

The Impact of Housing on Maine's Economy

Maine Affordable Housing Coalition
Housing Policy Conference

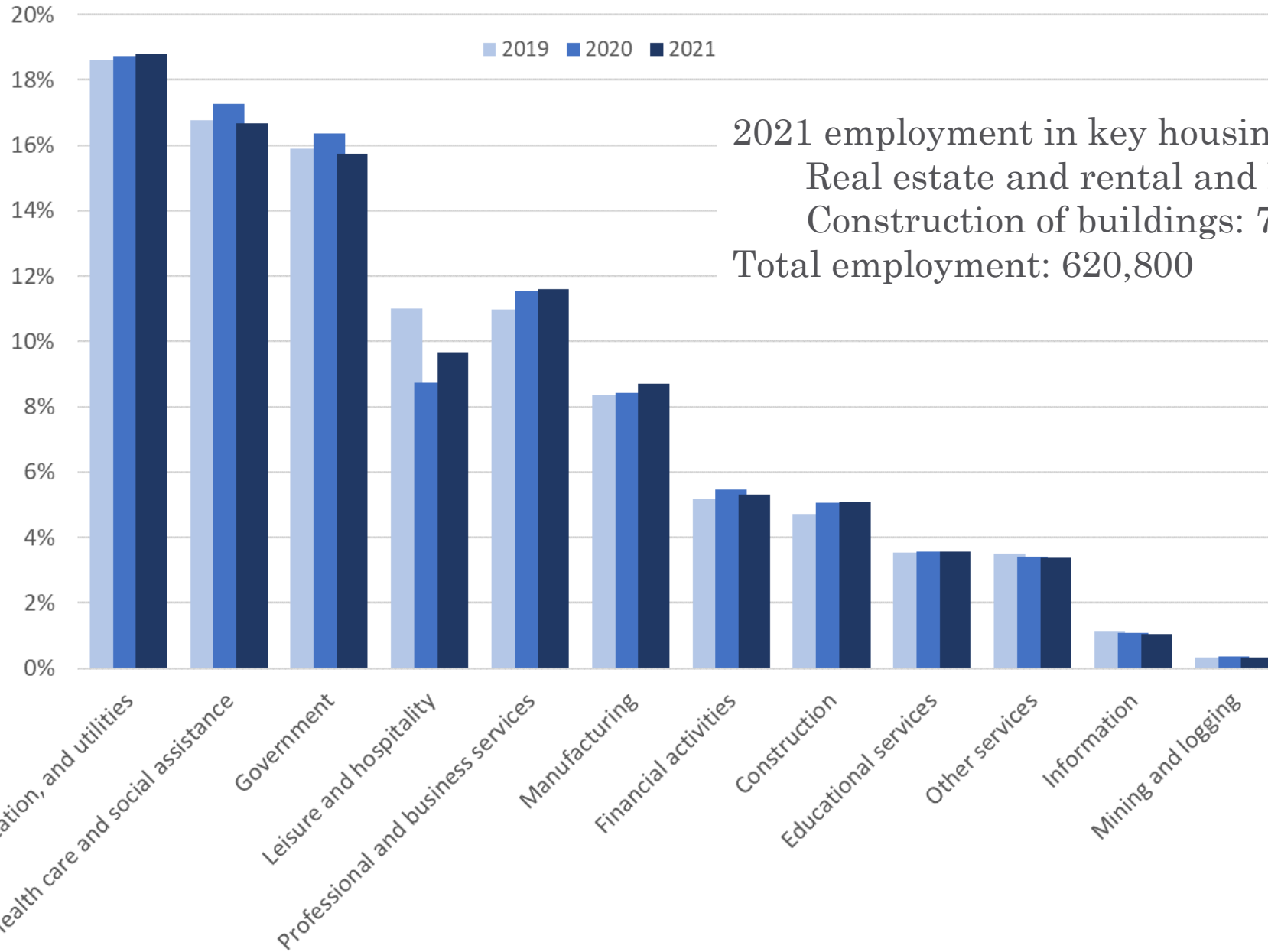
November 17, 2022

Amanda Rector

Maine State Economist

Employment

Share of Maine Nonfarm Employment by Industry

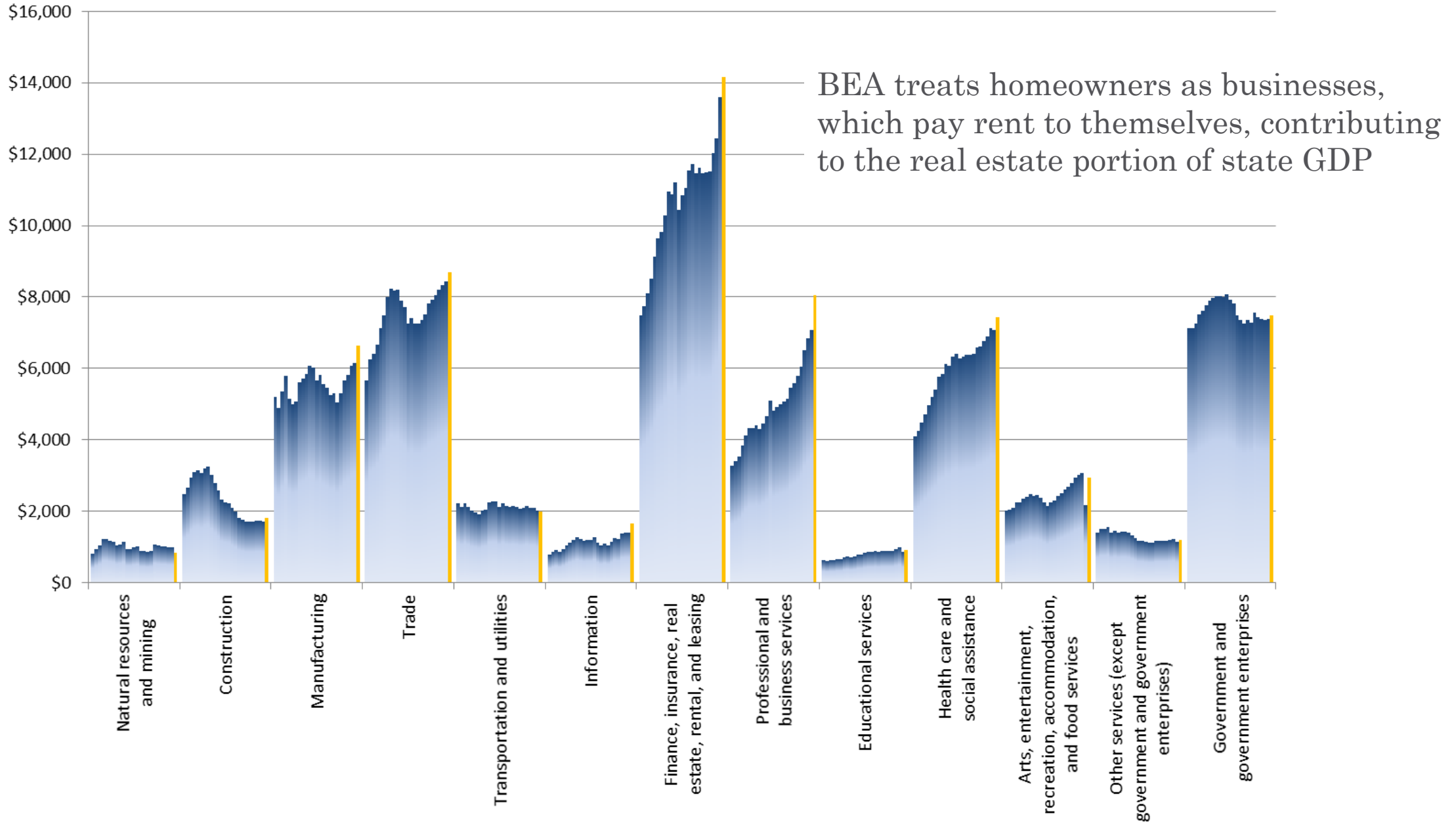


2021 employment in key housing-related sectors:
 Real estate and rental and leasing: 6,900
 Construction of buildings: 7,600
 Total employment: 620,800

State GDP

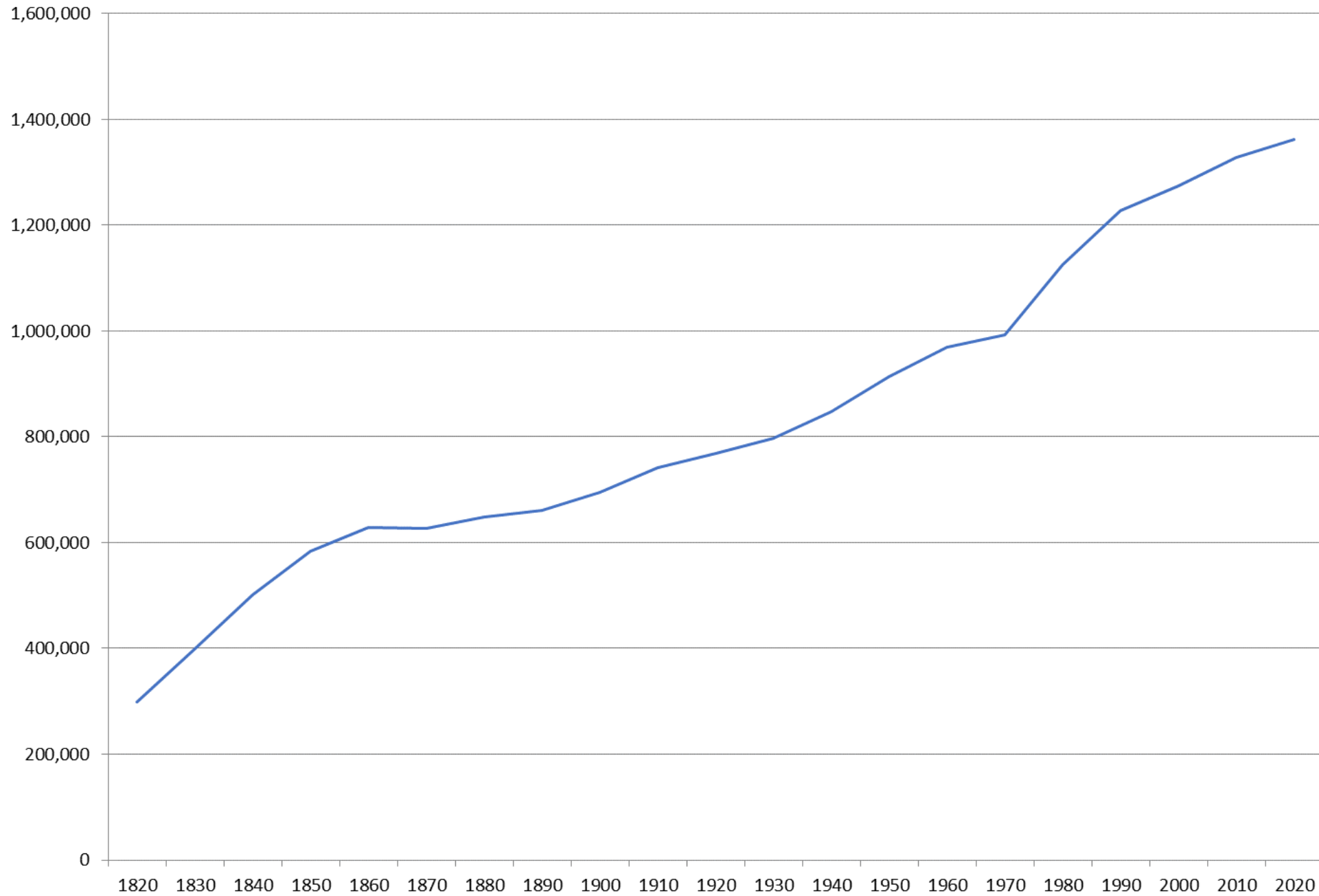
Maine Real GDP by Industry, 1997-2021

(in millions of chained 2012 dollars)

