

This Review and Outlook for the Maine economy was prepared by the Economics Staff of the State Planning Office to inform Maine citizens of recent trends in Maine's economy, provide a forecast of what may be expected over the next 2 years, and highlight some long term trends that will reshape Maine in the coming decade.

Among the observations made in this report are some key facts about the Maine economy:

• 1987 was a very good year for Maine, with significant employment growth and historic lows in unemployment rates. Growth was not confined to any one part of the state, but occurred in all counties.

• In 1988 economic growth in Maine will continue, and will be faster than the nation, but it will not be as rapid as in the past two years as national trends slow down somewhat and Maine's already tight labor markets make it difficult to squeeze out much more job growth. 1989, however, will likely see a return to faster growth rates.

• Maine's economy is continuing its transformation away from manufacturing and towards various types of trade and service industries, at least in terms of employment. Maine's economic success will create new challenges in increasing productivity and speeding growth in the labor force in order to remain competitive.

We hope you find the information useful, and invite your comments on the report.

Richard H. Silkman Director State Planning Office

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		Principal Data Sources Include:
		Data Resources Inc. (DRI)
		New England Economic Project (NEEP)
		State Planning Office (SPO)
		Maine Department of Labor (DOL)

1987: The Year in Review

1987 was a very good year for the Maine economy. 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%, compared with national growth of 2%. 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 1980's, can be seen in every important economic indicator. It can also be seen in virtually all parts of the state. While differences in growth continue to exist, in 1987 these differences clearly diminished as Maine's entire economy grew at a fast clip.

During the past year, the record of job creation in Maine has been outstanding. From third quarter 1986 through third quarter 1987, over 36,000 new jobs were created in the Maine economy, a gain of 6.6%, compared to 2.7% in the United States as a whole.

By late 1987, all of Maine's counties were creating new jobs faster than the nation. The slowest growing of Maine's counties through third quarter 1987, Piscatquis County, had a 3% growth rate. The fastest growing counties in terms of employment growth were in the midcoast region: Knox County (15.1%) and Lincoln County (13.2%), indicating that growth is begining to expand into areas outside of southern Maine and the I-95 corridor.

Payroll employment through October increased by 18,500. This was something of a mixed figure, however. While nonmanufacturing payroll jobs increased 19,400, manufacturing jobs declined by 900. Retail trade and services were the fastest growing industries overall, adding 7,600 and 5,900 jobs respectively. Together these two sectors accounted for three quarters of all the new jobs.

Rapid employment growth, combined with slow labor force growth in Maine has pushed the unemployment rate to post war lows. The seasonally adjusted unemployment rate in October was 3.5%, compared to a national rate of 6%. Maine's unemployment rate has been cut in half in less than four years, and has now been below the national rate for nearly seven years.

All regions have seen considerable improvement over the past few years. As of October, all of Maine's counties had jobless rates below the national average, except for Washington County. In September, all sixteen counties were below the national rate.

Personal incomes have grown rapidly during the past year. Between second quarter 1986 and second quarter 1987 (the latest for which figures are available) per capita personal income rose by 7.2%, compared to 5.2% nationally. Among the fifty states, Maine's ranking in per capital income improved steadily from 44th in 1979 to 36th in 1986. Given the growth during the first half of 1987, it is likely that Maine's ranking will improve even further once final figures are in.

What is interesting about the most recent trends in per capita income growth is that the Maine economy itself is now the driving force in income growth, rather than sources outside the state. Between 1984 and mid-1987, the fastest growing source of personal income was wages and salaries. In fact, wage and salary growth accounted for two-thirds of personal income growth during the 1986-87 period. This has not always been the case. In the 1970's and early 1980's unearned income (transfer payments and dividends, interest, and rent) grew faster than wages and salaries.

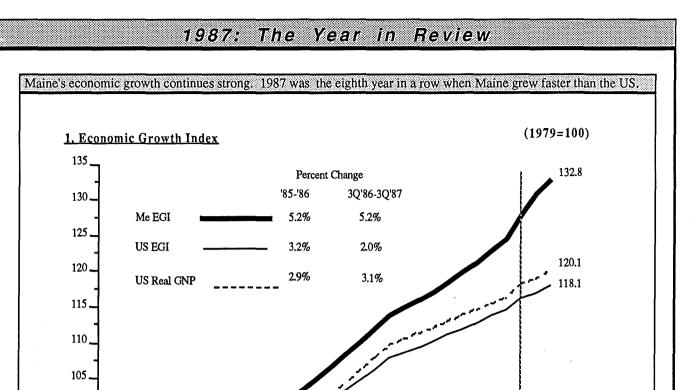
Increasing personal income, combined with continued strength in Maine's tourism industry, pushed retail sales up nearly 14% during the first nine months of 1987 (compared to the same period in 1986). Nationally, the rate of retail sales growth was only 4.3%. The largest increase in retail sales was in building supply stores (20.7%), with food stores second fastest (17.9%).

The fact that building supply stores had the largest increase in retail sales should come as no surprise; construction has been booming in the state for several years. 1987 did mark a slight downturn (4%) from the previous year in housing construction (as measured by permits issued) in both Maine and the United States, although Maine's drop was only one third that of the country. The level of construction remains at a high level, however, especially compared to the levels of the early 1980's.

As the outlook sections following indicate, growth is not going to be sustained at 1987's rates. But 1987 will end with the Maine economy pushing at limits of employment and growth in a manner that the state has not seen in the lifetimes of most of its citizens.

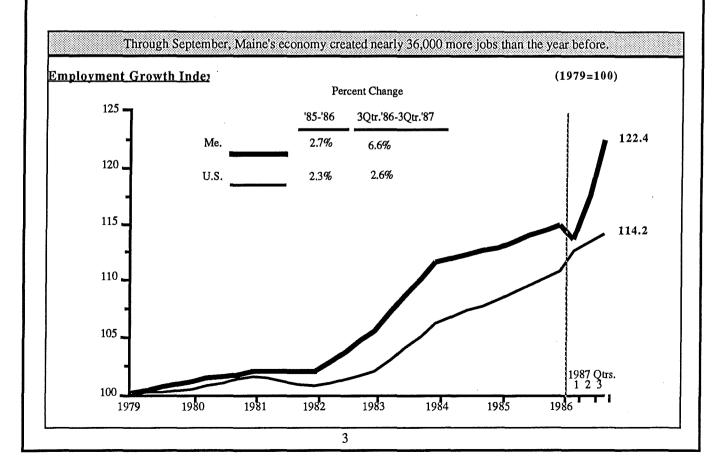
* The Economic Growth Index is a composite figure of resident employment, real consumer retail sales, production hours in manufacturing, and employment in services. All data area seasonally adjusted.

