

MAINE STATE LEGISLATURE

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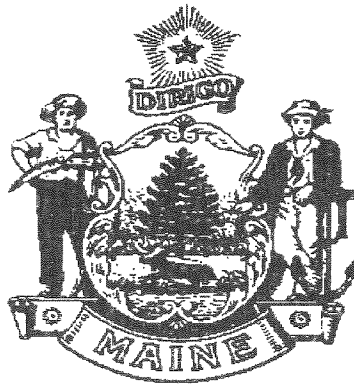


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THE MAINE ECONOMY:
Year-End Review and Outlook
2000

Maine State Planning Office
March 2001



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

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 "Economics/Energy," then click on "Maine Economy."

This year-end report on the Maine economy reviews State economic performance during 2000, 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 2000 was generally off the 1999 pace, but still strong. Reflecting the national trend, the first half-year was outstanding, but the second half was much weaker.
- During 1999, the number of Maine payroll jobs expanded by 17,800, more than in any year since 1988.
- The major economic events in the State during the year included continuing problems with health care financing, a spike in energy prices, major public sector infrastructure developments, and continued rapid expansion of call center businesses.
- The Maine economic outlook calls for slower 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 1.1% to 1.3% per year, off significantly from the 3% growth rates of the past two years.

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

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The Maine Economy in 2000

OVERVIEW

The Maine economy roared into 2000 pounding on all cylinders. Consumer Retail Sales were up 8.5% through the first half-year, following two extraordinary years of 8%-plus growth. Similarly, payroll employment increased at a 3.4% rate through June, on track to top the 2.8% and 3% growth rates of 1998 and 1999.

However, with a major stock market correction in the spring and other imbalances continuing to accumulate, the national economy began to unravel about midyear. Consumer and business capital expenditures weakened considerably, creating an inventory overhang, fuel prices spiked, and by fall one began to hear the "R" word whispered. The second half-year brought rapidly declining growth rates in nearly all of the national and State economic indicators. Growth in US Real Gross Domestic Product, over 5% during the first half-year, fell to just over 1% by yearend and recession appeared to be an almost even bet.

The table on this page compares performance in 2000 versus 1999 of a selection of Maine economic measures. It tells the story of a broad-based weakening in the State economy. While none of the measures of economic output was actually negative for the year, growth was slower in retail sales and payroll employment, while construction awards, bank deposits, help-wanted advertising and housing permits were all comparatively weak. Nevertheless, payroll employment was still increasing, even at year's end, and the unemployment rate came down even more during the year (-0.6 percentage points to 3.5%) than in 1999. Also, social assistance caseloads continued to decline in 2000, as did bankruptcies and banks' non-performing loans. Thus, on balance, Maine economic performance for the year 2000, while not outstanding, was unequivocally positive.

EMPLOYMENT

Maine payroll employment growth was 17,800 or 3.0% in 2000. As expected, services accounted for nearly half of the new jobs, with retail trade and government (largely because of Census worker increases) also making sizable contributions. Manufacturing employment declined by 1,000 jobs, the sixth consecutive year of job losses. In fact, manufacturing jobs have declined in 11 of the past 12 years. Of course, this is a reflection of the national trend of structural change.

All of Maine's 16 counties had lower unemployment rates in 2000 than in 1999. Because jobless rates were already significantly lower in the coastal counties, these generally had smaller rate declines for the year. Overall, the lowest rates were in the south-coast and mid-coast counties; the central counties (Androscoggin, Kennebec, and Penobscot) were at or slightly above the State average for the year, while those counties around the outer rim of Maine had the highest rates. This general pattern has been consistent for several decades.

Maine Economic Performance Summary; 1999-2000

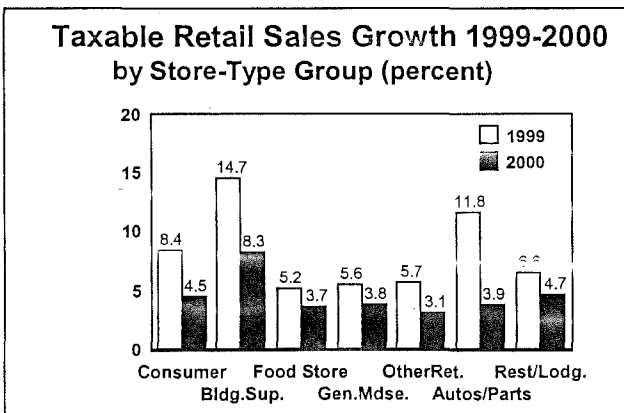
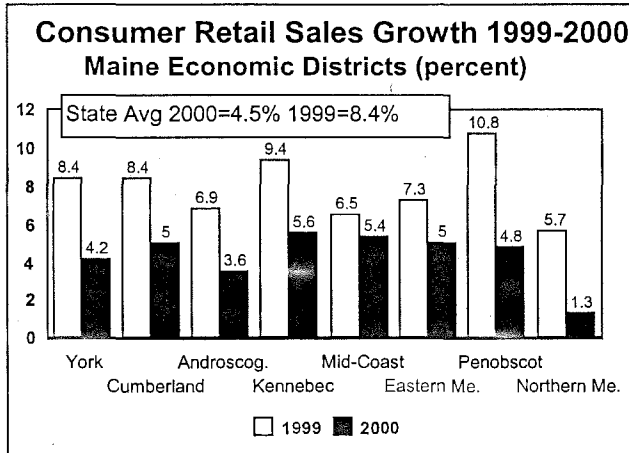
	Annual %Chg. 1999	Annual %Chg. 2000
<u>General Economic Growth:</u>		
Personal Income (3Qtrs in 2000)	5.0%	5.2%
Consumer Retail Sales	8.4%	4.0%
*General Fund Revenues (Cal. Yr.)	12.0%	2.5%
*(affected by tax rate changes)		
<u>Employment:</u>		
Payroll Employment	3.0%	3.0%
Residents Employed	3.0%	3.4%
Unemployed Persons (prelim.)	-4.5%	-11.2%
Unemployment Rate (prelim.)	-0.3% pts.	-0.6% pts.
Help-wanted Advertising	17.4%	8.1%
<u>Construction:</u>		
Total Construction Contract Awards	-4.4%	2.4%
Residential Construction Contracts	-2.6%	27.1%
Housing Permits	4.8%	2.5%
<u>Banking:</u>		
Bank Deposits (thru 3qtrs)	4.9%	1.4%
Bank Non-performing Loans (3qtrs)	-20.5%	-12.4%
Bankruptcies	-7.6%	-3.8%
<u>Social Assistance:</u>		
AFDC Caseload	-5.5%	-5.6%
Food Stamps Caseload	-3.3%	-3.0%
<u>Prices (ann. avgs.):</u>		
Mortgage Rates (30-year fixed)	0.7 pts.	.5 pts.
Gasoline Prices	4.9%	34.1%

TAXABLE RETAIL SALES

Maine Consumer Retail Sales increased by 4% in 2000, less than half the growth rate of each of the two previous years. Building Supply store-types chalked up the fastest growth rate, a healthy 8%, but this was down from 14.7% in 1999. In fact, all six store-type groups which are tracked had slower growth in 2000 than in the previous year. The "Other Retail" group (mostly smaller specialty stores) was weakest, with only 3% growth for the year.

