

# 2012 MEREDA Forecast Conference – Maine State Economic Forecast



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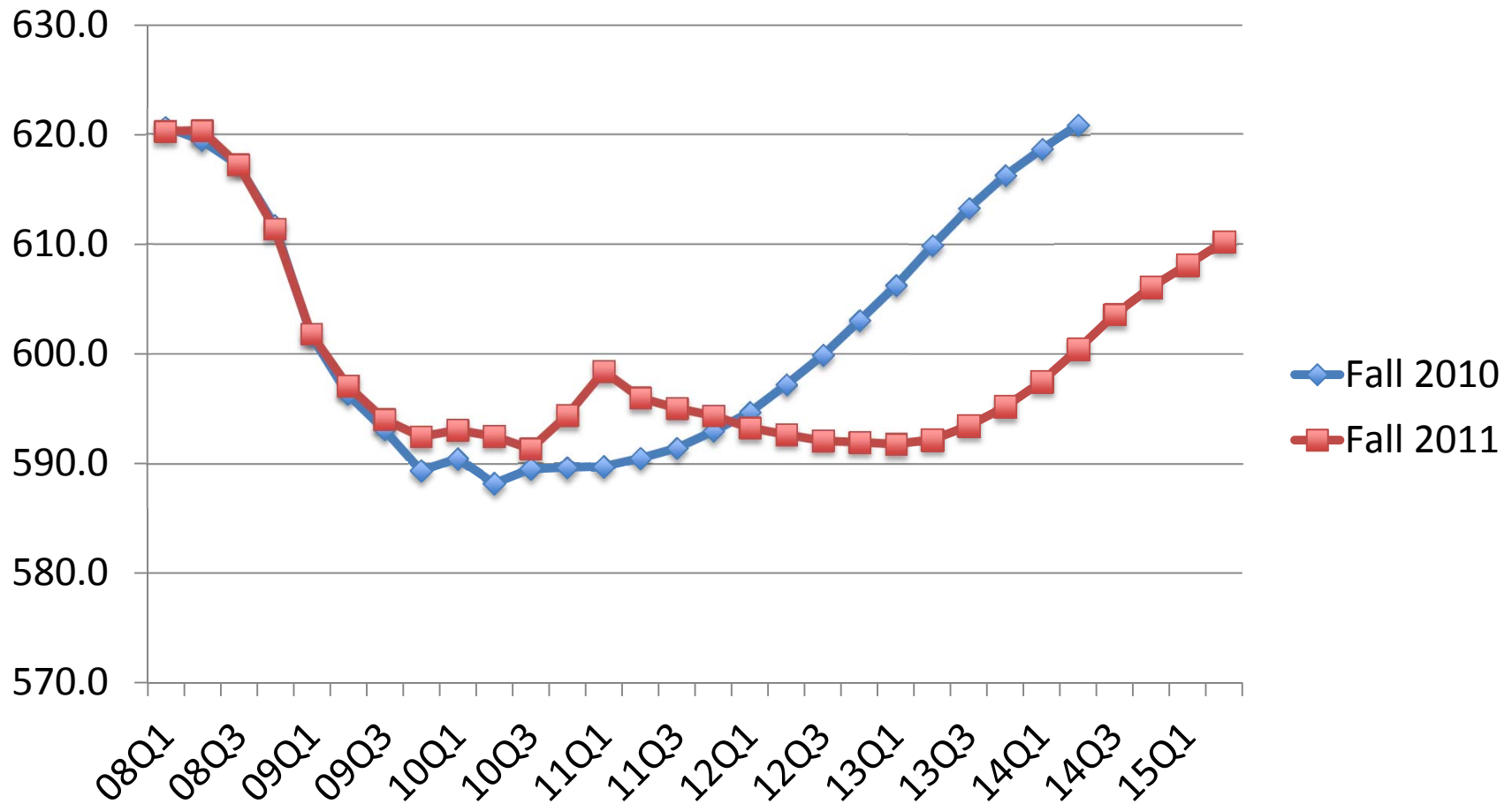
January 26, 2012

CBOE S&P 500 3-Month Volatility Index (VXVCLS)  
Source: Chicago Board Options Exchange



Shaded areas indicate US recessions.  
2011 [research.stlouisfed.org](http://research.stlouisfed.org)

# Change in Maine Employment Forecasts



# Comparative Job Performance

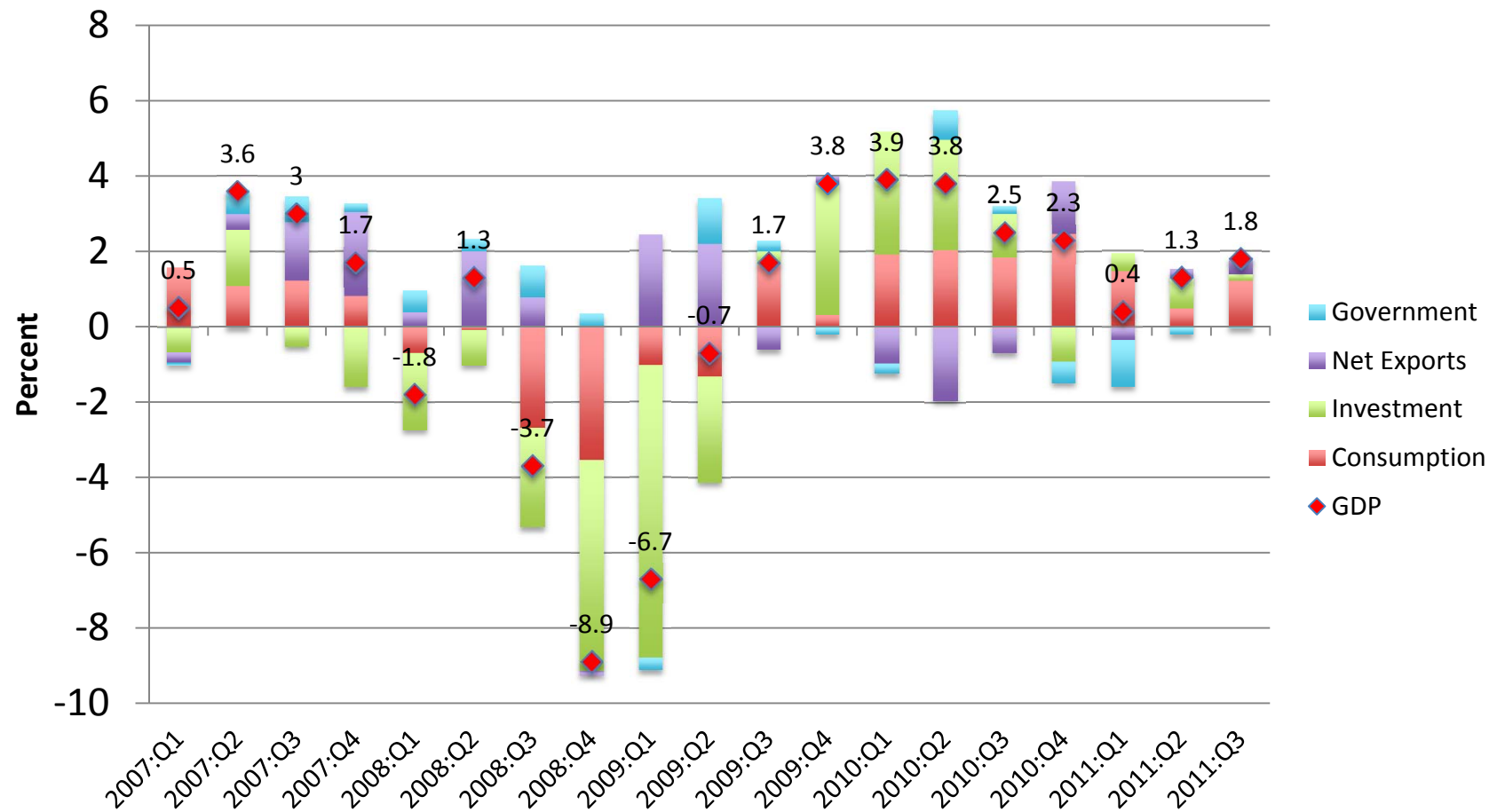
## U.S.