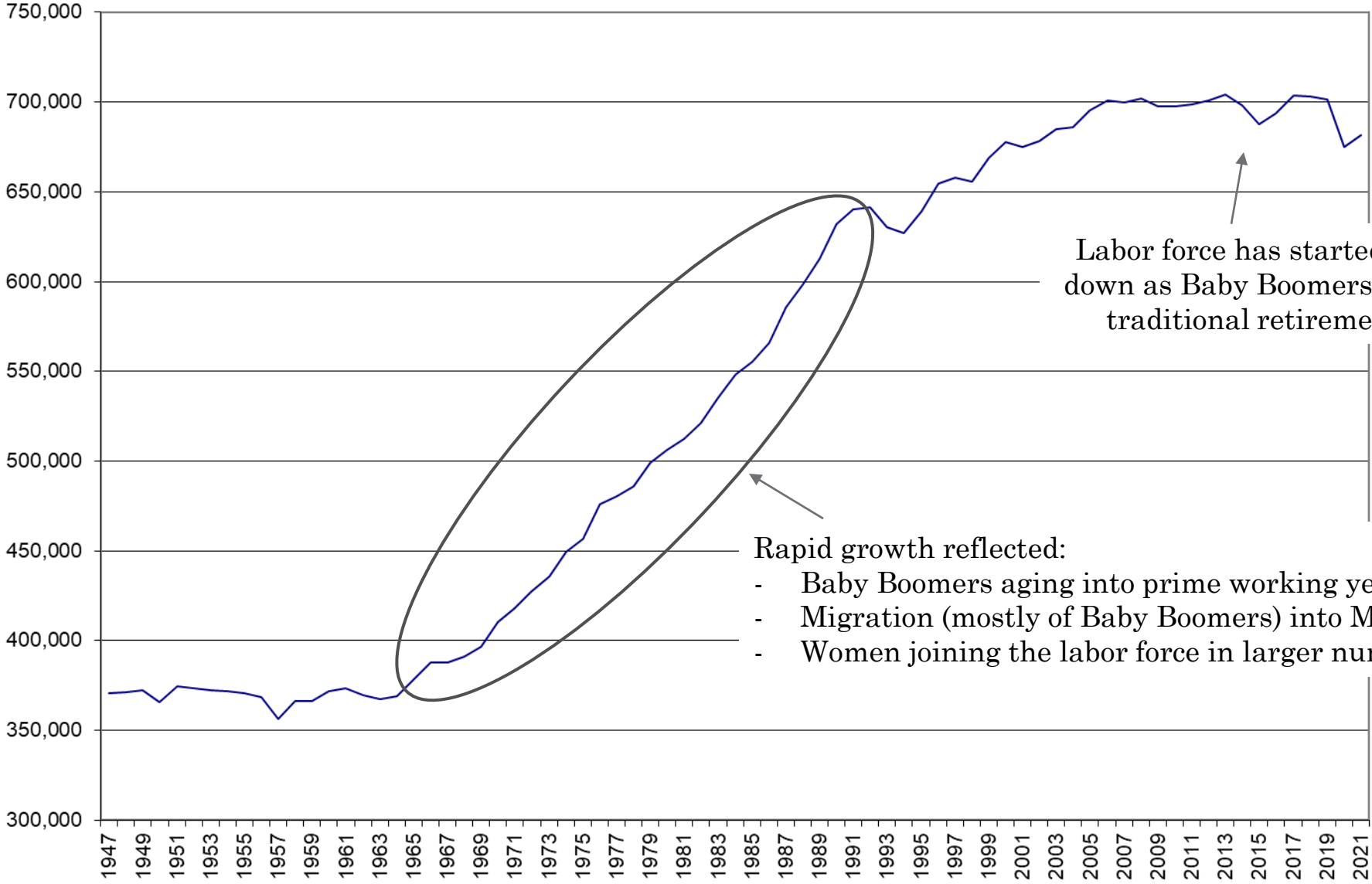


But that isn't why
housing really matters

Total Population, Maine



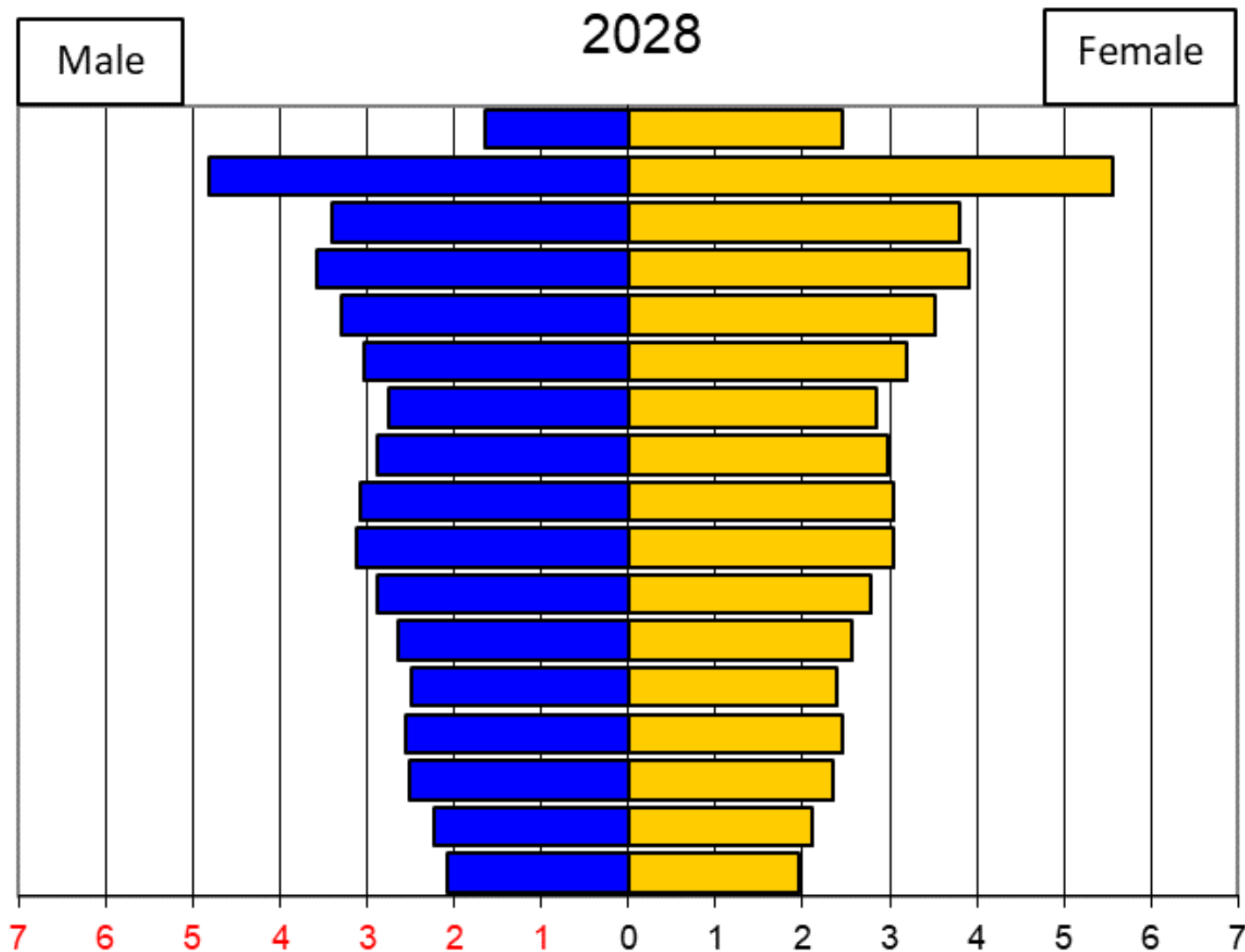
Maine Civilian Labor Force



Labor force has started to trend down as Baby Boomers move into traditional retirement ages

- Rapid growth reflected:
- Baby Boomers aging into prime working years;
 - Migration (mostly of Baby Boomers) into Maine; and
 - Women joining the labor force in larger numbers





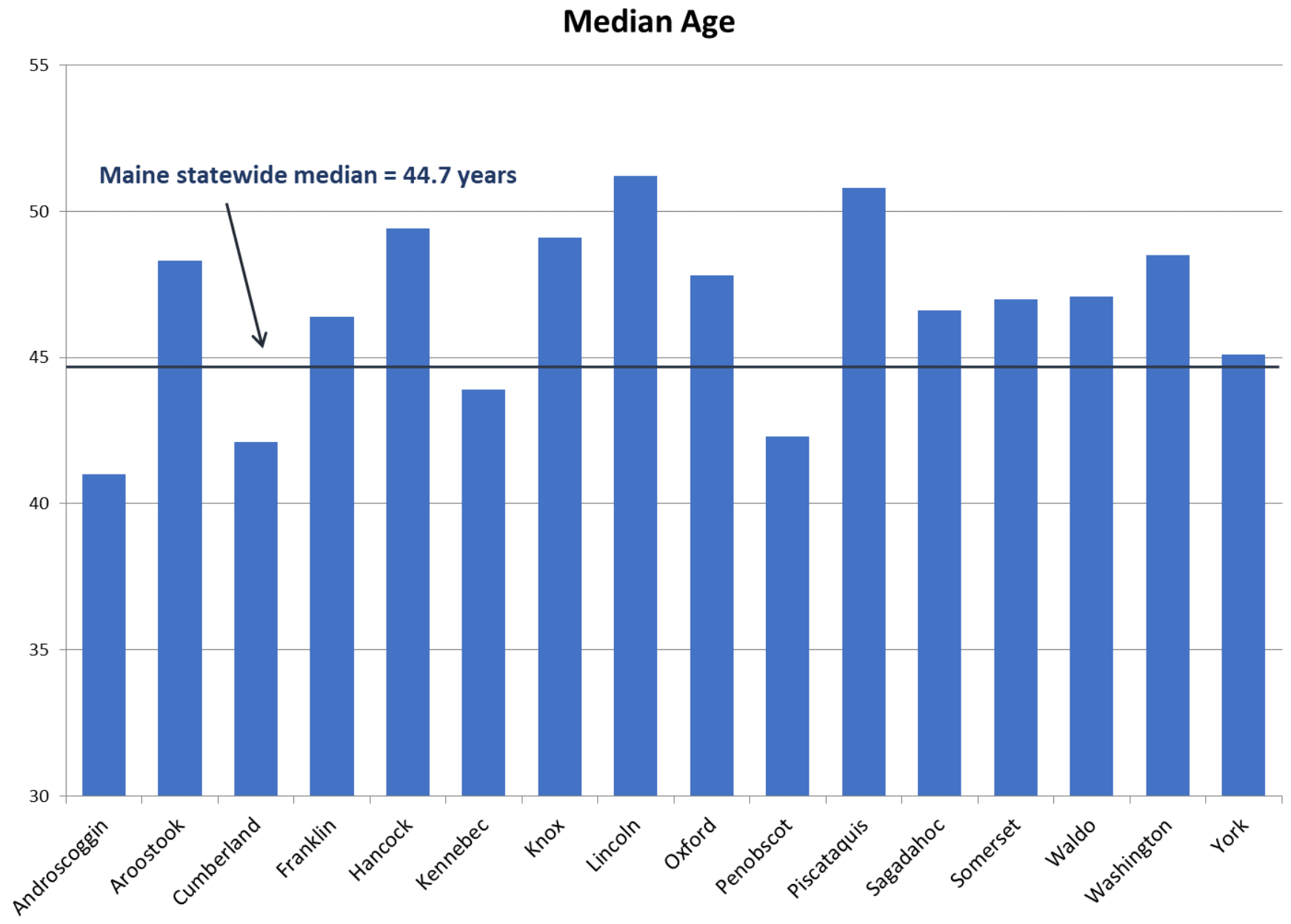
Baby Boom generation in 2021: age 57-75

Baby Boom generation in 2028: age 64-82

Maine has the oldest population...
...by median age (44.7 years)
...and by % of population age 65+ (21.7%)

BUT!

Maine was the **ONLY** state in the U.S. to see a decrease in median age from 2020 to 2021



