

**Consensus Economic Forecasting Commission (CEFC)
Summary of CEFC Data Gathering Session on October 27, 2017**

For the seventh 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. For this meeting, participants were asked to provide a general overview of recent and future trends in their industries as well as comment on potential challenges and opportunities in the near term. 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/state/forecast.html>.

Greg Dugal, Maine Restaurant Association and Maine Innkeepers Association

Mr. Dugal presented information from the Maine Innkeepers Association and Maine Restaurant Associations with a particular focus on the 2016 and 2017 tourism seasons. He began by noting that the two associations are planning to combine into a single association. Total sales derived from tourism in Maine were up 6.9% in 2016, with jobs supported up 7.1%, earning up 7.0%, and taxes up 7.5%, indicating a strong tourism year overall.

Nationally, in 2016, lodging was up 3.3%, a slowdown from the 6.3% growth in 2015, indicating some oversupply of lodging on a national level. In Maine, however, lodging was up 10.2% in 2016, with 2017 having the potential to break \$1 billion for the first time. 2017 through July was up 2.7% nationwide and up 9.6% in Maine.

Restaurants were at \$783 billion in the U.S. in 2016. In Maine, restaurants were at \$2.66 billion, an increase of 6.2% over the previous year, compared to usual increases of 3%. A major contributor to this increase was Portland, where restaurants were up 9.3% to \$357 million, due in part to the increase in hotel rooms over the past year. For 2017 year to date, Maine restaurants are up 3.6%.

Several legislative successes were highlighted, including: the tip credit reinstatement, keeping the lodging tax at 9%, and some changes to the 14 and 15 year old labor laws. Issues facing the industry include a shortage of workers, which led to some businesses having to limit hours or operations; the need to increase hospitality education, some of which is being addresses through the Community College system with a later start to the year for tourism classes and a certificate program; geographic wage pressure; and the potential crisis around limits on H2B and J-1 visas, exacerbating the labor shortage particularly in September, which has become an increasingly important month for tourism.

Geoffrey Gattis, Bath Savings Institution, on behalf of Maine Bankers Association

Mr. Gattis spoke on behalf of the Maine Bankers Association, providing a perspective on the banking industry from southern and mid-coast Maine. Lending has continued to grow, with commercial real estate showing no signs of slowing down. Loan applications have become more accessible and competitive with online applications and more banks participating. Banks are beginning to look ahead to the next downturn, making sure they will be able to weather the storm. On this front, there is some good news in terms of banks seeing very low rates of past due payments – in some cases, record lows. The biggest concern for banks in the next recession is credit loss. Bank earnings have improved, but very slowly. Housing prices have rebounded, but there is a great deal of geographic variation. Foreclosure rates are down significantly, with residual from the last recession moving through the system. The Portland market is in very good shape. The demographic realities are starting to set in around the state, causing labor issues and movement within the state.

Mr. Gattis highlighted both the Gardens Aglow event at Coastal Maine Botanical Gardens and the breweries in an industrial park in Portland as having a positive effect on those areas. Gardens Aglow brought many people to the Boothbay Harbor region beyond the typical tourism season and trickled down to lodging and restaurants in the area.

Community banks are now trying to train internally, whereas in the past they have been able to hire trained employees from larger banks. Bath Savings itself has been growing employment, but finding employees has become increasingly difficult. One method of attracting workers has been to highlight the appeal of the area (mid-coast Maine being a desirable place to live).

Dan McCormack, InterMed, on behalf of Maine Medical Association

Mr. McCormack provided some industry data that was shared by Anthem BCBS. Healthcare cost trends have been relatively low recently, driven more by increases in prices for services than in utilizations. The small group market has been much more volatile, with the individual and large group markets seeing more stability due to the subsidization of premiums and benefits through the Affordable Care Act. Pharmacy costs are an area of particular interest, as they are now equal to total hospital inpatient costs. Pharmacy costs are likely understated as some classes of drugs are paid through the medical benefit, and these costs will continue to be a significant driver as biologic drugs and gene therapy treatments are further developed.

