

MAINE STATE LEGISLATURE

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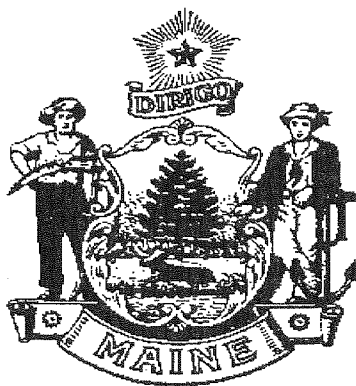


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THE MAINE ECONOMY:
Year-End Review and Outlook
1997

Maine State Planning Office
March 1998



**MAINE STATE PLANNING OFFICE
184 STATE STREET
AUGUSTA, MAINE 04333**

IMPORTANT NOTICE !

MAINE LAW REQUIRES US TO PURGE OUR MAIL LISTS PERIODICALLY. THEREFORE, IF YOU WISH TO RECEIVE THE 1998 YEAR-END REVIEW & OUTLOOK NEXT YEAR, THEN YOU MUST CONTACT JUDY BROWN AT (207) 287-1480 OR GALEN ROSE AT (207) 287-1478 (OR E-MAIL GALEN.ROSE@STATE.ME.US) AND ASK TO BE PUT ON OUR NEW MAILING LIST. THANK YOU.

The Maine State Planning Office maintains several economic databases and other informational resources which may be of interest to the reader; most of these materials can be found on our WEB page. For details on information not found at our WEB site, call Galen Rose at (207) 287-1478.

In particular, we maintain a graphical database called MaineGraph which is a menu-driven file with eighty graphs and associated data on the Maine and national economies. Two versions, one requiring Excel and the other requiring Lotus 123, are available on the World Wide Web. To access these, go to our homepage at -

www.state.me.us/spo

- and click on "The Maine Economy." For those having neither Excel nor Lotus 123, a condensed version of MaineGraph is available from the Portland Newspapers at -

<http://www.mainebusiness.com/bigpic/maingraf/maingraf.htm>

This year-end report on the Maine economy reviews State economic performance during 1997, outlines the near-term 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 State economic events of the past year.

Among the conclusions detailed in this report are:

- Maine economic performance in 1997 was stronger than in recent years, with nearly all major indicators describing improvement over last year. However, national economic growth was again stronger than Maine's.
- During 1997, the number of Maine payroll jobs expanded by 11,000, more than in any year since 1994.
- The major economic events in the State during the year included extraordinarily strong State government revenues, the shutdown of Maine Yankee, a landmark new law affecting long-distance telephone rates, a hugely successful tourism advertising campaign, and a new electric utility restructuring law.
- The Maine economic outlook calls for continued slow but steady growth, with southern- and mid-coastal counties outperforming the balance of the State. Over the next five years, Maine payroll employment growth is expected to average about one percent per year, while inflation adjusted per capita personal income will average roughly two percent per year. The major dampers on Maine economic performance continue to be slow population growth and ongoing structural shifts in employment patterns from higher wage paying industries to the lower paying industries.

We hope that you will find this report useful and informative, and encourage you to call us with any comments or questions you may have.

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Acknowledgements

Contributors to this report were Laurie Lachance (U.S. and New England Outlook, Maine Economic Outlook), Galen Rose (Maine Economy in 1997), and Joyce Benson, Jim Connors, Jim Doyle, Michael Montagna, and Richard Sherwood.

OVERVIEW

The following table compares year-to-date 1997 performances of a selection of Maine economic measures with their 1996 performances.

By most major measures, Maine economic performance improved considerably in 1997 over the previous year. Payroll employment expanded at more than twice the rate (and help-wanted advertising in the Portland newspapers was up 27%), personal income growth was greater, construction contract awards turned strongly positive, State Government General Fund revenues grew more rapidly, and social assistance caseloads declined at much greater rates.

The only major indicators not showing significant improvement in 1997 were consumer retail sales and resident employment/unemployment. Maine consumer retail sales growth was positive, yet off a bit from the previous year, but this mirrors the national data where the sales growth rate was also down despite much greater strength in the overall economy. According to the official data, while more Maine jobs were on establishment payrolls, the civilian labor force and total numbers of employed people (including the self-employed and commission-only workers) declined. And, the annual average unemployment rate increased slightly. However, this data comes from a relatively small sample of households and, at the maximum margin of error, resident employment might actually have increased some and the unemployment rate decreased.

The banking data show mixed results for the year. Although bankruptcies have increased at an alarming rate over the past three years, it should be noted that Maine's bankruptcy rate is second lowest (to Vermont) in the nation (more on this in Issues for the Future). Significantly, Maine consumer confidence was very near its record high during the last month of the year.

EMPLOYMENT

Over one-half of all new Maine payroll jobs created in 1997 were in the services sector, and another quarter of the new jobs were in wholesale or retail trade. Weak but still positive job growth was measured in the transportation/public utilities and government sectors, while the manufacturing sector continued its long-term decline.

Regionally, job markets were strongest in the south-coast and mid-coast counties, somewhat weaker in the central counties (Androscoggin, Kennebec, Penobscot), and weakest in the "rim" counties which include the western mountains,

Aroostook and Washington Counties. This is merely a continuation of a pattern which has existed for many decades.

Maine Economic Performance Summary; 1995-1997

	Annual %Chg. 1995-96	Annual %Chg. 1996-97
<u>General Economic Growth:</u>		
Personal Income	4.6%	5.5%
Consumer Retail Sales	5.1%	3.8%
General Fund Revenues (Ju-Dec)	6.4%	7.3%
<u>Employment:</u>		
Payroll Employment	0.8%	2.0%
Residents Employed	4.9%	-1.5%
Unemployed Persons	-7.3%	4.5%
Unemployment Rate	-0.6% pts.	0.3% pts.
Help-wanted Advertising	1.7%	27.4%
<u>Construction:</u>		
Total Construction Contract Awards	-8.7%	14.2%
Residential Construction Contracts	12.2%	5.7%
Housing Permits	0.4%	1.3%
<u>Banking:</u>		
Bank Deposits (thru 3qtrs)	0.7%	0.5%
Bank Non-performing Loans (3qtrs)	-1.5%	5.8%
Bankruptcies	41.6%	37.7%
<u>Social Assistance:</u>		
AFDC Caseload	-5.5%	-11.4%
Food Stamps Caseload	-3.1%	-6.0%
<u>Prices:</u>		
Mortgage Rates (30-year fixed)	-0.3 pts.	-0.2 pts.
Gasoline Prices	4.9%	1.7%
<u>Miscellaneous:</u>		
Consumer Confidence Index	-2.2%	8.0%

**MAINE PAYROLL EMPLOYMENT
JOB CHANGE BETWEEN 1996 AND 1997**

	JOBS CHG.	PCT. CHG.
TOTAL	11,000	2.0%
SERVICES	6,400	4.2%
RETAIL TRADE	2,300	2.0%
FINAN/INSUR/R.ESTATE	1,400	5.2%
CONSTRUCTION	700	3.2%
TRANSPORT/PUB.UTILS.	600	2.5%
WHOLESALE TRADE	300	1.3%
GOVERNMENT	100	0.1%
MANUFACTURING	-800	-0.9%

UNEMPLOYMENT RATES OF MAINE COUNTIES

Annual Averages

	1996	1997
MAINE	5.1	5.4
CUMBERLAND	2.9	2.9
SAGadahoc	4.0	4.0
YORK	3.8	3.8
KNOX	3.4	4.2
LINCOLN	3.9	4.0
ANDROSCOG.	5.7	5.8
KENNEBEC	5.6	5.9
PENOBSCOT	5.3	5.8
WALDO	6.4	6.1
HANCOCK	5.9	5.9
OXFORD	6.2	5.6
FRANKLIN	6.6	8.0
PISCATAQUIS	7.5	8.1
SOMERSET	8.0	9.1
AROOSTOOK	9.2	9.5
WASHINGTON	9.5	11.0

1997 revised, 1996 subject to further revision.