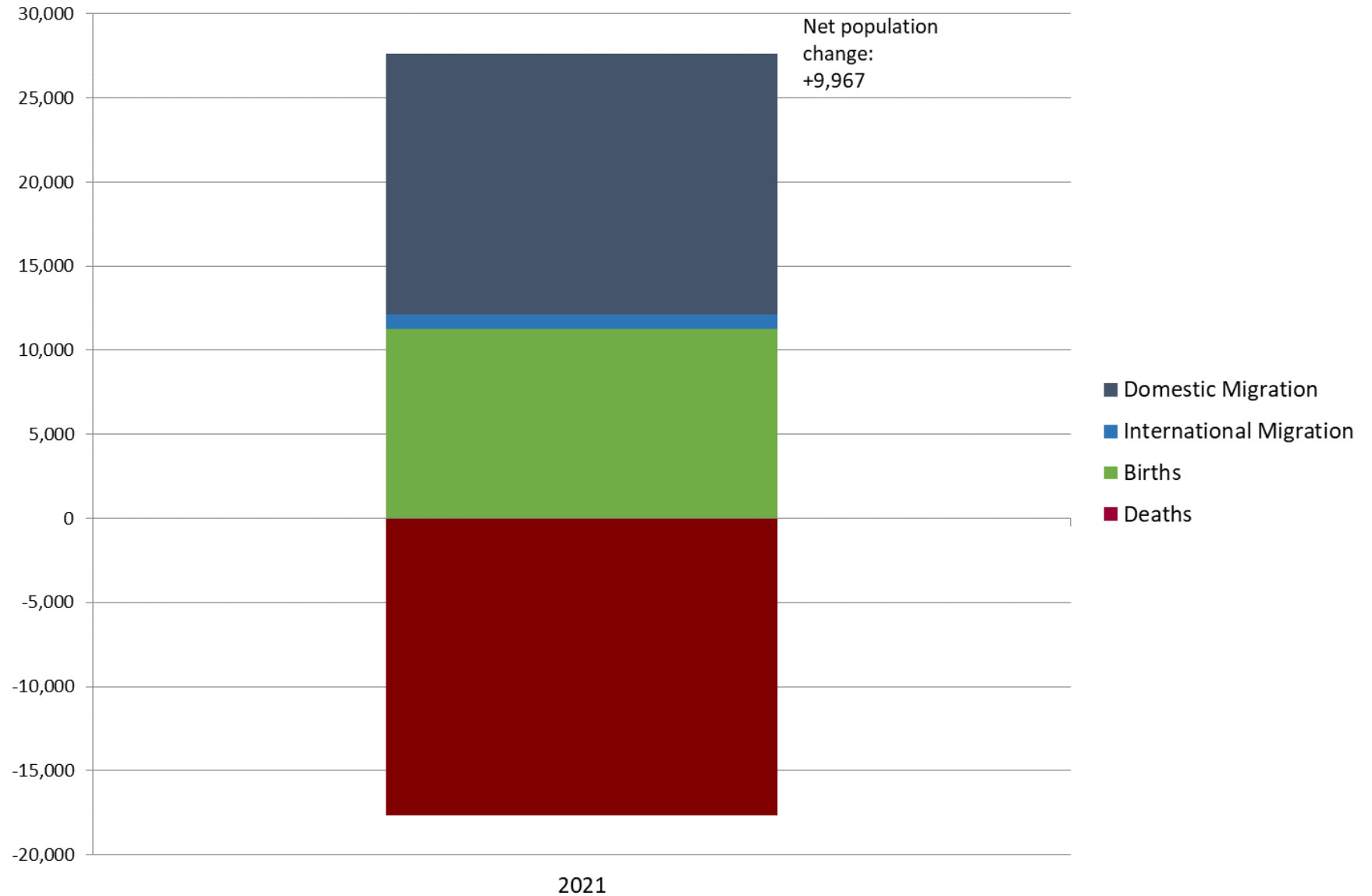
Components of Population Change, Maine

2020 Decennial
Population = 1,362,359
(42nd in U.S.)

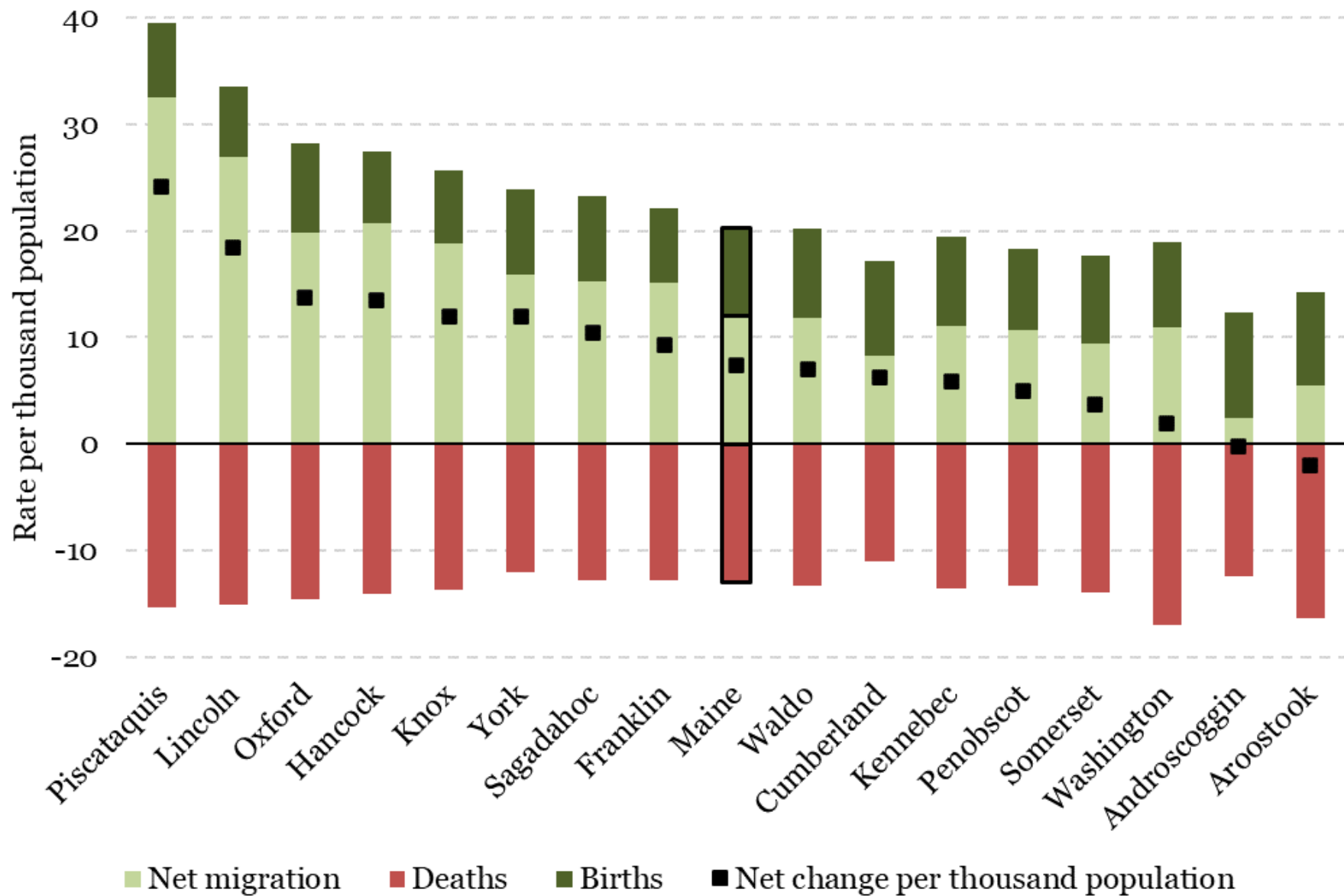
Population increase of
2.6% from 2010-2020
(42nd in U.S.)

Population increase of
0.7% from 2020-2021
(14th in U.S.)

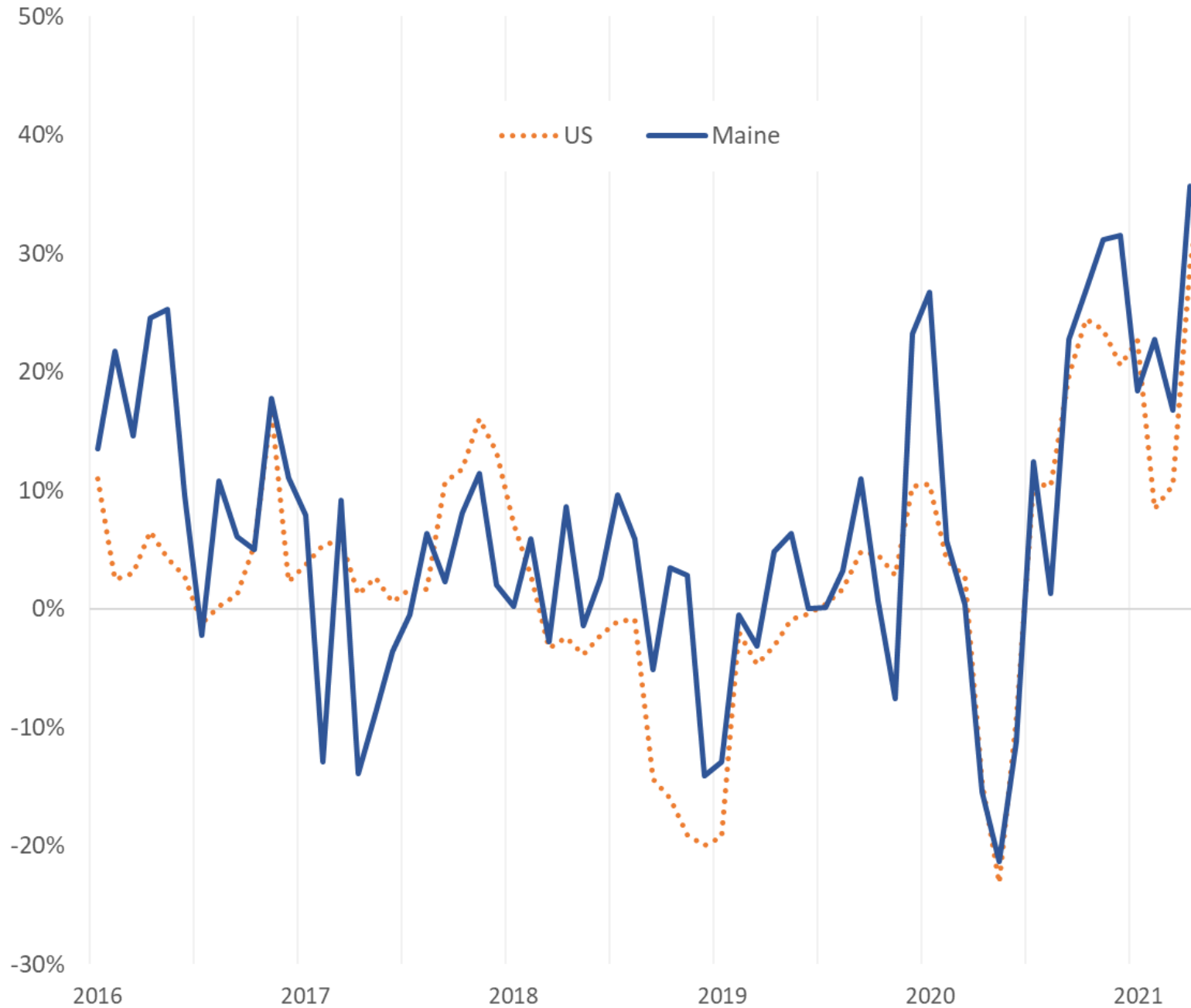
Net migration = 12.0 per
thousand (7th in U.S.)




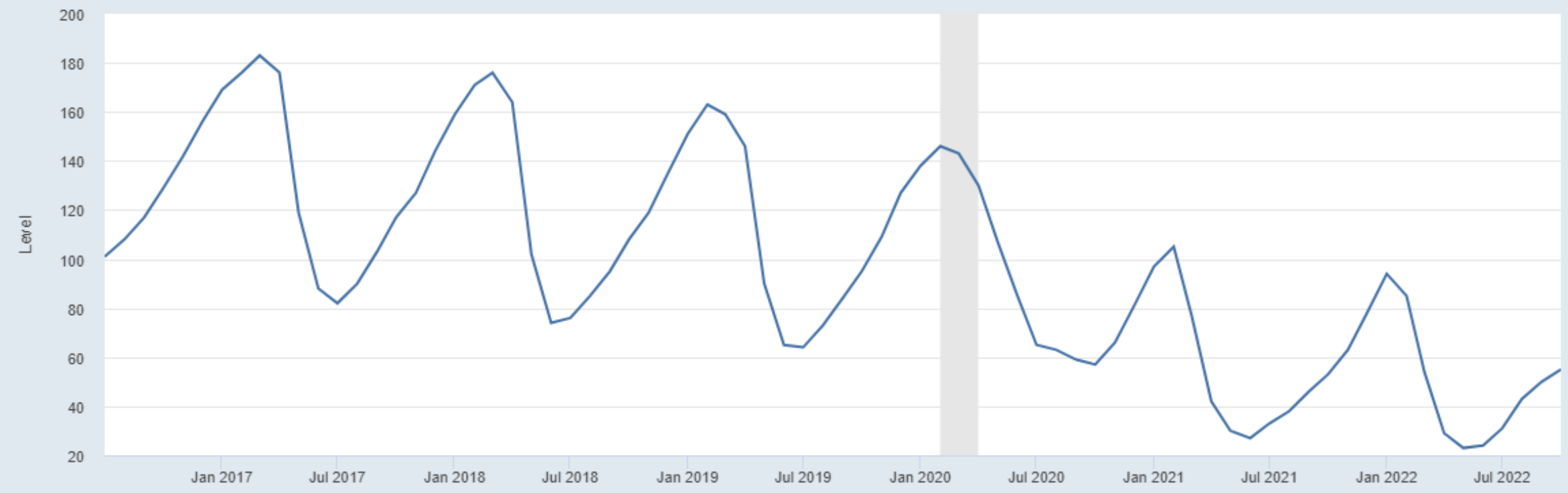
Components of Population Change in Maine, 2021 Rate per thousand population



Year-over-year Percent Change in Single Family Existing-Home Sales



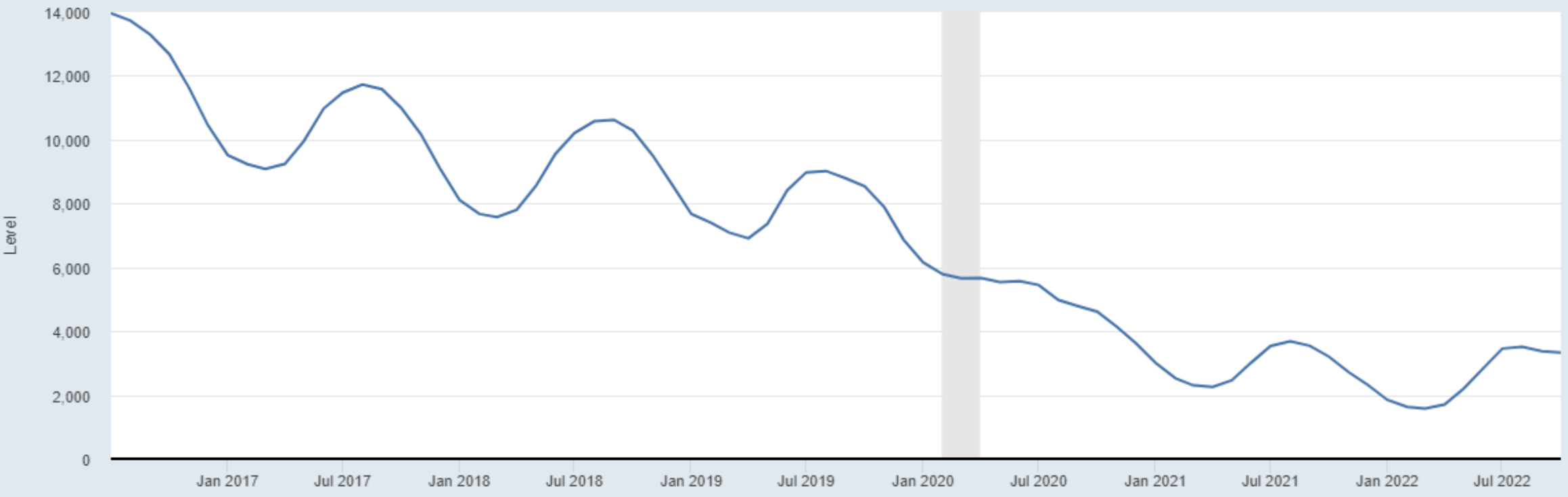
FRED  — Housing Inventory: Median Days on Market in Maine



Shaded areas indicate U.S. recessions.

