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News and Commentary

Grading the Maine economy

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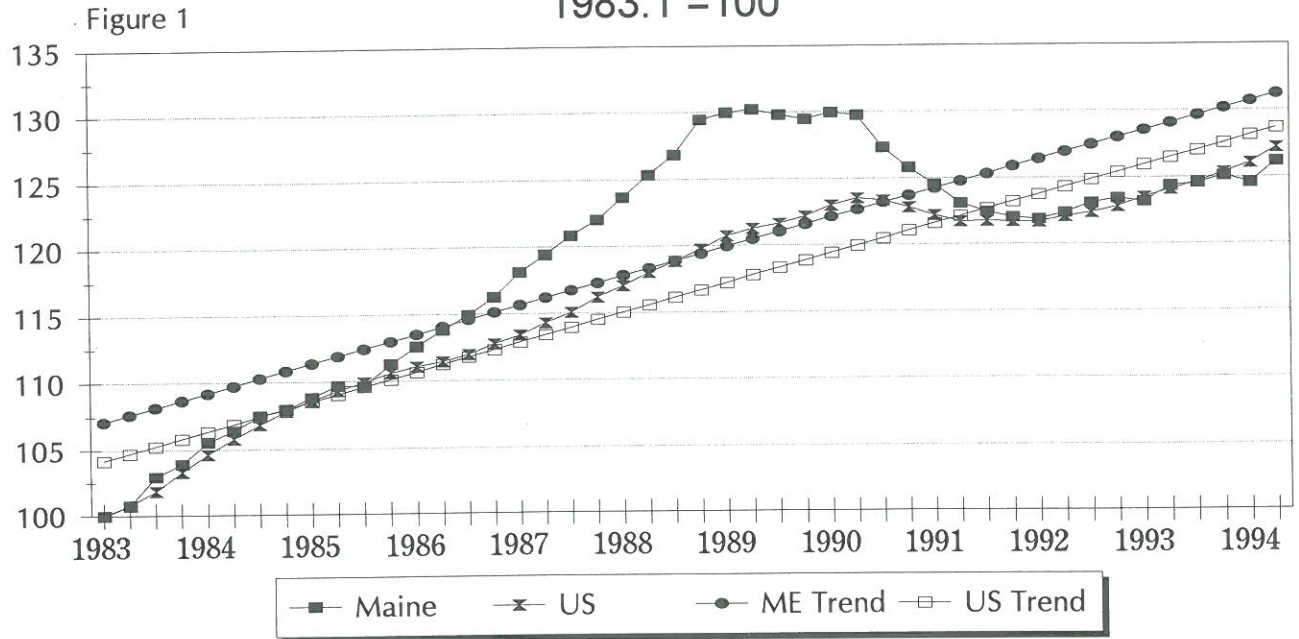
How is the Maine economy doing in 1994? In the following analysis, which was presented at the annual Governor's Conference on Economic Development at the University of Maine in October, I assessed the recent performance of the Maine economy on several dimensions. Each of the measures was assigned a grade, and all grades were averaged to yield an overall grade for the economy.

The first area to be assessed is employment. Figure 1 presents an index of nonfarm employment growth for Maine and the United States, with the first quarter of 1983 set equal to 100 and all subsequent quarters estimated in reference to that period. This permits comparison of growth trends for the Maine and U.S. economies on the same scale. The dramatic employment growth in Maine during the 1980s is evident, particularly as compared with the national economy as a whole. The relatively more severe recession in Maine is also clear.

