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YEAR-END ECONOMIC REVIEW, 1987
AND
NEW INITIATIVES IN ECONOMIC DEVELOPMENT



presented at
**the Fifteenth Annual
Governor's Economic Development Conference**
An Economy in Transition

University of Maine

March 9, 1988

prepared by:

Maine Department of Economic and Community Development, Nathaniel Bowditch, *Commissioner*
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AND
NEW INITIATIVES IN ECONOMIC DEVELOPMENT

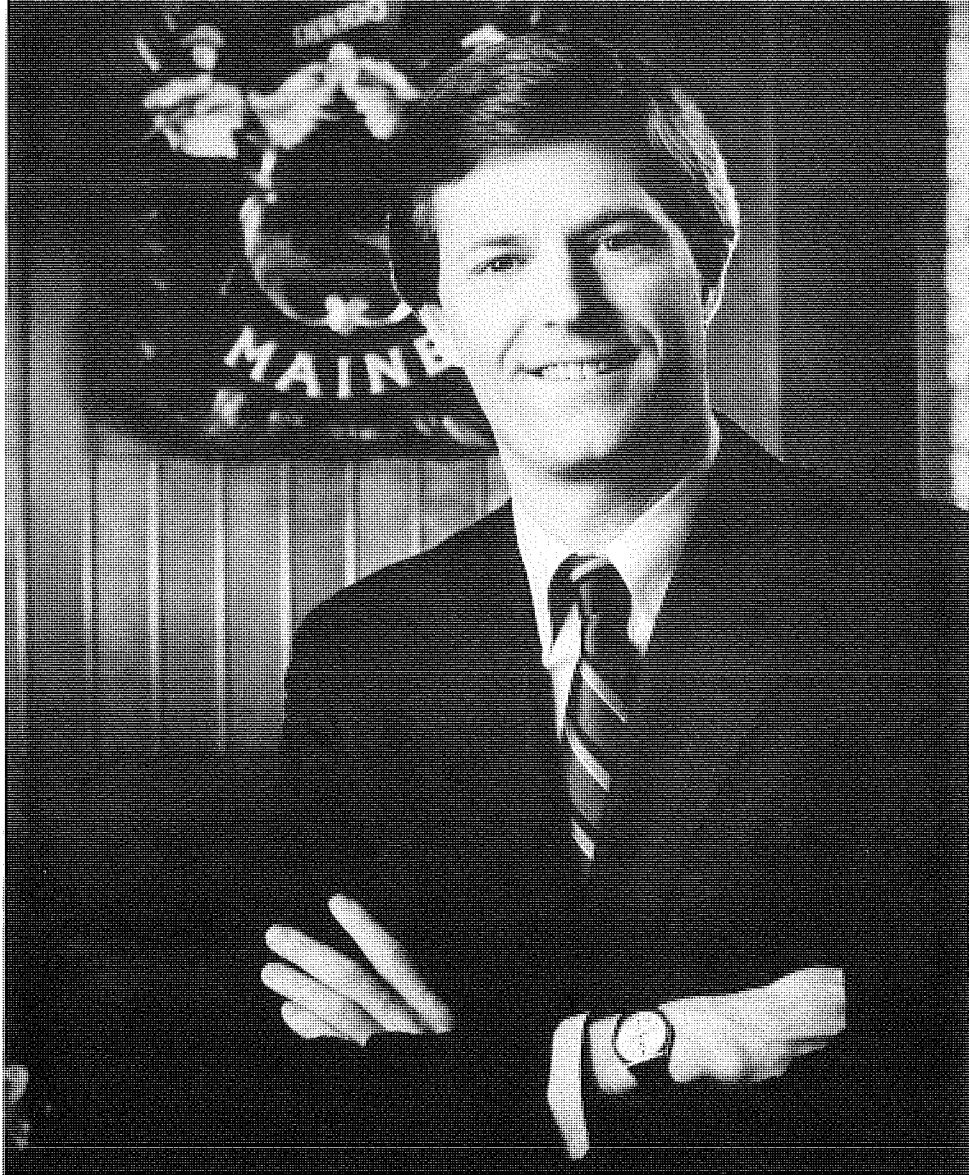
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Governor John R. McKernan, Jr.



STATE OF MAINE
OFFICE OF THE GOVERNOR
AUGUSTA, MAINE
04333

March 9, 1988

JOHN R. MCKERNAN, JR.
GOVERNOR

Welcome to the Fifteenth Annual Governor's Economic Development Conference. I am pleased that you are able to attend this year's event.

The 1988 conference, entitled "An Economy in Transition," is aptly named, for it highlights the dynamic nature of our economy and suggests the proactive initiatives the State must develop to prepare Maine and her citizens for the future.

This conference also highlights many exciting trends that will bring new industries and processes, new job skill requirements, and expanded opportunities for all regions of Maine. We must ensure that we take advantage of these changes to realize the potential of our state, through human resource development and advances in technology, particularly telecommunications.

This report was developed by three of my cabinet members who are most closely responsible for economic development: Nathaniel Bowditch, Commissioner of the Department of Economic and Community Development; John Fitzsimmons, Commissioner of the Department of Labor; and Richard Silkman, Director of the State Planning Office.

This report highlights the economy in the year 1987 and outlines what initiatives the State has taken and will take to address the needs for successful, balanced economic growth.

I hope you find this conference to be useful and enjoyable.

Sincerely,

A handwritten signature in black ink, appearing to read 'John R. McKernan, Jr.' with a stylized flourish at the end.