- Trough Month: September 2010
- Change To December 2011
  - Private Sector: +2,358,000
  - Government: -300,000
  - Total: 2,056,000
  - Growth Rates:
    - Since September 2010: 1.5%
    - Proportion of Jobs Lost: 25%
- 2011 Change: 1,640,000

## Maine

- Trough Month: September 2010
  - Change To November 2011
  - Private Sector: +8,100
  - Government: -2,700
  - Total: 5,400
  - Growth Rates:
    - Since September 2010: 1%
    - Proportion of Jobs Lost: 18%
- 2011 Change: -1,400

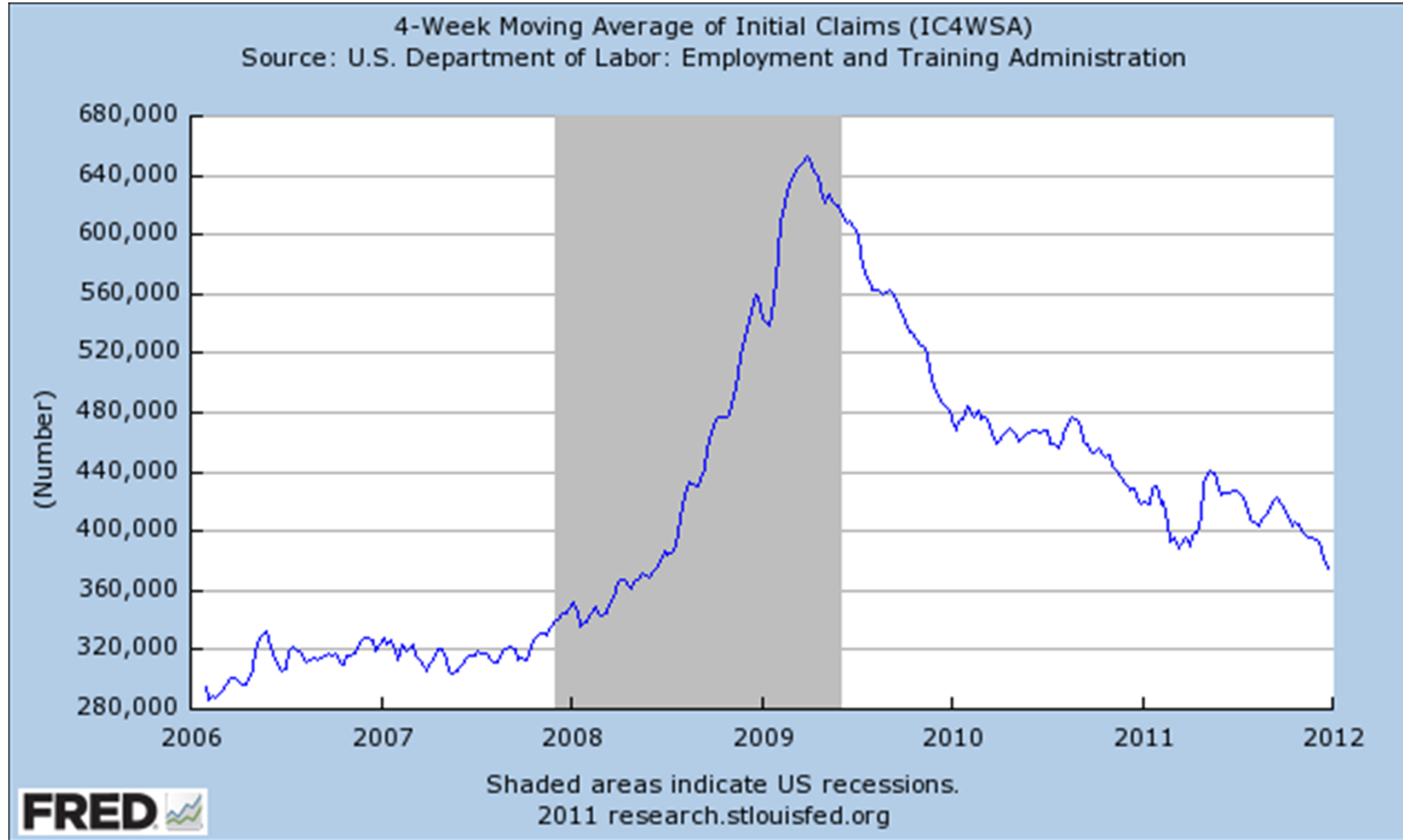
# The Road Ahead: Where's the engine?



