

MAINE STATE LEGISLATURE

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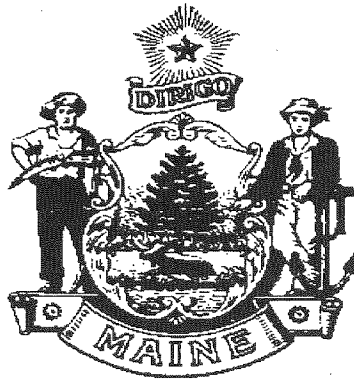


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THE MAINE ECONOMY:
Year-End Review and Outlook
1999

Maine State Planning Office
March 2000



**MAINE STATE PLANNING OFFICE
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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 1999, 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 1999 was the best in a decade, with virtually all major indicators describing improvement over a strong 1998. The prime mover was a spectacular national economy which turned in a third straight year of 4.0% or better real growth, the best three-year run since 1976-78.
 - During 1999, the number of Maine payroll jobs expanded by 16,600, more than in any year since 1988.
 - The major economic events in the State during the year included extraordinarily strong State government revenues, major natural gas infrastructure developments, and further expansion of call center businesses.
- The Maine economic outlook calls for continued steady growth, with coastal and southern I-95 corridor counties outperforming the balance of the State. Over the next few years, Maine payroll employment growth is expected to average 1.3% to 1.7% per year. The major damper on Maine economic performance continues to be slow population growth.

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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Table of Contents

The Maine Economy in 1999	2
The Ten Most Significant Economic Events in Maine in 1999	7
The U. S. and New England Outlook	10
Maine Economic Outlook	11
Issues For The Future	12

Acknowledgements

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The Maine Economy in 1999

OVERVIEW

The Maine economy continued to grow at or near full capacity in 1999. Unemployment, already low at 4.4% in 1998, fell another three-tenths to 4.1% (US 4.2%), the labor force participation rate rose to 69.1% at the end of the year, only 0.2% points below the record, and the desperate need for still more labor for expansion is shown in an 11% increase in help-wanted advertising, (following a 20% increase in '98!). Overall, the Maine economy added 16,600 new payroll jobs in '99, a 2.9% increase - in a state where the population is growing less than 1% per year.

To be sure, the growth has been unevenly distributed; Cumberland County's unemployment averaged 2.3%, while Washington County's rate hovered around 8.8%, nearly four times as high. But even in Washington, unemployment was down almost a point from the previous year, while sales growth was a strong 7.3%.

The table on this page compares performance in 1999 versus 1998 of a selection of Maine economic measures. It tells a story of rapid income growth (5.2%-the average for the nineties was 4.1%), burgeoning State revenue growth, and declining bad loans, bankruptcies, and social assistance demand. In short, there's a lot of money out there, and it's powering rapid economic expansion. The current American economic expansion set a national record for length in February of 2000 (106 months). But the good news is that researchers have found no correlation between the length of an expansion and its likelihood of ending within the next few quarters. Apparently, there is no "natural" life span for expansions, and a long one isn't necessarily closer to its end than a short one.

EMPLOYMENT

Maine payroll employment growth was 16,600, or 2.9% in 1999. This was the fastest growth rate in eleven years. The service sector accounted for nearly half of the new jobs, retail another 19.3%, and construction 18.1%. Manufacturing employment declined again as it has in eleven of the past twelve years. All of the five Maine layoff events of over 200 employees in 1999 involved manufacturers. Of course, this is a reflection of the national trend of structural change.

Regionally, employment growth was fastest in the south and mid-coast counties, next fastest in the central counties, and slowest in the rim counties around the outer edge of Maine. This is a continuation of the pattern which began a generation ago. County unemployment rates in 1999 clearly show this three-tiered map of economic health; note that the five lowest annual rates were in the coastal counties, the central counties (Androscoggin, Kennebec, Penobscot) had rates in the middle, near the State average, and the six counties with the highest rates lie along the rim.

Maine Economic Performance Summary; 1998-1999

	Annual %Chg.	Annual %Chg.
	1998	1999
<u>General Economic Growth:</u>		
Personal Income (3Qtrs '99)	5.1%	5.2%
Consumer Retail Sales	8.9%	8.4%
General Fund Revenues (Cal. Yr.)	7.1%	11.9%
<u>Employment:</u>		
Payroll Employment	2.8%	2.9%
Residents Employed	-0.1%	3.4%
Unemployed Persons (prelim.)	-19.1%	-4.5%
Unemployment Rate (prelim.)	-1.0% pts.	-0.3% pts.
Help-wanted Advertising	20.2%	15.5%
<u>Construction:</u>		
Total Construction Contract Awards	46.6%	-6.7%
Residential Construction Contracts	25.8%	-4.3%
Housing Permits	21.0%	4.8%
<u>Banking:</u>		
Bank Deposits (thru 3qtrs)	5.3%	4.9%
Bank Non-performing Loans (3qtrs)	-14.2%	-20.5%
Bankruptcies	7.2%	-7.6%
<u>Social Assistance:</u>		
AFDC Caseload	-12.6%	-10.5%
Food Stamps Caseload	-3.6%	-3.3%
<u>Prices:</u>		
Mortgage Rates (30-year fixed)	-0.7 pts.	0.6 pts.
Gasoline Prices	-14.6%	4.9%

TAXABLE RETAIL SALES

Maine consumer retail sales were extremely strong in 1999, with a growth rate only one-half percentage point slower than in '98. The fastest growth was in building supply type stores and the auto sector. These are the higher-priced, interest rate-sensitive sectors, proving our earlier point about the easy availability of money in the economy (though individually we seem always to claim there's too little).

Regionally, there were some surprises. Two of the central Maine districts, Penobscot and Kennebec, posted the largest gains at 10.8% and 9.4%, respectively. The south-coastal districts, York and Cumberland, had sales growth at the State average (8.4%). Not so surprisingly, the Northern Maine (Aroostook) and Eastern Maine Districts were at or near the bottom of the growth rate scale.

**MAINE PAYROLL EMPLOYMENT
JOB CHANGE BETWEEN 1998 AND 1999**

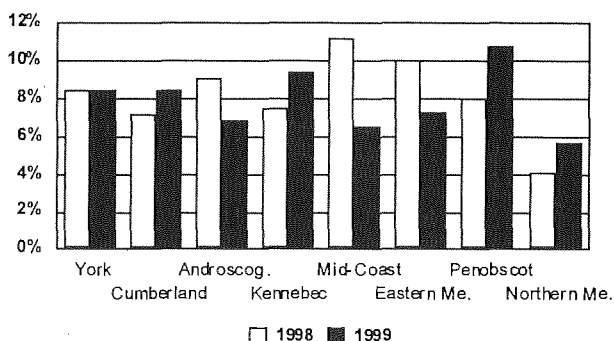
	JOBS CHG.	PCT. CHG.
TOTAL	16,600	2.9%
SERVICES	7,300	4.4%
RETAIL	3,200	2.8%
CONSTRUCTION	3,000	12.1%
GOVERNMENT	1,500	1.6%
FINANCE/INSURANCE/R.ESTATE	1,300	4.4%
WHOLESALE	800	3.0%
TRANSPORT/PUBLIC UTILITIES	400	1.6%
MANUFACTURING	-1,000	-1.1%