Source: Realtor.com

fred.stlouisfed.org

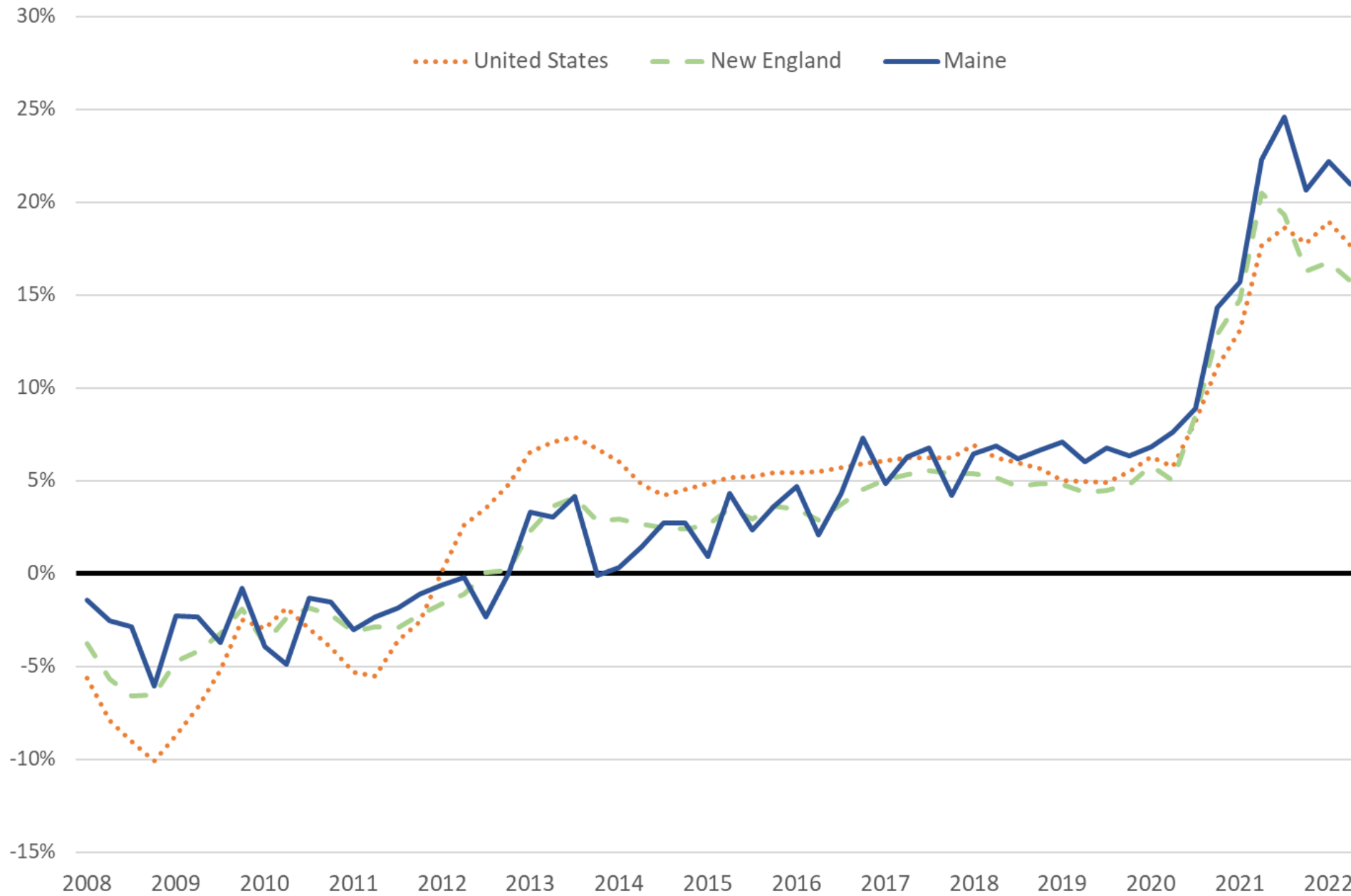


Shaded areas indicate U.S. recessions.

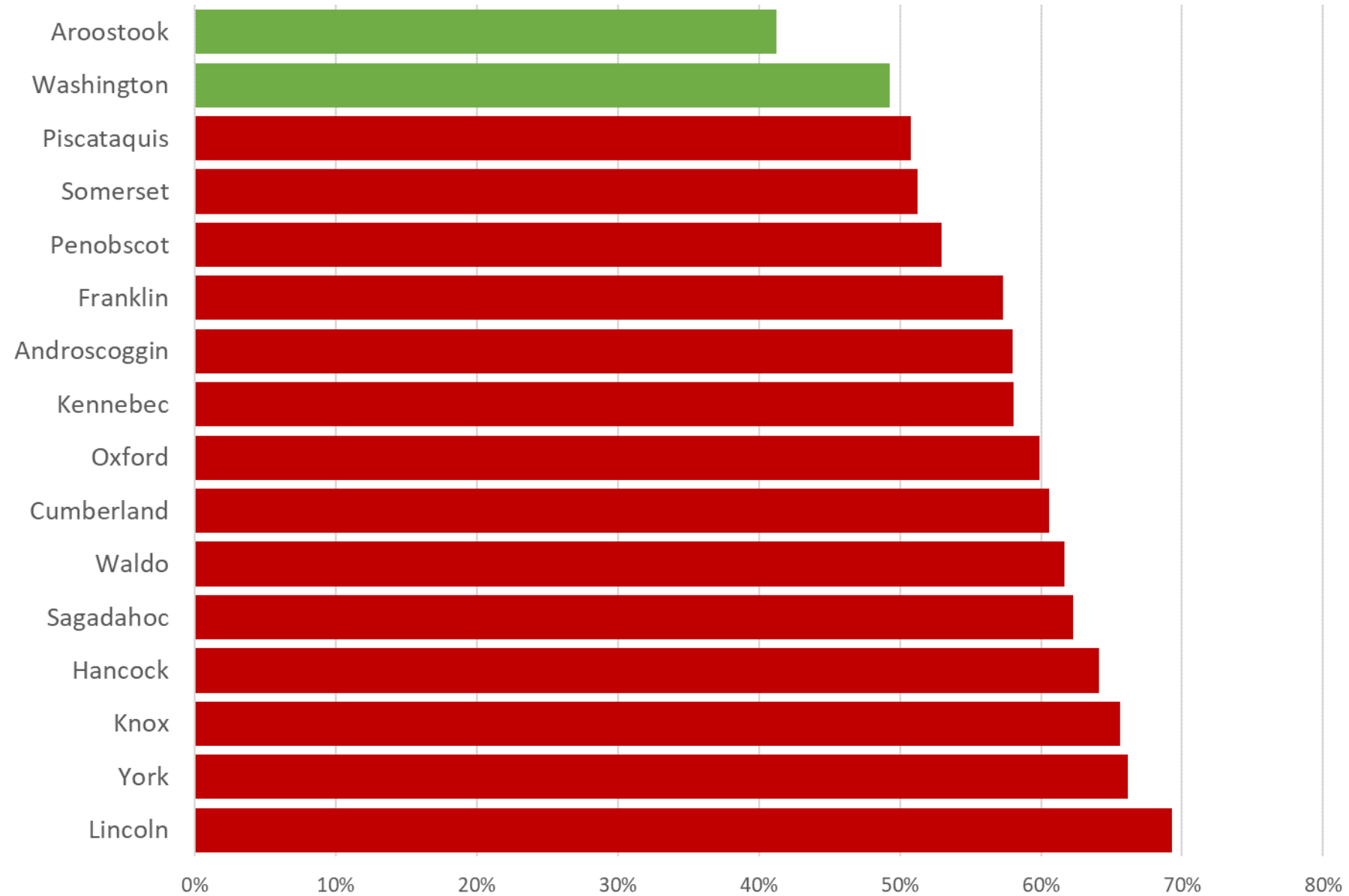
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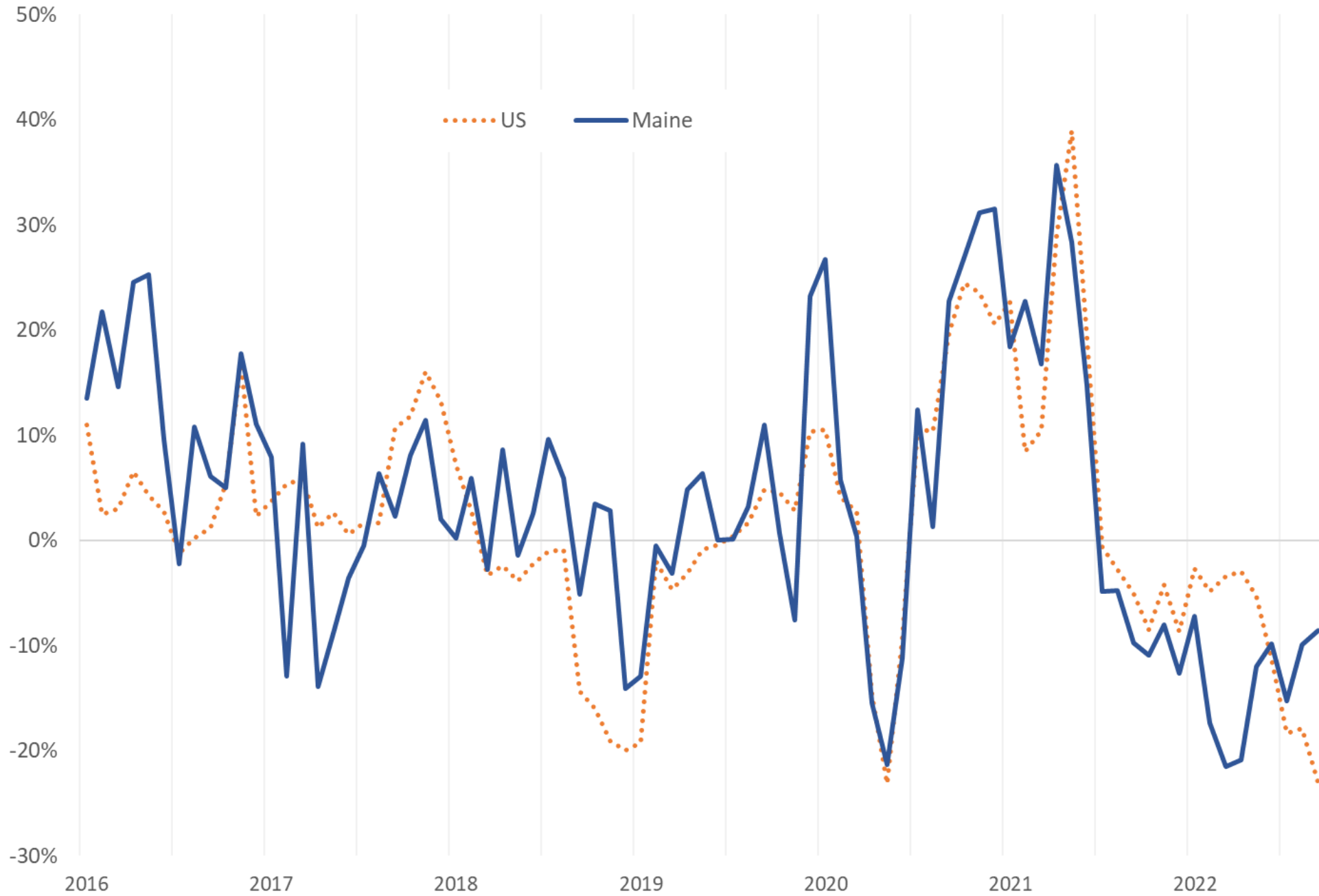
Year-over-year Percent Change in FHFA House Price Index (not seasonally adjusted)