<u>A Note On Year-End Statistics:</u> Final data on employment and other key indicators do not become avilable until early 1988. This assessment is based on trends through the third quarter compared to the same period in 1986. They are believed to be sufficiently accurate for a general assessment of economic conditions.

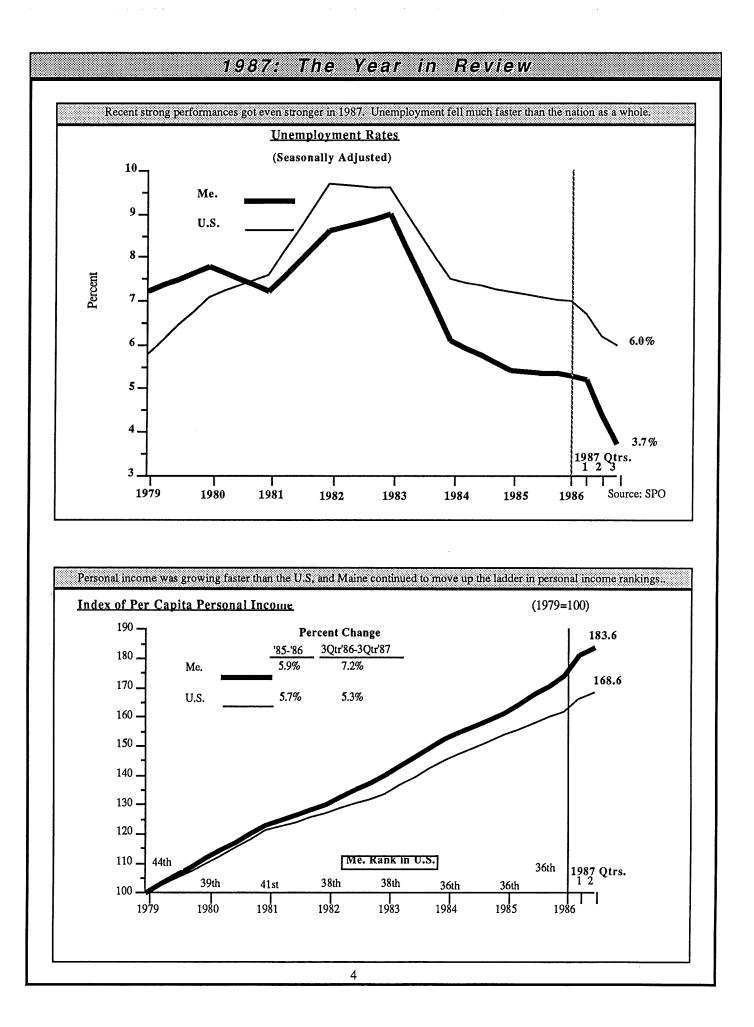


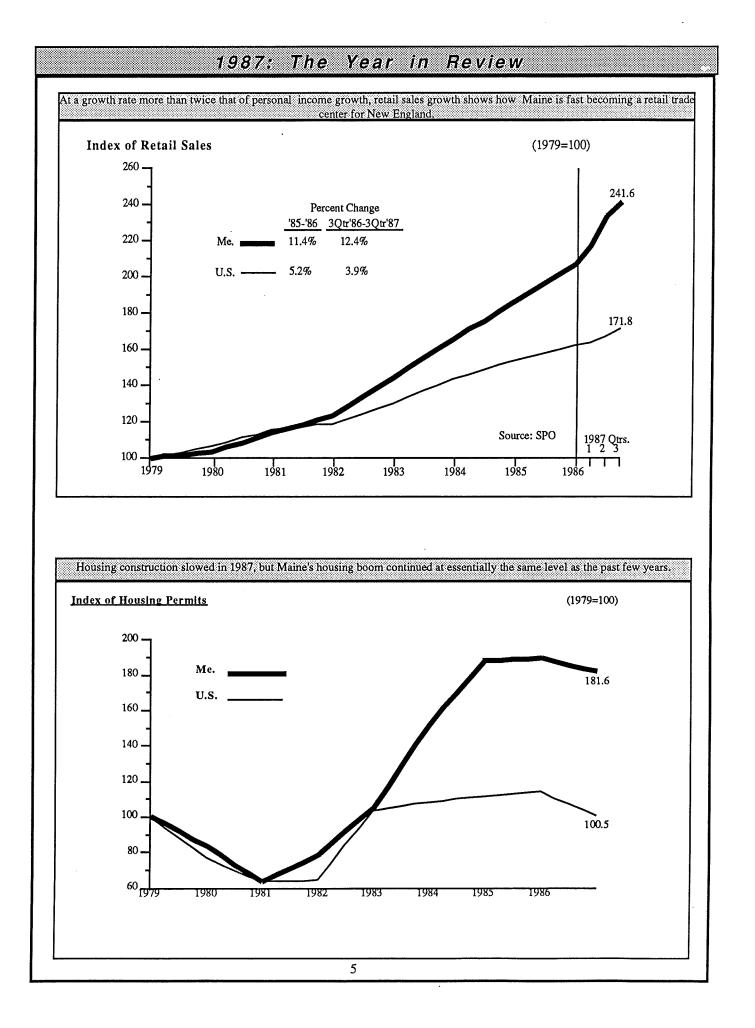
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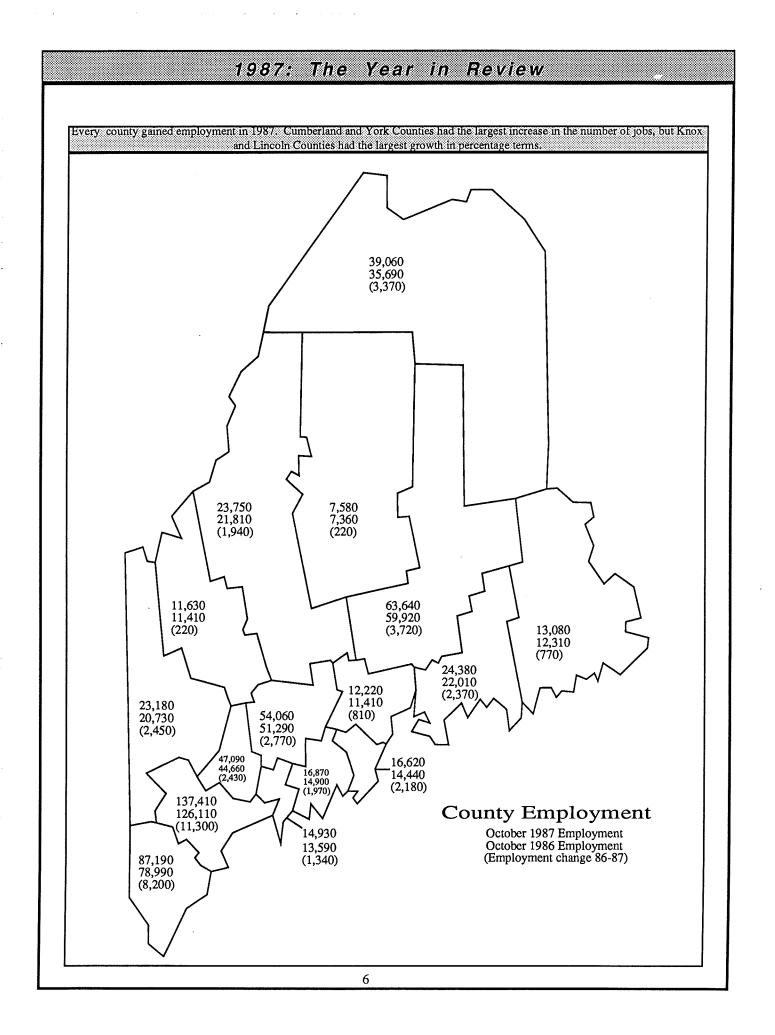
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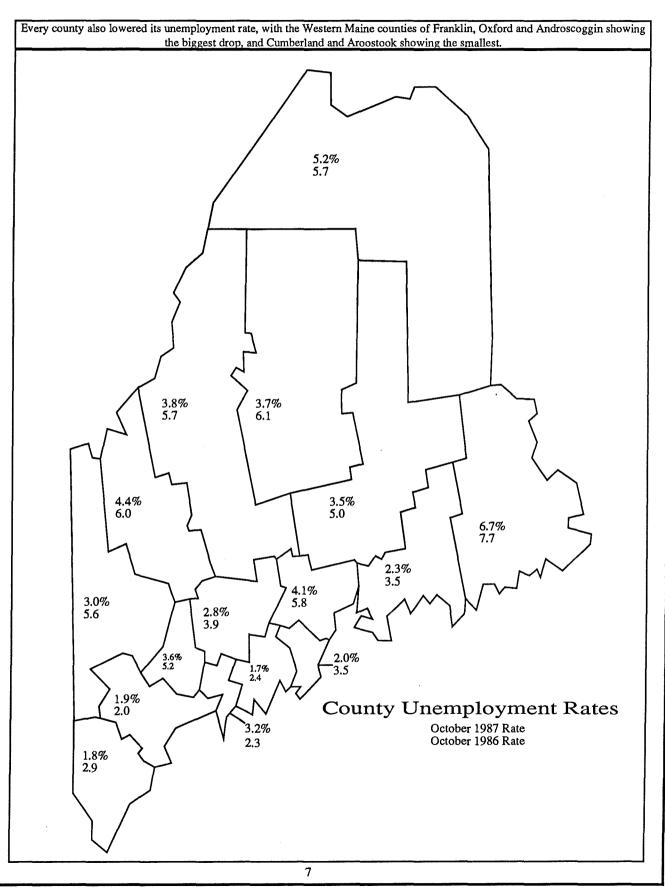
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1987: The Year in Review



1987: The Year in Review

The 10 Most Significant Economic Events in Maine in 1987

At the end of the year everybody picks their "10 best...", 10 most...", etc., so herewith our view of the the 10 most significant economic events in Maine in 1987. They were picked as significant for what they tell us about the Maine economy today, and what it might be tomorrow. In no order whatsoever, they are:

1. Historic Lows in Unemployment Rates. Maine's 1987 unemployment will most likely be a post World War II low. Portland had the lowest unemployment rate of any metropolitan area in the country in August. Unemployment rates never tell the whole story, but this is surely a dramatic change from the past.

2. Maine Yankee Stays Open. For the third time in the decade Maine Yankee was kept open by the voters, who chose its inexpensive electricity over other alternatives. This was not a vote for nuclear power as much as a vote against the economic damage that would have resulted from higher electricity rates.

