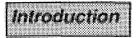


# THE MAINE ECONOMY: Year-End Review and Outlook 1990

Maine State Planning Office December 1990



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.

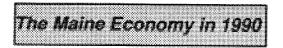
Among the conclusions in this report are:

- 1990 brought to a close Maine's extraordinary period of economic growth. Buffeted by continued softening of real estate markets, declining consumer confidence, and finally by the Persion Gulf crisis-inspired national slowdown (recession), Maine's economy declined by 2.6%, as measured by the Economic Growth Index.
- Maine should return to a slow growth path by the middle of 1991, sparked by lower oil prices, declining interest rates and housing costs, and a resumption of national economic expansion stimulated by new trade opportunities in Europe.
- Over the longer term, the State's economic growth will more closely track national trends. While many of the forces that drove Maine's economic renaissance have run their course, a more diversified economic base has left the State in a position to participate fully in the economic opportunities presented in the coming decade.

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 Maine State Planning Office

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The editor of this report is Galen L. Rose, Economist. The other principal authors are Stephen J. Adams, State Economist, and Michael Montagna, Economic Analyst.		



The year 1990 was a disappointing one for the Maine economy. Between the third quarter of 1989 and the third quarter of 1990, real economic growth in the State economy was a negative 2.6%. All of the decline, however, as measured by the Maine Economic Growth Index\*, was in the second quarter of 1990.

As the following table illustrates, the State economy was virtually flat from 1988 through the first quarter of 1990, when it fell 3%. This precipitous decline puts us now where we stood in late 1987. In contrast, U.S. Real Gross National Product increased by 5% over this same ten quarter period.

#### MAINE ECONOMIC GROWTH INDEX; (1979=100)

	EGI	% CHG. FROM PREVIOUS QTR.
1988:1	137.8	2.5%
• .	137.7	-0.1
<ul> <li>Constraint</li> </ul>	138.6	0.7
:IV	140.8	1.6
1989:1	140.2	-0.4
t 1 underson nonteers	139.5	-0.5
	139.5	0.0
:IV	139.5	0.0
1990:1	139.8	0.2
- 1	135.6	-3.0
	135.9	0.2

## THE BOOM

To put the State's economic performance of 1990 in proper perspective, it is necessary to review the extraordinary economic boom of the mid-1980's. Following an especially severe economic recession in the early 1980's, between the first quarter of 1983 and the first quarter of 1988, Maine enjoyed a five year period of economic growth on a scale unprecedented in this century. Over this span, real growth in the Maine economy was 33% as compared to 25% growth in the national economy. This enormous burst of activity, which has been called "Maine's Economic Renaissance," took us out of the ranks of the 'poor' states. The State's ranking among the 50 states in per capita income rose from 38th to 27th (25th in 1989). This growth surge ended abruptly at the end of 1988.

### THE RECESSION THAT WASN'T

One of the more important reasons the boom came to an end when it did was the large debt load Maine consumers took on during the previous several years. Sales of housing and durable goods were extremely strong during the boom, causing consumer debt loads to increase sharply. Consumers simply could not sustain that level of spending. Also, economic softness began to spread across 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, especially with respect to tourism spending.

But perhaps the most important cause of the boom's end was overbuilding and extensive real estate speculation. During the mid-1980's, Maine real estate prices soared. At the same time, interest rates began to rise and a large volume of commercial and residential construction projects came on the market, creating a serious oversupply, and further compounding the problem. We are feeling the ripple effects of the downturn in the construction industry and will continue to do so until the excess supply of space is cleared.

Still, the construction-real estate collapse was not the whole problem. Witnessing the disintergration of these markets, consumers came to suspect that the entire State economy was on the verge of collapse and became extremely conservative.

There would have been a reigning-in of consumption and investment spending anyway because of expanding debt loads and the weakening economy in southern New England, but the idea that hard times were imminent exacerbated the problem. Instead of slower growth in consumer spending, as expected, spending actually declined. Between the first quarter of 1988 and the second quarter of 1990, consumer retail sales declined from 52% of State personal income to 42%. Despite the fact that time and savings deposits in Maine financial institutions were increasing at a healthy rate, the consumer spending figures mirrored those of the 1981-82 recession. Over the past two and one-half years, consumers have acted as though there was a recession.

\* 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.



Thisperiod might be called "the recession that wasn't." But by the last quarter of 1990 - two and one-half years later, it finally was.