**UNEMPLOYMENT RATES OF MAINE COUNTIES
ANNUAL AVERAGES**

	1998	1999
MAINE	4.4	4.1
CUMBERLAND	2.4	2.3
KNOX	3.3	2.9
YORK	3.1	2.9
LINCOLN	3.2	3.0
SAGadahoc	3.3	3.0
ANDROSCOG.	4.7	4.0
PENOBSCOT	4.5	4.3
KENNEBEC	5.1	4.4
WALDO	5.3	4.5
HANCOCK	5.1	5.3
AROOSTOOK	7.0	5.6
OXFORD	6.0	6.7
PISCATAQUIS	6.7	6.9
FRANKLIN	6.5	7.1
SOMERSET	7.5	7.4
WASHINGTON	9.5	8.8

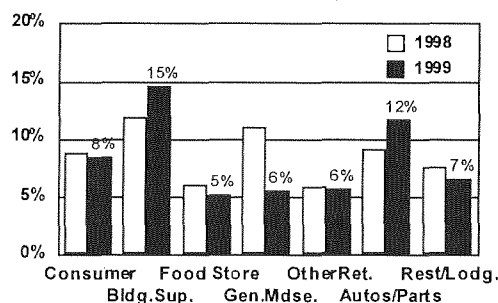
1999 revised, 1998 final.

**Consumer Retail Sales Growth 1998-99
Maine Economic Districts**



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

**Taxable Retail Sales Growth 1998-99
by Store-Type Group**



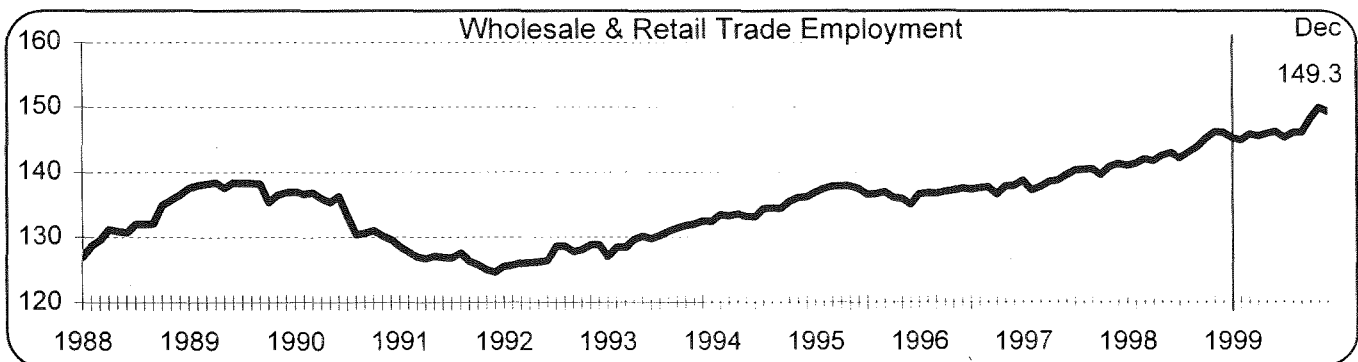
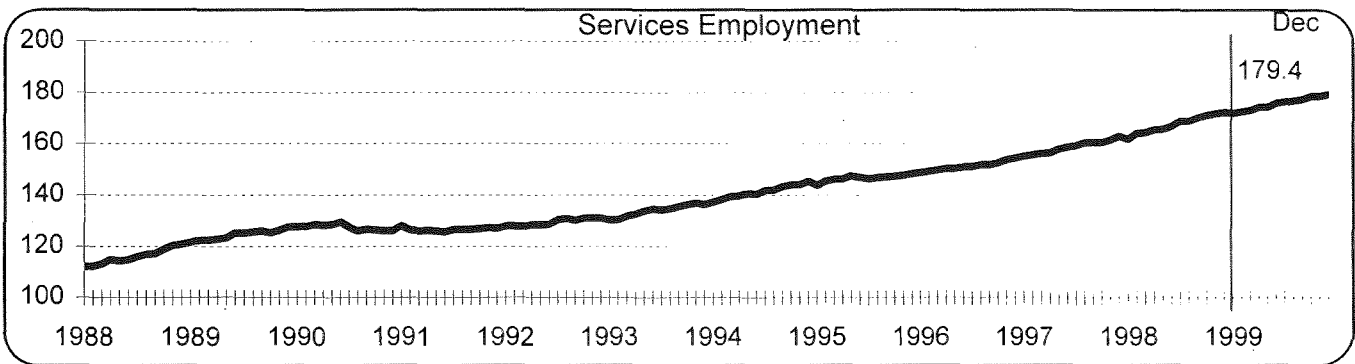
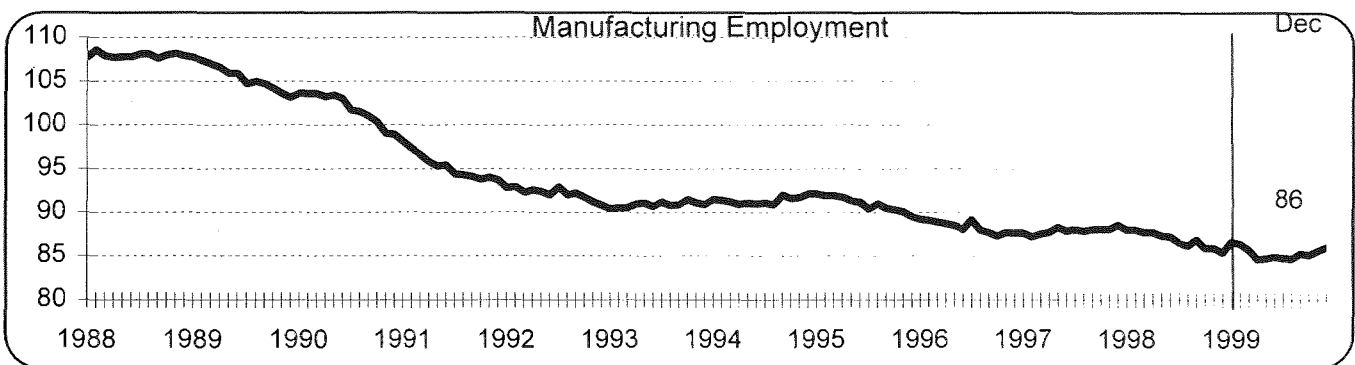
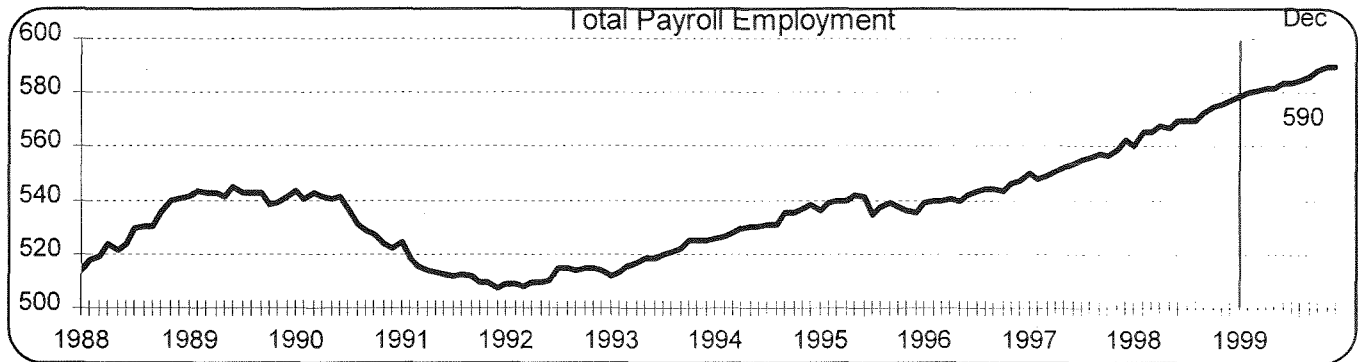
SUMMARY