3. International Paper and Maine Central Railroad strikes. The six-month old strike at IP and the renewal of strikes at Maine Central speak of a troubled undercurrent in labor-mangement relations in Maine that has been around for the past few years and shows few signs of abating.

4. CMP-Hydro Québec Agreement. Central Maine Power signed a preliminary agreement to purchase up to \$9 billion in electricity from Québec over the period from 1992-2028. In dollar volume, it was the largest single deal in the state's business history. In response to it, over 1400 megawatts of domestic generation was proposed by private developers. Still others pointed to new conservation options. While great controversy lies ahead as approvals are sought, these events showed how rich in electricity options the State of Maine is.

5. Workers Compensation Reform. Workers compensation has been an open sore in the political and economic life of Maine for more than a decade. The reforms agreed to by the Governor and Legislature should go a long way towards healing these wounds, but time is needed to determine just how successful these reforms will be.

6. UNUM announces layoffs. UNUM corporation, the Portland area's largest employer, announced that it would initiate a program of layoffs, signalling the end to its specatular employment growth phase. While the layoffs clearly arise from UNUM's unique circumstances, they remind us that growth for any business or industry does not continue forever.

7. Hartford maintains growth moratorium. As growth pressures mounted throughout Maine, municipalities sought to call a temporary halt to new developments in order to get their acts together for planning and zoning decisions. When a large land developer sued the small Oxford County Town of Hartford over its

The event symbolized the mixed emotions with which even people in the must rural areas of Maine have greeted the development boom.

