

News and Commentary

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Maine's economic forecast: Modest growth ahead

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State Economist The Maine State Planning Office is preparing to release its most recent Long Range Economic Forecast for Maine. This forecast includes projections of employment and output for Maine's 52 industries through the year 2005. It also includes statewide population projections through the period. The 100-page report provides a description of each individual industry and puts each sectoral forecast in some historical and national context.

The SPO forecast is a "projection" of our economic future rather than a "prediction." The outlook does not attempt to predict major fires, floods, storms, wars or policy changes that could dramatically alter Maine's economy. Rather, it identifies important market, technical, social, political and demographic forces and quantifies the combined effects of those forces on individual industries. The Long Range Forecast is a planning tool that can be used to plan for and adapt to coming changes or, more proactively, to alert society to potentially undesirable trends that business leaders and policy makers may want to address.

Introduction

By all indicators, the Maine economy is entering a period of extremely modest growth. Following a tumultuous and exciting decade filled with record-breaking activity across many sectors, the nineties promise to be far more sedate. To many, this outlook may be much less thrilling than our recent past. However, given our great concern for protecting Maine's natural beauty and natural resources and for guarding its special "quality of life," the current economic path may well be more realistic as well as far more challenging.

As Figure 1 illustrates, over the upcoming decade and a half, population growth is expected to be virtually non-existent. Employment is forecast to rise at a 1 percent annual rate and output will grow at a modest 2 percent pace. By contrast, from 1970 to 1990, a time frame that included two significant recessions, Maine's population grew at a 1 percent annual rate, employment increases averaged 2.5 percent, and output grew by 3.5 percent annually. Thus, the current outlook calls for a rate of growth that is approximately one-half the pace experienced over the prior 20 years.

There are three primary forces shaping Maine's economy in the upcoming decade:

- *Demographics* - From 1992 to 2005, Maine's population will increase by 10,000 people. By comparison, through the 1970s and 1980s, Maine's population grew by 10,000 every year. This force alone has major implications for housing activity, business development and the demand for consumer goods and services.

- *Defense Cutbacks* - According to an analysis done by Regional Financial Associates, defense spending in Maine during Fiscal Year 1992, including prime contract awards and military payrolls, was \$1.9 billion. This federal expenditure represents 7.6 percent of Maine's Gross State Product and makes Maine fourth in the nation in terms of dependency on defense spending. Given Maine's relative "addiction" to defense dollars, this withdrawal will undoubtedly be painful.

- *Global Competition* - Globally, competition in the manufacture, distribution and sale of goods and services has become extremely intense. Nowhere has that fierce competition been more evident than in Maine's manufacturing sector. Manufacturing was once the heart and soul of Maine's economy. Only four or five decades ago, nearly one out of every two jobs in Maine was a manufacturing job. By 1970, only 25 percent of Maine's employment base was classified as manufacturing. From 1970 to 1990, a time of great economic prosperity, the number of manufacturing jobs actually declined and its contribution to the employment base had further eroded to 15 percent. This forecast estimates that by the year 2005, the importance of the manufacturing sector as a provider of jobs will have further diminished to 12.5 percent.

Population

There are a number of factors causing the projected stagnation in population growth. One of the primary reasons is the aging of the post-World War II baby boomers. The majority of the people in this age cohort, which includes persons born between 1946 and 1964, have passed through the child bearing years. The age cohort now in the child bearing years has 105,000 fewer people. Thus, there are simply fewer people at an age where they can have children, which translates to fewer babies being born. In addition, 98 percent of Maine's population is Caucasian, which has one of the lowest birth rates of the races in the U.S.

Another factor constraining population growth in the state is defense spending. While there will be military cutbacks nationwide between 1992 and 2005, the reduction in Maine will be steeper than that in the nation. Military forces will decline 39 percent in the U.S. and 52 percent in Maine. (See Figure 2.) The closing of Loring Air Force Base will account for the biggest cut in forces. Because of the reduction in military forces and other defense cuts, there will also be little growth in federal civilian jobs in Maine, since half of all such jobs are with the Defense Department. Hence, while federal civilian employment will increase 13 percent nationwide between 1992 and 2005, it will increase only 1 percent in Maine. The military force reductions will generate an out-migration of 17,000 persons between 1992 and 2005 as military personnel and their dependents are reassigned elsewhere. The slow growth in civilian jobs will result in a net out-migration of an additional 15,700.

Finally, when the economic boom of the eighties went bust at the end of the decade, it caused a major shift in Maine's migration patterns. Through much of the 1980s, Maine had enjoyed a net

in-migration, which peaked from 1987 through 1989 at a 10,900 increase per year. The severity of the recession that gripped the region from 1990 through 1992, however, reversed the migration patterns by forcing Maine residents to seek employment elsewhere. The combined effects of the military force reductions, the significant cuts in defense investment dollars flowing into the state, and the out-migration due to the recession led to a forecast of continued net out-migration through 2005.