ERROR CORRECTION

After this publication went to print, an error was discovered in the retail sales data. Maine Consumer Retail Sales increased by 4.5% in 2000, and not 4.0% as shown in the table on page 2. This error also affected the two charts on page 3; the correct data is shown in the two charts below.



Regionally, The Kennebec and Mid-Coast Economic Districts had the highest Consumer Sales growth rates, while the Penobscot and Northern Maine (Aroostook) Districts had the lowest rates. Interestingly, the Penobscot District had the highest growth rate in 1999 (10.8%) and the lowest (1.1%) in 2000.

**MAINE PAYROLL EMPLOYMENT
JOB CHANGE BETWEEN 1999 AND 2000**

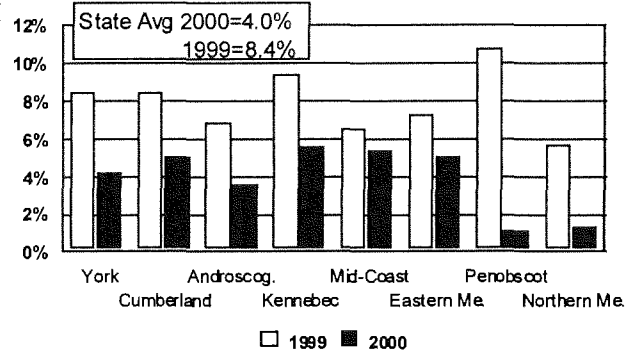
	Jobs Chg.	Pct. Chg.
TOTAL	17,800	3.0%
SERVICES	8,500	4.9%
RETAIL TRADE	4,000	3.4%
GOVERNMENT	3,200	3.3%
CONSTRUCTION	1,600	5.7%
FINAN/INSUR/R.ESTATE	900	2.9%
WHOLESALE TRADE	400	1.5%
TRANSPORT/PUB.UTILS.	200	0.8%
MANUFACTURING	(1,000)	-1.2%

**UNEMPLOYMENT RATES OF MAINE COUNTIES
Annual Averages**

	1999	2000
MAINE	4.1	3.3
CUMBERLAND	2.3	2.0
YORK	2.8	2.5
KNOX	3.0	2.6
SAGadahoc	3.0	2.6
LINCOLN	2.9	2.7
ANDROSCOG.	4.0	3.5
PENOBSCOT	4.3	3.8
WALDO	4.4	3.9
KENNEBEC	4.5	3.9
AROOSTOOK	5.6	4.4
HANCOCK	5.3	4.5
OXFORD	6.7	5.4
SOMERSET	7.4	6.1
PISCATAQUIS	7.1	6.5
FRANKLIN	7.0	6.6
WASHINGTON	8.9	7.8

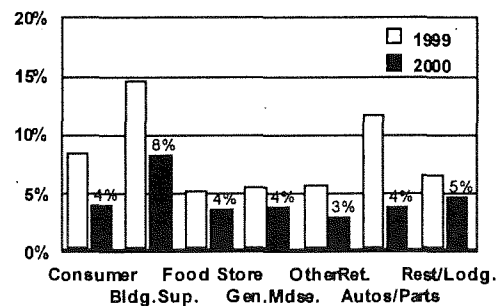
2000 preliminary, 1999 revised.

**Consumer Retail Sales Growth 1999-00
Maine Economic Districts**



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

**Taxable Retail Sales Growth 1999-00
by Store-Type Group**

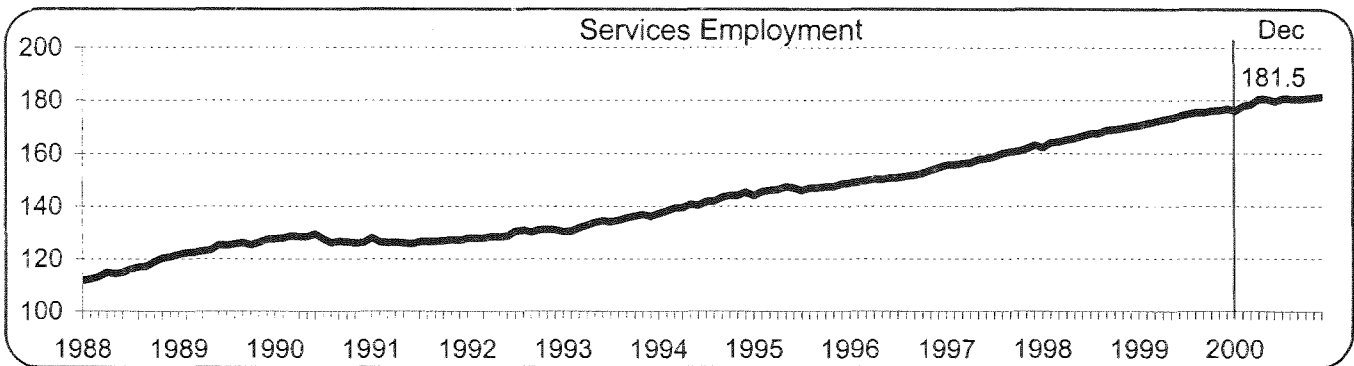
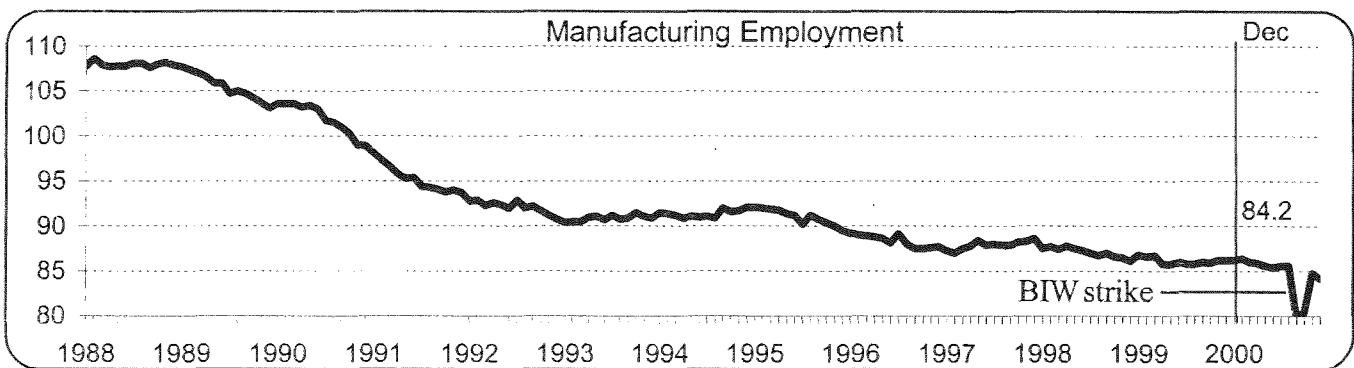
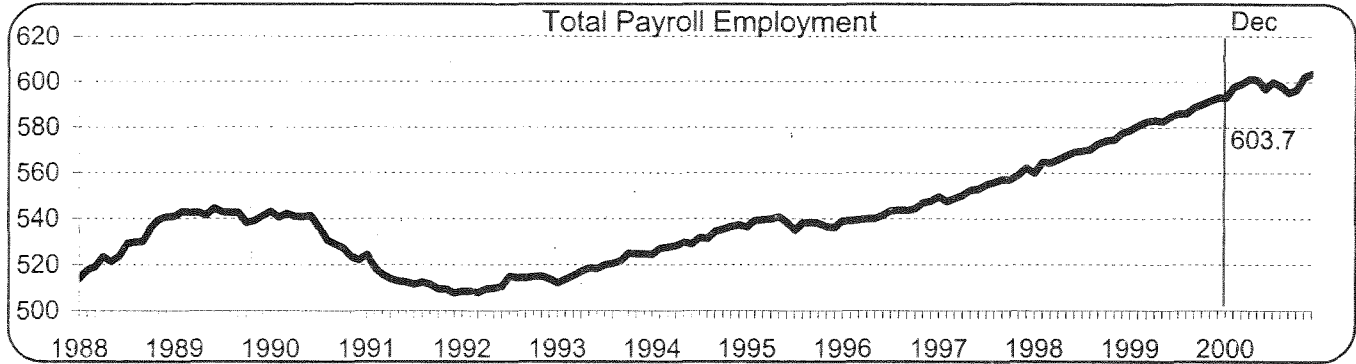


