

THE STATE OF WORKING MAINE

By Kurt Wise and Sarah Richards

2007 was a year of conflicting – and sometimes troubling - trends in the Maine economy. On the upside, the Maine economy grew modestly, as did productivity and per capita personal income. On the downside, gains in median household income – a far better measure of how typical working families are faring – are likely to be erased by the sharp increases for basic consumer goods seen since the end of 2007, leaving families no better off. Job growth was virtually non-existent. While Maine's overall economy performed better than the nation as a whole by some measures, the majority of Maine working families will see little or no improvement in their standard of living. And of course, the review of 2007 offered in this report does not tell us how Maine will have fared when the books finally are closed on 2008; Maine's economic prospects remain clouded by growing uncertainties in the national and global economies.

Trends suggested by data in this report, however, can provide a glimpse at the road ahead. While there is little that Mainers can do to affect the national or global economies, decisions made here at the state level nevertheless will play an important role in determining Maine's longer-term economic trajectory. Certainly, Maine has the capacity for continued economic growth and with it, the opportunity to share the resulting benefits more widely. To achieve these outcomes, however, Maine will need to focus on stimulating the higher wage sectors of the state economy, strengthening workforce skills, addressing long-term demographic trends, and ensuring that wage gains are focused on middle and lower income workers.

ECONOMIC INDICATORS FOR MAINE

Maine's economy continued to grow steadily but slowly in 2007. Maine's Gross Domestic Product by State (formerly Gross State Product) for 2007 was \$48.1 billion in 2007 US dollars. With 1.3% growth from 2006, Maine lagged behind regional (2.1%) and national (2.0%) trends. Looking at longer term growth rates, however, Maine appears to be doing slightly better. With an average annual rate of real GDP growth from 2001 to 2007 of 1.6%, Maine nevertheless lagged behind the New England region (1.8%) and the national rate at 2.6%.¹ Productivity grew by approximately 1.1% in 2007, showing that Maine's workers continue to increase their output for each hour they are on the job.

Per capita income in Maine grew in 2007. Up by 2.2% from 2006, Maine's per capita income for the year was \$33,722 (in 2007 dollars). Maine ranks 35th among the states in per capita personal income. Nationally,



Each fall, MECEP reports on the status of working Mainers. This annual report is produced in conjunction with the Economic Policy Institute's (EPI) biennial national report, *The State of Working America*. All data, unless otherwise noted, are drawn from EPI's analysis of the U.S. Census Bureau's Current Population Survey, U.S. Bureau of Labor Statistics data, and US Bureau of Economic Analysis data.

per capita personal income was significantly higher than in Maine, at \$38,611. Looking at long term trends, Maine's per capita income grew by 5.4% from 2001 to 2007, adjusted for inflation. National long term growth for the same time period was a much faster 7.9%.

Per capita income, however, tells us little about how the *typical* Maine family is faring. Using the latest figures from the U.S. Census' American Community Survey (2007), we see that Maine's median household income was \$45,888 (in 2007 dollars), a real increase of 2.7% from 2006. The 2007 figure, however, is statistically indistinguishable from median household incomes in 2002, 2003, 2004, and 2005. Only due to a *decline* in income in 2006 do 2007 figures register as an *increase*. Effectively, average Maine families have seen no meaningful increase in income over the last 5 years. Nationally, the average median household income for 2007 was considerably higher than in Maine, at \$50,740 (again, in 2007 dollars).² Low incomes remain a dominant feature in Maine's economic landscape, and the stagnation in purchasing power witnessed over the longer term presents cause for significant concern.

