BY COUNTY While the area as a whole has experienced a great deal of volatility in recent years, differences across the region's five counties are even more amplified. Wood County is the largest county in the region both in terms of population and jobs, and generally serves as the region's economic and population center thanks to the location of cities of Parkersburg and Vienna. Unfortunately, Wood County has also accounted for most of the job losses posted on net in the region during the past two years, with several retail closures contributing to the deepening losses observed over the past few quarters.

Though appreciably smaller in size, Ritchie County has been one of the five-county region's most solid performers over the past several years, reflecting consistent gains in local manufacturing activity and continued growth in natural gas output. Indeed, natural gas production picked up noticeably over the course of 2017 as new pipelines entering service eased the supply glut and enhanced drilling and exploration brought more rigs on-line throughout the West Virginia portion of the Marcellus Shale play.

Washington County has also posted moderate growth over the past few years. Although it trails

other nearby counties in Ohio in terms of energy-producing jobs, the recent upswing in natural gas production and exploration as well as the increase in midstream infrastructure development (i.e. pipelines) for the natural gas industry has boosted the performance for portions of the county's large contingent of manufacturers.

Pleasants County has experienced limited economic growth at best in recent years as gains in several sectors

Figure 1: Total Employment

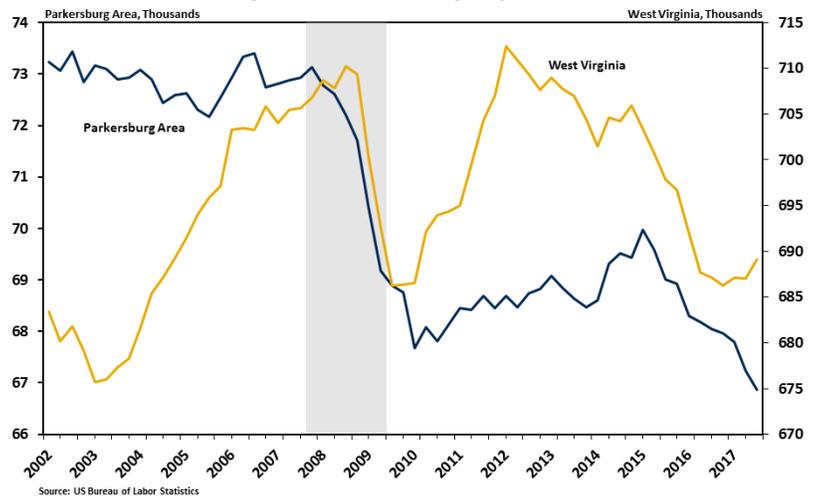
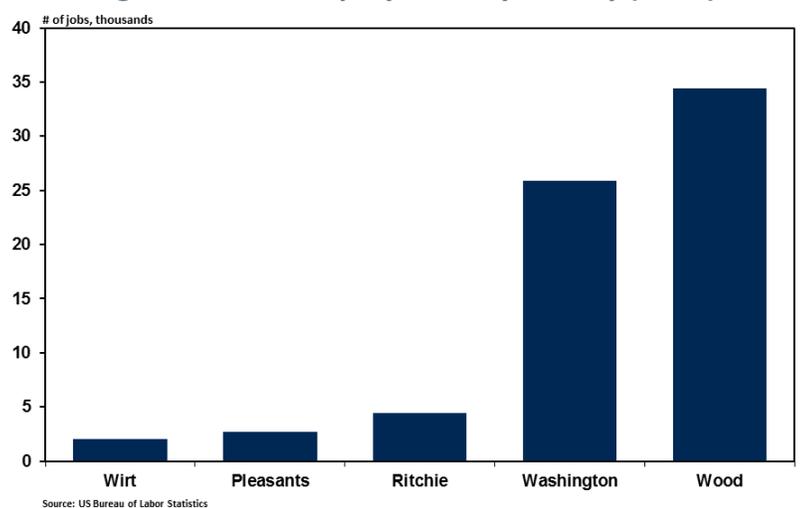


