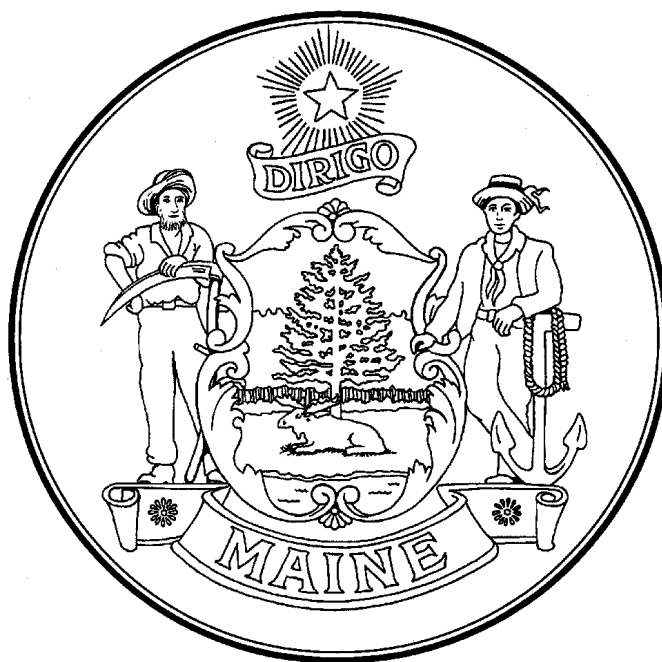


MAINE STATE LEGISLATURE

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THE MAINE ECONOMY:
Year-End Review and Outlook
1989

**Maine State Planning Office
December 1989**

This year-end report on the Maine economy was prepared by the Economics Division of the State Planning Office. It reviews the current performance and status of the Maine economy; it reports our short-term and longer-term economic outlooks for the State; and it highlights some of the issues that may be important to Maine's economic development during the next several years.

Among the conclusions indicated in this report:

- During 1989, Maine's economy has been sluggish, but not in recession. Although retail sales were flat and employment growth comparatively modest, income growth remained quite strong.
- Over the next several years, Maine's economy will show moderate but sustained growth. But, unlike Maine's truly exceptional economic performance in recent years, the State's economy will not outperform the national average over the foreseeable future.
- Longer-term economic growth will be determined largely by two factors: (1) the size and quality of the available labor pool and (2) the rate of productivity growth for Maine businesses. As the State moves into the 21st Century, the rate of employment growth will be less dramatic than the improvements in per capita income and economic well-being of those already employed.

We hope that you will find this report useful. Please feel free to call me or members of the Economics Division at the Planning Office with your comments or questions.

Richard H. Silkman
Director
State Planning Office

Table of Contents

The Maine Economy in 1989	2
The Ten Most Significant Economic Events in Maine in 1989	7
The U.S. and New England Outlook	9
Maine Economic Outlook	12
Issues For The Future	15

Acknowledgements

The editor of this report is Galen L. Rose, Senior Economic Analyst. The other principal authors are A. James Lee, State Economist and Stephen J. Adams, Deputy State Economist.

The Maine Economy in 1989

Maine's overall economic performance was sluggish during 1989; the slowdown was evident across all regions and economic sectors.

- Employment growth was marginal, but joblessness rose only slightly.
- Retail sales have been flat since the first quarter of 1988.
- Income growth remains strong.

The performance of the Maine economy in 1989 was generally disappointing, especially relative to the past several years. Using the Economic Growth Index (EGI)*, a measure developed by the State Planning Office, the State's real economic growth over the past six years averaged 5.4 percent per year. Over the same time interval, the national EGI averaged 3.0 percent per year. However, during the first three quarters of 1989, Maine's EGI shows an increase of only 0.1 percent on an annualized basis. The analogous calculation for the national economy indicates an annualized growth rate of 3.0 percent. This was the first time in the past decade that Maine has not outperformed the national economy.

The Slowdown Had Many Causes

The reasons for Maine's sluggish economic performance are several. Some of the more important are:

(1) The growth rates of the past six years, averaging 5.4 percent per year, were simply unsustainable. It appears that Maine consumers increased their debt loads during this period, purchasing large volumes of durable goods which will not need replacing for some time. Fewer goods and services were purchased in 1989 as a larger share of consumers' disposable incomes was used to pay down debt loads.

(2) Interest rates in early 1989 were quite high. The prime rate at the nation's largest banks peaked at 11.5 percent in March and remained at that level through May. Similarly, Maine conventional mortgage rates peaked at 11.25 percent in April, before easing lower. Higher interest rates, combined with excessive increases in real estate prices, put the brakes on what had been a booming real estate market. Consumers, who only a year earlier were very willing to incur increasing debt loads because their asset values were rising so rapidly, began to rethink their financial status and readjust their portfolios.

(3) There was widespread economic softness in southern New England, and while the Maine economy may not be so closely integrated into the regional economy as it once was, we are still significantly impacted by economic conditions region-wide. This is especially true in the tourism industry where most evidence indicates that 1989 lagged somewhat the previous year's performance.

Employment Growth Was Weak in Most Regions and Industries

For the first nine months of 1989, Maine employment averaged only 11,100 more than in the same period of 1988, an increase of just 1.9 percent. This represents only two-thirds the job growth of the previous year. National employment increased 2.2 percent over the same time interval.

Nearly all Maine counties experienced slower job growth over the period. Among the State's sixteen counties:

- The largest rates of increase were in Sagadahoc and Cumberland Counties, increasing 5.4 and 3.4 percent, respectively.
- Four counties had increases in the 1 percent to 3 percent range (York, Lincoln, Kennebec, and Penobscot).
- Nine other counties had growth rates below 1 percent.
- Only one county, Knox, actually had an employment decline, decreasing 0.7 percent (only 110 jobs).

Among the nine major industry groups:

- The top performers were Federal Government, increasing at the rate of 3.1 percent, and services, at 2.7 percent. Government was the only sector growing faster than last year.
- The only sector with declining employment was non-durables manufacturing, decreasing 0.5 percent. This continues a long-term trend.

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

- The biggest changes in employment growth occurred in construction, stumbling from an 8.3 percent annual growth rate to only 0.6 percent, and durable-goods manufacturing, falling from a 6.6 percent annual growth rate to just 0.9 percent between 1988 and 1989.