Given the constraints of slow population and labor force growth, the Maine economy expanded about as fast as it could in 1999. Measure after measure tells the same story; people are working, earning, investing, and spending at near record growth rates.

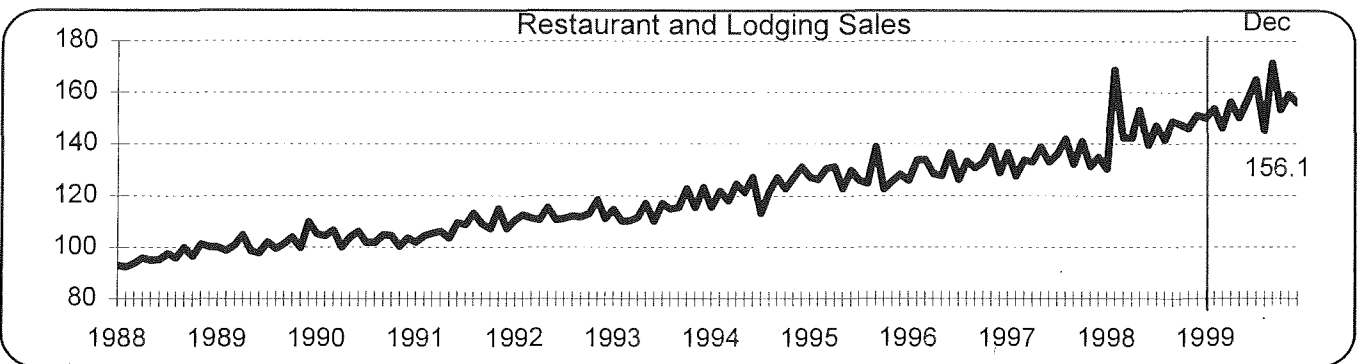
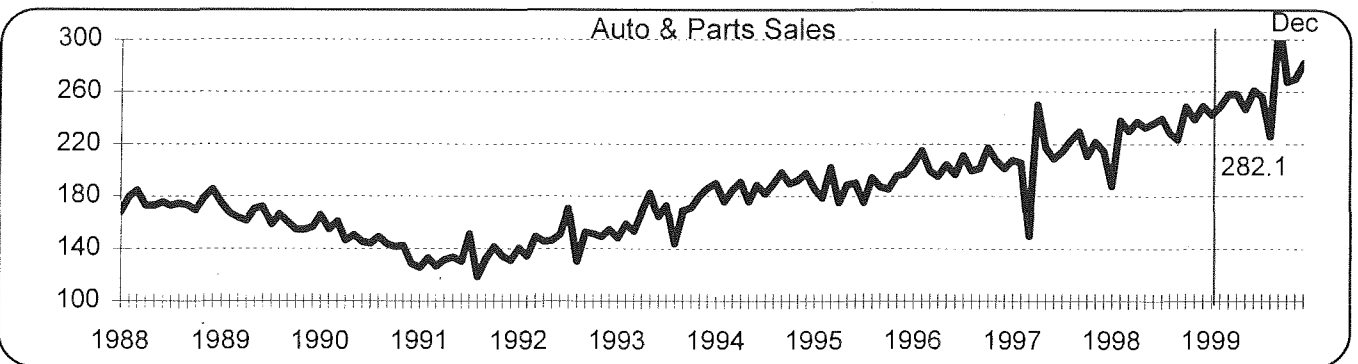
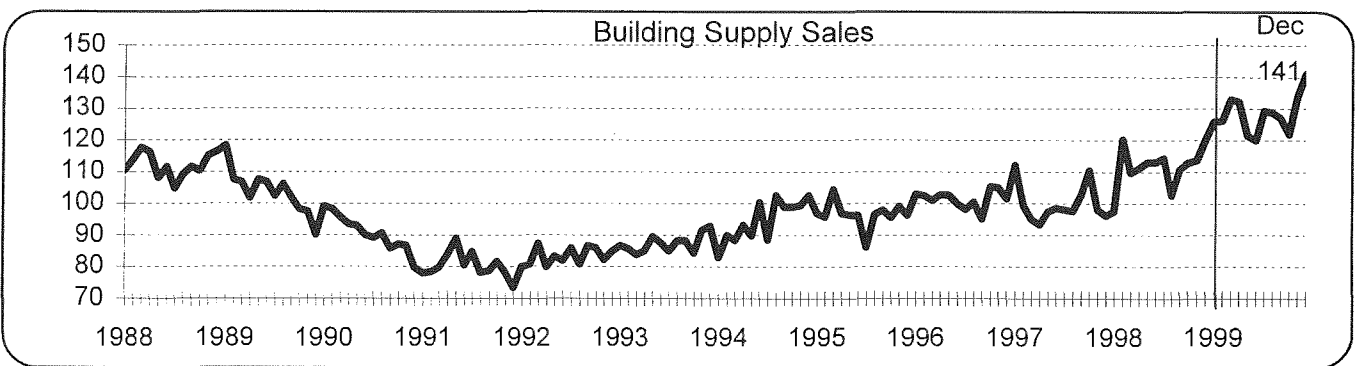
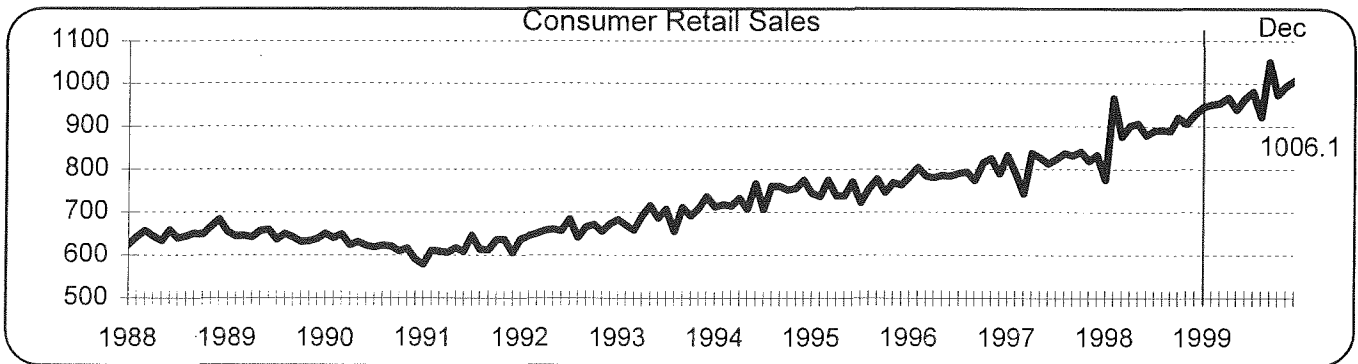
Over the past few years, the US economy has flourished, while many former stars such as Japan, Germany, and the Asian Tigers have had their ups and downs. At this point in history, it appears the Americans are doing it right. Long, steady investments in information technology (and other measures) are paying off, yielding impressive productivity gains. And the Federal Reserve Board has managed to rein in inflation at a low level. As a nation, we appear to be in a virtuous cycle which allows rapid economic growth with little price inflation. The data presented here show Maine to be well integrated into the flourishing national economy, straining against the constraint of labor force, yet rolling along rapidly in the same virtuous cycle. Someday, there will be another recession. But if Maine governments, businesses and consumers plan for it now, it need be no more than a little bump in the road to greater prosperity.