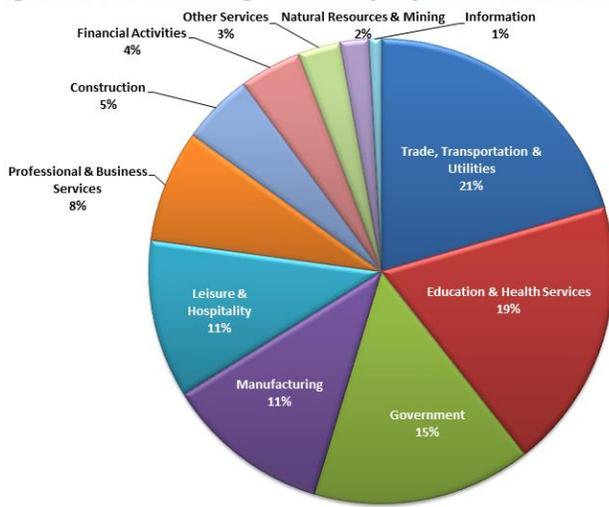
Figure 2: Total Employment by County (2017)



¹ For the purposes of this report, The Parkersburg Area is comprised of five counties: Pleasants, Ritchie, Wirt and Wood counties in West Virginia and Washington County in Ohio.

² Sources for historical information are noted in each figure.

Figure 3: Parkersburg Area Employment Distribution by Sector



Source: US Bureau of Labor Statistics; 2017 data.

have been offset by losses in others. Wirt County payrolls have mostly declined over the past five years as the state’s least populated county remains hampered by the closure of Mustang Survival’s facility in 2013 and the lack of job growth in neighboring Wood County—the destination where most of Wirt County’s labor force commutes for employment.

MANUFACTURING Despite a decline in market share over the last few decades, the Parkersburg Area still possesses a large manufacturing industry. Indeed, plastics, fabricated metals, chemicals and even the auto industry make up the base of the region’s manufacturing activity. Even though the past decade has witnessed a sizable loss in jobs, due in large part to overseas competition in the chemicals and primary metals manufacturing industries, the sector has actually recorded some measurable growth in the region both in terms of payrolls and output since 2014.

The natural gas industry’s expansion throughout Pennsylvania, Ohio and West Virginia, has accounted for some of the sector’s positive turn in the five-county region over the past several years. In addition to driving demand for the pipe manufactured locally for drilling wells and constructing transmission pipelines, the dramatic growth in natural gas output has also dramatically lowered input costs for area chemicals and plastics manufacturers. Plastics manufacturing in the Parkersburg Area has also benefited from the ongoing recovery in single-family home construction activity across most of the US.

Auto manufacturing is also becoming a larger player in the area’s industrial base. Japanese truck manufacturer Hino

Motors Manufacturing U.S.A. has decided to expand its operations in the Parkersburg Area by investing \$100 million in the Coldwater Creek distribution center. The company plans to hire as many as 250 people to build commercial trucks and several truck bodies that are currently built in Japan.

NATURAL GAS Many regions in West Virginia tend to be dominant in coal and/or natural gas production. Although it represents a smaller share of Parkersburg Area overall economy, energy production via the natural gas industry has emerged as a significant driver of job and wage growth since 2012. Ritchie County is the area’s primary source of activity, with the rural county situated in the heart of the northwestern portion of

West Virginia that has accounted for all of the increased shale gas production seen in recent years. Ritchie ranked as the state’s fourth highest-producing county (or roughly 10 percent of the overall volume) in terms of gas withdrawn from wells in 2017. Beyond the direct hiring by drilling and exploration companies, the industry has also helped to drive growth in other sectors such as professional and business services and transportation and warehousing. Specifically, drilling firms such as EQT and Antero Resources need to rely heavily upon contract labor to fill positions when production ramps up. In addition, drilling companies must also utilize field support services such as trucking companies in order to haul fracking fluids and other materials to wellpads that are located in more isolated regions.

CONSTRUCTION Much like the region’s overall economy, construction sector experienced volatility in recent years. Although residential construction activity has generally improved over the past few years, the growth and decline in natural gas activity has had the largest impact on overall construction. Currently, the sector has seen some improvements thanks to the ramped-up development of TransCanada’s Mountaineer XPress Pipeline, which will be built through the region’s geographic footprint. In addition to the pipeline installation, the project will require the construction of three compressor stations at a price tag of roughly \$100 million each. One of these compressor stations is under construction near the border of Ritchie and Calhoun counties. Finally, some gains in highway infrastructure construction activity are expected over the very near term due to the passage of the Roads to

Prosperity Amendment last fall, which authorized increased spending for several highway projects in the area’s four West Virginia counties.