### THE RECOVERY THAT ALMOST WAS

Curiously, by October of 1990, the Maine economy looked like it might be on the verge of an upturn - just as we had begun to feel the full effect of rising oil prices and the tensions in the Middle East, and just as the national economy appeared to be sinking into recession. Seasonally adjusted State consumer retail sales, which had fallen 3% in the second quarter, rebounded 2.1% in the third guarter, largely on the strength of the large - thus influential - General Merchandise sector. As of October, the Federal and State-local government sectors were reaching new seasonally adjusted employment lows along with the durable goods manufacturing sector. Yet, five of the other six major employment sectors were rebounding from lows reached earlier in the year. Among these, the transportation-public utilities sector reached a new high (having avoided any declines since the early 1980's), while the wholesale- retail trade sector had two consecutive months of rising employment and the services sector had three straight months of job gains. Thus, had the national expansion continued, the Maine economy might well have turned the corner toward a resumption of growth. Instead, the national economy faltered and the oil price spike continued to drain over \$30 million per month from the economy, further damping consumer confidence.

## **EMPLOYMENT GROWTH WEAK IN 1990**

The official employment figures present somewhat of a confusing picture. Resident employment in the State, computed primarily from a survey of households, rose 4,700 (0.8%) between September 1989 and September 1990. Yet, wage and salary employment, a count of people on payrolls estimated from a sample of business establishments, declined 17,600 (-3.2%) over the same period. Because the wage and salary survey involves a sample which is a great deal larger (as a percentage of total employment), it is generally considered the more accurate gauge of actual employment conditions.

Since State unemployment rates are computed from the questionable household survey mentioned above, they also may tend to understate jobless rates. Maine jobless rates were consistently below national averages for the past ten years, but were reaching the national average by late 1990. Through the first ten months of 1990, Maine jobless rates averaged 4.7% versus 5.4% for the nation.

In October, however, Maine's rate reached 5.1% against a 5.4% national rate, and the November figure for Maine is expected to show further deterioration.

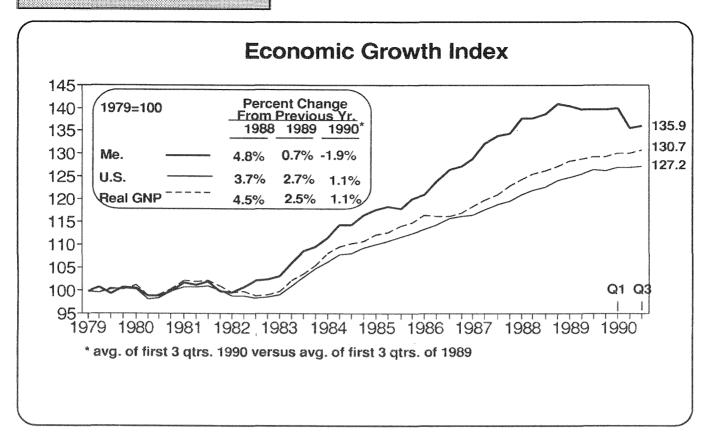
Maine wage and salary employment has declined during 1990, but the loses have not been spread evenly across industries. In fact, comparing average employment levels of the first ten months of 1990 with the same period of last year, we find that four of the nine major industry groups actually gained jobs in 1990, although the gains were relatively small. The services sector added the most new iobs with a gain of 800 (0.7%). State and local governments added 700 (1%), the federal government added 500 (2.4%), and the transportation/public utilities sector gained 400 (1.9%). Unfortunately, these four sectors together created only 2400 new jobs while the other five were losing 9500. At the top of the list, the construction sector declined by 4000 jobs (-12%) due to continuing weakness in construction demand. The trade sector cut 3700 jobs (-2.7%) from its payrolls, durable goods manufacturing lost 1000 (-2.1%), non-durable goods manufacturing lost 500 (0.9%), and the finance/insurance/real estate sector declined by 300 jobs (-1.2%).