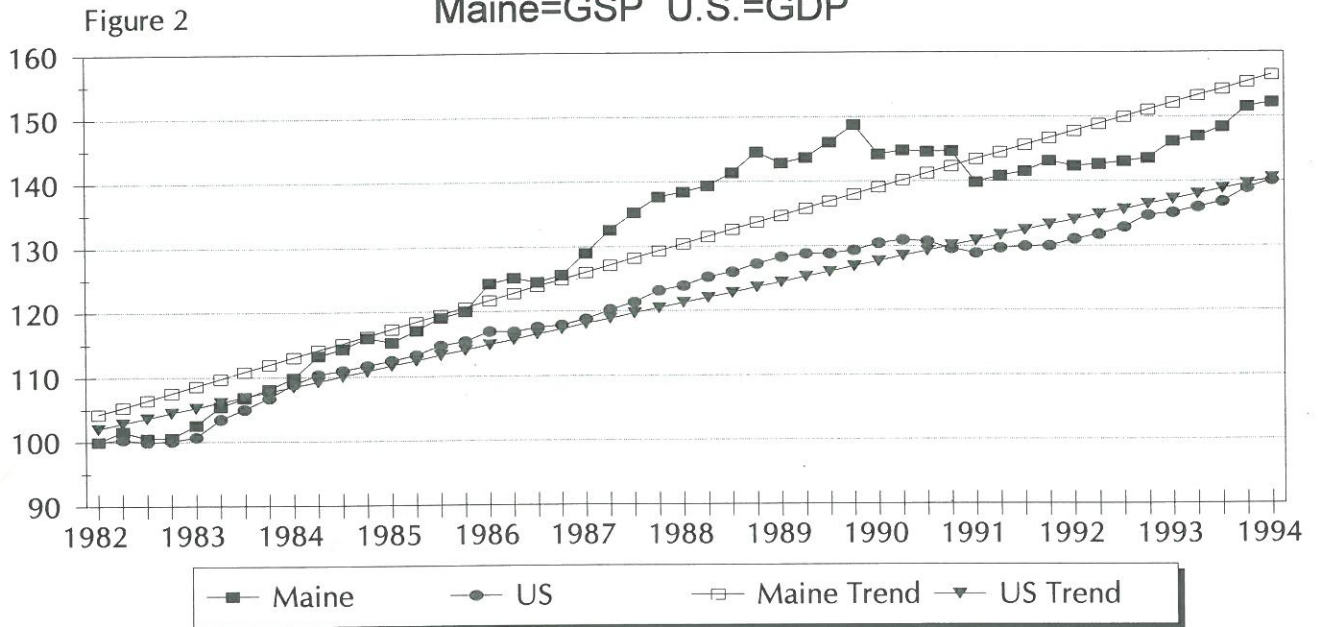
Figure 1 also depicts the long term trends in employment growth for the period from 1983-1993. This permits comparison of recent trends with longer term trends. As may be seen, both the United States and Maine have been adding employment since 1992, but growth remains significantly below each long term trend, with Maine's growth at a greater distance from trend. This weaker performance relative to national trends earns Maine a **C** in the area of employment.

Employment is the economic statistic of greatest concern to most people, but ultimately the most important measure is the total output of goods and services. Figure 2 shows this data using indices of real (after inflation) growth in gross domestic product for the United States and in gross state product for Maine. Again, Maine shows a more rapid growth in the 1980s, resulting in a more robust long term trend. The amplitude of the business cycle is not as great as in employment, but growth in Maine output has not returned to pre-recession or to long term levels. The U.S., on the other hand will return

Total Nonfarm Employment 1983:1 = 100



Real Output Maine=GSP U.S.=GDP



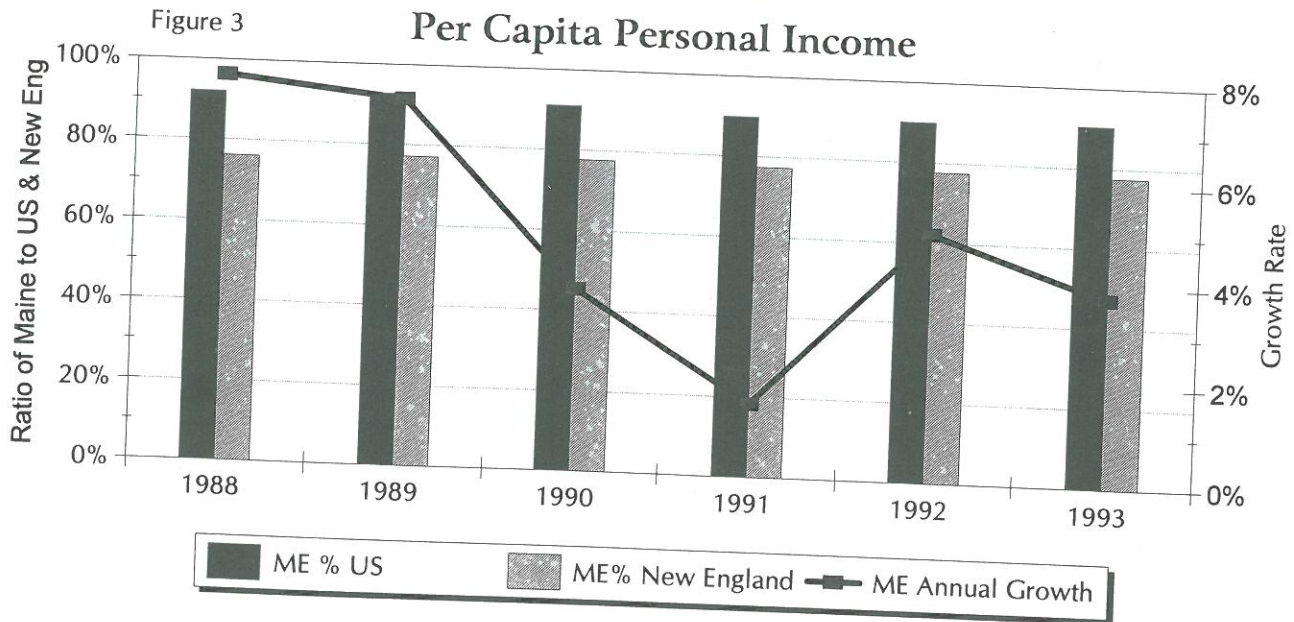
to the long term trend by the end of 1994. Maine's recent weak performance thus offsets the stronger trend, resulting in a **B-** on this measure.