Jobless Rates Rose, But Only a Little

Given the much slower pace of employment growth in Maine during 1989, it is not surprising that jobless rates rose about a half point, from September 1988 to September 1989. Yet, the State's September unemployment rate, 3.1 percent, was still a full two percentage points below the national average. In fact, Maine's jobless rates have been consistently below the national average for nine years. Among the sixteen counties:

- Five "upstate" counties had jobless rate declines between September 1988 and September 1989--Lincoln (with the State's lowest rate of 1.8 percent), Franklin, Somerset, Waldo, and Washington. Nine counties had higher jobless rates.
- Nine counties had unemployment rates below four percent in September 1989.
- Only Waldo and Washington Counties, with unemployment rates of 5.3 and 5.9 percent, respectively, had September 1989 unemployment rates above the national average of 5.1 percent.

Retail Sales Were Weakest in Sectors Sensitive to Interest Rates

The year 1989 brought a strange turn of events in Maine's retail sector. While retail sales growth was much stronger than income growth in the State for most of the 1980's, in 1989 retail sales stumbled while income growth continued apace.

According to Federal Government data sources, between 1982 and 1987 national retail sales rose 42 percent as national personal income was increasing 41 percent, a very close match in growth rates. Over the same period, Maine retail sales increased 62 percent while State personal income rose only 52 percent. While the source data do not extend beyond 1987, data from other sources suggest strongly that this trend continued through 1988. There are likely several factors influencing this extreme growth disparity. Two likely contributors include out-of-State tourists' spending and an increased debt load for Maine consumers. Also, much of Maine's rapid employment growth during the 1980's has been due to second

wage-earners, thus allowing more for discretionary spending.

Whatever the causes, sales growth failed to keep up with incomes in 1989. Whether it reflects a reduction in touri

due to a slowing of the southern New England economy or to reductions in outstanding consumer debt, the retail sales slowdown is having a major impact on the economic vitality of the State.

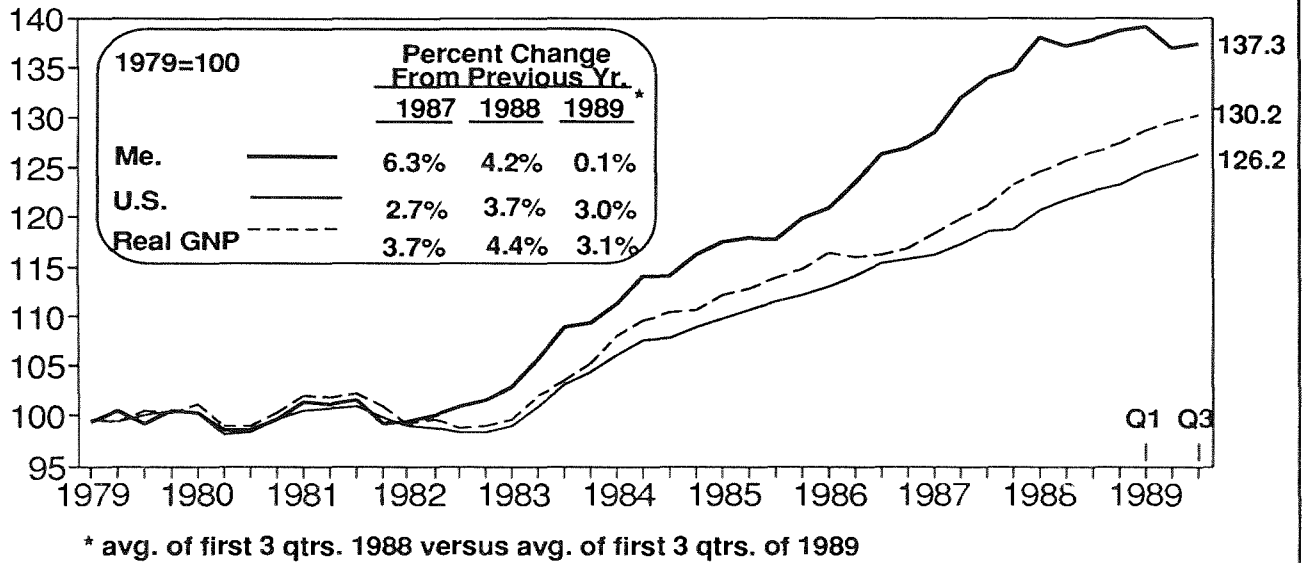
Maine's taxable retail store sales have been essentially flat since the first quarter of 1988. Through the first three-quarters of 1989, sales were only 0.4 percent greater than in the same period of the previous year. By comparison, national sales were up 6.1 percent. After factoring out inflation, Maine's retail store sales were actually down 3.3 percent. Of the six store-type groups in the State Planning Office tracking system, four had modest sales gains--food stores (+5.3 percent), other retail (+5.1 percent), restaurant/lodging (+3.6 percent), and general merchandise (+3.1 percent)--and two had declining sales, auto transportation (-4.7 percent), and building supply (-4.4 percent).

Sales in the auto transportation group were down in part because of high interest rates early in the year and extremely strong auto sales during the prior three years, averaging +10.6 percent growth per year. High mortgage rates and overbuilding during 1986 through 1988 led the decline in building supply store sales. This decline reflects an estimated 50 percent reduction in the issuance of housing permits during 1989.