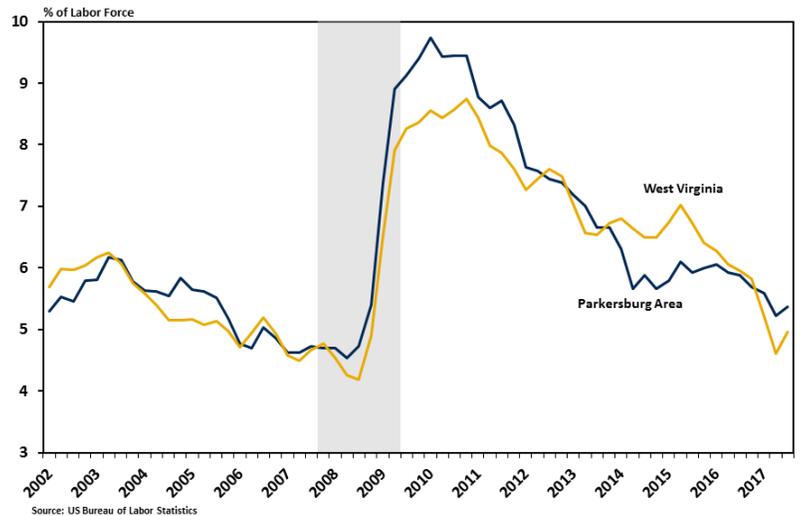
SERVICE-PROVIDING SECTORS Trade, transportation, and utilities is the Parkersburg Area’s largest sector in terms of employment, but its underlying segments have posted noticeably different performances during the past few years. Retail trade held in a relatively stable range until the early-2017, but conditions worsened measurably over the remainder of the year due to the shuttering of four stores. Wholesale trade has remained in a secular decline as automation and a shift to other forms of inventory management have eroded the use of merchant wholesalers.

Transportation and warehousing activity in the area has benefited from rising demand from the natural gas industry, while at the same time the downward trend in coal’s share in electricity generation has weighed heavily on river barge shipments all along the Ohio River. Employment in the region’s electric utility sector has trended lower since 2012, due in part to rising operational costs stemming from heightened environmental regulatory compliance standards and greater competition from lower-cost natural gas power plants. FirstEnergy recently announced the closure of its Pleasants Power Station at Willow Island if it cannot find a buyer or receive emergency measures from the U.S. Department of Energy to remain open.

UNEMPLOYMENT The Parkersburg Area’s unemployment rate has tended to track broader statewide trends for most of the past two decades. Since reaching a peak of nearly 10 percent in mid-2010, the jobless rate declined on a relatively consistent basis down to upper 5.0-percent range by mid-2014.

As the region’s economy began to show appreciable signs of weakness in 2015, the Parkersburg Area unemployment rate held around 6.0 percent until the first half of 2016. Even though the five-county area’s economy has yet to gain traction in terms of generating job growth, improvements in nearby labor markets thanks to ramped-up development of the upstream and midstream segments of the Marcellus and Utica

Figure 4: Unemployment Rate



Shale in Ohio and West Virginia have helped to lower the Parkersburg Area’s unemployment rate in recent quarters. The jobless rate varies by a wide margin in the region, coming in at a low of 5.1 percent for calendar year 2017 in Pleasants County to a high of 7.7 percent in Wirt County.

LABOR FORCE Since 2012, the Parkersburg Area has seen its labor force contract by 3.7 percent (or nearly 2,700 people). Some of this decline likely reflects a combination of the discouraged-worker effect, wherein individuals out of work for long periods leave the labor force altogether, and working-age adults migrating out of the region due to comparatively weak economic conditions.