Personal income is another key measure of economic performance. Figure 3 looks at two aspects of Maine personal income: the level of nominal per capita personal income relative to the U.S. and to New England and the annual growth rates for the years from 1988-1993. Data for 1994 are not yet available. Maine personal income is about 90 percent of U.S. per capita income, but lags much further behind the rest of New England. As expected, growth in per capita income declined during the recession, recovered briefly in 1992 but fell back in 1993. This decline in growth rates in 1993 and the lack of progress compared to New England suggest this is still a weak point, earning it a **C-**.

Analysis of regional economies often focuses on manufacturing employment because of the importance of these industries in selling goods outside the region and earning income. But manufacturing is not the only export industry; many service industries such as tourism

and insurance also export economic activity. Figure 4 looks at that portion of employment in all industries involved in selling outside Maine, estimated by Regional Economic Models Inc. for the USM Center for Business and Economic Research. This figure shows the actual levels and trend from 1969-93 (on the left vertical axis) and annual percent changes (on the right vertical axis). Following declines in 1991 and 1993, export employment rebounded in 1993. It has not approached the long term trend, but it is close to the 1989 peak level, suggesting some strength in this measure, rating a **B**.

Unemployment rates are shown in Figure 5 for the first quarter of 1991 to the second quarter of 1994. Maine unemployment rates were lower than the rest of New England until early 1993, but then showed a sharp increase, while unemployment was declining in both New England and the U.S. There was a mild drop in late 1993, followed by a sharp drop in the second quarter of 1994. This recent sharp decline in the unemployment rate raises suspicions that the last figure is an aberration and earns this measure a **D+**



Maine Export Employment

Source: Regional Economic Models Inc.

