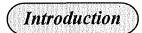


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This year-end report on the Maine economy was prepared by the Economics Division of the State Planning Office. It reviews State economic performance during 1994, outlines the economic outlook for Maine, New England, and the nation, identifies some of the issues we expect will prove important in Maine's economic performance during the next few years, and highlights ten key economic events of the past year.

Among the conclusions detailed in this report are:

- The Maine economy continued on a recovery path through the first ten months of 1994, but progress as measured by most economic indicators was quite slow. The rate of real economic growth in the State did improve over the previous year, however.
- The major economic issues in the State during the year included booming auto sales, more company downsizing, some major industrial expansions, the final closing of Loring A.F.B., Legislative rejection of the proposed Calais gambling casino, and important rule changes in the public utility sector.
- The Maine economic outlook calls for continued slow recovery, yielding annual Gross State Product growth through 1997 of 2% to 2.5%, less than half the 1980's rate. The major dampers to Maine economic growth are expected to be continued defense downsizing, corporate restructuring, and weak national growth.

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

Stephen J. Adams, Director Maine State Planning Office (207) 287-3261

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Acknowledgements	
The editor of this report is Galen Rose. Other Laurie Lachance, Joyce Benson, Nancy Griffen and Richard Sherwood.	

INTRODUCTION

The Maine economy began an upswing several years ago now, but many Maine families haven't noticed much difference. This current era has been called the 'jobless recovery', and for good reason. We still have not recovered all the jobs lost during the past recession, the jobless rate remains stubbornly high, and economic growth, by any measure, has been painfully slow. In short, it just doesn't feel like a recovery.

By all conventional measures, the recession we speak of ended years ago, literally. The Maine Economic Growth Index* (EGI), our broad-based measure of real economic growth, bottomed out in June of 1991. That's three and one-half years ago. Maine payroll employment bottomed out in March of 1992. That's two and three-quarters years ago. And Maine taxable consumer retail sales started back up in January of 1991. That's just a shade under four years ago.

Despite the 'recovery', we have continued to suffer repeated major layoffs at some of the State's largest companies, although total employment has continued to increase. These well publicized layoffs, when combined with very slow rates of growth in the major indicators, make it difficult to believe the economy is really growing. Another difficulty is that the real (inflation adjusted) output of the Maine economy has only recently recovered to pre-recession levels. The highest quarterly levels the Maine EGI has ever reached were measured in the fourth quarter of 1988 and the second quarter of 1994. The EGI slipped slightly in the third quarter of 1994, but is expected to regain or exceed its previous peak during the fourth quarter. That would put real economic output in the State at about the same level as it was six years ago!

Payroll employment still hasn't recovered to the pre-recession peak. Payroll employment in third quarter 1994 was over 13,000 jobs shy of the second quarter 1989 peak. Similarly, after adjustment for inflation, Maine consumer retail sales in third quarter 1994 were still about 3% below the pre-recession peak.

The general public often uses the term 'recession' in a nontechnical sense to mean a period of high unemployment. Under this definition, perhaps the current era could qualify as recessionary, given the State's relatively high, 7% jobless rate (third quarter 1994). Thus, it's not surprising that we still hear talk of the 'current recession' during this recovery; for many Mainers, the distinction is an exercise in hair splitting. As some would say, if it walks like a duck...

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

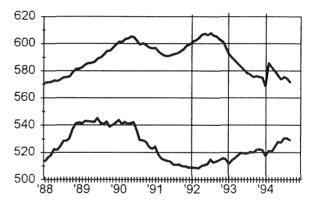
OVERALL ECONOMIC GROWTH

Through the first three quarters of 1994, the Maine economy expanded at a 2.3% annual rate (measured by the EGI), while U.S. real growth was 4% (Real GDP). While Maine growth was below the national average over this period, the 2.3% rate is still a significant improvement over the 1% growth rate for all of 1993.