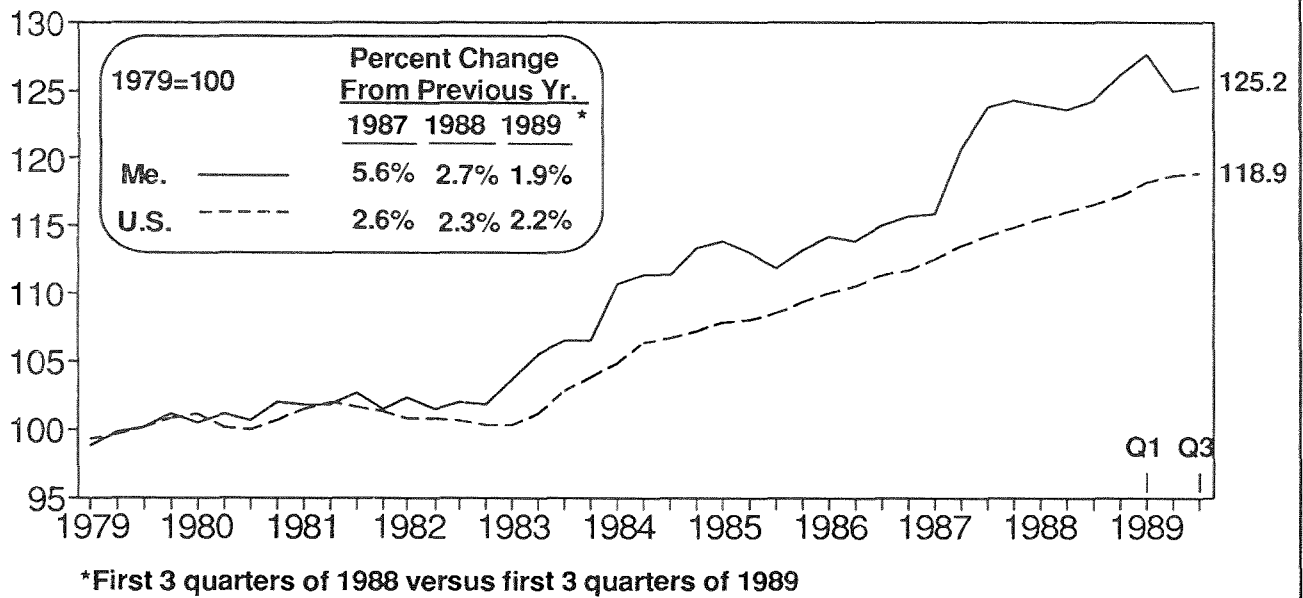
Income Growth Continued to be Strong

Per capita personal income continued to increase rapidly in Maine through the first half of 1989. Between the second quarter of 1988 and the second quarter of 1989, Maine per capita personal income rose 6.1 percent. This is only a little less favorable than the State's 7.9 percent increase in 1988. National per capita income rose 4.7 percent over the same period. Thus, despite a sluggish economy, Maine will likely continue to edge upward in the nation's per capita income rankings. The State's ranking has risen dramatically in recent years, from 44th in 1979 to 27th in 1988. Over the past three years (1986-1988), Maine has been third, first, and seventh in the nation in its rate of per capita income growth.

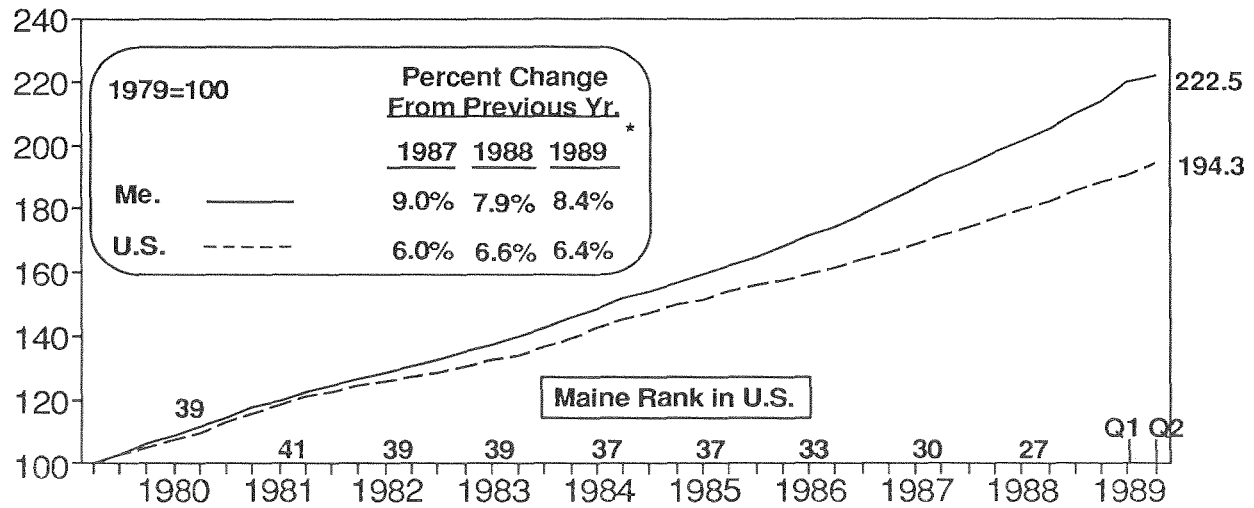
Economic Growth Index



Index of Employment Growth



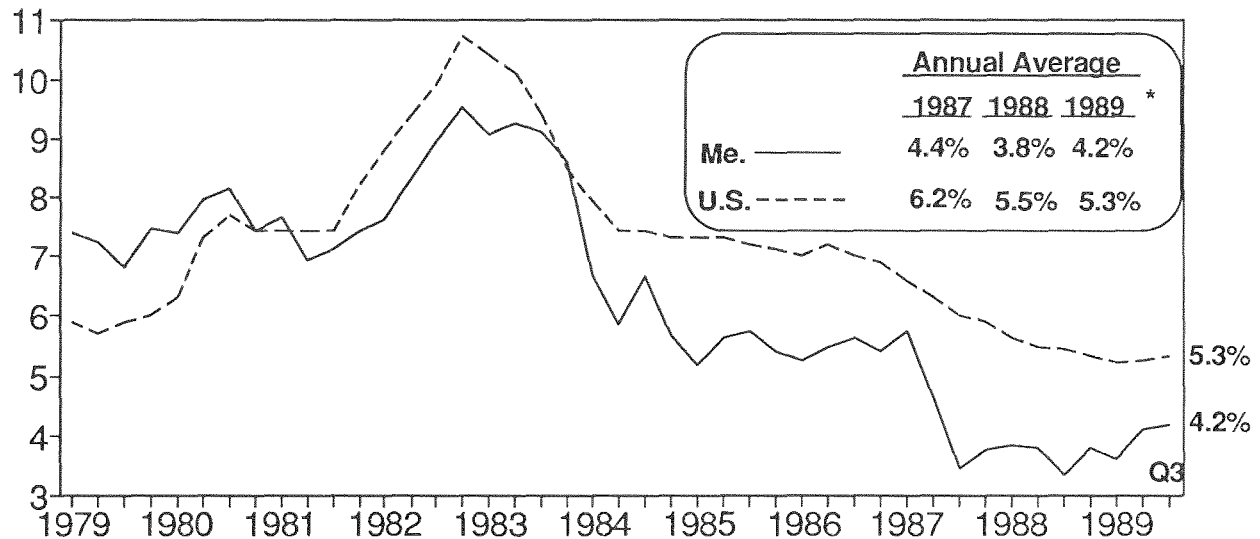
Index of Per Capita Personal Income



* Percent Change 2nd Quarter 1988 to 2nd Quarter 1989.