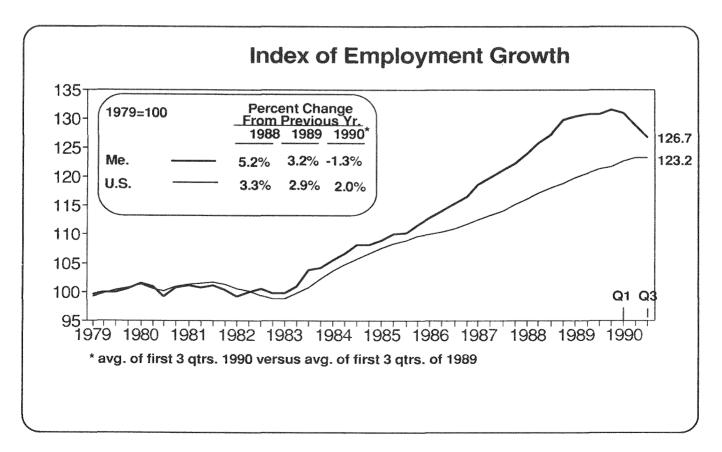
### RETAIL SALES DOWN

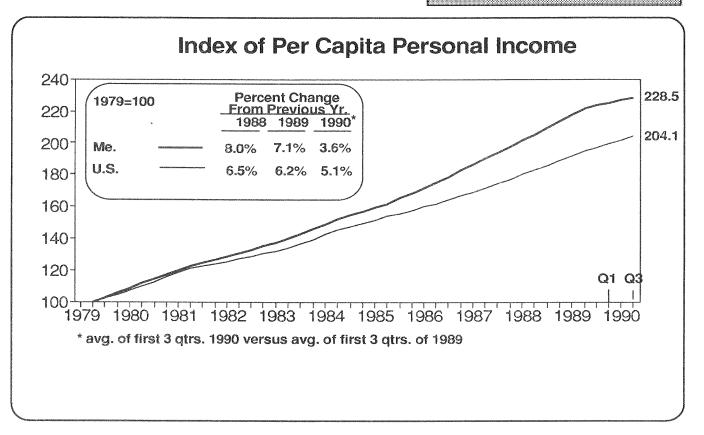
Maine taxable consumer retail sales for 1990 will likely be about 3% below 1989 totals, while national retail sales will probably be up about 4% for the year. Since retail inflation will average about 4% for 1990, U.S. real (inflation adjusted) retail sales will be flat while Maine real sales will be down roughly 7%. These figures are based on sales trends through the first three quarters of the 1990 calendar year.

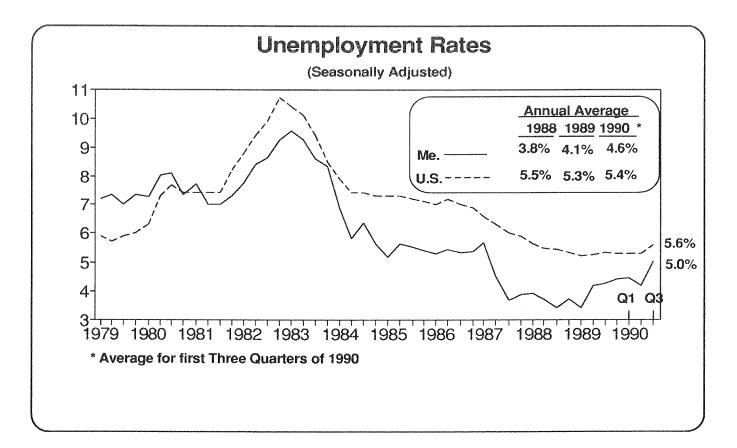
Clearly, Maine consumers have been greatly concerned with interest rates and their debt loads in 1990 since the weakest retail sectors have been those most sensitive to interest rates. Through the first three quarters of the year, all of Maine's losses are attributable to the building supply and auto transportation store groups. For that period, compared with the same period one year ago, State building supply sales were off 13.5%, while auto sales (including used cars and parts) were down 9.8%. Each of the other four store-type groups in the State Planning Office tracking system enjoyed sales gains over the previous year; 'other retail' was up 6.3%, food stores up 5.8%, restaurant/lodging gained 4.2%, and the general merchandise group rose 1.2%.

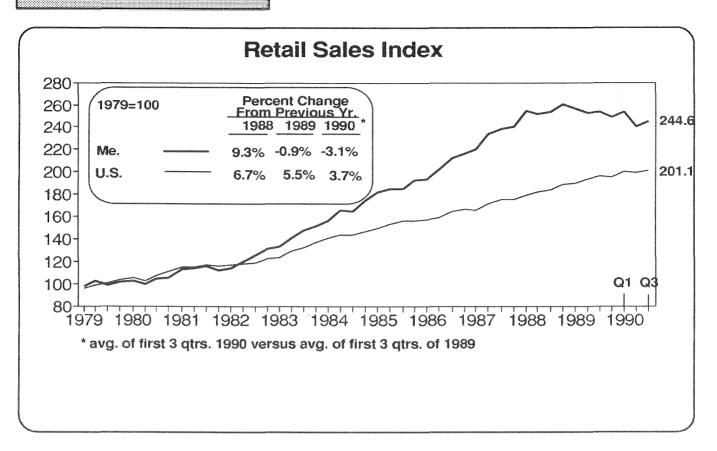
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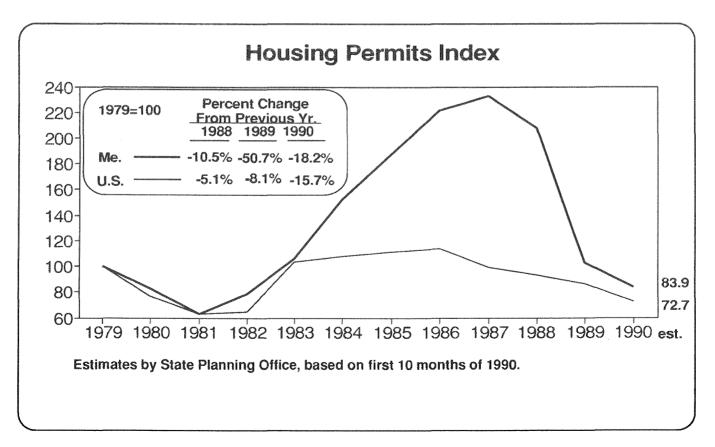


