



THE EASTERN PANHANDLE ECONOMIC OUTLOOK

2017-2021

Eastern Panhandle Economic Outlook

2017-2021 is published by:

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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.

Several key facts behind the recent economic performance of the Eastern Panhandle 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.** Local employers have added roughly 7,000 new jobs on a cumulative basis since late-2010, or a 16 percent jump since the region emerged from recession.
- Among the three counties of the EPH, employment growth has been strongest in Berkeley County in recent years, but Jefferson County has also contributed appreciably to job gains over the past two years.
- **The trade, transportation, and utilities sector has shown the strongest employment growth recently,** driven heavily by Macy's online fulfillment center in Berkeley County, which has now expanded to employ around 1,700 workers, with around 3,000 additional temporary jobs during the peak holiday shopping season. Education and health sectors has also some showed strength.
- **Not all sectors have added a significant number of jobs recently.** Employment in the leisure and hospitality sector has posted only modest gains 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 to down for five years. Growth in construction and business services payrolls have been slow to improve as well in recent years.
- **Unemployment in the region is substantially lower than the statewide average.**
- **Labor force participation rates are higher for the area as a whole compared to the statewide average and**

even exceeds that of the nation in Jefferson and Berkeley counties.

- **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 55 percent, whereas the remainder of the state has lost around 45,600 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 Eastern Panhandle 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 around 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 surpasses forecast employment growth for both the state (0.6 percent) and nation as a whole (0.9 percent).
- **The manufacturing sector is expected to produce the fastest rate of job growth in the coming years, with a forecast of nearly 4 percent annual rate of job growth, driven largely by the scheduled late-2017 opening of a Proctor & Gamble facility.** 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. Business services and trade are 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 fall over the next few years before eventually settling in the mid-3.0 percent range by late 2018.**
- **Wage and non-wage sources of income will drive healthy income growth for the EPH in coming years.**
- **The EPH population is expected to grow at a rate of nearly 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 remains on an expansionary path and has stood out as one of West Virginia's strongest economic regions since 2010. While the state's economy as a whole has struggled for much of the last 4+ years, even falling into recession during 2015, the Eastern Panhandle has managed to post strong job growth over that same time period. Indeed, after shedding nearly 4,400 jobs over the course of its economic downturn, the three-county region has bounced back and now exceeds its pre-recession peak level of employment by nearly 6 percent. Local employers have added roughly 7,000 new jobs on a cumulative basis since the fourth quarter of 2010, or a 16 percent jump 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-2016 have varied. With nearly two-thirds of the jobs found in the region, Berkeley County generally functions as the Eastern Panhandle Region's economic center. Over the course of the Great Recession and the early stages of the national economic recovery, Berkeley County saw total employment contract nearly 12 percent on net. Since late-2010, however, payrolls have gone on to bounce back by more than 22 percent on a cumulative basis.

Jefferson County, which contains nearly 30 percent of the jobs located within the region, experienced a moderate episode of job losses during the economic downturn but gains over the past several years have been uneven. After seeing an initial gain of 1,400 jobs (10 percent) between the early-2010 and mid-2012, total payrolls at businesses within the county either slipped slightly or held steady until the first quarter of 2015. Since then, however, county businesses have added nearly 800 new jobs on

net, pushing the level of employment up to more than 5 percent greater than its peak prior to the Great Recession. While the Eastern Panhandle's two larger counties have registered solid gains in employment since the end of the Great Recession, Morgan County has recovered more slowly as payrolls have remained stable since mid-2013.

COMMUTER JOBS Although payroll levels within the region have expanded in recent years and provide a