SUMMARY

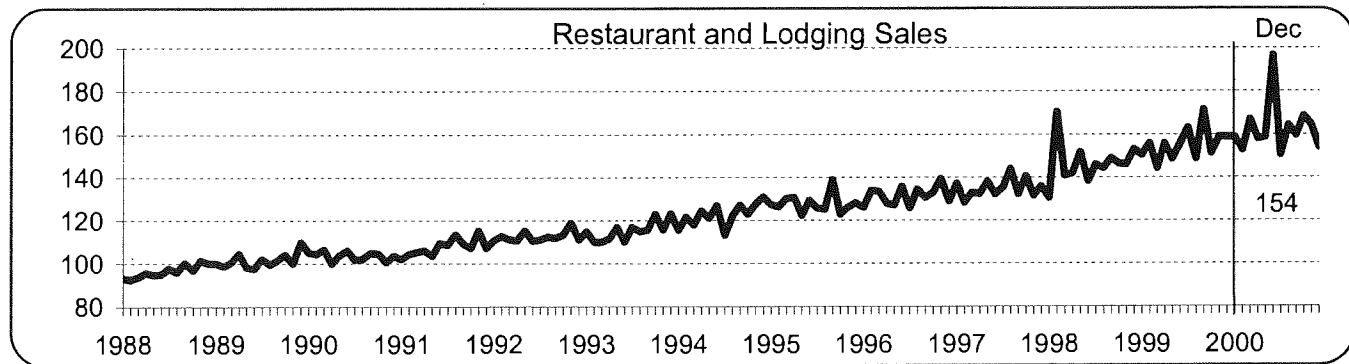
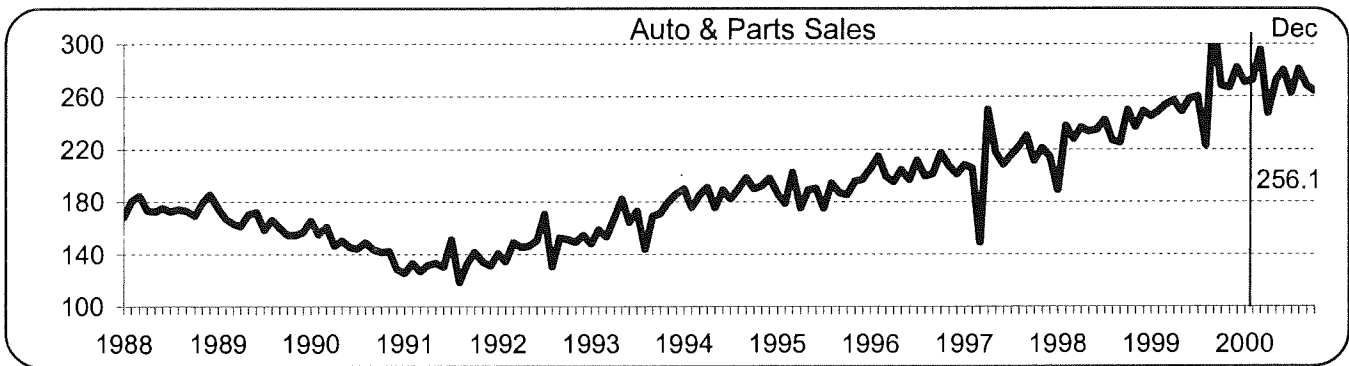
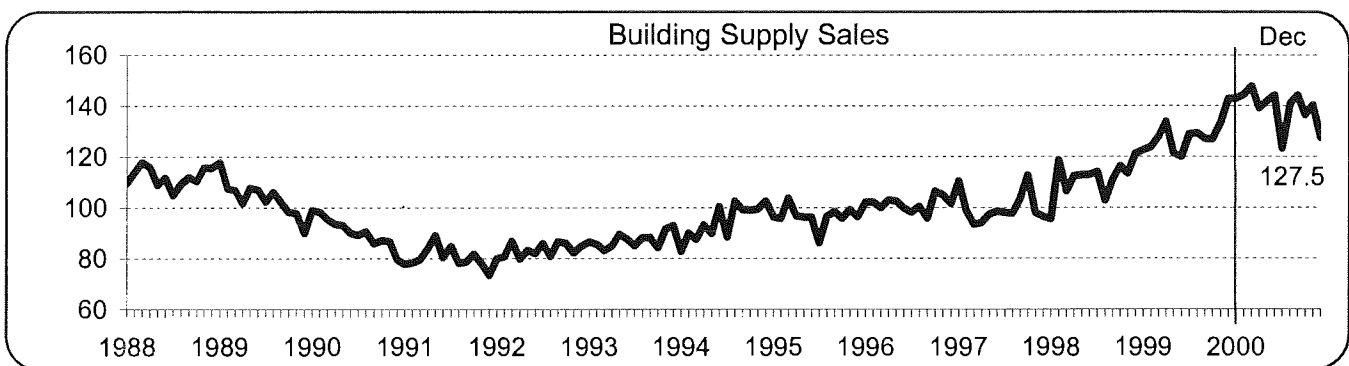
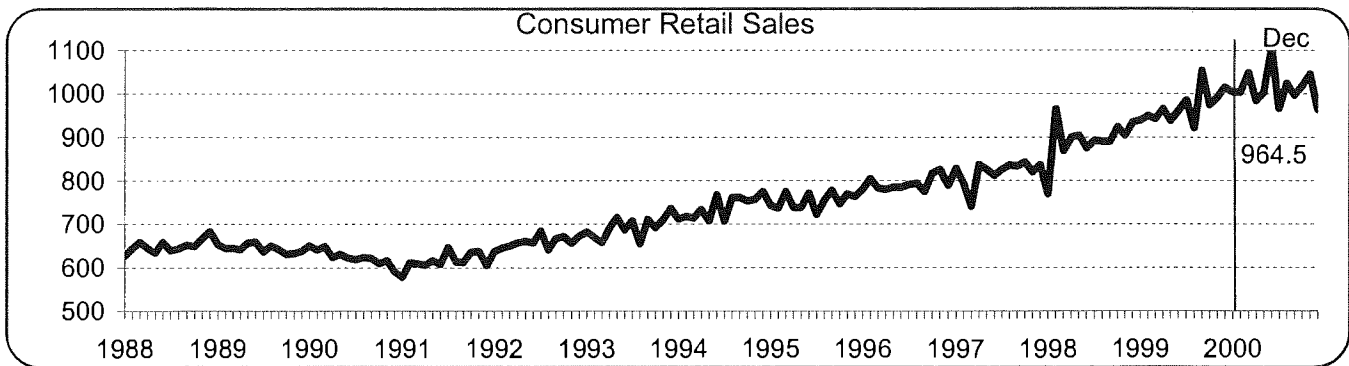
Once upon a time, major turning points in the Maine economy lagged those of the US economy. But no more. In this electronic age, national shifts are reflected immediately in Maine's indicators. Thus, when the national economy began to sputter, about midyear, the Maine economy coughed, and the State and nation both experienced strong growth for the first half-year and weak growth in the second half-year.