One of the brighter spots in the Maine economy has been the growth in international exports. From 2006 to 2007 Maine export dollars grew by 14.3% to a total of \$2.7 billion.³ This exceeds the regional growth of 2.4% for New England and the national growth of 9.1%. However, Maine's 2006 international exports comprised just 5.3% of its Gross State Product, while nationally 9.2% of GDP came from exports. Maine ranks 37th among the states for exports as a percent of Gross State Product. The three largest exports by sector in Maine are computer and electrical products (\$914 million), paper (\$558 million), and transportation

equipment (\$186 million). The three top importers of Maine goods are Canada, Malaysia and China (mainland).⁴

In contrast to export growth, housing was far from a bright spot in the Maine economy. The housing market crisis that emerged in 2007 resulted in greatly reduced home sales, and large decreases in housing construction permits. In the United States, authorized housing permits decreased by almost 25% while regionally there was a 16% decrease. In Maine permits declined by 19.5% over 2006 levels.

However, because new homes do not account for a large portion of Maine housing, the large decline in permits for new construction is less troubling than it might otherwise appear. Between 2000 and 2007, newly built housing comprised just 7.9% of all housing units in Maine.⁵ The sale of *existing* homes in Maine, therefore, is a more significant economic indicator for the state economy. In Maine, from 2004 to 2007 existing home sales dropped by 24.1%, from 33,600 sales to 25,500. Sales of existing homes also dropped nationally

and regionally during this period, although by smaller margins. National sales decreased by 16.6% and New England saw an average decrease of 13.5%.⁶

The Northeast region experienced higher average cost increases on basic consumer goods (as measured by the Consumer Price Index, or CPI) than the nation as a whole. Prices in the Northeast grew by 5.7% from July '07-'08, compared to national price growth of 5.6%. In recent months, however, average price data from the Bureau of Labor Statistics show concerning increases in the cost of gasoline, heating oil, and food. In the Northeast motor fuel costs grew by 38% between July '07 and July '08, compared with a national growth rate of 35% in the same time frame.⁷

The cost of heating homes has also increased sharply. Nationally, average price data for heating fuel and utilities indicate a 16% rise in the price of these energy sources in US cities between July '07 and July '08, which is substantially higher than the ten-year average annual growth of about 5% from 1998-2008.⁸ The Northeast has experienced an even greater price growth for heating fuel (22.5%)

between July '07-'08.⁹ According to Maine's Energy Resources Council data, per gallon home fuel costs in Maine have jumped 49% since last fall.

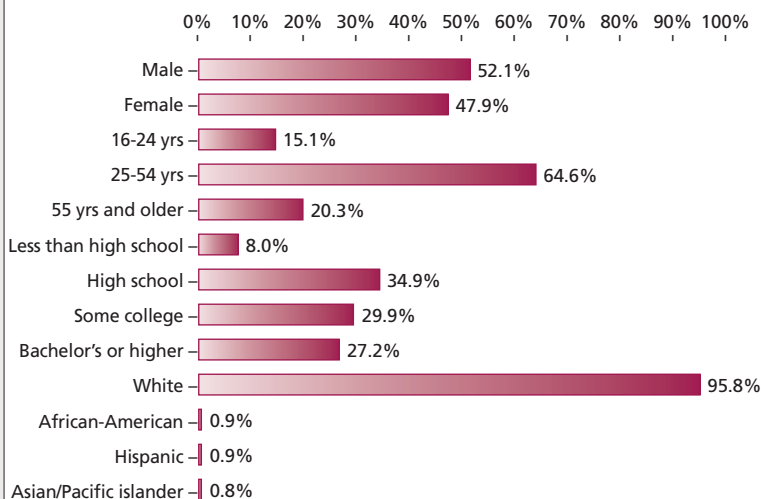
MAINE'S WORKFORCE

Maine's demographic make-up is unusual and presents a number of long-term challenges. With a median age of 41.1 years, Maine ranks as the state with the most aged population, significantly exceeding the national median age of 36.4 years. By consequence, Maine also has an older workforce than most states. Workers 55 and older make up 20.3% of the state's workforce, as compared with a national workforce share of 17.3%. Even in New England, Maine has a higher workforce share for this population than all states except for New Hampshire (22.2%). Workers 16-24 years old represent 15.1% of the working population as compared with a 14.6% workforce share nationally. Workers 25-54 year olds make up the bulk of the workforce, with 64.6% workforce share in Maine and 68.1% nationally.