8. Benefits for hamburger flippers. Signs at fast food restaurants used to advertise the latest contest or when Ronald McDonald would visit. Now they advertise (implore is more like it) people to come to work for them, with pay well above minimum wage and benefits like health insurance and day care. Such are the effects of tight labor markets.

9. Health Tex closes. Health Tex closed its three children's clothing plants in Maine, resulting in the layoff of more than 800 workers. While the closing of manufacturing plants was certainly not a new story, Health Tex showed that Maine's nondurable manufacturing base remains vulnerable.

10 Maine Turnpike doesn't expand. The Maine Turnpike is the central artery of the Maine economy, so when its managers decided it was time to expand, the assumption was that despite the \$128 million cost, there would be little fuss. They were wrong. The expansion and toll hike were put on hold pending a more detailed analysis of needs and of the connections between the turnpike and the surrounding communities. Another piece of evidence about Maine's increasingly circumspect attitude towards growth.

1. The Stock Market Crash The effects of the massive loss of equity in the October 19 stock market crash will not be known for some time. But already there are signs that other go-go markets of the mid 1980's may be cooling off in its wake. The speculative aspects of the land beam in Maine may be slowing down, as evidence by problems telling prime coastal properties such as Western Head in Cutler and conclo's at Old Orchard Beach.

, And two events whose significance is seen through a glass,

2. The United States-Canadian Free Trade Agreement In October the U.S. and Canada agreed on the principles to establish a free trade area between the world's two largest trading partners. While ratification of the agreement awaits stern tests in both countries, the agreement could greatly affect Maine's economy, in both positive and negative ways, due to our protimity to Canada and our increasing trade relations with that country.

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U.S. Outlook for 1988-89

The U.S. economy will be running neither a marathon nor a sprint over the next two years, but it will still be moving forward. Not spectacular, but not bad at all for the sixth and seventh years of an expansionary period.

Output (real gross national product) growth will slow in early 1988 and pick up later in the year. Overall growth is forecast to be 1.7%, down from about 3% in 1987. 1989 should look a lot like 1987 with about a 3% growth rate. This will keep national unemployment around 6% for the next two years, essentially unchanged from 1987. These estimates by Data Resources are on the low side of most forecasts of 1988 GNP, so they should be viewed as somewhat conservative.

Consumers and the federal budget deficit continue to be the workhorses of the economy. Consumers will be working at a slower rate, but the budget deficit will keep up or even quicken its pace. DRI is forecasting that consumption will go up 1.3% while real disposable (after tax) personal incomes rise 1.9%. This implies that people are finally going to start saving part of their income.

Consumers have been spending more than income (i.e., going into debt) for the past several years, and this is forecast to change. The stock market crash is seen as a major reason for slowing growth in consumer spending. Households lost about 7% of their net worth in the stock market turmoil at the end of the year, and net worth has historically been a very good predictor of spending.

However, a decrease in spending and an increase in saving is by no means a sure bet, even with the stock market crash. Economic models have been predicting a halt to continued growth in consumer indebtedness for some time, but the comsumers have not been paying any attention to the economists. Consumer spending growth could thus easily equal or exceed the 1.9% growth in personal income, raising overall growth in GNP to 2% or more. Watch for January reports on Christmas spending and December personal income; if there is going to be real change in consumer behavior, it will probably begin to show up there.

The Federal deficit is likely to grow somewhat despite the recently concluded "budget summit". The reason is simple: slower economic growth means a decline in revenues. A real decline in the budget deficit will probably have to wait for 1989 when the full reductions of the recent budget decisions go into effect and economic growth speeds up again.

Other sectors of GNP, including exports and investment, will do little to spur things along. Exports will grow, perhaps dramatically, but imports will continue at high levels and the trade deficit will remain enormous. Housing starts are forecast to fall in 1988 as high prices in growing areas such as New England, and troubled economies in other parts of the country, keep real estate markets soft.

The Federal Reserve will be under intense cross pressures on interest rate policies. On the one hand, the Fed will want to avoid another disaster in the financial markets like Black Monday, which was preceeded by rising interest rates. This will put downward pressure on rates. Putting pressure in the upward direction will be the fear of inflation and the declinding dollar. Foreign investors who now hold 1.3 trillion dollars in U.S. investments, much of it U.S. government and other bonds, will look for higher rates to offset the declining value of their assets. The balance of these pressures will probably produce stable rates, at least through most of 1988.

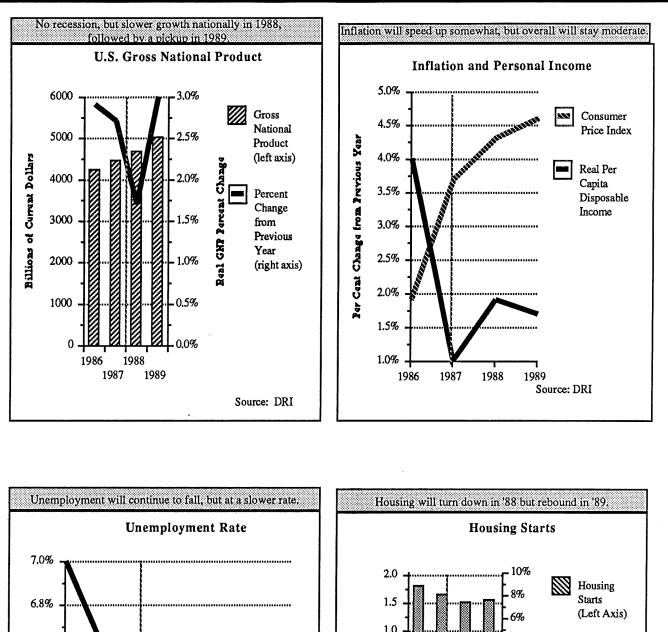
There are inflationary forces out there, most notably the increase in import prices as the dollar continues its long descent from the heights of 1985. But the forecasts do not show any dramatic increases in inflation. From a rate just under 4% this year, consumer prices should rise by just over 4% next year.

