

MAINE STATE LEGISLATURE

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THE MAINE ECONOMY:
Year-End Review and Outlook
2001

Maine State Planning Office
February 2002



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The Maine State Planning Office maintains several economic databases and other informational resources which may be of interest to the reader; most of these materials can be found on our WEB page. For details on information not found at our WEB site, call Galen Rose at (207) 287-1478.

In particular, we maintain a graphical database called MaineGraph which is a menu-driven file with eighty graphs and associated data on the Maine and national economies. Two versions, one requiring Excel and the other requiring Lotus 123, are available on the World Wide Web. To access these, go to our homepage at -

www.state.me.us/spo

- and click on "Economics/Energy," then click on "Maine Economy."

This year-end report on the Maine economy reviews State economic performance during 2001, outlines the near-term economic outlook for Maine, New England, and the nation, identifies some of the issues we expect will prove important in Maine's economic performance during the next few years, and highlights ten key State economic events of the past year.

Among the conclusions detailed in this report are:

- Maine economic performance in 2001 was well off the pace of the previous year as a result of the national economic recession which began in March of 2001.
- Despite the slowdown, Maine employment, personal income, and retail sales totals were all greater than in the previous year.
- The major economic events in the State during the year included the worst drought in over 100 years, declining energy prices, the bankruptcy of one of Maine's largest employers, and the return of passenger rail service to the State.
- The Maine economic outlook calls for slower growth although the recession is expected to be relatively shallow. Over the next few years, Maine payroll employment growth is expected to average around 1% per year (a little less in 2002 and a little more thereafter).

We hope that you will find this report useful and informative, and encourage you to call us with any comments or questions you may have.

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The Maine Economy in 2001

OVERVIEW

The party's over. In December of 2001, the National Bureau of Economic Research declared that the longest expansion of the post WWII era (ten years exactly) came to an end in March as the 10th recession of the era began. There is little doubt that the downturn lasted through the end of the year, and forecasters are split on whether it will end during the first or second quarter of 2002.

Actually, as we wrote in these pages last year, growth in the US and Maine economies began to slow about mid-year 2000. As we put it then, "Growth in US real gross domestic product, over 5% during the first half-year, fell to just over 1% by year end and recession appeared to be an almost even bet." But curiously, of 54 forecasters polled by the Wall Street Journal in July of 2001, only 2 were predicting a recession for the year.

While there is no formal definition of recession for the Maine economy, major indicators for the State are tracking the nation's quite closely. Maine's unemployment rate bottomed out at 2.4% in March of 2001, and has risen since (to 4.2% in November). Similarly, seasonally adjusted payroll employment peaked in February at 612.8 thousand jobs and trended downward thereafter, falling to 609.2 thousand by November (latest available data).

The table on this page compares performance in 2001 versus 2000 of a selection of Maine economic measures. Nearly all of the measures reflect the general economic deterioration of the past year. Among the more important measures, consumer retail sales growth fell to 2.1% for the year (from 4.5% the previous year), payroll employment growth slipped to 1.4% (from 3%), and construction contract awards fell by 5.2%, versus a gain of 2.4% in 2000. While preliminary figures for personal income show very strong growth for the first half of 2001, we expect a substantial downward revision in the next data release, and it is unlikely that income growth in 2001 will match the 5.5% of 2000.

EMPLOYMENT

Maine payroll employment growth was 7,400, or 1.4% in 2001. Service job growth, at 6,500 (3.6%) was nearly as large. Other sectors with gains of over 1,000 jobs were retail trade (1,500) and construction (1,100). As expected, Maine manufacturing employment continued to decline, losing 3,500 jobs during the year, 2,400 of these in non-durables. Manufacturing jobs have been declining in both Maine and the nation since the 1960's, but the decline in Maine has been at a somewhat greater rate.

Maine's annual average unemployment rate in 2001 was 3.5%, unchanged from 2000, and well below the US average of 4.8%. As the table on the next page shows, and following a decades-

Maine Economic Performance Summary; 2000-2001

	Annual % Chg.	Annual % Chg.
	<u>2000</u>	<u>2001*</u>
<u>General Economic Growth:</u>		
Personal Income (2Qtrs in 2001)	5.5%	6.6%
Consumer Retail Sales	4.5%	2.1%
General Fund Revenues (Cal. Yr.) (affected by tax rate changes)	2.5%	0.6%
<u>Employment:</u>		
Payroll Employment	3.0%	1.4%
Residents Employed	3.4%	0.2%
Unemployed Persons	-12.0%	-2.7%
Unemployment Rate	-0.6% pts.	-0.1% pts.
Help-wanted Advertising	11.6%	-8.0%
<u>Construction:</u>		
Total Construction Contract Awards	2.4%	-5.2%
Residential Construction Contracts	27.4%	-1.0%
Housing Permits	2.5%	-0.5%
<u>Banking:</u>		
Bank Deposits (thru 3qtrs)	2.4%	5.8%
Bank Non-performing Loans (3qtrs)	-4.1%	8.2%
Bankruptcies	-3.8%	13.4%
<u>Social Assistance:</u>		
TANF (AFDC) Caseload	-13.2%	-8.2%
Food Stamps Caseload	-3.0%	4.3%
<u>Prices (ann. avgs.):</u>		
Mortgage Rates (30-year fixed)	0.6 pts.	-1.2 pts.
Gasoline Prices	34.1%	-8.3%
* 2001 data are preliminary		

long pattern, the coastal counties (except Washington) all had rates below the State average, while the central counties (Androscoggin, Kennebec, Penobscot) all had rates slightly above the State average, and the most rural counties around the outer rim of Maine had the highest rates. Somerset County stands out as suffering a large increase (0.6 percentage points) on an already high rate. In 2001, only Washington County (7.1%) had a higher unemployment rate.

MAINE PAYROLL EMPLOYMENT

JOB CHANGE BETWEEN 2000 AND 2001

Maine consumer retail sales increased by only 2.1% in 2001, less

	Jobs Chg.	Pct. Chg.
TOTAL	7,400	1.4%
SERVICES	6,500	3.6%
RETAIL TRADE	1,500	1.4%
CONSTRUCTION	1,100	3.7%
GOVERNMENT	900	1.4%
WHOLESALE TRADE	800	3.1%
FINAN/INSUR/R.ESTATE	100	0.5%
TRANSPORT/PUB.UTILS.	0	0.0%
MANUFACTURING	(3,500)	-4.1%

UNEMPLOYMENT RATES OF MAINE COUNTIES

Annual Averages

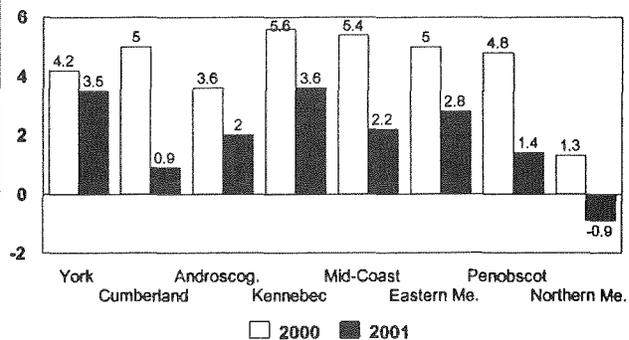
	2000	2001
MAINE	3.5	3.5
CUMBERLAND	2.0	2.1
KNOX	2.6	2.6
LINCOLN	2.7	2.6
SAGadahoc	2.6	2.8
YORK	2.5	3.2
KENNEBEC	3.9	3.6
WALDO	3.9	3.6
ANDROSCOGGIN	3.5	3.6
PENOBSCOT	3.8	3.7
HANCOCK	4.5	3.9
AROOSTOOK	4.4	3.9
OXFORD	5.4	5.3
FRANKLIN	6.6	5.7
PISCATAQUIS	6.5	5.9
SOMERSET	6.1	6.7
WASHINGTON	7.8	7.1

2001 preliminary, 2000 revised.