Maine employment and personal income growth rates over the past few years have not kept pace with national rates due largely to much slower population growth. Yet, Maine's unemployment rate has been below the national rate for the past year and a half, so Maine has actually outperformed the nation when it comes to providing jobs for its citizens. And, slow population growth is not in itself a bad thing. It allows us to absorb the growth within the limits of our environment and infrastructure. The challenge is to moderate growth where it is overheated and reverse the trend where there are population losses.

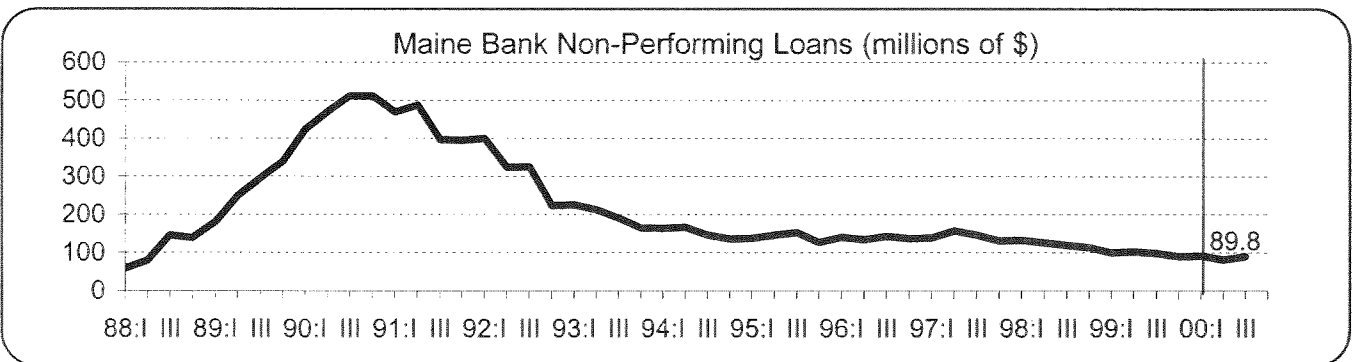
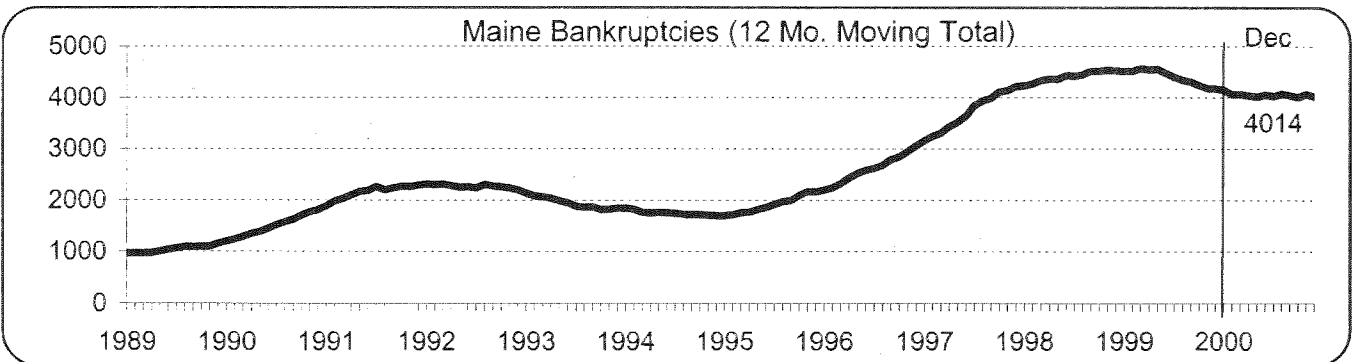
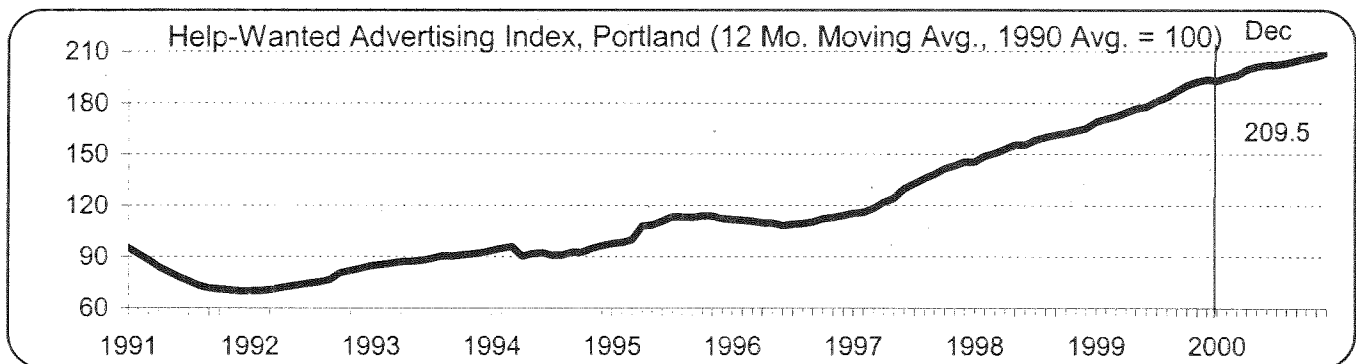
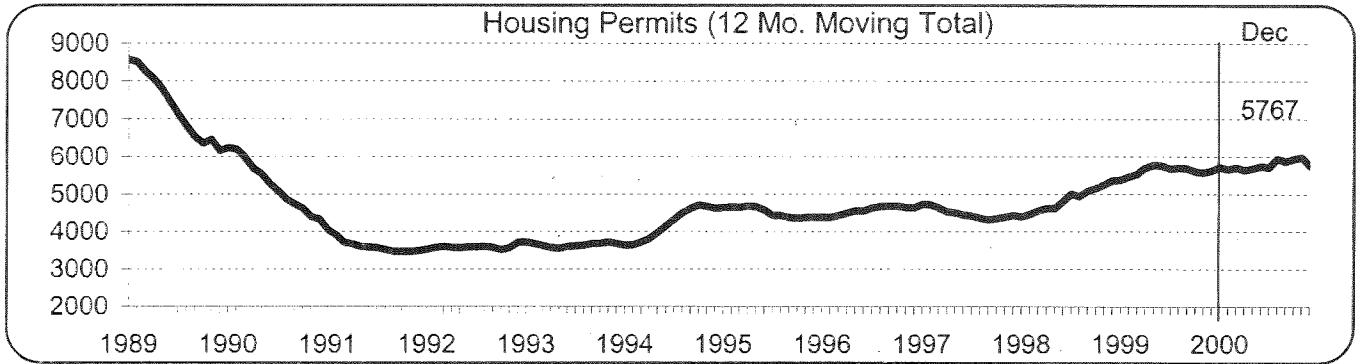
Maine Payroll Employment (seasonally adjusted 1,000's)



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



Miscellaneous Economic Indicators



The Ten Most Significant Economic Events in Maine in 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.