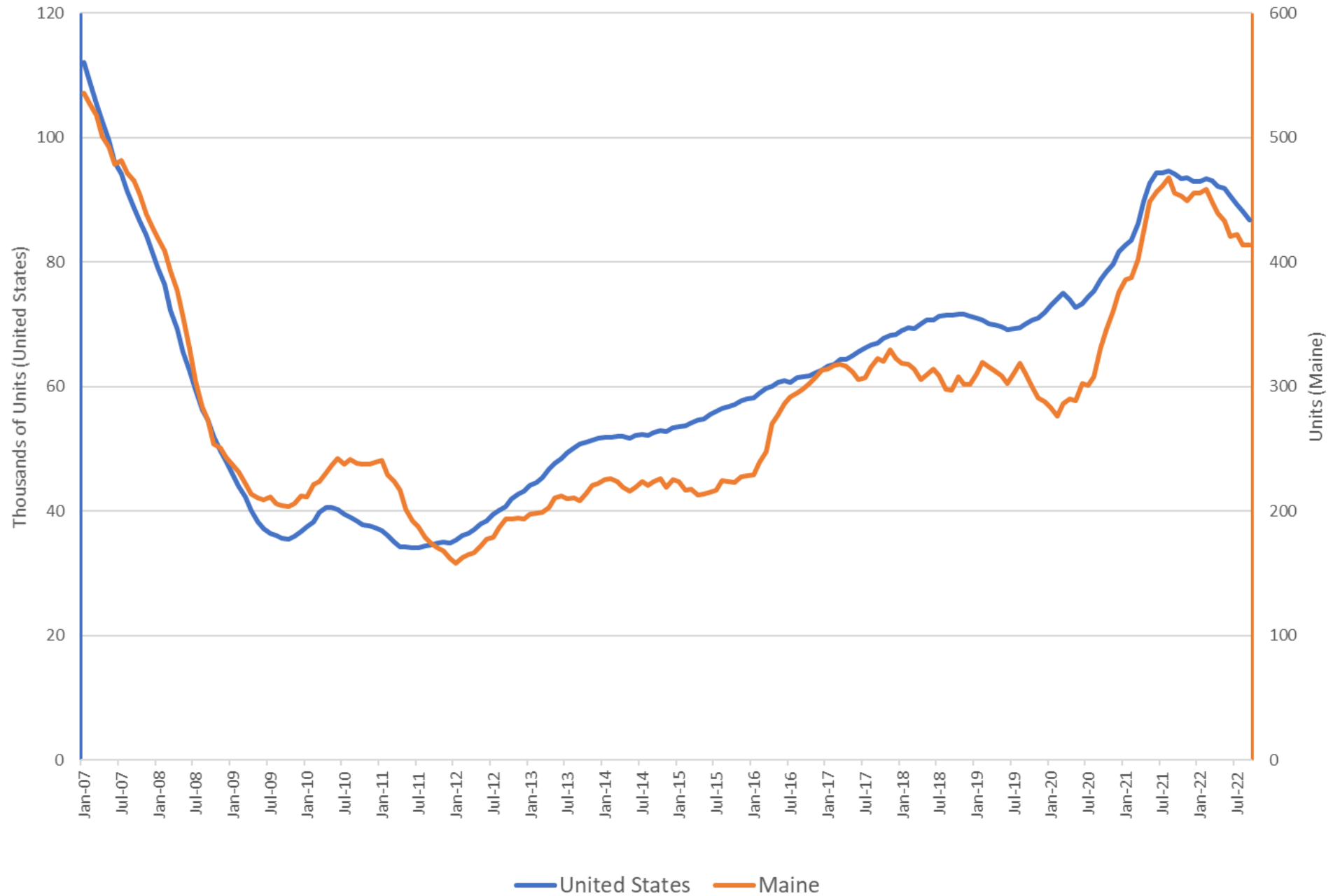
Percent of Households Unable to Afford Median Home, 2021



Year-over-year Percent Change in Single Family Existing-Home Sales



New Private Single-Unit Housing Permits, 12-month average

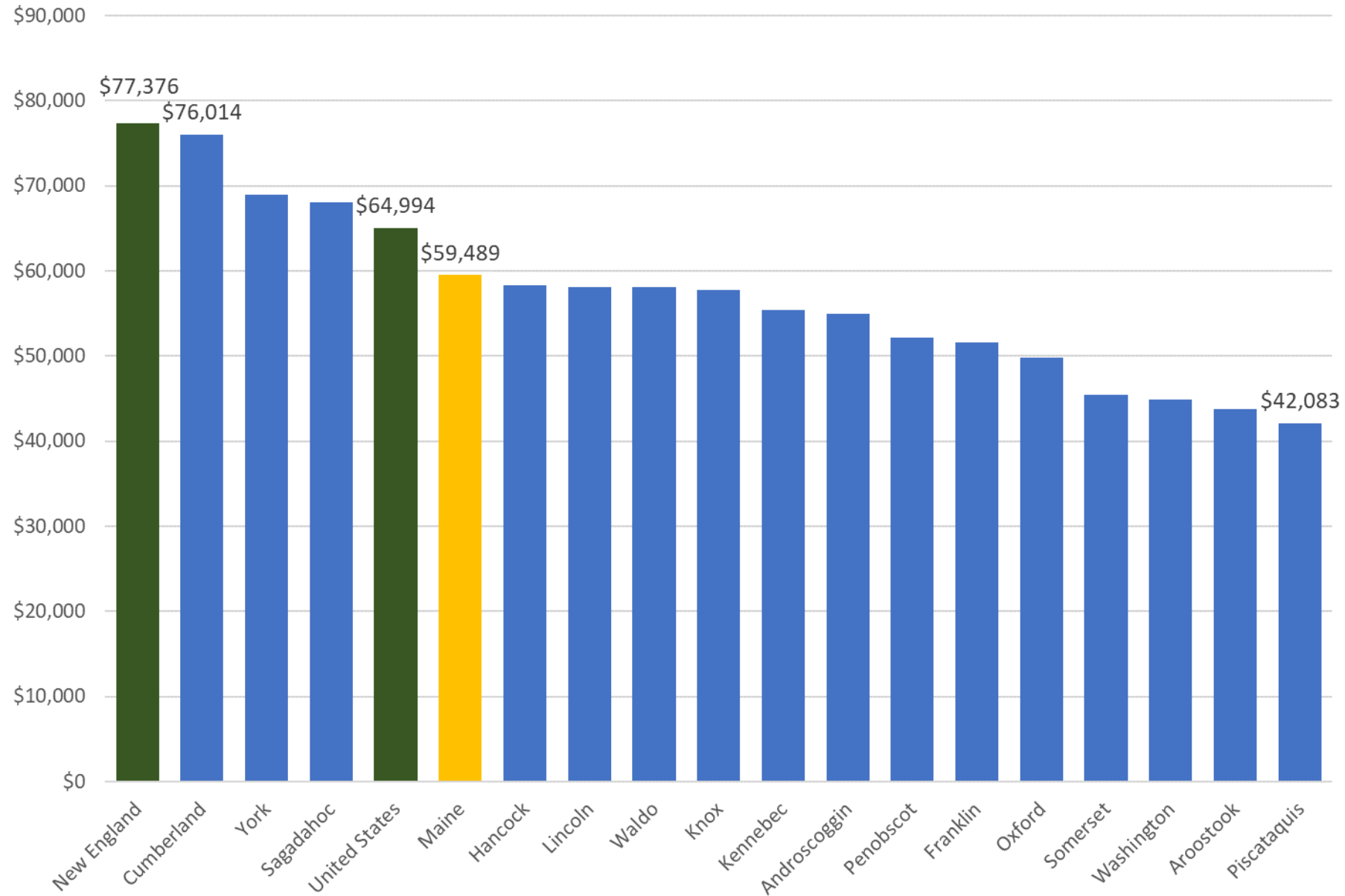


September 2022 Home Sales by County

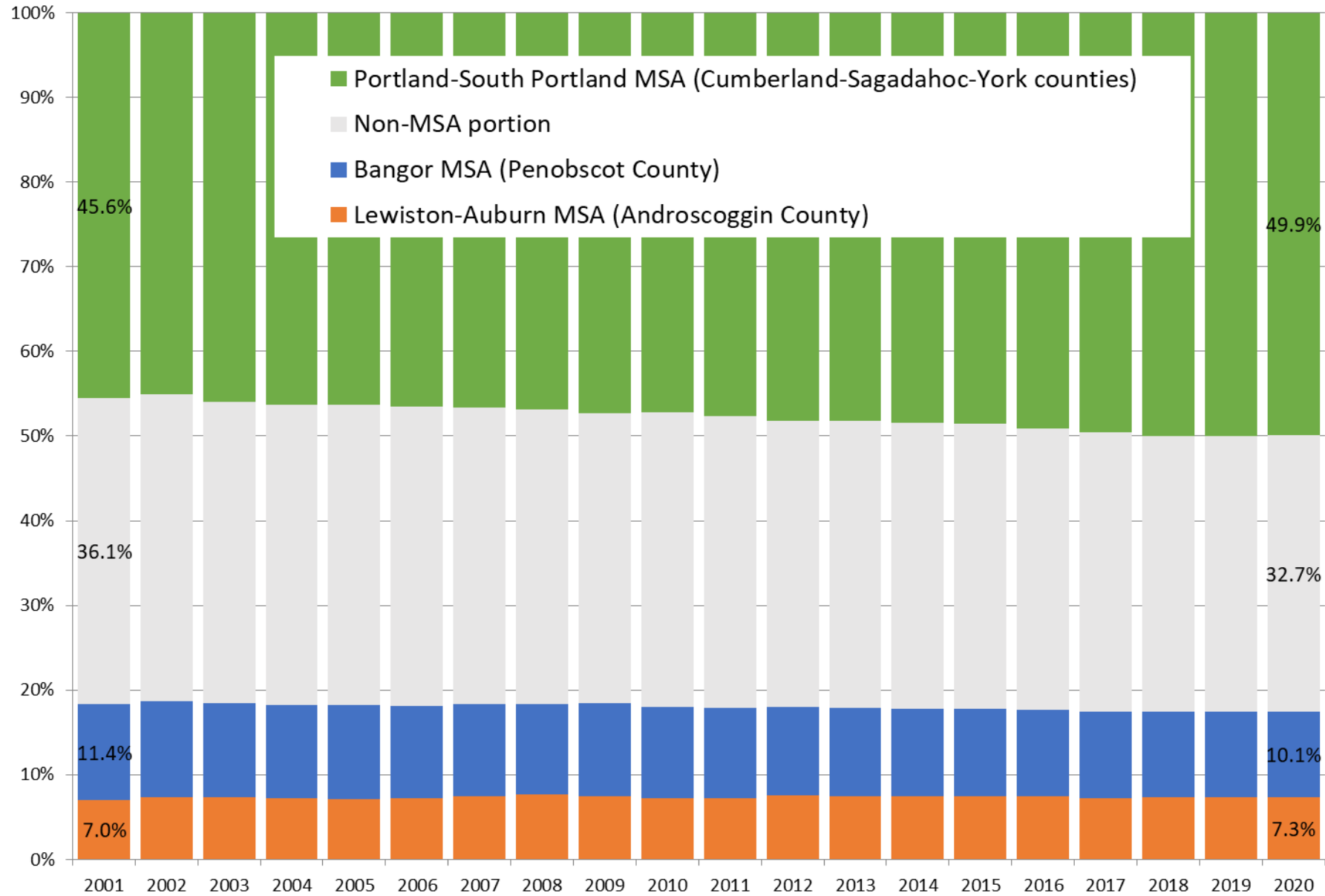
Geography	No. of Units Sold	One Year Change (units)	Median Sale Price	One Year Change (Price)
Androscoggin	120	-4.0%	\$273,000	3.0%
Aroostook	95	-9.5%	\$150,000	25.0%
Cumberland	365	-14.1%	\$505,000	14.8%
Franklin	62	34.8%	\$250,000	17.3%
Hancock	86	-24.6%	\$317,500	-14.2%
Kennebec	196	-4.9%	\$267,500	5.3%
Knox	57	-26.9%	\$375,000	0.0%
Lincoln	61	5.2%	\$425,000	17.2%
Oxford	109	23.9%	\$294,000	21.2%
Penobscot	183	3.4%	\$233,000	13.7%
Piscataquis	37	12.1%	\$197,000	-1.0%
Sagadahoc	46	4.6%	\$355,000	4.6%
Somerset	74	-3.9%	\$203,000	7.1%
Waldo	89	-19.2%	\$269,900	-17.0%
Washington	62	8.8%	\$238,750	54.0%
York	278	-23.0%	\$485,000	17.4%
Maine	1,890	-8.6%	\$330,000	3.1%

What does this mean
for Maine's economy?