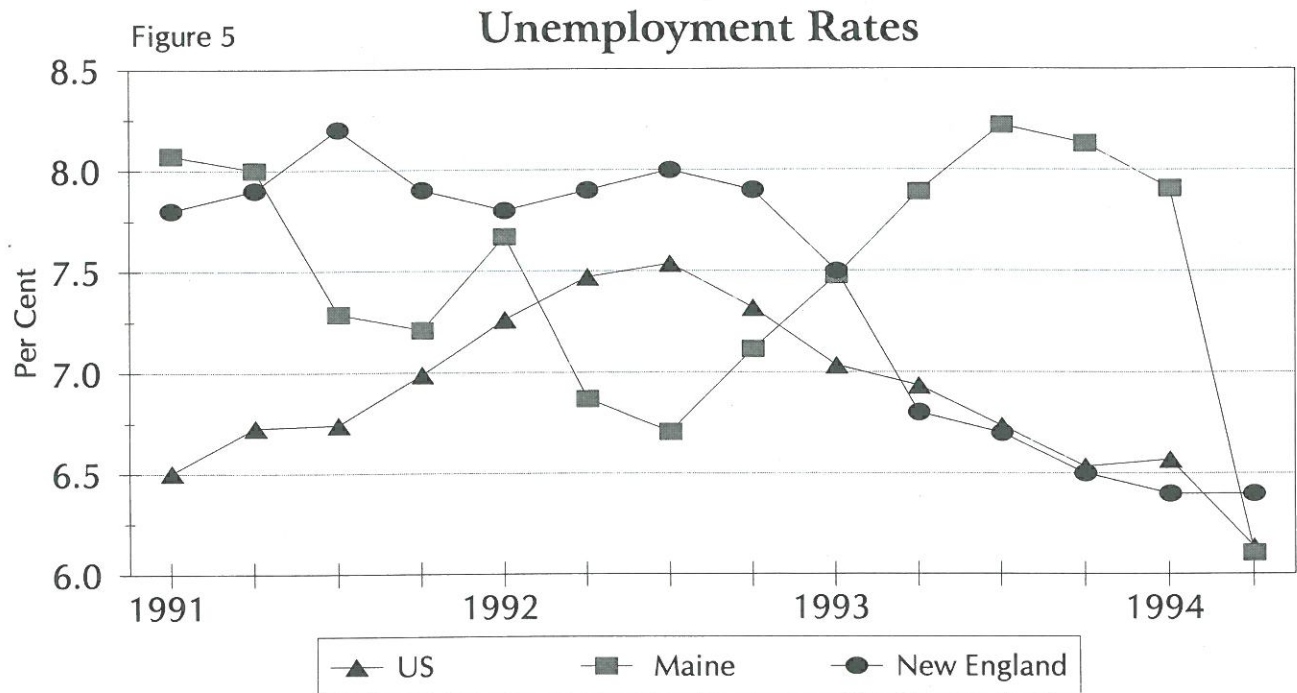
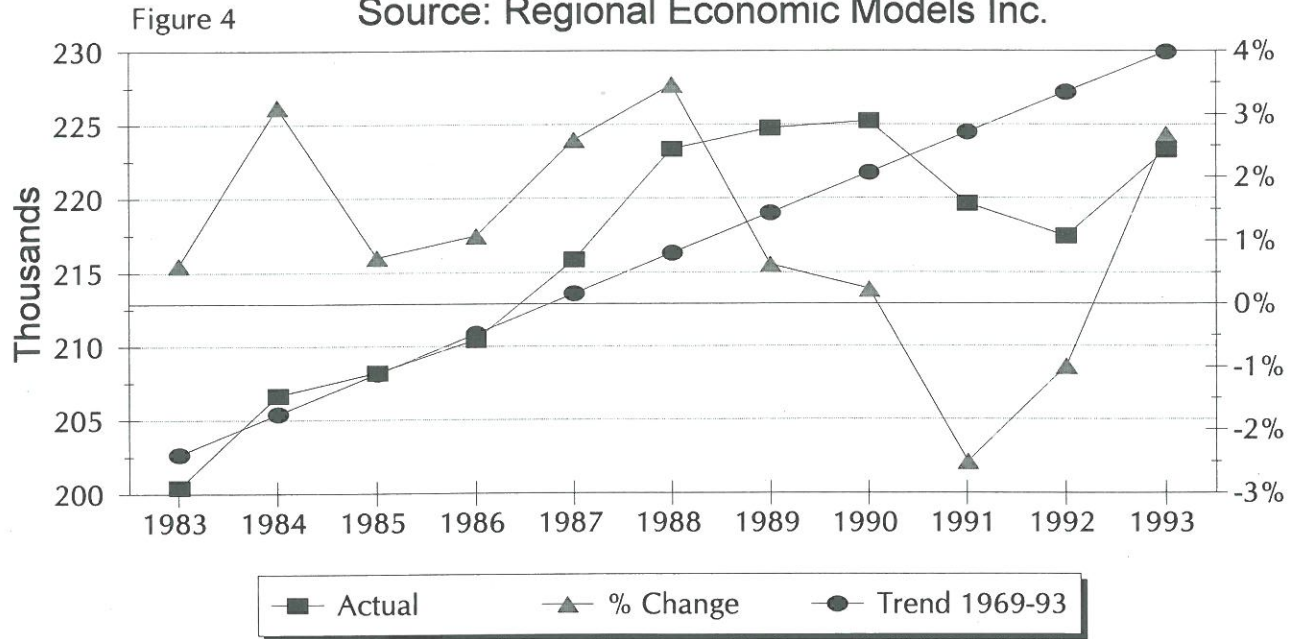