Figure 1: Total Employment

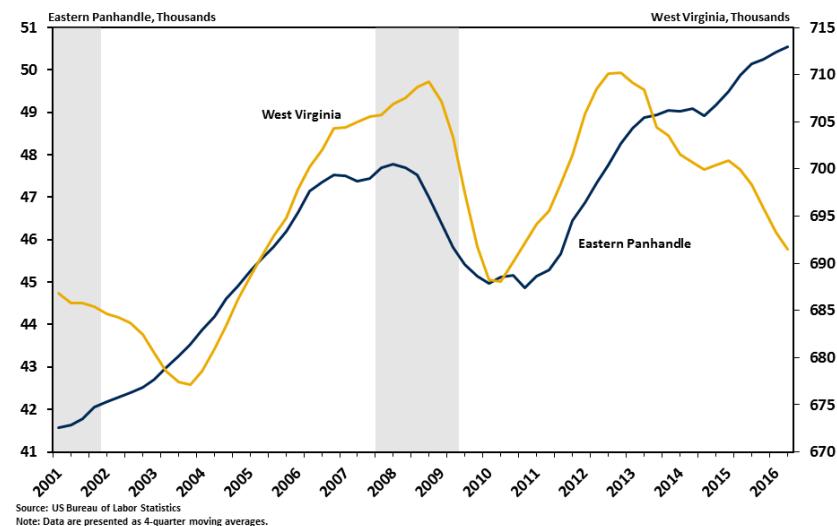
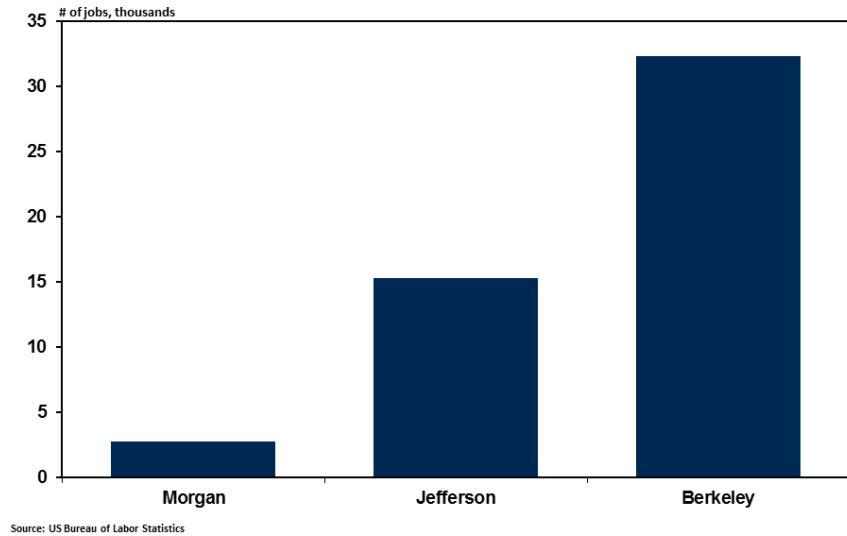


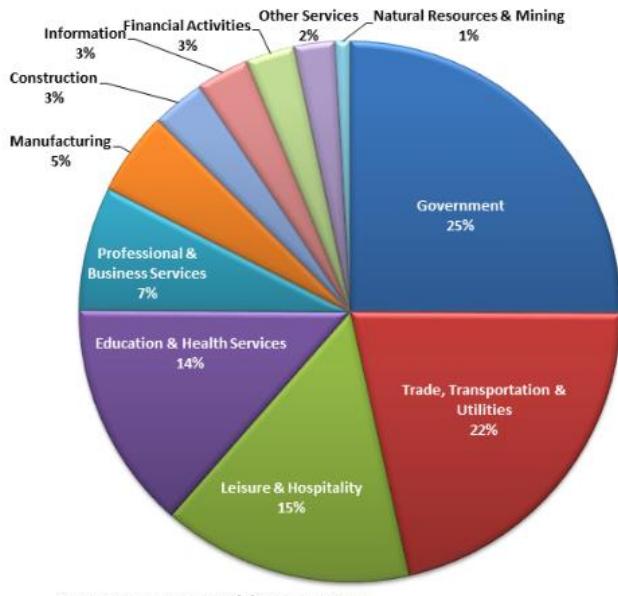
Figure 2: Total Employment by County (2015)



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.

Figure 3: EPH Employment Distribution by Sector



Source: US Bureau of Labor Statistics; Data are for 2015

barometer for localized growth in the Eastern Panhandle, 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 and a slowdown in hiring during 2013 and 2014 linked to budget battles in Congress. Over the past several quarters, however, private- and public-sector hiring activity across the DC metro area has accelerated strongly, opening up the availability of high-wage jobs for commuters in outlying areas such as Berkeley and Jefferson counties. In all, an additional 2,000 residents in the Eastern Panhandle have obtained jobs between mid-2014 and mid-2016.

TRADE SECTOR Despite the region's relatively strong rate of job growth in recent years, a sizable share of the Eastern Panhandle's gains over the course of its economic recovery 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. Year-round staffing levels for the facility have expanded to include approximately 1,700 workers, but increased demands over the winter holiday shopping season result in the addition of 3,000+ temporary employees. At the same time, however, local retail sector employment has increased steadily since the beginning of 2012 thanks to the

backdrop a healthier labor market and continued population growth.

EDUCATION AND HEALTH The education and health services sector has also been a key driver of new job growth in recent years. Even including a prolonged episode of no net job growth from late-2012 to mid-2013, the sector as a whole has added roughly 1,200 workers since the fourth quarter of 2010. In another sign of the sector's growing footprint in the region, education and health services has doubled in size in the past two decades. Most of these gains are connected to the broader national trend of expanding healthcare demand, gains can also be attributed to American Public University System in Jefferson County, particularly over the past several years.

