MAINE STATE LEGISLATURE

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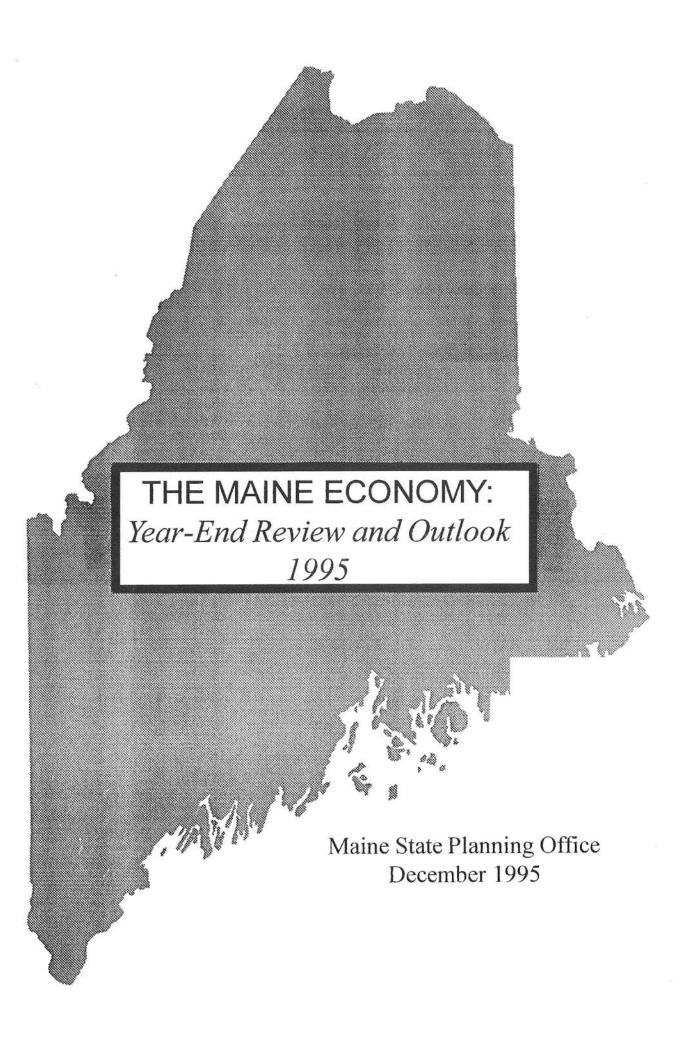
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Please Note:

Due to budgetary cuts, we have been forced to discontinue publication of the quarterly <u>STATE OF MAINE ECONOMIC REPORT</u>, although we do intend to continue annual publication of <u>THE MAINE ECONOMY: YEAR-END REVIEWAND OUTLOOK</u>. Over time, we will attempt to fill the information gap through other means. For details, call Galen Rose at (207) 287-1478.

Introduction

This year-end report on the Maine economy was prepared by the Economics Teams of the State Planning Office. It reviews State economic performance during 1995, 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 conomy continued on a recovery path through the first ten months of 1995, but progress as measured by most economic indicators was very slow. Additionally, as we went to press, the State's economy was weaker than at the beginning of the year.
- The major economic issues in the State during the year included continued downsizing in some of Maine's larger companies, some major company expansions, some delayed or scrapped Maine company investment plans, and a sizeable increase in the value of Maine's international exports.
- The Maine economic outlook calls for continued slow recovery, yielding annual payroll employment growth for 1996 through 1998 of 1.3% to 1.5%, and personal income growth of about 5%. Major dampers to Maine economic growth over the near term are expected to include slow income growth and high family debt loads.

We hope that you will find this report useful and informative. Please feel free to call me or any of the contributors listed below with your comments or questions.