John R. McKernan, Jr.
Governor

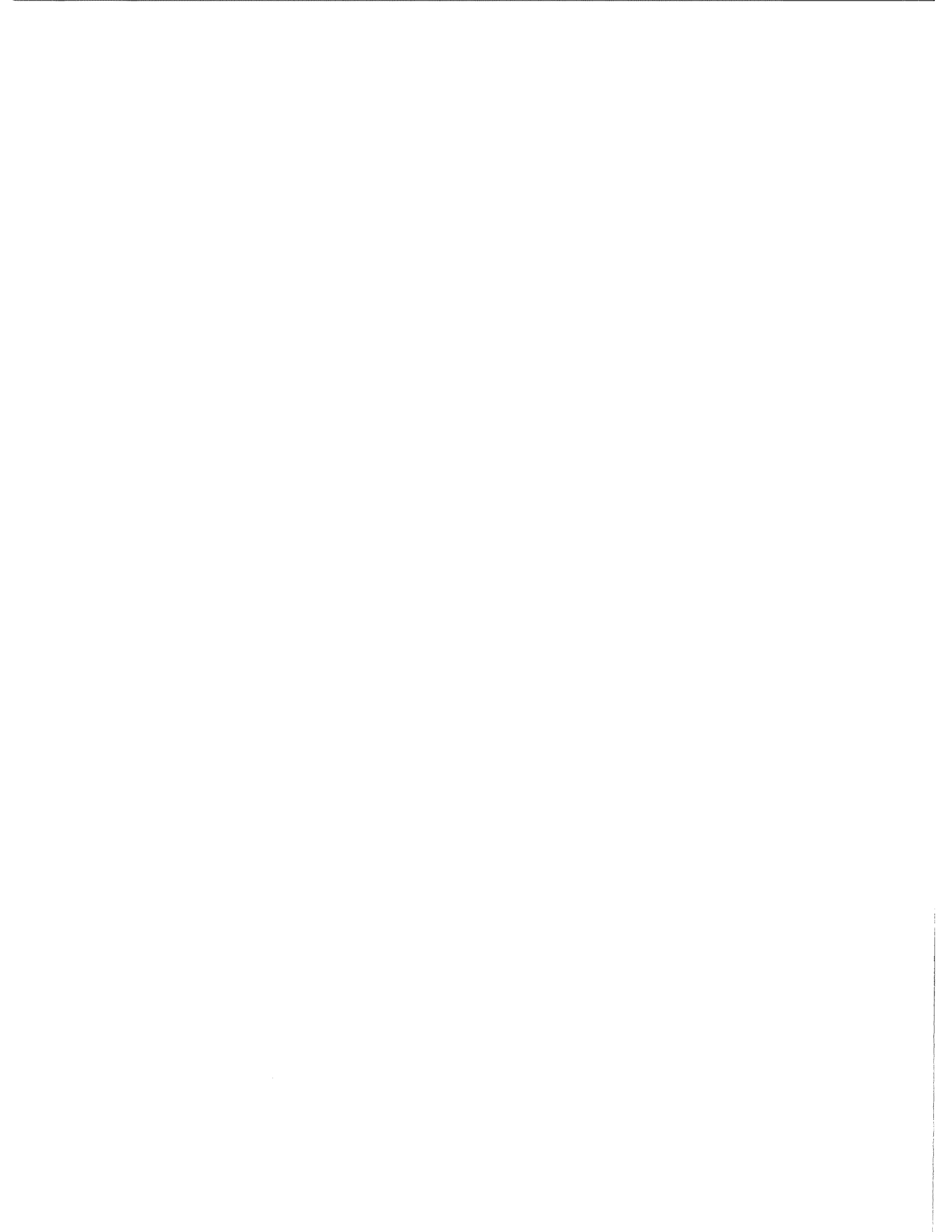


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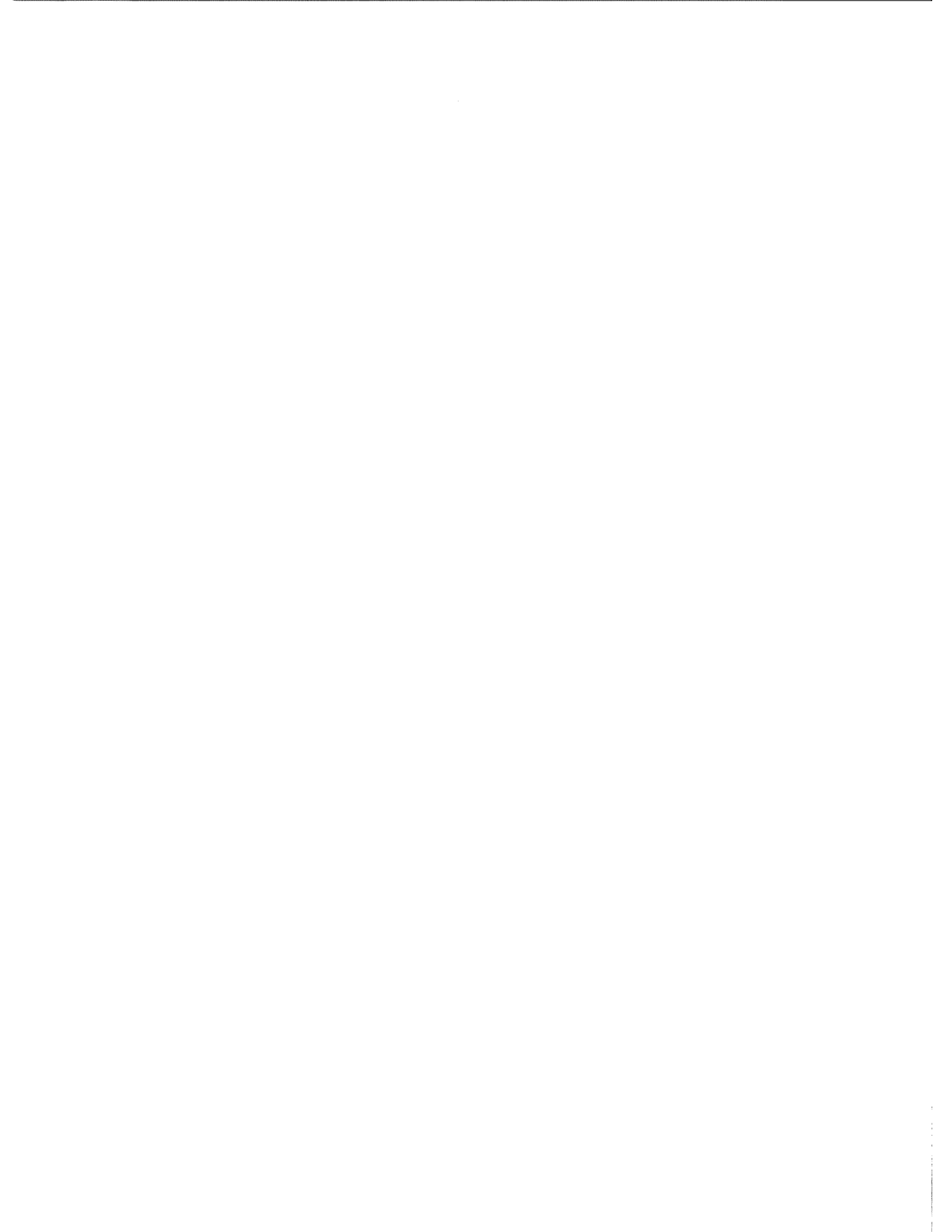
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SECTION I

YEAR-END ECONOMIC REVIEW, 1987 MAINE

OVERVIEW: MAINE AND THE U.S. IN 1987

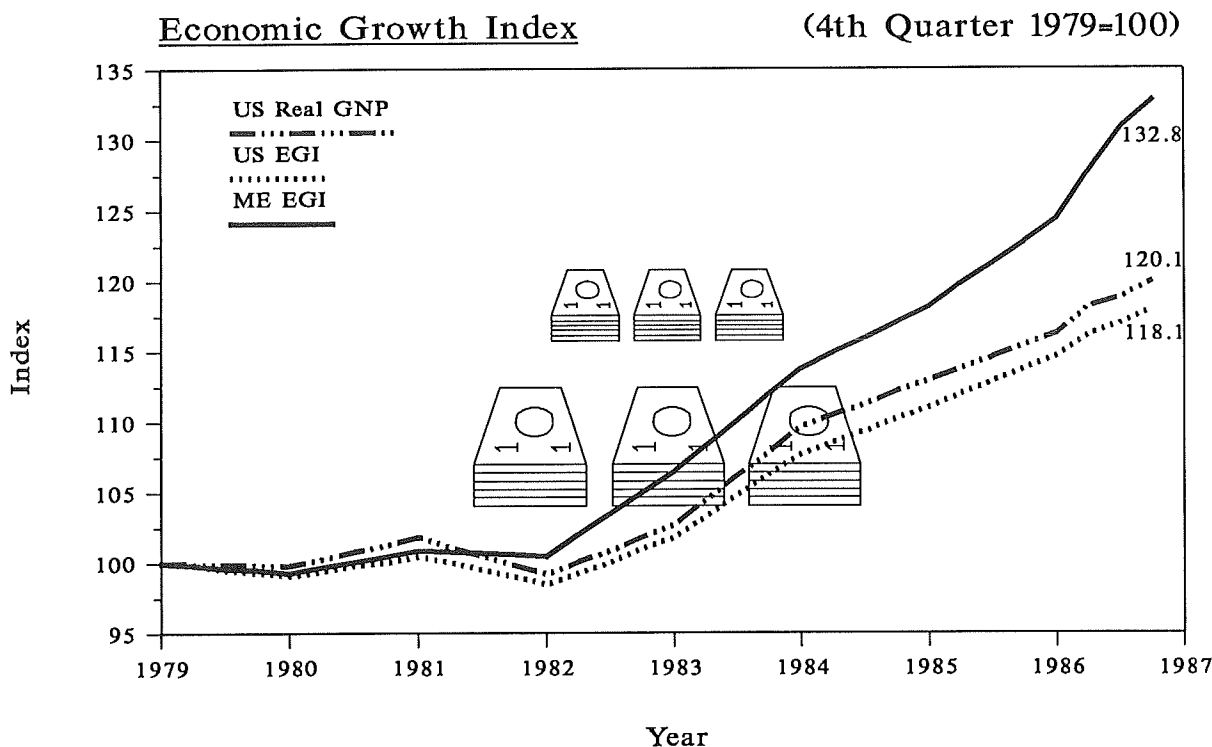
The Maine economy experienced a very good year in 1987. For the eighth consecutive year, economic growth outperformed that of the nation, as measured by the Economic Growth Index. Maine's overall economic growth from the third quarter of 1986 through the third quarter of 1987 was 5.2 percent, compared to national growth of 2 percent. The last year in which national growth exceeded Maine's was 1979.

Maine's superior economic performance during the past year, and in fact during the whole decade of the 1980s, can be seen on every important economic indicator. It can also be seen in virtually all parts of the state. While regional differences continue to exist, during 1987 all regions of Maine shared in the state's economic growth.