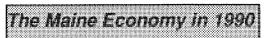












## The Ten Most Significant Economic Events in Maine in 1990

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 occured in Maine in 1990, events which we believe indicate important trends in the economy.

### NATIONAL ECONOMY HEADS SOUTH

The prevailing opinion among national economic forecasters now is that the U.S. has slipped into recession during the fourth quarter, ending an eight year expansion, the second longest in the post-war period. The longest expansion of this era, eight years and ten months, stretched from February 1961 to December 1969. The consensus is that the Iraqi conflict is beginning to extract its toll on the U.S. economy. Federal Reserve Board Chairman, Alan Greenspan, on the 29th of November, acknowledged that the economy had moved into a "significant downturn."

### **OIL PRICES GUSH**

Rising oil prices, spurred by Iraq's invasion of Kuwait, hit an already weakened Maine economy. The threat of war in the Persian Gulf region combined with increased energy costs has led to further reductions in already lagging consumer confidence. Moreover, due to the Iraqi invasion the increased energy cost to Maine households has been estimated at slightly more than \$100 million, from August through December of 1990.

## REAL ESTATE DEMOLISHES CONSTRUCTION

The real estate slump that started in 1989, hit Maine with full force in 1990. Both existing home sales and the number of authorized permits for new housing units have experienced sharp declines, in response to both continued high interest rates and an over-supply of available properties. Unsold condominiums were auctioned off at bargain prices across south coastal Maine, and the construction industry has experienced a 17% decline in employment since January. This decline is expected to continue, albeit at a slower rate, through the first half of 1991.

## STATE REVENUES: VICTIM OF ECONOMIC SLUMP

Another consequence of the deepening recession was a shortfall in tax revenues. Already declining retail sales, personal income, and corporate profitability have been exacerbated by both the rise in oil prices and the national recession. Governor McKernan has announced that State revenues for FY 1991 are expected to fall \$110 million short of projections. Resolution of this deficit will require a 15% cut in State budgets over the remaining 6 months of this fiscal year. In addition, it appears that it will be necessary to maintain the reduced level of funding through the 1992-93 biennium budget. Between 1000 and 2000 State government jobs are likely to be eliminated as a result of the economic slowdown and the reduction in tax revenues.

### BANKS TIGHTEN NOOSE ON REGIONAL ECONOMY

The national Savings and Loan debacle, in conjunction with serious financial troubles (real estate losses) at several large New England banks, led regulators to crack down on banking practices throughout the region. This engendered a credit tightening response in many or most Maine banks during the year, making it more difficult for Maine businesses to access their traditional sources of credit.

## **BUMPER CROPS BUCK TREND**

Both Aroostook and Washington Counties benefited in 1990 from a banner year for their leading agricultural products. In Aroostook County favorable potato prices helped to fuel a steady growth in retail sales which have grown by 1.8% over the first nine months of 1990, compared to a loss of 2.8% for the state as a whole over the same period. Meanwhile, Washington County saw a record breaking blueberry harvest of 65 million pounds, breaking the old mark of 45 million pounds set in 1988. In other blueberry related highlights for Washington county both Ben and Jerry's and the Burger King Corporation have developed new products that use Maine blueberries supplied under contract. Burger King will be using the berries in its new blueberry muffin, while Ben and Jerry's has signed a contract with the Passamaquoddy Indian Tribe to supply the berries for its newest ice cream flavor, Maine Wild Blueberry.