# The Case for Optimism

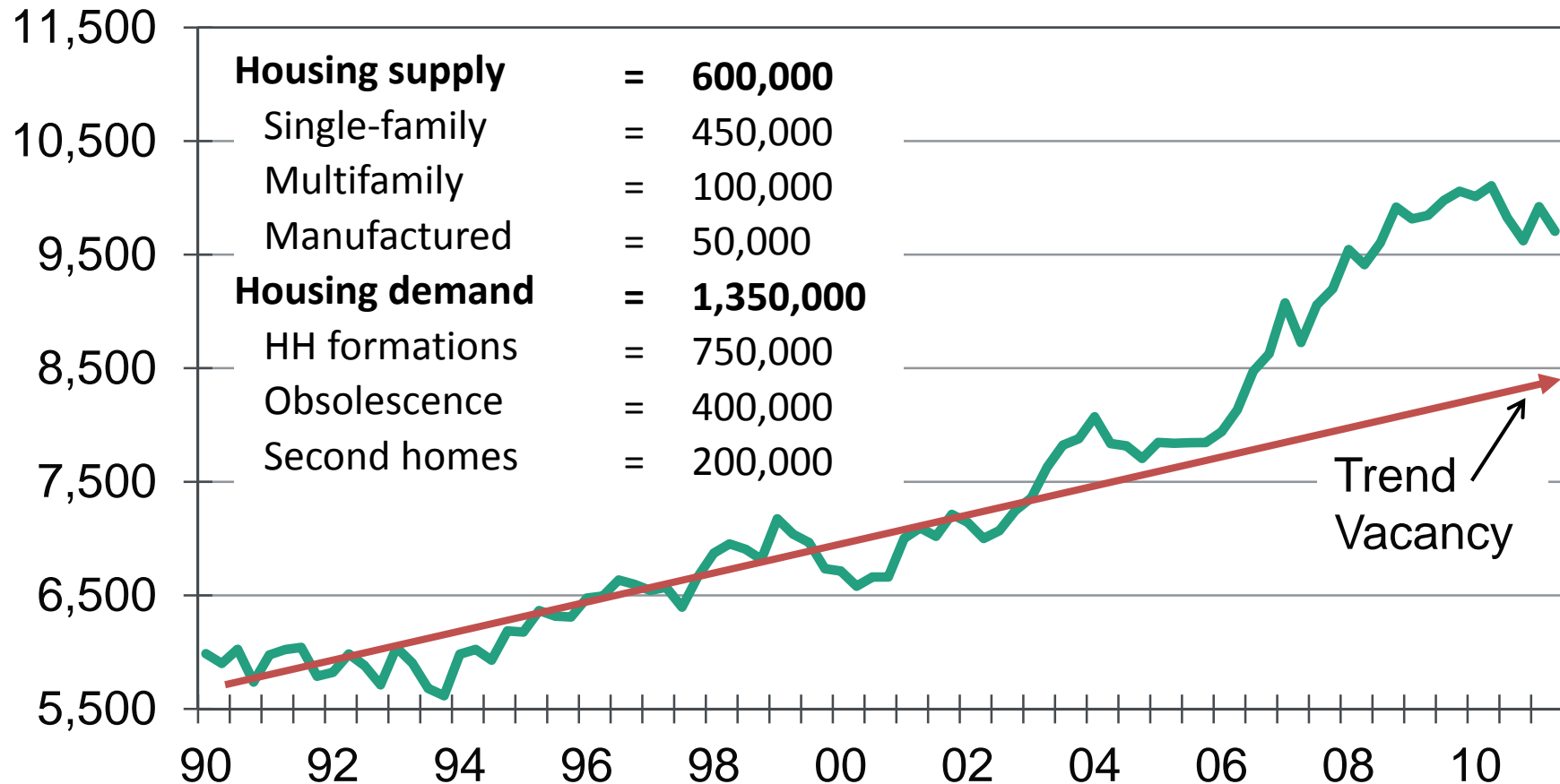


# Labor Market Improvements



# Housing Inventories Have Peaked

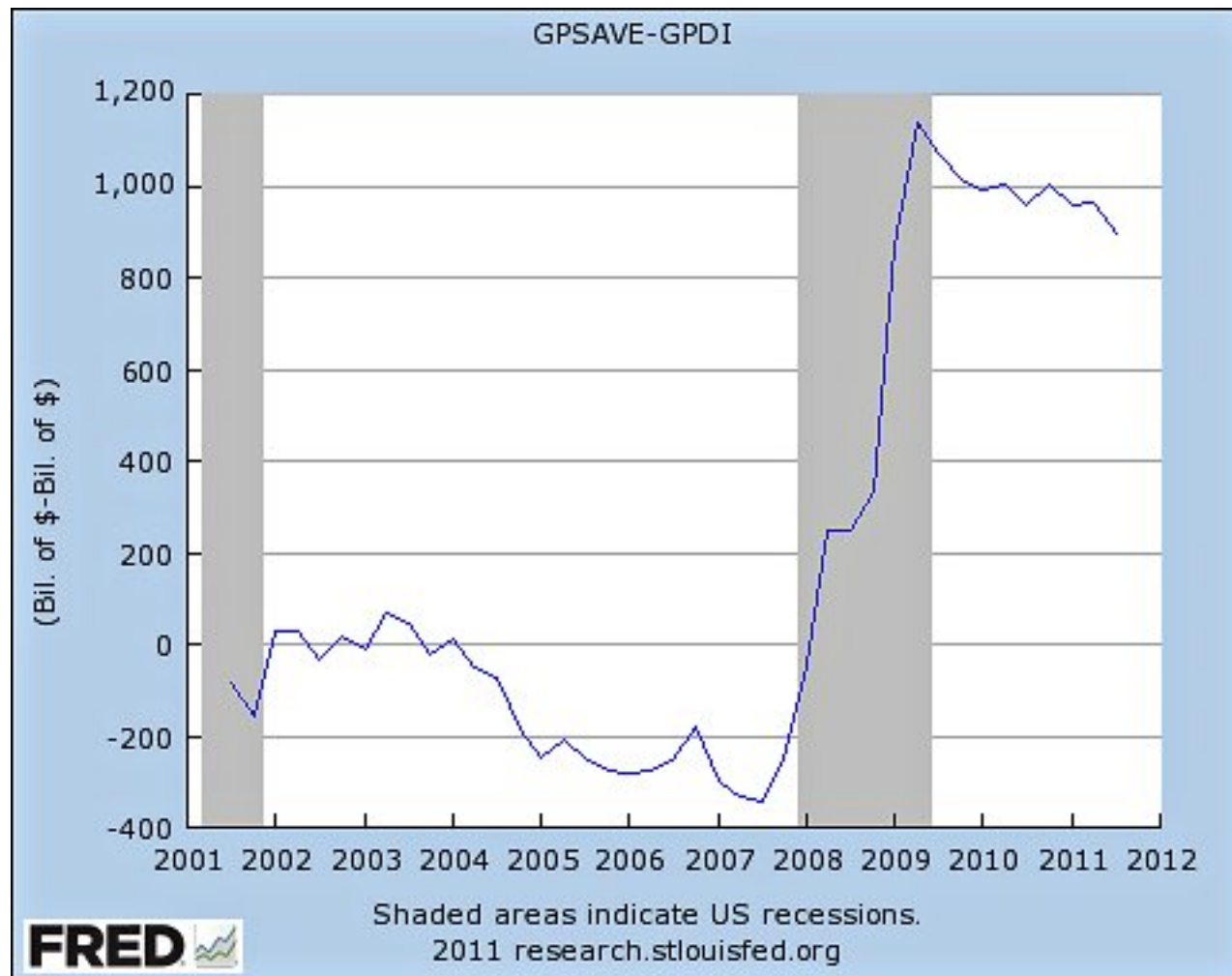
Vacant homes for sale, for rent and held off market, ths