TAXABLE RETAIL SALES

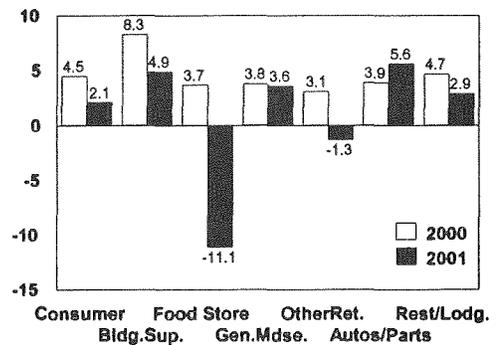
Maine consumer retail sales increased by only 2.1% in 2001, less than half the 4.5% growth rate of the previous year. A significant slowdown in growth during a recession year doesn't seem so bad, however, when compared to three straight years of sales decline in 1989 through 1991. If the forecasters are even close in calling the end of the current recession, retail sales will continue to grow slowly. Reflecting national trends, auto and building supply type stores saw the greatest sales increases in 2001. In fact, thanks to very aggressive incentives, auto sector sales in Maine were even stronger in 2001 (5.6%) than in 2000 (3.9%). The weakest sector in Maine was food stores, with an

Consumer Retail Sales Growth 2000-2001
Maine Economic Districts (percent)



Note: The Economic Districts are larger than the counties from which they sometimes borrow a name.

Taxable Retail Sales Growth 2000-2001
by Store-Type Group (percent)



11.1% sales decline. However, these sales figures are estimated from tax collections and are thus not adjusted for the abolishment of the "snack tax". Another significant factor in the numbers is the movement of Wal-Mart and other department stores (coded as General Merchandise) into the grocery business, cutting into sales of the traditional supermarkets.

Regionally, the Kennebec and York Economic Summary Districts had the largest consumer retail sales growth rates, while the weakest growth was in the Cumberland and Northern Maine Districts (which had a sales decline).

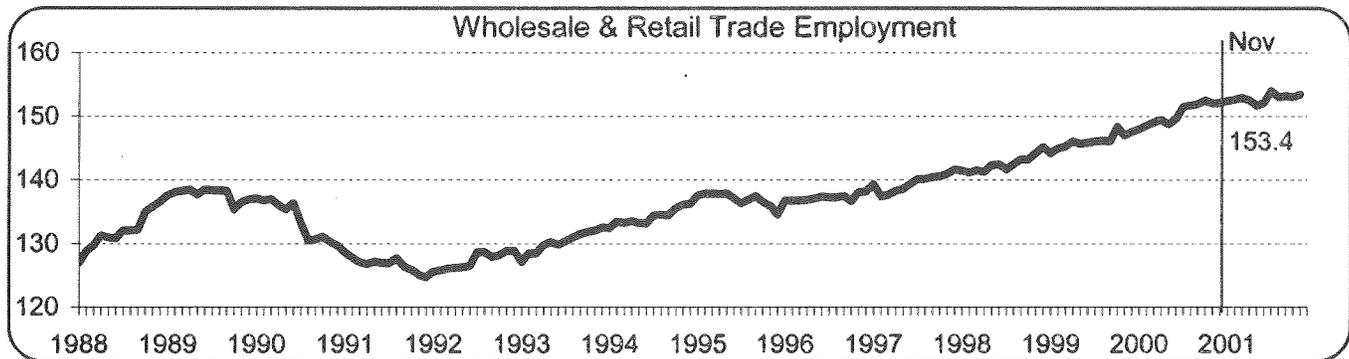
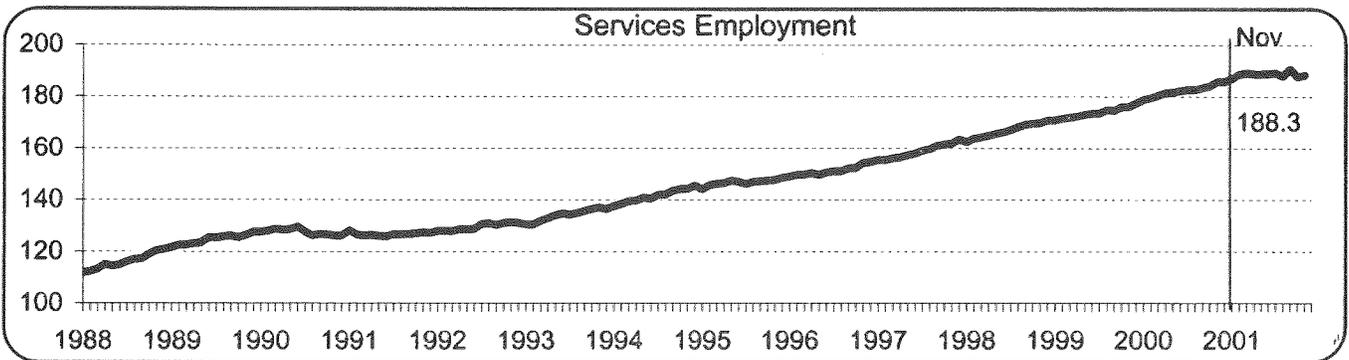
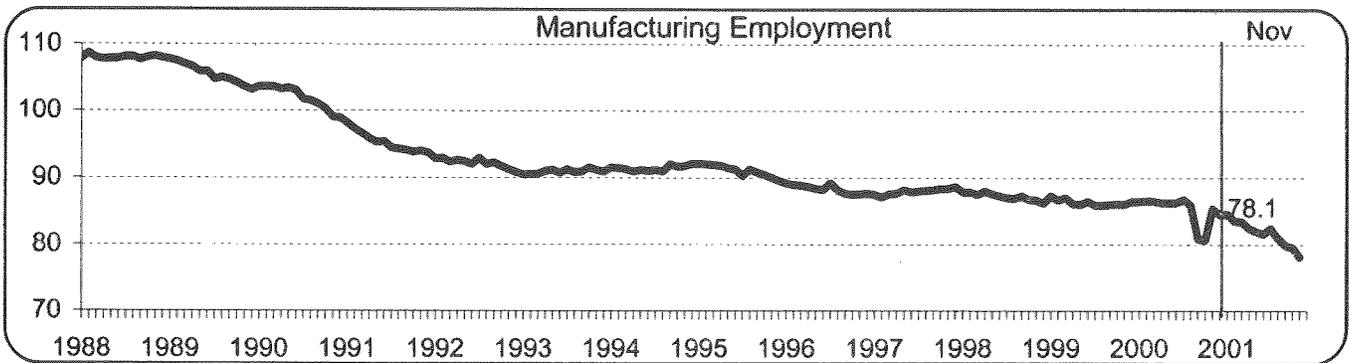
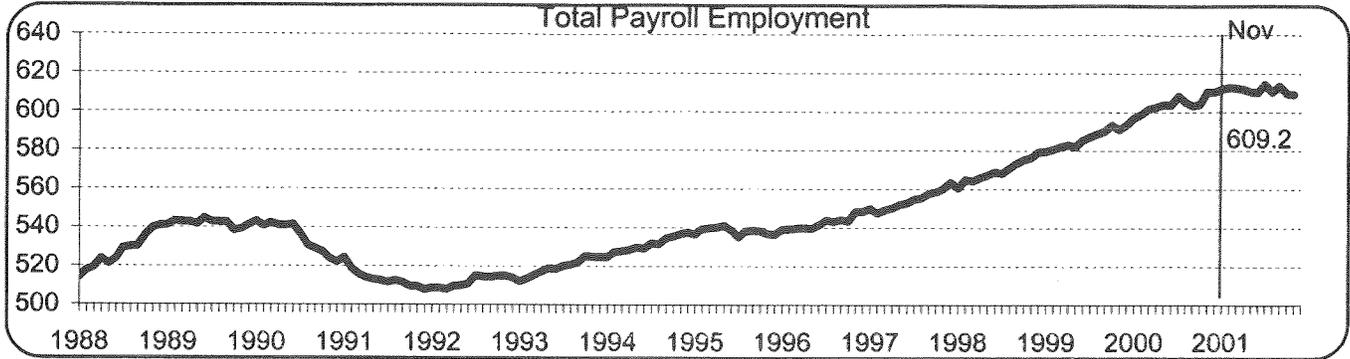
SUMMARY