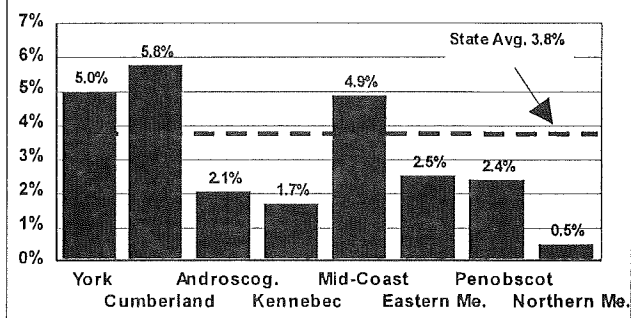
REAL ESTATE & CONSTRUCTION

According to Valarie Lamont of the Institute for Real Estate Research and Education at USM, unit sales of Maine homes in 1996 held about even with the previous year but improved by up to 5% in 1997. Average sale prices increased slightly in 1997 as well, to roughly \$114,000 - \$115,000, while the average time on the market decreased to under 100 days.

TAXABLE RETAIL SALES

As the following graphic illustrates, retail sales activity in Maine - geographically - mirrors job market conditions as discussed in the previous paragraph.

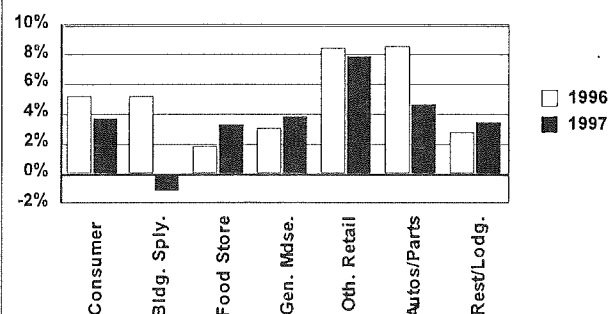
**Consumer Retail Sales Growth 1996-97
Maine Economic Districts**



Note: The Economic Districts are larger than the counties from which they sometimes borrow a name.

Among the Store-type Groups, food stores, general merchandise, and restaurant/lodging all had improved performances in 1997, while "other retail" was weaker, autos/parts much weaker, and building supply sales actually declined.

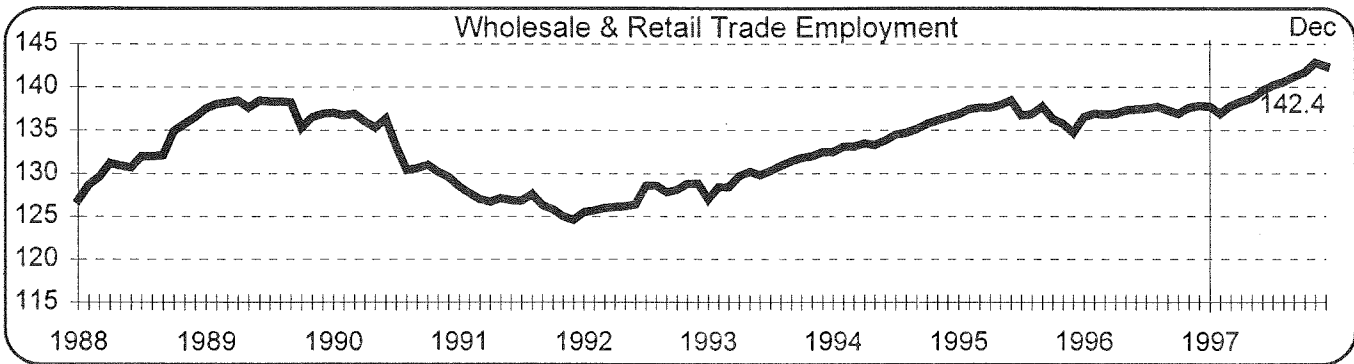
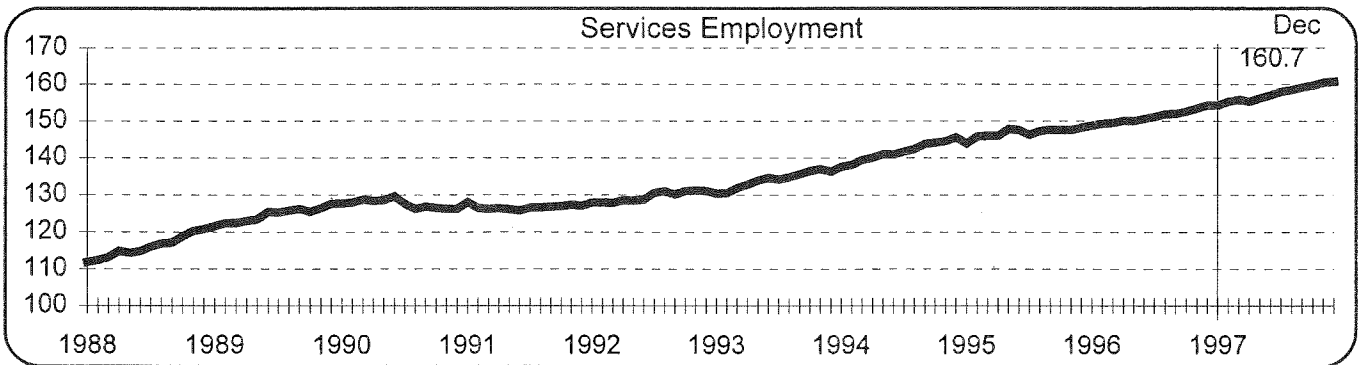
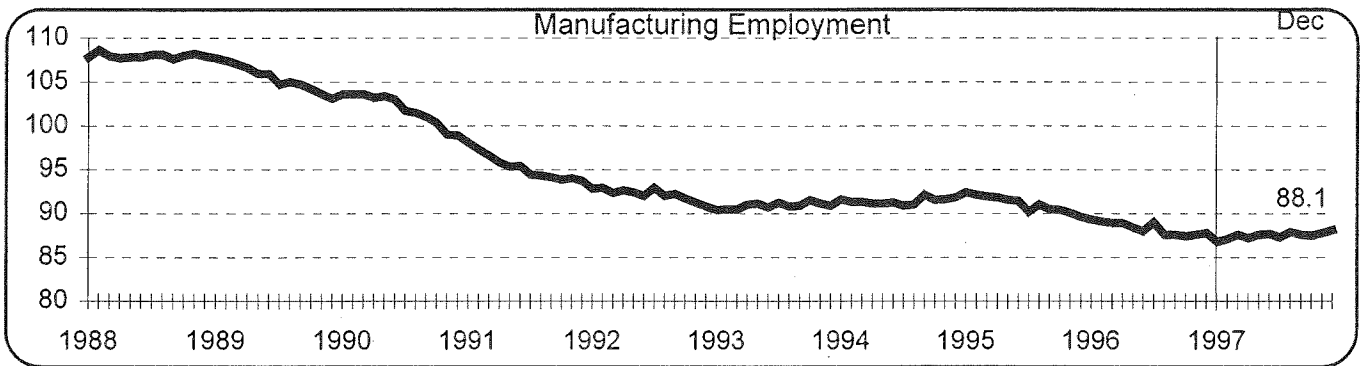
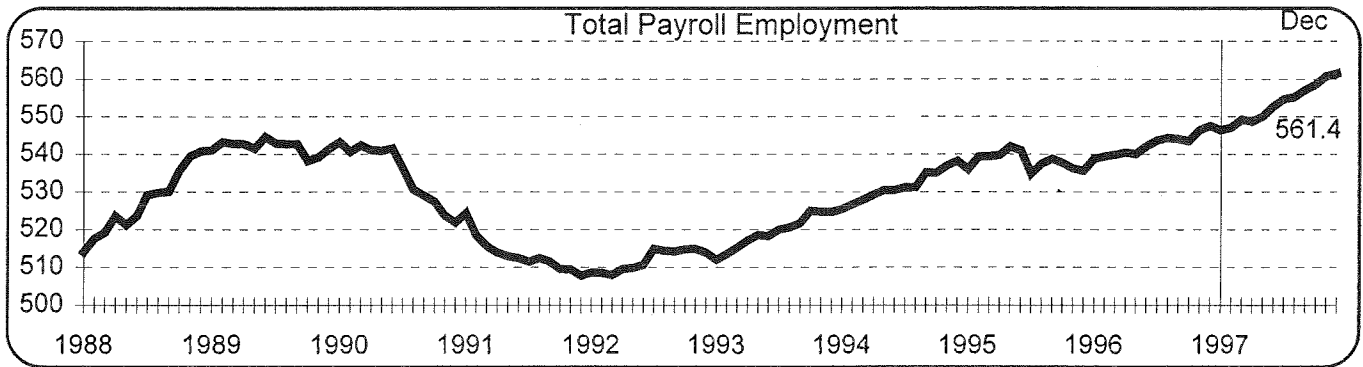
**Taxable Retail Sales Growth 1996-97
by Store-Type Group**