EDITOR: Galen L. Rose, Economist Maine State Planning Office (207) 287-1478

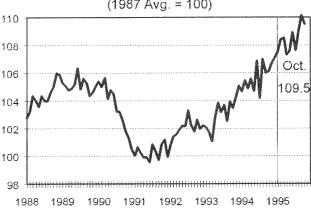
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The Maine Economy in 1995

INTRODUCTION

Through the first ten months of 1995, the Maine economy struggled to maintain forward momentum. As a result, the indicators are a mixed bag with some increasing and some decreasing. The Maine Economic Growth Index (fig.1) was designed to measure real (inflation-adjusted) growth in the overall economy, but it is of marginal utility this year. The Index is comprised of four components, one of which, resident employment, we are certain will be revised downward significantly for the months of 1995. Unfortunately, the revised data will not be available until March or April of 1996. The Maine EGI through September was up 2.6% over the same period of last year. After the spring '96 data revisions, the EGI is likely to show a growth rate closer to 2% for the period.

Fig. 1
Maine Economic Growth Index
(1987 Avg. = 100)



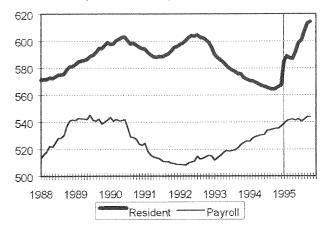
EMPLOYMENT

Over the past few years, it has been difficult to gauge Maine's employment situation as the two major measures have been telling different stories. As the figure 2 illustrates, the number of Maine residents employed (includes the self-employed, commission workers and others, as well as people on payrolls) declined steadily from mid-1992 until late in 1994, while the number of persons on Maine payrolls was steadily increasing. Then, as the count of employed residents increased sharply in 1995, the payroll count nearly levelled off. As yet, these apparent discrepancies have not been adequately explained.

The payroll employment data, however, is widely acknowledged to be the more accurate, thus it appears safe to say that Maine's job market improved very, very slowly during the first ten months of 1995.

Fig.2

Maine Resident and Payroll Employment (seasonally adjusted - 1,000's)



The table below shows where the new jobs came from during 1995.

MAINE PAYROLL EMPLOYMENT JOB CHANGE BETWEEN 1994 AND 1995*

•	JOBS	%CHG
TOTAL	10,700	2.0%
SERVICES	7,300	5.2%
RETAIL TRADE	2,800	2.5%
CONSTRUCTION	1,100	5.2%
WHOLESALE TRADE	700	3.0%
MANUFACTURING	600	0.6%
TRANSPORT/PUB.UTILS.	200	1.1%
FINAN/INSUR/R.ESTATE	0	0.0%
GOVERNMENT	-2,000	-2.1%

note: comparison is between 1994 annual averages and seasonally adjusted averages for the first 10 months of 1995.

As of October 1995, jobless rates among Maine counties ranged from 3.1% in Knox County to 7.7% in Aroostook, Somerset, and Washington Counties, with all counties showing improvement over the year except Franklin. As the table below illustrates, the lowest jobless rates were found among the south-coast and mid-coast counties, with higher rates in the central counties, and the highest rates in the western mountains and northern and Downeast coastal counties. Only 6 of Maine's 16 counties had rates below the 5.2% national average.

^{*} 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.

JOBLESS RATES OF MAINE COUNTIES (OCTOBER)

	1995	1994
MAINE	6.0%	7.0%
KNOX	3.1%	4.4%
CUMBERLAND	3.4%	4.3%
SAGADAHOC	3.4%	3.8%
LINCOLN	3.8%	4.3%
YORK	3.8%	5.4%
HANCOCK	4.2%	4.8%
ANDROSCOGGIN	5.3%	6.3%
KENNEBEC	5.7%	6,6%
PENOBSCOT	5.8%	7.2%
OXFORD	6.2%	7.5%
WALDO	6.3%	7.5%
FRANKLIN	6.7%	6.2%
PISCATAQUIS	6.7%	8.8%
AROOSTOOK	7.7%	10.2%
SOMERSET	7.7%	9.9%
WASHINGTON	7.7%	10.1%

TAXABLE RETAIL SALES

Consumer retail sales for the first three-quarters of 1995 were up 2.4% from the same period of last year. However, since retail inflation was about 2%, the actual change in the volume of goods passed over Maine counters was virtually nil. Further, there would have been no increase at all had we not enjoyed a strong summer tourism season in 1995. The strong increase in restaurant and lodging sales, with only modest growth in general merchandise and other retail, suggest that, for the most part, the tourists came in droves but they ate and slept and did very little shopping. Doubtless, the lack of rainy days had something to do with this. The table below summarizes retail growth in 1995 by store-type group.