The national economy, which began to slow about mid-year 2000, slipped into recession in March of 2001. Naturally, this is the single most important reason for Maine's economic weakness during the year. However, at least through the end of the year, this has been a comparatively mild recession.

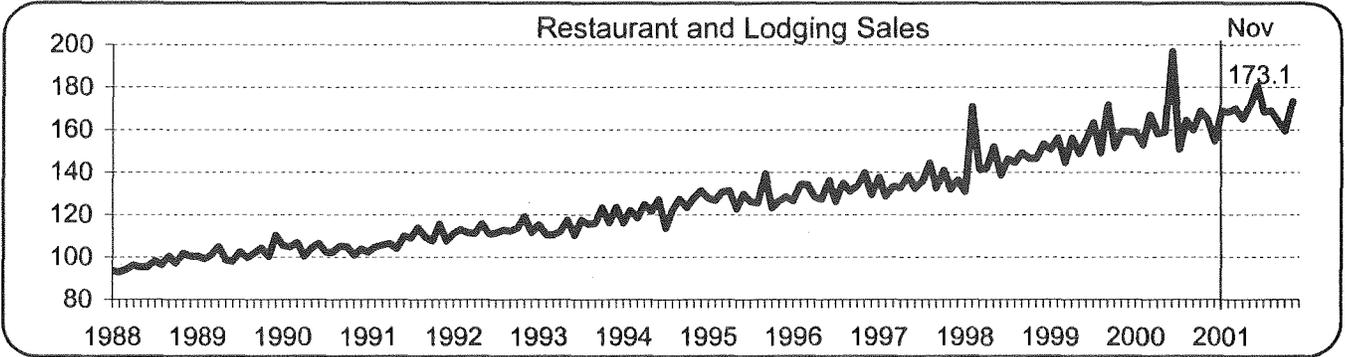
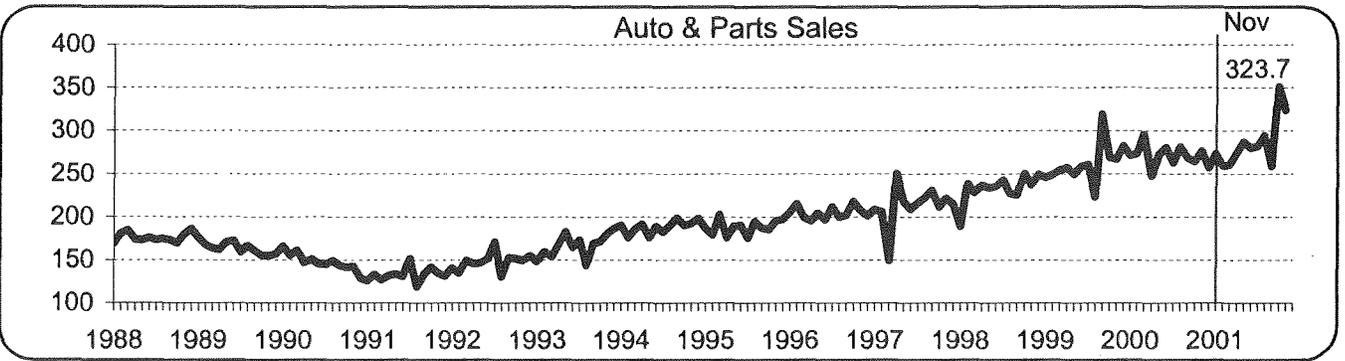
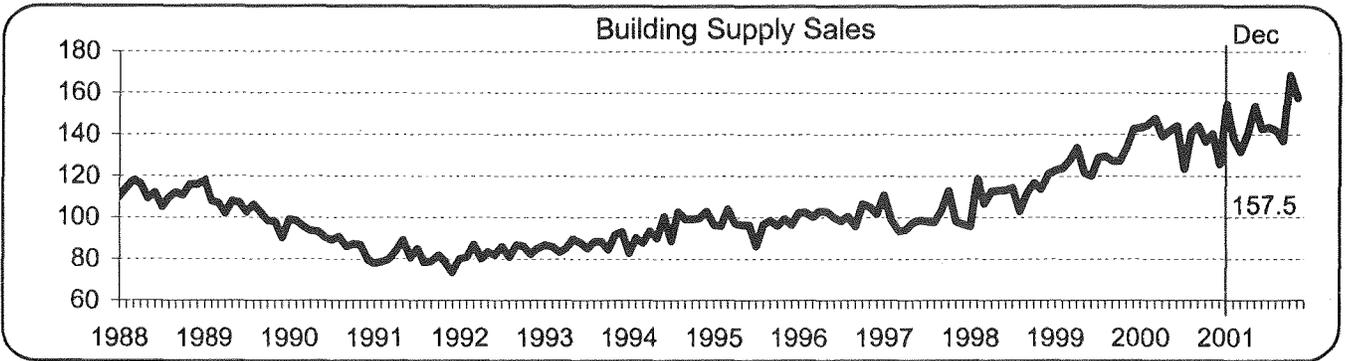
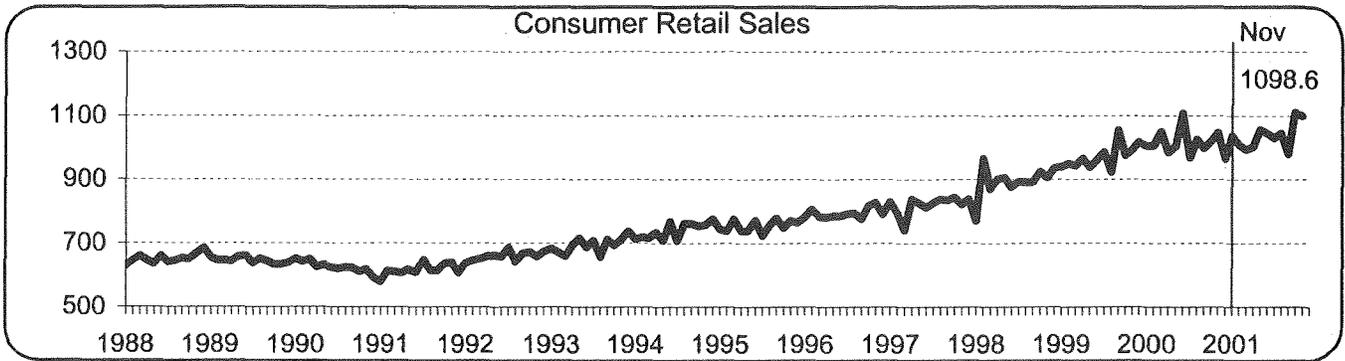
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The Maine Economy in 2001