Take Two Aspirin...

Health care costs were frequently in the news in 2000. While Mainers organized bus trips to buy cheaper medicines in Canada, the Governor and Legislature collaborated on a law to reduce prescription drug prices. However, a Federal judge halted enforcement of the law until the courts review its constitutionality. A blue ribbon commission on health care appointed by the Governor observed that many of the most expensive medical procedures are the result of Mainers smoking too much, eating too much, and exercising too little, and concluded that a larger share of health care expenditures should go for disease prevention. The commission also pointed out that "Decisions made in Washington as to who receives services, how those services are provided, and how much is paid for them..." shape what Maine consumers, employers and state government must pay for health care.

Fuel for Thought

During the winter of 1999-2000, Maine experienced a weather induced demand surge in the midst of an already strained heating oil market, causing extreme price volatility. During mid-January 2000, heating fuel prices jumped almost 50% in a few weeks, prompting speculation about the causes of such a dramatic price spike. The price increases in Maine were also experienced in the rest of the Northeast and in the Midwest. One of the key factors causing the price spike was exceptionally cold weather which reduced New England heating oil inventories and created transportation obstacles. Maine consumers spent almost 50% more for their heating oil needs than the year before. Aside from escalating crude oil prices in the world market, unanticipated demand was the single largest factor affecting oil prices during 2000. Unfortunately, the way this complex world oil market operates these days, the supply/price problems of winter 2000, could and probably will recur.

Life in the Slow Lane

On December 28, 2000, the US Census Bureau released its unadjusted Census 2000 state population totals, and there are more of us than we thought, which is good news for Maine businesses. Maine's resident population was reported at 1,274,923 - 40th in the nation. Maine's 1990 Census population was 1,227,928. Thus Maine's Census population increased by only 46,995 over the decade, or 3.8% - 46th in the nation. By way of comparison, the national population increased 13.2%

over the decade, and New England increased 5.4% over the decade. So, Maine's population is growing, but slower than its region, and much slower than the nation. Interestingly, the Bureau's most recent intercensal estimate for Maine, as of July 1, 1999, was 1,253,040. This indicates an increase of 21,883 during the period from July 1, 1999 through April 1, 2000, placing almost half of the decade's increase in its last nine months. This suggests that the Bureau's intercensal estimates have been low. Census 2000 county and town populations will be released by the end of March, 2001, at which time similar analysis of population trends within the state will be possible.

Call ME, please!

Call centers continued to be the fastest growing sector of Maine's economy in 2000. Employment at Maine call centers, establishments set up to provide some sort of service to callers over the phone, grew twenty-four percent from the third quarter of 1999 to the third quarter of 2000 when the total number of jobs was slightly under 10,000. While there are approximately 20 firms in this sector, depending on how it is defined, two companies, Envisionet and MBNA, accounted for over half of total employment in the sector in the third quarter of 2000. These two firms probably created more jobs during 2000 than any other business in the State. This sector has a significant seasonal component, causing large employment increases during the Christmas season.

Defensive Maneuvers

It was another eventful year for Maine's largest private employer. On July 2, 2000, Bath Iron Works launched its 20th Arleigh Burke Class AEGIS Destroyer. Madeline Albright, US Secretary of State, christened the ship, the McCampbell, in honor of the Navy's top World War II ace pilot. Also, two of the Company's three new shipbuilding ways were completed by year's end. The bad news was a 55 day strike which began on August 27. However, the strike resulted in a three and one half year contract with three of the Company's four unions.

The future still looks bright for BIW, as a number of lucrative new contracts were signed. On January 3 the Navy awarded BIW a \$74 million contract for engineering services in the AEGIS Destroyer program. Then, on February 15, the Navy awarded a \$492 million contract to the Avondale Alliance for the first of four planned amphibious ships. The value of the contract to BIW is approximately \$440 million. On July 2 the Office of Naval Research awarded to BIW and the University of Maine a \$9.2

The Maine Economy in 2000

million contract for the design and manufacture of an advanced propulsion system for a technical demonstration vessel. The vessel will feature an electric drive propulsion, eliminating mechanical gearing, which will be housed in a pod fabricated with advanced composite materials developed by the University.

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

Rational Pessimism

A widely expected and long-awaited US stock market correction struck with a vengeance in the fall of 2000. The S&P 500 Index had scored annual gains of 20% or more for 5 straight years (based on December averages) before "irrational exuberance" metamorphosed into rational second thoughts in October. Between December 1999 and December 2000, the S&P 500 declined by about -7%, while the technology-heavy NASDAQ was off -23%. Although we cannot accurately calculate the effects of these declining asset values on the Maine economy, the negative impacts on consumer spending and income tax revenues will be substantial.

An Off-peak Experience

The current national economic expansion, if indeed we still have an expansion, was due to celebrate its 10th anniversary in March 2001. The previous post-WWII record for an expansion was 105 months, during the 1960's. Thus, the current expansion set the record over a year ago. It has been a wild ride of rapid growth based on strong stock markets, rising productivity and low inflation, even generating surpluses in the national budget. Alas, nothing lasts forever, and the national and State economies both began to weaken about midyear. In the 4th quarter, US real economic growth slipped to an annual rate of just 1.1%, and during the 1st quarter of 2001, recession appeared possible, if not probable. If it happens, most analysts are expecting that it will be short and shallow, given that the economic fundamentals appear pretty solid [for more on this topic, see the Overview and US and New England Outlook sections].

They Really, Really Love ME

It was a big, big year for tourism in Maine in 2000. While the official figures aren't in yet, the 6.3% increase in taxable lodging sales for the year suggests an increase in tourist expenditures of a similar amount, or about \$5.25 billion or more. Two of the biggest special events were OpSail Maine 2000 (tall ships in Portland) and the Family Motor Coach Association Summer 2000 Convention. An estimated 440,000 people attended OpSail, about twice as many as expected, so the projected \$10 to \$30 million in visitor expenditures was likely easily surpassed. The Motor Coach Convention, held at Brunswick Naval Air Station, drew over 7,600 motor coaches plus an additional 5,000 or more

daily visitors. The convention was estimated to have pumped roughly \$30 million into the local economy. Additionally, annual events such as the Maine Lobster Festival, the Yarmouth Clam Festival, and the Great Falls Balloon Festival are thought to have achieved record or near-record attendance.

