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Speech of Laurie G. Lachance

Maine State Economist

to the

BLAINE HOUSE CONFERENCE ON TOURISM

1/23/01

Introduction:

Good afternoon. It is truly an honor to be here today to talk with you about tourism and the Maine Economy. What I hope to do in the next 15 minutes or so is to lay the foundation for the speakers who will follow. I'll do that by:

- 1) First - examining the current condition of the national and state economy in which we are operating.
- 2) Second - describing the role of tourism in our economy.
- 3) Finally - encouraging policy makers and business people alike to think very creatively about how we position Maine's Tourism Industry to thrive in the decade ahead.

I hope to accomplish this by introducing you to the 4-I's of tourism. You've heard of E-Commerce, perhaps even E-Tourism. But, for today - it's I-Tourism.

Interesting Times:

The first I is for Interesting. There's an old saying, I'm not sure if it's a blessing or a curse but it goes something like... "May you live in interesting times". Well, if "Interesting Times" is a blessing, we are truly blessed right this moment.

With 9 straight years of growth, the US is in its longest expansion since W.W.II. The US has not experienced a deep recession in 18 years. Real Gross Domestic Product has grown in excess of 4% for the past 4 years. Inflation has been at or below 3.5% for 9 years running - which is virtually unheard of. The US unemployment rate slid to 4% for 2000 - the lowest in 3 decades. The stock market soared to record highs through much of the 90's.

We have been riding a wave of prosperity, but there are signs that the wave may be cresting. Now it gets interesting. It has been years since anybody even breathed the word "recession". But now we seem to hear it daily.

Trivia: So, let's see, what is the single factor which has started the past 4 recessions? If you guessed "Oil" - you're right on. Over the past 12-24 months, nominal oil prices have tripled. Last week, OPEC announced a 5% reduction on output. Now these guys are pulling our strings and keeping our lives very interesting. Fortunately, while nominal prices are rising, real prices are still well below the peak of the early 80's. But that's cold comfort in a state where nearly 75% of the households depend on petroleum products for heating.

Let's turn to a second wild card - the stock market. For the past several years it's been on a roll and we've been reaping the benefits. Also, it is really important to understand that every single year more people are involved in and effected by the stock market. Now, how does this effect Tourism? Well - it's called the Wealth Effect. The Wealth Effect goes something like this: It's that wonderful euphoria that you feel when you open your mutual fund statement or your 401K, see how much it has grown and go right out shopping and spend 5 cents for every \$1.00 increase in your portfolio value. This is not money on you pocket, mind you, and yet we feel so much wealthier that we consume. Tourism has benefited from this.

There's only one problem with this psychology and that's called the Wealth Defect. Researchers estimate that as portfolio values tumble, people cut spending by 8 cents for every \$1.00 loss. We hear Tech stocks have been overvalued, so in 2000, NASDAQ dropped 50%, S&P 500 slipped 14%. Is the correction complete? Stay Tuned! Currently, there is no recession is forecast, but oil prices and stock market activity bear watching.

If the US backdrop isn't intriguing enough for you, let's look at Maine. Well, income is up averaging 5% growth for four years. That's good for Tourism. Ahh, but consumer debt has risen from 17% to 21% of disposable income and bankruptcies are at four times the 1989 levels. That's not so good. Yes - but employment is up! More people working. That's good for tourism. Oh - but the multiple jobholding rate has risen to 8%, which is 25% higher than the US average. That speaks to poor job quality and less free time. That's not so good.

Unemployment is way down - record low. Great news! Unless, of course you want to hire somebody... because the labor force participation rate is at an

historic high. There's no one left to hire and if you find someone, it will cost you dearly. When Dominos Pizza offers \$12/hour for delivery and Amatos sandwich shop offers benefits, you know how very tight things are. One last example: Gas prices are up - that's bad for tourism because people have less disposable income. Gas prices are up - perhaps people will stay closer to home? I can't tell you whether all this good news/bad news is good for Maine Tourism or not. You are the experts in this area. But, we should recognize that expenditures on tourism are effected by a consumer's ability to spend and their willingness to spend, and economic changes are wreaking havoc with both.

Integration:

Let's move on to the second "I". Yes, Tourism is very important to Maine. In 1999, tourists bought \$8.8 billion in goods and services. Tourism directly employs 75,000 with spin-off effects it is 115,000, and the payroll is sizable at \$2.5 billion. In addition, tourism is a major contributor to State coffers paying \$187 million in Sales Taxes, \$98 million in Personal Income Taxes and \$61 million in Gas Taxes. Yes, tourism is important and please don't misconstrue anything I am about to say as diminishing this industry's importance. But, the second "I" is not for importance, it is for Integration. Our economy is a system and tourism is part of that system. It does not stand alone and isolated. It is fully integrated. Changes in one industry effect tourism and changes in tourism effect other industries.