There continues to be a shortage of primary care providers around the state. Insurance benefits continue to shift costs to patients through higher deductibles, copays, and coinsurance. This has caused a 10% reduction in visits per year to Primary Care Providers from 2013-2016 and a shift in visits to later in the year. Some of this delayed treatment may be leading to higher costs. The average amount collected per patient increased 19% from 2013-2016 even as visits decreased.

Workforce issues are a challenge in this industry as well, with the greatest physician recruiting challenges for InterMed coming in Internal Medicine and Dermatology. In many cases, student loan debt is impacting employment decisions, with physicians choosing to locate in markets where loan forgiveness is available and compensation is high. The tax environment is a concern as well, with the three percent surtax (which has since been repealed) causing some physicians to choose to locate out of state (New Hampshire is often the recipient of these physicians). Locally trained physicians are the top source of successful recruiting, and most hires typically have some connection to Maine.

Non-physician recruiting is also difficult, with hospitals and physicians both competing for a limited pool of nurses and other staff. This is causing upward pressure on wages, as wages for RNs in InterMed's offices rose nearly 10% from 2013-2016. Education requirements are increasing and in turn driving up wage expectations. It also is taking longer to fill vacant positions.

Workforce issues will continue to be a limiting factor in the future, and there are no signs that the primary care shortage will improve over the next five years. Payment reform is shifting reimbursement from traditional fee-for-service to alternate payment methods such as bundled payments and risk-based payments. This will have an impact on providers as they will need the financial resources to manage the increased risk. Top risks for the future are recruitment and regulation.

Matt Marks, Associated General Contractors Maine

Mr. Marks began by talking about some of the workforce issues facing the industry. There were around 10,000 people lost during the recession, many of whom were retirement age, and 45% of the workforce is over the age of 45 today. This is very concerning for the industry in terms of planning for the future.

Commercial construction has been booming in the Portland region lately. During the recession, some large out of state companies were bidding on projects (particularly Department of Transportation), which is unusual. There are several important projects in the energy and industrial sectors in the works, particularly for northern Maine. Wastewater is a key sector that is facing a \$1 billion shortfall over the next ten years. Vertical construction was particularly hard hit during the recession and is in desperate need of more carpenters, masons, etc. The shift at the Community College level towards liberal arts education has made training more difficult for the industry. There has been an apprenticeship

program started by the industry, but there aren't enough 16 year olds out there to fill the workforce needs. There has been a lot of bridge work done over the past three years, while roadwork construction has shifted more to a maintenance model. In many areas, work is now being done year round, utilizing enclosures and other methods.

The recent storms have caused costs to creep up in some materials, such as plywood.

Two large projects in consideration are the natural gas pipeline (Mass Clean Energy RFP has bid selection in January) and a wind construction project outside Caribou. Politics play a big role, particularly in the natural gas pipeline, and it is hard to gauge the likelihood of certain events, leading to some uncertainty in planning for the future.

Thomas Brown, Maine Automobile Dealers Association

Mr. Brown began by noting that there are 114 dealers, which is down from a few years ago, with around 6,000 employees (a number that has held fairly steady) and a payroll of about \$325 million. It is hard for the industry to attract workers, especially on the technical side, as kids get deterred from the industry early on.

There were around 57,000 new auto sales in 2016, which is around the same as the previous year and down 5% from two years ago. New vehicle sales have likely plateaued. There were around 87,000 used vehicle sales, with 2015 being the peak year at 96,000. Parts and service stays fairly steady and isn't likely to see any big changes in the near term. The cost of vehicles continues to rise, and as interest rates start to increase, dealer and customer costs will be affected. Low gas prices recently have led to growth, particularly in certain types of vehicles. Maine tends to have a high rate of purchase in the "truck" category.