Unemployment Rates

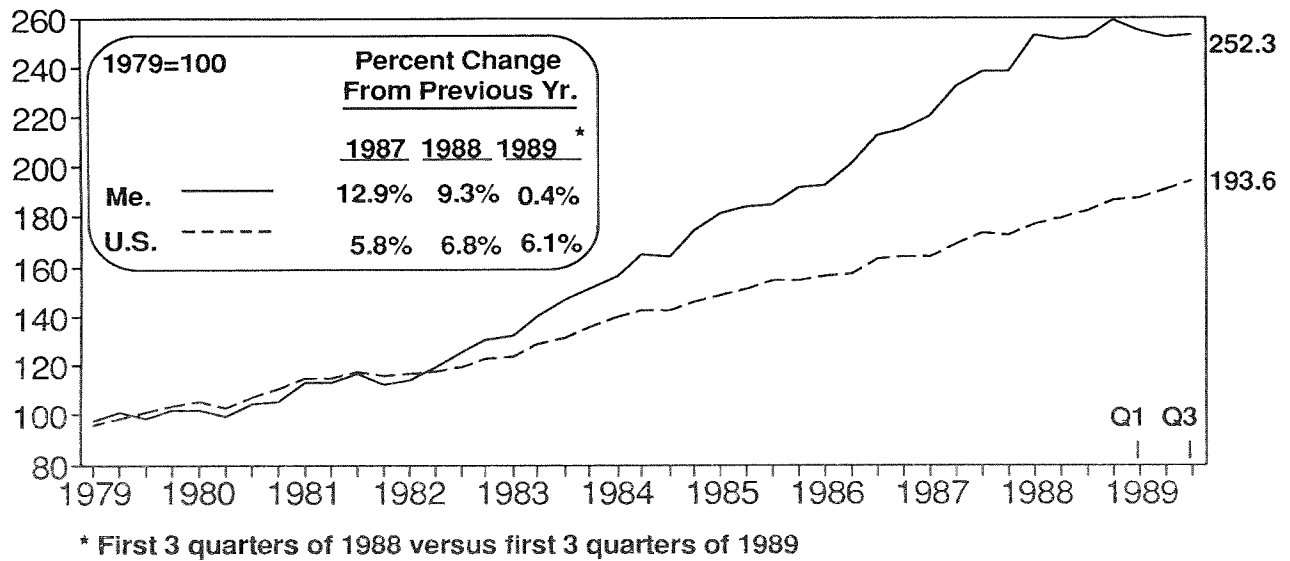
(Seasonally Adjusted)



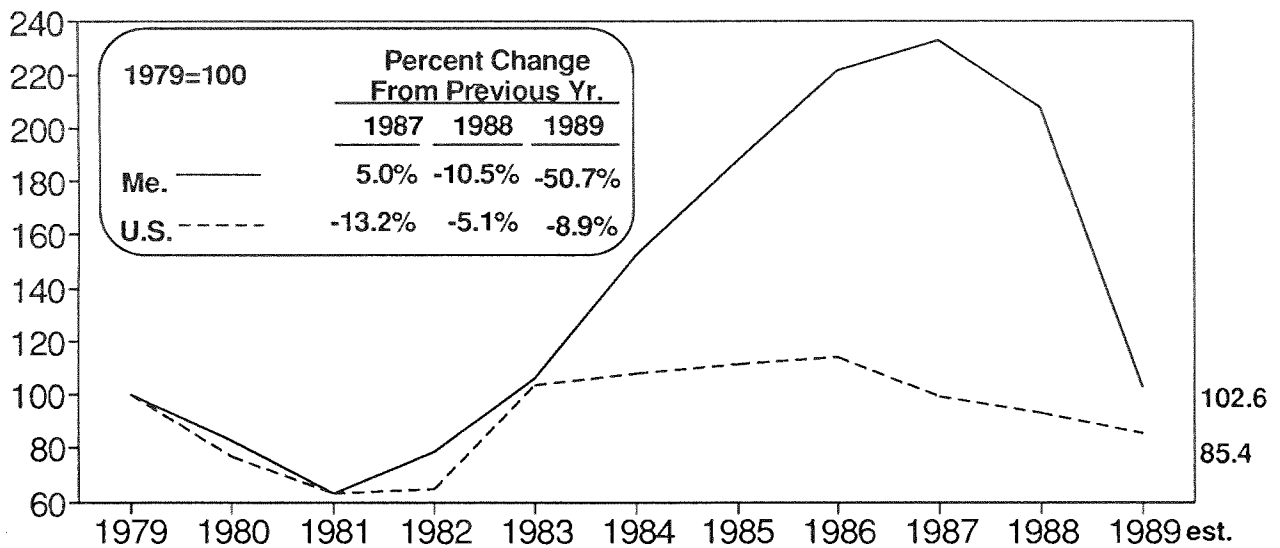
* Average for Third Quarter of 1989

The Maine Economy in 1989

Retail Sales Index



Housing Permits Index



The Ten Most Significant Economic Events in Maine in 1989

At the end of each year, various listings appear of the "ten most," "ten best," etc. The following list consists, in no particular order, of our selection of the ten most significant economic events that occurred in Maine in 1989, events which we believe indicate important trends in the economy.

Takeover Fever Comes To Maine...

The \$3.6 billion Georgia-Pacific takeover bid for Great Northern Nekoosa may signal a landmark change in the way that business is done here in Maine. Public concern has understandably been voiced about the potential effects on the 2,900 workers employed within the State by Great Northern, as well as for the 2.1 million acres of Maine land involved. Indeed, the takeover initiative and the Northern Forest Lands Study have served to focus attention on the larger value and responsible management of Maine's once remote northern timberlands.

Putting the Lid on Solid Waste...

Maine, like most of the nation, is confronting an intensifying problem of managing its solid waste. The solid waste crisis was highlighted during 1989 by (1) the difficulties of Consolidated Waste Services to gain approval of an expanded land-fill in Norridgewock, (2) the announced doubling and tripling of fees by MERC and PERC waste-to-energy facilities, and (3) the rejection of a proposed ash dump in Township 30. To address Maine's waste management issues a new State agency, the Maine Waste Management Agency, was created.

Baby Bell Goes Out...

In late July, NYNEX and its New England Telephone (NET) affiliate were hit by a general strike. The strike served to focus attention yet again on one of the most serious problems facing Maine businesses and their employees - the rising cost of health care.

A Bit Short At Christmas...

At year's end, the State's revenues were falling short of projections, prompting Governor McKernan to take immediate action to reduce State spending through mid-1991 by \$67 million.

Dimming the Lights on Hydro-Quebec...

The final curtain was drawn on Central Maine Power's purchase agreement with Canada's Hydro-Quebec Corporation. In a 2-to-1 vote, the Public Utilities Commission decided against the proposal to purchase power, ruling that CMP had not adequately considered alternative electricity sources.

A Gold Star For Scott Paper...

Scott Paper and the local United Paperworkers International Union (UPIU) have worked together in developing a nonadversarial basis for resolving labor disputes and working to mutual advantage. The agreement is said to be the first of its kind in the paper industry. Our hats are off to both parties.