PROFESSIONAL & BUSINESS SERVICES Professional and business services firms enjoyed a burst in hiring during the early stages of the economic recovery, but job growth within the sector has been relatively limited since the first quarter of 2012. Congressional budget battles have hampered the sector locally as reined-in spending on defense and other discretionary programs has affected the region's federal contractors and subcontractors. Nonetheless, the Eastern Panhandle's adjacency to Northern Virginia and Suburban Maryland make it a viable location for a range of business support activities for both defense and non-defense contractors, particularly in the area of IT, legal and accounting services.

LEISURE & HOSPITALITY The leisure and hospitality sector remains a large player in the region's economy, and has experienced some modest new job creation over the past few years. In particular, several new midscale hotels and restaurants in the Martinsburg area as well as an improved regional and national backdrop for business travel and tourism spending have buoyed activity. At the same time, however, the expansion of gaming into Pennsylvania and Maryland has hurt the region's single-largest private sector leisure attraction—Hollywood Casino at Charles Town Races—and the upcoming opening of MGM National Harbor has only increased pressure on the Jefferson County racino.

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 fallen slightly flat for the past 5+ years as hiring activity at all levels of government has been limited by weak revenue growth.

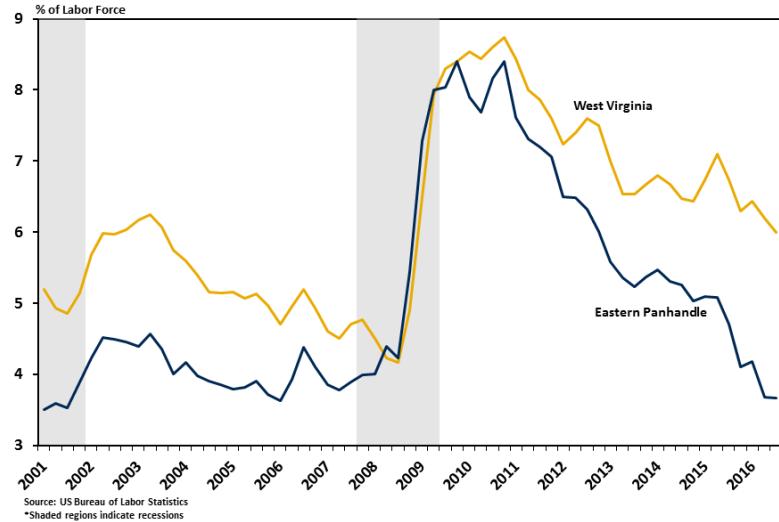
CONSTRUCTION The Eastern Panhandle's construction sector has experienced limited growth over the past few years. After new single-family housing starts in the region plunged more than 87 percent between 2006 and 2011, homebuilding activity rebounded roughly 80 percent by the first half of 2014. Since then, new home construction has edged moderately higher, with single-family housing starts averaging approximately 750 units on an annualized basis. Nonresidential activity has been relatively limited over the past few years, but continued development for the Procter & Gamble manufacturing facility has provided a boost in the past 12 months. Spending on new infrastructure and other nonbuilding projects has averaged nearly \$50 million on an annualized basis during the past 2 years, representing roughly one-fourth the level of spending activity prior to the Great Recession.³

AGRICULTURE While the Eastern Panhandle contains a limited amount of mining operations, agriculture does have a footprint in the region larger than many other parts of the state. According to the 2012 Census of Agriculture, the three-county region contains nearly 1,400 total farm operations, with cattle ranching, horses and apple orchards making up the wide majority of activities at local farms. As of 2014, the most recent year in which data are available, the region's farming operations generated approximately \$90 million in income from sales and other sources, a nearly one-third increase since 2007. While containing fewer farm operations, Jefferson County accounted for 60 percent of the region's farm income.

UNEMPLOYMENT After hitting 8.4 percent on two different occasions in 2009 and 2010, the Eastern Panhandle's unemployment rate has fallen dramatically over the past several years. As of the third quarter of 2016,

the three-county region's jobless rate came in at a seasonally-adjusted reading of 3.7 percent, marking its lowest observed point since the first quarter of 2006. Moreover, the area's jobless rate is 2.3 percentage points lower than the statewide average and more than a full percentage point below the national average unemployment rate. All three counties in the area have an unemployment rate below state and national averages, with Jefferson County (3.2 percent) coming in as the lowest in the region.