	SALES	PCT.
	CHG.	CHG.
	(mil.\$)	
TOTAL CONSUMER SALES .	\$158	2.4%
RESTAURANT/LODGING	\$70	6.1%
GENERAL MERCHANDISE	\$41	3.2%
FOOD STORES	\$23	2.8%
BUILDING SUPPLY	\$18	2.2%
OTHER RETAIL	\$6	0.8%
AUTO TRANSPORTATION	\$1	0.1%

Note: Comparison is between first 3 quarters of 1995 and the same period of 1994.

REAL ESTATE AND CONSTRUCTION

According to Valarie Lamont of the Institute for Real Estate Research and Education, Maine home sales through the first three-quarters of 1995 were down about 10% from the same period of 1994. The fourth quarter is expected to be very weak, but sale prices appear to have stabilized near the 1994 average of \$104,000 and the average time on market has declined slightly.

According to the Dodge Construction Reports, the value of Maine construction contracts awarded through the first three-quarters of the year was up 2.6% over the same period of last year. The principle drag has been the extremely weak residential construction sector which was down nearly 17%.

MAINE CONSTRUCTION CONTRACT AWARDS

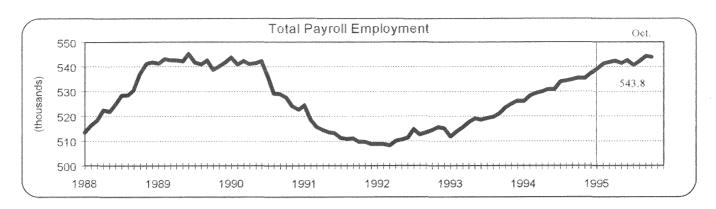
	РСТ. CHG.	
Total Construction	2.6%	
Non-Buildings	9.5%	
Buildings		
Residential	-16.9%	
Non-Residential	28.2%	

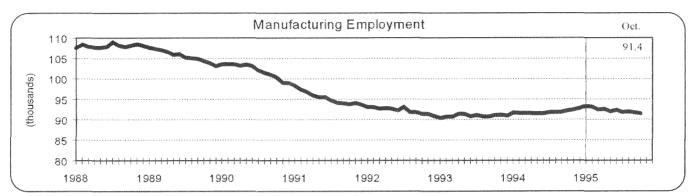
note: Includes multi-unit projects, only. Comparison is between first three-quarters of 1995 and the same period of 1994.

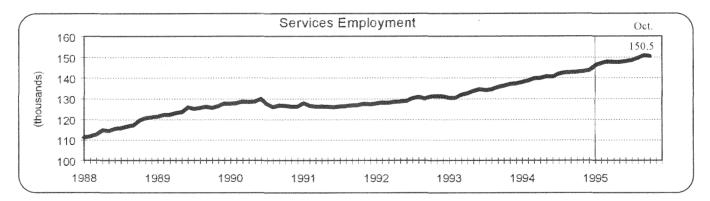
SUMMARY

The Maine economy has been quite weak in 1995, with real growth expected to be in the neighborhood of 2% as compared to 2.6% growth in 1994. Even more troubling than slow growth are the trends of declining housing permits and increasing bankruptcies and non-performing bank loans as the year has progressed (see graphs on the pages following). In short, by October, the State's economy appeared weaker than at the beginning of the year.