#### **NEVER ON SUNDAY?**

One of the hot questions on the ballot this past election day was whether or not large stores would be allowed to open for all-day business on Sundays, year- round. The voters gave their nod of approval by a margin of 52% to 48%, leaving North Dakota as the only state in the nation with a Sunday-sales ban still in effect. Putting this controversial issue to the Maine voters as a ballot question contributed heavily toward the 57% voter turn-out on election day, which was the highest turn-out for any state in the nation. It is anticipated that Sunday sales will bring more shoppers to Maine retailers from neighboring Canada, while also stemming the flow of Maine's consumer dollars to New Hampshire.

(TOP TEN...continued)

## HOME ON THE GP-RANGE

After 4 months of resisting Georgia Pacific's take-over attempts, Great Northern Nekoosa Corporation finally accepted a \$3.8 billion bid in February of 1990. Besides the addition of the two Great Northern Paper Company mills at Millinocket and East Millinocket, Georgia Pacific has now increased its ownership of Maine land to 2.6 million acres, becoming the state's largest landowner. It is unclear how the new ownership of Great Northern Paper will affect its mill operations, although G-P has announced that there should be no dramatic changes at either mill.

## OLD TRASH TO HIGH TECH

Following on the heels of one of last year's "Significant Events", the establishment of the Maine Waste Management Agency, two large scale initiatives have been proposed that would help to reduce the size of Maine's waste stream and, at the same time, stimulate Maine's economy. In Topsham, a \$250 million facility to recycle old newsprint into pulp that would be used for high-quality glossy paper has been proposed. The plant would be one of the first in the nation to implement a new process that produces high-quality pulp from a lower grade recycled material. Meanwhile in East Millinocket, Georgia Pacific Corporation has obtained the necessary permits to go forward with a \$47 million dollar de-inking facility that will recycle old newsprint. These two projects would provide about 140 new jobs to help bolster the State's economy, and may be just the beginning of a trend to utilize one-time waste materials, thereby providing Maine with a more sustainable economic base.

## PENTAGON RETREATS

Defense cuts made possible by the easing of East-West tensions, and necessitated by the U.S. budget deficit, have begun to impact Maine. A number of Maine firms have already eliminated jobs, including National Semi-Conductor and Mid-State Machine. Bath Iron Works and Portsmouth Naval Shipyard have both announced that they will soon begin to reduce their workforce in the coming months due to shrinking orders. Governor McKernan has appointed a Defense Realignment Task Force to investigate ways of mitigating potential disruptions to the state economy, but, as a recent report issued by the Maine Peace Coalition points out, much of the economic impact will depend ultimately on federal budget priorities.

## (MAINE ECONOMIC REVIEW...continued)

## SUMMARY

Maine economic conditions in 1990 were disappointing and frustrating. For most of the year, the long slow decline begun in second guarter 1988 continued. By October, however, it appeared that the State's two and one-half year decline might have bottomed out and that the economy was rebounding. Then came the news in November that the national economy slipped into recession early in the fourth quarter. Now, whether the Maine economy was rebounding became a most question, since it almost certainly could not continue to grow in the face of a national recession. If there is a silver lining in this otherwise negative picture, it is that Mainers have been very cautious in their spending, their debt loads are probably lower on average than they were two years ago, and their savings are a little healthier. If the national slump is short and shallow, as most analysts are predicting, then the Maine economy might well get off to a fast start once the next expansion begins.



#### **U.S. Slips into Recession**

The second longest period of peacetime U.S. economic expansion apparently came to an end in the final quarter of 1990. And, as in seven of the last eight recessions, this one was immediately preceded by an oil price shock (see Fig.1 on pg. 10). Between mid-July and mid-September, the Iraqi invasion of Kuwait catapulted oil prices by 85%. One result was to wreak havoc with national economic forecasts.

Through the fall of 1990, forecasts of national economic growth seemed to change as rapidly as the weather on a Maine afternoon. As shown in Fig 2 on page 10, the consensus among U.S. forecasters changed dramatically between August and November. Forecasted growth rates fell from 1.5% real growth to less than 0.5% for the first three quarters of 1991. The forecasters remain more optimistic about the fourth quarter of 1991, however, and most are calling for stronger growth in 1992.

The Persian Gulf crisis explains much of this uncertainty. The steep rise in oil prices following the invasion of Kuwait by Iraq has apparently pushed the American economy into recession. Uncertainty about the future caused consumers across the U.S. to pull in the reigns on spending. At the same time, a larger share of disposable income was diverted to higher-priced gasoline and oil. Between July and October, consumer confidence nationally witnessed its sharpest decline on record and retail sales slumped further. U.S. manufacturers have begun to follow suit. In response to real and anticipated consumer spending patterns, producers have initiated significant downsizing with accompanying layoffs.