Loring Still Up In The Air...

Last year at this time, all American air bases came under Department of Defense (DOD) scrutiny for possible closure, reminding many of the "Loring Phasedown" scare of the mid-1970's. Again, State and local organizations put forth their arguments, and, again, Loring won a reprieve. Now, at year's end, DOD has announced that, because of federal budget problems and the impending "peace economy," they anticipate that additional bases will be closed. Will it ever end???

Maine Banks See Red (Ink)...

The fast and furious Maine real estate run up of 1986 through 1988 had some banks jumping in with both feet. Alas, nothing lasts forever and at least one major Maine bank reported sizeable writeoffs of real estate loans. However, the problems in Maine weren't nearly so serious as they were elsewhere as more than 190 banks failed nationwide.

Uncorking Property Tax Caps...

Voters in municipalities throughout Maine dispelled the myth of a "property tax revolt." Three of Maine's largest communities, Bangor, Freeport, and Augusta rejected tax caps, while two others, Rockland and South Portland, repealed existing caps. The consistent rejection of tax caps throughout Maine signals that Maine people value local services too much to threaten their quality or accessibility and recognize that arbitrary caps are not an appropriate means of managing local spending. On a related matter, only about two-thirds of the 120,000 Mainers eligible for property tax relief checks have applied for the program, leaving \$12,000,000 in the tax relief fund.

Germans and Japanese Rendezvous in Brewer...

A German-owned auto parts plant in Brewer inked a joint venture agreement with a Japanese firm to manufacture parts for both American and Japanese cars built in the U.S. This is a sign of the expanding international dimension of the Maine economy.

The Maine Economy in 1989

No Recession Seen Yet

It should be stressed that the slowdown in Maine's economy seen to date is just that--a slowdown--not a decline or recession. For contrast, consider that while Maine's jobless rate rose only one-half point between September 1988 and September 1989, during the recession of the early 1980's, State unemployment went from 7.3 percent in 1981, to 8.5 percent in 1982, and then to 9 percent in 1983. Also, while Maine retail sales have been frustratingly flat in 1989, inflation adjusted retail sales declined almost 7 percent during the 1980 recession. Those are recession figures. What we have seen in 1989 are slowdown figures. Moreover, the underpinnings of the Maine economy are still strong:

- Unemployment rates are still low by historical and national standards.
- Personal income growth remains strong.
- There is evidence from several sources that the savings rate has moved dramatically higher over the past year.

Taken together, these factors mean that Mainers are still working, earning more, paying down debt burdens, and saving more. It appears that the money is still there, but people are just not spending it the way they were over the past five years.

- The present national economic slowdown will be of limited duration - national economic momentum is predicted to be re-established by the end of 1990.
- Moderate and sustained growth are forecast for the New England economy.
- The more serious economic problems in our region are concentrated in southern New England; Maine and the other northern New England states should fare better during the next year.

Do We Or Don't We Have A Recession?

Whether one is looking at the national, the New England or the Maine economy, the watchword is "sluggish." Output and employment are not plummeting, as is characteristic of a serious recession. Rather, output and employment are merely "flat," and they are expected to remain basically flat for at least another quarter. Data Resources, Inc. is currently forecasting that real GNP will increase by only 1.6 percentage points in 1990, compared to increases of 4.4 and 2.9 percentage points, respectively, in 1988 and 1989. Furthermore, the Blue Chip consensus forecast indicates that real GNP will increase by 1.7 percentage points.

We may or may not slip into "recession"--as will be officially determined by the National Bureau of Economic Research--but even if we do, the recession will be an extraordinarily mild one. Whether or not the current economic slowdown is subsequently judged to have been a recession, a "no growth" economy certainly feels like one to those in New England who have become accustomed to the unprecedented growth rates seen in the past several years.

The above, rather encouraging forecasts are, of course, conditional on a variety of developments that one can't reliably anticipate. In particular, the forecasters assume that the Federal Reserve moves quickly to lower interest rates. If this does not happen, the economic outlook becomes considerably less positive. Because of such inherent uncertainties, it is perhaps not unreasonable to say, as did Allan Meltzer of Carnegie-Mellon University, that "The real growth in gross national product should be between minus one percent and plus one percent in the fourth quarter of this year and the first quarter of 1990." Meltzer nevertheless believes that the slowdown will be over by Spring.

Longer-Term Prospects For The National Economy

For the time being, we have clearly "fallen off" the long-term economic growth path. We believe, however, that it would be a mistake to focus entirely on the short-term outlook. Whereas the current economic environment is weak, the longer-term prospects, to late 1990 and beyond, appear positive. On balance, the economic fundamentals, looking into the foreseeable future, are in pretty good shape:

(1) **Consumer confidence remains surprisingly strong.** According to the University of Michigan's household survey of consumer confidence, consumers are nearly as optimistic about the economy today as they've ever been in the past 25 years. Perhaps more forcefully than anything else, this signals that the now-aging expansion will continue, once we get beyond the current plateau.

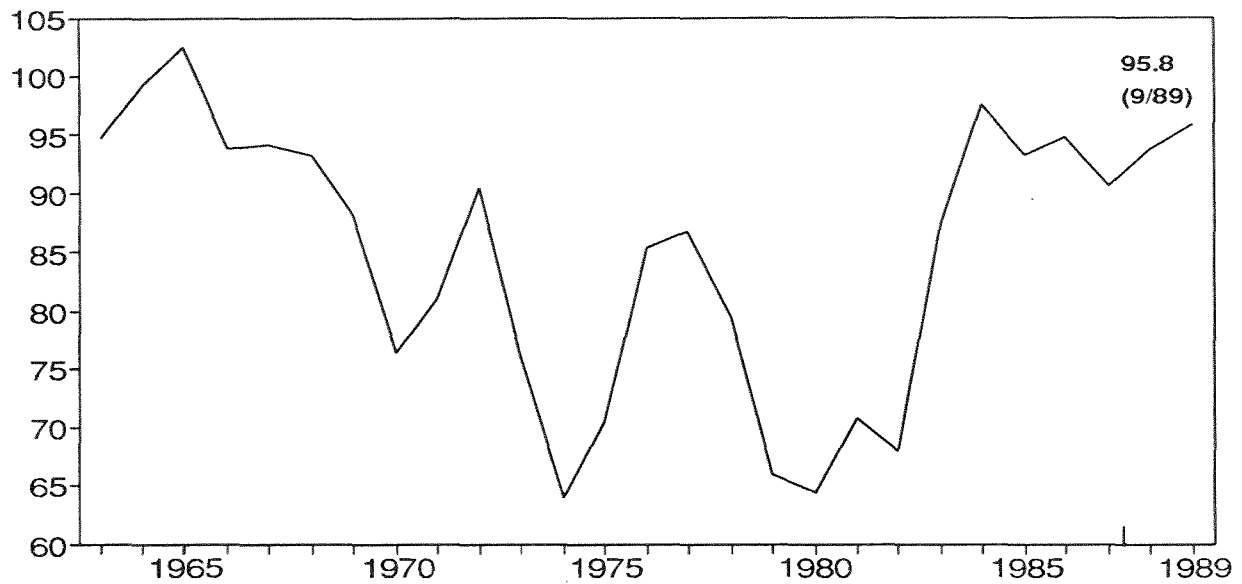
(2) **Inflation seems to be under control.** We may not achieve the Federal Reserve Chairman's target of zero inflation, but it would appear that we can get the economy moving again without triggering inflationary pressures. Data Resources, Inc. projects that the rate of change in the Consumer Price Index will fall from 4.8 percent in 1989 to 4.0 percent in 1990. Furthermore, they forecast that the rate of change will not rise above the current 4.8 percent level in either 1991 or 1992.