Sources: Census, Moody's Analytics

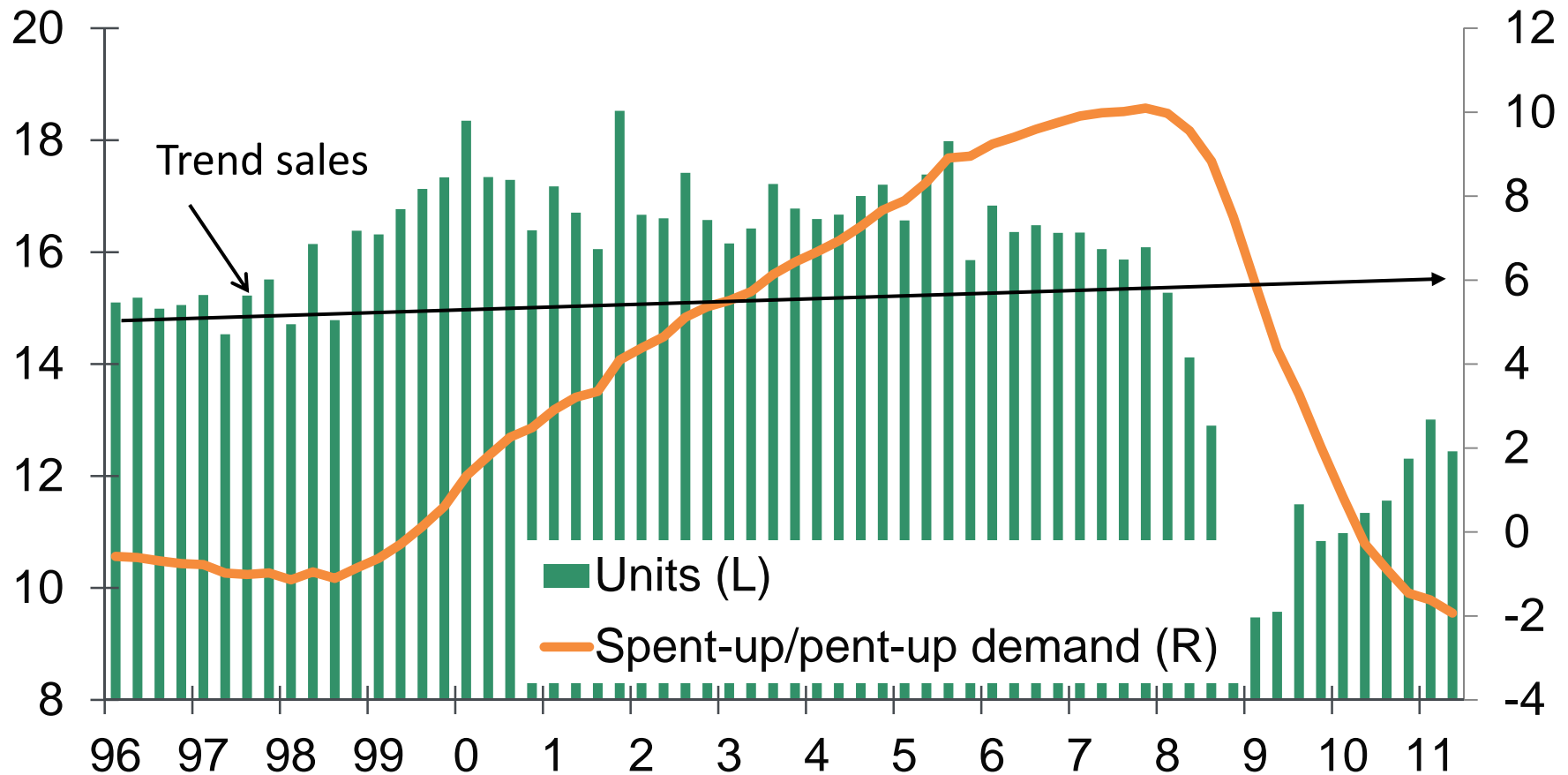


Households have made a lot of progress in saving and are beginning to spend a little more