Figure 4: Unemployment Rate



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 3,000 people joined the area's workforce between late-2010 and mid-2012. From that point until the first quarter of 2015, however, preliminary data indicate the region's labor force neither increased nor decreased in number, due at least in part to the Greater Washington DC-area's economic slowdown in the wake of sequestration and other state and federal austerity measures. On a positive note, the Eastern Panhandle's labor force has gained roughly 1,000 people since the beginning of 2015. While Morgan County's older-than-normal population keeps its labor force participation rate almost in line with the overall statewide average, Jefferson and Berkeley have roughly two-thirds of their residents aged 16 and older actively participating in the workforce.

³ Construction data come from McGraw-Hill Construction.

Figure 5: Unemployment and Labor Force Participation by County

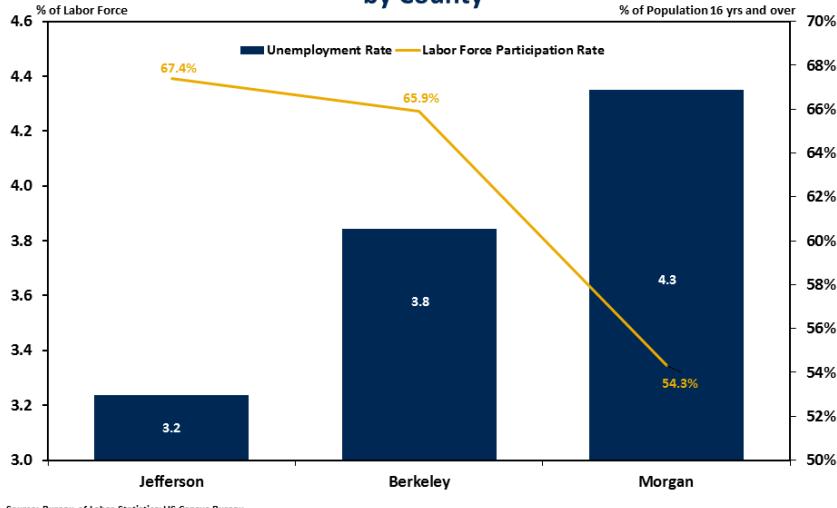
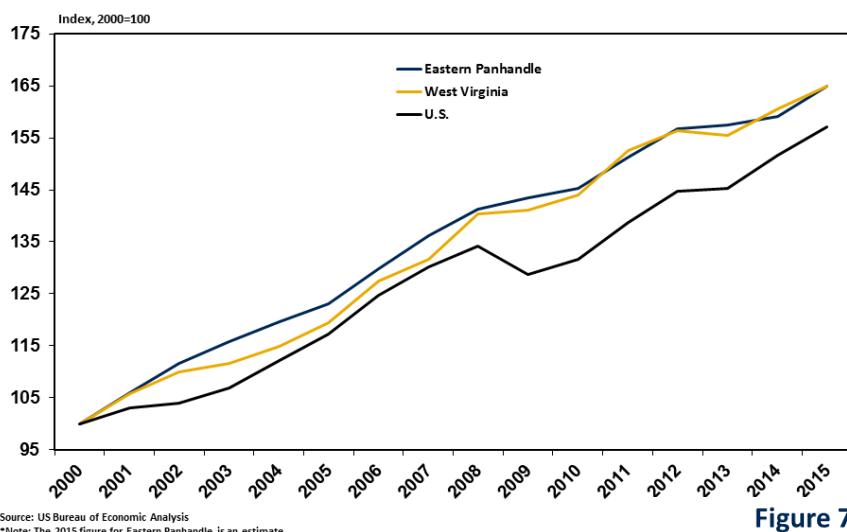


Figure 6: Per Capita Personal Income



Indeed, a higher proportion of adult populations in these two counties participate in the labor force than the nation as a whole.

INCOME Per capita personal income in the Eastern Panhandle was estimated at nearly \$38,900 during calendar year 2015 (without adjusting for inflation), a 3.7 percent gain over 2014. Growth in per capita income levels in the region (2.6 percent per year) has tended to lag state and national averages (2.8 and 3.6 percent, respectively) since 2010; however, this lower rate of income growth can be attributed to the Eastern Panhandle's rapid population growth rather than any noticeable economic shortcomings. Indeed, wages and

salaries earned locally as well as residence adjustment income from commuting workers has increased significantly since the end of the economic downturn.

Of the three counties in the Eastern Panhandle region, residents in Jefferson County have the highest per capita income at roughly \$45,700, putting it approximately \$9,000 above the statewide average and placing it second among West Virginia's 55 counties. Per capita income levels in Berkeley and Morgan counties were lower at \$36,300 and \$32,800, putting each county below the statewide reading on per capita income. Jefferson County residents had the highest per capita income levels since a larger share of workers commute into the Washington, DC metro area where wages and salaries tend to be higher, and also enjoyed the fastest rate of income growth in the region.