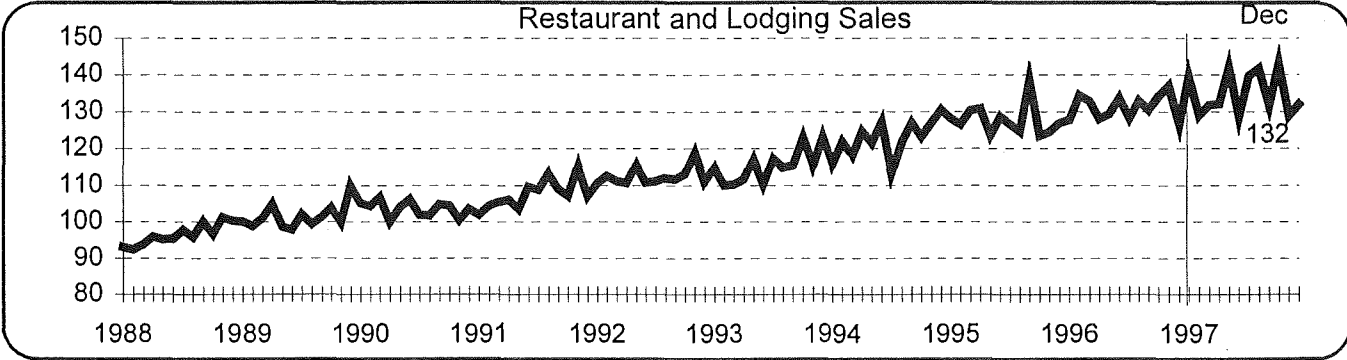
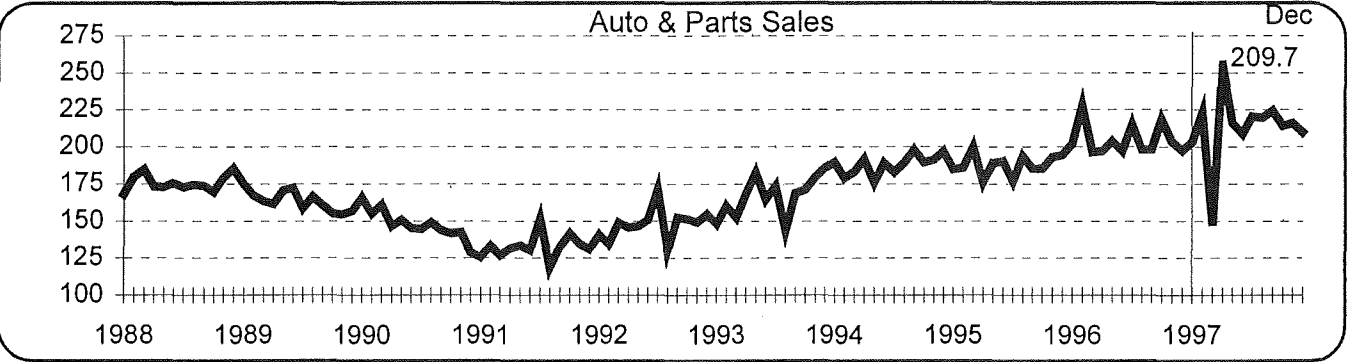
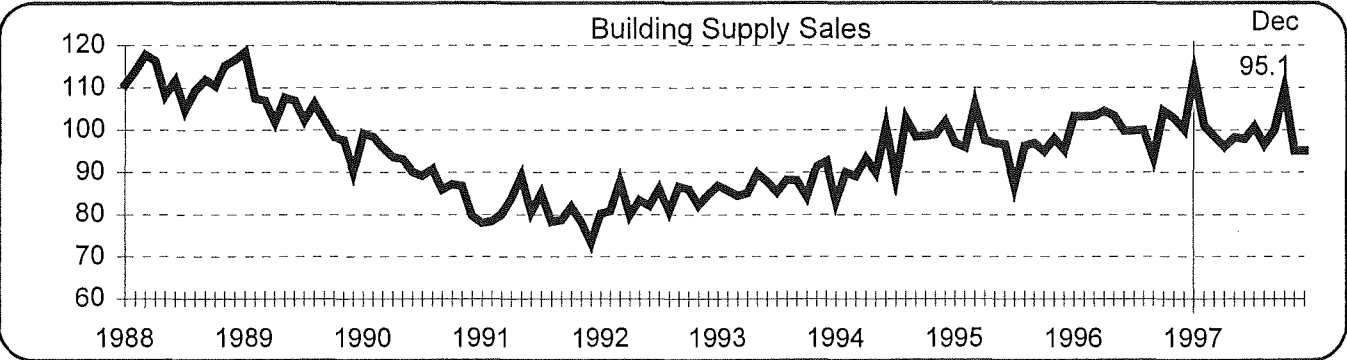
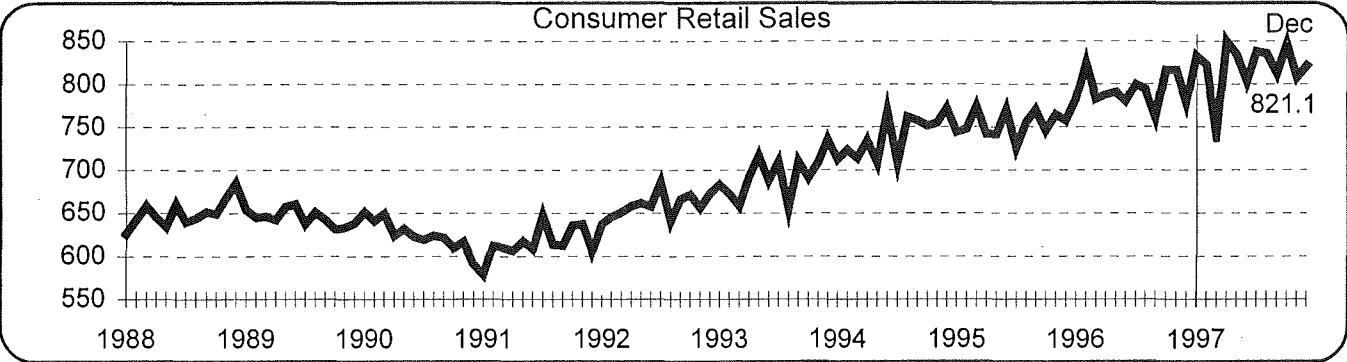
SUMMARY