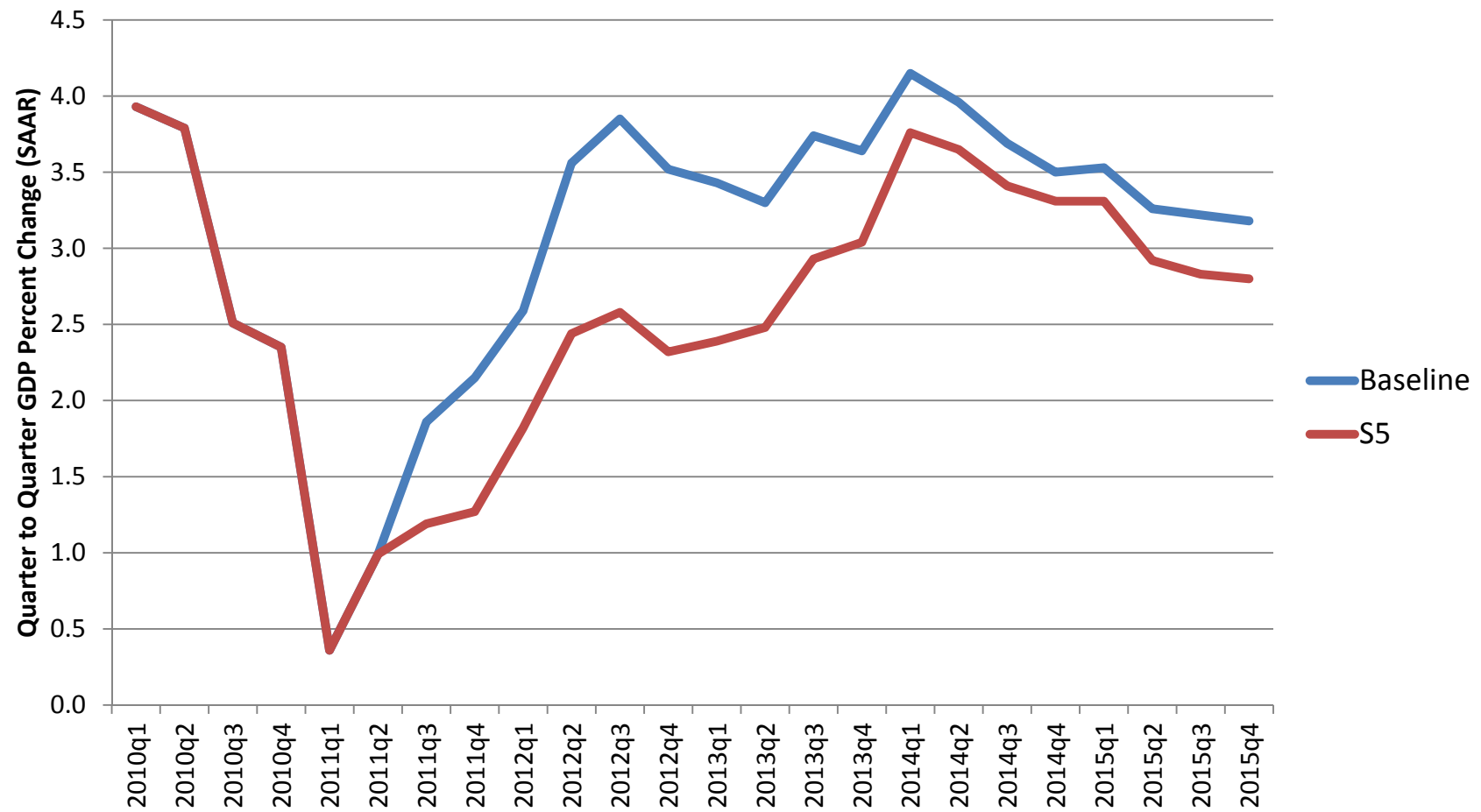
The consumer may need to get spending and auto sales indicate they are ready to...

Light vehicle sales, mil



Sources: BEA, Moody's Analytics

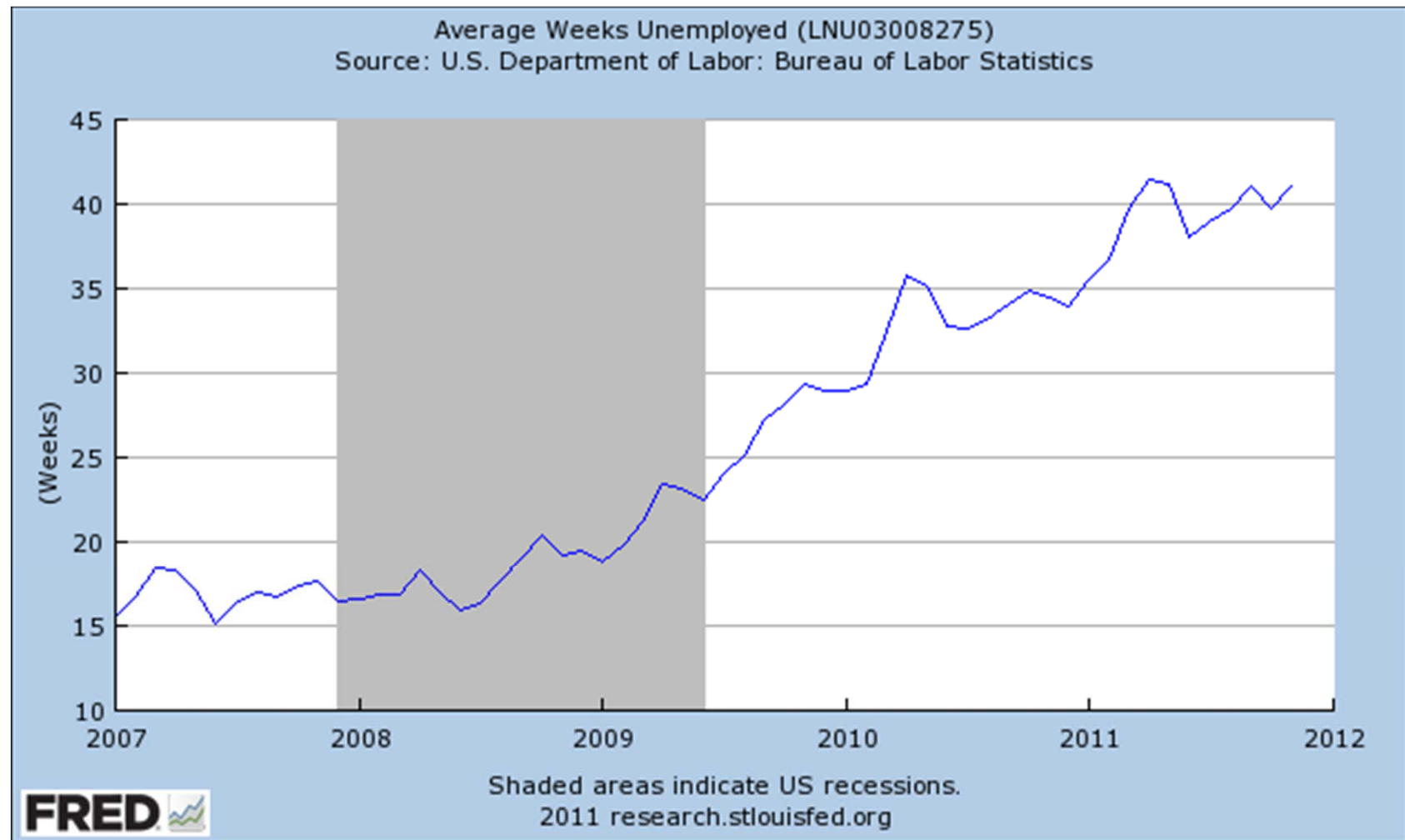
My base forecast has a 95% chance of being too pessimistic