Median Household Income



Share of Maine Real GDP by Metropolitan Area



County Rates (not seasonally adjusted)

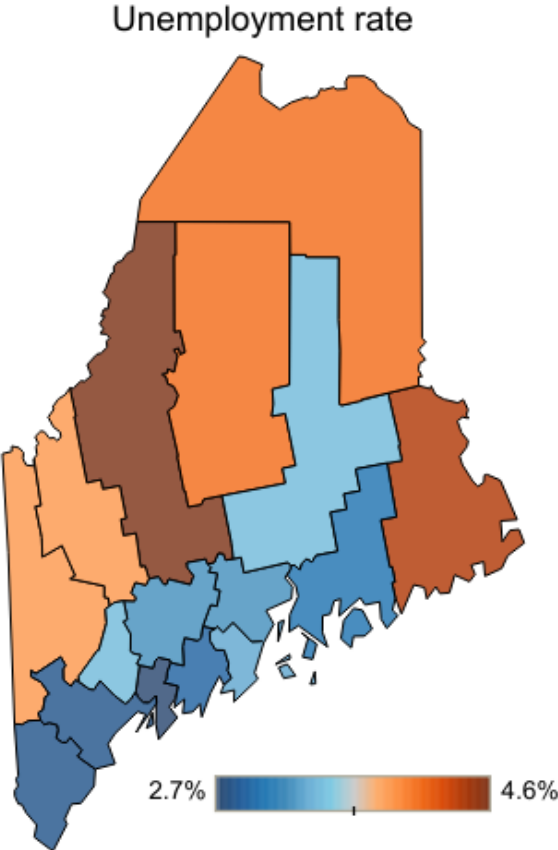
September, 2022

Table
 Graph

Map/Graph Display

Unemployment rate
 One-year change

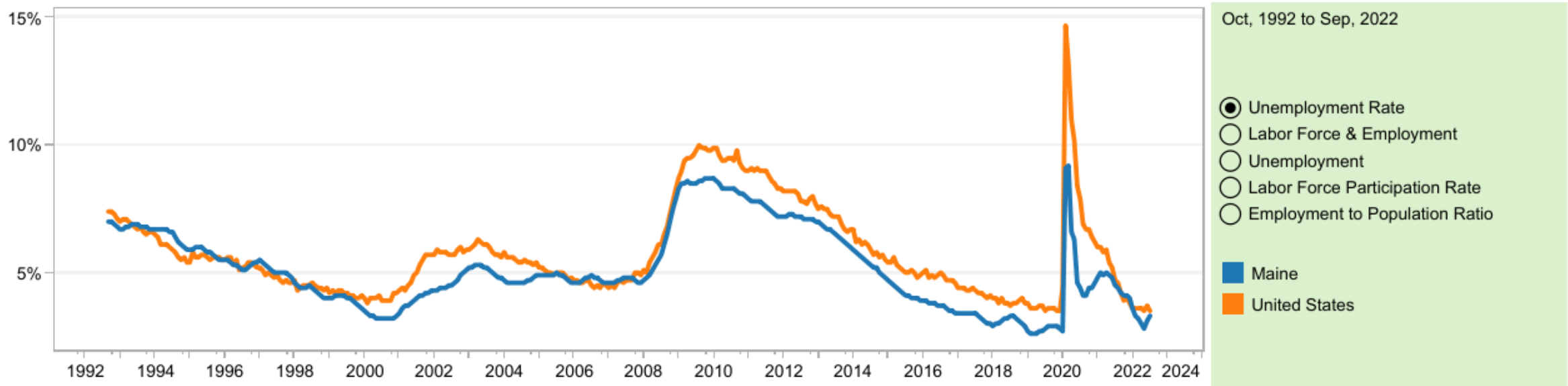
County	Rate	Year ago	One-yr change
Maine	3.2%	3.8%	-0.6
Androscoggin	3.4%	4.4%	-1.0
Aroostook	4.1%	5.0%	-0.9
Cumberland	2.8%	3.3%	-0.5
Franklin	3.9%	4.2%	-0.3
Hancock	3.0%	3.6%	-0.6
Kennebec	3.2%	3.7%	-0.5
Knox	3.3%	3.7%	-0.4
Lincoln	2.9%	3.5%	-0.6
Oxford	3.9%	4.6%	-0.7
Penobscot	3.4%	3.9%	-0.5
Piscataquis	4.1%	4.1%	0.0
Sagadahoc	2.7%	2.9%	-0.2
Somerset	4.6%	5.5%	-0.9
Waldo	3.2%	3.9%	-0.7
Washington	4.4%	5.9%	-1.5
York	2.8%	3.4%	-0.6



Maine Department of Labor, Center for Workforce Research and Information

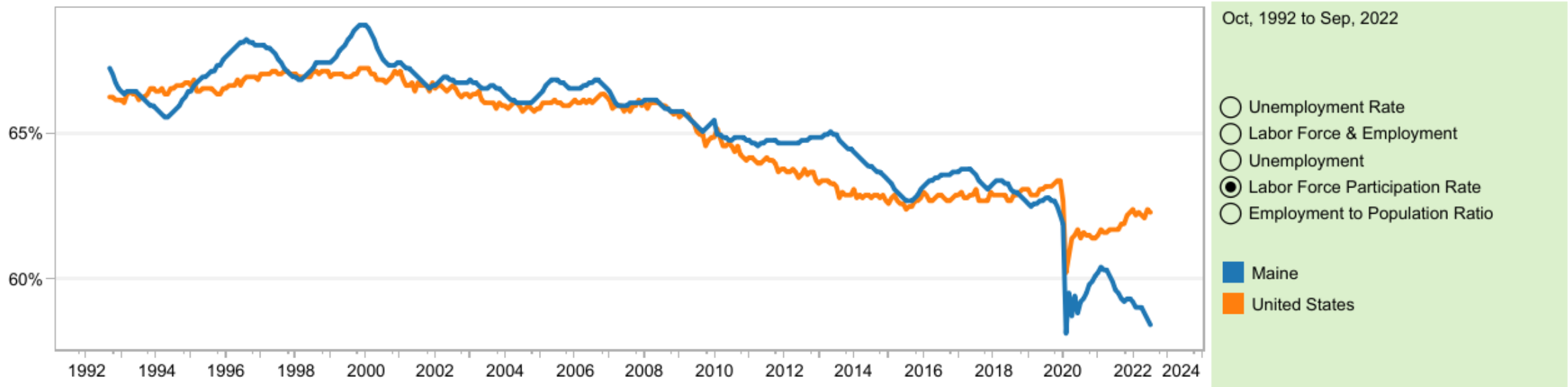
Maine's unemployment rate in September 2022 is just above pre-pandemic levels and well below the long-run average unemployment

Unemployment Rate
(seasonally adjusted)



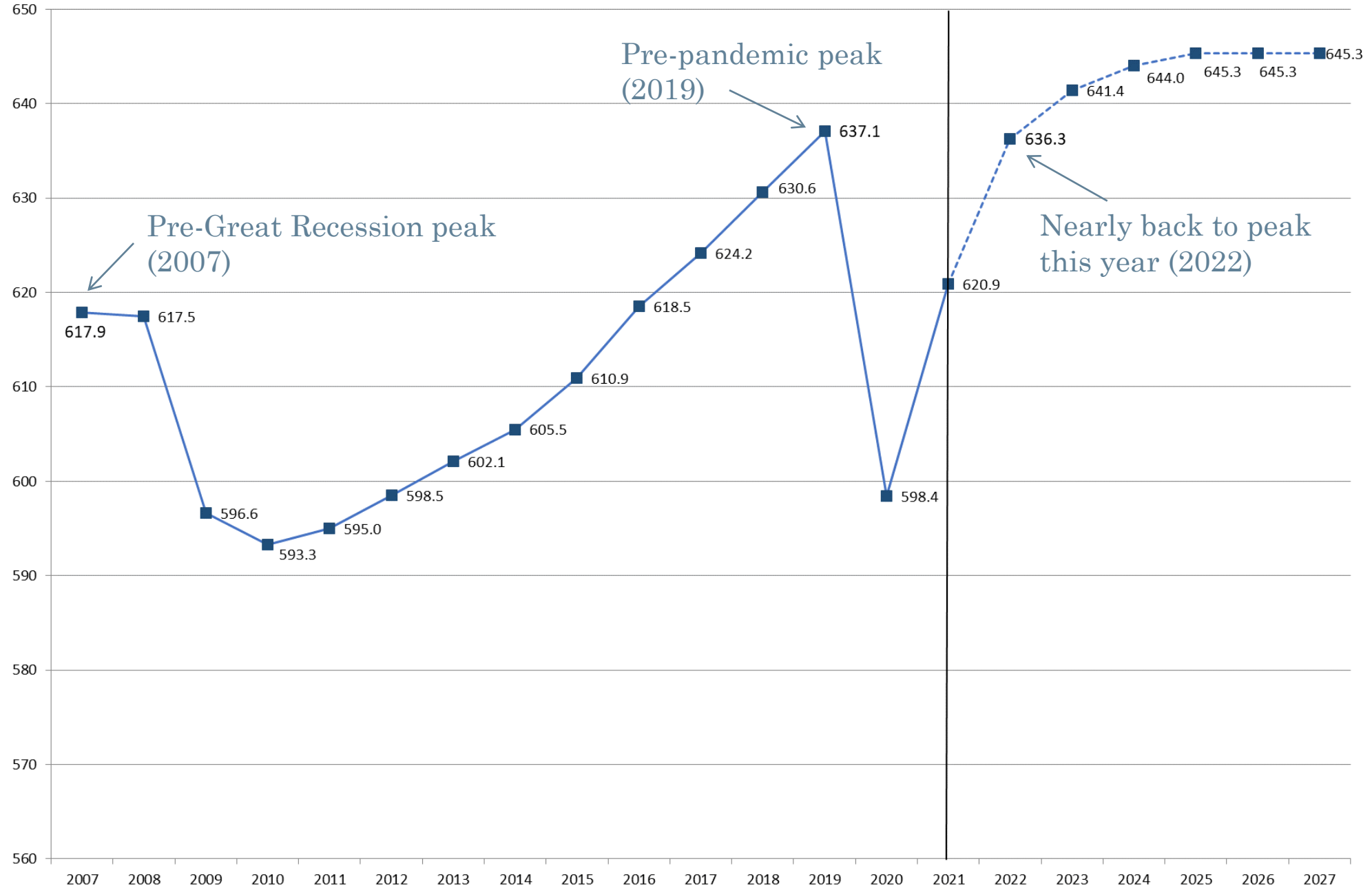
The Maine Department of Labor finds that, “(...) the persistently lower rates through the summer of 2022 are mostly caused by aging and retirement decisions that may have been accelerated during the pandemic and not by lower participation among people between the ages of 20-54”

Labor Force Participation Rate
(seasonally adjusted)

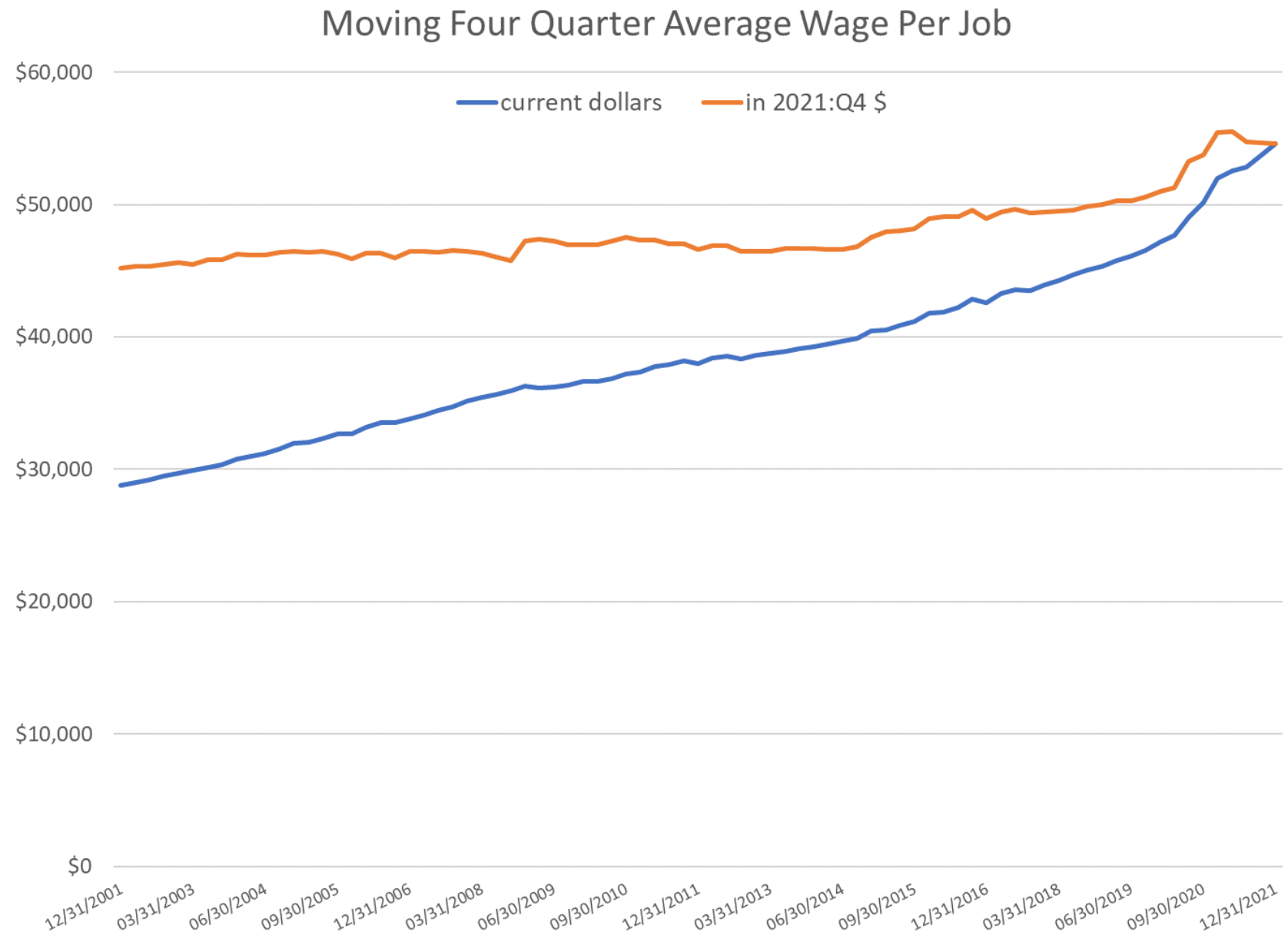


Note: it is likely that the household survey is underestimating available labor supply and estimates from the past year will be revised up, although remaining below pre-pandemic levels