At this writing, most forecasts of national economic growth predict at least two quarters of declining real GNP. A consensus is emerging that the U.S. economy drifted into recession in the fourth quarter of 1990 and will emerge with very modest growth in the second or third quarter of 1991—a short and shallow recession by historic standards (see Fig. 3 on pg. 10).

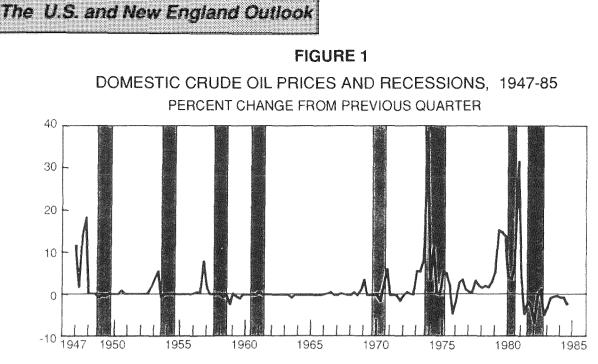
#### New England Faces Hard Road to Recovery

For New England, the effects of the Persian Gulf crisis and the national slowdown which followed were especially difficult. New England job growth had begun to slow in the middle of 1988. By 1989, employment began to shrink, led by the collapse of construction and the associated decline in the financial and trade sectors (see Fig. 4 on pg. 10).

As noted in a recent Bank of Boston analysis, the collapse of New England's construction activity was inevitable.<sup>1</sup> Rapidly rising incomes and investment capital fueled a level of residential and commercial development that could not be sustained by the underlying economy. In fact, housing starts grew at a pace more than double the household formation rate in New England.

While a broad based national decline became evident only at the end of 1990, New England, and in particular Southern New England, has been adjusting to the effects of unsustainable growth for nearly two years. Consequently, the region is poised to return to a very modest growth pattern by the middle of 1991 when the U.S. economy is expected to begin its recovery. However, reversal of job losses in New England is expected to lag the U.S. recovery by one or two guarters (see Fig. 5 on pg. 10). Existing homes sales had already begun to show some signs of bottoming in October, according to the "Grey Book" analysis presented by the First District Federal Reserve Bank, as sellers brought prices to more reasonable levels. New housing starts, which have dropped by more than 50% since 1987, are expected to return to slight growth by the second half of 1991 and strengthen through 1993.

1. For an insightful assessment of the dynamics affecting the New England economy, see <u>What's Next For New England; The State of the</u> <u>Region's Economy</u>, by Wayne M. Ayers, Chief Economist, Bank of Boston.



Source: Federal Reserve Bank of Cleveland

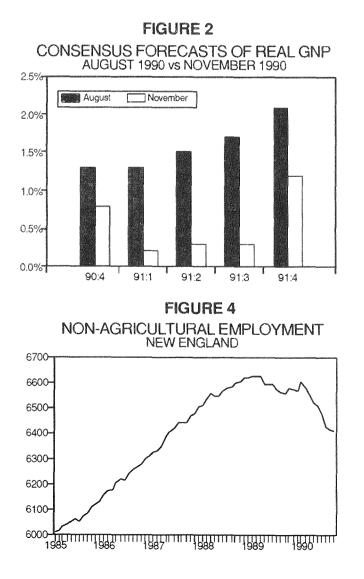


FIGURE 3 U.S. REAL GNP GROWTH 1958 TO 1992 (Forecast)

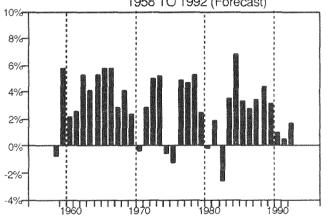
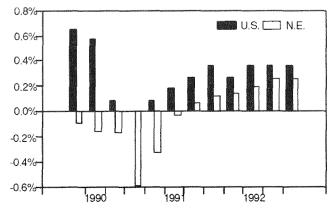


FIGURE 5 EMPLOYMENT GROWTH U.S. vs NEW ENGLAND



As discussed earlier, during 1990 Maine began to feel the effects of the deteriorating southern New England economy and slumping real estate markets, and the contraction of consumer spending associated with weakening consumer confidence. These effects have been exacerbated by the financial drain caused by the Persian Gulf crisis and the national slide into a recession. As a consequence, Maine's manufacturing and non-restaurant retail sectors, which had avoided significant job losses, began to experience employment declines. By November, forest products employers such as furniture and paper firms had announced temporary or permanent lay-offs.