Figure 7: Per Capita Personal Income by Area (2015)

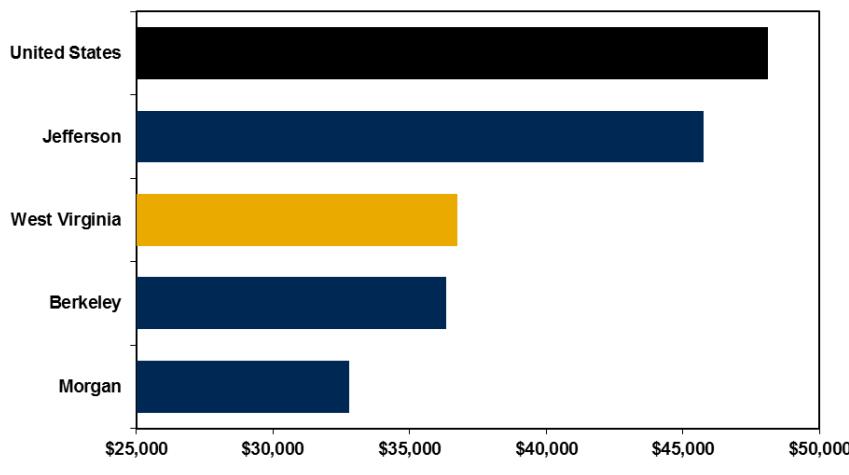
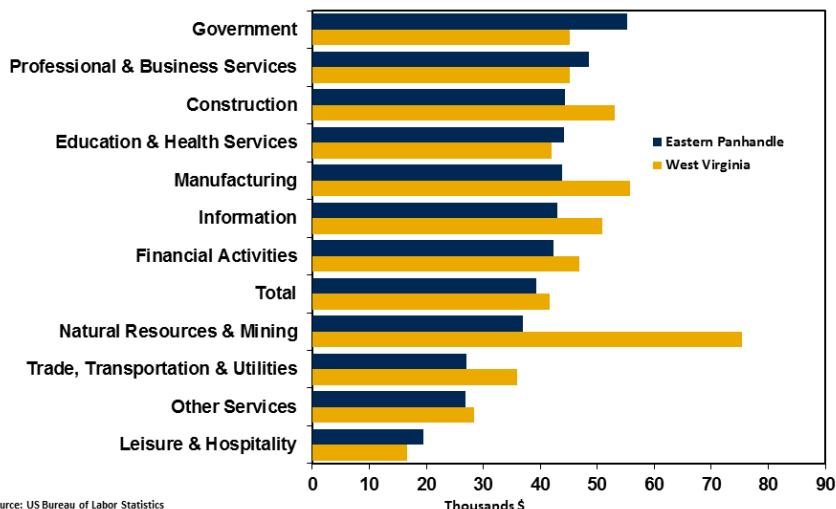


Figure 8: Average Annual Salary by Major Sector (2015)



Source: US Bureau of Labor Statistics

POPULATION The Eastern Panhandle has consistently ranked as West Virginia's fastest-growing region for the past 20+ years. Between 1995 and 2015, Berkeley, Jefferson and Morgan counties combined to gain nearly 66,000 residents, or a 55 percent cumulative rate of growth over that time period. By contrast, the state's remaining 52 counties combined to register a net loss of 45,600 residents. Population growth in the Eastern Panhandle has decelerated in comparison to its performance in the early- to mid-2000s, but gains have begun to pick back up over the past three years (1.3 percent annually) thanks to improving job prospects locally and rising home prices in the VA and MD suburbs of the Washington DC metro area.

DEMOGRAPHICS Due to some underlying demographic characteristics, the Eastern Panhandle's population tends to resemble the US as a whole rather than what is observed for populations other parts of West Virginia. For example, Berkeley and Jefferson counties populations is appreciably younger compared to the state, causing the Eastern Panhandle to have 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.

More than 22 percent of the region's population aged 25 years and older held at least a bachelor's degree during 2014. 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.