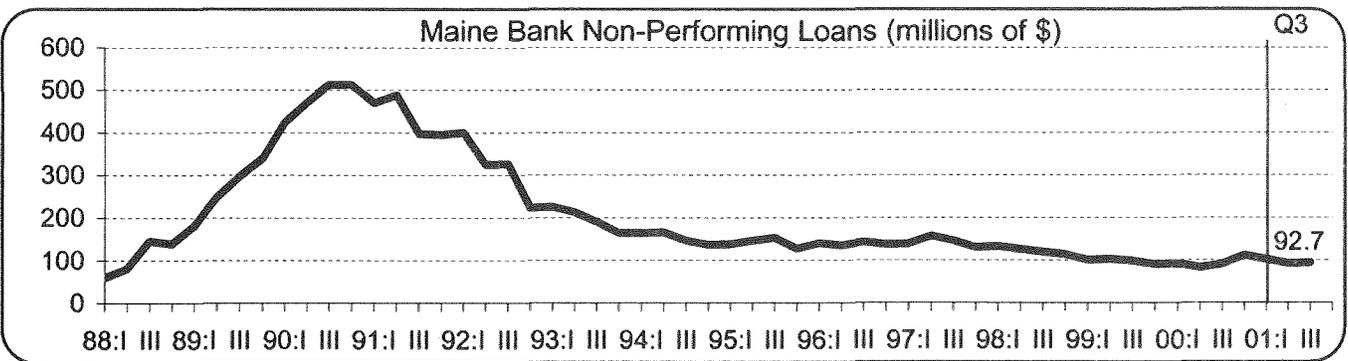
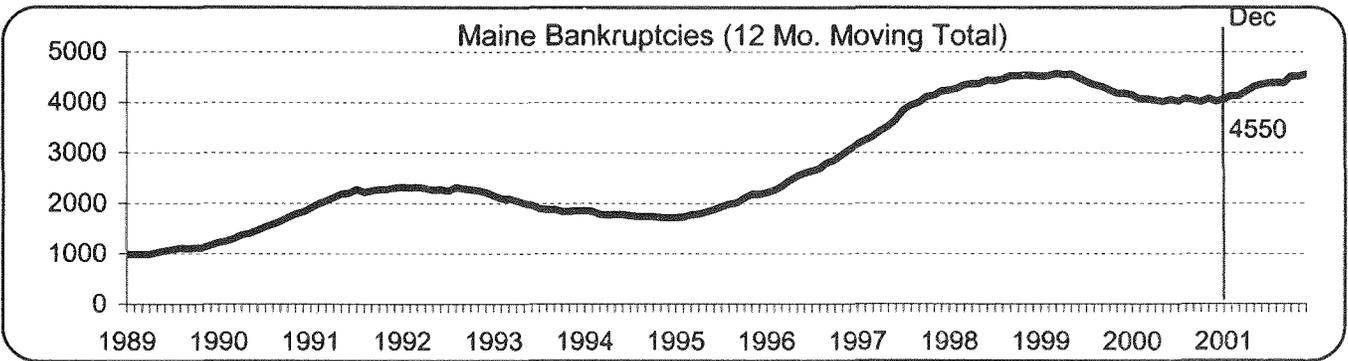
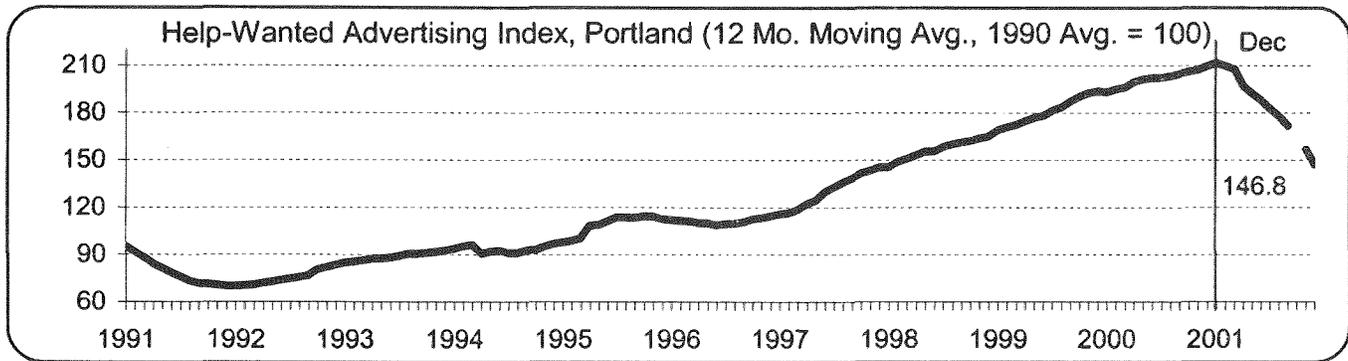
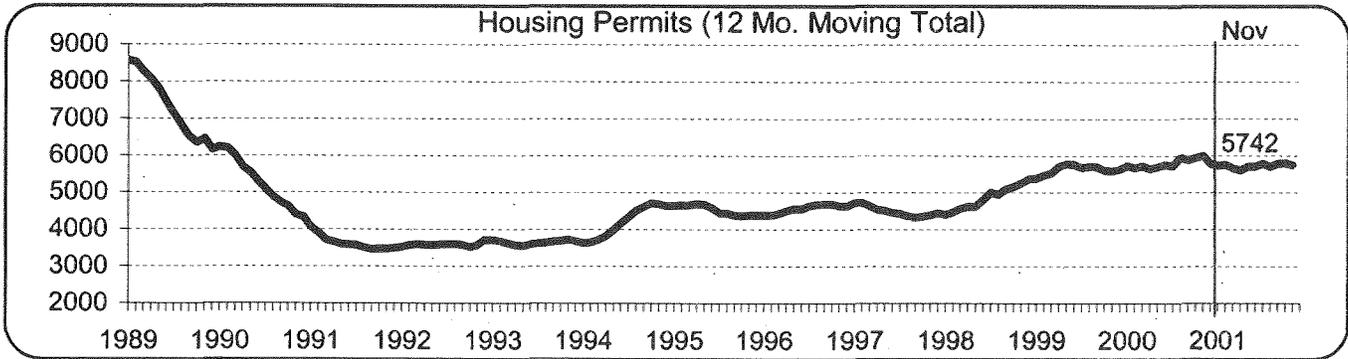
Maine Payroll Employment (seasonally adjusted 1,000's)



Maine Taxable Consumer Sales (seasonally adjusted mil.\$)



Miscellaneous Economic Indicators



The Ten Most Significant Economic Events in Maine in 2001

It seems to be standard practice for year-end publications to carry a 'Top Ten' list. Not wishing to be outdone, we include herewith our own top ten, in no particular order.