THE JOBS PICTURE

The graph below illustrates a mystery in Maine's employment figures. The top line represents people who are employed; on payrolls, as commission workers, the self-employed, etc. The bottom line represents those on payrolls, only. Note that the total employed (top line) has been trending downward since mid-1992 (the bulge in Feb. '94 is apparently a statistical artifact). Meanwhile, the number of people on payrolls has been increasing since early 1992. Thus, while employers have been hiring (payrolls expanding), a sure sign of an improving economy, the number of people actually employed has been declining. This apparent discrepancy in the numbers has yet to be adequately explained.

Maine Resident & Payroll Employment (Seas. Adjusted - 1,000's)



The table below shows where the new payroll jobs are coming from in 1994.

MAINE PAYROLL EMPLOYMENT JOB CHANGE BETWEEN 1993 AND 1994*

	JOBS	%CHG
TOTAL	7,300	1.4%
SERVICES	4,000	3.0%
RETAIL TRADE	3,400	3.2%
MANUFACTURING	1,100	1.2%
CONSTRUCTION	700	3.5%
FINAN/INSUR/R.EST.	200	1.0%
WHOLESALE TRADE	100	0.6%
GOVERNMENT	-1,400	-1.5%

Note: comparison is between 1993 annual averages and seasonally adjusted averages for the first 10 months of 1994.

The Maine Economy in 1994

As of October 1994, jobless rates among Maine counties ranged from 3.8% in York County to 10% in Aroostook County, with all counties except Aroostook showing improvement from October 1993. Despite the State's slower economic growth, six counties had October '94 jobless rates that were below the national average of 5.4% (unadjusted). Generally, the lowest jobless rates are in the southern and mid-coast counties, with higher rates in central Maine along the I-95 corridor, still higher rates in the western mountain areas, and the highest rates in extreme northern and eastern Maine.

JOBLESS RATES OF MAINE COUNTIES (OCT.)

	<u>1994</u>	<u>1993</u>
MAINE	6.0%	7.0%
SAGADAHOC	3.8%	5.0%
LINCOLN	4.0%	6.0%
CUMBERLAND	4.1%	5.3%
KNOX	4.5%	4.9%
HANCOCK	4.9%	6.1%
YORK	5.0%	6.1%
FRANKLIN	5.9%	7.7%
ANDROSCOGGIN	6.0%	6.9%
KENNEBEC	6.4%	7.3%
PENOBSCOT	6.8%	7.0%
OXFORD	7.2%	9.2%
WALDO	7.2%	8.4%
PISCATAQUIS	8.6%	8.8%
SOMERSET	9.4%	10.0%
WASHINGTON	9.5%	11.6%
AROOSTOOK	10.0%	9.9%

RETAIL SALES GROWTH RATE UP

Consumer retail sales for the first three quarters of 1994 were 6.6% higher than the same period last year. This is mostly 'real' (inflation adjusted) growth since retail inflation was only 1.4% over the period. The 6.6% growth rate represents a significant improvement over 1993's 5.3% growth rate. However, over half of the dollar volume sales growth during 1994 (first three quarters) was in the auto transportation sector (new and used car dealerships and parts stores).

The table below summarizes retail growth in 1994 by store-type group.

MAINE RETAIL SALES GROWTH
BETWEEN 1993 AND 1994*
(MILLIONS OF \$)

	SALES CHG	%CHG
TOTAL CONSUMER SALES	46	6.6%
AUTO TRANSPORTATION	24	14.3%
GENERAL MERCHANDISE	8	5.6%
RESTAURANT/LODGING	8	6.3%
BUILDING SUPPLY	7	8.0%
OTHER RETAIL	2	2.4%
FOOD STORES	-2	-2.3%

Note: Comparison is between first 3 quarters of 1994 and the same period of 1993.

CONSTRUCTION HEALTHY AND GROWING

Construction contract awards were up 9.5% for the first ten months of 1994, with non-building awards accounting for a large share of the growth. The non-building sector includes roads, bridges, treatment plants, and the like. Housing permits rebounded strongly during the year, with 36% more permits through October than was measured for the same period last year (see graph below).