Figure 9: Summary Population Profiles

	Eastern Panhandle	West Virginia	United States
Total Population (2015)	185,907	1,844,128	321,418,820
% Population Under 18 (2015)	23.3%	20.6%	22.9%
% Population 65 Years + (2015)	14.7%	18.2%	14.9%
Population with Less than High School Diploma (2014, 25 yrs. +)	13.5%	15.5%	13.6%
Population with High School Diploma, No College (2014, 25 yrs. +)	37.2%	40.9%	28.0%
Population with Some College (2014, 25 yrs. +)	27.0%	24.8%	29.1%
Population with Bachelor's Degree or Higher (2014, 25 yrs.+)	22.3%	18.8%	29.3%
Median Age (2015)	39.8	42.1	37.8
Mean Household Income (2014)	\$70,053	\$55,976	\$74,596
Average Household Size (2014)	2.73	2.43	2.63

Source: US Census Bureau

Economic Outlook

Expectations for the US economy, and to a lesser extent the broader West Virginia economy, during the forecast horizon will have a significant impact on the Eastern Panhandle's performance going forward.⁴ Our forecast calls for the area's solid pace of 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. The addition of a new Procter & Gamble manufacturing will enable the region to enjoy above-average growth during the first half of the forecast horizon before eventually settling down to rates of growth that trail the national average.

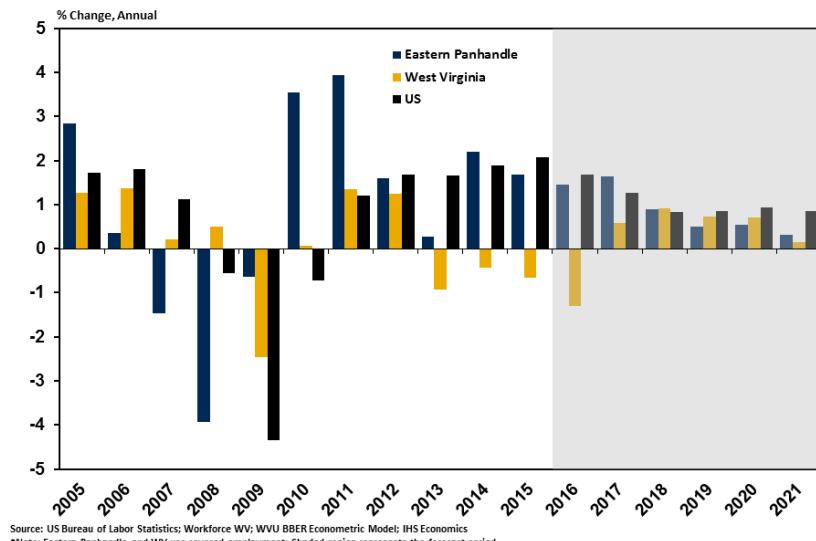
EMPLOYMENT OUTLOOK We anticipate total employment in the three-county region will increase at a rate of nearly 1.0 percent per year. This represents a slower rate of growth than what has been observed in many of the years since the three-county region has recovered from the recession, but this will put the Eastern Panhandle's performance well ahead of statewide job growth (0.6 percent) and even ahead of the national average (0.9 percent). Growth for calendar year 2016 is estimated at a pace of just above 1.4 percent, but structural changes in the seasonal patterns for data of a few key sectors in the past few years leave open the potential for a stronger- or weaker-than-expected performance for the current calendar year.

COUNTY FORECAST Among the three counties, Berkeley County is expected to enjoy the strongest rate of growth over the next five years. Average annual growth of just over 1.1 percent annually will lag the county's performance of the past decade only slightly, but will still allow it to easily surpass both state and national averages over the next five years. Berkeley County's economy will be bolstered in large part by contributions from the construction, manufacturing and warehousing

sectors. Job growth in Jefferson County is expected to trail the national average, but still achieve average annual gains of between 0.8 and 0.9 percent through 2021. Payrolls growth is expected to be slowest in Morgan County at 0.3 percent per year, largely in part to its underlying demographic characteristics.