Playin' Those Recessionary Blues

After an unprecedented ten-year expansionary run, the US economy slid quietly into a recession in March 2001. Though the stock market had already been in a 12-month free fall at that point and businesses struggled nationwide, it wasn't until the horrific events of September 11th that the bright lights were turned on to the underlying economic weakness. The ongoing willingness of American consumers to keep up some level of big-ticket purchases through 2001 disguised the slippage. In fact housing activity only took a slight dip and auto sales broke records in late 2001, thanks to 0% financing offers. While the bad news is – "We're in a recession", the good news is – "It's expected to be the mildest recession in 4 decades".

Maine, like the nation, fell into the slump with little fanfare. In fact, the loss of 3,600 jobs from the February peak through November 2001 was nearly imperceptible, particularly when our most recent "recessionary" memory is the loss of 35,000 jobs in an 18-month period. Without a doubt, this recession will pinch, especially in the manufacturing sector and in certain rural areas where these industries dominate the local economy. Income growth is projected to slow but not decline. The only area in which "wild" may be a more accurate description than "mild" is in State Government Revenues. Once again, Maine's volatile tax structure has left us lacking revenues when we need them most. The currently projected \$250 million structural budget gap may or may not be pared down when forecasters reconvene in late winter to reassess, but it is safe to say that the recessionary blues would be a lighter hue if the volatility of our tax structure were tamed.

The Best Offense...

There were a number of economically important developments at Bath Iron Works (BIW) during the year. On May 5, 2001, the company opened its \$240 million dry dock and ship building facility on the Kennebec River in Bath. The new facility will make level construction possible, increasing the efficiency of the process. The ceremony featured the keel laying of the Arleigh Burke-class Destroyer, Chaffee. In September BIW closed its Portland facilities.

On June 23, BIW launched a destroyer, the Mason, using traditional inclined ways. This was the last launching of its kind that will take place at BIW. The Mason is the 21st Arleigh Burke-class Destroyer to be built at BIW. Construction of this series

continues under ongoing contracts awarded beginning in 1985. Current Navy plans are for a total of 57 destroyers through FY2004, with the last ship to be delivered in 2009.

BIW benefited from the federal budget debates last Fall, when it was awarded (late December) a contract for research and design work on the DDX next-generation surface combat ship. BIW and Ingalls Shipbuilding (Mississippi) will produce 32 ships in the DDX Program.

Also, work continues in a partnership with Fuel Cell Energy, Inc., to develop direct fuel cell (DFC) electricity generation equipment for use on ships. The DFC energy plant is environmentally superior and very quiet. Given the increased national emphasis on defense since the September 11th attacks, the future of Bath Iron Works appears secure.

How Dry I Am...

Maine had the driest April-September in 107 years according to the National Climatic Data Center. Continued dryness through the fall left most of Maine going into the winter with water levels that NOAA classified as "extreme," setting us up for problems through the winter months. Farms without irrigation capability were affected first, but many of those with irrigation saw their ponds dry up as well. By mid summer streams that normally flowed year round were at a trickle and the USGS documented low groundwater conditions all across Maine. While the losses to farmers have not yet been tallied, they are expected to reach well into the millions of dollars.

Hundreds - perhaps thousands - of homeowners also had their wells dry up and there were even some school closings because of dry wells. Hundreds of homeowners are still waiting for the well drillers who face backlogs ranging from months to a couple of years.

Some Energizing News

While most economic measures for Maine deteriorated during the year, energy prices improved considerably, putting many millions of dollars back into Mainer's discretionary budgets. The statewide average price for "regular" grade unleaded gasoline was \$1.50 in January, then jumped to \$1.61 in May before trending downward through the remainder of the year. By December, the average price was down to \$1.13 per gallon, a 30% decline for the year. Similarly, oil prices (as measured by

Domestic West Texas Intermediate, a common yardstick) declined from \$29.58 in January to \$19.31 in December, a decline of more than one-third through the year.

Limbo Lower Now...(Or-How Low Can You Go?)

When national economic growth faltered in late 2000 and recession loomed large, the Federal Reserve sprang into action, beginning what could later be characterized as a "rampage". In a little over 12 months, the Federal Funds Rate was cut 13 times from its recent peak of 6.5% to 1.75%. Throughout the course of the year 2001, the Fed demonstrated its tenacity by answering every threat of economic plummet with aggressive monetary action. The current rates are the lowest since the early 60s and are barely half the level set in the early 90s to pull us out of the last recession. Will the Fed take one last swipe? Most feel that the cutting spree is over as the national economy appears to be getting some legs under it. However, if weakness persists, one more cut is certainly not out of the question!

You Gotta Spend It To Make It

Despite the recession, the Maine Department of Economic and Community Development reports that there were at least 56 business expansion projects of one-half million dollars or more in Maine in 2001. The sum of these investments approached \$300 million. Among the largest were a \$78 million expansion by G.E. in Bangor, a \$41.5 million project by Superior Technologies in Cutler, a \$25 million project by SAPPI at their Skowhegan paper mill, a \$20.6 million project at the Madison Paper Company, and a \$20 million project by Bank North in Falmouth. Other particularly interesting projects included a Jackson laboratory expansion in Bar Harbor, which will create 200 new jobs, and Microdyne projects in Augusta and Orono which are expected to create 400 new call center jobs. Microdyne purchased the bankrupt Envisionet Company in the summer of 2001.

The Bigger They Are...

It was a very difficult year for computer related and electronics' firms in Maine and the nation. The dot.com shakeout produced only minor ripples in Maine, but the collapse in computer and electronics related capital investment took a heavy toll in the State. The biggest story was the bankruptcy of Envisionet, which was Maine's 11th largest employer in June 2001 with employment listed at 2,200 to 2,400. Over 800 jobs were lost in Brunswick, Augusta and Orono. Fortunately, all was not lost as Microdyne outsourcing, a California firm, bought Envisionet and continues to operate it. There were 8 other computer and electronics-related layoff incidents in Maine involving 100 or

more workers during 2001.

And So Much for Tradition

The current recession has hit Maine's traditional manufacturing industries extremely hard. About 3,500 manufacturing jobs were lost during 2001, the largest one year loss since 1991, when 6,600 jobs were lost. Major layoffs included textiles (two incidents involving over 500 jobs) lumber and wood (263 jobs), paper (114), food processing (173), and 4 shoe and related manufacturers, which laid off nearly 1,200 workers between them.

Build It and They Will Come

December 2001 was a momentous month for Maine, as passenger rail service returned to the State for the first time since the 1960's. Currently there are four trains per day in each direction between Portland and Boston, and passenger levels are high. There are already signs of collaboration amongst travel industry firms who are taking advantage of the investment in the new Amtrak service by offering package deals that give better value and convenience to consumers, by melding together lodging and entertainment options on both the Portland and Boston ends of the line, further stimulating business. The spinoff economic effects are expected to continue to grow as Portland's transportation hub completes its current expansion and more visitors to New England realize they do not need a car to access the vast natural and cultural amenities of Maine.