Unlike the past eight years, Maine's future economic performance will more closely mirror national trends. As the national outlook calls for a relatively short and shallow recession, Maine economic indicators should indicate the beginnings of a recovery by the middle of 1991. However, the effects of a weaker New England-wide economy will continue to place a drag on Maine growth. As a result, meaningful gains are not expected in Maine until 1992 and 1993.

After dropping by 3.8% between 1989II and 1990III, then flattening for several quarters, Maine employment is expected to return to a modest growth path by the third quarter of 1991. The tenuous rebound will be led by retail and service employment in response to the return of Maine consumers to the market place. While not adding jobs, modest demand for new housing should prevent further losses in construction employment. Overall, the losses in the first half of 1991, and the weak gains in the second half, will hold average annual employment in 1991 below 1990 levels. By 1992 and 1993, job growth will be modest, but firmly established.

After record-breaking growth during the late 1980's, total personal income gains will likely keep just ahead of the pace of inflation during the forecast period. Like employment, real personal income (income adjusted for inflation) in Maine will begin expanding again by the second quarter of 1991. However, the pace set during the 1987 and 1988 will not be seen again in the foreseeable future.

#### Structural Changes for Maine Manufacturing

Structural economic changes will prevent some Maine manufacturing sectors from returning to pre-1990 employment levels. The dynamics driving unprecedented residential building during the 1980's have largely run their course. Consequently, demand for new construction will be markedly more subdued, placing long-term downward pressure on Maine's lumber and wood products sector. Continued reductions in national defense spending should push employment levels in defense-sensitive firms down as well. Some Maine electronics and machinery firms have already shed much of their defense-related capacity. But, Bath Iron Works, Maine's single largest employer, is expected to reduce its work force by some 2500 workers over the next few years.

Maine Economic Outlook

Other sectors, most notably paper, electronics and machinery, should stabilize their positions during 1992, and participate in the national recovery fueled by expanding demand for machinery, equipment and consumer goods.

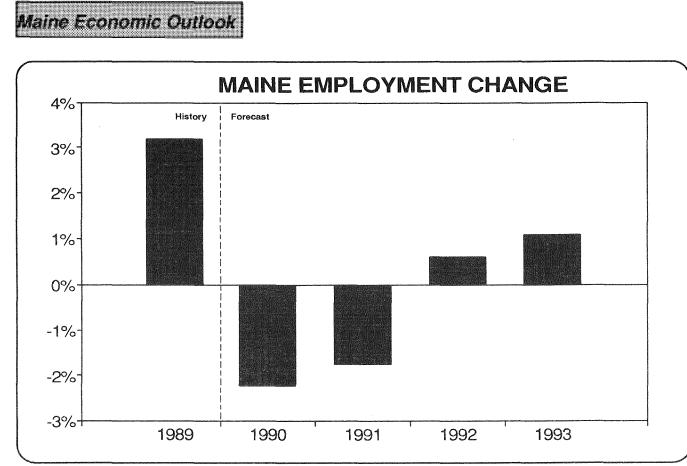
## Fundamental Strengths Will Re-invigorate the Maine Economy

The longer-term outlook for the Maine economy remains positive. Over the last decade, Maine has essentially been transformed from a languid, maturing, low-income economy to a more diversified and vigorous one.

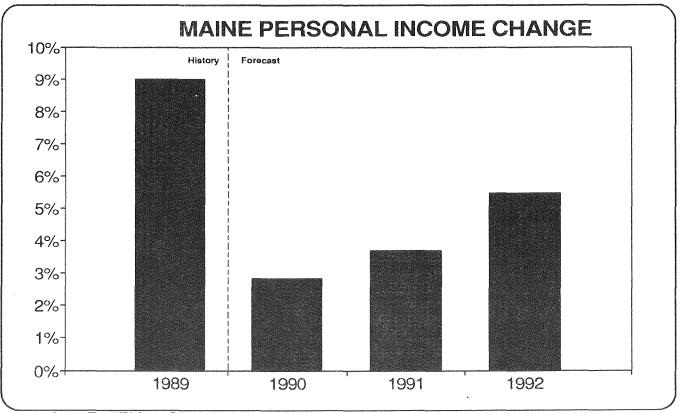
Despite cyclical swings, the new Maine economy seems to be offering a new measure of quality opportunities. Growth in real wages during the eighties (7% after inflation) may be fueling a reversal of historic net outmigration of working age people. Moreover, Maine is a more affluent economy, rising by 1989 to 27th among the states in per capita income, up from 42nd in 1979.

Maine is likely to see a significant share of the growth that occurs in the Northeastern U.S. over the next decade. Maine businesses, both in manufacturing and nonmanufacturing, have become more sophisticated over the decade, and are increasingly prepared to compete in larger national and international markets. In addition, the East and West coasts will continue to be favored locations for a growing number of Americans. Maine's competitively priced commercial and residential property, available labor force, and unequaled quality of life will make it an attractive location for new businesses through the nineties.