Figure 5: Unemployment and Labor Force Participation by County

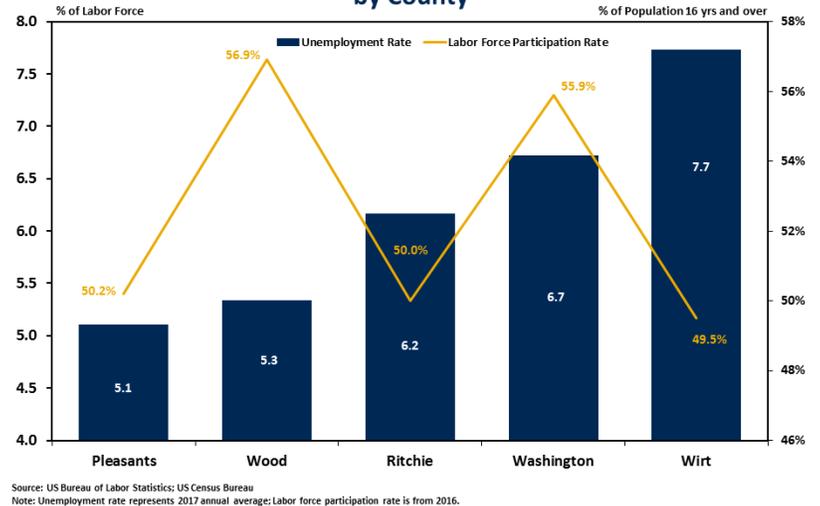
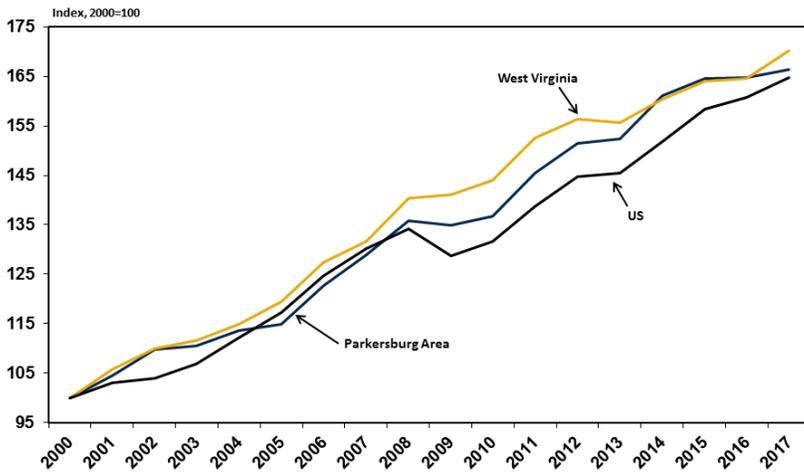
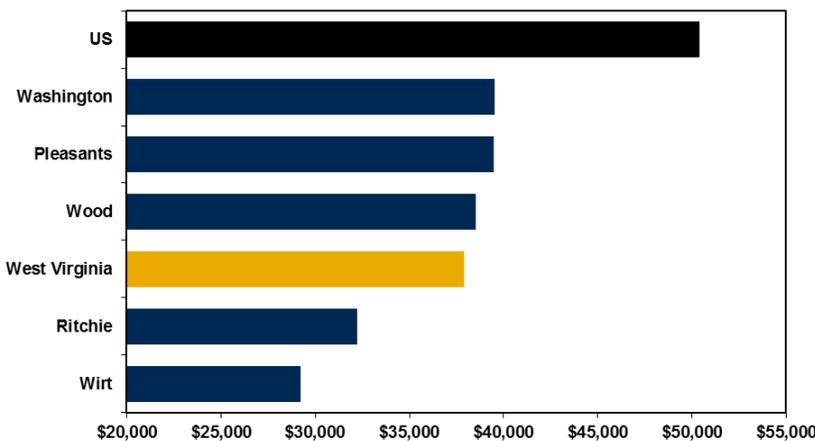


Figure 6: Per Capita Personal Income



Source: US Bureau of Economic Analysis
 *Note: The 2017 figure for the Parkersburg Area is an estimate.

Figure 7: Per Capita Personal Income by Area (2017)



Source: US Bureau of Economic Analysis
 Note: 2017 income figures for counties are preliminary.

Wood and Washington counties lead the region in terms of workforce participation rates among the adult population and exceed the overall West Virginia average by 3 to 4 percentage points. However, both counties lag the national average participation rate by several percentage points. The area’s three highly-rural counties have workforce participation rates around an average of 50 percent, lagging the statewide average by roughly three percentage points

INCOME Per capita income (not adjusted for inflation) in the Parkersburg Area during 2017 was estimated to be \$38,200 and has increased by 2.2 percent annually since 2013. Both the region’s growth rate and overall level of per capita income

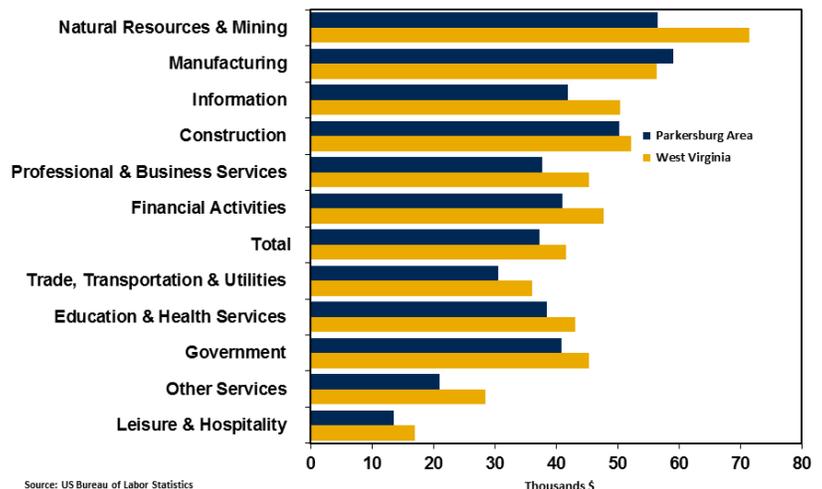
fall roughly in line with statewide figures, but lag the level and growth rate for the nation at \$50,400 and 3.2 percent annually since 2013.