When we step back and think about what attracts tourists to visit Maine several factors come to mind. Our natural beauty, varied landscape, quaint villages, pristine environment, open spaces, vast wilderness, quiet, rural nature, peaceful mornings and big sky. This is the treasure that we must protect.

Now let's examine three other industries that depend on these same natural resources - Fishing, Farming and Forestry. These three industries provide over 8% of Maine's jobs and nearly 10% of our GSP. We are just finishing an extensive study for the Legislature on fishing, farming and forestry and have found that these foundational industries are under immense pressure from development. Our work on this issue of sprawl shows us that we have consumed as much land through development in Maine since 1970 as we did before 1970. Think about that for a moment, we have developed as much land in the past 30 years as the previous generations did in 150 years. As a result the fishermen, farmers and foresters are finding it increasingly difficult to have

access to the very resources that they need. If this trend doesn't bring you pause, it should.

An additional note to lawmakers. Sprawl costs taxpayers and estimated \$50 to 75 million annually to the General Fund in new school construction, increased bussing costs, and the extension and duplication of infrastructure. \$50 to \$75 million ... think about what we could do for the tourism industry with even a small fraction of that.

Finally, on integration - the Retirement Industry is one that shows great opportunity for Maine. It is small but mighty and is rapidly growing and highly lucrative. And, we have found that the number one precursor to a decision to retire to Maine is tourism. Tourism is the foundation for the Retirement Industry. That foundation must be strong if we are to fully reap the benefits that the Retirement Industry offers.

Investment:

The third "I" is something which all of you, as business people, likely understand. That is the importance of Investment in this industry. A business, any business, is not likely to prosper in the long term without consistent and focused investment to maintain the product quality and to make sure potential consumers know what you've got to offer. In the case of tourism, it is absolutely critical that we think very broadly about our investment ... because a tourist's "experience" in Maine is defined by much more than simply where they stay and what they eat. A tourist's willingness to come to and return to Maine could be influenced by the price and ease of air travel, congestion at the toll booths, how safe they feel here, the access they have to our woods, lakes and coastline, how easily they can connect to the rest of the world with their computer, how they are treated at the gas station or the grocery store. In addition, with globalization, the competition for the tourism dollars has become increasingly fierce. Consumers have many, many more options than ever before. We can't rest on our laurels. As individual proprietors, you invest your resources keeping your product of high quality and invest your time in linking with each other to strengthen the industry as a whole!

As policy makers, we need to understand that policy choices and investment decisions on Sprawl, on transportation infrastructure, on telecommunications infrastructure, on the environment, as well as on tourism marketing will directly

impact the viability of an industry that directly provides employment to 10% of Maine workers and indirectly supports many more.

Innovation:

And last, but certainly not least, Innovation. Michael Porter, the Harvard Professor who wrote *The Competitive Advantage of Nations*, in his research of globalization, found that the single, most critical factor effecting a region's or an industry's ability to prosper was its "capacity for innovation". At the State level, developing a "capacity for innovation" is greatly influenced by investment in R & D, higher education, and technology. At the industry and business levels, the opportunities for innovation are infinite. And in a State like Maine, home of the largest snowman in the world, the wife carrying competition, the Music Trail, the Phish concert, and woodie bus tours of Eastport, innovation comes quite naturally.

My two favorite examples of innovation in Maine Tourism, I just learned about. One - Nancy Gray will share with you later having to do with Christmas cards. The second is one that the Cooperative Extension Service has inadvertently created. To help dairy farmers in Maine whose cows need to be milked daily, Cooperative Extension has created a program so that people can come in and milk the cows for a few days to give the farmers a much needed vacation. The article stated that a family from the Southwestern US is planning to spend Christmas 2001 in Maine - milking cows! Now that's creative tourism! I'm not sure whether it would be considered eco-tourism, cultural tourism or adventure tourism, but what a concept!

In summary, the future of Maine's tourism industry depends on the tourists ability to spend, willingness to spend and the knowledge and attractiveness of the Maine experience. While we have little control over income and consumer confidence, it behooves us to recognize the economic changes and position ourselves to avoid the threats, and seize the opportunities. We do have much more control over a consumer's knowledge of and the attractiveness of the Maine experience. If we consciously view tourism as part of an economic system, reach out and partner with other industries, seek and capitalize on synergies, and participate in the larger policy debates. If we invest our limited resources wisely and strategically and if we work at every level to unleash the creative Maine spirit, Maine tourism will flourish!