The Maine economy is enjoying many of the benefits of strong national economic fundamentals such as low inflation, productivity gains, rapid job growth and a robust stock market. To be sure, Maine economic growth has not been equal to the nation's, but that is largely a function of our much slower population growth rather than any fundamental weakness. One indicator of the basic soundness of Maine's economy in recent months is the fact that State personal income tax revenues for the first 7 months of the fiscal year (through the end of January 1998) were 9% above the initial projection for the period. Further, State Government income from investments for the same period was 19% above the baseline projection. Thus, as the curtain opened on 1998, the U.S. economy continued on the robust track established several years ago and Maine's fortunes continued to parallel the nation's.

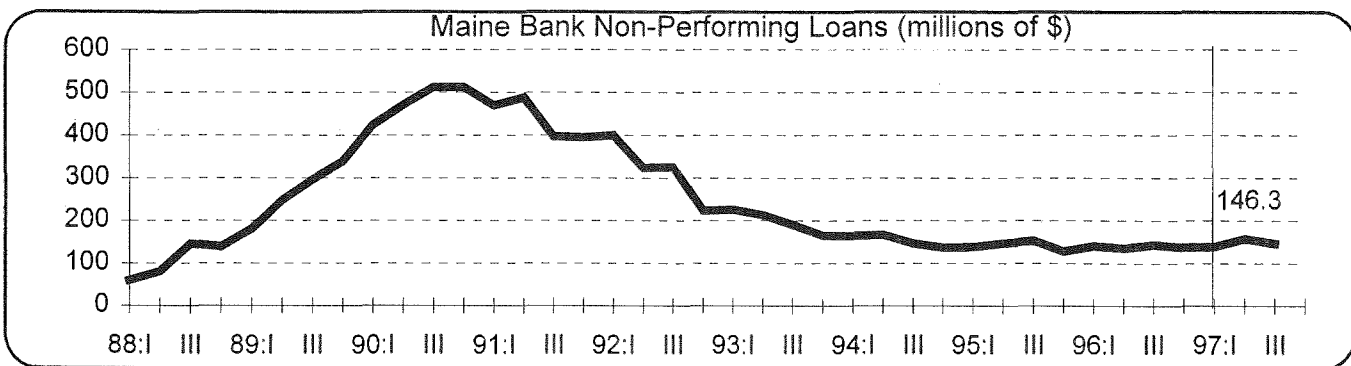
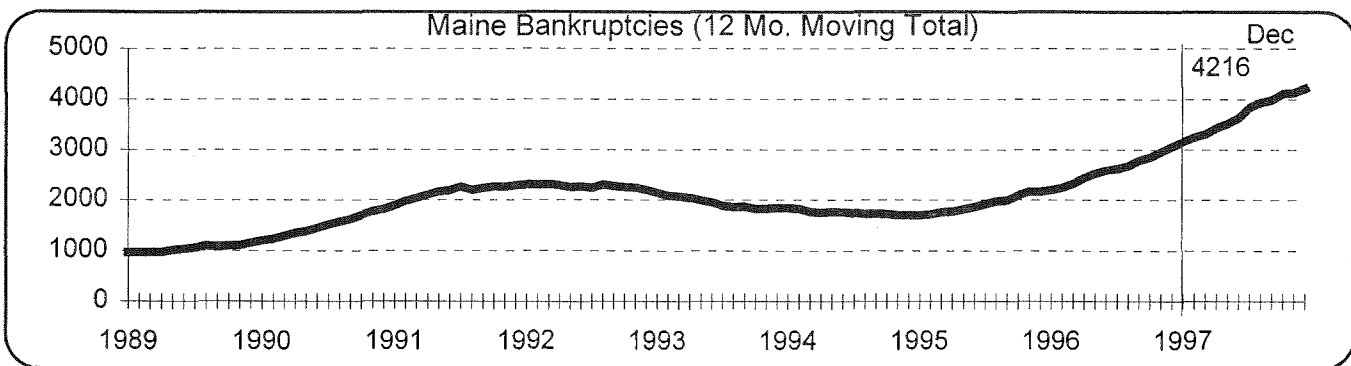
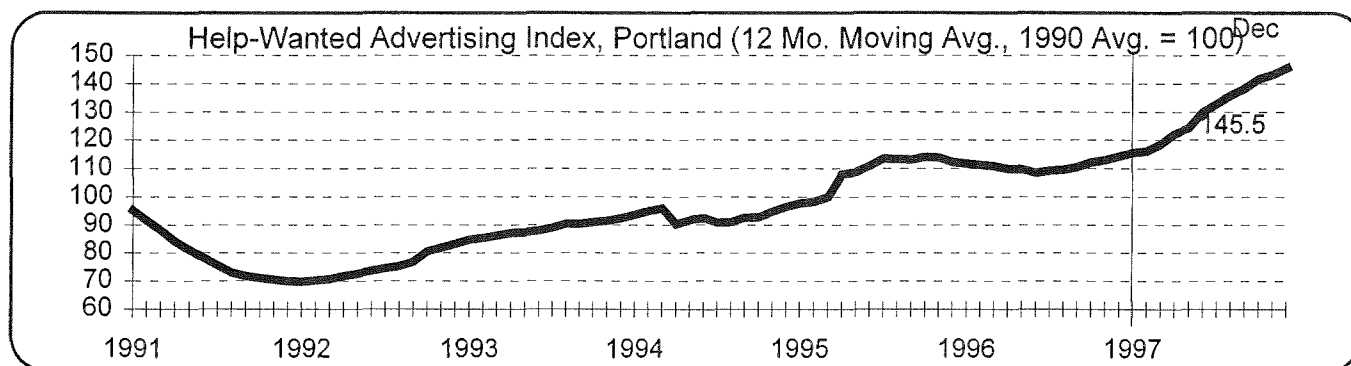
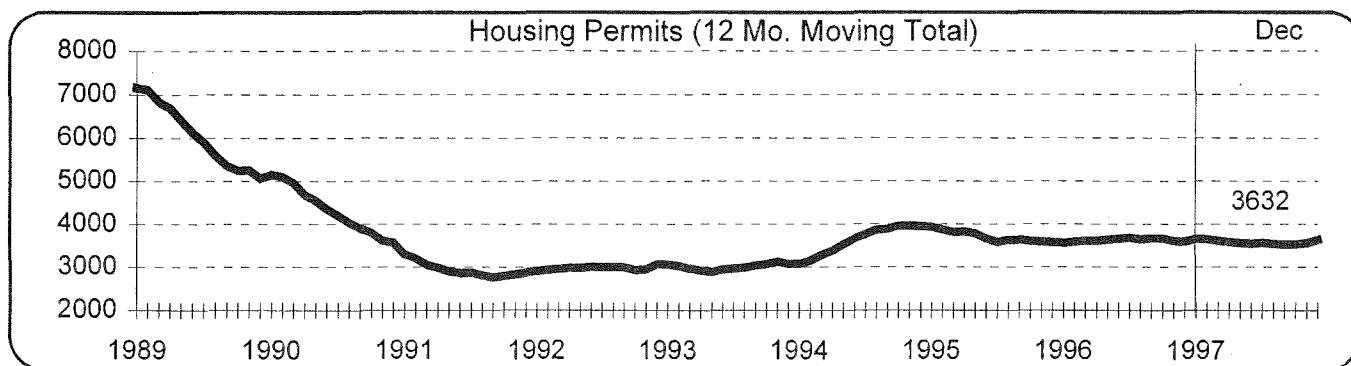
Maine Payroll Employment (seasonally adjusted 1,000's)