POPULATION: SOUTHERN COUNTIES LEAD IN POPULATION GROWTH

During the past year Maine's population increased by 15,000 to a 1987 total of 1,187,000. This population gain of 1.3 percent was above the 1.0 percent national rate of growth and ranked second among the New England states, surpassed only by New Hampshire at 2.9 percent.

Between 1980 and 1986 almost two-thirds of the population growth in Maine took place in York and Cumberland counties. Two counties, Aroostook and Washington, experienced population declines. Net migration contributed to these variations of population growth within the state. Both York and Cumberland counties registered substantial net immigration over the six-year period. Androscoggin, Aroostook, Kennebec,



Penobscot, and Washington counties recorded a net outmigration of residents.

CIVILIAN LABOR FORCE: EMPLOYMENT GROWTH OUTPACES LABOR FORCE GAINS

During 1987 employment growth outpaced civilian labor force gains in Maine. Between 1986 and 1987 the civilian labor force increased by 4.6 percent, from 561,000 to 587,000. At the same time, resident employment increased by approximately 5.6 percent, from 531,000 to 561,000.

While the number of people in the civilian labor force increased by 26,000 between 1986 and 1987, total resident employment grew by 30,000. As a result of employment growing faster than the number of people available to take jobs, unemployment dropped by 4,000 between 1986 and 1987. With 4,000 fewer persons unemployed, Maine's unemployment rate fell from 5.3 percent in 1986 to 4.4 percent in 1987. The statewide rate compares favorably with the national rate which declined from 7.0 percent in 1986 to 6.2 percent in 1987. For the seventh straight year Maine's unemployment rate fell below the national average. During 1987 a monthly rate of 3.0 percent was recorded in October, representing a 31-year low for unem-

ployment rates in Maine.

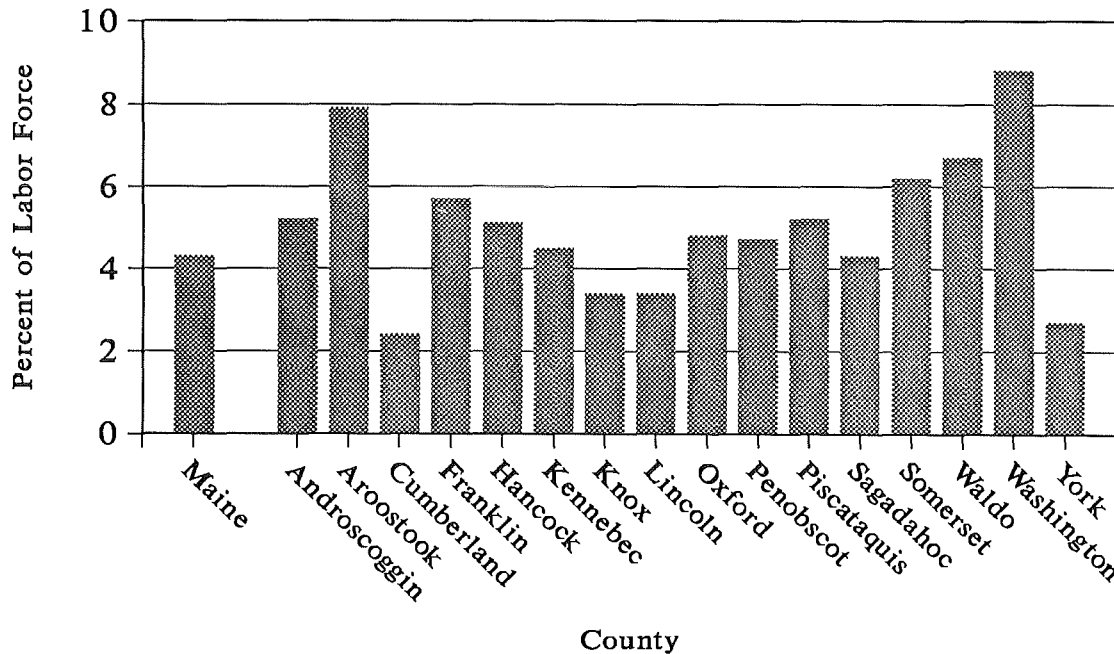
Counties: Four Have an Unemployment Rate Below 4.0 Percent

All counties within Maine, with the exception of Sagadahoc County, registered unemployment rate declines between 1986 and 1987. The tightest labor markets in 1987, as measured by unemployment rates, were in southern and coastal counties, including Cumberland (2.4 percent), York (2.7 percent), Lincoln (3.4 percent), and Knox (3.4 percent). The highest 1987 unemployment rates were recorded by Washington (8.8 percent) and Aroostook (7.9 percent) counties.

NONFARM WAGE AND SALARY EMPLOYMENT: STRONG GAINS IN NONMANUFACTURING

Most of the increase in total statewide resident employment of 30,000 between 1986 and 1987 was due to a gain of 23,600 nonfarm wage and salary jobs. During the past year the 4.9 percent growth in nonfarm employment was led by the nonmanufacturing sector, similar to the growth registered between 1985 and 1986 when non-manufacturing employment gains led to a 4.1 percent increase in nonfarm employment.

**Unemployment Rates for Maine and Maine Counties
Annual Average, 1987**



Employment in the nonmanufacturing sector increased by 23,600 between 1986 and 1987 led by gains in retail trade, services, and construction. All other nonmanufacturing industries including government; finance, insurance, and real estate; wholesale trade; and transportation and public utilities also registered employment increases over the year. During 1987 all-time employment highs were reached by several of the nonmanufacturing industries including retail trade, services, construction, wholesale trade, and finance, insurance, and real estate.

