

October 18, 2011

Consensus Economic Forecasting Commission (CEFC)

Summary of CEFC Data Gathering Session on September 29, 2011

On September 29th, leaders of several business and industry groups assembled at the State House to share economic data and industry-specific information with the Consensus Economic Forecasting Commission (CEFC). 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/>, and the CEFC will [meet later this month](#) to set the new forecast, which is due on November 1st, 2011.

Mark Fernandez, RM Davis Inc.

Mr. Fernandez presented some historical charts looking at national GDP growth since the early 1980's. He noted that growth has slowed over the course of the last four business cycles. He then presented RM Davis' national economic outlook for 2011-2012. RM Davis does not foresee a recession but it does expect slow economic growth and significant downside risks due to the situation in Europe.

Highlights of the US Economic Outlook from RM Davis:

- Weak consumer spending due to poor employment and income growth and continued consumer deleveraging
- Government spending declining
- Increasing inflation
- Slower growth in corporate profits
- Increasing business investment in equipment and software
- Significant risk of stagflation due to the growth of consumer demand and the middle class in emerging economies.

Potential data sources for the CEFC:

- GDP Deflator as an alternative measure of inflation

David Clough, National Federation of Independent Businesses (Maine)

Mr. Clough presented some results from a monthly survey of small business owners conducted by the NFIB. The survey asks small business owners about recent changes and future plans in the areas of employment and compensation levels, earnings, sales, pricing, borrowing, inventory, capital investment, and plans for expansion. Much of these results are summarized in a single "Small Business Optimism Index" which is seasonally adjusted and goes back to 1975. The optimism index declined in each month from March to July, 2011.

Potential data Sources for the CEFC:

- Small Business Optimism Index or any of its various components

Chris Pinkham, Maine Bankers Association

Mr. Pinkham said Maine's banking industry, which employs 7,000 workers, is in good shape: flush with liquidity and well-capitalized. But he also said that most banks in the state are shrinking, and that most CEOs that he spoke with are bearish. Loan demand is flat and quality loan applicants are limited. CEOs report "regulatory mayhem" and concerns about competition from online banking, Paypal, Wal-mart, and USAA.

Trouble in the housing and foreclosure market is trouble for the banks because mortgages are their most important products. The length to complete an average foreclosure in Maine is 420 days, which is nearly the slowest in the nation.

Potential data Sources for the CEFC:

- Building permit data from the Census Bureau and home sales data from the National Association of Realtors (these series are typically included in the background materials that the State Planning Office delivers to the CEFC ahead of forecast meetings)
- Mortgage delinquencies and foreclosures for Maine and the US

Vaughn Stinson, Maine Tourism Association

Mr. Stinson provided an overview of tourism's impact on Maine's economy and argued for a larger marketing budget for Maine tourism. According to industry estimates, \$300 million a year is spent on capital investment, and that most properties reinvest about 10% of their revenue each year. Leisure and Hospitality is one of three areas (health care and professional/business services) that is expected to add significant numbers of jobs over the next few years.

Potential data sources for the CEFC:

- Retail sales data from Maine Revenue Services (currently published monthly by the State Planning Office)

James Cote, Associated Builders and Contractors of Maine

Mr. Cote summarized the current state of the construction industry:

- 7,500 (24%) jobs lost in Maine's construction industry since April 2006.
- Spending on private non-residential construction in Maine fell 9.5% from 2009 to 2010.
- The outlook for construction has become more pessimistic over the last three months.
- Average backlog growth in the northeast region was virtually flat year-over-year in the 2nd quarter of 2011. The growth in the national average over the same period was 12%.

Potential data sources for the CEFC:

- Associated Builders and Contractors Construction Backlog Indicator (National and Northeast Region)

Andy Charles, Maine Merchants Association

Highlights:

- Holiday shopping season spans October to January and can represent 25-40% of annual sales.
- 10-year average annual growth in holiday shopping (1998-2007) was 4.4%. Holiday sales declined in 2008, increased 0.4% in 2009, and increased 3.6% in 2010.
- This fall, Maine Merchants Association is not as bullish as it was a year ago, based on container traffic and store inventory levels.
- The summer shopping season was a mixed bag, with strong growth in Freeport and Kittery but not in other places.
- Maine Merchants Association expects very slow retail sales growth in the near term.

Potential data sources for the CEFC:

- Container traffic
- Inventory levels

John O'Dea, Associated General Contractors of Maine

Highlights:

- US construction employment is the same as it was in 1996. Maine construction employment is the same as it was in 1998. Average annual construction worker pay is about \$40,000.
- Stimulus funding for Maine highways was about \$130 million, which was absorbed very easily by the industry. Sewage and waste water stimulus funding was effective and has kept people working.
- Hospital construction and wind power construction are two bright spots.
- 96% of Maine's 5,100 construction firms have fewer than 20 employees.

Potential data sources for the CEFC:

- American Institute of Architects (AIA) billings index, a leading indicator of construction
- Census Bureau construction spending reports
- AGC Data Digest: a weekly one page summary of national level construction-related data. Free by subscription here: http://www.agc.org/cs/data_digest_subscription_form

Tom Brown, Maine Automobile Dealers Association:

Highlights:

- 225 auto dealership properties in the state
- 5,500 employees statewide, down from 5,800 at the beginning of 2008
- Average pay is \$40,000 per year.
- 2009 was the low point for sales.
- US light duty sales were 16 million new units in 2007, 10.6 million new units in 2009, and a forecast to be 12.6 million new units in 2011.
- Maine light duty sales were 62,000 new units in 2007 and forecast to be 40,000 new units in 2011. New unit sales volume in Maine is expected to return to pre-recession levels by mid to late 2013.
- 85,000 used units were sold in Maine in 2007, and 75,000 are forecast for 2011.
- Used car prices have been increasing but are expected to stabilize by the middle of next year.
- The average age of vehicles is increasing.
- Japanese tsunami was very disruptive, but that disruption is almost over.
- Parts and service employment has been buoyed by people hanging on to used cars.
- Overall sales volume should increase over the next couple of years as pent-up demand is released and the competition to capture those customers will be fierce.

Potential data sources for the CEFC:

- Unit sales for new and used light vehicles (Maine DMV)
- Maine retail sales data (MRS, SPO) have a category for automobile dealer sales.

Mike LePage, Maine Association of Realtors:

Highlights:

- Realtors are concerned about new and changing regulations, including the “Qualified Residential Mortgage” (related to Dodd-Frank) and changes to the mortgage interest tax deduction.
- Realtors expect to see condominium sales increase as baby boomers retire, as well as a stronger market for multi-family units.

Potential data sources for the CEFC:

- National Association of Realtors home sales and median price data