Maine Taxable Consumer Sales (seasonally adjusted mil.\$)



Miscellaneous Economic Indicators



The Ten Most Significant Economic Events in Maine in 1997

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.

OUR CUP RUNNETH OVER

Thanks to healthier national and State economies and terrific increases in stock market values, Maine State Government finished the past fiscal year (ended June 30, 1997) with a \$60 million General Fund surplus. That is, revenues were above the \$1.8 billion projection (and therefore State spending) by 3.3%. Better still, through the first 6 months of the current fiscal year the General Fund was \$19 million ahead of budget - roughly 2%. The major contributors to this fiscal year's surplus to date were the sales tax (\$10.2 million above budget) and the estate tax (\$7.6 million above budget). Any yearend surplus in personal income tax revenues will go into the Tax Relief Fund created by the 118th Legislature. The disposition of other General Fund surpluses will be determined by the Governor and Legislature.

PROMOTE IT, AND THEY WILL COME

In January of 1997, Commissioner McBrierty of the Maine Department of Economic & Community Development and Dann Lewis, Director of the Maine Office of Tourism, asked the Maine Legislature for an increase in State tourism advertising funding and guaranteed a return on investment of at least 2-to-1. While they expected the return would be a little better than this, the final accounting surprised everyone. Longwoods International, a Toronto-based travel research firm, was retained to determine how many non-residents were swayed by the summer season advertising and how much they spent in Maine during their trips. Longwoods found that the \$612,000 campaign generated 330,000 day and overnight trips to Maine by tourists who spent nearly \$80 million. Working these numbers through its Maine Regional Output Simulation Model, the State Planning Office found this level of activity - directly and indirectly - supported about 2,550 Maine jobs with a payroll of \$55 million and, ultimately, generated nearly \$7 million in additional State Government tax revenues. That's a \$7 million return to State Government coffers for a \$612,000 investment, an 11-to-1 gain.

AND STILL WE'RE NOT OUT OF THE WOODS

They say that politics creates some strange bedfellows, and that was certainly the case with the second vote on the Maine Forest Compact. The first vote on a referendum question to

ban forest clear cutting in Maine produced a three way split, leaving the Governors Forest Compact as the leading option, but not the clear winner needed to settle the debate. In a follow-up vote on November 4, 1997 Maine voters narrowly turned down the compact with a 53% negative vote thus leaving current forest laws unchanged.

The realignment of groups on the compact question found the Green Party and a new coalition of land rights groups working to defeat the measure, while members of mainline environmental groups and forest industry groups tended to split in their opinions about the need and effectiveness of the Compact thus reducing support for the measure. Parties to the Compact voiced support, but the resources committed to its passage were not as great as those spent on the first round vote. Even though the compact did not pass, most political observers note that the issues are not settled, and a new organization the Forest Ecology Network (FEN) organized by the Greens promises to bring the issue back in a future referendum.

In the meantime, the Maine Legislature withheld action on some 14 related forestry bills pending the outcome of the referendum question. The second session of the 118th Legislature now has to decide what to do on bills that would implement a variety of elements that were in the original referendum question or the Forest Compact.

Some feel a bullet has been dodged, but other shots will be fired, and until a widely accepted forest policy is in place turmoil and change will plague the forest products industry, creating uncertainty and risk in mill and land management investments.

POWER FROM THE PEOPLE

After approximately two years of troubled operation, the Maine Yankee Atomic Power Company submitted certification to the U.S. Nuclear Regulatory Commission on August 7, 1997 to permanently shut down the plant. The certification is irreversible, and Maine Yankee immediately instituted measures to decommission the facility. Maine Yankee stated reasons of economics of the operation, rising expenses for plant upgrades, and projections for future market energy costs as contributing factors leading to the decision to permanently shut down the plant. Maine Yankee attempted to find a buyer for the plant from May to August 1997 but was unsuccessful.

The Maine Economy in 1997

The major events leading to the closing of Maine Yankee were the discovery and repair of cracks in the steam generator tubes in 1995 resulting in a year long outage, the issuance of a Confirmatory Order by the NRC resulting in reduced power operation, and questions concerning the safety of the plant, leading to an extensive inspection by the NRC and resulting in significant improvements required by Maine Yankee. The finding of cable separation problems resulted in a Confirmatory Action letter by the NRC, which required the completion of certain tasks prior to restart of the plant. On January 29, 1997 Maine Yankee was placed on the NRC's "Watch List" of troubled nuclear power plants requiring increased regulatory attention.