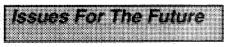
As 1990 draws the curtain on a period of exceptional growth and change, Maine people can be confident that their State will not merely return to pre-1980's mediocrity. While many of the forces that drove Maine's economic renaissance have run their course, they have left the State in a position to participate fully in the economic opportunities presented in the coming decade.



Source: The WEFA Group; Fall 1990 Forecast



Source: The WEFA Group; Fall 1990 Forecast



Below, we outline six issues which we believe will play major roles in Maine's economic fortunes in the future.

#### **ENERGY PRICES ARE ON THE RISE:**

Between Sadaam Hussein and rising electricity costs, Maine's energy bill is likely to grow significantly over the near term. Following overall electric rate increases of approximately 12% in 1990, Maine's two largest utilities have applied for additional increases in 1991 to reflect higher fuel costs, system improvements and cogeneration purchases. While the outcome of the present Middle East crisis remains uncertain, significantly higher fuel prices have already affected energy costs throughout the State's economy and are almost certain to have an impact through at least the first quarter of 1991. Although Maine's total energy bill went over the \$2 billion mark for the first time in 1989, energy costs have actually been declining in real terms throughout the 1983-1989 period. However, with the combined effects of the heating fuel price rise in early 1990, the Iragi invasion in August and the hike in electricity rates, the trend of decreasing "real" energy costs was reversed in 1990. With further rate adjustments on the horizon "real" energy costs are likely to continue to rise over the near term.

# NATURAL GAS HOLDS PROMISE OF INCREASED DIVERSITY AND INDUSTRIAL ACTIVITY:

Maine's relatively limited access to natural gas supplies (less than 1% of the State's 1989 energy mix) may change dramatically if current plans for a new pipeline connection with Canada are realized. Granite State Gas Transmission, Inc., a subsidiary of Massachusetts-based Bay State Gas Company, proposes to construct a new 188 mile, \$174 million dedicated gas pipeline from Brigham, Quebec to Westbrook, Maine, using the existing Portland Pipe Line right-of-way. The new line would provide an expansion in capacity from 25,000 mcf/day to over 400,000 mcf/day - the energy equivalent of 69,000 barrels per day of imported oil. An expansion of the natural gas resource in Maine would not only increase the diversity of the State's primary energy spply, but could provide welcome opportunities to offset a portion of Maine's current oil use.

## THE NATIONAL RECESSION - HOW LONG AND HOW DEEP?

Most analysts are agreed that the national economy tumbled into recession during the fourth quarter. Over the next few months, then, the most frequent questions economists will be asked are "How long?" and "How deep?". Economist-respondents to the Blue Chip Economic Indicators survey in early November were heavily biased toward short and shallow responses. Three-fourths were expecting the recession to last no more than two or three quarters, and over 80% predicted a relatively mild downturn - good news, indeed, for the Maine economy.

## ENVIRONMENTAL QUALITY AND ECONOMIC GROWTH - THE BATTLE CONTINUES:

In the wake of slowing economic growth, the balance between economic and environmental conditions is once again being called into question. Two new industry groups have formed to review the extent to which Maine environmental regulations may be unreasonably inhibiting economic growth. The Maine Coalition for a Sound Economy and the Environmental and Economic Council of Maine, are both likely to make attempts to force legislators to reconsider environmental regulations that may be hindering business growth.

#### THE PRICE OF PEACE:

Maine will face continuing effects of shifting defense priorities through the 1990's. Both Bath Iron Works and Portsmouth Naval Ship Yard have announced reductions effecting 3900 jobs over the next few years. Governor McKernan has established a Task Force on Defense Realignment and the Maine Economy to gauge Maine's defense depend ency and to develop a comprehensive strategy for Maine businesses, workers and communities to address the challanges and opportunities presented by changing defense priorities. In addition local community groups are forming to develop their own local initiatives.

## BUDGET BATTLES - HOW MUCH GOVERNMENT CAN MAINE AFFORD?

The most visible consequence of the economic slowdown has been no growth in State tax revenues, leading some to call for tax increases and others to call for dramatic spending reductions. During the expansionary period of the 1980's, State government grew by 185%, yet, because personal income growth was so robust, State tax revenues increased from 6% of total personal income to only 7.5%. At issue, with personal income growth slowed significantly by the slowdown in the economy, is how much State government can grow without overburdening Maine's tax base, already one of the most heavily burdened in the country.

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