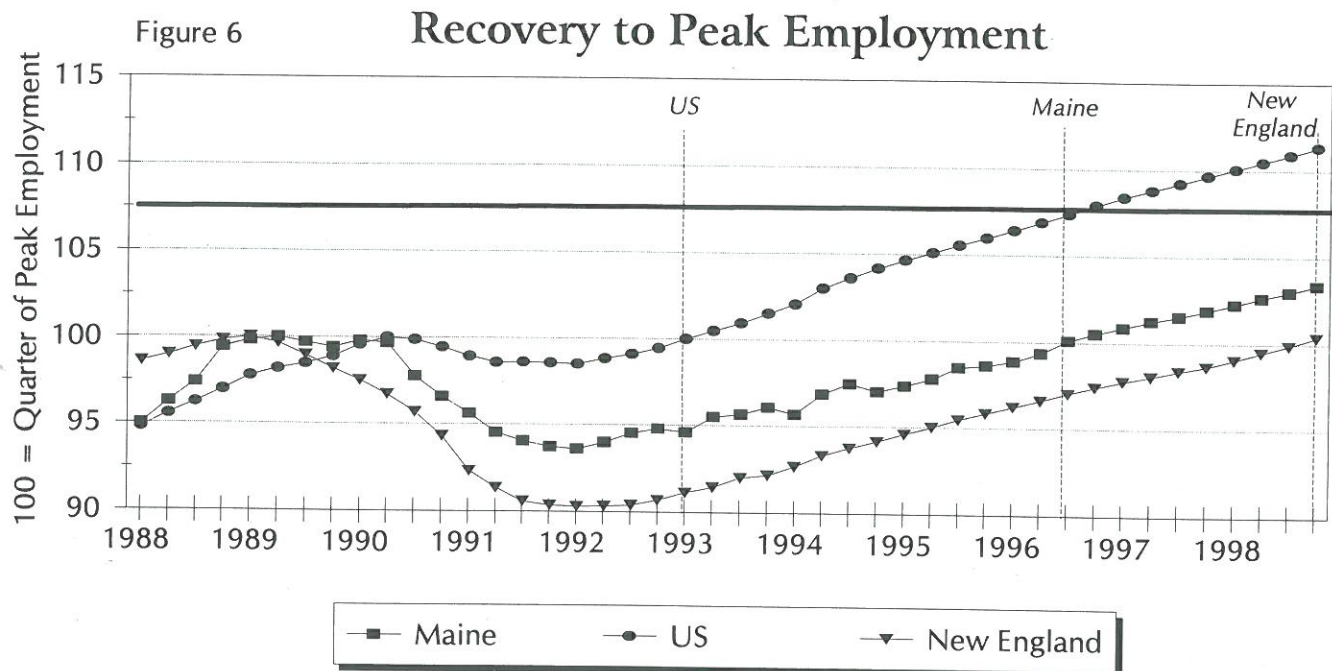
Figure 6 presents the fall 1994 forecast, which I prepared for the New England Economic Project to assess how long it will take Maine to recover all the employment lost during the most recent recession. The United States has already recovered the jobs lost and has been adding net new jobs since early 1993. Maine, on the other hand, is not expected to recover until late 1996. This is not very rapid, but it is still more than two years ahead of New England, which is held back by the continued weaknesses in the Connecticut economy. This measure gets a C-.

The next two figures look at other measures of economic performance. Maine retail sales growth is compared to New England growth and to U.S. growth using an index of the first quarter of 1983 as the base period in Figure 7. Maine shows the strongest growth through the period. While there is a noticeable decline from early 1989 through early 1991 (the earliest indications of both the recession and the recovery), growth in retail sales in Maine picks up steam during the recovery.

In fact, growth appears better than in either New England or the nation. This is thus one of the strongest indicators, earning an A-.