(3) **Interest rates will continue to decline in the near-term.** The Fed has been easing monetary policy since July, and it is widely anticipated to ease further in the months ahead. Data Resources, Inc. predicts that the prime rate will fall by a full percentage point in 1990. The housing market is already improving, and further declines in mortgage rates should give the market additional impetus, although new construction may remain weak due to excess inventory.

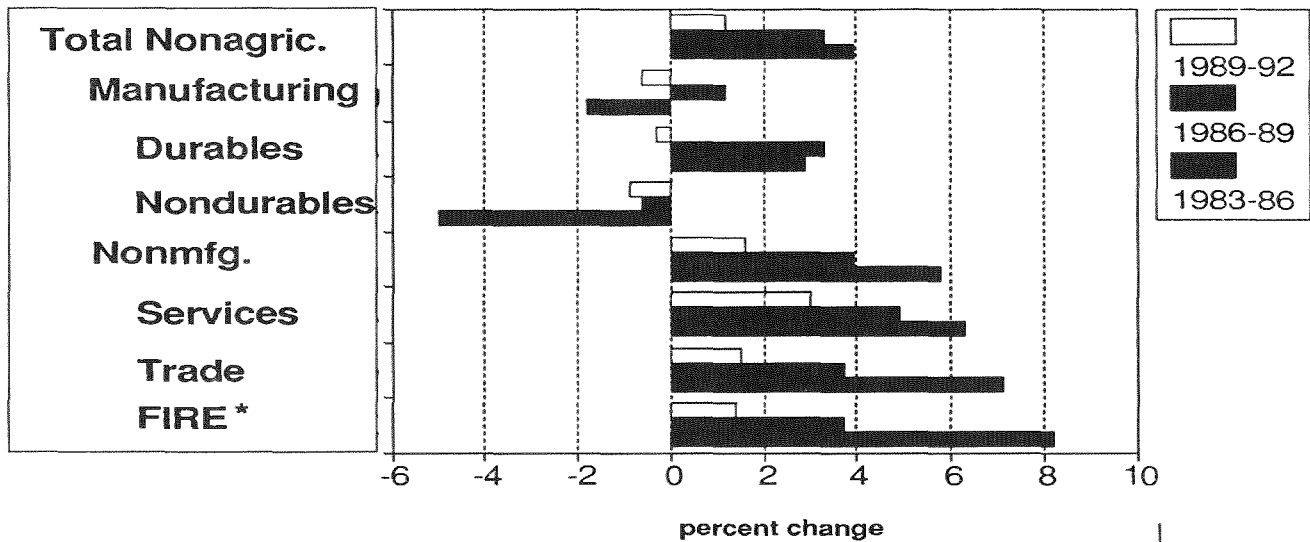
Other factors are similarly positive. Despite widespread public skepticism, the federal government is actually making good progress towards reducing the real value of the federal deficit. Furthermore, with the developments in Europe and falling interest rates in the U.S., the trade deficit should continue to improve.

All of this translates into higher growth rates beyond 1990. For example, Data Resources, Inc. forecasts that real GNP will increase by 2.7 percent in 1991 and 2.6 percent in 1992.

Index of Consumer Sentiment (First Qtr. 1966=100)



Employment Growth Selected Periods



* Finance, Insurance, Real Estate

The New England Sky Is Not Falling

The "Massachusetts miracle" and its sibling economic wonders throughout New England may be at end, but the present economic circumstances and prospects of the New England region are not really that bad. What we are seeing is not so much an economic "bust" as it is a return to normalcy. The future of the New England economy will be nothing like the recent past of Texas and other oil-producing states.

During 1990, in part because of slow population growth, New England will have the weakest total employment growth of any region in the country--0.4 percent for New England versus 1.2 percent for the nation. However, according to the New England Economic Project, the rates of employment growth forecast for New England in 1991 and 1992, 1.6 percent and 1.4 percent, respectively, will actually exceed those for the nation. The services industry is anticipated to be the strongest source of employment growth in New England, growing at a steady rate of 3.0% per year, while the nondurable manufacturing industry is expected to be the weakest, declining at an average rate of 0.9 percent per year.

Per capita income in New England is expected to remain the highest of any region, at least through the year 2000. According to Data

Resources, Inc., by the end of the 1990's, New England's average manufacturing wage will surpass averages in the Middle Atlantic and Pacific Southwest, leaving New England second only to the East North Central region. Furthermore, only the Middle Atlantic and Pacific Southwest regions are anticipated to have higher average nonmanufacturing wages than in New England.

In the shorter-run, for 1990 and 1991, the New England Economic Project predicts that growth in real disposable per capita income for the region will exceed that for the nation. Furthermore, although New England's unemployment rate may rise by another percentage point, to 4.5 or 5.0 percent, it will still remain at least half a percentage point below the national average.

The Roads Diverge...The Differences In Economic Outlook For Northern and Southern New England

The New England Economic Project predicts that, at least until the end of 1992, the economic performance of the three northern New England states (Maine, New Hampshire and Vermont) will exceed that of the three southern New England states (Connecticut, Massachusetts and Rhode Island). In particular, the rate of employment

growth in Massachusetts, with 50% of the region's employment, will be one-third to one-half of what it is in the northern New England states.

To the extent that the New England has longer-term structural problems-, those problems are largely concentrated in the southern New England states. The overbuilding and other real estate-related difficulties are common, in varying degrees, to all six states.