At the county level, per capita income in 2017 varied from \$29,200 in Wirt County to \$39,500 in Washington and Pleasants counties. Wood County also exceeds the statewide figure for per capita income by a slight margin as income levels averaged \$38,500 per person for 2017. Per capita income levels tend to be higher in these three counties due to a large share of employment in higher wage sectors such as manufacturing and electric utilities.

In addition to their rural locations, several of the region’s counties have lower income levels and slower rates of growth due to a disproportionately large share of personal income flowing into the region in the form of federal transfer payments. Indeed, relatively weaker economic conditions have combined with an older-than-normal age distribution to account for a rising share of income in the region to come from federal transfer receipts such as Social Security, Medicare, unemployment insurance and other cash transfers.

DEMOGRAPHIC CHARACTERISTICS Consistent with several of West Virginia’s other economic regions, the Parkersburg Area’s population has experienced sustained declines in the number of residents over a long period of time. While part of the region’s population losses can be attributed to comparatively weaker economic prospects, which

Figure 8: Average Annual Salary by Major Sector (2017)



Source: US Bureau of Labor Statistics

have fueled net out-migration, a growing deficit of births relative to deaths has prevented the area from growing the population via natural increase. 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 issues ranging from heart disease to drug overdoses several younger age groups of people living in the region.

Finally, the five-county area lags the nation in many measures of educational attainment. Even with several smaller higher education institutions in the region, such as WVU-Parkersburg, Marietta College, just over 18 percent of area residents aged 25 years and older possess at least a bachelor’s degree—more than 12 percentage points lower than the national average.

Figure 9: Summary Population Profiles

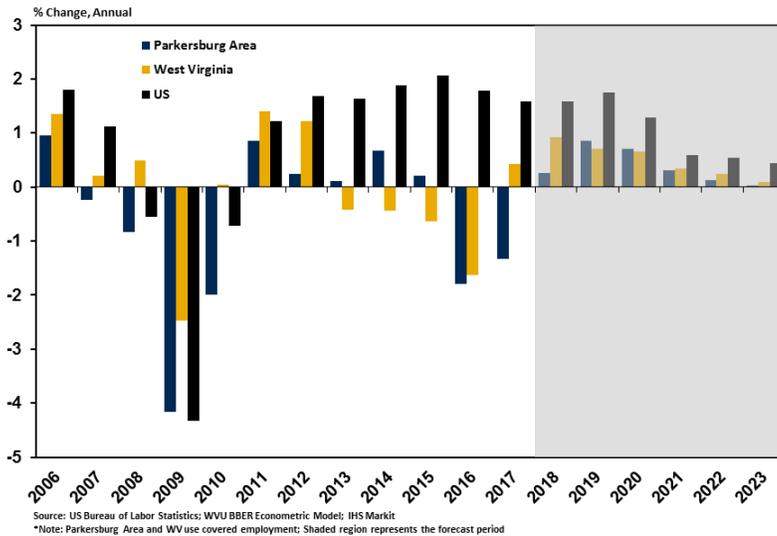
	Parkersburg Area	West Virginia	United States
Total Population (2017)	168,602	1,815,857	325,719,178
% Population Under 18 (2016)	20.7%	20.4%	22.8%
% Population 65 Years + (2016)	19.8%	18.7%	15.2%
Population with Less than High School Diploma (2016, 25 yrs. +)	11.0%	14.0%	12.8%
Population with High School Diploma, No College (2016, 25 yrs. +)	40.3%	40.7%	27.6%
Population with Some College (2016, 25 yrs. +)	30.4%	25.7%	28.9%
Population with Bachelor's Degree or Higher (2016, 25 yrs.+)	18.3%	19.6%	30.6%
Median Age (2016)	44.0	42.2	37.9
Mean Household Income (2016)	\$58,788	\$56,568	\$78,378
Average Household Size (2016)	2.38	2.49	2.73

Source: US Census Bureau

Economic Outlook

Expectations for the West Virginia and US economy during the 2018-2023 forecast horizon will have a significant impact on the performance of the Parkersburg Area going forward.³ The forecast calls for the region to emerge from its recent stint of economic weakness and post moderate job growth in the coming years.