The Portland Metropolitan Statistical Area accounted for approximately 27 percent of 1986 statewide employment in construction and 44 percent of statewide employment growth in this industry between 1986 and 1987; 39 percent of employment in wholesale trade, 60 percent of employment growth; and 48 percent of employment in finance, insurance, and real estate, 68 percent of employment growth.

Retail Trade: Large Gains Recorded in Sales and Employment

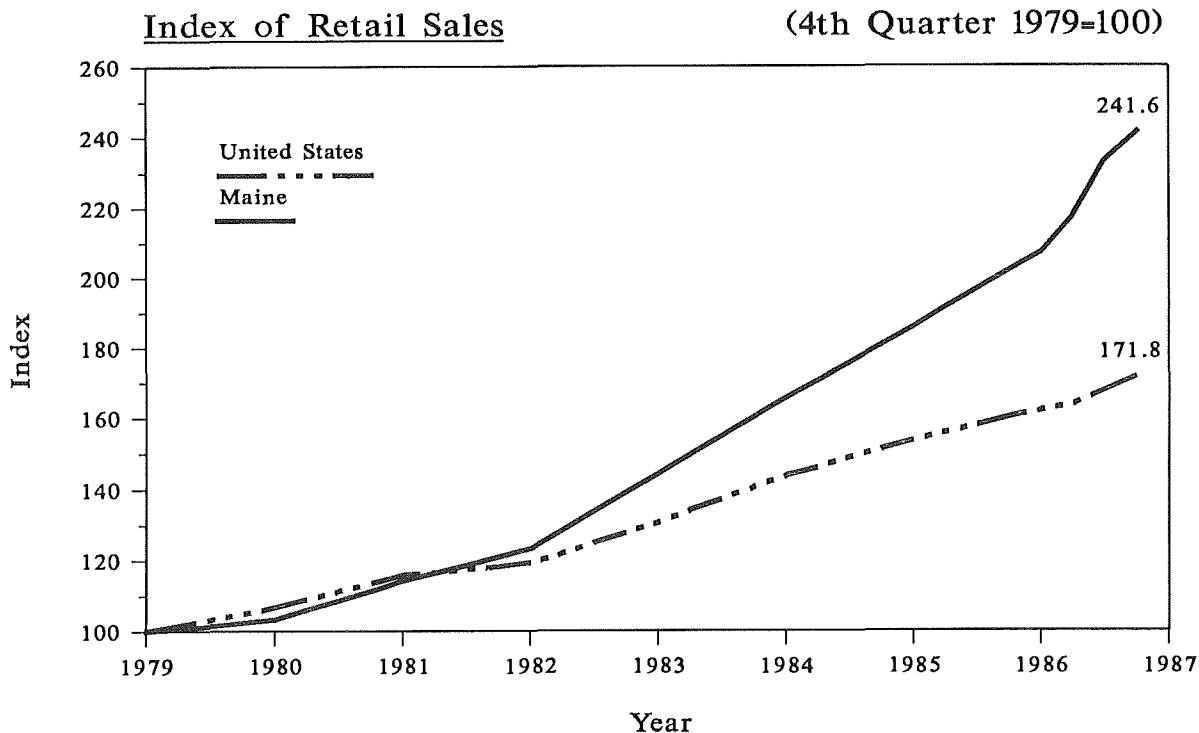
Increasing personal income, combined with continued strength in Maine's tourism industry, pushed retail sales up nearly 14 percent during

the first nine months of 1987 (compared to the same period in 1986). Nationally, the rate of retail sales growth was only 4.3 percent. The largest increase in retail sales was in building supply stores (20.7%), with food stores second fastest (17.9%).

Within the nonmanufacturing sector between 1986 and 1987, the most substantial employment gains were recorded in retail trade and services. Retail trade employment rose by 7,100, with all of the industry groups in this category registering employment gains. The largest increase was recorded by eating and drinking places, with 2,400 new jobs added between 1986 and 1987. Rising incomes, more dual wage earner families, and a growing population continue to fuel the growth of eating and drinking places. Food stores and the miscellaneous retail trade group accounted for an additional 1,300 jobs each.

Services: Health, Social, and Business Services Lead Employment Growth

Services employment increased by 6,800 between 1986 and 1987. Nearly all of the services industries recorded rising employment during the past year, with the largest gains reported by health services, social services, and business



services. Health services increased by 1,500, as efforts were made to reduce the nursing shortage. An employment increase of 800 was registered by social services as many organizations recorded small increases. Business services employment was also up 800, with most of the growth occurring in the miscellaneous business services industry group.

Other service industries with gains of 500 or more were auto repair services and garages; miscellaneous services; hotels, motels, and other lodging places; and legal services.