Give ME a Little Credit, Please...

By virtually every major indicator, Maine's economic performance has been exceptional for the past 5 years. And yet, bankruptcy filings have skyrocketed through the late 90's, settling at the 4,100 level during 2000. Why, you may wonder, in a time of great and prolonged prosperity are bankruptcy filings fully four times higher than during the last business cycle peak in 1989? Ask any banker and the answer will likely be, "Credit cards." It is no secret that, nationally, access to and use of consumer credit have soared, and Mainers appear to have kept in step. This may explain, in part, why, in 5 of the past 9 years, consumer retail sales in Maine grew at nearly twice the rate of personal income. More worrisome is the fact that Maine personal debt levels have climbed from 16% of disposable income in 1993 to 21% today, leaving us vulnerable should a slowdown occur. The State's Office of Consumer Credit Regulation reports that credit counselors today work with consumers whose unsecured credit card debt alone sometimes exceeds \$30,000 or \$40,000. Counselors also warn that average credit card balances among students have risen sharply over the past five years, from \$1,900 to \$2,700. Perhaps it's time that parents and teachers start encouraging our young adults to "Just Say No" to credit!

Can You Say "Infrastructure?"

It was a particularly big year for public infrastructure investment in Maine in 2000. The turnpike widening began in the spring of 2000 and is a 5 year project scheduled for completion in 2005. The widening, along with other modernization and interchange constructions and reconstructions, will be financed with a \$126 million bond issue. Also, The \$47 million Carleton Bridge over the Kennebec in Bath was completed. At 2,592 feet (420 foot spans), this is the longest span bridge of its particular type in North America. It was also a banner year for upgrading government facilities. A total of \$122 million was contracted last year. Major projects included renovations of the State Capitol Building and the State Office Building in Augusta, a new Veterans' Cemetery, and sizable investments in correctional facilities, including a new prison in Warren, major redevelopment at both Charleston and South Portland, and a new Maine Criminal Justice Academy.

The Economic Wildcards...

The US Economy has enjoyed a strong, record-breaking run during this decade-long expansion. Real Gross Domestic Product (GDP) has grown in excess of 4% since 1997, and even accelerated to 5% in 2000. Inflation has remained below 4% for 9 straight years, which is virtually unheard of, and the national jobless rate fell to 4% in 2000 for the first time in 3 decades. By nearly every measure, the nineties were a time of tremendous prosperity for Americans, and we entered the new millennium with great flourish.

A closer look within the year 2000, however, tends to dampen the celebratory mood. Though the year started strong, by midyear the pace had slowed and we practically crawled across the finish line. As 2000 drew toward a conclusion, consumer confidence plummeted, taking auto sales and seasonal retail sales with it. The cause for such a sudden turn in consumer confidence? It appears to have come from the one-two punch of soaring energy prices and plunging stock markets. Unfortunately, these two factors continued to wreak havoc with consumer confidence at year's end, casting a long shadow over the outlook.

The good news is that the baseline forecast is for continued, albeit slower, growth (Figure 1). The pace of GDP growth is expected to drop from 5% to 2%, but no recession is currently projected. Forecasters believe inflation will be kept under wraps throughout the period. The bad news is that the probability of the US slipping into a recession has risen to 30%. The wild cards of oil prices and stock market activity will strongly influence economic performance in 2001 and currently pose the greatest risks to the forecast. The serious nature of our precarious economic position has become evident as the Federal Reserve in March 2001 made it's third interest rate cut in 3 months, and expressed a willingness to go even further if necessary.

After several years of being a non-issue, oil price increases returned in 2000 (Figure 2), climbing to nearly three times early 1999 levels while natural gas prices increased 5-fold over the same period. Rapid run-ups in oil prices have preceded our last four national downturns and, therefore, bear close watching. The strong influence of the stock market on consumer sentiment, on the other hand, is a relatively new phenomenon. As mutual funds and 401k plans have permeated the investment scene, more Americans than ever before are touched by stock market activity. In fact, the stock market induced "wealth effect" is believed to have fueled consumers' willingness to spend in recent years. Analysts fear, however, that the recent downward plunge in stocks (Figure 3) will cause consumers to retrench in reaction to the sudden loss in their portfolio values. The ability of the Federal Reserve and the Administration to curb recent pessimism remains to be seen, but one thing is sure, neither will let this economy fall without a valiant fight!

As for the New England region, it has been doing very well and its economic fortunes will continue to reflect national forces.

Fig. 1
Real Gross Domestic Product and Consumer Price Index

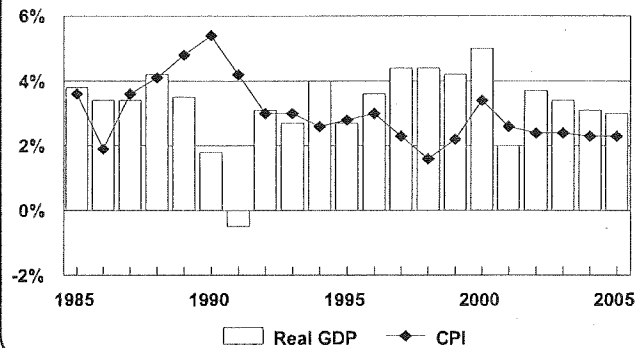


Fig. 2
**US Oil Price (\$ per barrel)
Domestic West Texas Intermediate**

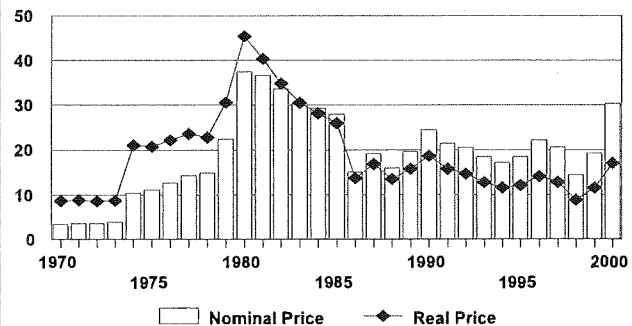
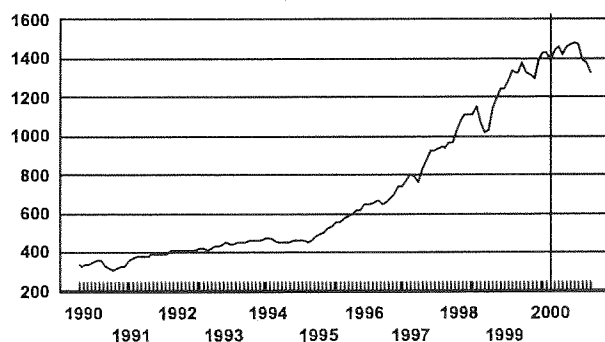


Fig. 3
S&P 500 Index (1941-43=100)



The Maine Economy...Following Suit

Like the nation, Maine's economic performance has been stellar. After struggling to regain its footing during the deep and protracted recession of 1990 and 1991, Maine's economy gingerly began to walk through the mid-90s before accelerating to a full sprint at the close of the decade. Employment has grown near 3% for 3 straight years, income growth has averaged 4.5-5% for four years, and unemployment rates have been cut in half. The vibrancy of recent income gains has led to a surge in both consumer confidence and retail sales, and State tax collections have been exceptionally strong.