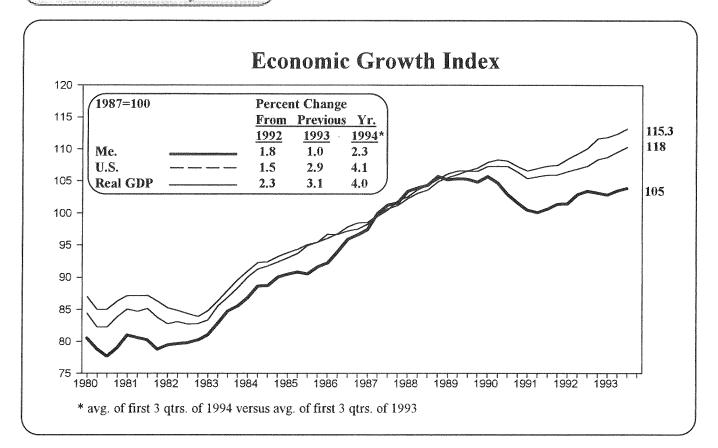
MAINE CONSTRUCTION CONTRACT AWARDS (MILLIONS OF \$)

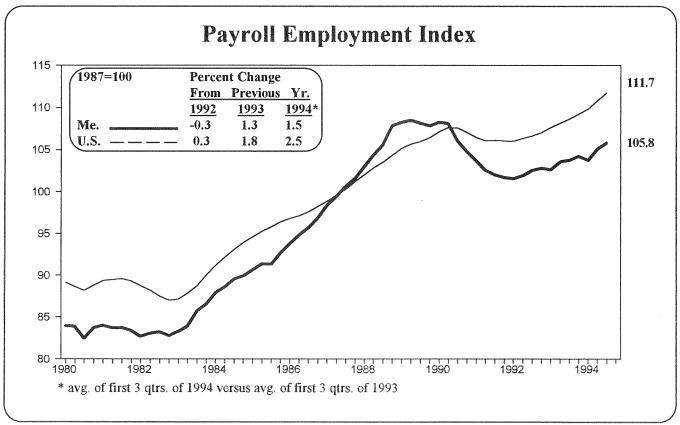
	1994	1993	%CHG
Total Construction	887.6	810.9	9.5%
Non-Buildings	246.3	178.7	37.8%
Buildings	641.4	632.2	1.5%
Non-Residential	255.3	256.8	-0.6%
Residential	386	375.3	2.9%

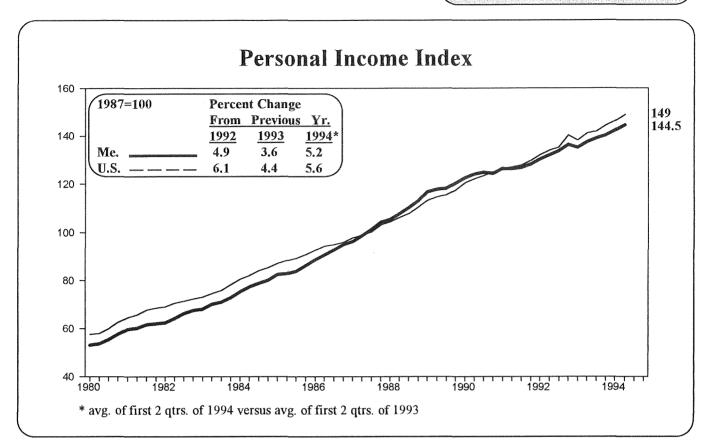
Note: Includes multi-unit projects, only. Comparison is between first 10 months of 1994 and the same period of 1993. Source: Maine Advancement Program