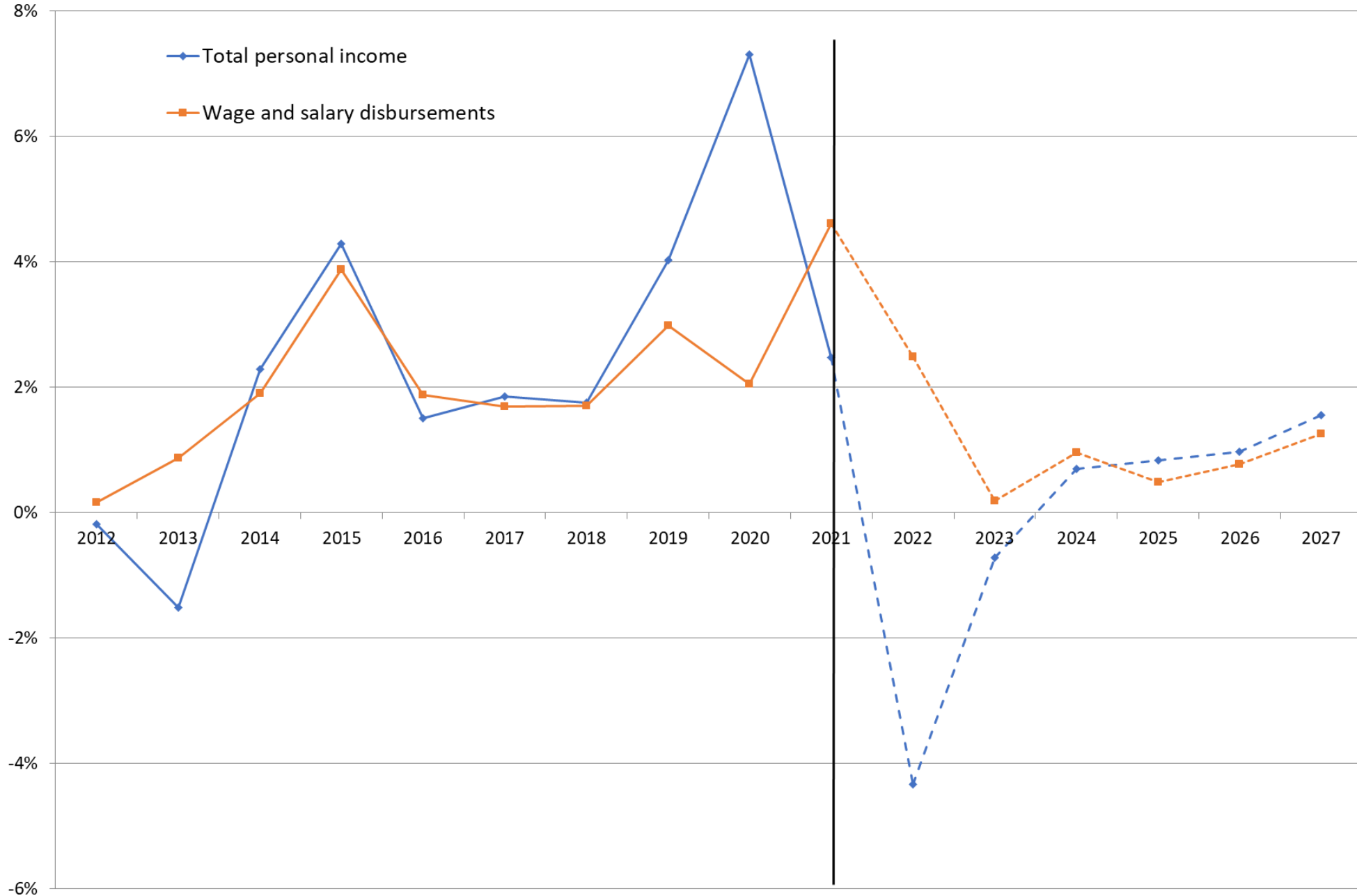
Total Nonfarm Employment (in thousands) History and CEFC forecast



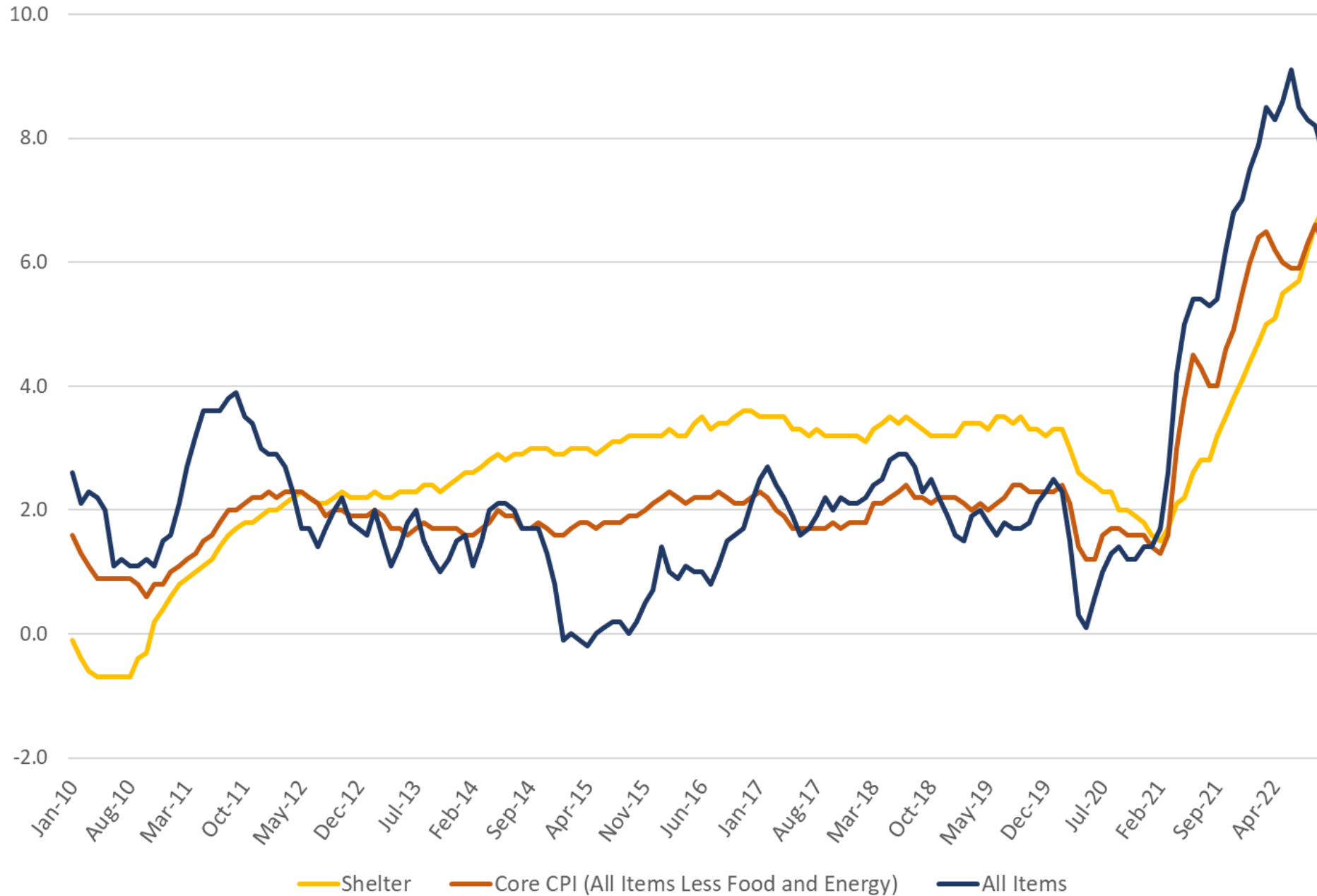
Higher total wages spread across fewer jobs drove the average wage per job up sharply in the pandemic era, but inflation is making those gains less meaningful



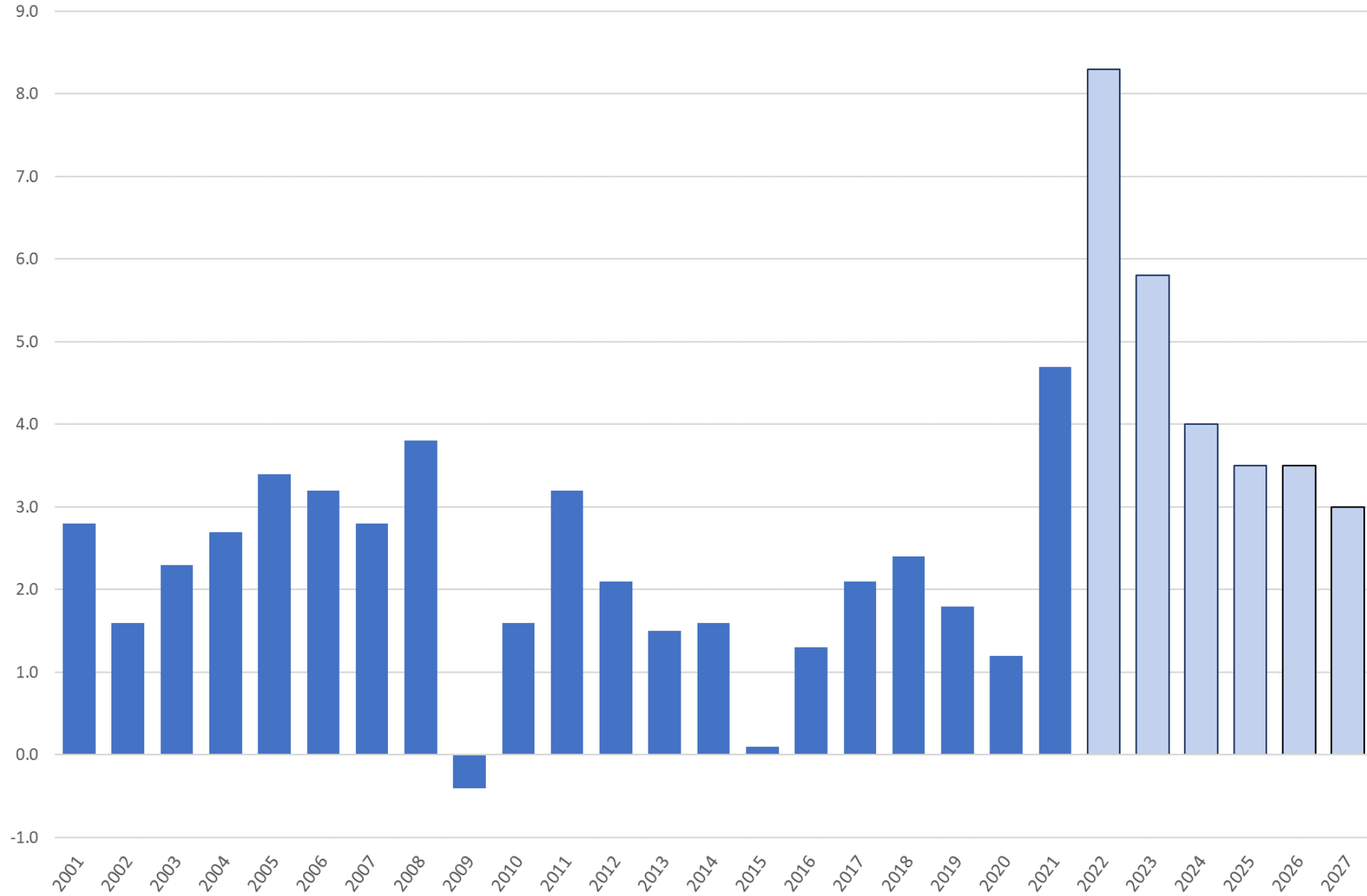
Percent Change in Real Personal Income, Maine 2012-2021 and forecast to 2027



Year-over-year percent change in Consumer Price Index



Year-over-year percent change in Consumer Price Index; 2001-2021 historical and 2022-2027 forecast



What does this mean for interest rates?

