

**November 1, 2012**  
**Consensus Economic Forecasting Commission (CEFC)**  
**Summary of CEFC Data Gathering Session on October 25, 2012**

For the second 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/spo/economics/forecasts/>.

**Tina Lucas, 2012 President of the Maine Association of REALTORS®**

Ms. Lucas noted that real estate in Maine has been improving recently as home sales are up and sales prices have stabilized. Low interest rates from the Federal Reserve have buoyed homebuying. Between 2011 and 2012, there were 15 consecutive months of increase in the number of home sales for year-over-year comparisons. While it is still a buyer's market, the backlog of unsold homes is starting to decrease somewhat.

Moving forward, Ms. Lucas identified several areas of potential impact on real estate: how long mortgage interest rates will remain low, whether the mortgage interest deduction will be scaled back, and whether downpayment requirements will increase. Ms. Lucas also noted that Maine has the second-longest foreclosure process in the U.S., which has contributed to instability in the housing market.

Most of the growth in home sales appears to be in two brackets: first time homebuyers, who are on the lower end of the range, and high end/second home buyers. In 2011, 11% of homes purchased in Maine were new construction, compared to 16% nationally – Maine has been below the U.S. for the past few years.

**Peter Judkins, President of Franklin Savings Bank, on behalf of Maine Bankers Association**

Mr. Judkins reported that Maine banks are well-capitalized and very liquid but have faced increased compliance expenses due to new regulations. Net interest income has remained relatively stable over the past few years, although it is very close to operating expenses. There is concern that banks taking mortgages at very low rates will be stuck as rates increase, which may put small banks in trouble. There are fewer loan regulations on the small business side compared to mortgages, which may drive some banks away from mortgage lending.

As banks are trying to keep operating expenses down, hiring may be limited. Quality loan applicants are limited and consumers have been on the sidelines due to concerns about housing and the economy. There have been some recent improvements in foreclosures and delinquencies and the past couple of months have seen more new buyers.

**James Cote, Associated Builders and Contractors of Maine**

Mr. Cote began by saying that the construction industry is in a similar place as it was last year when he addressed the CEFC. The construction backlog indicator has trended down to just under 5 months, which means jobs may be starting to dry up a bit. An informal survey of about one-third of members found that conditions have been fairly stagnant over the past year. Nearly two-thirds felt that the 2012 elections could have a positive impact on the construction industry, although half of respondents were not sure whether they would have more or less work opportunities in the next year.

The energy sector is seen as an area for growth and the increased demands in health care will likely be a major driver in construction five years out. Some of the issues seen as having a negative impact on Maine's construction industry are energy/fuel costs, regulatory uncertainty, taxes, and a lack of qualified labor. Mr. Cote believes that the challenges in workforce development will need to be addressed in the next year to two years to be timely.

**Thomas Brown, Maine Automobile Dealers Association**

Mr. Brown shared that employment in auto dealerships has remained relatively stable, recovering from the dip caused a few years back by the auto industry bankruptcies. There are workforce concerns in the coming years, particularly around the availability of technicians with the computer skills that are now needed. In 2012, new vehicle sales increased about 15-17% compared to 2011. Used vehicle sales increased about 8%. Many of the jobs at auto dealerships are in the servicing/repairs areas.

Nationally, the age of vehicles on the road is over 11 years and is slightly higher in Maine, with a period of 4-6 years between purchase/trade-in of vehicles. Leases are expected to increase as the auto companies try to bring this period down. One of the biggest issues is that people need to have jobs with disposable income to purchase vehicles.

Overall, next year is likely to be much the same as this year in terms of sales at dealerships. Mr. Brown sees the resolution of uncertainty around the elections as a key decision point for people. 2014 and 2015 are then expected to see improvements over current conditions.

#### **Lisa Martin, Manufacturers Association of Maine**

Ms. Martin noted that employment in the manufacturing industry has declined over time, while wages in the industry and contribution to GDP have been increasing. The aerospace industry is especially strong, with a 64% wage premium over the average of all industries. While some segments of the manufacturing industry are stagnant, others (such as aerospace and medical devices) are growing. Ms. Martin noted that the skills gap is the biggest issue for the industry, both in Maine and nationally. Companies are unable to find the skilled workers they need. Concerns around healthcare and the requirements of the Affordable Care Act are another challenge for the industry.

#### **David Winslow, Maine Hospital Association**

Maine has 39 not-for-profit hospitals. Mr. Winslow explained that overall, the industry is in better shape now than it was in 2009. Net operating revenues are up and the number of hospitals with negative margins has remained relatively stable. The number of beds has been decreasing due to a shift from inpatient to outpatient services, a trend that is likely to continue. One concern is the amount of uncompensated care (bad debt and charity care), which has been increasing in recent years. While the State's hospital debt is a concern, the situation has improved as the Administration has ceased incurring new debt and is looking for ways to pay down the existing debt.

Construction has picked up dramatically due to available bank financing, projects that have been in the queue for several years, and competition among construction firms. Patient management, while labor intensive, has been used to successfully drive down emergency department visits. Physician visits and the number of physician full time equivalent employees have increased substantially because of the increased number of physicians moving to hospitals. Going forward, concerns center around the Affordable Care Act, the state budget, and the Medicaid budget hole.

#### **Dana Connors, Maine Chamber of Commerce**

Mr. Connors began by saying that consumer confidence is a major factor in the business community and the recent levels of uncertainty have been crippling. However, there is some cautious optimism based on recent increases in confidence. Reactions following the elections may have an effect on the holiday shopping season. Many businesses are currently in a time of pause right now, keeping cash close because of uncertainty and worries about bond ratings. There are some positive signs as well, with some companies, many computer-driven, looking at Maine.

Maine's population issues are going to be a challenge going forward – the workforce of today is also the workforce of tomorrow, and more needs to be done around attracting and retaining younger workers. The cost of healthcare is a major concern for small businesses in particular, while the healthcare industry remains a major driver of Maine's economy.