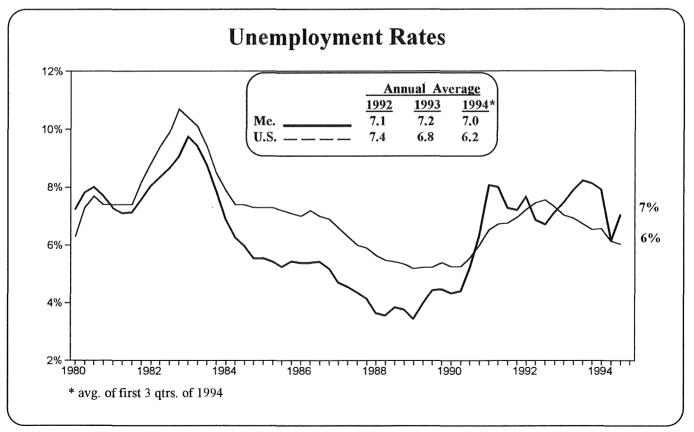
SUMMARY

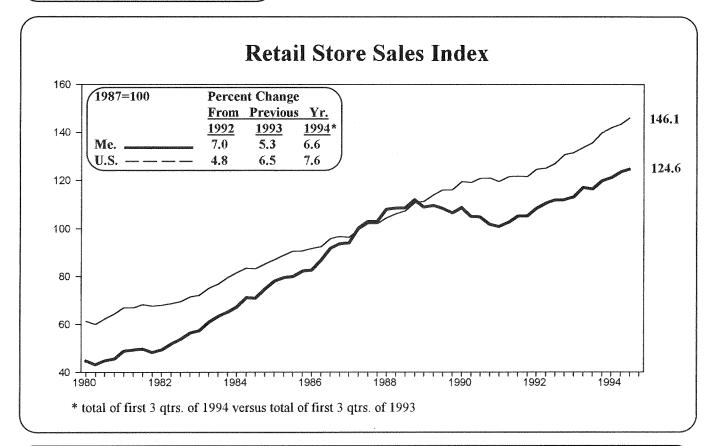
By all major measures, the Maine economy emerged from the recession years ago. But, growth has been so slow, geographically spotty, and accompanied by so many major layoffs, that it simply hasn't felt like a recovery. While real economic growth in Maine has been much stronger in 1994 than in the previous year, it has been far weaker than national growth.

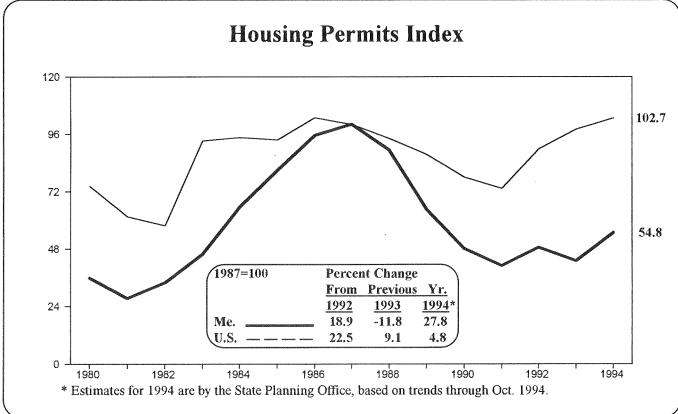












The Ten Most Significant Economic Events in Maine in 1994

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

'I'M IN THE WRONG BUSINESS' DEPARTMENT

Thanks largely to good pricing and low interest rates, Maine car and parts sales were booming in 1994. This marked the third straight year of increasing sales for the auto sector. Following a sales decline in 1991, auto sales were up 11.8% in 1992, 12.4% in 1993, and 14.3% (\$216 million) for the year through September in 1994. Total consumer retail sales for the first 9 months were up only 6.7%. In fact, the increase in auto sector sales for the 9 month period accounted for slightly over half of the gain in total consumer sales.

SAME OLD MALADY ...

It almost seems like major layoffs among large employers has become a way of life, in Maine and the nation. The recession, by all major measures, ended at least two years ago, but the malady lingers on. The Maine Department of Labor's Dislocated Worker Unit has reported that, in 1994, there were 18 incidences of layoffs involving 50 or more workers, 8 incidences involving 100 or more, and four cases with 200 or more workers laid off or released. This last group includes S.D. Warren, which laid off 460+, Fleet Bank (275), Central Maine Power Co. (200), and Oxford Homes (200).

... WITH SOME NEW LYRICS

Maine is still a place for growth, according to the Maine Dept. of Economic and Community Development's (DECD) partial list of new industries and major expansions for 1994. The list included 43 companies, 9 of which involved 50 or more new jobs, with a subset of three companies planning 275 or more new hires. The 'big three' were Global Zero Inc. of Sanford (275), Mediphus Physician Services Corp. of Lewiston (500), and MBNA of Camden, which unveiled plans for expansions involving several Maine locations (1200).