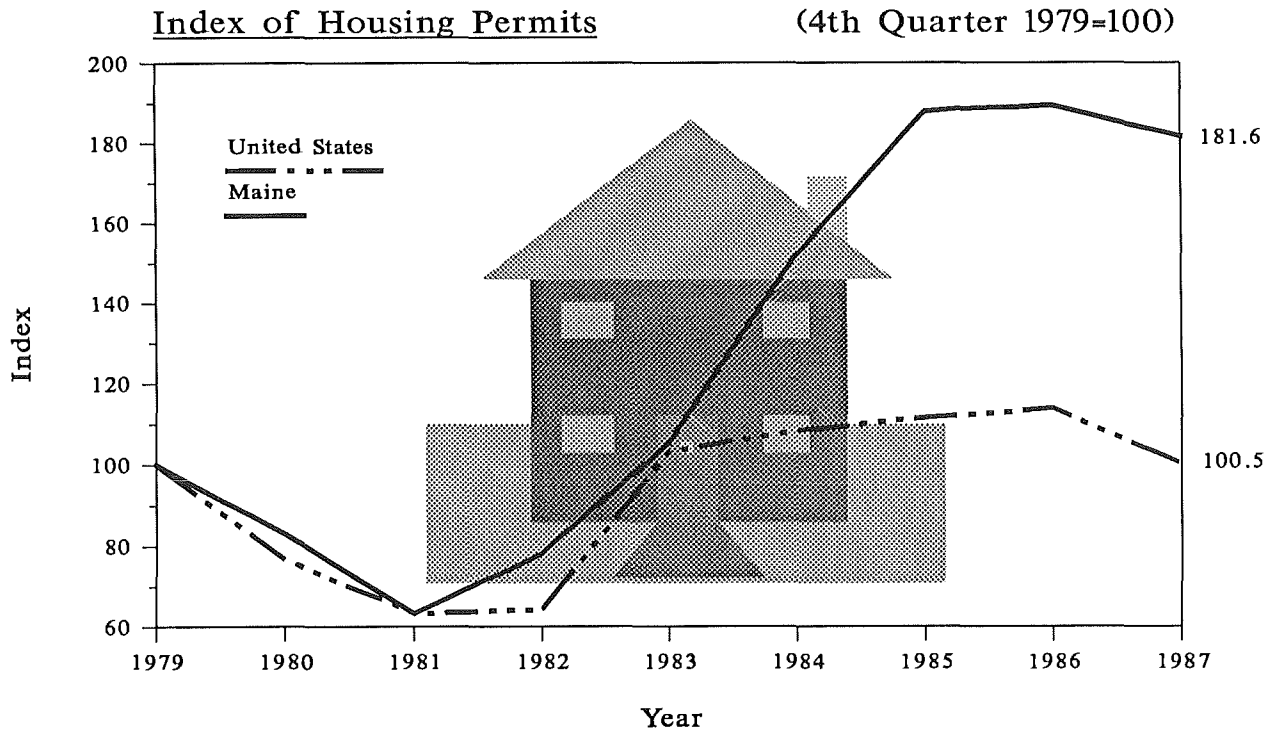
Construction: Strong Demand for Residential and Commercial Construction

While 1987 marked a slight downturn from 1986 in housing permits issued in Maine (-4.0%), Maine's drop was only one third that of the nation. In fact, actual construction in Maine remains at a high level.

Between 1983 and 1986 construction employment increased by an average of 3,400 a year. Employment in this industry continued to grow between 1986 and 1987, increasing by 4,000. The demand for residential and commercial construction was strong, with building construction employment up 2,000 and special trades construction employment up 1,200. Heavy construction other than building construction accounted for an additional 800 jobs. Employment in the construction industry might have been even higher except for the shortage of skilled labor, particularly in southern Maine.

Wholesale Trade

Wholesale trade employment rose by 1,900 from 1986 through 1987. Job gains were almost equally divided between durable goods and nondurable goods in support of strong growth in retail trade.



Finance, Insurance, and Real Estate

The number of jobs in finance, insurance, and real estate increased by 1,900 with 800 of the gain due to expansions by some of the larger insurance companies. However, employment growth in the insurance industry began to slow near the end of 1987 as one of Maine's largest insurance companies began to cut costs. Employment growth in banking accounted for most of the remaining growth in this industry group.

Local Government

Employment in local government rose by 1,300 between 1986 and 1987 as a result of gains by local schools.

Manufacturing: Four Industries Reach All-Time Employment Highs

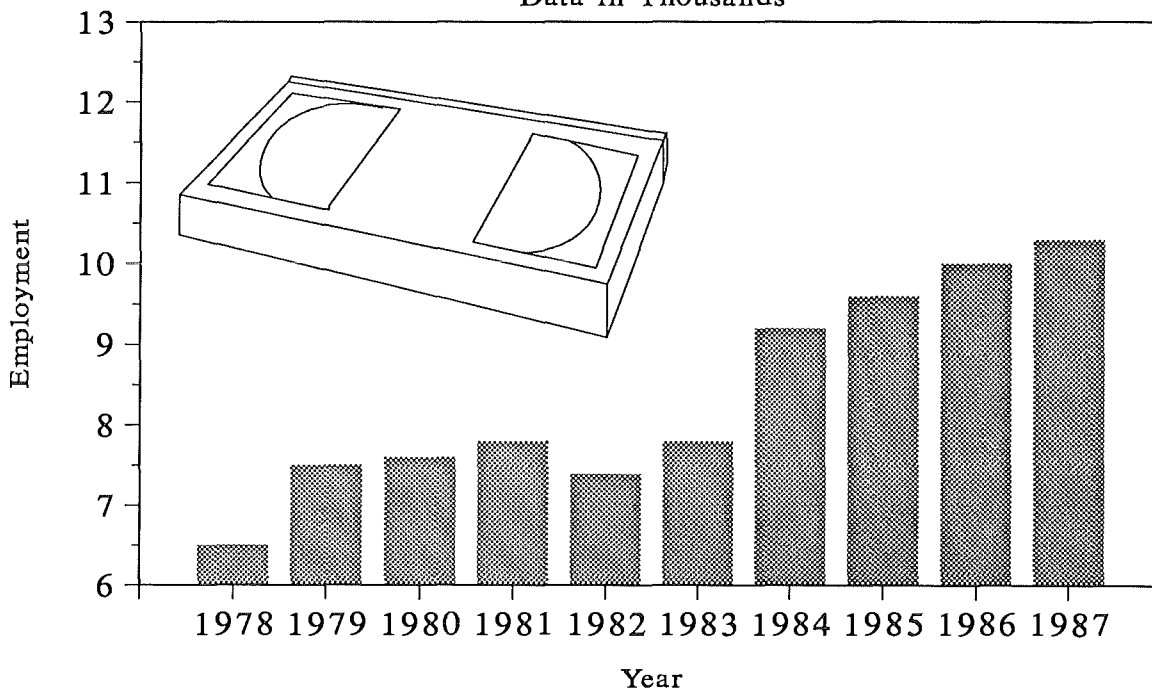
Manufacturing employment remained unchanged between 1986 and 1987. However, four of Maine's manufacturing industries reached all-time employment highs during 1987 including electronic and other electric equipment, transporta-