However, the northern New England states are much less susceptible to the present disarray within the computer industry and the prospective impacts of a drastically-reduced defense budget. That is not to say that computer-related or defense activities within Maine and the other northern New England states may not suffer dislocation, but rather that those activities are relatively less important to these States' economies than is true in southern New England.

Maine Economic Outlook

After years of outperforming the U.S. economy, growth in Maine will more closely match the national rate.

The economy that carries Maine into the 21st Century will be remarkable less for dramatic growth than for sustaining a high level of economic activity.

The decade of the 1980's has been a time of extraordinary dynamism. Maine will enter the 1990's with a qualitatively different economy than when it entered the 1980's. In a remarkably short time, Maine has gone from a languid, maturing, low-income economy to a more diversified, vigorous one, moving out of the ranks of "poor" states. In 1979, Maine ranked 44th in the nation in per capita income. By 1988 Maine had risen to 27th.

At this writing, December 1989, great uncertainties prevail regarding the short-term outlook for the Maine and national economies. Maine's economic performance in the next several quarters will be determined largely by the willingness of the Federal Reserve and consumers to revive the sluggish economy.

Maine's longer-term economic future, by all outward appearances, seems to be one of steady, moderate growth. However, this apparent stability will mask significant structural change within the Maine economy. Shifts are occurring within and between sectors of Maine's industrial base will continue to redefine the Maine economy.

MAINE'S SHORT TERM OUTLOOK: 1990 TO 1992

Return to Moderate Growth

During 1989 Maine began to feel the full effects of the slowdown that began in 1988. While sluggish employment, income and retail sales were predicted for 1989, the deceleration has been more precipitous in Maine, as well as in the larger New England and U.S. economies, than had been forecasted.

Given the murky outlook for important national trends such as interest rates, the value of the U.S. dollar and consumer spending, predicting Maine's short-term economic future becomes especially problematic. However, it is clear that Maine will not see a return to the employment and income growth experienced over the last four years.

After several years of exceptional growth, the Maine economy will recover from the current flattening by the end of 1990 and move to a more moderate growth

path. Employment growth, which averaged a 4.3 percent rate of increase between 1986 and 1988, is predicted to fall off to less than half that rate between 1990 and 1992--with only 6,000 jobs being added per year. As a result, income growth will slow, averaging 7 percent to 8 percent yearly.

Declining interest rates and steady household formation are expected to stimulate residential construction in Maine beginning by the second half of 1990; however, construction levels should remain well below those of the past three years. We are anticipating about 8,000 housing starts per year, compared to 10,000 to 11,000 in recent years. In addition, consumer spending is expected to rebound in late 1990 and early 1991 to drive modest expansion in consumer sales (7-8 percent annual growth) and nonmanufacturing employment (2 percent annual growth).

Shifting Regional Patterns

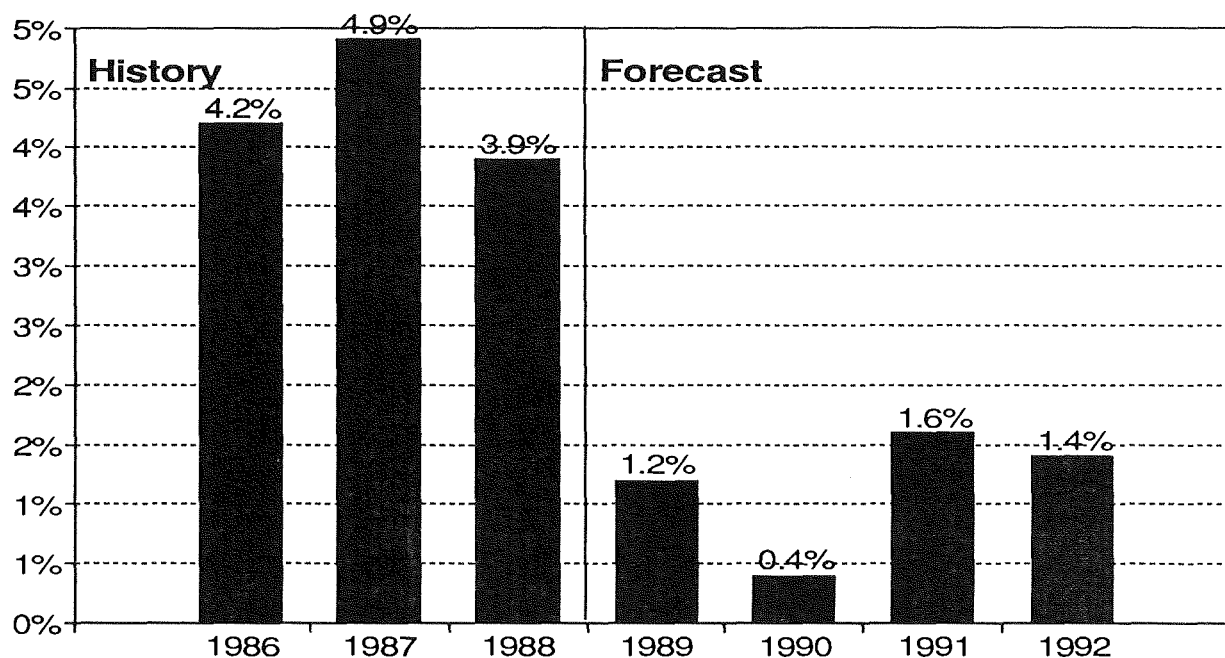
The distribution of growth within Maine continues to even out. The pattern typical of the 1980's saw the strongest growth centered around Greater Portland, while the Bangor and Lewiston/Auburn areas remained relatively stagnant. In 1987 this pattern began to dissolve into a broader-based dispersion of Maine's economic vitality. Measures of economic growth including employment and retail sales indicated that Portland's expansion was slowing as Bangor's economy began to pick up. This more balanced distribution of economic growth in Maine is expected to continue, short-term and long-term.