Maine Payroll Employment (seasonally adjusted)

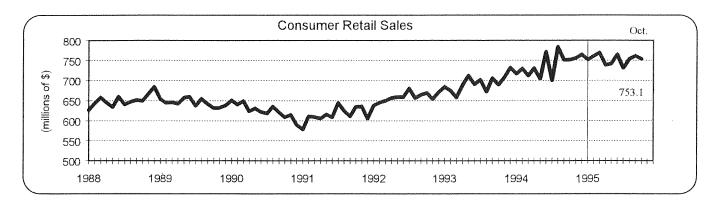


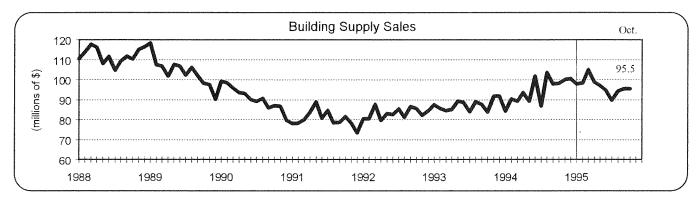


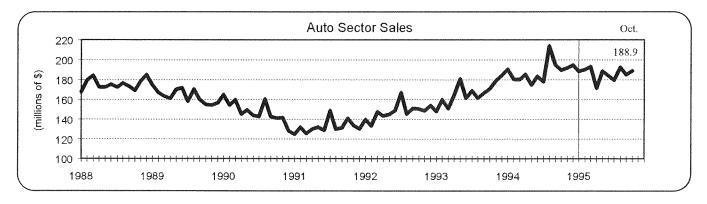


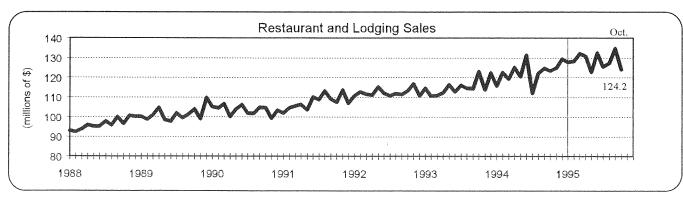


Maine Taxable Consumer Sales (seasonally adjusted)



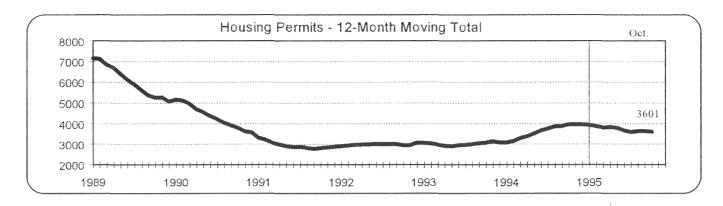


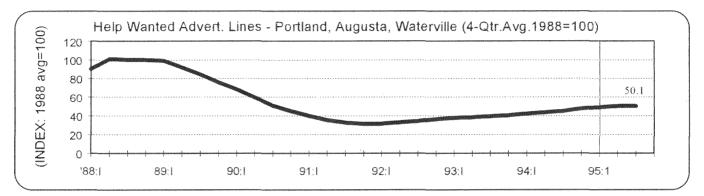


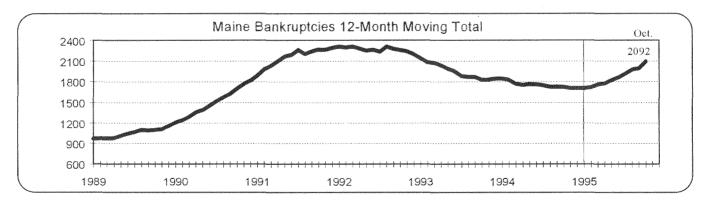


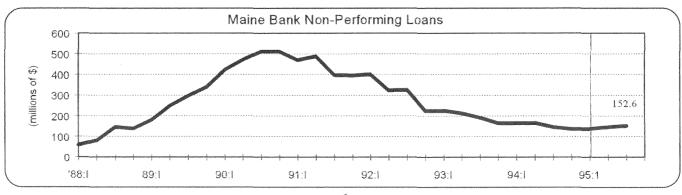
The Maine Economy in 1995

Miscellaneous Economic Indicators









The Ten Most Significant Economic Events in Maine in 1995

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.

WHITHER THE WEATHER.....