From 2000 to 2006, Maine's total population increased by 3.7%. While this is a greater rate of growth than most other New England states, it trails the national rate of 6.4%. The combination of an older population with a higher percentage of older workers, and a modest overall population growth rate, presents a variety of challenges with which Maine will be forced to grapple in the years ahead. Planning now for these challenges will improve greatly the long-term economic prospects of the state.

Maine is also unusual in the educational attainment of its population. Maine's workforce includes a larger percentage of workers who either have graduated from high school or attended some college (64.8%) than is the case regionally and nationally (52.4% and 58.0% respectively). However, Maine consistently has had fewer college

Maine's 2007 Workforce, by share



Source: EPI Analysis of U.S. Census Data

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graduates in it's workforce than the region or country. In Maine, 27.2% of the workforce has a bachelor's degree or higher compared with 30.3% nationally and 38.7% regionally.

Given that Maine's primary economic competition is with its New England neighbors, this disparity in educational attainment puts Maine at a substantial disadvantage to attract and/or retain high skills/high wage jobs. It is also the case that workforce participation rates increase with advances in educational attainment. Approximately 64% of adults who graduated from high school work in the labor force while almost 80% of adults with a bachelor's degree or higher do so. As educational attainment improves and hence greater percentages of the population participate in the labor force, overall production in the state's economy is likely to increase.

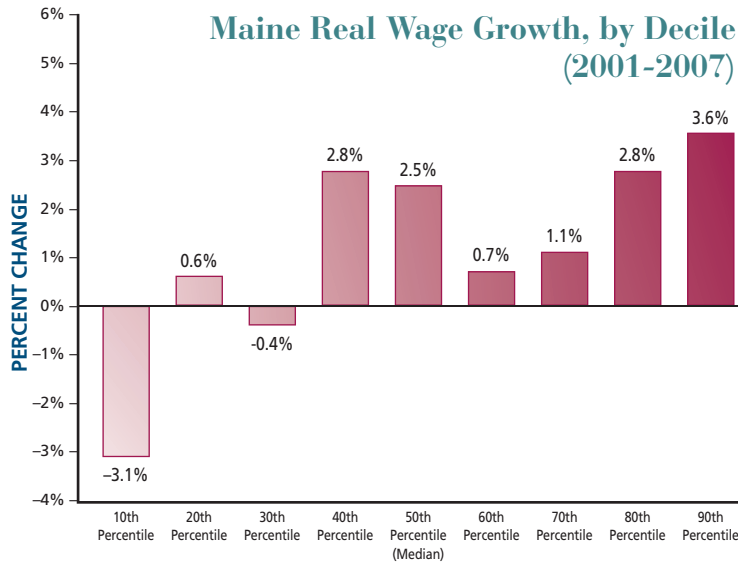
Racially, Maine remains predominantly white, with white workers comprising 95.8% of its workforce. This contrasts sharply with the region's figure of 83.6% and a figure of 68.5% nationally. While slight, Maine is making progress towards becoming a more racially diverse state. The share of the labor force represented by white workers has decreased by approximately 1% in the past year, while the Hispanic workforce share increased by 0.4%, the Asian/Pacific Islander workforce share increased by 0.3% and African American workforce share increased by 0.2%.

EMPLOYMENT GROWTH

The majority of New England states (all except Rhode Island, which experienced job losses) experienced meager job growth in 2007. The average rate of growth for New England states, at 0.6%, was slightly less than the 1.1% job growth nationally. From 2006 to 2007, Maine gained 2,700 jobs, an anemic 0.4% growth for a total of 617,400 non-farm jobs.

Looking at job growth over the business cycle (2001-2007), New England states averaged 1.5% growth, with Maine (1.5%) out performing Connecticut

in Maine also fell significantly, with a net loss of 500 jobs. Construction salaries averaged \$36,887 annually.¹¹



Source: EPI Analysis of Current Population Survey Data

(1%) and Massachusetts (-1.9%), but trailing Vermont (1.9%), Rhode Island (3.1%) and New Hampshire (3.5). U.S. employment grew by 4.4%, well below the growth seen during previous economic expansions.