The Maine Economy in 1999

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

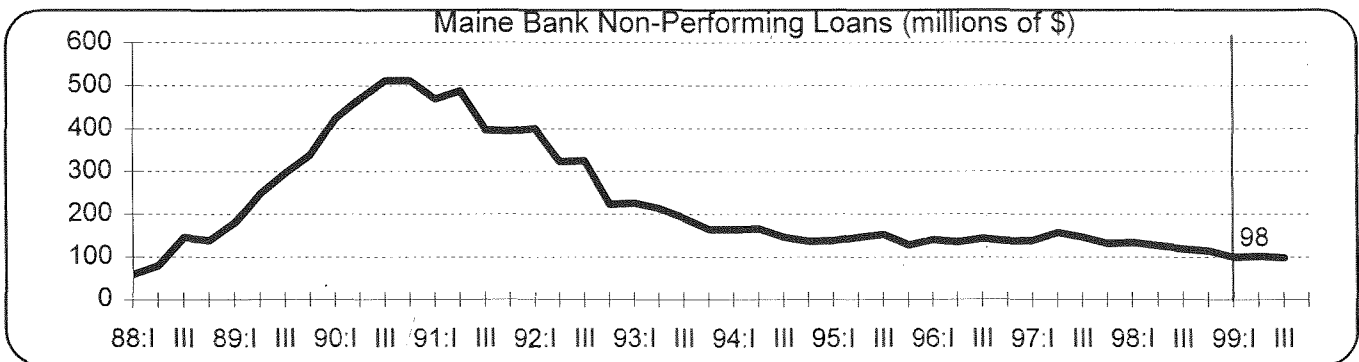
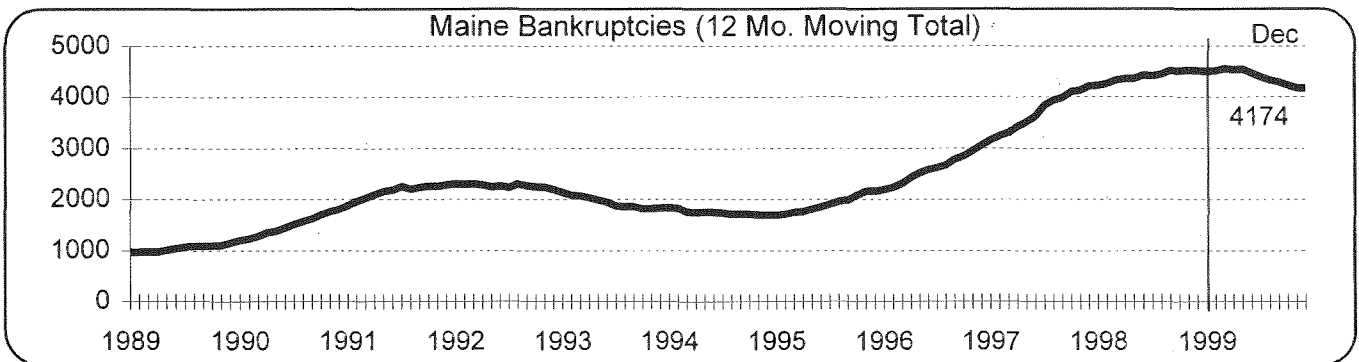
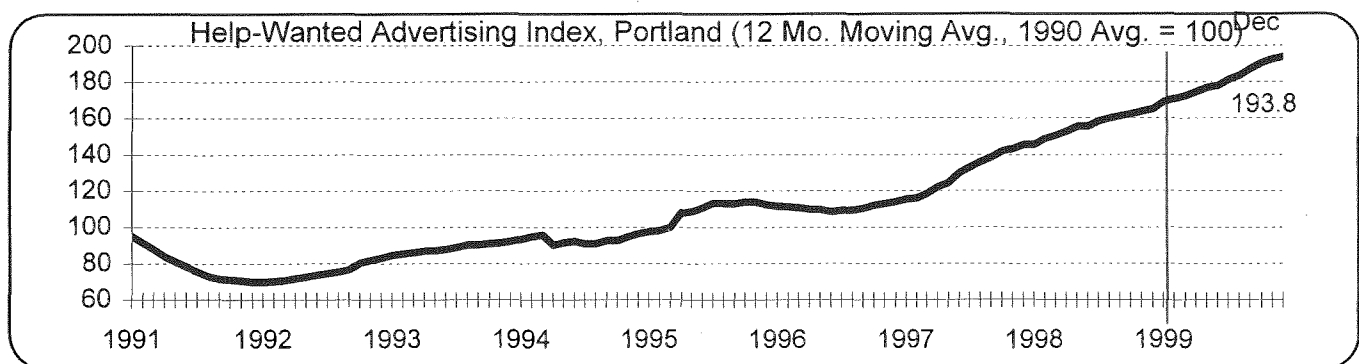
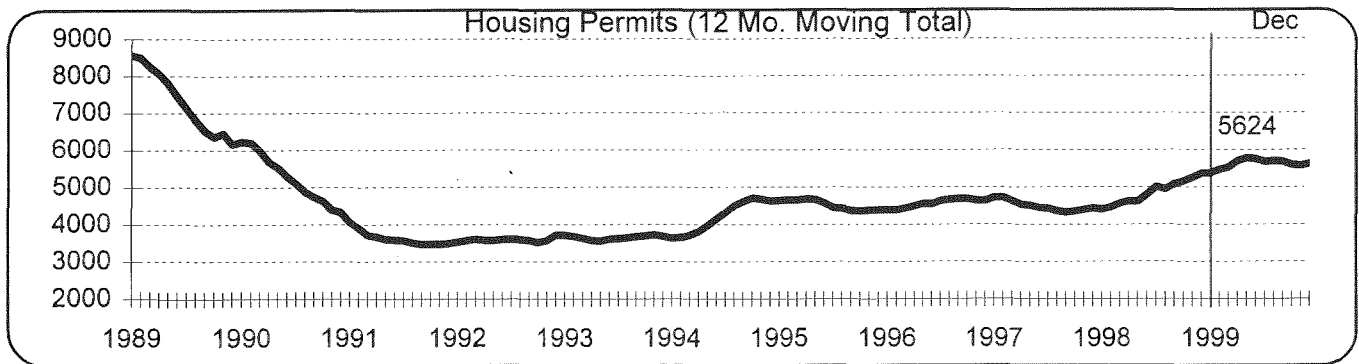


Maine Taxable Consumer Sales (seasonally adjusted mil.\$)



The Maine Economy in 1999

Miscellaneous Economic Indicators



The Ten Most Significant Economic Events in Maine in 1999

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.