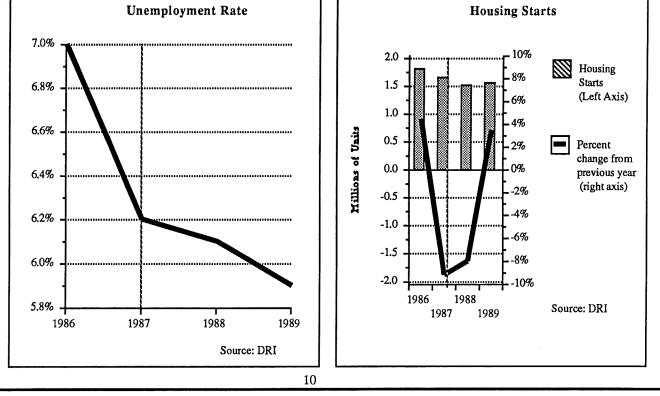
The major reasons that inflation should remain in what is today considered a reasonable range is that nationally, wages will not increase faster than the consumer price index. Weaker demand and vigorous foreign competition in many sectors (such as autos) will keep wage growth from exceeding inflation. Oil prices will, as always, be a wild card, but barring a major flare up of the Persian Gulf War, oil should not be a major cause of renewed inflation

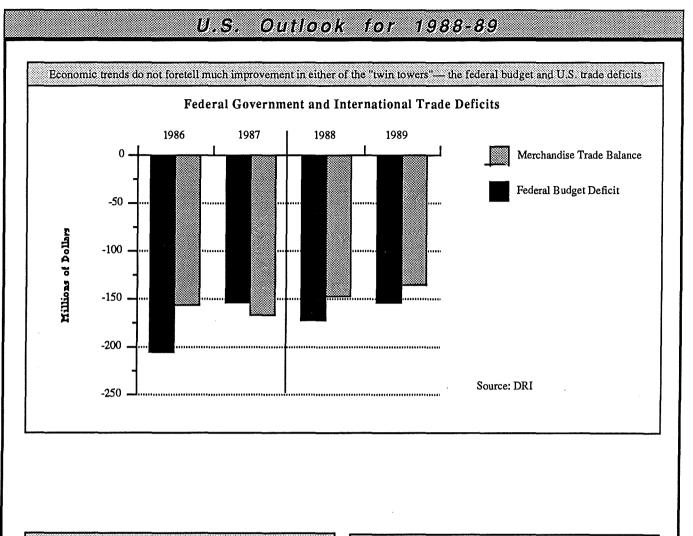
The next two years will be good for exporters and for importsensitive industries. The dollar will continue to fall relative to other currencies, though at a much slower pace. Exports will grow at nearly a 10% rate in 1987, and 8-9% in 1988-89, while imports will decline in 1988 and remain at that level in 1989.

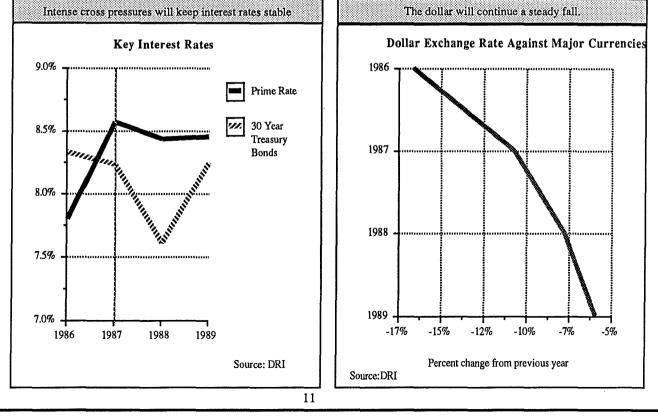
These trends will make a dent in the country's merchandise trade balance, but the trade deficit will remain over \$130 million per year through 1989.











Maine Outlook for 1988-89

The big question for Maine is: can we stay on the roll that we have been on? The answer is yes, but, like the nation, we will not be rolling as fast in 1988, albeit for somewhat different reasons.

Overall economic growth (as measured by the State Planning Office Economic Growth Index) is forecast to grow at 2.9% in 1988. This is a slowdown from 1987's estimated rate of 5.3%, but it will keep alive Maine's five year old streak of consecutive quarters with faster-than-the-nation growth.

Employment growth will continue, with about 5000 more jobs at the end of 1988 than at the end of 1987. This, too, represents a slow down in growth rates— a projected rate for 1988 of 1.1%, compared to 4.1% in 1986 and 3.5% in 1987.

This slower growth in Maine reflects in part the effects of a slowing national forecast, but, particularly in employment, it reflects the extraordinary strength of the Maine economy today. The state is at virtually full employment right now, with an annual average unemployment rate (seasonally adjusted) of 4.5%.

This does not imply that all parts of the state will be at full employment, since these are statewide averages. But it does indicate that there is little in the way of idle capacity in the state, and that this will continue over the next year.

In such a tight labor market the key to growth in employment is growth in the labor force- the number of people working or looking for work. The labor force is expected to expand at a rate of nearly 2.5%, or about 13,000 people in 1988. The growth will come primarily in response to higher wage and benefit packages being offered, such as the fast food restaurants in southern Maine now offering day care to attact new workers.

Housing starts, another key indicator of growth, should stay at about the same level as 1987. This will occur despite a decline of about 8% in the housing starts figure nationwide, indicating that Maine's real estate development and growth pressures will not slacken in the next two years.

During the past decade, virtually all the growth in Maine's employment has come in nonmanufacturing. Manufacturing jobs have been reduced in both absolute and relative proportions, and the current forecast is for this trend to continue. Manufacturing employment is projected to decline overall 1.7% or about 900 jobs. A projected increase of about 200 jobs in durable goods will be offset by a decline in nondurable goods employment of about 5% or 1100 jobs.

Forecasts of changes in manufacturing employment have

become especially tricky in the last few years because sudden events can overwhelm the long term trends that economic models use to forecast changes. Strikes, such as those at Boise Cascade and International Paper, and plant closings, such as Health Tex, are good examples. These events pull the forecasts down somewhat, so these forecast declines may be a little pessimistic. A major expansion or new plant opening could turn things around, although stability in manufacturing employment is probably the best we can hope for in 1988-89.

