

November 1, 2014
Consensus Economic Forecasting Commission (CEFC)
Summary of CEFC Data Gathering Session on October 24, 2014

For the fourth year in a row, leaders of several Maine business and industry groups assembled at the State House to share economic data and industry-specific information with the Consensus Economic Forecasting Commission (CEFC) prior to the fall forecasting meeting. Following is a summary of those presentations. Any economic data, observations or forecasts contained in this summary appear as they were heard and interpreted at the meeting, so the CEFC is not responsible for their accuracy. Nothing in this summary necessarily reflects the views of the CEFC. The current official forecast of the CEFC can be found at <http://www.maine.gov/economist/forecasts/index.shtml>.

Chris Pinkham, Maine Bankers Association

Mr. Pinkham provided a summary of growth for the first half of 2014, indicating that all types of loans have increased. The 90-day delinquency rate has been coming down slowly and remains considerably higher than the pre-recession rate, due in part to Maine's lengthy foreclosure process.

Mr. Pinkham addressed the three questions posed by the CEFC for southern, mid-coast, and northern regions of the state. Very little job growth is expected over the next few years in any of the regions, with wage growth generally around 3% annually. Capital investment is more likely to take place through growth in New Hampshire and through upgrades of technology and software. Rural areas struggle more with attracting workforce, particularly as the managers and senior supervisors age.

Jeffrey Austin, Maine Hospital Association

Mr. Austin updated the CEFC on the data presented last year. Hospitals continued to have a tough time in 2013. Discharges were down 3.4%, emergency department visits were down 5.2%, inpatient surgeries were down 7.1%, and outpatient surgeries were down 1.8%. Outpatient visits were up 6% and physician visits were up 15%. Some of this may be due to the trend in reducing acute/high-intensity interventions and movement towards "managing" chronic conditions. While this can be positive for patients and helps keep down the overall rate of growth in health care costs, it wreaks havoc with hospital balance sheets.

Payroll growth was at 6%, reflecting employment growth rather than wage growth, as total full time equivalent employment increased 5%. Uncompensated care grew significantly at 15% for the second year in a row, reflecting the growing trend in high-deductible insurance plans where consumers can't pay their share. Tracking the number of people covered by high-deductible plans could be critical for the hospital industry. In addition, the reductions to Medicaid eligibility enacted by the Maine Legislature in 2012 were staggered and not fully implemented until spring of 2014, which also contributed to growth in charity care.

Operating margins remain troubling, as the number of hospitals with negative operating margins continues to grow. In the first quarter of 2014, 23 of 37 hospitals had a negative operating margin, up from 21 of 37 in 2013, 20 of 39 hospitals in 2012, and 12 of 39 in 2011.

The federal budget passed in January 2014 was largely neutral for hospitals as were the State's supplemental budgets passed this year. However, the ongoing implementation of cuts in the Affordable Care Act will pose challenges this year and next. The expansion of Medicaid is a meaningful revenue opportunity for hospitals that are otherwise left to focus on managing expenses as a way to expand revenue. Payment reform models have been discussed and would hopefully align payment models with current care models.

Derek Volk, Volk Packaging Corporation, on behalf of Manufacturers Association of Maine

Mr. Volk presented a variety of data about the manufacturing sector and addressed the CEFC's three main questions. The industry consistently sees around 800-1000 job openings, although the number fluctuates with closures. A recent poll of 40 firms found an average of 8 openings per company, and Mr. Volk's own firm has 4 openings currently that they have been unable to fill. The average annual wage represents a significant premium compared to the average for all jobs, and the aerospace industry is especially strong, with a 64% wage premium over the average of all industries.

Capital investments are strong as several companies are adding machines, expanding square footage, or both. Ingenuity continues to drive the industry in the state.

While there is some workforce training in place, the skills gap continues to be a major issue for the industry. Work continues on building the pipeline of skilled workers to replenish the aging workforce. The Association has been going to employers and trying to build training programs that will provide workers with the necessary skills, including basic math as well as more advanced, specialized skills. One of the things the Association is trying to do is redefine for young people what manufacturing is, in part through the "Dream It, Do It" program.

Thomas Brown, Maine Automobile Dealers Association

Mr. Brown shared that employment in auto dealerships is back to prerecession levels just shy of 6,000, and this has probably reached a plateau. Payroll is also back up around prerecession levels. There have been 2-3 years of decent growth in business activity and the industry is likely reaching a plateau. Sales for Maine are up to around 58,000 new vehicles and around 96,000 used vehicles. While growth in used vehicles has been around 5-8% for a few years, it will likely be around 2-4% going forward.

Leasing programs have regained popularity. These vehicles are turned over on a more regular basis, which should contribute to higher used vehicle sales in a couple of years as leases run out. In addition, the average age of vehicles on the road in Maine is 12 years, making replacement necessary for more people.

The low interest rates have been helpful for bringing the industry back to prerecession levels, but rates are likely to increase soon, which will cause growth to slow.