THIS WILL GIVE YOU A CHARGE

Several actions by the 116th Legislature will help to battle the problem of Maine's high electricity rates. In one case, state backing enabled the major utilities to obtain low interest rate loans to purchase back contracts from non-utility generators. By year's end, the utilities had succeeded in buying back a sizable number of independent power contracts. This action will bring significant savings to Maine electricity purchasers. Another action allows utilities to give special discounts to industrial customers in return for a guarantee to stay with that utility for a five year period. While these rate cuts will cost the State's largest utility an estimated \$16 million in 1995, and increase to \$30 million per year by 1999, the arrangement will bring a greater stability of customer base to Maine's electric power industry.

UP, UP AND AWAY

In a small ceremony, Loring AFB officially closed its doors as a military base on Sept. 30, 1994, although most of the planes and personnel had been reassigned as much as a year earlier. The Loring Development Authority has begun the monumental task of attracting public and private businesses to the massive facility, and base clean-up operations have begun and are expected to take several years to complete. Major steps in base re-use occurred this year with the announcements that LAFB had been selected as a Defense Finance and Administration Site (DFAS) and as a JOBS Corps site. As for the greater Presque Isle area, the opening of the Aroostook Center Mall, siting of a new Wal-Mart, and several other proposed projects ensure that the negative economic impacts of the base closure will not be quite as severe as originally predicted.

NOT IN THE CARDS?

The Maine Legislature, in April, defeated a bill that would have allowed the Passamaquoddy Tribe to build a gambling casino in Calais. The vote in the Senate was twenty-three opposed, eleven in favor. The vote in the House of Representatives was ninety-six opposed, fifty in favor. The bill would have granted Maine Government a 10 percent tax on gross wagers at the casino. This tax revenue, however, would have been reduced ten million dollars a year during the first five years of the casino's operation so the Tribe could pay back the initial twenty million dollar cost of building the casino. Harrahs Corporation, which would have built and operated the casino, projected it would attract almost 800,000 visitors a year, create 1,500 jobs and generate thirty million dollars a year in salaries and wages. Following the defeat of the bill, the Tribe asked Maine Government to negotiate the construction of a casino according to the provisions of the Federal Indian Gaming Act. Maine officials, however, claim the Indian Gaming Act has no force in Maine because the 1980 Land Claims Settlement Act takes precedence. The Tribe has said it will file a suit in the Federal Courts to enforce the Indian Gaming Act if Maine Government refuses to negotiate the construction of a casino.

IT'S ALL JUST FUN AND GAMES

Maine's tourism industry experienced some major expansions during 1994. Minor league professional sports teams have seen some infrastructure expansion, and are doing well financially, and recreational passenger trains enjoyed a revival in many areas.

Attendance at the Portland Pirates hockey team's home ice in the Cumberland County Civic Center was best in the league. The team's 48 home games drew over 280,000 fans, averaging out at 90% capacity for the season, and included 17 sellouts. The economic impact on Portland was estimated to be over \$9 million.

The Portland Sea Dogs home field in Portland required major renovations, but was ready on opening day. The 6500 seat park drew over 375,000 fans to 70 home games, and was sold out 47 times. Additional seating is planned for the stadium. Also, souvenirs adorned with the seal pup insignia experienced brisk sales.

Passenger trains appear to be making a comeback in Maine as "RV's". The Ski Train began operating last winter between Portland and Sunday River, offering seasonal passenger service throughout the ski season. The Belfast and Moosehead line built a new train station in Unity, and began once again to transport passengers on scenic tours through Waldo County on coaches pulled by steam locomotive. These new lines, plus a new trolley service in southern Maine, a re-construction of the Narrow Gauge Rail passenger service in the Rockland area, and the re-opening of a number of other small lines, together constitute a major investment in Maine's recreation industry.