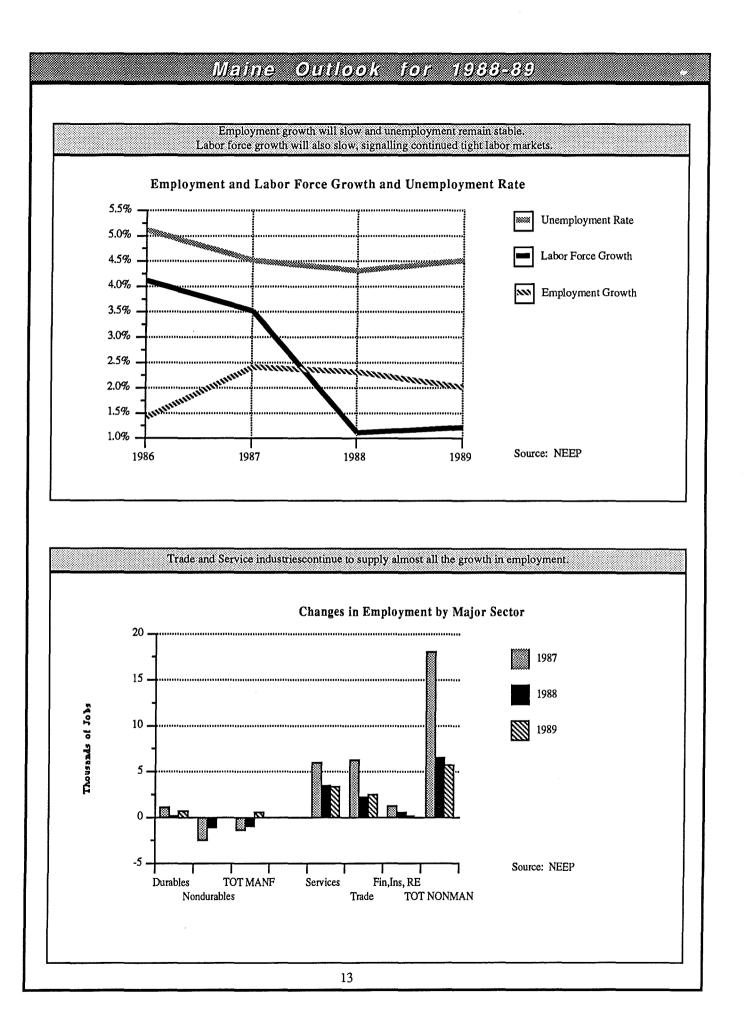
In nonmanufacturing, the Finance, Insurance, and Real Estate sector is projected to be the fastest growing with nearly 600 new jobs, nearly an 8% rate. The layoffs announced by UNUM may dampen this figure somewhat, but this should remain one of the Maine economy's real growth stars. Growth in trade and services should also be rapid, at over 6%, but how much of this forecast is accurate will depend greatly on how successful companies are in attracting new entrants into the labor force.

One bright spot that is likely to get brighter is personal income, which should continue to grow at 8% or better, compared with about 5% nationwide. Maine is rapidly closing the gap in personal incomes that has historically separated us from the rest of New England and the nation.

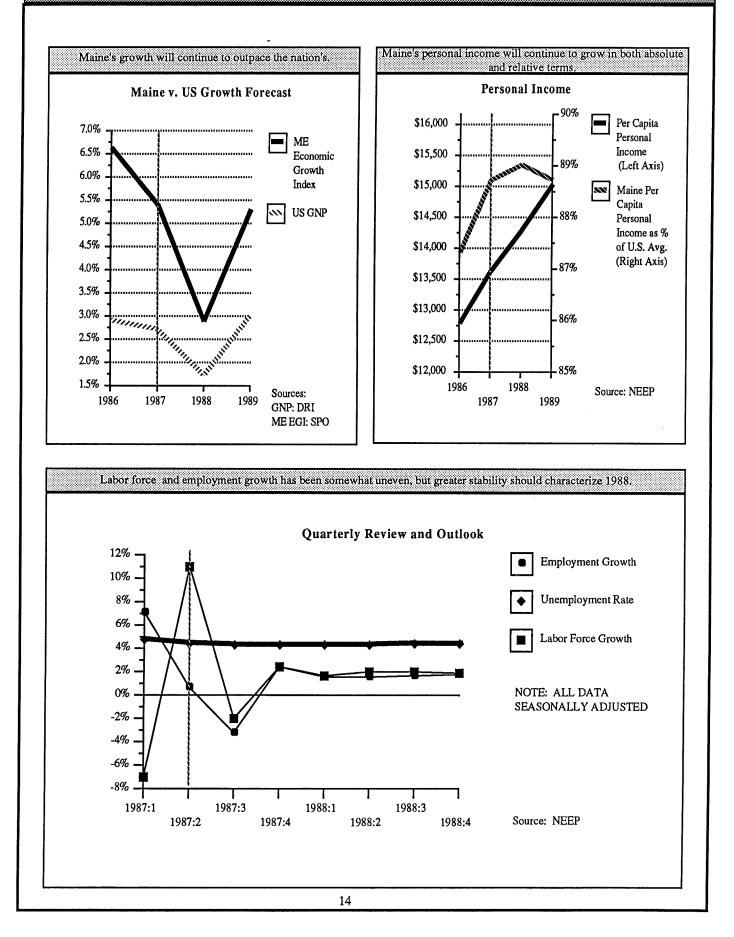
All the forecasts for 1988 are emphasizing great uncertainty about the economy. The stock market crash, October's new record trade deficit in the face of a plummeting dollar, and the continued uncertainties surrounding monetary and fiscal policy in Washington make all forecasters uneasy about the future. The sheer length of time of the current expansion makes everyone wonder when the next downturn will come.

If the national economy were to slip into recession during the next two years, what would be the effect on Maine?. Fortunately, all indicators are that Maine would weather a national recession in good shape. In fact, all of New England would continue in relatively good condition. Maine could lose around 7000 jobs in a one-year long recession, but this would be only slightly more than the number of jobs we would add during the same period. Thus Maine should survive any recession of moderate duration and intensity at approximately the same levels of employment as 1987. Growth would stop, but there should be no serious decline in the state's economy.

While the models are not showing a recession in 1988 or 1989, the fragile balancing act on which the economy rests, and which was exposed vividly on "Black Monday", means a certain amount of caution is in order and that Maine cannot rest on its laurels.



Maine Outlook for 1988-89



Long Term Outlook and Issues

Long-term economic prospects for Maine appear generally positive, but the state's recent strong economic performance presents a new set of challenges. Historically, Maine has focused its attention on catching up with the rest of the country. After eight years of growth faster than the U.S., Maine must now find ways of holding on to what we have gained, spreading the economic growth more evenly, and building a basis for sustainable prosperity. Maine will have to meet these challenges while confronting some fundamental shifts in the state's economic structure, shifts which have been underway in Maine and the U.S. for some time, and which will likely accelerate in the coming decade.