The three top performing sectors in Maine were 1) Education and Health Services, 2) Professional and Business Services, and 3) Trade, Transportation and Utilities. Jobs in Education and Health Services added an additional 2000 jobs with an average annual salary of \$34,849. Professional and Business Services had an annual job growth of 1,600 jobs, with an average annual salary of \$40,774. Finally, Trade Transportation and Utilities, which pays an average salary of \$28,584 annually, grew by 800 jobs.¹⁰

The Manufacturing and Construction industries experienced the greatest job losses. In 2007, the manufacturing sector cut 900 jobs, jobs with average salaries of \$43,379. Coinciding with the national housing slump and mortgage crisis, Construction

It is important to note that the sectors with job growth have lower average wages than those sectors that are shedding jobs. The three industries with the greatest job growth paid a weighted average wage of \$35,864 annually, as compared with the weighted average wage of \$41,060 for the shrinking Maine industries.¹²

UNEMPLOYMENT

The annual unemployment rates in 2007 for Maine, New England and the United States remain very similar to the 4.6% figure all three experienced in 2006. Unemployment rates for New England decreased by just 0.1%, from 4.6 to 4.5 percent. Nationally, the unemployment rate remained constant at 4.6%, with no change from 2006.

Unemployment in Maine increased slightly to 4.7%. The share of Maine's unemployed considered to be among the "long term unemployed" (defined as those who are unemployed for more than 26 weeks) did not change from 2006, remaining at 14.2%.

This is relatively low compared with the 17.6% national figure and 18.2% regionally.

Unemployment rates within Maine vary significantly by region. Unemployment is higher in the more rural counties of western, northern and Downeast Maine. Washington and Piscataquis County both have unemployment rates well over 7%. Washington County has the highest unemployment rate in the state, at 7.7%. Piscataquis County follows closely with an unemployment rate of 7.6%. Central counties whose primary employers include those in the growing service industries have lower rates overall. On average, the southern and costal counties continue to report the lowest unemployment rates in the state. Cumberland, Sagadahoc and York, all on the southern coast, have the lowest unemployment rates in the state, at 3.5%, 4% and 4.1% respectively.¹³ Even by national standards, these unemployment rates are relatively low. Nation-wide, the average state unemployment rate is 4.4%, ranging from 2.6% in Utah to 7.1% in Michigan.

WAGES FOR WORKING MAINERS

The median hourly wage in 2007 for Maine was \$14.29. This remains lower than both the nation's median hourly wage of \$15.10 and that of New England, at \$17.19 per hour. In addition to being lower than the region and the country, Maine's wages also have dropped in real terms in the past year. From 2006 to 2007, median wages in Maine fell by 0.35%, adjusted for inflation. Assuming a 40 hour work-week, this translates to a \$2 income loss per week for workers earning the median state wage. Although the decline in Maine's inflation adjusted wages follows national trends in which median wages dropped by 0.85%, real wages in the New England region grew by 0.12%.

Despite these short term losses, over the longer term Maine shows limited positive wage growth. From 2001 to 2007, Maine earners in the 50th percentile of the wage distribution experienced real wage growth of 2.5%. This growth exceeds both the nation (0.3% growth), and the New England region (1.6% growth).

Wage growth in Maine, however, differs for high and low wage jobs. Over the longer term, from 2001-2007, higher wage workers experienced wage growth, while low wage workers saw declines. Workers in the bottom 30% of earners saw an average decline of 1% in wages from '01-'07 in real terms. The middle 30% of earners saw an average real increase of 2% from '01-'07, while the top 10% of earners saw a real increase of 3.6%.

Wage declines for lower wage workers is particularly problematic for a number of reasons. Lower income workers depend more heavily on wages for income and hence wage growth is the limiting factor in improved living standards. If workers' incomes do not grow proportionally with the rising cost of living, these low wage workers experience a decline in real purchasing power. Given recent hikes in gasoline, food, and anticipated heating fuel costs, this scenario is likely to play out again in the year ahead.