TURN OF THE SCREW

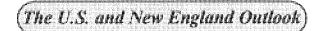
In a surprising move, on November 15th, the Federal Reserve Board increased the federal funds rate by three-quarters of a point to 5.5%, and the discount rate a like amount to 4.75%. That the rates were raised was not surprising, but the magnitude of the increases caught almost everyone off guard. By some measures, the national economy has been growing faster than anyone expected, and the Fed has been agressive in its attempts to slow it down in order to head off any upturn in the inflation rate. The data through October suggest that the Fed's 2.5 points worth of tightening since Feb. 4th so far have had little dampening effect on the economy, outside of muting the housing market (job growth was already very slow). Some of the effects of Fed tightening have been an increase in average bank prime rates, nationally, from 6% in January to 8.15% in November, and Maine typical 30-year fixed mortgage rate (3 points) increases from 7% in January to 9% in December.

A SLIPPERY ISSUE

Along with continuing declines in some stocks, Maine's fisheries and fishermen bore the brunt of two major threats in 1994. First, the New England Fisheries Management Council this summer implemented the new groundfish Amendment 5 to the federal fisheries plan. This plan called for many restrictions in federal waters, including increasing reductions of time at sea over a 5-year period that would reduce fishing time by half. By late summer, fisheries scientists decided the plan failed to protect still-dwindling fish stocks sufficiently, so in December, the feds closed three areas of Georges Bank for at least four months. Only about 100 Maine fishing vessels fish Georges Bank, but Maine fishermen fear the new plan and closures would move thousands of displaced fishing boats from neighboring states' fleets into Gulf of Maine fishing waters. The federal government allocated around \$30 million in emergency funds for New England fishermen, and a boat buyback program is under consideration to help fishermen leave the fleet.

MAINE: MORE THAN JUST A PRETTY FACE

Maine products continue to be desired in the world marketplace. 1993 data showed a strong rebound in export performance after the two declining years of 1991 and 1992 (due to the national recession). The Bureau of the Census recorded an 11% increase in the value of Maine products that were exported during 1993 over 1992. Overall, Maine exports have seen a 25% rise in the value of products Maine firms deliver to international customers since 1989. Preliminary data indicate this trend was continuing during 1994, and with the recent passage of GATT by Congress the attractiveness of Maine products to international clients should further increase during 1995 and beyond.



The U.S. economy has shown steady improvement since the recession of 1991, as Figure 1 illustrates. The 3.8% growth in real Gross Domestic Product (GDP) anticipated for 1994 pales by comparison to the growth experienced during prior rebounds. Nonetheless, the Federal Reserve, determined to pursue the yet unseen inflation demon, is expected to continue its agressive dampening activities. As a result, real GDP is expected to slow to between 2.5% and 3% over the next few years.

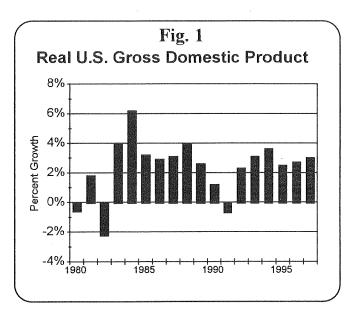
Nationwide, employment is expected to grow at a modest 2% pace, which is only slightly faster than the growth experienced thus far in this so called 'jobless recovery'. As employment continues to plod along, the unemployment rate will slowly drift downward from 6.2% in 1994 to 5.7% by 1996.

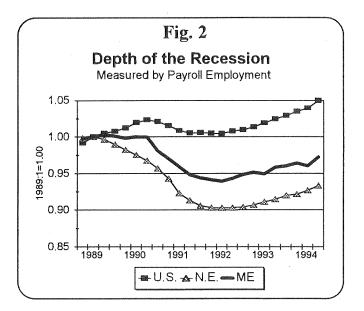
Following three years of severe economic contraction, the New England region is slowly starting to pick up the pieces. From the first quarter of 1989 to the first quarter of 1992, the region lost 644,000 jobs, a drop of 10% (see Figure 2). Employment stagnated in 1992, but has shown steady improvement through 1993 and 1994, recouping nearly one-third of the jobs that had been lost. However, the quality of new jobs continues to be below the quality of those lost to the recession.