Unusual weather patterns affected not only Maine's farmers, but also its tourism and retail trade business and sent prices of fresh produce soaring at the supermarket. Last winter's snow drought was overcome by larger ski areas able to make snow, but smaller ones and many of the snowmobile trails and other winter sports saw short seasons. This summer's extreme drought coupled with persistent heat was deemed by weather observers to have reached the severity of a 500 year drought in some parts of the Central Maine area. Apples and potatoes suffered from small size and other small fruit and vegetable growers saw severe losses of production. Retail trade suffered from the summer heat, as tourists took to the beaches and foot traffic was reported down in many of the malls and major stores. Fall foliage colors were bright in spite of fears that they would be muted by the dryness, but, at last the rain came - on the weekends! Mother nature, we need to talk.

THE DEFENSE RESTS

The final BRACC (Base Realignment and Closure Commission) list was released in the spring and Maine's bases were spared from further closures. Most have been downsized, however, and the level of defense contracts and other defense spending has continued to decline. Bath Iron Works (BIW) was sold to General Dynamics, a large supplier of both defense and commercial products. The sale is seen as a stabilizing force for BIW, and assures that BIW will continue to concentrate on the construction of ships for military use. The Defense Department also announced this year that it intends to keep two shipyards open on the east coast (Ingalls, in the Gulf of Mexico) and Portsmouth Naval Shipyard (PNSY). Though trimmer today, PNSY is assured stability over the next few years.

KNITTING UP THE RAVELL'D SLEAVES OF CARE

Maine Yankee, the State's only nuclear power plant, was shut down in January because of cracks in the tubes of three steam generators. The generators have a total of 17,000 tubes, each fifty-four feet long. Central Maine Power Company, the operator of the plant, found 10,000 tubes showed signs of cracking and decided to repair all 17,000 tubes by inserting metal sleeves. The repairs are the most extensive ever undertaken in a nuclear power plant and are expected to cost \$30,000,000. The company expects Maine Yankee to resume generating electricity by early 1996.

STRATEGIC RETREAT

LL Bean and UNUM were among those corporations indefinitely delaying planned capital investments in Maine due to poor economic conditions. UNUM postponed the construction of a 240,000 square foot office building in Portland while LL Bean froze all planned capital expenditures, including those for a 60,000 square foot expansion in Freeport.

VOTER BONDING

Maine voters in the November 7th election approved issuing \$91,900,000 of new bonds for transportation, educational telecommunications, housing for the mentally ill, landfill caps, removal of underground storage tanks, and the small community program. The transportation bonds will match \$138,000,000 of Federal grants. Thus, the bond approval will inject a total of \$229,900,000 into the economy. Besides repaying the principal of \$91,900,000, taxpayers will pay bond holders estimated interest of \$43,286,000.

MORE ABOUT LESS...

Many of Maine's larger employers continued to reorganize and eliminate jobs. During the year, five business corporations announced they were eliminating one hundred or more jobs each while many other corporations announced smaller reductions. Maine State Government, however, announced the largest reduction -- five hundred jobs were marked for elimination as of mid-November. More State Government jobs will undoubtedly be eliminated during the 1996 legislative session. Several corporations hoped to eliminate jobs through early retirement plans. Nynex, Unum, Key Bank, James River, National Semiconducter, K-Mart, Casco Northern Bank, Rich's, Central Maine Power, Bangor Hydro and Bath Iron Works were among those annoucing job cutbacks.

...AND A LITTLE ABOUT MORE

Through its various programs, the Maine Department of Economic and Community Development helped 31 Maine based companies with their expansion plans during 1995. All told, the projects are expected to yield over 1,700 new jobs, with six of these projects promising 100 or more jobs each. Thus, while some of Maine's businesses are scaling back, some are still expanding, and the net is still positive for job growth.

The Maine Economy in 1995

NO NEWS IS GOOD NEWS

It seems that when the economy is growing, it receives little press, but the moment concerns about economic health arise, there are headlines galore and plenty of radio coverage. Through much of the past 4 years, Maine's economy has been showing steady, albeit slow, improvement with little to write home about. But when the State Economist attended a September meeting of the Legislature's Appropriations Committee and raised some concern about current economic trends and the implications of those trends for State revenue projections, all in attendance stood up and took notice. With the memories of the 1990 recession and the ensuing State budget crisis still painfully fresh in lawmakers' minds, they looked for some assurance that the sequel was not underway. The good news is that, despite slowing in the interest-sensitive sectors like autos and housing, employment and income continue to grow, the paper industry continues to have a banner year and tourism has been fairly strong. The bad news is that the sharp drop-off in auto sales combined with a stockpile of unused investment tax credits forced the State's Revenue Forecasting Committee, in November, to revise its estimates downward by \$14.8 million (1%). The real scoop is that while the slow, sporadic nature of this recovery will do little to ease the minds of the nervous, the outlook is for continued, no-headline growth.