MAINE'S LONG-TERM OUTLOOK: TO THE YEAR 2000

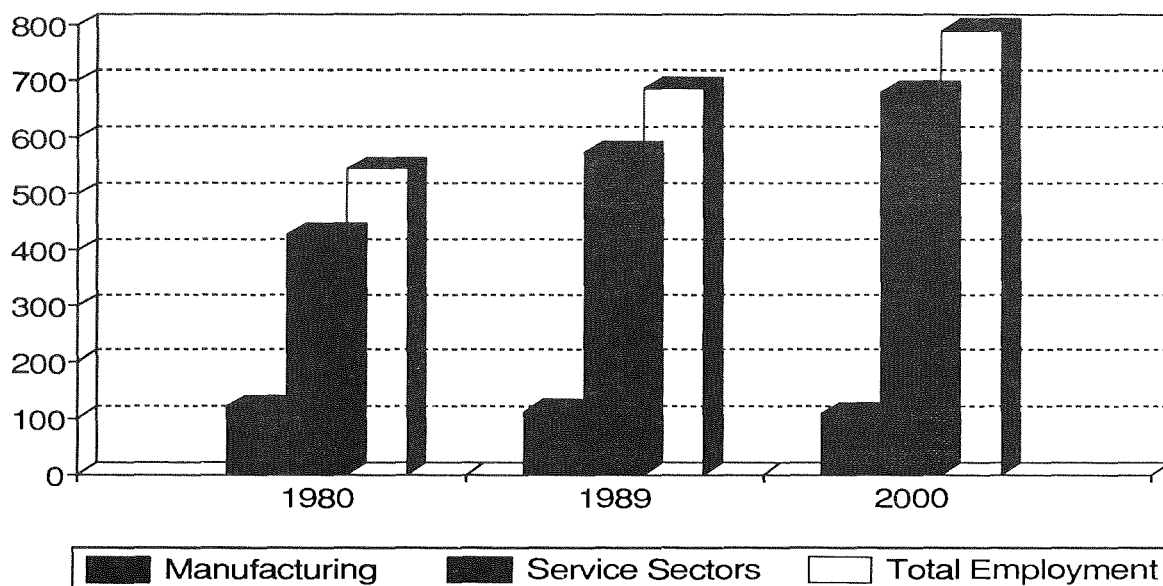
The present level of economic activity in Maine represents a new plateau for the Maine economy. While it will not maintain the breakneck pace of growth witnessed over the last decade, neither will it fall to pre-1980 levels. The long-term outlook for Maine suggests a more moderate pattern of growth at sustainable rates.

Between 1989 and the year 2000, Maine will experience a slowing of employment growth from the brisk pace of the last six years. Job growth is expected to slow to an average 1.2 percent per year between 1989 and 2000, down from the 4.3 percent annual growth experienced since 1986. At the same time, real gross state product (the value of all goods and services

MAINE NONFARM EMPLOYMENT GROWTH



MAINE EMPLOYMENT BY SECTOR 1980-2000



Maine Economic Outlook

produced in Maine, corrected for inflation) is expected to increase 2.6 percent per year. This faster growth in output than employment will result, in part, from anticipated productivity gains in both manufacturing and services sectors.

Maine's employment structure is expected to continue its shift toward service-producing industries. These sectors are expected to make up fully 84 percent of all private non-farm jobs in Maine in 2000. Maine's manufacturing base will provide a steady level of employment and growing output. But this apparent stability belies a sector in constant flux. Workers and communities will continue to feel the effects of the inevitable rise and fall of firms and industries in response to competitive pressures, changing consumer tastes and technological advances.

Total population in Maine will reach 1.3 million people by the year 2000, a modest 9 percent increase over 1988's figure. But it will be a significantly older population, with more people over 40 than under, and the number of Maine households will continue to increase at a faster rate than the population.

The economy that carries Maine into the 21st Century will be less remarkable for dramatic growth than for sustaining a high level of economic activity. But even this forecast of moderate growth assumes that Maine's citizens and industry are able to respond to the many factors shaping the emerging economic environment. It rests on the assumption that a labor force with appropriate skills will be available to fill the jobs demanded over the next 10 years. It depends greatly upon the adept stewarding of the State's public infrastructure and upon the ability of Maine industry to take the steps necessary to prosper in the evolving world marketplace.

Economic forecasting is inherently a speculative enterprise, and any economic forecast is necessarily conditional on certain assumptions about what the future holds in store. We'd like to briefly mention several key assumptions, and in so doing alert the reader to some of the economic issues--both potential problems and potential opportunities--anticipated relative to the Maine economy. We actually phrase these issues as questions to the people of Maine. After all, the outcomes are significantly dependent upon the individual and collective choices made within the State.

Will Maine have an adequate labor supply? The future growth and development of Maine's economy will be significantly constrained by the comparative tightness of the State's labor markets. During the 1980's, the State's labor force participation rate steadily increased and its unemployment rate decreased to the point that, in September, we had the third lowest unemployment rate among the 50 States in the United States. Unless Maine's rate of population immigration increases dramatically, labor shortages could become a real deterrent to economic development within the State.

What is the future of the real estate market? Maine is now going through a difficult real estate adjustment, as is the rest of New England. However, we anticipate that those difficulties will be soon behind us here in Maine. The nature and locus of development may be different, with developers building fewer condos and development migrating inland from Portland and the seacoast, but development will re-establish itself as a robust source of employment.

What is happening to the savings rate? For the time being, people are saving more and spending less. We do not know if this recent shift to a higher rate of savings is temporary or permanent. The forecasts reported herein implicitly assume that consumers revert to their former spending habits by the end of the first quarter of 1990. If that does not happen, additional economic dislocation and State revenue shortfalls are possible in the short-run. However, in the longer-run, a higher savings rate would be desirable and would mean a more productive, healthier economy by the year 2000.

What will be the impact of the "peace" economy? The answer to this question turns substantially on what happens at Bath Iron Works and Loring Air Force Base, but also Kittery and Saco. Realistically, one has to anticipate that the current level of shipbuilding activity can not be sustained indefinitely. It is more difficult to anticipate what the future holds for Loring and others. Never

theless, we are hopeful that the transition to a peacetime economy in Maine will be gradual, with the adjustments having long lead times. We are confident that other sectors of the Maine economy can pick up the slack, but some geographic and other dislocations would be unavoidable. On a more positive note, the recent developments which have produced a "peace" economy may also open up significant opportunities for exporting Maine-made goods (e.g.; textiles and footwear) to Eastern Europe.

What will be the locomotive of future economic growth? We are looking for moderate but sustained economic growth in the foreseeable future. The question is where is it going to come from? We hypothesize that small business will be a major locomotive driving the economic future of Maine. In particular, we are looking for more firms like IDEXX Corporation to open up and offer employment to the people of Maine. We must be sure that we create the kind of business environment to attract and support similar start-up enterprises throughout the State.

Maine's long-term prospects also depend importantly upon strengthening the competitive position of existing firms. Furthermore, while not a source of strong employment growth, the forest products industry will provide a valuable source of stability in a period of economic transition.

There are clearly many challenges ahead. These are just a few of the critical questions which Maine must address as we enter the decade of the 1990's.

* IDEXX is a manufacturer and distributor of advanced biodetection systems worldwide. This Portland company was founded in 1984 and already employs more than 150 people.

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