The northern tier states of Maine, New Hampshire and Vermont, who hit bottom in 1991 and began rebounding in early 1992, have fared much better than their neighbors to the south, regaining over half of their job losses thus far. The New England figures are dampened by Massachusetts and Connecticut which, together, account for over 70% of total regional employment. Massachusetts, which suffered an 11% employment loss during the downturn, has been able to recover slightly more than a third of its losses, but Connecticut, which saw a 9% erosion of its job base, has yet to enjoy any meaningful job growth.

The New England Economic Project forecast suggests that slow growth will be the norm in the region for the foreseeable future. Massachusetts and Connecticut will continue to place a drag on the regional recovery, prohibiting full job reinstatement regionally until 1998. The rate of unemployment is expected to drift downward towards 5% through the period.

The good news for New England is that, in spite of the fact that the region endured the most devastating job losses in the nation through this recession, the income losses suffered in the region did not dramatically change New England's position relative to the other regions of the U.S.. In fact, as of 1993, New England still ranks number one of the nine census regions in terms of per capita income, 16% percent above the U.S. average. Regional income growth is expected to continue to outpace national growth over the next few years, allowing New England to retain its status as a relatively wealthy region.





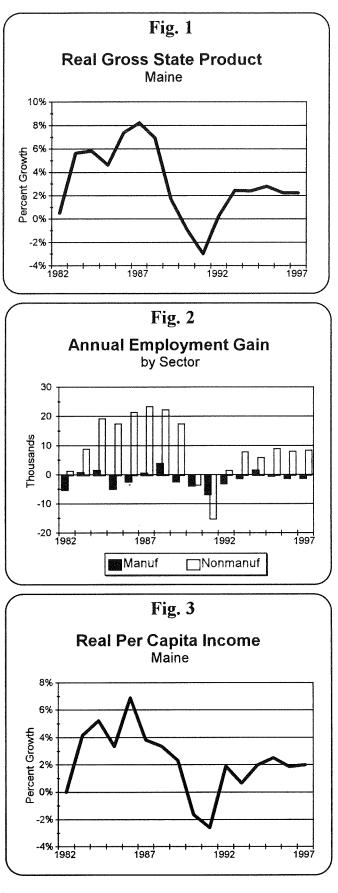
Maine Economic Outlook

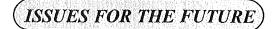
The Maine economy has been in slow but sure recovery for nearly three years (see Figure 1). Following declines in real Gross State Product of 1% and 3% during the first two years of this decade, real GSP growth has accelerated to an estimated 2.1% in 1994. The respectable rebound in national activity combined with the recent turnaround in the regional economy have helped Maine's export-based industries regain their footing. In fact, 1994 has been a very good year for manufacturing in the Pine Tree State, with average manufacturing hours worked up by over an hour a week and gains in employment for the first time in six years (see Figure 2). Real GSP growth is expected to stagnate in the vicinity of 2.0%-2.5% through the foreseeable future as continued defense downsizing, corporate restructuring, and weak national growth keep a lid on any rapid expansion of economic activity.

As mentioned in the New England overview, Maine has fared better than the region as a whole in terms of employment growth. After losing 34,000 wage and salary jobs through the downturn, the state has since recovered over half of its losses. Still, few of the new jobs offer the pay and benefits of those jobs lost to the recession. Figure 2 illustrates that the majority of employment opportunities have been, and are expected to be, in the nonmanufacturing sector. Business, professional, and health services along with retail trade employment continue to offer the largest number of opportunities to job seekers. Job growth in the manufacturing sector is virtually flat or slightly negative across most of the goods-producing industries. With a forecast of 1.4% average non-farm employment growth through the period, Maine will not return to its pre-recession employment levels until late 1996.

Maine's unemployment rate is forecast to continue its slow descent from 8% in 1993 to the 6% range by 1997, bringing the state's jobless rate in line with that of the nation's. While Maine's housing market has been improving, it is at risk of slowing again in the face of a slow regional recovery and the agressive interest rate policy of the Fed.