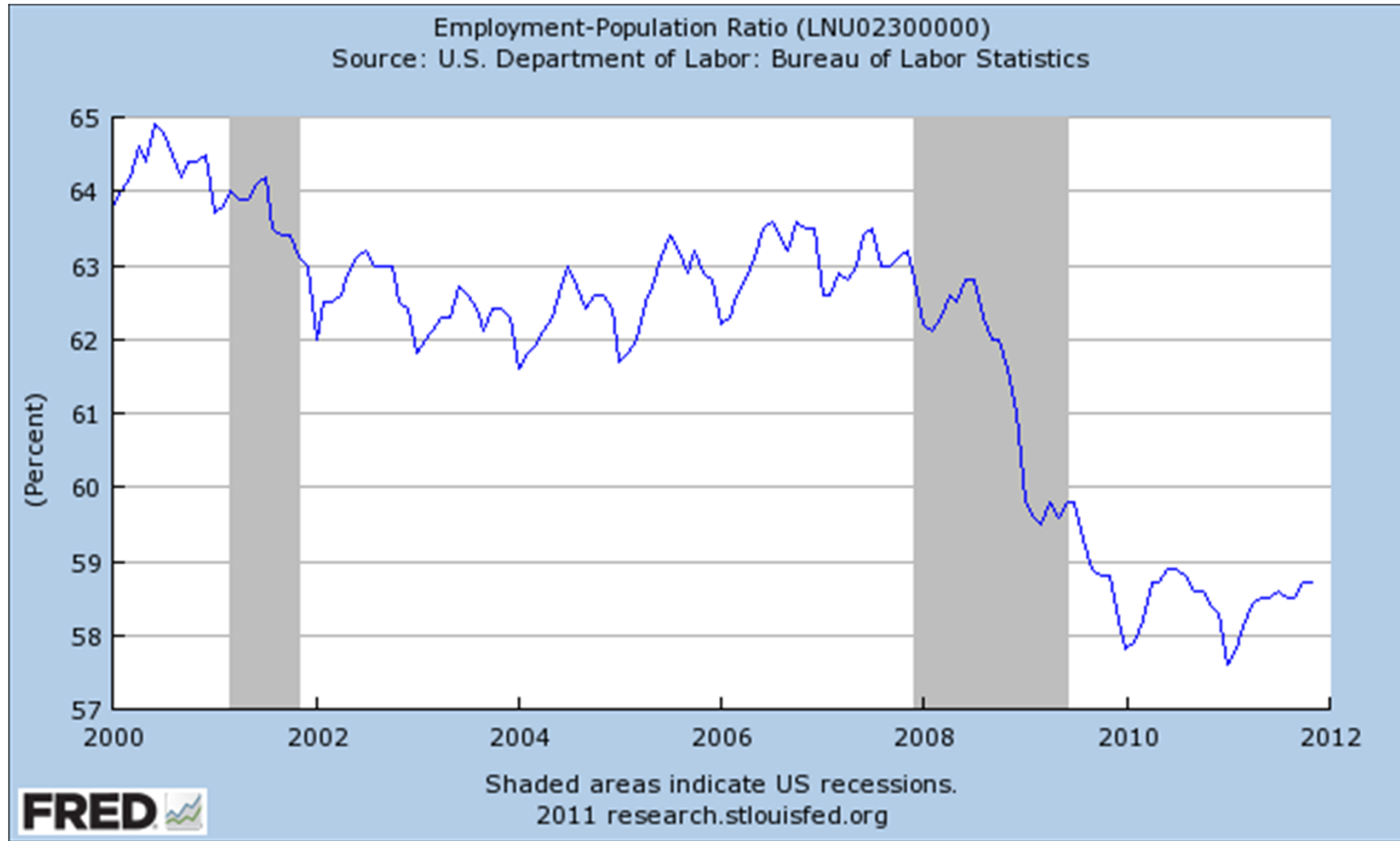
# The case for pessimism



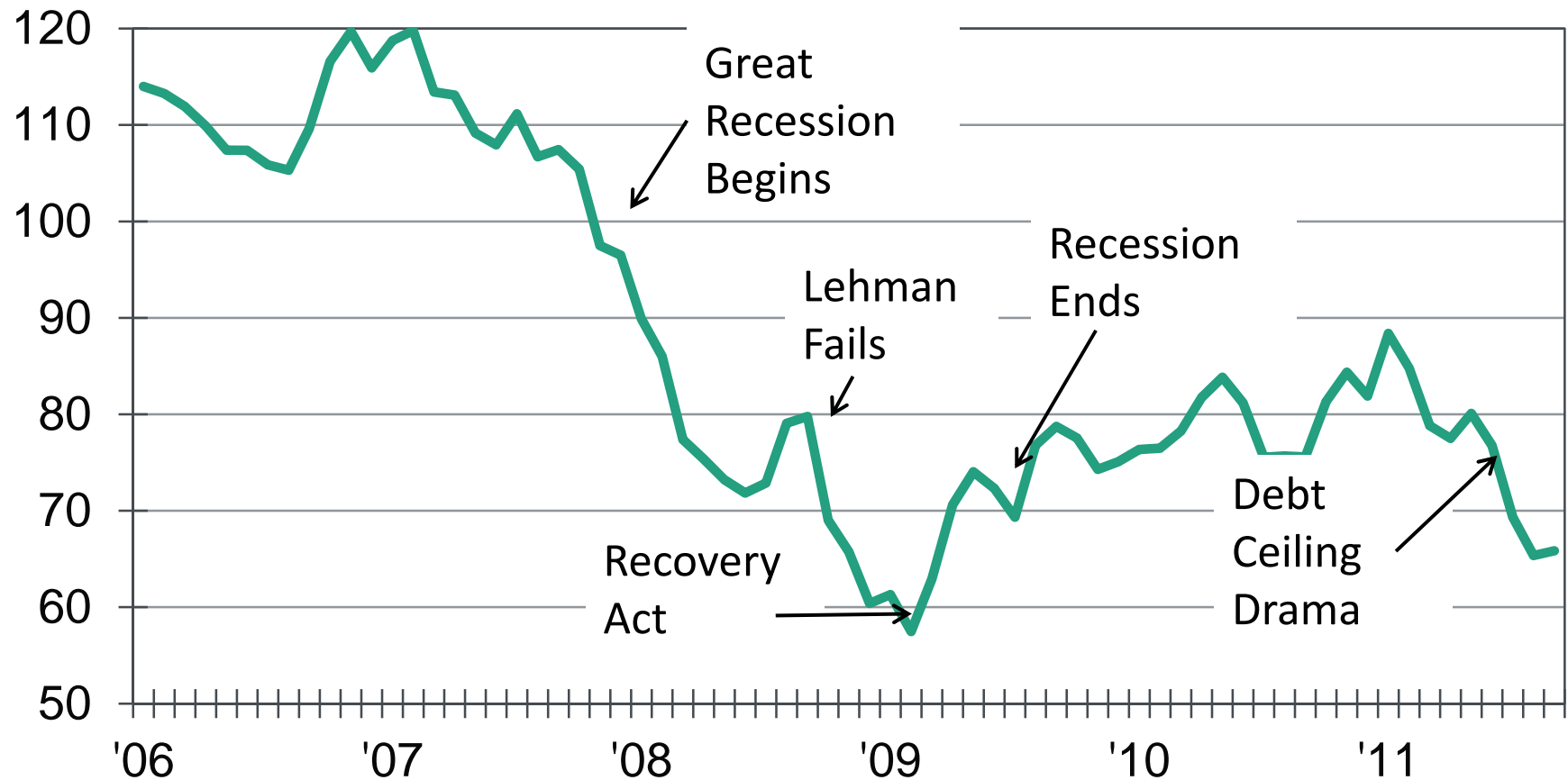
# No big dent in long term unemployment



# This is figure that has to change...