Recent short term wage growth in Maine (from 2006-2007), however, does not mirror the longer term trends. High wage jobs experienced wage declines, and low wage workers saw small gains. Adjusted for inflation, the lowest 40 percent of earners experienced wage growth ranging from 0.5% to 1.0%. The next four deciles (50th-80th percentiles) lost between 0.4% and 1.4% of their real wages. This trend continued into the 90th percentile, in which wages went down by 0.9%. While low wage jobs have seen higher rates of growth than high wage jobs since 2006, the benefits

derived from these very modest gains easily could be erased if fuel and other consumer goods continue their sharp rise in cost.

Though inequalities in wage growth are largely out of the hands of workers themselves, some worker attributes are associated with higher average wages. Educational attainment is one source of such wage

differentiation. In 2007, workers having only a high school degree earned an average hourly wage of \$12.31 while those with some college coursework saw their wages increase to an average of \$13.90/hr. With a bachelor's

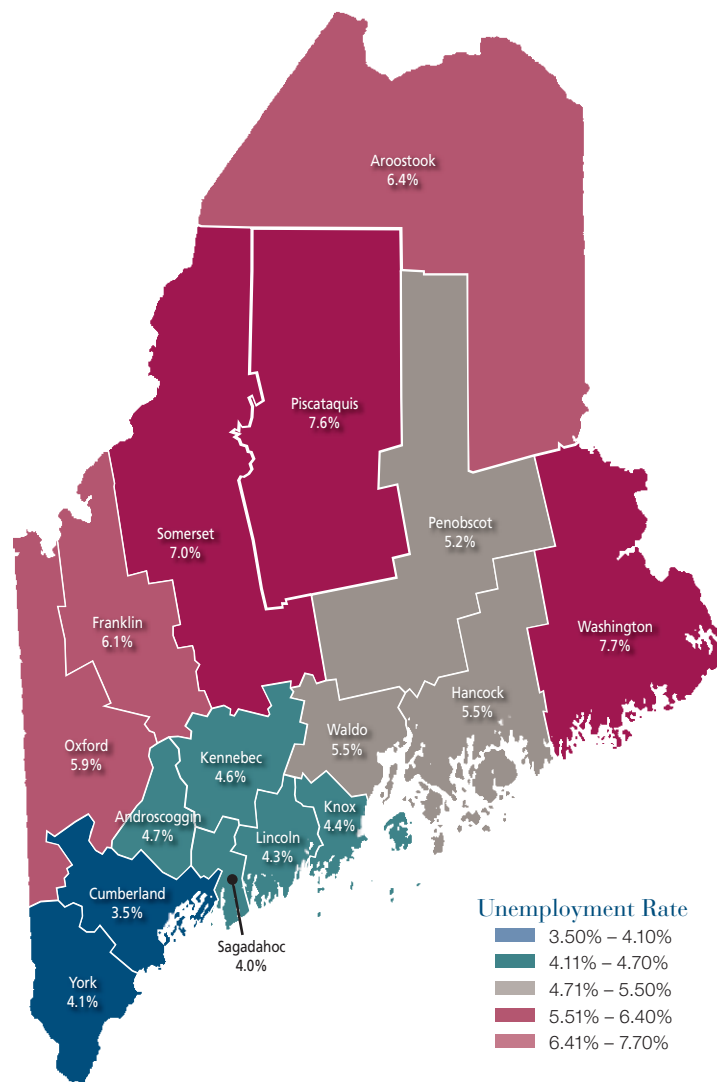
degree or higher the average wage jumped to \$20.75/hr. According to a recent study by the Center for Economic Policy and Research, union membership increases wages by an average of 8.3% overall. However, it has a significantly larger impact on wages for those workers in the bottom four deciles, in which wage improvement ranges from

Nationally, 13.3% of the workforce is covered by union contracts. Union coverage in Maine extends to 13.8% of the workforce, based on 2007 data. As non-union industries continue to replace those with higher levels of unionization (such as Manufacturing and Construction) wage growth in Maine may be slowed further. This is particularly problematic for low-income workers, as union membership is one of their greatest assets in achieving wage growth.