Also, the 30-mile widening project of the Maine Turnpike continued through its second year. The project's goal involves both modernizing the roadway and converting the capacity to three lanes of traffic in each direction between York and Scarborough. The project is on course for overall completion of its five-year schedule in 2005.

On a Serious Note - War

The terrorist attacks on the World Trade Center and the Pentagon on September 11th had enormous economic consequences for Maine and the nation in 2001. To begin with there was the destruction of the buildings, directly causing insurance payouts and the grounding of all commercial air traffic for days. Then the nation went to war with Afghanistan's Taliban government and organized terrorist groups which cost the nation billions. There was a slowing of trade over the nation's borders due to terrorist concerns, reduced vacation and business travel by all means of transportation, and numerous other disruptions to business. In fact, it is not certain that the national economic slowdown would have been judged a recession, absent the effects of September 11th. The total economic cost in 2001 is unknown, but surely in the tens of billions, and the total economic costs to Maine and the nation will continue to rise over the next few years.

Recession, Recovery - Redefined

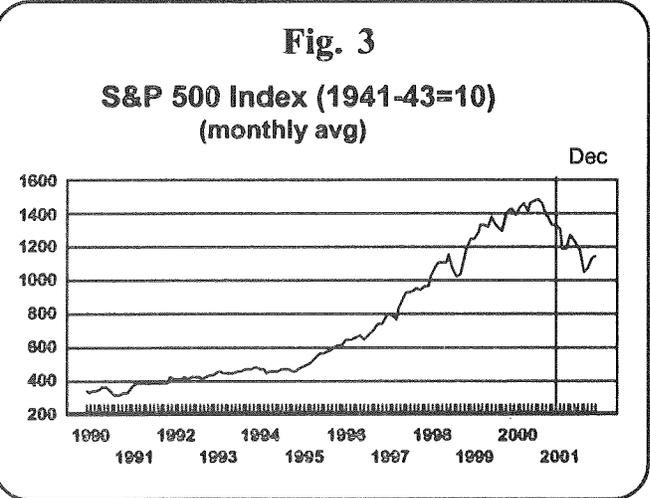
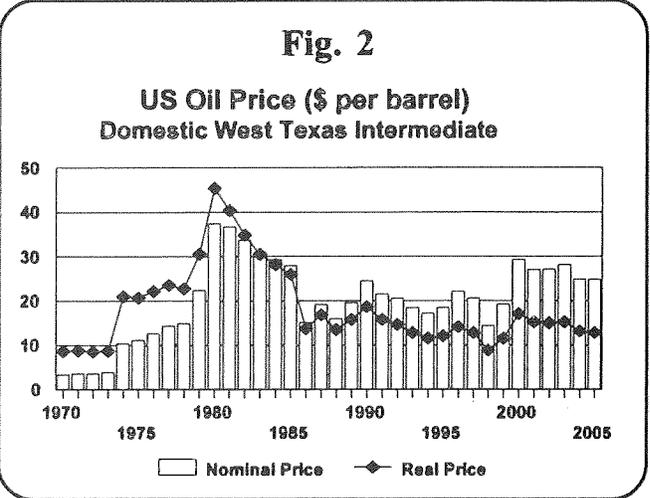
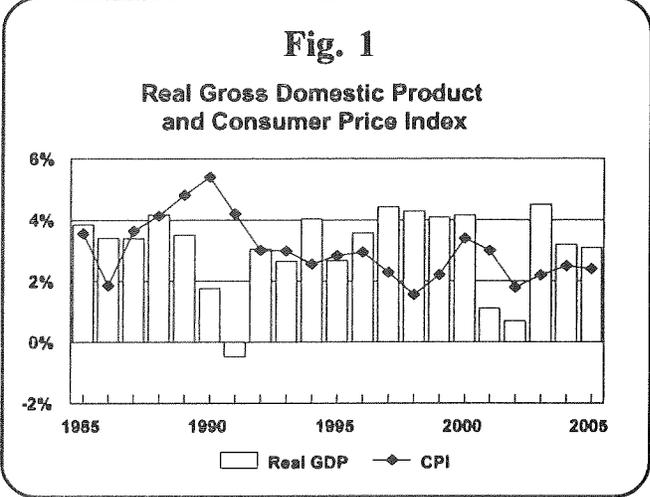
After enjoying a record breaking 10-year expansion, the US economy slipped silently into recession in March 2001. In fact, so quietly did we begin our descent, the whole downturn might have gone largely unnoticed absent the events of September 11th which shone spotlights on underlying performance. While recession is never a beast to be taken lightly, this downturn need not strike fear in the heart as it is surely an animal of a different kind.

The past 5 downturns have been preceded by spikes in the core rate of inflation, fueled by oil price shocks, and led by consumers. This recession was preceded by historically low inflation (Figure 1), relatively low and subsiding oil prices (Figure 2), and was business-led. This recession is expected to be very shallow with a peak-to-trough economic loss of 0.6%, the mildest slump in 4 decades. This recession is expected to end soon (March 2002) and to end with as little fanfare as it began.

As with the recession, this recovery will be mild and uneventful. Oil prices are already well-behaved and will not need further taming. The stock market has recovered from its September 11th plunge and seems to have stabilized (Figure 3). The large up-tick in consumer spending which usually accompanies a recovery will be muted by the fact that consumers never dramatically slowed purchases. Consumer spending, particularly for autos and houses, didn't plummet as it did in other recessions, thus the rebound will be less pronounced.

New England's performance will largely mirror US activity. The bursting of the high-tech bubble in early 2000 took it's toll on New England, as did the slide in manufacturing (which accompanies or even defines downturns) and the terrorist hit to the insurance industry. New England's resilience will be bolstered by the oil price reprieve, the strength of the region's financial institutions, increases in federal outlays for defense, and the fact that nearly half of all business investment going forward is expected to be on technology, a regional specialty.

In all, national economic growth should resume during the second quarter of 2002 and slowly, but surely, move towards the 3% - 3.5% range and inflation will remain a non-issue. New England will come out of recession a little later and, perhaps, with a bit less vigor.



Maine's Economy – Still Working

By virtually every measure, Maine's economy enjoyed solid economic growth from 1996 through 2000. Employment gains averaged near 3%, sometimes leading the region and the nation. Income growth was in the respectable 4.5% - 6% range. Unemployment plummeted to record lows, falling below the US average, and State Government's coffers overflowed with 6 consecutive years of surpluses.

A closer examination of Maine's indicators, even before the pronouncement of the national downturn, raised questions as to the sustainability of growth. By early 2001, employment growth stalled. In late summer, unemployment started to tick upwards. And while income growth remained near 5% it continued to lag national growth (see Figure 1). State revenue exuberance through this period had been fueled, in large part, by: 1) capital gains from the likely one-time sale of businesses, land holdings and electric generation facilities; 2) bloated estate and portfolio values brought about by soaring stock market activity; and 3) consumer spending growth (led by double-digit increases in automobiles and building supplies) that consistently out-stripped income growth. (see Figure 2)

While Maine's spending spree has not been unlike that of the nation's, it has started to push the limits. From 1993 to 2000, credit outstanding as a percent of disposable income has increased from 16% to 21%. At the same time, personal bankruptcy filings have skyrocketed and are now at a level that is 4.5 times the level seen in 1989, the last business cycle peak.