Figure 10: Employment Growth Forecast



Overall, we anticipate total employment will increase at an average annual rate of approximately 0.4 percent through 2023. Payrolls are expected to grow at their fastest rate over the first half of the outlook period, increasing at an average annual rate of more than 0.6 percent through 2020 due in large part to a burst in hiring by the natural gas industry, expanding nonresidential and nonbuilding construction activity and stabilization in several industries that have experienced sizable job losses in recent years.

Growth will slow considerably over the remainder of the forecast horizon, and even with the gains anticipated over the next five years, overall employment in the Parkersburg Area will fall short of levels seen prior to the Great Recession. The region’s outlook does contain significant upside potential in the long-run, much of which hinges on the ability to capitalize on development of downstream opportunities with natural gas. One of these potential developments could include the location of an ethane cracker facility somewhere in the Mid-Ohio Valley.

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

Continued development of the Marcellus and Utica Shale will generate additional opportunities to develop the region’s plastics and chemicals manufacturing base. Ethane crackers are key elements in this process since now the commodity must be transmitted by pipeline to the Gulf Coast to produce ethylene and polyethylene and then shipped back to manufacturers in the region for use in a range of applications. A project such as this would likely produce a significant positive economic shock for the area and could also help to stem the region’s population losses going forward.

NATURAL GAS INDUSTRY Even though the industry will remain a small share of the overall economy, the forecast calls for natural gas to play a major role in shaping the region’s growth going forward. In fact, natural resources and mining, which is largely made up of Ritchie County’s natural gas industry, is expected to post the fastest job growth among the region’s sectors and account for roughly one-fourth of jobs added on net during the outlook period. Overall, the forecast calls for the Parkersburg Area to see an employment gain of roughly 4.5 percent annually through 2023 within this sector.

Aside from the direct gains in sector employment caused by increased output and further development of Utica and Marcellus resources, the industry’s growth will be felt in other areas. For example, the Mountaineer XPress pipeline that is currently under construction is set to run through Ritchie and Wirt counties, falling directly within the region’s geographic footprint. This infrastructure improvement will further alleviate the distribution bottlenecks that had plagued the region. Growth throughout the Marcellus and Utica Shale will likely affect the Parkersburg Area positively.

The energy industry will affect other sectors in the region in an outsized manner over the five-year outlook period. A large share of the area’s professional and business services sector is interwoven with the natural gas industry in both states by providing contract labor workers, as well as engineering, legal and other support services. During the forecast horizon, we anticipate the energy industry’s

growth, along with broader US economic gains that will buoy demand for business services firms, will cause payrolls to increase more than 1 percent per year.

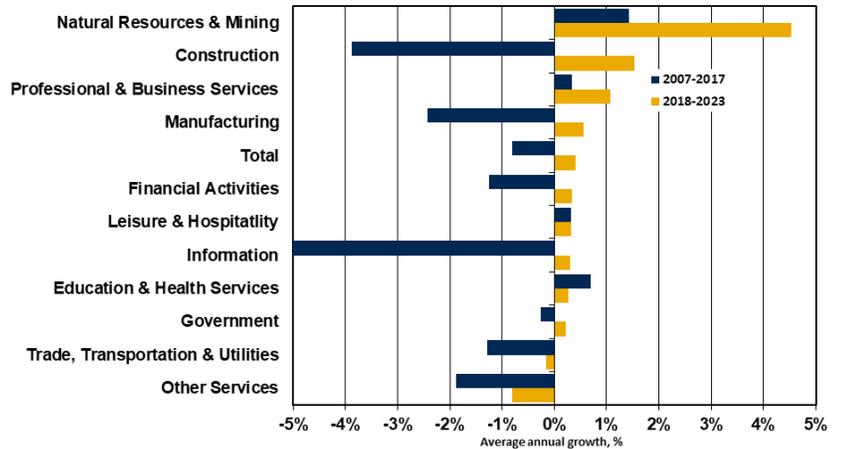
CONSTRUCTION Construction activity in the Parkersburg Area is expected to improve over the course of the next several years primarily in nonresidential and nonbuilding segments. Once again, the natural gas industry’s anticipated growth during the outlook period will likely be a feature of construction sector gains going forward. Major pipeline projects such as the Mountaineer XPress will boost construction employment. This project will lay hundreds of miles of pipeline and also include the construction of numerous compressor stations and other equipment throughout their paths. Three compressor stations in Calhoun, Doddridge and Jackson counties, each estimated to cost \$100 million, will be added to assist in moving the gas along the pipeline to end markets.