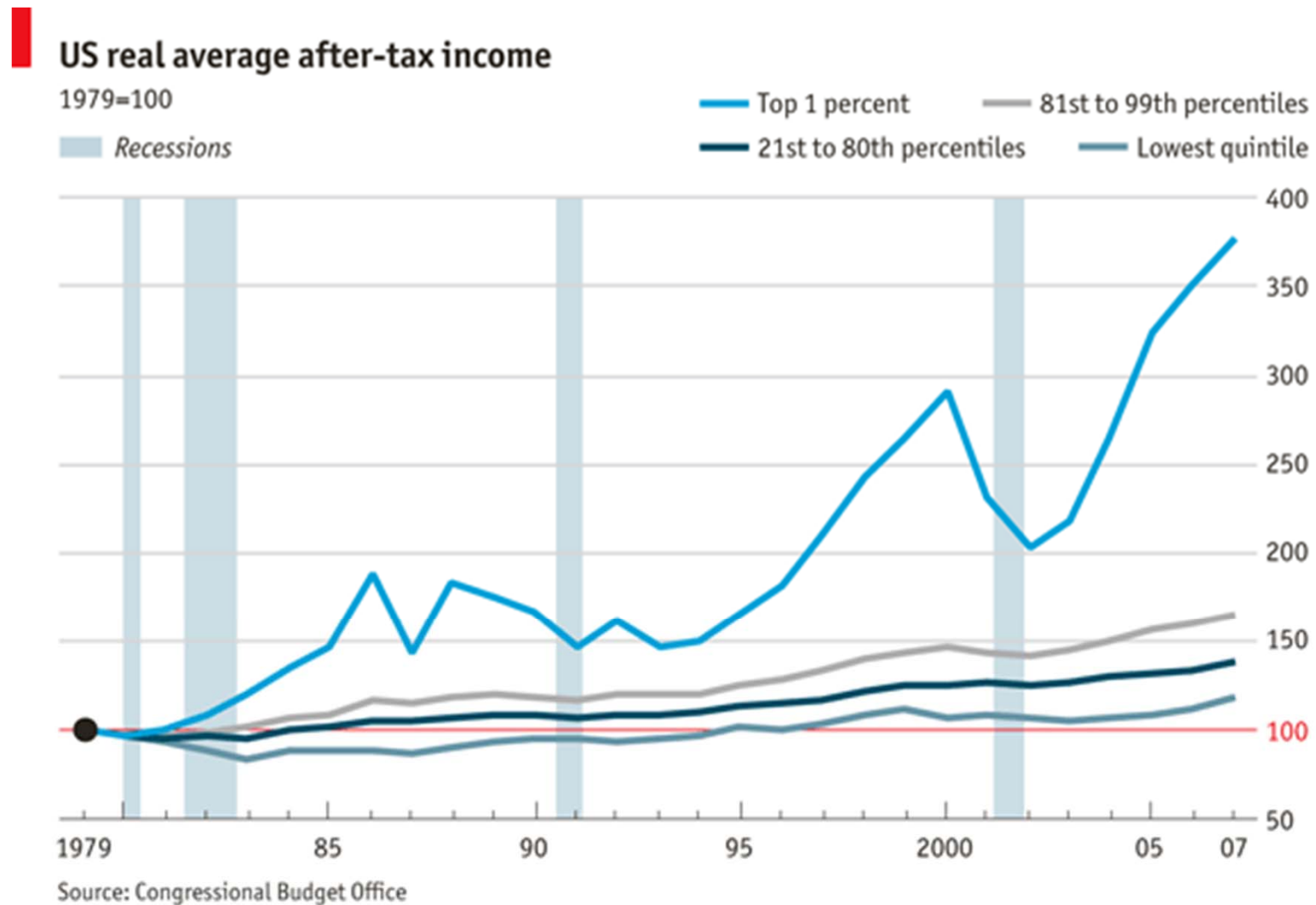


Consumer confidence is still meager and little is likely to inspire greater confidence  
Consumer confidence index, October 2001 = 100