Is This the Party to Whom I Am Speaking?

Again in 1999, employment growth in so-called call centers was very strong. The Maine Department of Economic and Community Development's list of new industries and major expansions (which was incomplete, as some areas had not yet reported at the time of this writing) included 14 announcements, by 8 different companies, projecting nearly 3,300 new jobs across all areas of the State. In 1998, expansions totalling over 2,000 jobs were announced. At present, Maine call center businesses employ 10,000 to 15,000 people, depending on definition and season.

The call centers encompass a broad range of operations in Maine, from mail order catalogue work, to credit card selling and maintenance, to computer and software technical assistance. Wage rates vary significantly by business type, but generally these jobs start well above minimum wage (averaging - very roughly - \$25,000 per year), include benefits, and allow liberal flex-time. These businesses are setting up and flourishing in Maine largely because of the first-rate telephone system and the availability of capable, dependable labor.

The Gas is Here - Pass the Pepcid Please

It was a year of major expansion for Maine's natural gas industry; two new gas distribution utilities began operations in Maine, two major international gas pipelines offered transmission service to and through Maine, and construction was begun on five gas-fired electricity generation plants.

Portland Natural Gas Transmission System (PNGTS) began service March 10, 1999. PNGTS connects to western Canadian pipelines in northern New Hampshire and terminates in Dracut, MA. PNGTS is about 290 miles of mainlines and laterals, costing about \$300 million. Its Maine customers are gas distribution utilities (Northern Utilities and CMP Natural Gas) and gas-fired electricity generation plants now under construction.

Maritimes and Northeast Pipeline had approved tariffs in place offering transmission service as of December 1, 1999. The first gas arrived in Maine on January 4, 2000. Maritimes connects near Calais to Canadian pipelines bringing gas from underseas wells off Nova Scotia. Maritimes is about 300 miles of pipeline, costing about \$657 million. Its Maine customers are gas utilities (including Bangor Gas) and gas-fired electricity generation plants now under construction. Maritimes joins PNGTS in Westbrook and continues to Dracut, MA.

CMP Natural Gas began service to customers in Windham in May of 1999. They currently serve about thirty customers in all classes. They plan to serve Gorham in the near term, and will soon construct five miles of main to serve Calpine Corporation, an electricity generator being built in Westbrook. Eventually CMP Natural Gas hopes to serve most of the state.

Bangor Gas has laid about 200,000 feet of plastic distribution service line, and is currently offering propane service to 8-10 customers. They will soon construct the "backbone" pipes of their system, which will connect to the Maritimes pipeline. Natural gas service is expected to commence in September of 2000. Bangor Gas is authorized to serve about a dozen municipalities in the greater Bangor area, and will construct a separate line to serve Bucksport and Champion Paper.

Besides Calpine in Westbrook and Champion in Bucksport, gas-fired generation is under construction in Veazie (to be served by Maritimes), and Jay and Rumford (to be served by PNGTS). The combined capacity of this new generation will be over 1,600 megawatts (much more than enough to replace Maine Yankee).

D'Buggers Are Gone

Since 1987, when the first Year-End Review and Outlook was published, we have had only one Top Ten event which could also qualify as a non-event. The Y2K computer scare has come and gone with no major disruptions reported anywhere in Maine. We rate its importance very highly, though, because there was a serious potential of disruptions with enormous economic impact and because the cost of avoiding this was tens, perhaps hundreds of millions of dollars. This event placed a large security burden on many businesses, both large and small, throughout the State. In the end, the precautionary investments that were made paid off, as all energy, communication, medical and other critical infrastructure systems proved fully operational as the calendar turned. Although some critics have claimed that since Y2K turned out to be a non-event then it must have been overhyped, we think it more reasonable to congratulate Maine businesses and other organizations for their foresight which averted an economic disaster. Spending on Y2K fixes carried with it an opportunity cost of forgone investment spending in other areas. So, while Maine enjoyed a short-term economic boost from increased spending on Y2K in 1999, there now will be longer-term repercussions in terms of lost opportunities for growth. Still, slower growth is a more-than-fair tradeoff for avoidance of economic meltdown and social misery.

The Maine Economy in 1999

Health Insurance Unassured

Uncertainty dominated the news about Maine health insurers and health maintenance organizations in 1999 as profitability problems have reached crisis proportions. Employers were left looking for new insurers when the Tufts Health Plan announced it was withdrawing from the Maine health management market after three years of heavy losses. Tufts has 70,000 Maine members, most covered by employer-provided group insurance. Anthem Blue Cross and Blue Shield of Indiana proposed purchasing Maine Blue Cross and Blue Shield and converting the latter to a for-profit stock company. The acquisition must be approved by Maine's Insurance Superintendent. The conversion to a stock company includes the assignment of the assets of Maine Blue Cross and Blue Shield to a charitable trust which must be approved by Maine's Attorney General before the acquisition can go forward. Harvard Pilgrim Health Plan, which has subscribers in Maine, suffered substantial losses in southern New England, posing the question of whether Harvard Pilgrim will be able to continue operating here. Finally, the individual health insurance market was unsettled as rising premiums caused people to drop their health insurance, thereby threatening a deterioration of the risk pool.

Not So Inclined

BIW, Maine's largest private employer, had a very good year in 1999. Construction of a \$218 million Land Level Platform on the Kennebec in Bath, begun in November of 1998, was about 50% complete at the end of 1999. First use of the facility is expected for the fall of 2000. The Platform will make ship construction on level ground possible, promising greater efficiencies and lower costs than the current process on inclined ways.

On August 17, 1999, the U.S. Navy awarded a contract modification to BIW which provides funding for one Arleigh Burke Class AEGIS guided missile destroyer. The \$324 million contract modification funds one destroyer in fiscal year 2000. The ship was one of six awarded to BIW on March 6, 1998, as part of a multi-year contract for fiscal years 1998-2001. Construction is scheduled to begin in the spring of 2002, with delivery to the U.S. Navy planned for the spring of 2005. The shipyard has a total of nine DDG 51 class destroyers in its backlog. BIW, the lead shipyard for the class, has delivered 16 of the destroyers to the U.S. Navy to date.

In November of 1999, the U.S. Navy awarded the DD-21 Shipbuilder Alliance a \$238 million contract for the design and development of the next-generation destroyer. The Blue Team, led by BIW, will receive \$98.4 million in phase II.