Maine's manufacturing industries have weathered several years of strong foreign competition, intensified by unfavorable dollar exchange rates. These industries are, for the most part, emerging from this period as more efficient, but smaller competitors. Manufacturing employment will decline somwhat at about 0.4 % annually, to 1996 although real output will continue to grow.

Maine's mature manufacturing sector (primarily nondurables) will continue to respond to slackening demand and low-cost competition by shifting to less labor-intensive technologies. In doing so, many of these industries will produce more product with fewer workers. Through enhanced productivity some industries will regain some of the market share lost over the six years of high dollar exchange rates, thereby supporting relatively stable employment levels. In other cases, principally in the footwear, food processing, apparel and textile industries, firms will scale down both employment and output to serve special market niches, or close down altogether.

Exceptions to generally sluggish job growth in manufacturing are found primarily among industries associated with computers, office equipment and communications. Specifically, non-electric machinery, electronic components and equipment, and fabricated metal products are expected to return to strong growth over the next 10 years. Printing/ publishing and plastics will also post job gains through 1996.

The service-producing sector will continue to provide the vast majority of new jobs between now and 1996. An annual growth of 1.4% will be led by gradual population growth, continued strength in tourism, and strong demand for health, business and professional services. Maine's relative reliance on service sector industries will be greater in 1996 than it is today.

In Maine, the trade and consumer service, health services and business and professional services will provide the bulk of new jobs over the next decade. Rising household incomes and tourism growth, will expand employment in wholesale and retail trade, restaurants, hotels, recreation and other con-

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sumer services.

Industries providing medical services will see demand grow as a result of increases in the elderly population and the growth of medical services provided outside of hospitals. Continued "out- sourcing" by manufacturing industries for legal, engineering, accounting, management, and other services will make business and professional services the fastest growing industries in Maine and the United States. These are also the best paid of the service industries, which calls into question the stereotype of service industry jobs as low pay, no benefit jobs.

Finally, technological innovation, especially in data analysis and communications, is creating new services and reshaping consumer demand. Financial services, in particular, have benefited from the scale economies and product innovations made possible by new technologies.

The implications of the long-term shift from manufacturing to services occurring in the Maine and U.S. economies will pose challenges and opportunities that will stretch into the 1990's and beyond. Improvements in the competitive position of Maine manufacturing industries will not end the problem of displaced workers. As the structure of employment shifts from mature manufacturing to the service sector, questions of appropriate education and skill levels will persist, especially for older workers.

The growing employment share of the service sector and increasing retirement income in Maine are providing the State's economy a buffer to national business cycle vagaries. Moreover, the nature of many fast-growing industries moderate size, producing information services or light products, and a focus on quality rather than quantity—is reducing the importance of geographic factors such as proximity to markets or raw materials in the location decisions of businesses and increasing the importance of quality of life considerations.

Labor force growth will be a key to long term employment growth. With the state currently at what economists consider full employment, future jobs will have to be filled by attracting new entrants to the workforce, such as women and the disabled, who have been unwilling or unable to seek employment in the past. Public and private efforts in areas such as day care or training will have more impact than ever, but the difficulties of providing such services in a low populationdensity state such as Maine will also become more apparent.

The tight labor markets will continue to encourage firms to provide a larger share of full-time jobs, increase wage rates and benefits, and introduce greater flexibility into the workplace. These steps will contribute to higher personal income levels and improve the quality of jobs in fast-growing sectors.

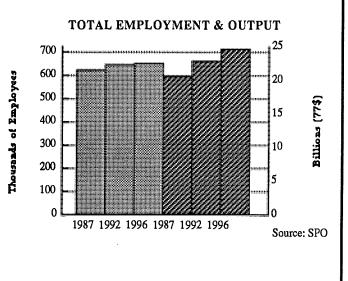
Long Term Outlook and Issues

While becoming somewhat more insulated from sharp fluctuations in national trends, the growth projected for the Maine economy relies on the future strength of the U.S. economy (See box).

The assumptions of improvements in the U.S. foreign trade position are also critical to this forecast. These assumptions include renewed strength in the export of U.S. goods as well as a more competitive position in domestic U.S. markets. This should provide real opportunities for many Maine industreis to expand markets in ways that have been impossible through most of the 1980's.

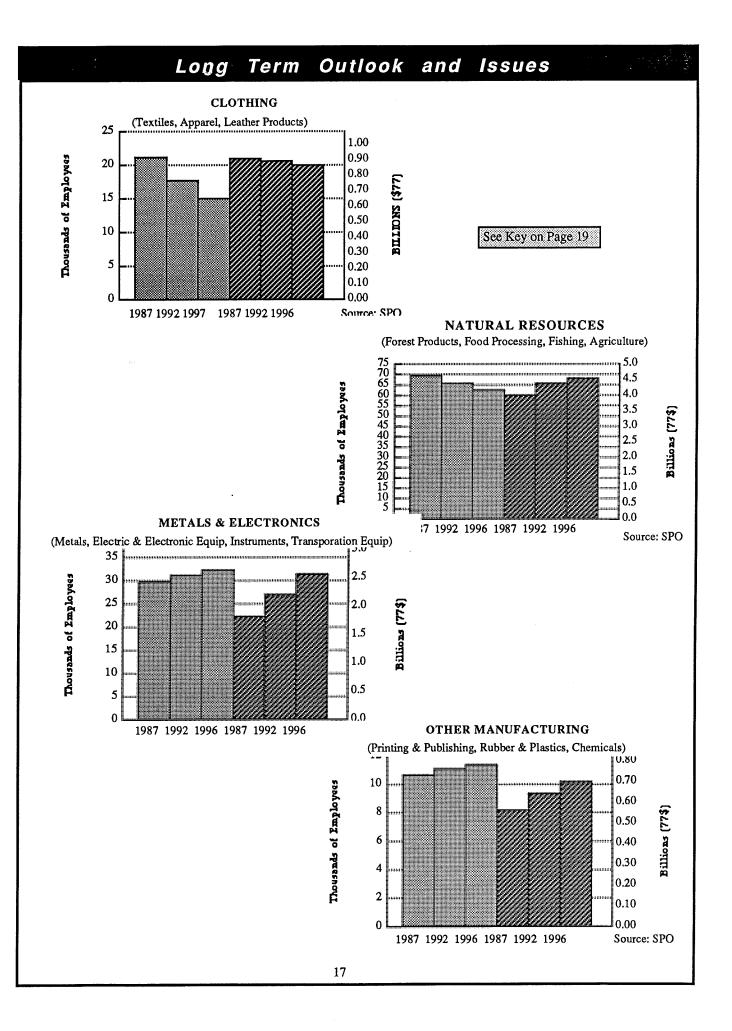
Maine's economy has always confronted the disadvantages of the state's small population and relatively low income levels. Now it will have to confront the risks created by its own success. As labor markets tighten and wage rates rise, as land values increase, costs go up and Maine's companies become less competitive compared with other regions.