As the year 2000 drew to a close, however, Maine's economy had slowed to a crawl. Due in part to the aforementioned wild cards of a plummeting stock market and soaring energy prices which caused national consumer confidence to tumble, Maine's consumer sentiment has followed suit, dropping dramatically and raising the specter of a dreaded "recession". Undoubtedly, the risk of slipping into a recession has never been greater during this business cycle. That said, Maine's economy is not nearly as bloated as it was in 1989. Virtually 100% of the region's financial institutions are profitable and non-performing loans remain at very low levels, meaning our financial underpinnings are far stronger than a decade ago. The rampant overbuilding and speculative real estate ventures that characterized the 80s are far less an issue right now. Our largest employers who had dramatically overstaffed during the last expansion have been unable to fill "essential" jobs during this period of growth much less the "would be nice" positions of yesteryear. With the exception of some noticeable bloating in the area of personal debt, Maine's economy is leaner, meaner, and more diverse, leaving us far better able to survive a downturn.

Regardless of whether the nation and Maine slip into a recession, there are two factors that will shape and, potentially, hinder Maine's growth going forward. One factor is labor market tightness. As a result of significant job growth, unemployment rates have plummeted (Figure 1). Maine's jobless rate is at a fraction of its 1991 peak and, as of early 2001, has fallen well below the US rate. Help wanted advertising lineage has doubled in 5 years. Maine's labor force participation reached a historic high near 70% during the late 1990s. Employers are now finding it exceptionally difficult to find labor. The extreme tightness of the labor market is highlighted by billboards offering \$12 per hour wages for pizza delivery jobs and benefits and retirement plans for sandwich shop employees. Tales of work hour reductions and even closures have been told as employers grapple with the shortages. The Maine Metal Products Association reports that there are over 2,000 well paying jobs currently unfilled, and companies in that industry have gone to fairly desperate measures to attract workers including signing bonuses and full educational payments. In the health care industry, shortages of nurses have become critical. Some hospitals are bringing in

nurses from Canada to relieve some of the pressure.

Continued on page 13

Fig. 1

Maine & US Unemployment Rates

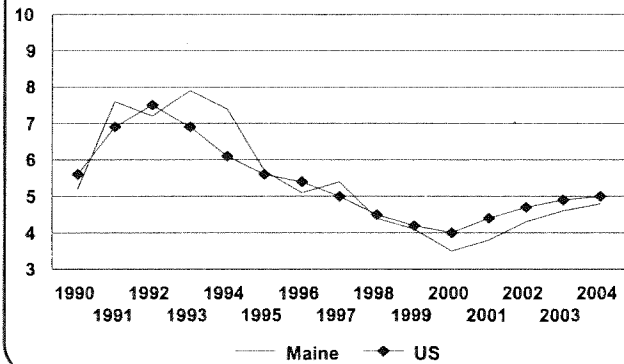


Fig. 2

**Maine Personal Debt Levels
(Credit Outstanding as % of Disposable Income)**

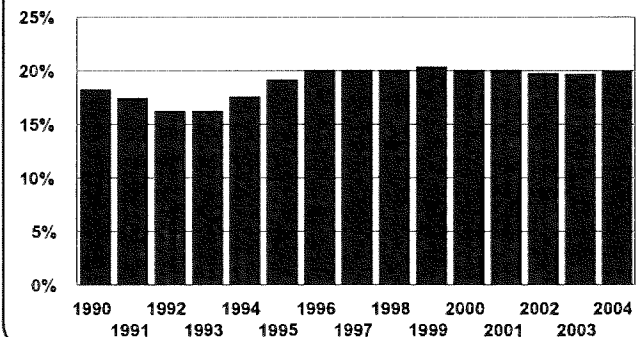
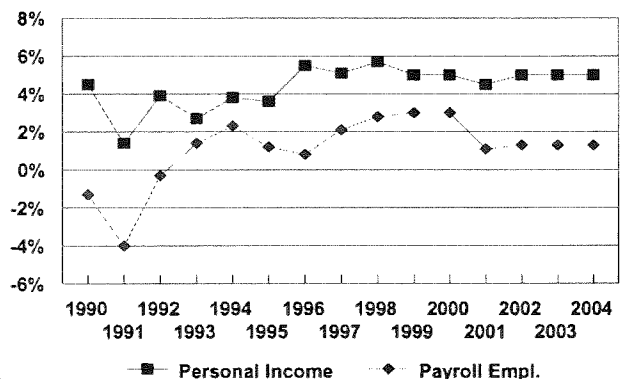


Fig. 3

Major Indicators of Maine Growth



ISSUES FOR THE FUTURE

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

The 30 and 1000 Initiative

A new initiative called "30 and 1000" seeks to raise per capita income in Maine to the national average by 2010. To achieve this, the initiative proposes increasing the number of adults in Maine with college degrees to 30% and increasing investments in research and development to \$1,000 a year per worker. The proposals reflect the observations: (1) that low per capita state income is associated with both a low percentage of adults with college degrees and a low investment per worker, and (2) that Maine, which ranks 36th in per capita income, fits this pattern, ranking 47th in the percentage of adults with college degrees and 46th in the amount per worker invested in research and development. Several meetings during 2000, the first chaired by Governor King, brought together people from business, higher education and State government to discuss these proposals. A draft paper offering more detail about the proposal can be found on the State Planning Office's world wide web site at <http://janus.state.me.us/spo/publications/publications.htm>

Utility Restructuring

With California's rolling blackouts as headline news, Maine people cannot help but wonder what their own future will bring. Will restructuring of Maine's retail electric markets result in California-style blackouts in 2001? It cannot. California's shortages have been driven by factors unique to California — including a financial situation where restrictions on wholesale purchasing and a cap on retail prices resulted in utilities providing electricity to consumers at a significant loss, and wholesale marketers reluctant to provide power to utilities who might not be able to pay their debts. California consumers got a low price guarantee, but what did it buy them? Maine's situation is different. Maine's consumers may see more price variability than they have in the past due to timely pass-through of wholesale energy costs, but the lights will stay on — subject to Mother Nature's whims, of course.

Maine's electricity future depends far less on development of its state-specific retail market than it does on the success of regional wholesale markets and changes in fossil fuel prices. Maine's electricity future will depend on the region's ability to foster vibrant wholesale competition, limiting the exercise of market power, and providing enough resource diversity that electricity prices are not held hostage by fossil fuel price fluctuations. In these things, New England faces challenges similar to challenges faced in California, New York, the mid-atlantic, and other wholesale markets nationwide. In the short term, Maine will likely see continued price volatility as problems with market structure and operation are identified and addressed. And, we will feel the pain of the substantial increases in fossil fuel prices — especially

natural gas — as more and more of the region's generation mix relies on natural gas as its primary fuel.