BIW had two launchings in 1999, the Winston S. Churchill on April 17 (a major event), and the Howard on November 20.

It's Not Nice Of Mother Nature To Fool Us

Maine industries that rely on the weather for their success or failure have faced some tough challenges over the past year. Ski slopes have suffered from two seasons of lack of snow. The season was off to a late start again in the fall of 1999 because the mild and rainy weather made it impossible to make snow or to keep slopes in good condition. In 1998 it was an extremely cold May that prevented good growth in early hay and forage crops and sent yields plummeting. Then in 1999 the snow drought that hurt the ski industry extended into a lack of rain through the spring and early summer that left farmers with low hay and forage yields and fresh produce growers with dried up crops. Severe conditions led to most counties in southern and central Maine receiving disaster area declarations and to more farmers thinking seriously about the need for irrigation if they are to remain competitive in the marketplace. Then came the fall - a mud season in September, fields too soft to harvest and farm machinery stuck in the mud. The mild fall weather brought an extended season of beautiful foliage - if the rain had just stopped long enough to let us enjoy it. The positive side - for those whose business is indoors - the weather drove people into the stores.

Voters Five-Love

Voters on November 2 approved all of the five bond issues presented. Support for individual bonds ranged from 55% to 74% of the votes cast. The money raised will be used for:

- transportation improvements;
- abating, mitigating and cleaning up pollution;
- converting Maine Public Broadcasting Corporation to digital broadcasting;
- infrastructure improvements at technical colleges;
- and the purchase of public lands and easements for conservation, water access, outdoor recreation and farmland preservation.

Maine has the lowest general fund debt load in New England and one of the lowest in the nation, and in the typical Maine election, one bond issue will fail. That none failed this time perhaps mirrors consumers' confidence and willingness to invest in Maine's economic future.

Angus Brings Home The Beef

In November Governor King led a delegation of Maine business and government representatives to Taiwan and Hong Kong on a successful mission that brought back more opportunities for new business in Maine. Particularly important was further building of ties with Taiwan's semiconductor industry.

In general, 1999 was a strong year for Maine international trade. Exports increased from \$1.97 billion in 1998 to an estimated \$2.1 billion in 1999 (up 6.6%). Canada was Maine's biggest customer (about \$700 million), followed by Japan (about \$200 million). There was also strong growth in exports to emerging markets, including Taiwan, Mexico, and Brazil. The largest dollar volumes of export products were in electronics (33%), paper (17%), and lumber (11%).

In 1999 Portland overtook Boston as the regional port with the largest tonnage received of oil deliveries. The cause of this increase was the return of the Portland Pipeline from natural gas service (from Canada) to oil service (to Canada).

East-West Highway...Headed in the Right Direction

For nearly half a century Mainers have debated, studied and debated some more the idea of building a four-lane, border-to-border, east-west highway. For many, the dream of this highway is so vivid, they can taste it. For others, it is distasteful, at best. In the fall of 1999, yet another study was completed by State officials. Unlike previous studies, this examination looked not only at the costs of constructing such a highway, but also at the potential economic benefits. While benefits were identified, to be sure, the massive costs associated with such a grand build-out caused policy makers to seek middle ground. Recognizing the true need for improving east-west connections, Governor King put forward a seven-step plan which included a new border crossing at Calais, completion of improvements to Route 9, a new connector road between I-395 in Brewer and Route 9 in Eddington, a new 2-lane, limited access east-west highway corridor in central Maine, completion of improvements to all of Maine's arterial highways over the next 10 years, and investment in critical rail links. While the plan falls short of the "Dream", even the most steadfast proponents of the highway concede that King's proposed \$450 million investment heads Maine in the right direction.

Capitol Capital Gains

As 1999 drew to a close, Maine State Tax collections continued to outpace projections by a long shot. Yes - employment gains have been strong, incomes healthy and unemployment rates exceptionally low, but a healthy economy alone does not explain the phenomenal surge in revenue growth. In December of 1999, the State's Revenue Forecasting Committee upgraded its original biennial estimate by \$250 million and noted an additional \$70 million upside risk. The reason for such forecast buoyancy? In a nutshell - capital gains! For two tax years, Maine capital gain growth has outstripped US activity; by 25% in Tax Year 97 (50% growth in Maine versus 40% in the US), and by over 100% in Tax Year 98 (50% growth versus 22%). Not only have Maine residents enjoyed exceptional increases in the value of their

stock market holdings, but a rash of land and business sales of late, brought about by changes in Federal tax law, have provided Mainers with huge profits. Preliminary estimates for Tax Year 99 show that while capital gain activity is abating, it remains above forecast, producing yet another revenue surplus in Augusta.

The U.S. and New England Outlook

The National and Regional Outlook

Ongoing Prosperity

The US economy is on a roll, with no apparent end in sight. Across the board, 1999 marked a year where economic records were either threatened or shattered! Our nation is currently enjoying its longest expansion ever. Skyrocketing stock markets have lifted household portfolio values from \$4.5 trillion five years ago to an estimated \$12.4 trillion today. According to Regional Financial Associates (RFA), "Consumer confidence and spending are moving in lock step with equity values". During 1999, auto sales hit 16.5 million, breaking the previous record set in 1986. Luxury cars and SUVs accounted for a full 20% of these sales, yet another record. Nationally, home sales obliterated records as well with nearly one-third of all sales in the high-end, over \$200,000 category. The consumer run on luxury items has been so stunning, in fact, it has reached 1% of GDP.

Will it never end? Well, while the rates of growth may slow a bit, there is nothing to suggest any end to the revelry in the near future. The Y2K threat has come and gone without dampening the euphoria. Numerous rate hikes by the Fed have had little effect. Tight labor markets throughout the US will keep upward pressure on wages. The strengthening of foreign currencies has increased the demand for US goods. And the economies that had been faltering over the past two years around the globe have been, for the most part, revived and re-energized. All these factors bode well for at least some level of ongoing domestic prosperity.

As Figure 1 illustrates, real GDP growth is expected to increase a bit from the 4.1% level in 1999 to 4.3% in 2000 before settling in around 3% thereafter. RFA expects that inflation will be kept under wraps, staying well below the 3% mark through the forecast period. Retail spending, which grew at an estimated 8.6% in 1999, will likely slow to half that pace, falling more closely in line with income gains. Reasonable people agree that the surge in credit outstanding, the sluggish savings rate and the moderate pace of income growth will, at some point, put the brakes on the consumption frenzy. That said, the euphoria caused by the stock market induced "wealth effect" has proved reasonable people wrong for some time now.

The New England economy has surged of late, led by the vibrant economies of New Hampshire and Massachusetts. After enduring a major regional downturn in the early nineties and a staggeringly slow recovery, New England is now back on solid footing. The national issue of tight labor markets is perhaps even more extreme in New England, however, where 1999's unemployment rate of 3.1% was a full percentage point below the US average. Tight labor markets will constrain the region's ability to keep up with national growth rates. In fact, virtually every

indicator is forecast to track US growth, but at a slightly slower pace.