WHITHER THE PAPERLESS OFFICE?

After an unprecedented run-up in the price of paper during the past two years, the boom in demand is beginning to fold. Prices for certain grades of paper had nearly doubled over their position in early 1994, and reached peak levels during mid-tolate 1995 before the surge in demand began to falter for some products causing a price decline. Although the price run-up during the past two years had helped to revive the profitability of paper industry firms after a five year slump in demand (due to recessions in North America, Europe and Japan), it also placed a budgetary squeeze on businesses which rely on the use of paper products to run their operations. It is not known whether the current price drop signals a long-term weakening demand for paper, or whether it is merely a brief correction in a longer-term market upswing. Most of those familiar with the industry tend to agree that it is more likely to be a "mid-cycle correction" rather than the beginning of a longer-term downward trend in prices.

THE WORLD IS OUR PLAYGROUND

The value of Maine products exported during the first three quarters of 1995 increased at the brisk pace of 25% over the first three quarters of the previous year. This is compared to an average increase in exports for the nation of 15% over

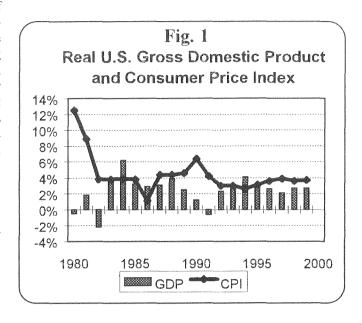
the same time period. Maine ranked 12th among the 50 states for export growth rate during this nine month period. The majority of Maine's increase in the value of products exported was attributable to two sectors, paper and electronics, and was destined for two countries, Canada and Malaysia.

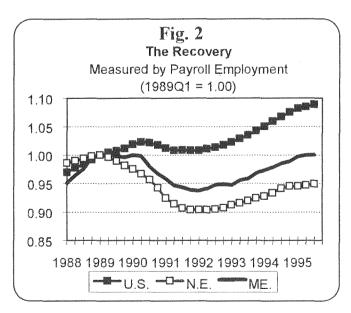
Following the mild recession of 1991, the national economy has been expanding at a fairly modest rate. Though the pace of expansion accelerated from 1992-1994, even peak growth barely passed the 4% mark. Recent growth in real Gross Domestic Product (GDP) pales by comparison to past periods of recovery when GDP growth averaged 6%. As Figure 1 illustrates, the lackluster pace of growth is expected to continue through the rest of the decade, with real GDP gains remaining in the 2-2.5% range. Relatively high personal debt levels and slow wage growth will likely contain any major consumer spending sprees, and the Federal Budget battle that has brought about a government shutdown will likely yield spending cuts rather than new expenditures. With the consumer and the Government resting on the sidelines, business investment and exports will have to carry the ball if our economy is to show any progress.

Barring any major oil price shocks, the modest growth in GDP along with continued close scrutiny by the Federal Reserve Board are expected to keep inflation under control. In fact, the Consumer Price Index is not projected to top 4% in the foreseeable future (See Figure 1).

Nationally, job growth has averaged a respectable 2% annual rate, adding a full 8% over trough employment levels. Unfortunately, U.S. economic growth has been of little solace to the New England region. As Figure 2 points out, after 4 full years of "recovery", the region remains at 95% of peak employment levels. Only the northern tier states of Maine, New Hampshire and Vermont have actually recouped the jobs that had been lost in the downturn. Massachusetts and Connecticut, which together comprise 70% of the region's job base, remain 6% and 8%, respectively, below peak employment levels. Put another way, only one half of the 800,000 jobs that disappeared in New England during this recession have returned, offering a formidable challenge to the area's job seekers.