Maine also shows wage differentials based on gender. Men in Maine worked for an average wage of \$15.84 while women in the state earned \$12.83. While women lag behind men in *hourly wages*, their annual and longer term wage *growth* exceeds that of men. From 2006 to 2007 men's median wages dropped by 1.3% while women's grew by just under 0.5%. In the longer term, from 2000 to 2007, women's median wages grew by 0.7% while men's grew by 3.1%.

The median wage for all workers in Maine, at \$14.29, is below living wage estimates for most family types. Living wage estimates assess family budget requirements to meet basic needs based on family size. Given recent spikes in the cost of gasoline, food and heating fuel, even these living wage estimates (based on 2006 consumer prices) are now likely to be far too low. According to the 2006 living wage estimates outlined by MECEP and adopted by the Maine Department of Labor, a single person in Maine needs to earn a \$10.20 hourly wage to meet basic needs. As family size increases, the necessary living wage increases. A single parent with one child must earn \$16.17/hr to meet basic needs, while a single parent with two children must earn \$19.35/hr. For anyone with children, Maine's median wage fails to provide even the basic necessities.¹⁶ Based on Maine's Department of Labor data, and

Unemployment in Maine, by County (2007)



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using an assumption of a 40 hour work week, out of approximately 600,000 jobs in Maine, almost 290,000 pay less than \$16.17 per hour and approximately 380,000 jobs pay less than \$19.35 per hour.¹⁷

POVERTY

Using American Community Survey data, Maine's overall poverty rate for 2007 held roughly constant from 2006 at between 12 and 13 percent.¹⁸ This compares to the national rate of 13%. The rate of poverty in Maine, however, varies widely by region within the state. Children are particularly affected by poverty, with approximately 15% of Maine children living below the federal poverty level in 2007, a statistically insignificant change from 2006 rates. National childhood poverty stands at 17.6% for 2007.

Because the federal poverty level tends to greatly underestimate current, basic needs living expenses, the measure of 200% of the federal poverty level is frequently used as a proxy for a more realistic, livable income. According to the Working Poor Family Project analysis of US Census Bureau data, over 58,000 families in Maine have incomes below 200% of the poverty level, meaning that approximately one in every four families in Maine struggles to afford basic necessities. (For a more complete data review and analysis of these issues, please see our forthcoming report "Getting to the Middle: Policy prescriptions for Maine's low and moderate income working families", to be released in mid-September.)

RECOMMENDATIONS

The story revealed by the most current annual data available – data presented in this report – is one of modest gains in some areas that are offset by negative trends in others. The overall picture of the Maine economy is, at best, one of sluggish growth. Moreover,

the very limited gains achieved in 2007 by lower wage earners are part of a larger story in which the benefits of economic growth go disproportionately to those in the highest income brackets, while lower income earners fall ever-farther behind.

It is of critical importance that Maine seeks not only economic growth, but that an emphasis is placed on ensuring all Mainers

Free Choice Act - currently pending in Congress - will make it easier for employees to assert their right to choose labor union representation and to bargain for better wages.

Not surprisingly, among the most direct interventions possible for the lowest wage workers would be an increase in the federal and/or state minimum wage rates, and to index these rates to