tion equipment, furniture and fixtures, and stone, clay, and glass. For most manufacturing industries, output has been going up as employers boost productivity through new equipment and processes. Within the manufacturing sector, employment gains of 2,100 in durable goods industries were offset by losses of 2,100 in nondurable goods industries. Much of the gain in durable goods employment was the result of an increase of 1,000 in the manufacture of transportation equipment. Lumber and wood products increased by 400, with most of the increase in sawmill employment. Electronic and other electric equipment continued a gradual climb in employment, increasing by 300 between 1986 and 1987 as some of the stronger firms expanded. Employment in the other durable goods grouping increased by 600 between 1986 and 1987 due to growth in stone, clay and glass products; machinery, except electrical; furniture and fixtures; and professional and technical equipment.

Many of the nondurable goods industries lost employment from 1986 through 1987. Apparel employment declined by 1,000 due to the closing of three Health-tex plants. The number

Electronic and Other Electric Equipment - A Growing Industry in Maine

Data in Thousands



of jobs in the food and kindred products industry dropped by 400 due to losses in potato and fish processing. Leather and leather products employment dropped by 300. Other non-durable goods industries either recorded small losses or remained stable.

PERSONAL INCOME

Among the fifty states, Maine's ranking in per capita personal income rose steadily from 44th in 1979 to 36th in 1986. The latest data available indicates that income in Maine continued to grow significantly during 1987.

Reflecting strong total employment growth statewide, total personal income in Maine rose by 6.5 percent between the third quarter of 1986 and the third quarter of 1987. Nationwide during the same time span, total personal income rose by 5.9 percent.

The fastest growing component of personal income was earnings of residents which increased by 7.2 percent. The most substantial earnings growth was found in those industries which have exhibited strong employment growth. The highest rates of earnings growth were recorded in the construction; wholesale trade; finance, insurance, and real estate; services; and retail trade industries.

OUTLOOK

The U.S. economy is projected to add 1.7 percent to Real Gross National Product in 1988, compared to 2.9 percent in each of 1986 and 1987. This slowdown will be in response to historically high consumer debt and massive federal

budget and trade deficits. As a result, consumers will reduce their purchases, especially in big-ticket items. A resurgence of exports of goods and services and slowed consumer spending on imports will be sources of economic strength in the U.S. in 1988.

As in the U.S., the Maine economy may experience a slowdown in 1988. Overall economic growth, as measured by the Economic Growth Index, is projected at 2.9 percent, down from 5.3 percent in 1987. New England Economic Project (NEEP) projections call for about 5,000 jobs to be added to the Maine economy by the end of 1988. Manufacturing firms in Maine will share in the renewal brought by a declining U.S. dollar and six years of industrial adjustment. In selected nonmanufacturing industries, employment growth will slow considerably in response to reduced consumer spending.

During 1988 Maine's civilian labor force is expected to continue to grow. With an absolute decline in the number of youths available to enter the labor force, increased participation by females and older workers is expected to contribute to labor force growth.

Statewide unemployment is expected to remain low during 1988, ranging near 1987 levels. Labor markets are expected to remain tight, particularly in southern Maine.

Wage levels in general are anticipated to rise faster in 1988 than in 1987 in response to tight labor markets. Total personal income should continue to grow, with the gap between Maine and the nation closing further.

SECTION II

NEW INITIATIVES IN ECONOMIC DEVELOPMENT

Governor John R. McKernan, Jr., the 113th Legislature, and the people of Maine have addressed a number of issues relating to economic development. They are looking currently at a number of programs to expand economic activity in the State of Maine. All of these programs, both those in effect and those which are proposed, will give more opportunity to Maine citizens and Maine businesses to realize their potential.

PROGRAMS INITIATED IN 1987

Perhaps the greatest achievement for the benefit of the Maine economy was the resolution of the Workers' Compensation crisis. During a special session called by the Governor in late 1987, the Legislature convened to address the threat of a wholesale withdrawal from the Workers' Compensation insurance program by major insurance companies. The Governor, backed by his Commissioner of Professional and Financial Regulation and Superintendent of Insurance, worked closely with the Legislature. The new legislation addressed the basic issues of rate setting, benefits, and workplace safety. The result is a system more in line with those in other states and one which would ensure participation by private insurers.

Another major event was the vote by Maine's people to keep the Maine Yankee nuclear power plant open until its scheduled retirement in 2008. This vote assures a low cost energy source that will benefit all of Maine and particularly the northern part of the state.