Technicians need higher skill levels these days as vehicles rely more and more on computers, and the age of technicians has been increasing, fueling a need for replacement personnel. The higher skill sets will likely push wages up in the industry. There have been significant capital investments over the past few years and this will likely continue. The low interest rates and the willingness of manufacturers to do partial matching have made capital investments desirable.

The industry has been working with high schools and community colleges to align automotive training with industry requirements. The Maine Department of Education has been helpful with promoting this training. Children have been turned off from manual occupations at an early age by teachers, parents, and guidance counselors; the industry sees a need to capture interest levels early to develop a pipeline of trained workers.

Gordon Smith, Maine Medical Association

Mr. Smith noted that because many physicians are located in hospitals, his industry is seeing many of the same trends that Mr. Austin from the Maine Hospital Association identified.

The number of practicing physicians is growing slowly; there is a significant shortage of primary care physicians nationally, making it very difficult to recruit physicians in Maine. Because of this, there is growing use of nurse practitioners and physician assistants. Telemedicine holds great promise both for rural areas that have trouble recruiting primary care physicians and other areas where specialists are needed. Telepsychiatry is one example of this.

While many physicians are in hospitals, health clinics, or large private medical practices, there are still hundreds of small and solo practices; these will always have a significant presence in the state. Wages tend to be very good, especially due to physician shortages. The training pipeline is so long that it increases the shortages of physicians.

Around 60% of money spent on healthcare in Maine is in Medicare and Medicaid. The ongoing “doc fix” is expected to pass again to continue to fix reimbursement rates after March, but the lack of a long term solution causes a great deal of uncertainty. The two-year provision in the Affordable Care Act that allowed states to pay Medicare reimbursement rates on Medicaid for primary care private practices was helpful, but it expires at the end of 2014. There is a push to extend this provision.

Physician visits have been up; part of this is likely because people with coverage tend to use more services, driving utilization rates up.

The partnership between Maine Medical and Tufts as well as the College of Osteopathic Medicine at the University of New England have been helpful with keeping medical students in state to become practicing physicians. Currently there are around 120 open vacancies and probably 200 unfilled positions around the state, likely mostly in primary care.

Jamie Py, Maine Energy Marketers Association

Mr. Py shared information about the energy-related industries in the state. Maine does not have any oil/natural gas production or refineries in the state, so Mr. Py focused on the convenience stores (associated with gas stations) and energy technicians in Maine.

There has been some consolidation in the convenience store marketplace, with some upgrades to existing facilities and some new facilities being built. There are about 1,200 convenience stores in Maine with around 18,000 employees and annual sales exceeding \$5.5 billion, most of which is fuel. Per store, over 1 million gallons of fuel were sold in 2013, but pre-tax profit was only \$47,254. Most of the jobs are retail, entry-level positions, with training occurring in-house.

Technicians, on the other hand, require a higher skill set, as more and more systems are computer controlled and people are integrating heat pumps and gas along with traditional oil burners. Annual wages can run around \$40,000-\$60,000 for good technicians. The demographics of technicians are similar to other industries in the state in that they are aging quickly and there is a growing demand for replacement workers. MEMA has a Technical Education Center in Brunswick that is currently at capacity. One-third of students are coming from career centers, one-third from companies, and one-third from high schools. There is also a tremendous need for drivers, as licensing for Class A drivers is intensive and limits the available pool of workers.

Maine Association of REALTORS®

The Maine Association of REALTORS® was unable to participate in the meeting but sent a written summary from Angelia Levesque, the 2014 President.

Ms. Levesque noted that real estate in Maine has been improving over the past three years. Home sales for 37 of the past 38 months have shown year-over-year improvement. Median prices have stabilized and the statewide median of \$174,000 over the first nine months of 2014 is in line with prices of 2004. Through September of 2014, 44% of home sales occurred in York and Cumberland counties, the same as 2013. During 2013, 12 counties had price increases and all 16 counties had increases in the number of sales. For the first nine months of 2014, however, data indicate that 10 counties had price decreases, although 13 counties continued to see increased numbers of sales.

42% of Maine homebuyers were first-time buyers, which is higher than the national rate of 38%. Of the new homes purchased in Maine, 16% were new construction, the same as the national rate. In Maine, 75% of respondents to a

recent survey indicated that student loan debt was hindering their ability to save for a down payment, compared to 43% of U.S. respondents.

Moving forward, there are several areas that will impact the real estate market in Maine: the interest rate environment, federal and state tax policy, credit availability, Government Sponsored Enterprise (GSE) reform and FHA reform, and student loan debt. For every 1% increase in the interest rate the cost per month increases about \$30 for each \$100,000. Removal of the mortgage interest deduction, property tax deductions, and/or homestead exemption may have a dampening effect on home sales volume. Increasing regulation around mortgage financing may prevent some people from entering homeownership, despite the fact that financial institutions have credit available. Efforts to revamp Fannie Mae, Freddie Mac, and FHA could make long-term, affordable mortgage credit less available. Student loan debt appears to be a large factor in preventing people from saving for a home down payment.