In its December 1999 summary, RFA estimates that "The region's cost of doing business is approximately 10% above the national average". In addition, as Figure 2 highlights, housing costs through much of New England are no great bargain. Only Maine stands out as having extremely low prices relative to the US average. Despite the region's priceyness and the outlook for slightly below average growth, New England's dominance in education, R&D, and technology have cemented its standing as being the wealthiest area in the US. Overall, as long as oil and gas prices come back down to earth in the not too distant future, New England's economy should enjoy solid economic performance in the years ahead.

Fig. 1

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

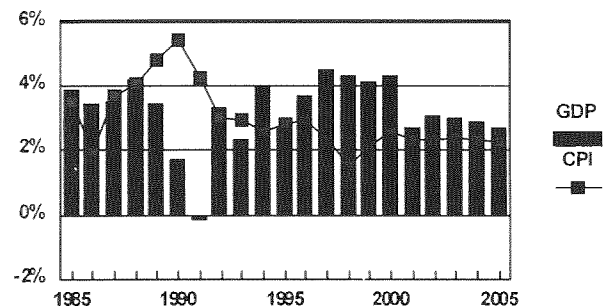
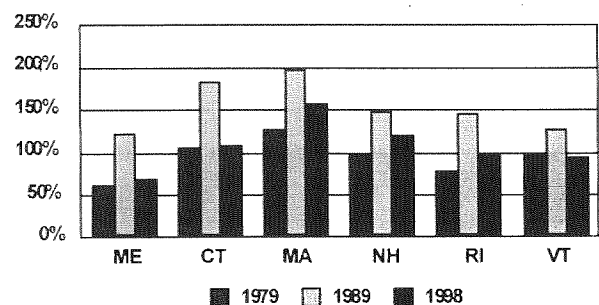


Fig. 2

Median Existing Home Prices Percent of US Average



Maine Outlook

The Labor Squeeze Shapes the Future

As this report explains in some detail, virtually every major indicator of Maine's economic health has shown exceptionally strong growth over the past 2 or 3 years with rapid employment growth, extremely low unemployment, solid income gains and exuberant consumer spending. The good news is, we see no major external threats to continued gains with both the US and the New England economies poised for ongoing prosperity. It appears that the greatest challenge we now face is internal in that we are being slowly strangled by our own success.

In a nutshell - our population is not growing fast enough to support the continuation of high job growth rates. It remains somewhat of a mystery as to how 16,600 new jobs (a 2.9% increase) could have been created during 1999 in a State that had an unemployment rate of 4.1%, population growth of 0.4%, and a near record high participation rate. While the relatively high multiple job holding rate can offer some explanation, the question remains... "Who will fill these jobs going forward?" It is interesting to note that in a recent Small Business Administration study, labor shortages have replaced taxes and government regulations as the heaviest burden on small businesses around the nation.

The outlook for Maine? Continued tightening! With population growth expected to remain in the vicinity of 0.4% over the next several years, employment growth is forecast to slow from the 2.6-2.9% range that we've enjoyed of late to 1.7% in 2000 with a further slowing to 1.3% through 2003 (see Figure 1). If these growth rates come to pass, that will mean that only 10,000 new jobs will be created during 2000 and closer to 8,000 in each of the following years. Reflecting recent history, virtually all net job gains will come from the nonmanufacturing sector, led by Services, which, along with Retail Trade, will account for two-thirds of all new jobs. Employment in Construction and Wholesale Trade will also see decent growth while job opportunities in Transportation, Communication and Utilities, Government, and Finance, Insurance and Real Estate stagnate. Manufacturing is forecast to see modest losses throughout the forecast period. Our hope is that tight labor markets will provide workers with enough bargaining power to keep wage growth near 5% through 2003. Long term wage gains, however, will depend heavily on Maine's investment in education, particularly post-secondary, and a major upgrading of the skill levels of our current workforce.

As we look across the Pine Tree State, we see a wide variation in projected growth rates. In general, the southern to mid-coastal counties and the lower I-95 corridor will continue to enjoy the most vibrant regional economies, while the Western Mountain region, and Aroostook and Washington Counties endure slower growth. Population increases in Waldo and Lincoln Counties are

expected to be more than double the statewide rate through 2010, growing by 1.4% and 1.2% annually, while Aroostook sees ongoing population losses. The mid-coastal counties will lead regional growth in employment, retail sales and personal income while Piscataquis, Androscoggin, and Aroostook trail behind.

Overall, the Maine economy should be on solid footing going forward. Labor shortages will continue to be a major factor that shapes statewide growth and influences county development patterns. Absent any significant policy shifts, the regional disparities will likely persist, and the migration of population from inland to coastal and from urban to suburban and rural will continue. That said, however, with an exceptionally strong national economy, dynamic regional vitality, Maine State Government surpluses, and tight labor market conditions, the opportunity for Maine workers, business and government to set the stage for long term prosperity has never been better.

Fig. 1

Major Indicators of Maine Growth

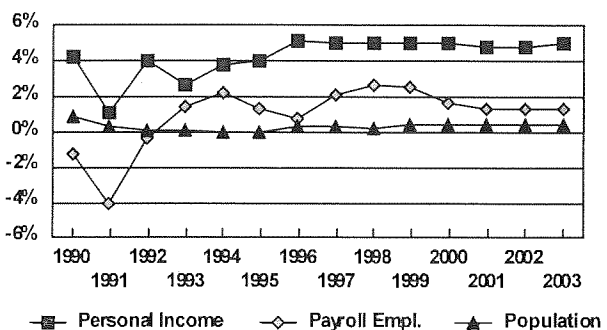
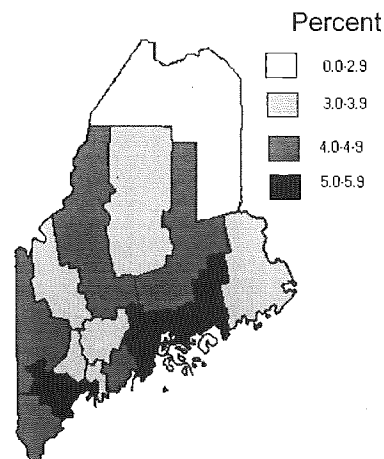


Fig. 2

ME Cnty. Projected Ann. Income Growth 1997-2010



ISSUES FOR THE FUTURE

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

Tight Labor Markets

The continued strong economy in Maine has created very tight labor markets in some parts of the State. Average unemployment rates in Maine's south- and mid-coastal counties in 1999 ranged from 2.3% to 3.0%, down about 0.2 percentage points from the year earlier. These rates were well below the already low State (4.1%) and national (4.2%) average rates, and include mostly the voluntarily and very recently unemployed. By the end of 1999, nearly everyone in the labor force had a job, and businesses wishing to expand had to find a way to pull more people into the labor force. Maine's labor force participation rate was 69.1% in December. This means 69.1% of Maine people between 16 and 64 are already in the labor force, and this is very near the all-time high of 69.3% reached in September of 1996. Of course, the smaller the number of people not already in the labor force, the greater the difficulty of drawing the remaining few into it.