Also, truck manufacturer, Hino Motors, is set to reconfigure the former Coldwater Creek distribution center. Construction is expected to proceed over the next several quarters. With the creation of new jobs and healthier income growth, homebuilding activity should register moderate growth.

MANUFACTURING The manufacturing sector in the Parkersburg Area is expected to grow at an average annual rate of 0.6 percent. The region’s chemicals industry has endured a long-term downward trend in production and employment that has resulted in the closure, relocation and downsizing at many plants over the years. By contrast, we anticipate the Parkersburg Area’s chemicals manufacturers to stabilize in the coming years. If an ethane cracker was placed in Wood County, then the chemicals manufacturers could perform far better than expectations. With the construction of new natural gas pipelines, metals manufacturers will likely see moderate growth in their respective industry. Automotive manufacturing is also expected to increase in size during the outlook period due to the previously discussed Hino Motors expansion that is expected to create up to 250 new jobs. Longer-term, the Hino Motors expansion has the potential to lay additional groundwork for development of a larger auto manufacturing hub spread across the Mid-Ohio and Kanawha valleys.

OTHER SECTORS The Parkersburg Area’s leisure and hospitality sector is expected to see job growth on the order of 0.3 percent per year during the outlook period. With the income growth and creation of jobs in the Parkersburg Area, restaurants will likely benefit from increased spending. Expectations for stronger income gains associated with the natural gas and construction

Figure 11: Parkersburg Area Employment Growth Forecast by Sector

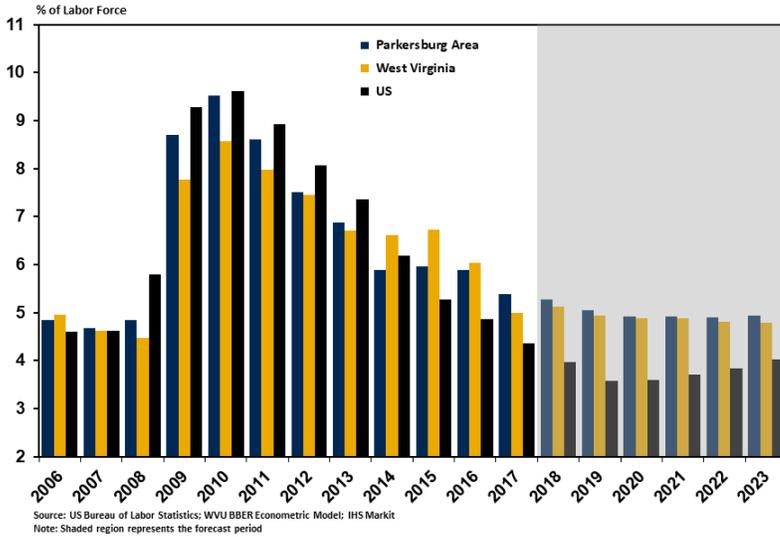


Source: US Bureau of Labor Statistics, WVU BBER Econometric Model

sector’s prospects should bolster hiring at food and service establishments as well as other similar businesses that are more reliant on local spending patterns. Trade, transportation and utilities will likely contract in the forecast period due to losses in retail and utilities. While Retail is not expected to struggle to the extent that it has over the last couple of years, it will still face many of the same underlying issues that affect the industry nationally. The Pleasants Power Station at Willow Island is expected to close in 2019 unless a buyer can be found or the federal government enacts emergency allowances to keep the facility in operation. The forecast assumes the power plant will close, resulting in the loss of nearly 200 jobs in the utilities sector alone and additional losses are possible due to the fact that many workers at the power plant are paid wages well above the regional average. Furthermore, local government tax collections would be affected as well since the facility’s closure would erase a portion of the area’s B&O tax base.

Education and health services is expected to add jobs at a 0.3 percent average annual rate through 2023. Healthcare demand is expected to grow consistently within the region, reflecting the region’s large share of elderly residents. The sector has faced uncertainty over the past

Figure 12: Unemployment Rate Forecast



few years and that uncertainty will likely remain in place over the next several years as some in Congress are still interested in altering some aspects of national healthcare policy, though previous efforts failed.