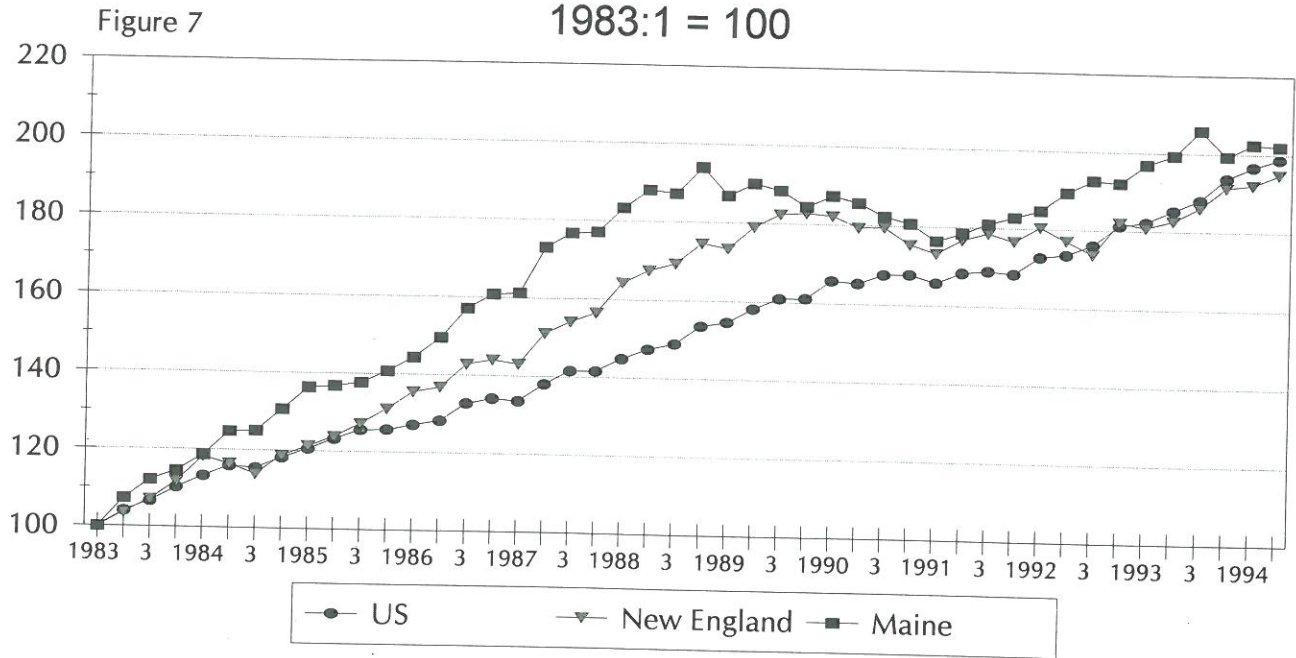
The construction sector is one of the most sensitive to changes in the business cycle, and housing permits are the principal leading indicator of a major part of this industry. Using an index of permit issuances, where the first quarter of 1991 is equal to 100 in Figure 8, Maine stayed very close to the growth trends in New England and the U.S. until 1993, then declines to significantly lower levels. While growth has resumed, this measure only gets a C-.

The final two figures examine trends within the Maine economy itself. These use a statistic called the "unweighted index of variation" to measure the disparities among nine regions within the state in per capita personal income and in employment growth. The higher the figure, the greater the differences among regions; the lower the number, the closer the regions are to one another.