Current target range: 3.75% to 4%

“The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.”

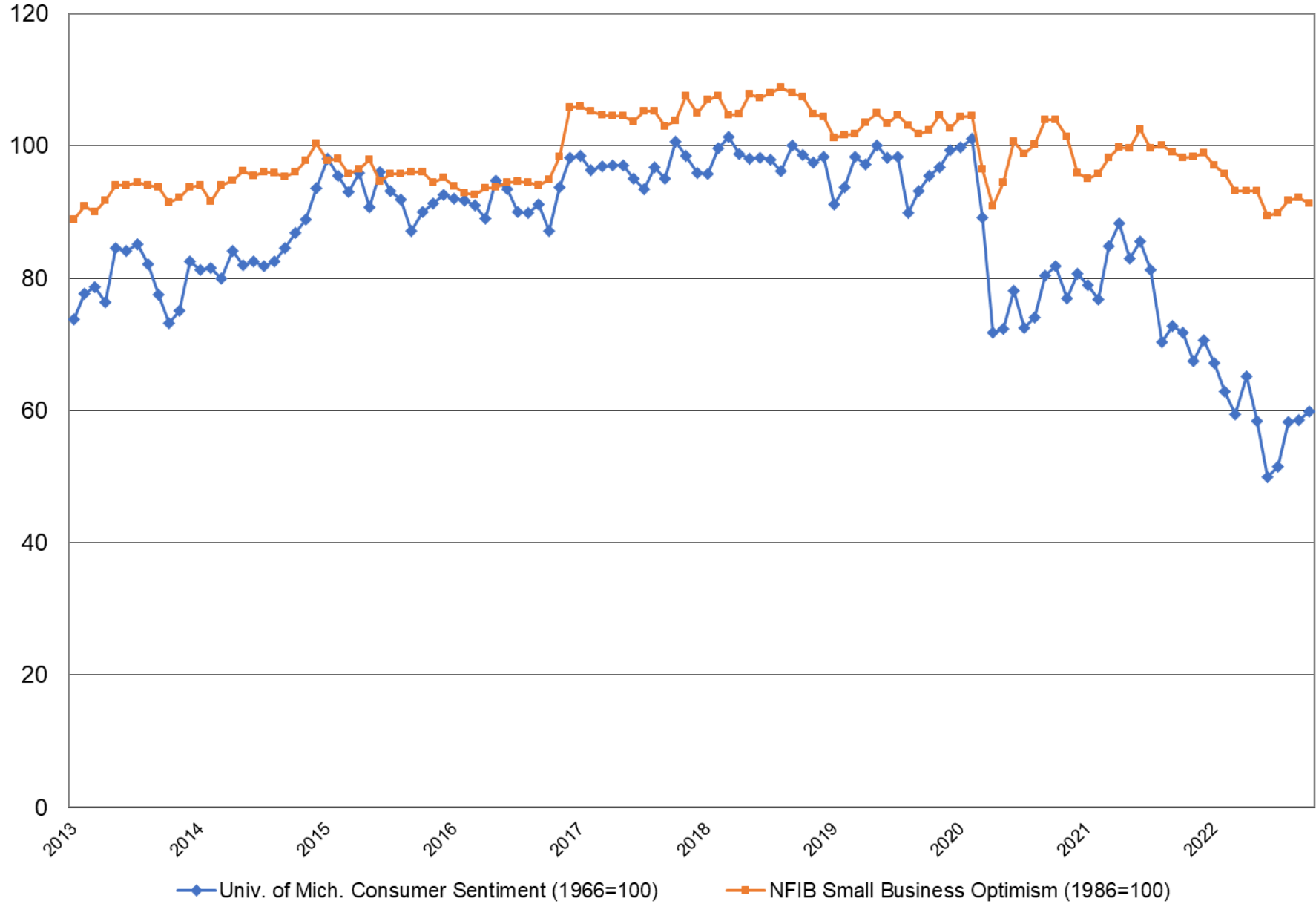
- Excerpt from November 2, 2022, Federal Open Market Committee statement

- Range of September FOMC projections for federal funds rate for 2022 was 3.9-4.6 percent and for 2023 was 3.9-4.9 percent
- This implied increases of 0.5 to 0.75 percentage points at next 2-3 meetings (could be fewer but higher or more but lower); 0.75 percentage point increase made in November
- Increases are expected into early next year

The increase in mortgage rates since the beginning of the year translates to an increase of around \$700 (or 50%) in monthly principal and interest payments for a house at the median sales price



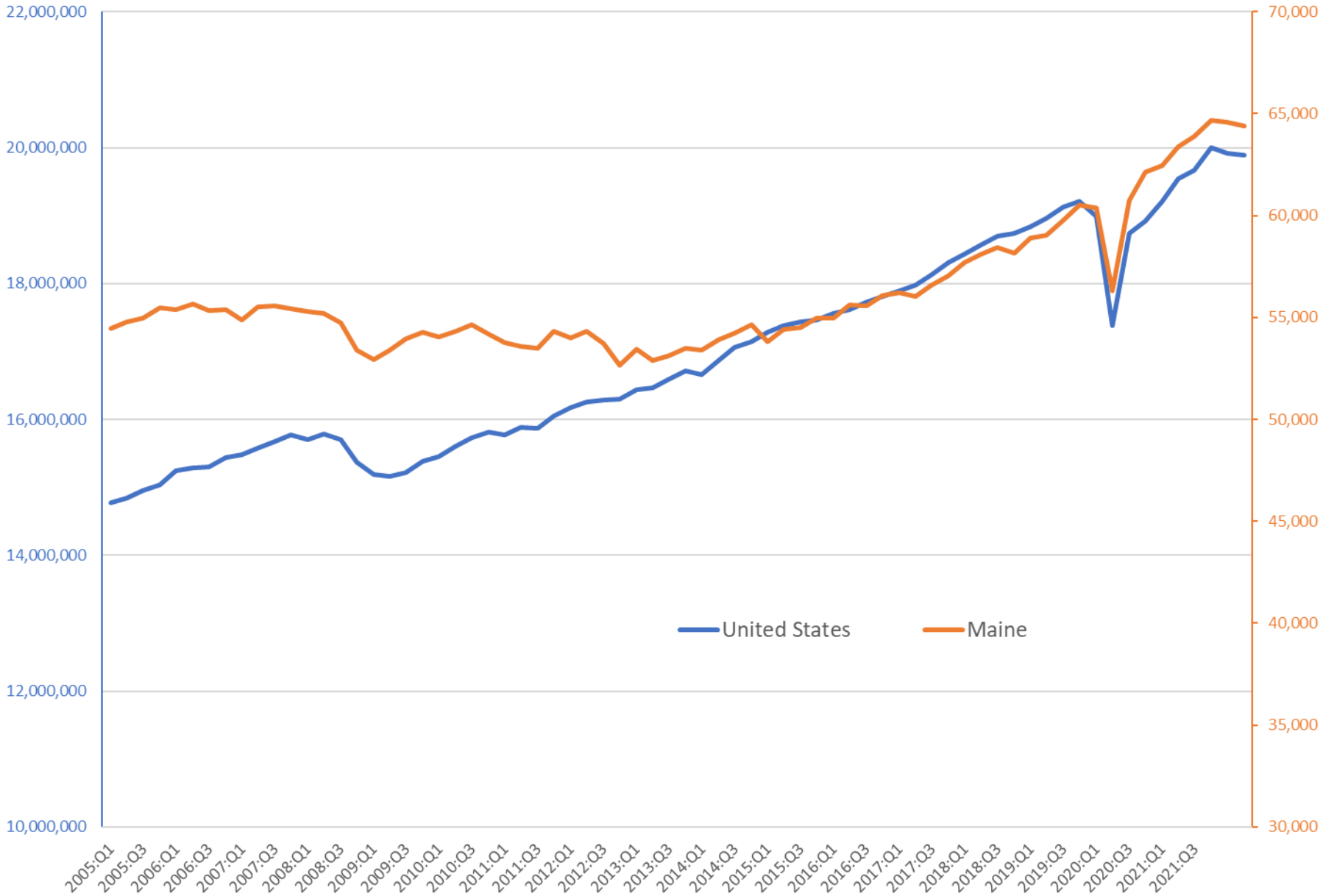
Consumer Sentiment and Small Business Optimism Indexes



Inflation has been a major contributor to the downward trend in small business and consumer sentiment over the past year

Lower gas prices in July/August helped improve current sentiment, but gains have slowed and uncertainty about future economic trajectory persists

Quarterly Real GDP (in millions of chained 2012 dollars)



What is a recession, anyway?

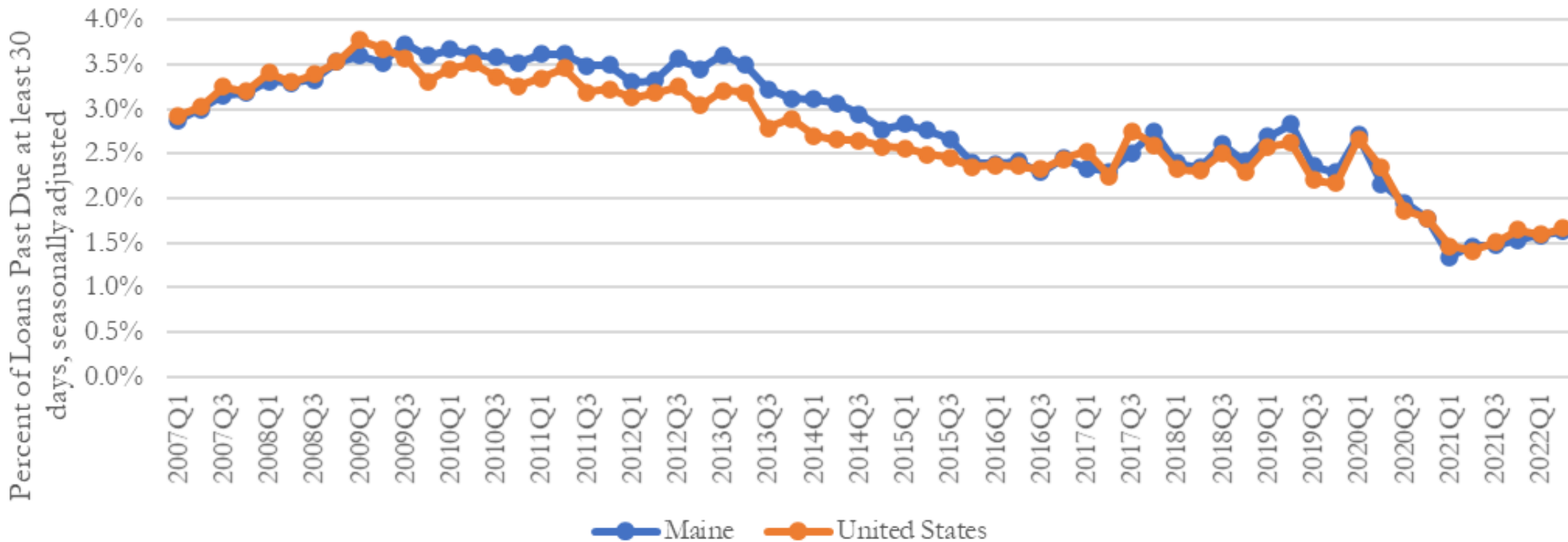
National real GDP declined at an estimated annual rate of 1.6% in the first quarter of 2022 and 0.6% in the second quarter of 2022

In the U.S., recessions are officially declared by the National Bureau of Economic Research:

“a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months”

The advance estimate of GDP for the third quarter of 2022 is growth of 2.6%

MBA Mortgage Delinquencies



Key assumptions from November 2022 CEFC report

- Economic conditions are highly uncertain, with the potential for a slowdown in 2023.
- High inflation, high interest rates, low consumer sentiment, housing affordability/availability, and the correction in the stock market combine to create a challenging macroeconomic environment.
- There is a risk of continued higher inflation into 2023, with higher energy prices posing a particular concern for consumers in Maine where heating oil and gasoline are heavily relied on. Heating oil prices have started the heating season high and are expected to remain elevated, with the potential for even larger costs to households and businesses if there is a colder than usual winter. Inflation risks are likely to take several years to fully ease.
- Rising interest rates are slowing effective demand for real estate, although variation in regional economies exists. Higher home prices have contributed to higher rental prices. Affordability is of particular concern as interest rates have spiked, causing more potential buyers to be priced out of the market.
- There is an opportunity for Maine to see continued increased in-migration in the coming years due to telework and people looking for locations that allow for work-life balance and access to outdoor recreation, but housing and childcare/school availability for those with children are potential limiting factors.

Things to keep in mind:

- We need migration into Maine to provide current and future workforce
- Housing costs have increased sharply as demand far outstripped supply and then interest rate hikes made mortgages more expensive – this limits availability for ongoing migration and workforce expansion
- Wages have increased, but so has inflation – real gains aren't as robust
- Growth in prices is starting to cool off, but affordability and availability are still a concern, especially given the potential for an economic slowdown
- Maine needs additional housing units to better match supply to demand and increase affordability

Contact Information

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