A statewide projection of 0 percent average annual growth through 2005 does not, however, mean that the population of all regions in Maine will be stagnant. History clearly shows that population changes among the 16 counties can vary considerably. (See Figure 3.) It is our expectation that several regions will grow over the next decade, and others will undoubtedly decline.

Employment

The State Planning Office forecast divides the Maine economy into 52 sectors. Table 1 provides a listing of each industry, ranked by the total number of jobs created in that sector from 1992 to 2005. Forty of those sectors are projected to experience growth, creating over 122,000 jobs. The remaining 12 sectors will combine to eliminate nearly 21,000 jobs through the period. Therefore, Maine's economy will experience a net gain of 101,000 full and part-time positions by 2005.

As Figure 4 shows, a net employment gain of 101,000 over a thirteen year period translates to fewer than 10,000 new jobs being created each year of the forecast. By contrast, during the boom period of the 1980s, there were two or three times that number of new jobs created each year.

Figure 4 also starkly illustrates the severity of the most recent recession relative to the recessions of 1975 and 1980-82. From 1989 to 1992, thirty-four of the fifty-two industrial classifications contributed to a net loss of over 30,000 jobs. Unfortunately, with the slow pace of employment growth being forecast, the jobs lost in the recent downturn will not be fully recovered until 1997.

As with population growth, the statewide forecast of 1 percent annual employment growth does not imply that all regions of Maine will experience this level of increased activity. Figure 5 reminds us that over the past two decades, total employment growth in the state's 16 counties ranged from 13 percent in Aroostook County to 130 percent in Sagadahoc County. We would anticipate that county-level employment growth could vary significantly in the future as well.

Substantial variations in growth will also be seen among the 52 industries. (See Table 1.) Not surprisingly, the sectors projected to experience the largest gains are the same sectors that surged in the eighties, primarily medical, professional and business services, construction, retail trade, restaurants, and lodging places. It also comes as no big surprise that, of the 12 industries projected to endure job losses, 7 are manufacturing sectors that are either Maine's traditional, labor intensive industries or businesses that depend heavily on defense contracts.

Gross State Product

Growth in Maine's gross state product (GSP) has historically followed the national business cycle quite closely. For seven consecutive years (1982-1988), however, Maine outpaced national growth by as much as two full percentage points. As Figure 6 illustrates, the recent recession took a harsher toll on Maine than on the nation. Because of the primary forces driving Maine's economy (demographic changes, defense cutbacks and global competition), Maine's output growth is projected to track national activity through the forecast horizon, but at a slightly lower level. At a compound annual rate of 2.3 percent, Maine's GSP growth will not only be lower than national growth, it will also be significantly below the 3.5 percent GSP annual growth which the state enjoyed over the prior twenty year period. (All production data are in real 1987 dollars.)

The forecast for output growth is much more optimistic than the employment outlook. Not only will output grow at more than twice the annual rate of growth in employment, but the growth will be spread across more of the industrial base. Forty-nine of the fifty-two sectors should experience real increases in value-added. As Table 2 shows, losses in the transportation equipment sector, dominated by Bath Iron Works, account for the majority of total output declines. The net increase in output over the 13 year forecast horizon will be \$6.8 billion.

Government is playing a diminished role in the economy of Maine both as an employer and as a contributor to gross state product. In 1970, 23 percent of all jobs and 19 percent of output were from the public sector. By 1990, the relative importance of government had fallen to 18 percent of jobs and 11 percent of output. The forecast calls for a continuation of this erosion, such that by 2005, only 15 percent of total employment will be in government jobs, and the public sector's contribution to total value-added will have fallen below 10 percent.

Finally, despite the marked structural decline in manufacturing employment (from 25 percent in 1970 to 12.5 percent in 2005) manufacturing's contribution to gross state product will remain extremely stable at 18.5 percent.

Summary

The structure of Maine's economy and the world economy have changed dramatically over the past few decades and will continue to evolve through the nineties and beyond. When a region is prosperous and growing rapidly, as it was in the eighties, it is relatively easy to turn a dollar. There is a great deal of room for error and plenty of money to go around. A slow growth economy, such as that being forecast currently, is far less forgiving. It demands efficiency and punishes waste. It demands that new markets be identified and conquered. It demands that workers acquire the knowledge and skills necessary to truly contribute to an operation or organization. It demands an unyielding attention to the very basics of good business: customer service, continuous quality improvement, market awareness, technical knowledge and proactive leadership.

The next decade promises to be very challenging indeed.

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