The decommissioning of the plant is expected to be completed in 2005 at an estimated cost of \$508.2 million. This cost includes \$127.6 million to construct and maintain (until 2023) a dry cask storage facility for spent nuclear fuel at the Maine Yankee site due to the expected Federal Government's failure to take title to and remove spent fuel from the nation's nuclear power plants as required by Federal Law. Maine Yankee has approximately \$195 million available to pay for decommissioning of the plant, and applied to the U.S. Federal Energy Regulatory Commission on November 5, 1997 to recover from electrical rate payers the shortfall in decommissioning funds.

Since the announced shutdown, the number of employees at Maine Yankee has been reduced from 476 full-time persons and about 200 permanent contractors to about 317 persons. By February 1999 the work force is expected to decline further to about 200 employees.

Historically, Maine Yankee has produced around 20% of Maine's electrical consumption, and exported 50% of its total annual production. The energy mix in Maine has been fairly diverse with electricity in Maine produced from hydro, biomass, oil, and nuclear power. The nuclear component is expected to be replaced by electrical generation with natural gas as major pipelines are currently planned to traverse Maine and possibly be in operation by the year 2000.

HOLD THE PHONE!

On May 22, Governor King signed Maine's access charge reform act (Public Law Chapter 259) into law, ensuring that Maine's instate access rates be equal to or less than interstate access rates. Access rates are a key component of long distance toll rates, and Maine's present average instate long distance rates are almost triple the national average. The new law orders reductions of almost 70% by May 30, 1999. Residents and businesses in Maine should never again have to pay more to call Portland, Maine than Portland, Oregon. Long distance savings and resultant network stimulation should serve to enhance and accelerate the development of Maine's information economy.

SOME YOU WIN & SOME YOU LOSE

According to the Maine Department of Labor's Dislocated Worker Unit, the number of mass layoff events in Maine eased somewhat in 1997 from the year before. There were 11 events in 1997 involving 100 or more workers, down from 14 events in 1996. As usual, the 1997 events included several manufacturers, but several other sectors were also represented, including trucking, health services, a retailer, and Maine Yankee. There were 11 more layoffs in 1997 involving 50 to 99 workers, down from 15 such events in 1996. Again, manufacturing representation was disproportionately high; other industries with layoffs of this size were in banking, business services, and health care. All told, layoffs reported to the Dislocated Worker Unit totalled just under 3,000.

On the other side of the ledger, the Maine Department of Economic & Community Development (DECD) reported that there were 16 new industries or expansions involving 50 or more workers in 1997. These included a couple of surprises such as a shoe manufacturer and a textile manufacturer, as well as another telemarketing facility in Oxford. DECD reported that new industries and expansions involving 20 or more workers or investment of over \$500,000 created 2,300 new jobs in 1997, while large investments contributed to retaining over 3,600 existing jobs. Of course, the majority of new job generation in Maine as in the rest of the nation, in any year, occurs in the smaller enterprises.

ALTERNATING CURRENTS

The world of electricity is about to be turned on end. The First Regular Session of the 118th Maine Legislature crafted and passed landmark legislation that restructures Maine's century-old electric system and opens the door for competition and consumer choice on March 1, 2000. After 5 months of intense study and contentious debate, the Utilities and Energy Committee was rewarded with overwhelming passage, under the hammer in both chambers, and with national attention and kudos for this extremely comprehensive and visionary legislation. To set the stage for competition, the legislation requires the state's investor owned utilities to divest all generating assets. Central Maine Power Company, Maine's largest utility, wasted no time and put its assets up for sale in the spring of 1997. By January 1998, CMP had struck a lucrative deal with FPL Group who agreed to pay \$846 million for 24 hydro and fossil-fired plants, a price that was more than 3-times the book value of these assets. While the goals of the legislation are clearly aimed at securing the benefits of competition, namely lower prices and customer choice, the new law made consumer education and protection a priority, recognizing that benefits would be fully realized if and only if the consumers were fully participating in these new opportunities. The legislation also seeks to preserve Maine's environment by requiring all generating companies selling power in Maine to have at least 30% of their generating mix be from "renewable" resources such as hydro, wind or biomass. Ongoing funding of conservation programs was also included.

UP IN SMOKE

The Legislature adopted a proposal by Governor King to double Maine's cigarette tax from 37 cents to 74 cents as a way of discouraging smoking by young people. The increase was imposed starting in October. The Revenue Forecasting Commission projects the increase will yield an additional \$18,000,000 in fiscal 1998 and \$31,000,000 in 1999. Governor King has proposed that a small part of this income be used for a public relations campaign to discourage smoking by young people and the rest be used to reduce other taxes so that the additional cigarette tax does not increase the overall burden on taxpayers. Hence, the additional money is being set aside in a tax relief fund while the Governor and Legislature consider how to allocate the increase. The Federal tax on cigarettes will increase 10 cents in January 1998.

A NEW POT FOR POTHOLES

As a result of the November ballot Maine voters passed by a wide margin (78% for, 22% against) a bond issue that will

result in a \$187 million investment in Maine's roads, bridges, airports, ferry vessels & terminals, rail lines, and other Maine transportation facilities. State taxpayers will pony up the money for \$57 million (30%) of this investment, while the remaining \$130 million (70%) will come from matching Federal Funds. This means that every \$1 of Maine taxpayer expense toward these improvements will buy \$3.20 worth of improved transportation infrastructure in Maine. On a separate but parallel issue on the ballot, Mainers voted for the widening of the Maine Turnpike by a margin of 61% for to 39% against. The turnpike widening is to be paid for out of increased turnpike tolls.

YOU CAN PLEASE SOME OF THE PEOPLE SOME OF THE TIME...

The debate over the proper role of State and local governments in offering tax and financial incentives for business retention or attraction is not a new one. What is new is the recent adoption of programs which will benefit Bath Iron Works and the magnitude of the potential benefits to the firm.

BIW is Maine's largest defense contractor and a major employer, providing jobs to over 7,500 Maine workers and its impact is statewide. It is also facing severe competition for the few remaining ship building contracts that the US Navy has planned. Though BIW has an excellent reputation for the ships it produces, its facility is very small and much less modern than those of its competitors.

In June 1997, the Maine Legislature voted to provide a package of benefits that included: (1) a tax credit of up to \$3 million per year for twenty years under Maine corporate income tax law; (2) a reimbursement for taxes paid on qualified business property (which could be worth in excess of \$50 million); and (3) a return of property taxes assessed by the City of Bath under the Bath TIF requirements. The package is worth \$194 million over a twenty year period and is expected to spur a total investment of \$597 million.

The controversy over the opportunities offered to BIW through various taxation programs is now a suit headed for the Courts. At issue are two core questions: (1) How much commitment from the receiving entity is enough (BIW is contractually bound to invest in its Maine facilities as a condition of receiving the credits)? (2) What is the level of public benefit and purpose that must be met to satisfy concern over the use of public tax dollars to aid a private enterprise? The ultimate question may be Does Maine wish to continue to be in the shipbuilding business?