Following two years of decline, 1992 saw real per capita income gains of 2% in Maine. Real growth of 2% is about as good as it is going to get in the foreseeable future, as Figure 3 highlights. As with other economic indicators, while this is in sharp contrast to the 4% - 6% real annual income gains enjoyed by Mainers from 1983 through 1987, it is comparable to the pace of activity expected nationally.





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

THE SHIFT OF POWER IN CONGRESS

In the November 1994 national elections, the Republican party gained a majority of seats in both houses of Congress. This shift to the right will definitely have significant repurcussions on the national and state economies, but no one yet knows the details. With a Democrat in the White House, the GOP will definitely not get all it wants, and in fact, there is considerable diversity of opinion within the Party itself on what it should want. And, of course, to have any success on the hill, the President will also have to shift to the right, to some degree.

The Maine economy could be significantly affected, and in many ways, by this shift of power in Congress. The proposed tax cut for middle income families would obviously affect most of us. The Republicans are likely to want to tie the cut to breaks on capitol gains, business investment, and savings. Also, deep spending cuts will be proposed by the Republicans, with caps on entitlements other than Social Security. Most ominously for Maine State Government, perhaps, the GOP is expected to push a "Big Swap" plan that shifts resposibility for many government programs to the states. And, finally, a line item veto proposal seems to have a better chance of passing than ever before. This could eliminate many 'pork barrel' projects which formerly skated through by being tied to more worthwhile proposals.

GATT

The General Agreement on Tariffs and Trade passed overwhelmingly in both houses of the U.S. Congress, creating the largest free trade zone ever, and radically changing the rules of international trade. The Agreement is much more powerful than its predecessors, establishing the World Trade Organization with more power to mediate trade disputes between nations. It also cuts tariffs by an average of 38% worldwide, thereby lowering costs to consumers, and revenues to governments, and extends coverage to agriculture, services, and copyright and patent protection.

Following on the heels of NAFTA, and at a time when exports from Maine are a growing factor in the State's economy, the new GATT will substantially change Maine's trade relations. The new rules will create new opportunities for many Maine firms, while potentially damaging others who are already facing tough competition from lower priced imports from abroad. The coming year will begin to reveal who the winners and losers are to be.

THE BASE CLOSURE LIST

In 1995, The U.S. Base Closure Commission will be making its third (and final, unless re-authorized by Congress) list of bases to be closed or substantially trimmed. Maine's two remaining bases, the Naval Shipyard at Kittery and the Brunswick Naval Air Station, and the communities around them, are bracing for this next base closure round. The Kittery yard, staffed almost completely by a civilian work force, has taken drastic steps over the past year to become more competitive and efficient, and is considering re-focusing its mission and role in submarine repair. The shipyard laid off nearly 1000 workers this year, helping to shrink its staffing level by half from the 8000 employees it had in the 1980's.

A NEW MAINE STATE GOVERNMENT

Maine citizens, on November 8, chose an independent, Angus King, to succeed Republican Governor John R. McKernan. They also elected a Republican controlled Senate (eighteen Republicans, sixteen Democrats and one independent) and a Democrat controlled House of Representatives (seventy-seven Democrats and seventy-four Republicans). Together, 46 percent of the Senators and 47 percent of the Representatives are new to their Houses.

The most immediate issue confronting the new Government is a preliminary 1996-97 biennial budget that exceeds expected revenues by nearly four-hundred million dollars. To speed resolution of the problem, Mr. King proposes to meet with legislators, even before he takes office, to discuss the budget. For the longer term, Mr. King has said he wishes to improve the efficiency of Maine Government, make it more responsive to its "customers" and reduce the number of employees by 20 percent. These goals are congruent with the advice of Maine business people, who have said the best thing the Government can do to strengthen the Maine economy is to put its own house in order. It is not clear how easy it will be to accomplish this. On the one hand, a Legislature where different parties control the two Houses will find it difficult to agree. On the other hand, the narrow majorities in both Houses mean the majority party in neither has undisputed control and will frequently have to compromise to pass legislation. Finally, the high proportion of new members in both Houses may create a climate receptive to change.

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THE MAINE ECONOMY: Year-End Review and Outlook 1994

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