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

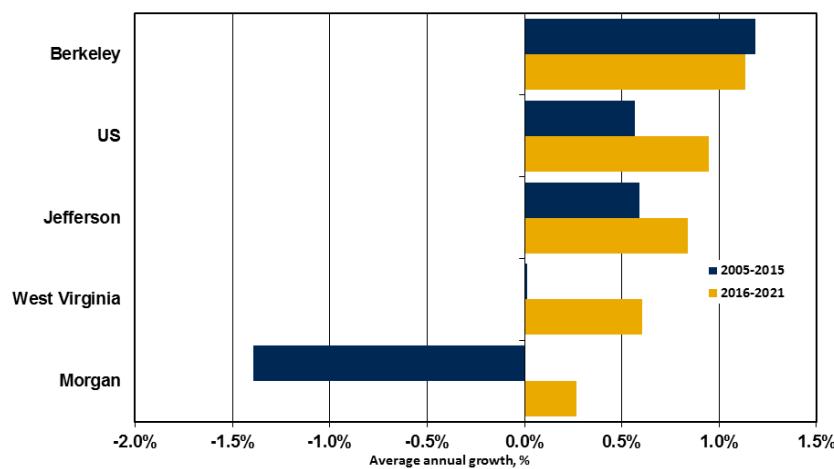
Figure 10: Employment Growth Forecast



Source: 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 Area

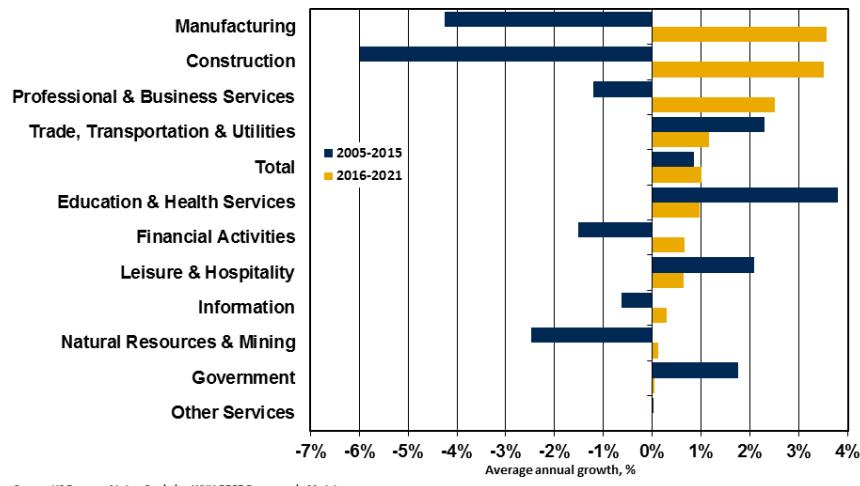


Source: US Bureau of Labor Statistics, WVU BBER Econometric Model; IHS Economics

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

five years, expanding at a rate of nearly 4 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 the Tabler Station area in Berkeley County. Approximately 300 employees are expected to be hired once operations begin in late 2017 as initial production will be limited to fabric enhancer products. By late-2018 to early-2019, the facility's workforce is expected to reach 700 as production expands into other consumer goods such as shampoos, conditioners and soaps. Other segments of the area's manufacturing sector, which include machinery, building materials and other goods, should remain at least stable, but their overall trajectories will depend greatly upon the US economy's ability to remain on its expected path of growth.

Figure 12: Eastern Panhandle Employment Growth Forecast by Sector



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

Construction activity is also expected to contribute greatly to job growth in the Eastern Panhandle. Overall, we anticipate construction sector payrolls to increase 3.5 percent annually through 2021. Much of this growth will occur in the first half of the outlook period, driven in large part by site development and construction of the P&G facility, along with supporting infrastructure around the facility. Other types of nonresidential construction activity are also expected to register gains as the P&G and Macy's developments help to foster additional commercial/industrial development along the I-81 corridor.

In addition, continued population, income and job gains in the area will facilitate construction of new retail and other consumer-focused commercial real estate. Longer term,

new residential construction will buoy the sector as several years of relatively limited homebuilding activity combined with steady in-flows of migrants from higher-priced housing markets in Northern Virginia and Suburban Maryland spur increased construction of new single-family homes.

Private education and health services providers operating within the Eastern Panhandle are projected to increase employment at an average annual rate of just below 1.0 percent through 2021. While the presidential election's outcome does cast a shadow of uncertainty on the sector, given the potential for repeal of the Affordable Care Act by a Trump Administration, an expanding elderly population and the location of several WVU Medicine-backed health

care facilities in the region provide enough of a backdrop to support the sector's continued growth during the outlook. Regulatory and congressional scrutiny of the region's for-profit educational institutions could pose a downside risk during the near term, but longer-term risks to the sector are less clear and due to uncertainty over the incoming administration's views toward this policy issue.

Employment in the region's trade, transportation and utilities sector is projected to increase 1.2 percent per year between 2016 and 2021. 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.

The public sector will likely see very limited job growth over the next five years, with virtually all of the gains expected to occur in local government. High income levels and projected gains in population will likely lead to increased demand for schools and other public services. Federal government jobs in the region are generally expected to decline slightly over the outlook period, save for a temporary jump in payrolls attributed to census enumerator hiring in 2020. However, this forecast estimate is subject to significant risk, both to the upside