Governor McKernan proposed that the economic development activities be consolidated on the state level. He initiated legislation that created the Department of Economic and Community Development (DECD). This department assumed the responsibilities and capacity of the old State Development Office and the Commu-

nity Assistance Division from the State Planning Office. This new department provides a one-stop shop for economic development officials, prospective and existing businesses, and communities in dealing with economic development.

The Governor's Opportunity Zone bill, passed by the Legislature, allows for four pilot zones in Maine. These zones will target state resources to distressed areas. The zones, to be named this spring, will include a rural zone, an urban zone, an economic distress zone, and a floating zone.

There were a number of initiatives aimed at the needs of Maine people. The Governor created the Maine Human Resource Development (MHRD) Council made up of 30 members from business, education, labor, and state and local government. In January 1988, the Council's recommendations were announced. The proposal will coordinate all human resource development services, which totaled over \$1 billion from 15 state agencies during 1986.

The Rapid Employment and Training Initiative (RETI) Team was formed in early 1987 to coordinate the activities of all levels of government with the private sector in the event of a plant closing or mass layoff. The services of this team include education, training, personal counseling, and financial support. The end goal is a rapid re-entry of dislocated workers into the labor force.

The Governor also announced an Affordable Housing Task Force in late 1987. The task force will study the growing need for affordable housing in the state.

The year 1987 marked the beginning of an aggressive approach to economic development. These achievements are just the beginning. A wide variety of programs are proposed for 1988.

PROGRAM PROPOSALS FOR 1988

The legislative agenda is a full one for economic development initiatives. The Governor's package includes a broad spectrum of programs which, for the first time, offer a comprehensive approach to economic development. The programs give the Department of Economic and Community Development the tools it needs to provide quality services to Maine businesses and communities; they also give the Department of Labor new approaches to crisis situations and more innovative techniques to help the chronically unemployed. Many of the programs were suggested by the findings of the 1987 Economic Development Strategy Task Force. The programs are categorized under four major areas of investment: Maine people, infrastructure, natural resources, and the entrepreneurial environment.

The programs that invest in Maine people range from programs to improve all levels of education including the Vocational Technical Institutes to expanded child care services. The Governor's contingency training fund will be expanded to create the Enterprise Job Fund which will allow a speedy response to industries' training needs.

The Strategic Training for Accelerated Reemployment (STAR) program is an innovative approach to get people working again in stable and growing industries. To supplement the training, support services such as child care, transportation, and continued unemployment benefits are an integral part of the program. This program will be administered by the Department of Labor.

The A.S.P.I.R.E. program (Additional Support for People In Retraining and Education) will be jointly administered by the Department of Labor and the Department of Human Services. It takes the best of two systems to provide support to welfare recipients hoping to get back into the job market. One state caseworker will be responsible for each client to see that their welfare and training needs are met. The program, furthermore, allows for continuing services for medical

insurance, day care, transportation, and counseling. In all, this program provides comprehensive assistance to clients as they move off welfare to self-sufficiency.

The infrastructure needs of the state will be addressed through an additional five cent gas tax to make up for a decline in federal resources for highway and bridge construction. A number of strategic development corridors have been identified by the Department of Transportation to benefit from the initial spending. The corridors are those which have regional importance or are links to major markets in Canada and the other New England states.

Economic Corridor Action Grants from DECD will augment the funds for construction and repair to ensure that communities have the funds to gear up for development along those routes.

The program initiative aimed specifically at natural resources is the Maine Town Planning program which assists municipalities in preparing comprehensive plans to protect our quality of life. This program is a down payment to help communities plan for and manage growth. It will be run by DECD.

A Maine Products Marketing program will help the natural resources industries as well as the entrepreneurial environment. This program will help Maine businesses tap new markets, encourage market awareness of Maine's value-added manufacturers, and promote a regional and national awareness of Maine's reputation for quality products. DECD will take a lead in this initiative and the Departments of Agriculture and Marine Resources will assist.

A major expansion of the Business Assistance program will strengthen the regional system that supports small business through a partnership with DECD, the Small Business Administration, and the Small Business Development Centers. It will also add professionals with specific expertise in areas such as marketing. The Business Answers program needs more staff and telephone lines to meet the demand for

this popular service. Business Answers, a one-stop shop for information on starting a new business, is currently a single toll free telephone number and one staff person. A final aspect of this overall program is support for encouraging entrepreneurship in high schools.

The Targeted Business Development program will increase regional business investment through retention and expansion assistance for Maine businesses as well as targeting growth industries in Maine for new investment. This program will foster regional business diversification and will be handled by DECD.

The state is embarking on a new international commerce program, one which recognizes the importance of building long-term relationships with people and businesses in other countries. This initiative will have two major components: investments and trade. The program aimed at economic diversification and resilience is the International Investment program. This new initiative will encourage international participation in Maine's development. It will aggressively seek compatible sources of business investment, and work with communities to encourage grass-roots participation.

A natural extension of that program is the International Export Assistance program which builds on our existing DECD programs to help more firms learn how to tap international markets. Special assistance will go to trade associations and other industry groups to help them help their members.

Two programs aimed at new business growth are the Centers for Innovation and the Maine Seed Capital programs. The Centers for Innovation initiative will provide applied research grants for technology transfer to business applications. This program will be run by the Maine Science and Technology Board. The Maine Seed Capital program, to be administered by the Finance Authority of Maine, will address the equity needs of growing small businesses. Investors, other than the entrepreneur, are entitled to a tax credit as a percent of their investment. This tax credit applies to long-term financing.

The 1988 programs reflect the administration's concern for economic prosperity and quality job creation. The State of Maine stands committed to helping all Maine citizens have access to quality jobs and opportunities in industries with a sound future.