A growing number of businesses, especially in high-tech industries, are finding it difficult to get skilled workers at any price. There simply aren't enough people with these skills living in the State, and attracting them from other states and countries is extremely costly. The Maine Metal Products Association reports they have 2,000 unfilled jobs, and the shortage of public school math and science teachers and principals is well documented. Some health care facilities are importing workers from Canada.

Hard data for 1999 is not yet available, but we know that in this environment where business competition for labor is keen, wage rates are being bid up, squeezing profit margins. But workers are not the only winners. Those businesses which make wise productivity enhancement decisions, to sell or service more per dollar of labor, will flourish as their competitors struggle to survive.

Countering Sprawl with Smart Growth

Last year we cited sprawl, and its antidote, smart growth, as playing a role in Maine's near-term economic future. Our prediction was based on the enormous amount of money our current pattern of spreading of development is costing Maine taxpayers—ranging from the cost of building new schools to accommodate shifting populations to the high cost of mitigating traffic congestion by constructing left turn, center lanes (at an average cost of \$1-2 million/mile). For example, Maine's school age population decreased by 27,000 students between 1970 and 1995, yet three-quarters of a billion dollars was spent for new construction. In fact, for all types of public construction, it costs taxpayers an estimated \$50 million to \$75 million per year for redundant capacity.

Both the Legislature and the King Administration initiated smart growth efforts this past year that focus on non-regulatory approaches and the need to rethink many State programs which often, in unintended ways, promote or subsidize sprawl. In February, 2000 a Legislative Task Force on smart growth submitted recommendations and proposed legislation. Governor King's Cabinet Committee on Smart Growth presented its final recommendations and legislative proposals in February, as well.

Both the Governor's and the Legislature's proposals seek to target State growth related investments and office locations to enhance public benefits, keep rural lands ecologically and economically productive, promote revitalized downtowns and resurgent service centers, support local comprehensive planning efforts and reduce unnecessary obstacles that inhibit traditional neighborhood development. Both sets of proposals recognize the overriding impact of transportation policy on development patterns and the need to protect State highway investments through access management. The Governor's and Legislature's proposals have key elements that will be taken up during the current legislative session.

The Salmon Issue - What is really endangered?

Maine is in the third year of a five year Atlantic Salmon management plan which, so far, has not achieved as much as hoped. The proposal to abandon the State's plan and to place the Atlantic Salmon of five Maine rivers on the endangered species list has created a high level of uncertainty for the economy of eastern Maine. State and local taxpayers and private enterprise have invested much to improve the economy of the area, from developing a cranberry industry and an aquaculture industry to adopting new technology in forest products and blueberry production. Under the State plan, most blueberry producers who were using waterways for irrigation have constructed wells and impoundments to provide alternative sources of irrigation water.

It is impossible to determine the impact of an endangered species listing on the communities and the economy of eastern Maine. It may be relatively mild or may be extreme, depending on a variety of factors. The number of steps already taken, such as developing new sources of water for irrigation, should cause the impacts of a listing to be relatively minor if there is continued public support and investment to help local enterprises make other changes needed to comply with the Act. However, the greatest uncertainty is not what will be required of municipalities, citizens and businesses to improve the chances for salmon to survive in the region. It is from the potential that exists in the provisions of the Act, which allows anyone at any time to bring a suit if they think some activity is endangering the fish or their habitat (without proof or sound scientific basis), and that requires the challenged activity be halted until proven not to be

a detriment to the endangered specie (guilty until proven innocent). It is the risk of a challenge of this nature that places all activity in the region at risk and all investment in the economy at risk and has already placed many plans on the shelf pending the outcome.

New Bioenergy Opportunity

In 1999, the issue of MTBE contamination of ground water resulted in a massive political commotion that has not yet settled down. Responses to this issue could have far-reaching ramifications for Maine's transportation sector and environment. Decisions pending under the Federal Clean Air Act about reformed gasoline or new fuel choices could create a significant opportunity for the production of biobased ethanol fuels in the state.

MTBE, a gasoline additive and known carcinogen, has been found in Maine's ground water supplies at multiple locations around the state. Measurable concentrations of MTBE are widespread, and seem to be related to small spills of gasoline. MTBE is very soluble in water and spreads at a rapid rate.

Alternatives to the use of MTBE in gasoline are actively being considered by state and federal officials responsible for administering the Federal Clean Air Act. Decisions about which alternatives to use - from substituting with ETBE (an ethanol based compound), to new formulations of petroleum based gasoline, to alternative fueled vehicles, will determine if there is a market opportunity for wood based ethanol production in Maine. Potential changes in gasoline formulations to avoid ground water contamination, while still achieving clean air objectives opens the door for alternative fuels like ethanol that can be made from woody biomass sources such as sawmill residues.

The potential to produce wood ethanol is an opportunity the State of Maine is examining. Renewed private sector interest in the production of fuel ethanol raises a real possibility for the development of a production plant in Maine. Production that would be based on the ample supply of waste wood residues from Maine's wood products industry. Recent analysis reveals the potential to produce as much as 200 million gallons of ethanol per year from biomass residues currently available from wood harvesting and processing activities.

The development of a biobased fuel industry in Maine would be of benefit to the wood products industry, the transportation sector, the environment, and rural communities.

Electric Utility Restructuring - The New Electricity Market Place

Maine's program to introduce competition into the electric utility industry and to implement full retail choice for electricity custom-

ers took effect on March 1, 2000. These dramatic changes in Maine's electricity markets usher in a new era with new players, new roles and new responsibilities. There are new independent owners of generating facilities, new energy providers selling electricity products and services directly to customers, and restructured Transmission and Distribution Utilities which will continue to provide electricity delivery services. In addition, socially desirable components of the electric utility system such as low income protections and energy conservation programs will continue to be provided, but revised to fit the new circumstances.

Competitive electricity markets are still young and evolving, and will change as experience is gained and conditions change. Most electric customers experienced lower rates as the markets opened. Over time new opportunities will emerge for customers to shop for competitive sources that will mean additional savings may be possible.

Several active customer aggregation efforts are underway, that will help many electricity users who have little or no market influence to gain access to power sources at competitive prices. Buyer aggregations in business and industry, public institutions and other organizations are actively seeking service providers through competitive bid offers which should yield attractive prices.

A new planning process for energy conservation programs has been established that directs the State Planning Office to coordinate and lead the preparation of a statewide conservation program that sets forth the programs to be implemented by the utilities through competitive contracts and other mechanisms. Emphasis will be placed on cost effective, market based opportunities and programs that will serve to support and expand the widespread use of more energy-efficient equipment and conservation services. More efficient energy use and conservation will help electricity users to control costs and reduce bills.

A significant part of Maine's electricity industry are the existing and new independent generators of electricity, mostly hydro-power facilities and biomass plants, as well as several new natural gas power plants. Since Maine electricity markets are relatively small, these Maine based facilities will be competing as merchant plants in a regional market place, which leaves the fate of Maine based generation, especially the biomass plants and other renewable based power generation to the uncertainty of a regional market environment.

Although it is still too early to tell, most policy makers, regulators, and informed observers remain optimistic that, over time, the competitive forces unleashed by restructuring will exert increasing downward pressure on electricity prices, which should have a substantial positive effect on the Maine economy.

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1999

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