There is a shortage of used vehicles at the moment, especially with natural disasters shifting stock to other parts of the country. Manufacturer deals are likely to go down in the future, leading to lower sales. Additionally, a lack of growth in jobs or income will lead to limited sales growth. Maine credit unions are highly involved with dealer financing and customer purchases, along with some Maine banks.

The cost of parts and labor continues to increase, and people are tending to keep vehicles for longer. Maine is slightly above the national average of around 12 years. The industry is concerned about disposable income, increased cost of living, and interest rate hikes in the coming years. The uncertainty of state and local government regulation is a concern – for example, many businesses were set up as pass-throughs, making the three percent surtax an issue for those businesses. Minimum wage increases towards \$11 and \$12 per hour are a concern, especially as they cause upward pressure on other wages.

Autonomous vehicles and services like Uber and Lyft may open up mobility for people who are unable to drive (such as disabled and elderly persons). Leasing has grown from around 10% post-recession to around 35% today.

Maine Association of REALTORS®

The Maine Association of REALTORS® was unable to participate in the meeting but sent a written summary from Greg Gosselin, the 2017 President.

Mr. Gosselin noted that the real estate recovery has been ongoing for six years now. Statewide home sales for 65 of the past 74 months have been higher than the same month of the previous year, although 2017 has started to show some weakening, with April to July showing the first 4-month period of consecutive decreasing home sales since 2011. Home sales year to date in 2017 are running about 1.5% below the all-time high 2016 numbers.

Statewide median sold prices have risen 3-5% each year since 2011. The statewide median passed \$200,000 in May 2017. Mortgage interest rates have remained low. Much of the pricing growth has been in York and Cumberland counties, with for-sale inventory very tight in these markets. 42% of Maine's home sales were in York and Cumberland

counties in 2016. Statewide active for-sale listings in September 2017 were down 12.5% compared to September 2016. During 2016, thirteen of sixteen counties had increases in the number of homes sold and median sold prices. For January-June 2017, nine of sixteen counties had decreases in the number of sales and three of sixteen had decreases in the median sales price. Statewide, the number of home sales peaked in 2016, with home prices peaking in 2017.

The 2016 report of the National Association of REALTORS based on a sampled survey of Maine home buyers indicates that 36% of Maine homebuyers were first-time buyers in Maine compared to 35% nationwide. Of those who financed their recent purchase in Maine, 96% of the purchase price was financed compared to 90% nationwide. Debt was an issue for some home buyers, who indicated that their debt situation had delayed their purchase by a median of five years in Maine compared to three years nationally. In Maine, student loan debt was identified by 73% of these purchasers as the source of the debt that was hindering their ability to save for a down payment, compared to 49% nationally. Credit cards were cited by 18% in Maine compared to 40% nationally, and vehicle loans were cited by 45% in Maine compared to 34% nationally.

REOs (lender re-possessed) for Maine in September 2017 were 61% fewer than the levels one year ago and 58% fewer than the levels in August 2017. REOs accounted for 3.8% of the number of active foreclosures. While the rising home prices have been beneficial for home equity, affordability is becoming a concern.

Several issues are a concern looking forward. Given Maine's shrinking population and lagging job growth, the real estate market recovery will not continue indefinitely. The interest rate environment is a concern as rates begin to rise. Federal and state tax policy offer uncertainty around possible changes to the Mortgage Interest Deduction, property tax deductions, and 1031 like-kind exchanges. Efforts to reform Fannie Mae, Freddie Mac, and FHA could impact affordable mortgage credit availability in Maine. Student loan debt is reported as a hindrance to saving for Maine households far more than nationally.

A recent National Association of REALTORS economic impact study for Maine indicates that every home purchase at the median price produces \$58,450 for Maine's economy in real estate and related industries. The real estate industry accounted for 18.8% of Maine's gross state product in 2015.