The U.S. and New England Outlook

The US economy enjoyed a strong and prosperous year during 1997. Despite the troubled Asian marketplace and the spread of that so called "flu" to other economies, the domestic stock market continued to surge and profits remained healthy for US companies. Real Gross Domestic Product growth rose to an estimated 3.8% level which makes 1997 the best year we've seen since the pre-recession era of 1988. Inflation grabbed the headlines for a number of months as the rate of growth in the Consumer Price Index plummeted to its slowest pace in nearly four decades, registering 2.4%. Non-farm employment continued its steady climb, resulting in an equally steady decline in unemployment with the national jobless rate falling from a 7.5% peak in 1992 to 4.9% in 1997.

Overall, the emerging consensus is that national economic activity will likely slow a bit during the year ahead as troubles overseas dampen the ability of US companies to export, raise prices, or combat imports and as more pressure is brought to tighten monetary policy in an effort to prevent the domestic economy from overheating. Wage and benefit pressures are also expected to put the squeeze on corporate profits. As Figure 1 illustrates, Regional Financial Associates (RFA) forecasts growth in GDP to slow to 3.0% in 1998, bottom out at 2.1% in 99 and settle near 2.5% thereafter. Both the Fleet Financial Group and Standard and Poor's DRI outlooks call for a more immediate drop in GDP growth to the 2.0% level in 1998 and then a gradual ascent to the 2.5% level over the following few years. Most economists agree that the rate of inflation will rise over the next five years but will top out at slightly over 3% which would hardly be considered an issue. Employment growth is projected to continue, but at a slower pace, as tight labor markets cause wage rates and benefit packages to grow, resulting in lower profits and slower hiring practices. Unemployment rates are expected to rise to 6% over the forecast horizon.

As Figure 2 shows, the New England economy appears to be back in the ball game. With the rapid employment growth in New Hampshire and Vermont and the recent resurgence of activity in Massachusetts, the overall regional numbers reflect nearly full recovery of the jobs that had been lost in the recession. Maine recouped its job losses a year ago but has lacked the vigor seen in neighboring New Hampshire. Connecticut and Rhode Island continue to struggle under the weight of defense cutbacks and a retrenchment in the insurance industry. While the employment numbers are somewhat blasé, productivity gains throughout the region are impressive and have driven Gross State Product numbers. In his Summer 1997 publication of *Economic News*, Fleet Financial Group's Chief Economist, Nick Perna, cited the fact that

productivity gains have been so great that "New Hampshire can turn out 13.5% more (than it did in 1989) with only 6.0% additional workers." Mr. Perna went on to say that despite the fact that Connecticut's employment was still 4.7% below the 1989 peak, "the Nutmeg State's GSP, which fell 6.3% during the recession has grown above the peak." Economic activity in New England is a prime example of the "jobless recovery" that has been discussed nationally.

The outlook for New England is for modest employment gains and slightly higher GSP growth with the strongest increases accruing to the 4 northernmost states. Rhode Island and Connecticut will grow at a more sluggish pace but are expected to continue along the upward path.

Fig. 1

Real U.S. Gross Domestic Product
and Consumer Price Index

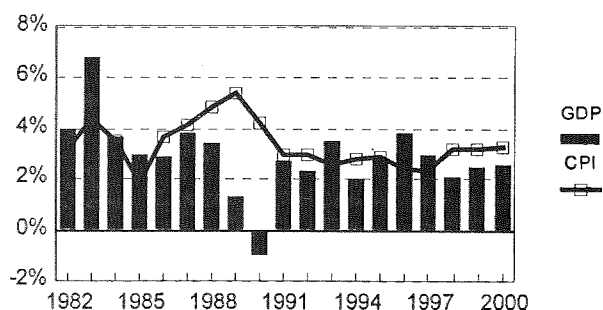
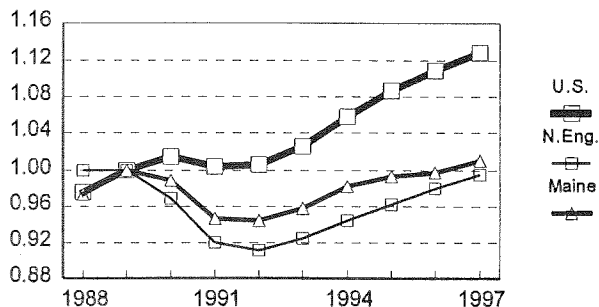


Fig. 2

The Recovery
Measured by Payroll Employment (1988=1.00)



The outlook for Maine's economy is for slow but steady growth. As Figure 1 illustrates, employment will continue to be driven by service sector opportunities, particularly in business services, amusement and recreation, and medical services. A strong performance is expected in the non-bank credit and financial services area as well, as firms like MBNA continue to grow and prosper and as the successful startup of insurance marketing centers like Sitel in the Loring Commerce Center and ICT Group in Oxford and Pittsfield boost employment offerings.

Maine is also experiencing some growth in science and technology related business, as well as some niche manufacturing efforts. While the number of manufacturing jobs continues its decades-old dwindling, growth in value added from Maine's industrial sector continues to surge, highlighting productivity gains.

Overall employment growth is forecast to slow over the next year or so before stabilizing in the vicinity of 1% thereafter. Real per capita income growth is projected to increase at a 2% pace annually through 2001. (see Figure 2) Tight labor markets in the southern coastal region should put some upward pressure on wages in that part of the state, but relatively high unemployment levels and underemployment in the inland, northern and far eastern counties will likely keep a lid on dramatic income gains.

Although housing activity is forecast to be fairly flat, averaging 4,000 permits annually (see Figure 3), there should be a good deal of construction activity related to the two new gas pipelines and the natural gas-fired generating units that are planned. Perhaps the largest boost from these projects will come in the provision of services, fuel, food and lodging.

While the statewide statistics show fairly solid economic performance, the figures tend to mask the disparity of regional activity. By every measure - population, employment, income, unemployment, housing, poverty - the southern and mid-coastal counties are experiencing fairly rapid growth. Cumberland County alone accounted for 80% of all job gains in Maine from 1990 - 1996 and enjoys a per capita income level that is 25% above the statewide average. The counties that lie along the I-95 corridor have been, and are expected to continue, seeing some prosperity, but the rim counties stretching from Oxford to Aroostook to Washington County are struggling. The SPO county-level forecast suggests that, without a concerted rural Maine effort, this disparate performance will continue.