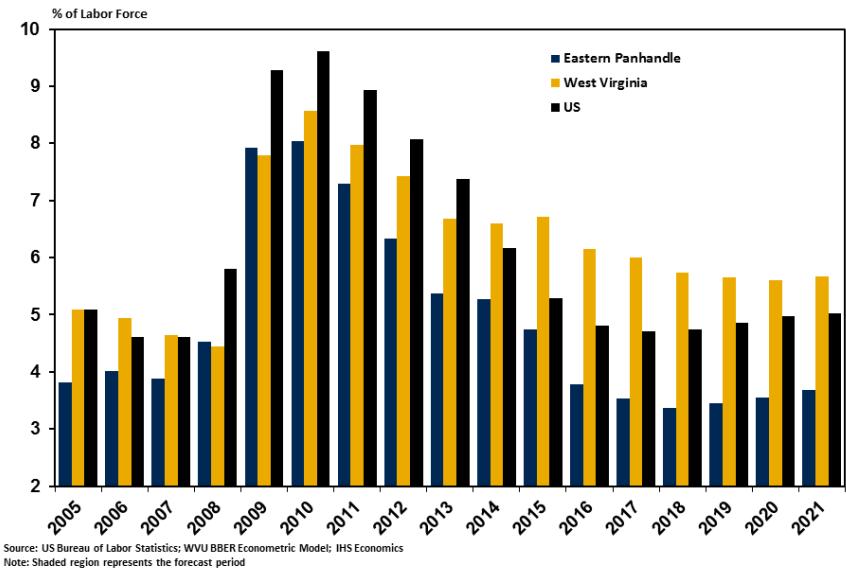
and downside, simply due to the fact that so much uncertainty exists regarding the next presidential administration's priorities and how these will affect the federal government's workforce.

The forecast calls for the leisure and hospitality sector to expand nearly 0.6 percent per year during the outlook period, roughly one-third of its rate of growth from the past decade. Gains will largely be centered on those businesses that cater to local households' discretionary spending patterns (restaurants, etc) and business travel (hotels). Unfortunately, one notable segment of the region's sector, gaming, will face even greater pressure during the forecast horizon as the impending opening of the MGM National Harbor Casino Resort in Prince George's County, Maryland, creates yet another significant competitor for gaming within a relatively small travel radius.

UNEMPLOYMENT OUTLOOK Strong job growth will allow the Eastern Panhandle's unemployment rate to fall fairly steadily over the next few years, ultimately reaching around 3.4 percent by mid-2018. However, healthy labor force and wage growth will put a floor on how far the jobless rate can fall over the longer term as the unemployment rate will inch higher over the latter half of the outlook period. Jefferson County is expected to have the lowest unemployment rate throughout the forecast horizon, falling to the low-3.0 percent range. Morgan County's jobless rate will likely be the highest among the three counties in the region, but in the lower 4.0-percent range it will still remain well below the statewide average.

LABOR FORCE GROWTH 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 2021. In addition to the anticipated flow of migrants into the region, the size of the under-18 population will only bolster the local workforce's numbers 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

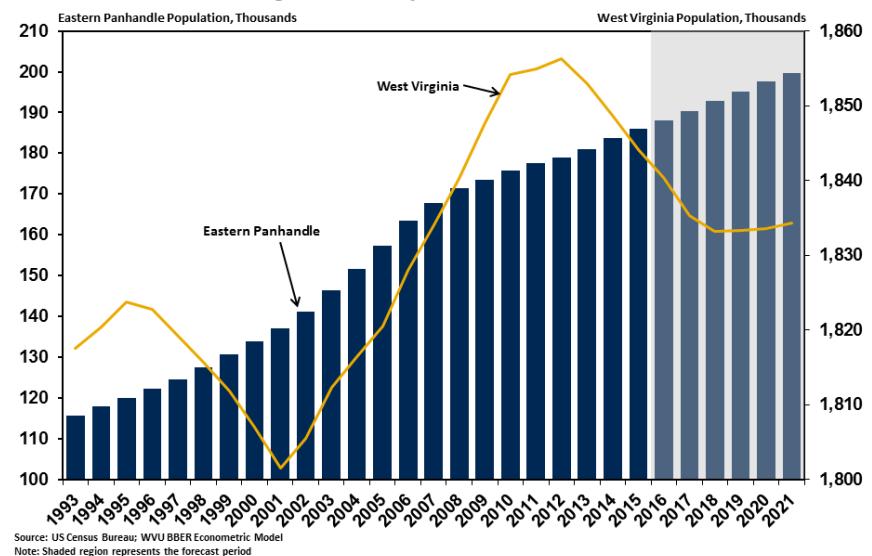
Figure 13: Unemployment Rate Forecast



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 2.0 percent through 2021. 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.

Figure 14: Population Forecast



POPULATION The Eastern Panhandle's population is expected to grow by nearly 1.2 percent annually between 2016 and 2021. 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 1.4 and 1.0 percent, respectively, through 2021.