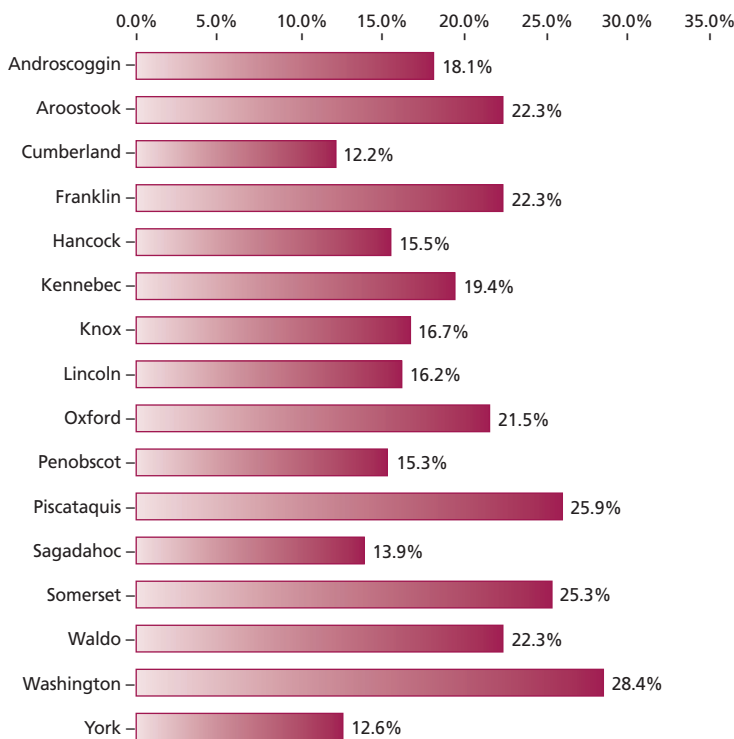
educational attainment of Maine's workforce will help attract new businesses to the state and strengthen existing, higher wage sectors of the economy. Together, these factors can significantly improve Maine's job growth numbers and help keep younger Mainers in-state, while attracting additional young people to Maine. This will help to counteract the potentially growth-limiting effects of Maine's current and projected age demographics.

Two concrete steps Maine can take are 1) to increase funding for the Competitive Skills Scholarship Program, a unique mechanism for providing financial aid to low-income adults who are seeking degrees or credentialing in Maine's high need/high growth job sectors, and 2) to develop and implement a state-wide data collection and benchmarking system that will help policymakers assess and improve educational programs from kindergarten through college. This will help ensure that Mainers are arriving in the workforce prepared to contribute and succeed.

Taxes – With substantial support from the federal government, Maine's state and local tax system helps fund the state's critical public investments. These investments are the foundation upon which a cohesive society and a successful state economy are built. From our educational system and human services programs to our physical infrastructure such as highways and hospitals, these common investments are essential to the long term growth and prosperity of the Maine economy and Maine people.

Unfortunately, as a percent of total income, Maine's tax system places the greatest burden on those with the lowest incomes, and the least burden on Maine's highest earners. Several measures would help to level the playing field and help return more of the benefits of economic growth to Mainers at the lower end of the wage scale. Policymakers should

Maine Children Living in Poverty, by County (2005)



Source: Maine Children's Alliance "2008 Maine Kids Count"

benefit meaningfully from this growth. Over the long term, the fortunes of the statewide economy are inextricably bound to the well-being and advancement of Mainers across all income levels.

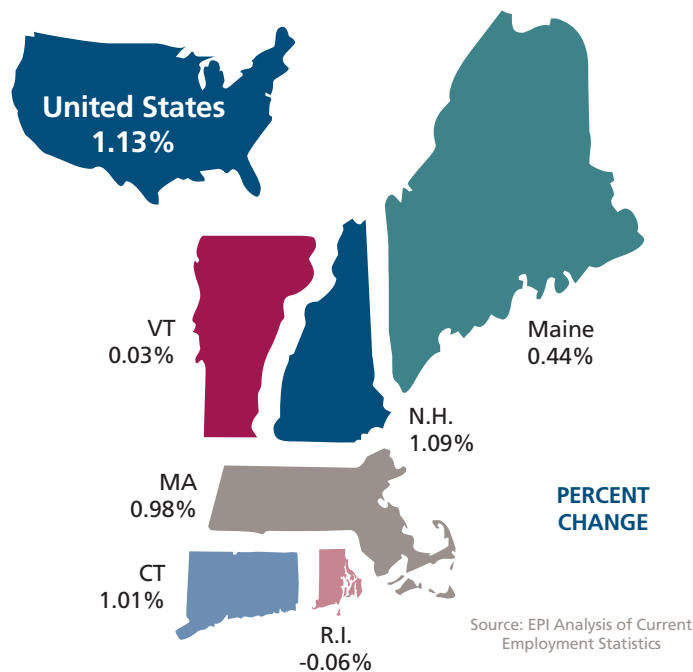
Wage Supports - Among the surest ways to improve the incomes of low wage workers is to address the root problem: insufficient wage rates. Union membership provides significant increases to wages, ensuring that all covered workers share in the profits of their collective labor. Passage of the federal Employee