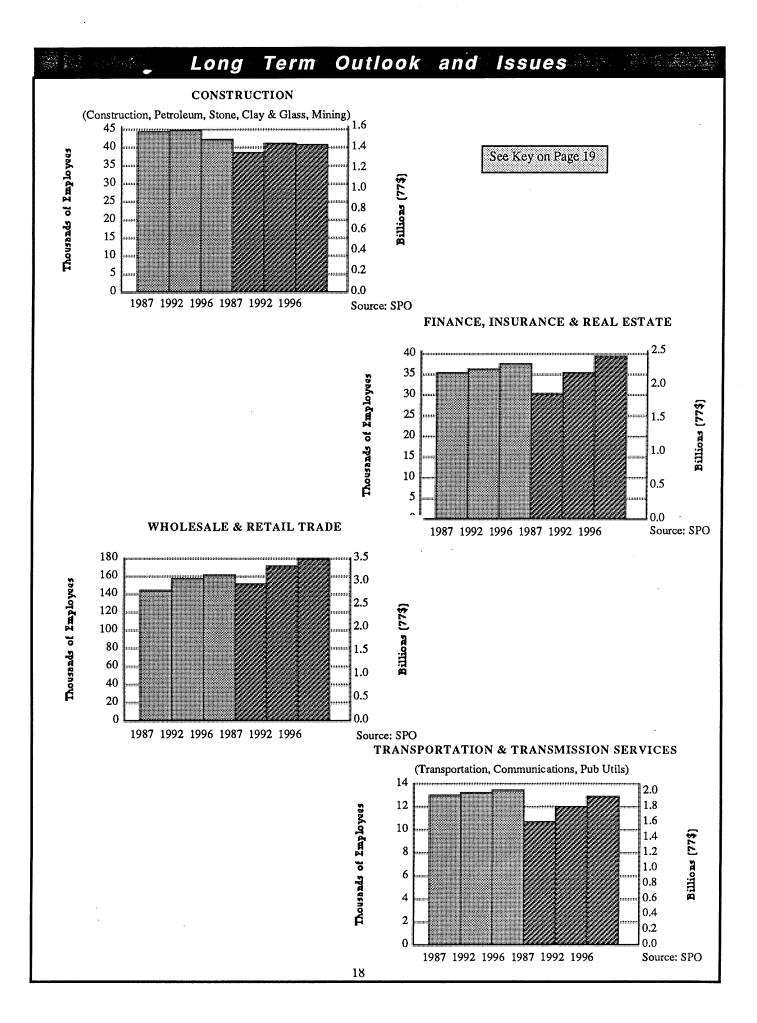
Thus a new set of challenges for Maine have emerged to join the issues of regional disparities, maintenance of traditional industries, etc. It may be as difficult to maintain the success we have had as it has been to achieve it.

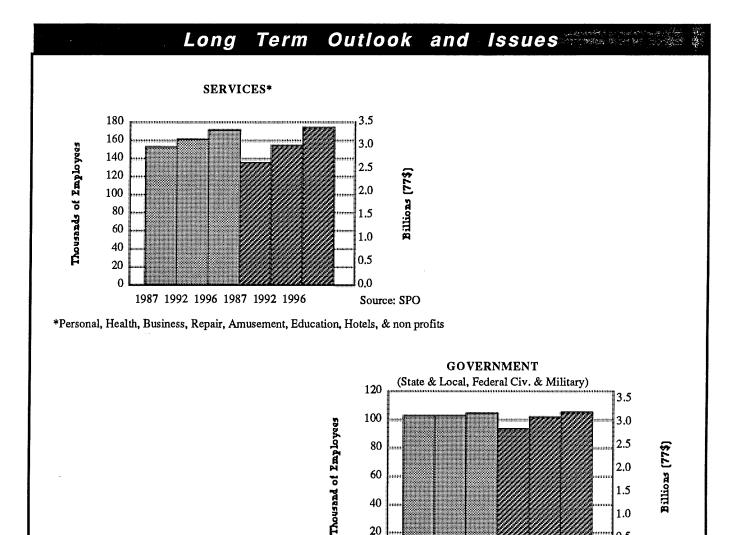


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U.S. LONG TERM ECONOMIC OUTLOOK Projected Average Annual Change This forecast is built upon a long-range projections of the Real GNP 2.4% U.S. economy prepared biannually by the Bureau of Labor GNP implicit deflator 5.1% Statistics (BLS) of the U.S. Department of Labor. In this Civilian Labor Force 1.2% case, the BLS forecast to 1996 projects moderate growth in Employment 1.2% the U.S. economy; slowing federal defense and nondefense Manufacturing -0.3% expenditures; a real decline in federal aid to States and Construction 1.2% localities; and a large but shrinking federal budget deficit. Nonmanufacturing 1.7% The BLS forecast also assumes declining unemployment Real disposable personal income 2.4% and strong growth in productivity, investment, and terms of Real disposable per capita income 1,6% trade. These "macro-drivers" are summarized in the table below. Slow employment growth reflects primarily slow growth in the labor force. The growth in Gross National Product in this Assumptions Driving BLS Forecast of U.S. Economy 1987 forecast relies heavily on accelerated productivity growth in to 1996: American industry. If productivity gains are not above those experienced in the recent past, disposable personal income will be lower than projected here. The assumptions of improvements in the U.S. foreign trade position are also critical to this forecast. These assumptions include renewed strength in the export of U.S. goods as well as a more competitive position in domestic U.S. markets.







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Source: SPO