According to the New England Economic Project, employment growth in the region will continue to hobble along, averaging 1% over the next several years. Most of the job growth will occur in the health, business and other services sectors with some new opportunities expected in the high-tech fields as well. The rate of decline in manufacturing employment is expected to slow, but manufacturing is not projected to be a major job creator in the foreseeable future. Ongoing restructuring activities in the government, finance and utilities sectors will continue to place a drag on the pace of job creation. Overall, the outlook for the New England region is for a continuation of the painfully slow growth that has characterized this recovery thus far.





Maine Economic Outlook

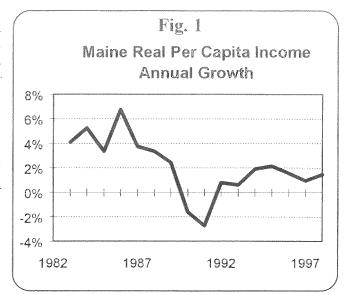
Despite the fact that Maine has enjoyed a much healthier recovery than the New England region as a whole, current economic growth would hardly be described as robust. After experiencing an economic slide that lasted through much of 1990 and 1991 and eliminated 6% of the employment base, Maine has been on a fairly fragile growth path. While typical recoveries are marked by a resurgence in economic activity over the 4-6 quarters following the downturn, this recovery has been painfully slow and sporadic. After 4 full years, the jobs that had been lost earlier this decade have finally been recouped. Though there is growing concern over the quality of the jobs that have replaced those that had been lost, at least Maine has been made somewhat whole which is much more than can be said for southern New England.

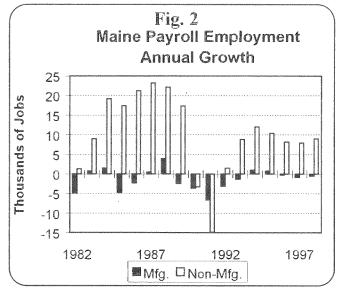
As figure 2 illustrates, the bulk of all jobs created through the eighties came from the nonmanufacturing sector, led by medical and business services, retail trade and construction. Manufacturing employment continued to dwindle through the decade with the exception of a work force build-up at Bath Iron Works in 1988 that bolstered the industrial job figures. The recession took its toll on both sectors as the cyclical downturn combined with defense cutbacks and industry restructuring to eliminate 34,000 jobs spread fairly evenly over the services and the goods-producing sectors.

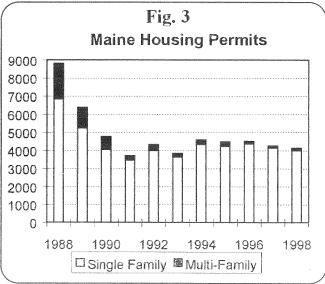
The job growth going forward is projected to average 1.5%, a slightly faster pace than that being seen region wide. Consistent with the trends experienced over the past several decades, virtually all job growth will be in the nonmanufacturing sector, led by business and health services, retail trade and construction. Ongoing restructuring of Maine's 3 investor-owned utilities and state government will dampen the service sector job growth. In the manufacturing sector, only the fabricated metals, food, and instrument industries are projected to see any job gains while the other goods-producing industries will experience stable employment or minor declines.

Real per capita income growth is forecast to remain in the 1%-2% range, which is less than half the pace of income gains enjoyed in the eighties (see Figure 1). Though the evidence is still being collected, it appears that the general quality of the jobs being created in this recovery is lower than the jobs that were lost in the recession. Experts hypothisize that the pool of educated, unemployed or underemployed workers is large enough to diminish the bargaining power of the employees, thus keeping wage gains to a minimum.

As Figure 3 illustrates, housing activity in Maine is forecast to stagnate in the 4,000-4,500 permit range through 1998, and virtually all growth will occur in the single-family market.







ISSUES FOR THE FUTURE

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

REORGANIZING MAINE WORLD TRADE EFFORTS

Governor King has received a report from his Advisory Council on International Trade that recommends the State should reorganize its efforts to promote international trade by combining the three separate entities which currently receive public funding into a single new organization. The most unique aspect of the new organization is that it would be a public/private partnership and would be overseen by a board of directors composed of members chosen by both the Governor and the private sector.