Fig. 1

Maine Payroll Employment
Annual Growth

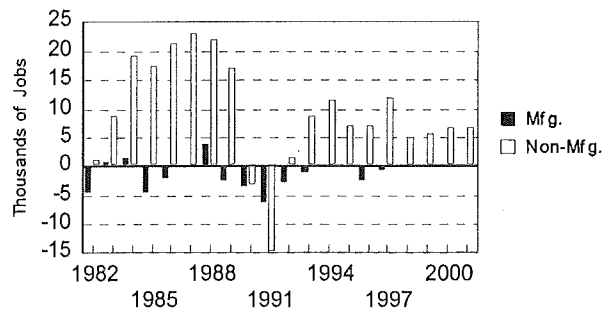


Fig. 2

Maine Real Per Capita Income
Annual Growth

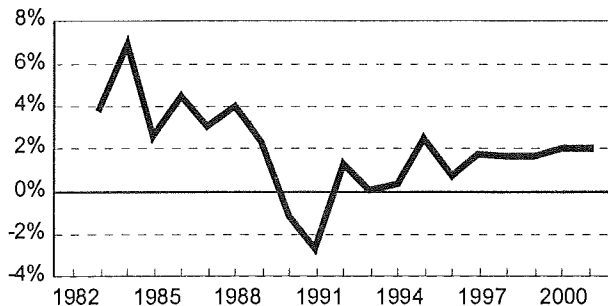
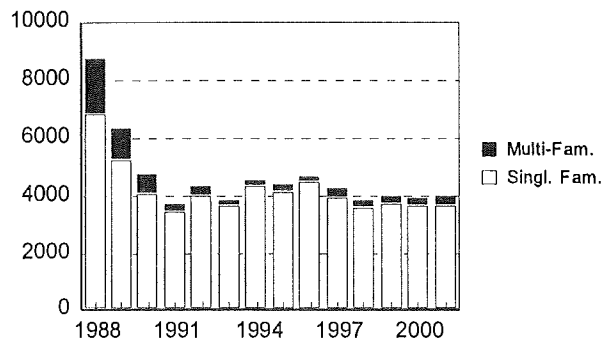


Fig. 3

Maine Housing Permits



ISSUES FOR THE FUTURE

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

NATURAL GAS PIPELINE PROJECTS AND DEVELOPMENT OF LOCAL DISTRIBUTION SERVICES

The imminent construction of new natural gas pipelines through the state continues to be one of the most significant developments in the state's energy picture. Federal Certificates have been issued for the Portland Natural Gas Transportation System (PNGTS) project which will transport western Canadian gas from an interconnection with the Transcanada Pipeline in Quebec through northern New Hampshire and south through western Maine with connections into the greater Boston market. Similar project approval has been granted by FERC for the Phase I part of the Maritimes and Northeast (M&NE) project, which will ultimately transport new Sable Island gas across Nova Scotia, New Brunswick, and Maine for delivery into the northeastern U.S. market. The PNGTS and M&NE Phase I projects are joined as a single pipe joint project from Westbrook, Maine to the Tennessee Pipeline interconnection in Dracut, Massachusetts.

These pipelines will provide greatly expanded access to natural gas creating important new energy options for Maine businesses and residents. The results of a statewide energy market analysis prepared for the State Planning Office by the Reed Consulting Group shows significant market development potential for communities and businesses lying along the course of planned mainline and laterals, in addition to the services to be provided to pulp and paper and other mills already signed-up to take gas deliveries when the pipelines are built.

As these natural gas pipeline projects move closer to reality interest is growing in the development of Local Distribution Companies (LDC) to serving local markets. In addition to the existing Mid Maine Gas proposal, this year both Central Maine Power and Bangor Hydro Electric have entered into partnerships with out-of-state natural gas companies to create an LDC to serve communities not currently served by Northern Utilities. These projects are currently before the Maine Public Utilities Commission for approval. In some cases proposed service areas overlap creating a competitive situation which should be good for consumers.

In addition to LDC interest in serving local industry, business and other customers, up to eight natural gas fired power projects have been announced for locations in Maine totaling over 3000 MW of capacity, nearly seven times Maine's share of the Maine Yankee Atomic Power Plant. Power developers see opportunities to take advantage of the new supplies of natural gas to be available via the pipeline projects for the generation of electricity for use in Maine and in the northeastern U.S. power market. The construction and operation of even some of these power projects will be a boost for the construction industry, and, over time, in the creation

of employment opportunities, increased local tax revenues, and new sources of competitively priced electricity.

Estimated in-service dates for the approved pipeline projects continues to be the Fall of 1998, with the M&NE Phase II coming on line in the Fall of 1999. Both projects are awaiting approval of their Canadian portions, however, which creates some uncertainty in project completion dates.

NEW ROAD FOR FISCAL POLICY

Maine State government has begun a series of activities to re-evaluate its spending practices. Studies of development patterns and fiscal policy by the State Planning Office have indicated that public investments in schools, infrastructure, and public services often have fueled sprawl and inefficient land use, led to the deterioration of regional centers and urban places while overwhelming small towns ill-equipped to accommodate growth.

There are many well intended policies which have had unintended outcomes. School funding is being examined by a task force concerned that the emphasis on new school construction is more costly than renovating and upgrading existing schools and that current policies have caused schools to move out of communities into rural areas, increasing the need for busing and generating other unanticipated costs. Likewise, policies for distribution of local road assistance funds reward communities which add road miles rather than those which encourage neighborhood development and urban development. A similar discussion is occurring at the Department of Environmental Protection over how best to manage stormwater runoff so that future development will not be forced outside of urban areas where more natural land is available to absorb the runoff.

DEFENSE REALIGNMENT STILL ON THE AGENDA

While Maine still struggles to recover from the base closures and downsizing that have already occurred, there are continued efforts by the Department of Defense to achieve more closures and downsizing.

The struggle to keep BIW fully operational also continues. Already several thousand jobs have been lost as defense procurements decline and more may be lost without major re-investment to modernize facilities to enable the shipyard to remain competitive with other shipyards.

At Loring, difficulties attracting major new industries continue. The DFAS center set up on the base only a couple years ago by the Defense Department itself, as part of a plan to de-centralize accounting services, is scheduled to close. The decentralization plan was found to be inefficient. Much of the open land area on the base may be turned into a wildlife refuge, an appropriate use of the land, but not a creator of

jobs in the region. Attempts to convert to newer and more efficient technologies have led to the closing or downsizing of staff at several military communications facilities in Maine. Concern over the future of Winter Harbor and Cutler naval communications installations lingers.

PERSONAL BANKRUPTCIES AND THE CREDIT CRUNCH

Despite a relatively flourishing economy characterized by strong Maine job growth, a disconcerting plague of personal bankruptcies has erupted in Maine over the federal fiscal year ended September 30th, 1997. The number of personal bankruptcies in Maine for this one year period was 3,675, up by 1,117 (44%) over the previous fiscal year's figure of 2,558. The National data over the same period show a more modest 24% increase. Numerous causes are likely to be behind this problem, not the least of which is that Maine's relatively small size in population will naturally cause much more volatility in measuring such trends than is possible at the national level. However, most certainly the phenomenon of "easy credit" which has become standard operating policy for credit card lenders bent on competing for new customers in the 1990's, is also one of the key factors precipitating this problem. It has now gotten to the point where even high school students are becoming prime targets for such lenders.

It is possible that if such bankruptcy trends become further entrenched, legislative initiatives may be required to better protect potentially vulnerable consumers of credit card services.

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