inflation. Additionally, mandating that all state contracts, such as MaineCare funded contracts, are funded sufficient to provide not simply the *minimum wage*, but a *living wage*, would set an example for other businesses, and would boost incomes for these contract workers.

Education - Access to education is another indispensable part of the equation. Building on already strong high school graduation rates, in order to prosper in the future Maine must invest more in its human capital. Increasing the

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Change in Annual Total Non-Farm Employment (2006-2007)



seek to increase participation in the state Property Tax and Rent "Circuit Breaker" Program, a refundable state credit that provides an average of \$500 to over 100,000 eligible low-income households in Maine. Maine also should increase the value of its state Earned Income Tax Credit (EITC) and make it refundable. A refundable EITC of reasonable

value is among the best known means of delivering tangible support to lower income working families with children.

Energy and Housing Assistance - Despite very modest wage gains in 2007 for low and moderate wage earners, rapidly rising costs for energy and the continued high cost of housing are two key

factors that will affect Maine's near-term economic outlook. Direct action with regards to these two basic needs must rank high on the list of policy interventions. Most immediately, Maine must augment federal funding of the Low Income Home Energy Assistance Program (LIHEAP) with state dollars. This program provides emergency assistance to low-income households, and this will be ever more critical in the winter ahead as fuel costs remain high and the US economy faces continued uncertainty.

These proposals offer only a brief overview of the far greater depth of information and analysis available in MECEP's soon-to-be-released report, "Getting to the Middle: Policy prescriptions for Maine's low and moderate income working families". Please visit our website in mid-September to download this report.

About the Authors: Kurt Wise is a policy analyst with the Maine Center for Economic Policy. Sarah Richards is an Economics major at Bowdoin College. She interned with MECEP during the summer of 2008.

Endnotes

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- 2 2006 American Community Survey, US Census Bureau
- 3 Mainebiz "Fact Book 2008" Vol. 14 No. 15. July 7, 2008.
- 4 Ibid
- 5 "Maine Homeownership Facts 2007" www.mainehousing.org
- 6 National Association of Realtors. "Existing Home-Sales Data"
- 7 Bureau of Labor Statistics CPI data
- 8 US Department of Labor, Bureau of Labor Statistics
- 9 Ibid
- 10 Source: Maine Department of Labor, Center for Workforce Research and Information, in cooperation with the U.S. Bureau of Labor Statistics
- 11 Ibid
- 12 Ibid
- 13 To calculate the weighted average wages of the growing and shrinking industries, the number of jobs gained or lost was multiplied by the average wage for each industry. These figures were then added together and divided by the total jobs lost or gained. This calculation was conducted both for job gains and separately for job losses.
- 14 Maine Department of Labor.
- 15 "The Union Wage Advantage for Low-Wage Workers", John Schmitt, Center for Economic and Policy Research, 2008.
- 16 Ibid.
- 17 Maine Center For Economic Policy. "2006 Monthly Basic Needs Budgets by Family Size". <http://www.meccep.org/documents/2006NeedsBudgetLivableWageTableStatewideAverage.pdf>
- 18 Analysis of Maine Department of Labor, Center for Workforce Research and Information
- 19 The 2006 Total Poverty Rate stood at 12.9%, while the 2007 rate "fell" to 12.0%. However, the apparent difference in these figures is not statistically significant at the 90 % confidence level.

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Fax: 207-622-0239

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