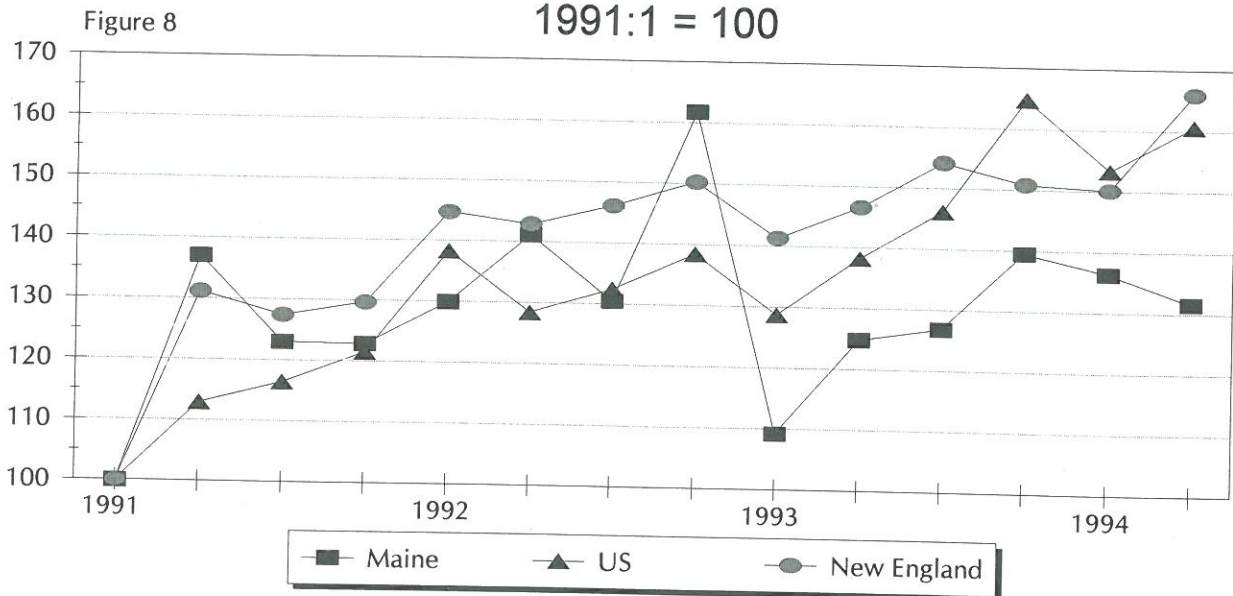
Retail Sales Growth Index

1983:1 = 100



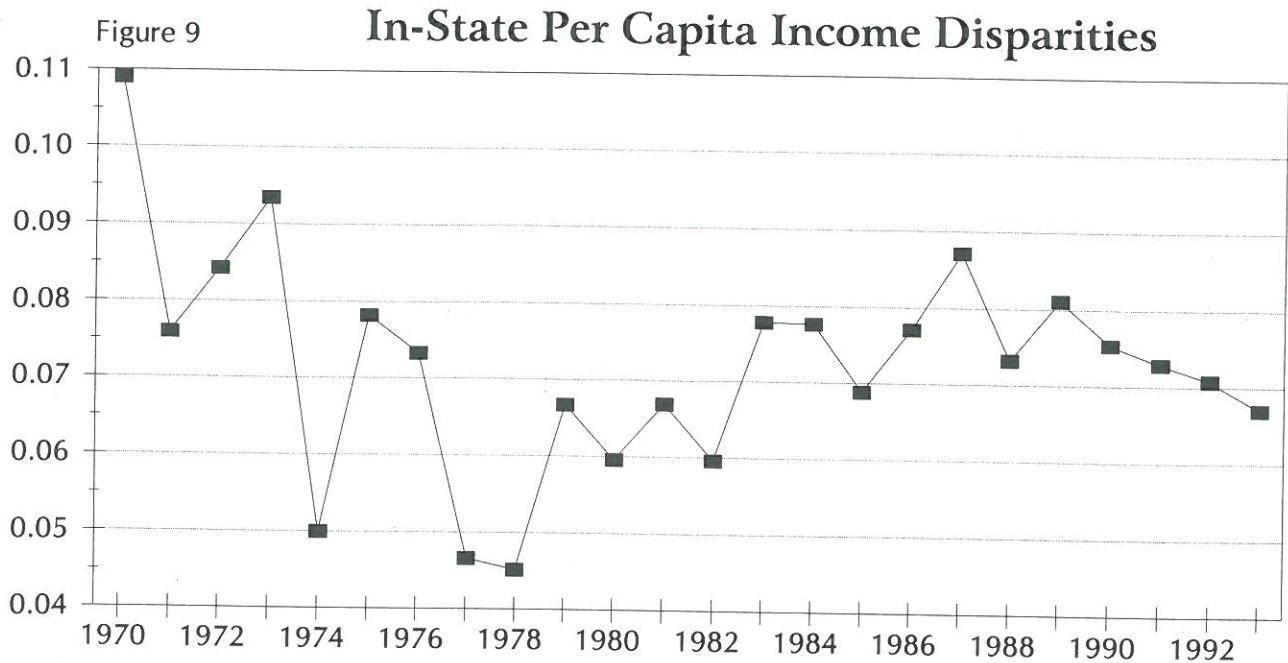
Housing Permits Index

1991:1 = 100



Regional per capita income disparities increased somewhat during the 1980s (Figure 9), but declined slightly from 1989 to 1993. The recession thus did not increase differences in income. Nonetheless, disparities in employment growth (Figure 10) increased greatly during the recession, as also happened during the early 1980s recession. These measures rate a C+ and C respectively.

Taken together, these individual grades yield an overall average of C+ for the Maine economy in terms of its recent performance. The economy has clearly begun to recover from the severe decline that occurred from 1990 to 1992, but there is plenty of room for improvement.



In-state Disparities in Employment Growth