Despite the fact that Maine consumers have seemingly spent past their means, Maine's economy, as a whole, is far better positioned to endure this downturn. In fact, the baseline forecast for Maine anticipates a very mild recession, with only a fraction of the economic loss suffered in the devastating recession of the early 90s. As Figure 3 illustrates, the housing market in Maine recovered during the 90s, but never attained the altitude of the late 80s. The construction boom/bust that devastated the region's financial institutions a decade ago, is simply a non-issue this time around. Virtually 100% of the region's banks are profitable (compared to about 33% in 1990) which bodes well for financing future growth. In addition, slow population growth has constricted labor markets, offering a cushion in two respects. First, Maine companies were never able to become bloated with excess staff as workers were simply too hard to find and too expensive. And as several industries continue to cry for labor, those who find themselves displaced in this recession should find above average re-employment opportunities.

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Fig. 1

Personal Income Growth; ME & US

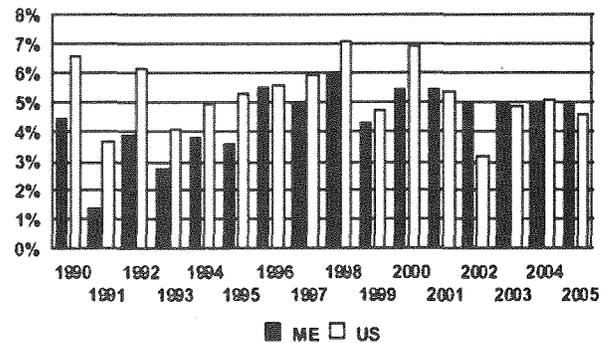


Fig. 2

ME Income & Retail Sales Growth versus Debt Levels

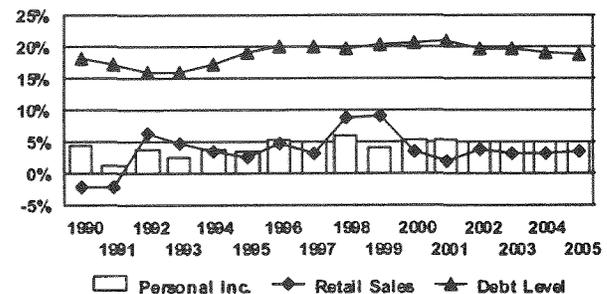
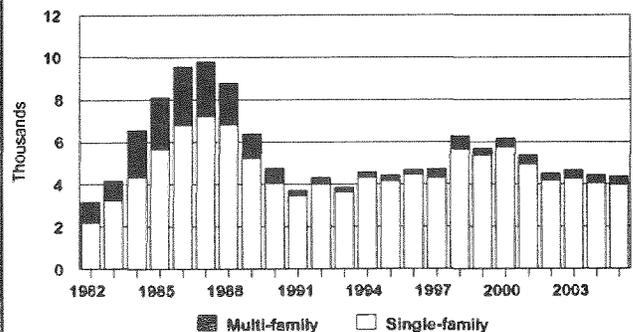


Fig. 3

Maine Housing Permits



Below, we outline four issues which we believe may play major roles in Maine's near-term economic future.

Aquaculture

Maine's aquaculture industry has grown from humble beginnings into big business, but the industry faces some major challenges. Over 90% of aquaculture sales come from Atlantic Salmon farms. In 2000 these farms had sales of over \$100 million and employed about 600 people.

Last year, Infectious Salmon Anemia (ISA) spread from Canada to Cobscook Bay where more than half of Maine's salmon are raised. Downeast fish farmers destroyed 2 and 1/2 million fish by December 2001 in an attempt to slow the spread of ISA. Industry experts estimate that 100 jobs have been lost in the salmon aquaculture industry since the onset of ISA.

Public concern about the expansion of both finfish and shellfish aquaculture along the Maine coast remains at an all time high as the result of several controversial lease applications. If more salmon farms seek new sites in the more populated mid-coast region (away from the downeast salmon rivers), this concern is likely to grow. Public concerns include protection of the marine environment, the size and scale of operations, aesthetics and the potential impact on the value of coastal properties. Some of these concerns stem from unfamiliarity with aquaculture and the leasing process and frustration that individuals and municipalities have little influence over where and how aquaculture will develop in the State.

Further, the listing of Atlantic salmon as an endangered species by the United States Department of the Interior and the U.S. Department of Commerce means salmon aquaculture regulations are becoming more stringent.

Thus there are many problems facing the industry, but the Maine Departments of Environmental Protection and Marine Resources, and the State Planning Office, are all heavily involved in trying to sort out the problems through various programs. Also, the fact that the original 20 small businesses involved in Maine salmon aquaculture have been folded into 4 multinational corporations means that greater financial resources will be available to help overcome the industry's problems.

Health Care Issues

Recent news articles have suggested health care costs are escalating rapidly. The increasing cost of health insurance has been a particular focus of several articles. Estimates and projections prepared by the Federal Government's National Health Statistics Group, on the other hand, indicate likely increases in costs over the next decade that will challenge businesses,

individuals, and governments, but do not suggest run-away growth.

Private (non-governmental) health care spending in the United States in 1990 accounted for 7.1% of gross domestic product. This included both out-of-pocket payments by consumers and health insurance premiums paid by employers. Between 1990 and 2000, private health care spending remained almost constant, increasing only 0.1% to 7.2% of gross domestic product. However, private spending is projected to grow between 2000 and 2005 to 8.4% of gross domestic product and to 8.8% between 2005 and 2010. Private spending for health insurance alone is projected to grow from 4.4% of gross domestic product in 2000 to 5.2% in 2005 and to 5.4% in 2010.

Concern has been expressed that small businesses will be unable to afford health insurance for their employees. However, a survey of employers, health care executives and insurance brokers and consultants in twelve U.S. cities found no overall movement of small businesses to drop insurance coverage, even though they have absorbed larger than average cost increases. The survey did find employers were dropping or considering dropping retirement coverage for new hires. Employers have also increased premium contributions, deductibles and out-of-pocket maxima for already retired employees. The survey authors noted that employers do not appear to have long range strategies for coping with rising health care costs, preferring, instead, to adopt the sorts of incremental changes described above.

The increasing cost of prescription drugs has been another concern. Between 1990 and 2000, private spending for prescription medicines (including payments by health plans as well as deductibles and out-of-pocket expenses paid by consumers) increased from 0.6% of gross domestic product to 0.9%. The National Health Statistics Group projects this will increase further to 1.3% of gross domestic product in 2005 and 1.7% in 2010. Given that this is almost a 90% increase over the decade in the share of the gross domestic product consumed by prescription drugs, it warrants concern.

Finally, there is the problem of the individual health insurance market where small risk pools are associated with extraordinary cost increases. This market accounts for about 10% of the privately insured in Maine. In early December five different companies were asking the Superintendent of the Bureau of Insurance to grant rate increases for the individually insured. Four of the five requests pertained to plans with between 133 and 1,573 subscribers asking for an average 29% rate increase. One can contrast this with the much lower increase of 13% requested by the fifth insurer with a pool of 26,000 subscribers.

MER&D Development.

30 and 1000: Studies by the State Planning Office (SPO) have led to the conclusion that the percentage of adults with Bachelor's degrees or higher and the dollars per worker spent on research and development (R&D) are major drivers of per capita income. SPO determined that increasing the percentage of adults with 4-year degrees or more to 30% and increasing R&D investment to \$1,000 per worker would raise Maine per capita income to the national average or above (from about \$25,399 to about \$29,451 in 2000).