One of the key elements of the recommendations contained in the plan is that location of the hub of the new organization would be in Portland so that it is readily accessible to the many thousands of small businesses located in that region of the State, and it will be linked to several key offices in other economic regions of the state through a computer network. Another key element of the recommendations is for the Governor to take on more of a leadership role in promoting international business by providing a senior level Director of International Trade at DECD who would report to the public/private board, and be responsible for the overall management of the new organization. The report to the Governor also includes a strategic plan for increasing the quantity of Maine's exports.

WORLDWIDE MARKETING OF MAINE PRODUCTS

Maine's export trade has been growing at a steady pace over the past few years, primarily due to increased export of raw products - lumber, wood chips, sea urchins, eggs, etc. as well as electronics and other manufactured goods. Retail markets specializing in Maine products have also sprung up in Japan, Germany, and other places. These new markets present an opportunity to expand the export of specialty, value added products from Maine's smaller businesses. The internet and World Wide Web are opening opportunities to market Maine products worldwide, and to develop services that can be delivered from Maine to the rest of the world through cyberspace. World trade is an opportunity for Maine businesses, both large and small, and there appear to be particularly good prospects for Maine food products.

FEDERAL GOVERNMENT DEFICIT REDUCTION

At last, Congress and the President are getting serious about balancing the Federal budget. Over the past few months, the Republicans and the President have been coming ever closer to a proposal both sides can live with. With an agreement, what will happen is nothing less than a massive shift of wealth from the Federal Government to the private sector and a similar shift of responsibilities from the Federal government to State Governments. Whether the Federal budget will actually be bal-

anced by 2002 is moot ... much can happen in seven years. Regardless, it's clear now that the attempt will involve huge sums and monumental changes in a broad range of Federal and State government programs. As with any experiment of such staggering scale, there will be many surprises, some good and some bad. The experiment will have repercussions throughout the nation's economic and social spheres, and will probably change the face of the nation - and Maine - at least as much as the New Deal of the 1930's.

A PARTNERSHIP FOR MAINE DEVELOPMENT

The Maine Chamber of Commerce and Industry, the Department of Economic and Community Development and Central Maine Power jointly founded MAINE & COMPANY in the fall of 1995. MAINE & COMPANY is a private, non-profit business development sales organization created with the goal of improving on Maine's successes in business attraction, expansion and retention. The founders and other corporate sponsors recognize that the public sector cannot and should not attempt to handle all aspects of economic development on its own. While government leadership is vital, Maine's private sector shares the public's vested interest in an improved economy in Maine and must be a partner in economic development efforts. We expect this new, forward-looking organization to play a major role in the future economic development of Maine.

RETAIL WHEELING

It is probably safe to say that for a majority of Maine residents, the issue of "retail wheeling" is, as yet, of little concern or interest. But for those who deal in the world of electric utility issues, this is the \$2.4 billion question. Throughout the U.S., States are debating how and when to deregulate the electric utility industry so that consumers can benefit from the efficiencies of a competitive market. The vision is that, ultimately, consumers will shop for electricity in a manner which is similar to the way we now shop for telephone services. The underlying premise is that a competitive market for electricity will bring about lower prices and more choice. The problem is, how do we transition to competition without bankrupting utilities and endangering the reliability of the electric grid? Maine's Legislature developed a two-part study process that will examine how and when this transition will occur. The first phase of this process concluded December 15th when the 18-member Work Group on Electric Utility Restructuring adopted its final report. Following four months of discussion and, at times, contentious debate, the Work Group (comprised of utility, consumer and environmental representatives as well as Legislative and State Government officials) passed its findings on to the Public Utilities Commission. Over the upcoming year, the PUC will develop two fairly detailed plans for restructuring Maine's electric utility industry. Ultimately, the Legislature will choose the path of transition that they feel will best serve the people of Maine.

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THE MAINE ECONOMY: Year-End Review and Outlook 1995

MAINE STATE PLANNING OFFICE 184 STATE STREET AUGUSTA, MAINE