Gas severance tax collections bode well for many of the area’s local governments specific to Ritchie County, as do heightened property tax revenues associated with industrial development in the region. However, overall government employment in the Parkersburg Area is expected to increase by just 0.2 percent per year as structural budget problems for West Virginia’s state government dampen the outlook. In addition, anticipated declines in the four-county area’s population will put some limits on growth in the local public sector.

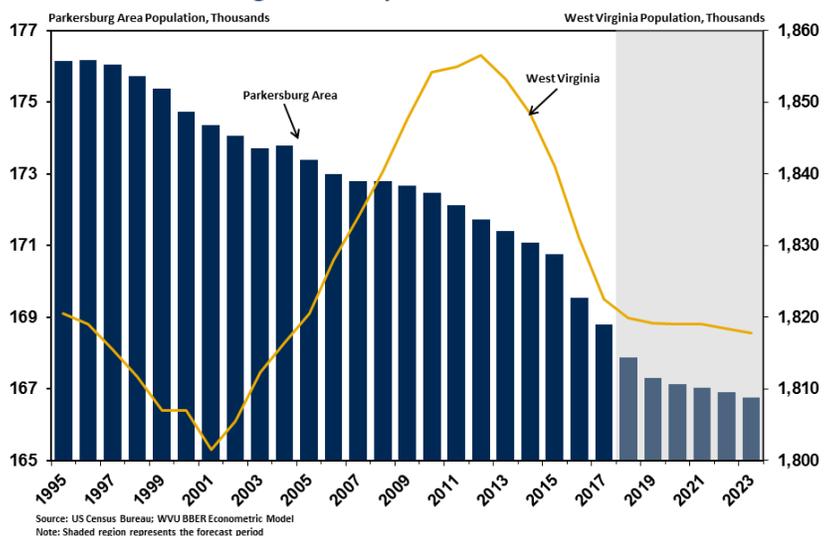
UNEMPLOYMENT OUTLOOK Unanticipated changes in labor force participation within the Parkersburg Area’s labor force could cause the forecast for the regional unemployment rate to differ significantly from both its projected level and path. With that said, the forecast calls for the regional unemployment rate to fall slightly from its current levels and eventually stabilize around 5.0 percent or so by 2020. For the coming year, the jobless rate will likely remain right around current levels, or could rise slightly, as improving labor market conditions invite discouraged workers who had exited the labor force to rejoin in the hopes of finding a job. Overall, the expected path of the Parkersburg Area’s jobless rate puts it largely in line with that of the state but

measurably above what is anticipated for the United States.

While the unemployment rate carries some meaning for the region, it is critical to focus also on labor force participation in West Virginia and the Parkersburg area in the coming years. Historically, West Virginia’s labor force participation rate has ranked as the lowest among all states, and significant portions of the Parkersburg Area have lagged the state by an appreciable margin. As a result, the region needs an adequately-trained as well as healthy and educated workforce if it seeks to achieve stronger-than-expected growth in coming years.

INCOME The forecast calls for real personal income in the Parkersburg area to grow by roughly 1.6 percent annually through 2023. This trails the statewide average by very slight margin, but is appreciably behind the gains anticipated for the US. Although this is a generally positive sign, as it indicates purchasing power for area residents is rising, the composition of income growth by category over the next five years does yield some cause for concern, especially given that wages and salaries are expected to grow at the slowest pace of any major income component while transfer payments will grow in importance. These sources include Social Security, Medicare and other safety net programs and will represent a growing share of the total income earned by residents in the Parkersburg area. On a positive note, the rebound in the natural gas industry is expected to yield notably strong growth in proprietor’s income during the

Figure 13: Population Forecast



outlook period, even surpassing the rapid increase anticipated for transfer payments.

POPULATION The region's population is expected to shrink in number during the outlook period as much of the five-county area grapples with the same demographic challenges that also affect many of West Virginia's other economic regions. Specifically, three fundamental demographic issues could hinder the region's growth potential to some degree during the outlook period and into the longer term. First, workers must be educated and/or trained to meet the skill requirements in the job market. Second, the population must be healthy and not be addicted to potentially life-threatening drugs to consistently contribute to the economy in a productive manner. Finally, a large and growing share of elderly population may limit potential economic growth as these households tend not to be part of the labor force and generate less entrepreneurial activity on average. Each of these issues are a feature in the Parkersburg Area's underlying demographic characteristics and could determine the area's ultimate potential for economic growth.