The 30 and 1000 initiative could lead in ten years time to an expanded knowledge based economy in Maine, with low to moderate population growth, good per capita income, and innovation in traditional and new industries, amidst a spectacular natural environment that is attractive to knowledge workers.

Maine State Government is funding numerous initiatives in R&D investment (almost \$40 million for FY2001), as are private businesses and organizations like Maine Medical Center and Jackson Laboratory. The Maine Science and Technology Foundation has developed a Science and Technology Action Plan for 2001. The plan (32 pages) consists of numerous objectives, recommendations and strategies and can be viewed on the Foundation's website (www.mainescience.org). SPO's *30 and 1000* report (24 pages, dated November, 2001) contains a similar action plan. The report can be viewed on SPO's website (www.state.me.us/spo).

The Jackson Laboratory: In August, 2001, Jackson's Board of Trustees approved plans for a major expansion of its research program. The plans call for adding eight new research groups (there are currently 34), 200 employees, and a new 80,000 square foot research wing. The overall project is expected to take 4-5 years.

The Laboratory is the world's largest mammalian genetics research institution. It has a FY2001 budget of \$98.7 million and employs 1,050. It is a leader in the genetics revolution that has been transforming medicine. It is a key provider of genetic resources training.

In 2001 the National Institutes of Health (NIH) awarded The Jackson Laboratory \$1.25 to be used to develop Maine's research infrastructure and attract federal research grants to the state. Funding for scientific infrastructure has been shown to translate directly into federal research dollars and jobs: "if we build it, the funding will come."

In 2001 the National Cancer Institute of NIH renewed The Jackson Laboratory's status as a "Cancer Center," citing the

Laboratory as a "unique resource" to the nation's biomedical researchers. About 70 percent of the Laboratory's research is cancer-related.

The Laboratory has received a \$35 million grant over five years from the National Human Genome Research Institute (of NIH). The grant will support the internationally recognized Mouse Genome Database. Research is intended to support characterization of the human genomes, by using the mouse as a model organism for understanding human biology and disease. Other grants will support research to find a cure for diabetes.

The Jackson Laboratory plans to establish a high-technology training center at the Fairfield Biotech Park, in Fairfield. The training center would support Maine colleges and high schools that offer training for jobs as biology and IT technicians. "These are year-round jobs that can keep our young people in Maine... They offer good pay, benefits, and significant opportunities for training and career advancement."

GoMOOS: The Gulf of Maine Ocean Observing System (GoMOOS) is a concept demonstration of an integrated ocean observing system designed to be responsive to the needs of Gulf of Maine users at the regional level. It brings together managers, industry, researchers, educators and others in a collaborative effort to produce and transmit real or near real-time observations. The observations will enhance and protect the well-being and livelihoods of those who use this water body and depend on its ecosystems.

GoMOOS began in Maine, driven by the state's strong economic reliance on the marine environment. Its issues, however, are regional and it grew naturally into an international partnership that extends from Nova Scotia to Rhode Island. The vision was for a regional facility with broad access and participation by scientists, managers, and the public throughout the Northeastern United States and Canadian Maritime Provinces."

During the summer of 2001 eleven buoys were moored in the Gulf of Maine. Access to real-time data from these buoys can be had at www.gomoose.org

The U. S. Navy and GoMOOS have formed a partnership to improve the accuracy of weather forecasts throughout the Gulf of Maine. Improved weather forecasts would, among other things, increase the safety of marine operations for everyone.

In 2001 GoMOOS joined the Alliance for Coastal Technologies, a consortium of coastal ocean observing systems across the country. It also hired as Chief Executive Officer Dr. Philip Bogden, an oceanographer with a strong computer background and a series of distinguished academic positions.

Computers for Kids: The State of Maine and Apple Computer,

Inc. have signed an agreement to implement a laptop program giving all 7th and 8th grade students in Maine (whose schools choose to participate in the program) a laptop computer by the end of 2003. With this innovative initiative the State of Maine is making an investment in the future of its workforce, which is likely to make Maine more competitive in both attracting and retaining the knowledge-based workforce that the new economy demands.

Public Lands Conservation

Public land conservation efforts have often been seen as adding only to society's amenities – a discretionary activity that should not be considered as a core function of responsible government. The actual linkage of land conservation with a state's economic performance has not been appreciated. In Maine, however, that perspective is changing.

Beginning in the 1970's, Maine citizens and their political leadership have put growing emphasis on land conservation recognizing the contribution these lands can make to the economic well-being of towns and regions throughout the state. Early efforts concentrated on the recovery of the State's public reserved lands. After an extended effort, the State now holds consolidated blocks of lands throughout the state totaling over 450,000 acres that are variously managed for outdoor recreation, ecological reserves, and timber management. Each of these activities make important contributions to the economies of their local environs.

By 1987, the real estate boom sweeping through southern, western and coastal Maine was raising concern over the loss of key undeveloped areas and the impact of this loss on the character and economy of these regions. With one of the lowest levels of public ownership in the eastern U.S., Maine was in danger of losing many of the characteristics and resources that differentiated it from its southern neighbors and that formed the basis of its resource-based economy. Clearly understanding this dilemma, the Maine Legislature in that year enacted the Land for Maine's Future (LMF) program, initially funded with a \$35 million bond issue that was overwhelmingly approved by Maine voters, followed by a \$50 million bond issue in 1999. Its purpose was clear – quoting from its enabling statute:

“...the future social and economic well-being of the citizens of this State depends upon maintaining the quality and availability of natural areas for recreation, hunting and fishing, conservation, wildlife habitat, vital ecologic functions and scenic beauty and that the State, as the public's trustee, has a responsibility and a duty to pursue an aggressive and coordinated policy to assure that this Maine heritage is passed on to future

generations.” (5 M.R.S.A. sec. 6200)

Since that time, the LMF has funded the protection of almost 100,000 acres of undeveloped land and farmland. LMF purchases have economic impacts. For example, such purchases sometimes keep farmland from being lost to other types of development, or protect the State's north woods for sustainable timber harvesting and public recreational uses, or conserve open space to assist local and regional efforts to manage growth while suppressing costly sprawl development.

THE MAINE ECONOMY IN 2001 - continued from page 3

As noted above, retail sales continued to grow in 2001, albeit slowly, and seasonally adjusted job losses over the last nine months of the year were only 3,600, or 0.6% of the total jobs. While it is no comfort to those who have lost jobs over the past year, the current recession's effects in Maine are but a pale shadow of the devastating losses suffered during the recession of 1990-91. In fact, if this recession is not over by the time you read this, it probably will be over within another quarter.

MAINE ECONOMIC OUTLOOK - continued from page 10

While the US economy may pull out of recession in the 1st quarter of 2002, Maine's recession may continue through the first 2 quarters of 2002. As a result, employment growth will slow from the 3% level enjoyed from 1998-2000, to 1.2% in 2001 and 0.5% in 2002. While the job losses in the end of 2001 and the beginning of 2002 will pinch, particularly in certain industries (manufacturing) and in certain regions (rural Maine), it does not come close to the 6% job losses experienced in the last downturn. From 2003 through 2005, annual employment growth is expected to average 1.2%, reflecting the constraints of slow population growth and tight labor markets. Income growth is expected to average 5% from 2002 through 2005.

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