Countering Sprawl with Smart Growth

Both the Legislature and the King Administration initiated smart growth efforts in 2000 that focused on non-regulatory approaches and the need to rethink many State programs that often, in unintended ways, promote or subsidize sprawl. In the spring of 2000, several successful initiatives converged to bring Maine to the forefront as a national leader in smart growth. Several pieces of landmark legislation were adopted that: direct State agencies to limit growth-related capital investments to locally designated areas (or, in the absence of a locally designated growth area, to areas that have public sewer or are in a Census Designated Place or within an Urban Compact Area); require the State to site office and other civic buildings, first, in downtowns of service centers or, second, in locally designated growth areas; direct additional local revenue sharing to service center communities; expand/modify current use taxation mechanisms in support of land consumptive natural resource-based industries; improve access management requirements on State roadways; appropriate \$1.8 million for smart growth initiatives and the creation of a State Downtown Center; capitalize (with a \$50 million bond issue) the Land for Maine's Future Program which acquires important ecological and productive lands; establish several study committees, task forces, and rule-making efforts to explore additional initiatives for consideration in the 120th Legislative session, including areas of growth management and model ordinances, access management, school siting, affordable housing, building and health safety codes in downtowns, productive natural resource based industries, brownfields, and site location of development.

In addition, the Governor's Cabinet adopted Smart Growth: The Competitive Advantage, a three year action plan for State government, to assure a strong rate of return on public investment, renewed commitment of environmental stewardship, and stepped up efforts to build and strengthen community. A number of smart growth legislative proposals are currently being considered by the 120th Legislature, including the areas of study noted above as well in the areas of geographic information systems, taxation, and targeted investments. Both the Governor's and Legislature's proposals seek to target State growth related capital investments 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, and recognize the impact of transportation policy on development patterns and the need to protect State highway investments.

In the meantime, as a result of the past few years' vibrant

economy, there are significant growth pressures in the southern and some coastal areas of the State and many communities have adopted anti-growth measures like building caps and moratoria that raise concerns about affordable housing and the further impetus to drive development into more and more remote areas further away from the State's traditional job, retail, and service centers. This trend will continue, if not increase, the economic impact of sprawl in Maine.

Environmental Issues

Maine is facing a number of environmental issues with significant implications for its economic and ecological well-being. Four major issues are outlined below.

Mercury in the environment. Prompted by growing public awareness and concerns about the danger of mercury contamination and evidence of elevated mercury levels in the State's environment, the State has over the past several years been working closely with neighboring states and Canadian provinces to eliminate human sources of mercury pollution in the region.

The Maine Department of Environmental Protection (DEP) is leading the efforts to eliminate sources of mercury pollution. Emphasis is being placed on the proper and safe management of household hazardous waste, including mercury-added products, on the reduction and recovery of mercury used in automobiles, and on reduction of mercury emissions from dental procedures.

By addressing the mercury problem from a regional perspective, the State is working to ensure that Maine does not place itself at a competitive disadvantage by acting independently. Potential long term economic implications of this regional effort may involve: bans or restrictions on certain manufactured products containing mercury from the region's markets, and creation or enhancement of markets for alternative, mercury free products; and increased business, municipal, and consumer costs related to handling and disposal of mercury in the waste stream.

The State is currently exploring means to assist municipalities in improving infrastructure to capture mercury products in the waste stream for recycling as part of an overall effort to deal with household hazardous waste.

Aquatic invasive species. As emphasized in the recent report, Maine Invasive Aquatic Species Work Group (Maine Departments of Environmental Protection and Inland Fisheries and Wildlife, 2000),

"The introduction of non-indigenous invasive plant and animal species to the United States has been escalating with widespread destructive consequences. Until now, Maine has been

spared the worst introductions, but this will not last. Significant habitat disruption, loss of native plant and animal communities, loss of property values, reduced fishing and water recreation opportunities, and large public/private expenditures have accompanied invasive plant introductions in all of the lower 48 states except Maine."

While Maine has been spared the worst of this problem, already some local groups are struggling with invasive plants. Maine DEP estimates that the cost of these invasions could prove to be enormous. If the State experienced just a fraction of Vermont's infestation rate in just its 5 southernmost counties, the property value loss alone would exceed \$11 million and control costs could reach \$2-4 million per year. And these figures do not include losses from tourism, fishing, water sports opportunities, and the wholesale alteration of habitat. Experiences in other states suggest that these losses could be huge.

Global climate change. As the name implies, global climate change is an issue that concerns the entire biosphere. Mainstream scientific opinion endorses the view that the best available evidence demonstrates human influence on global climate, largely through emissions of greenhouse gases that contribute to global warming and related effects.

The economic effects of global climate change on Maine will depend on the nature and effectiveness of local, state, national and international efforts to mitigate and curb the problem. In 2000, the State Planning Office and the University of Maine's Margaret Chase Smith Center for Public Policy jointly produced the State of Maine Climate Change Action Plan, expressing the work of the Maine Climate Change Task Force, a broad-based stakeholder group assembled to consider the issue. The Action Plan presents a set of policy options and recommendations for public and private actions appropriate to Maine's economic and environmental conditions.

Clean Air. State implementation of Federal Clean Air Act provisions to reduce sulfur and nitrogen oxides and particulate matter emissions will potentially have a profound effect on manufacturing, power production, and transportation in Maine. Conversely, improvements in air quality will have broad environmental and health benefits. New standards (currently pending) for nitrogen oxide emissions and particulate matter from power plants and manufacturing facilities will most likely require installation of new emissions control devices, which will have a significant cost impact. On the other hand, reductions in emissions and improvements in air quality will have a widespread beneficial effect in lower health costs and lost work time.

Maine Economic Outlook

Continued from page 10

Continued labor market tightness will shape Maine's future for if we are unable to supply appropriately skilled labor to our key industries, we may choke on our own success.

A second factor that will influence growth is Mainers' demonstrated willingness to take on debt. Credit outstanding as a percent of disposable income grew from 16% in 1992 towards 21% in 2000 (Figure 2). Absent a major shift in the pattern of financing purchases, the forecast calls for a continuation of this trend. Along with income growth and stock market performance, debt levels should start to play an increasing role in household purchasing decisions, particularly when it comes to big ticket items like real estate. The wave of refinancings that have come about as a result of interest rate drops provide the perfect opportunity to pay down personal debt, but it remains to be seen how individuals choose to dispose of this new-found cash.

One thing that has become clear in recent years is that Maine's economy is much more closely tied to the US economy than ever before. This means that our near-term economic growth will depend, in large part, on national performance. Absent a shock that sends the US into a slump, Maine will continue to grow, but at a slower rate. Slow population growth, high labor force participation levels, and extremely low unemployment rates will constrict job growth from 3% to the 1.3% level (Figure 3). The forecast anticipates that 2/3s of all job creation will come from the medical, professional and business services sectors, a sizable portion from trade and some job gains in construction. Maine's manufacturing sector is expected to endure continued pressure from foreign competitors, leading to minor job erosion through the forecast period. Income growth will slow slightly, but tight labor markets will keep gains in the vicinity of 5%. In all, Maine's economy will follow the US, though perhaps with a bit less bounce in its step.

THE MAINE ECONOMY:
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2000

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