Source: Rasmussen Public Opinion Research

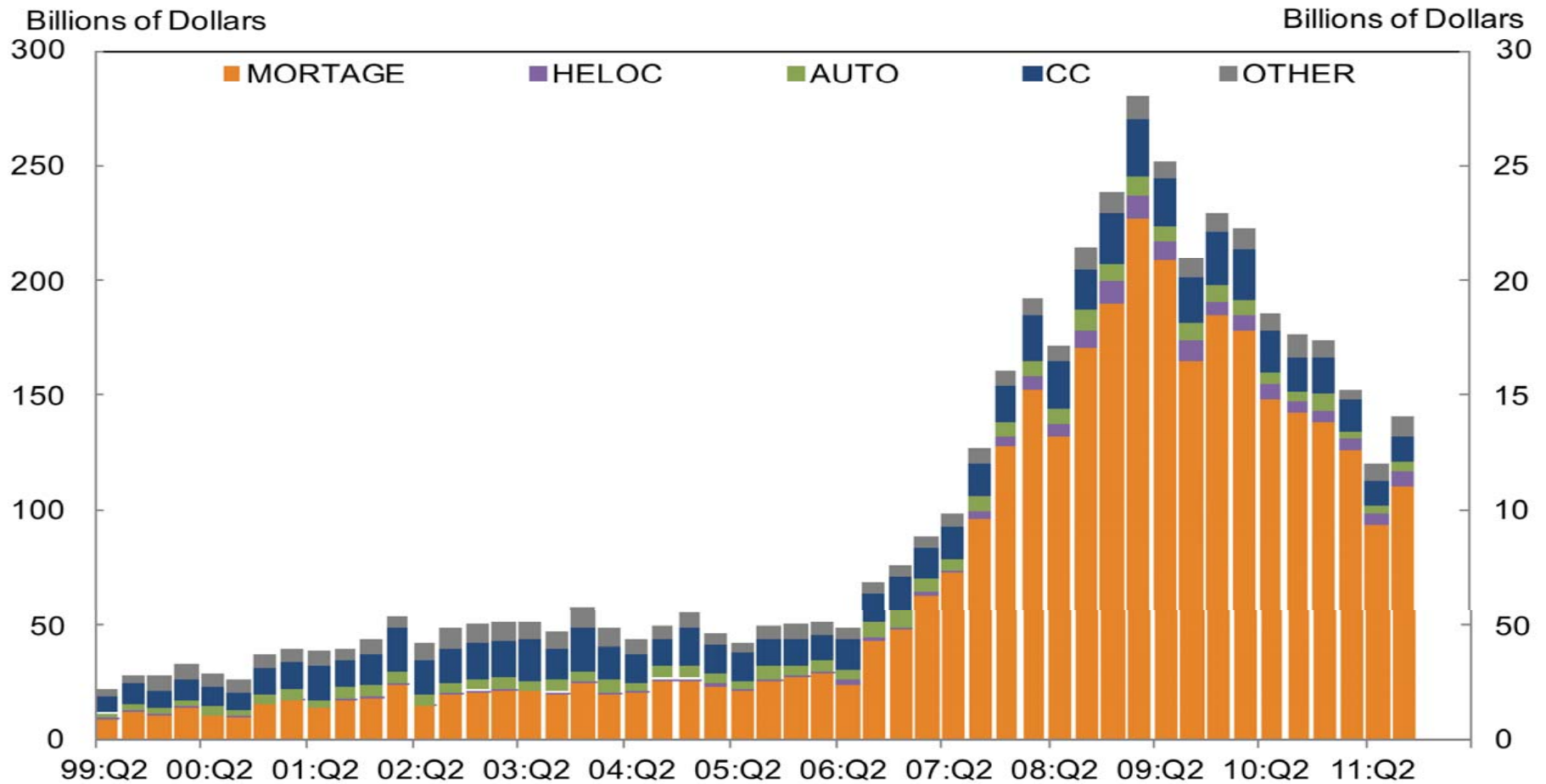
# Income growth and distribution are too weak and narrowly concentrated





Consumers are not out of the credit woods by any means. Foreclosures will remain high

## New Seriously Delinquent Balances by Loan Type



# Wild Cards



# The European Debt Crisis









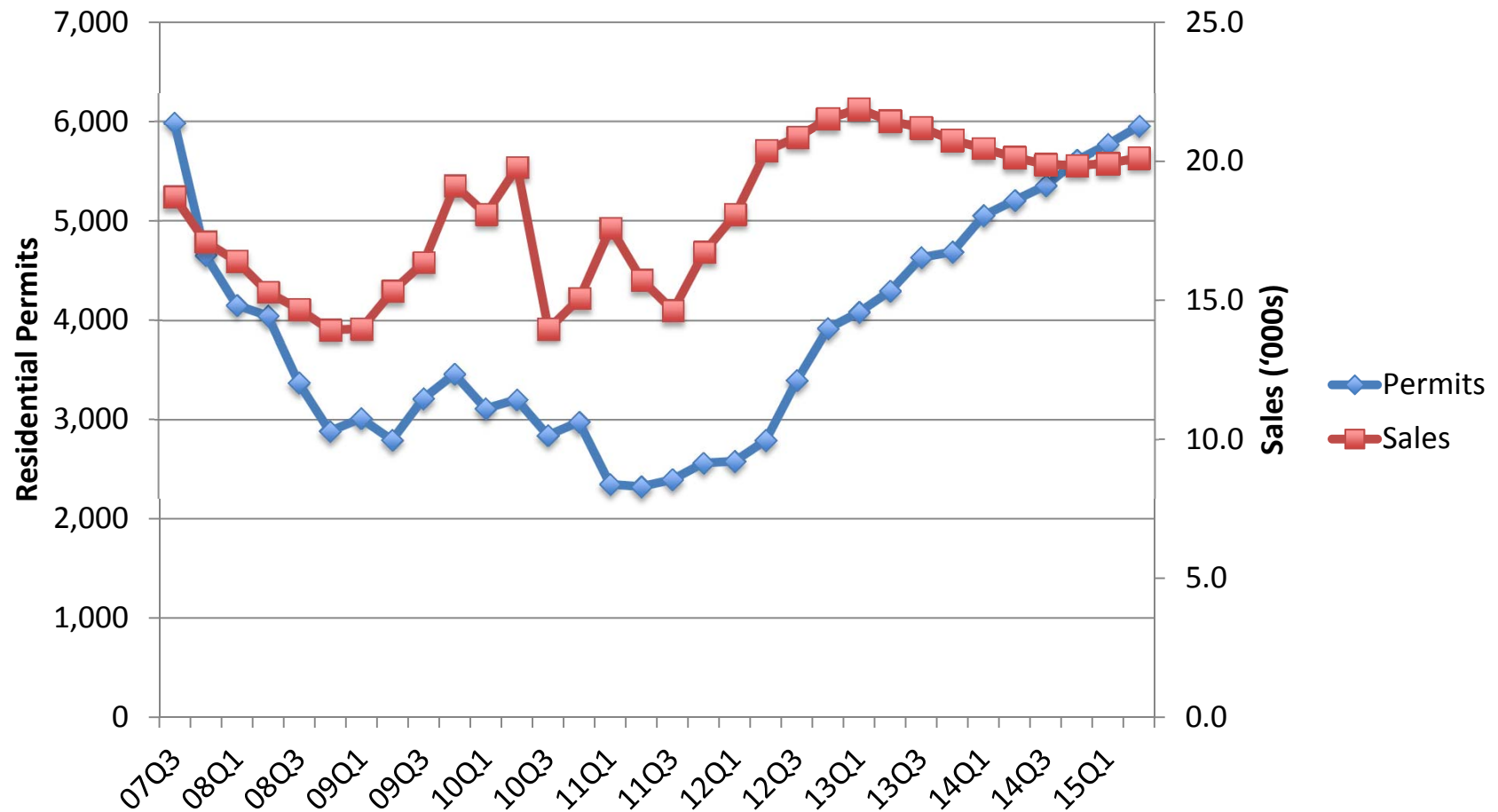


# Fiscal Follies: 2012 Edition

- February:
  - Payroll Tax Cut and Unemployment Insurance
- March-July
  - FY 2013 “Budget Review”
- September
  - Continuing Resolution
- November-December
  - Bush Tax Cuts
  - Spawn of Super Committee

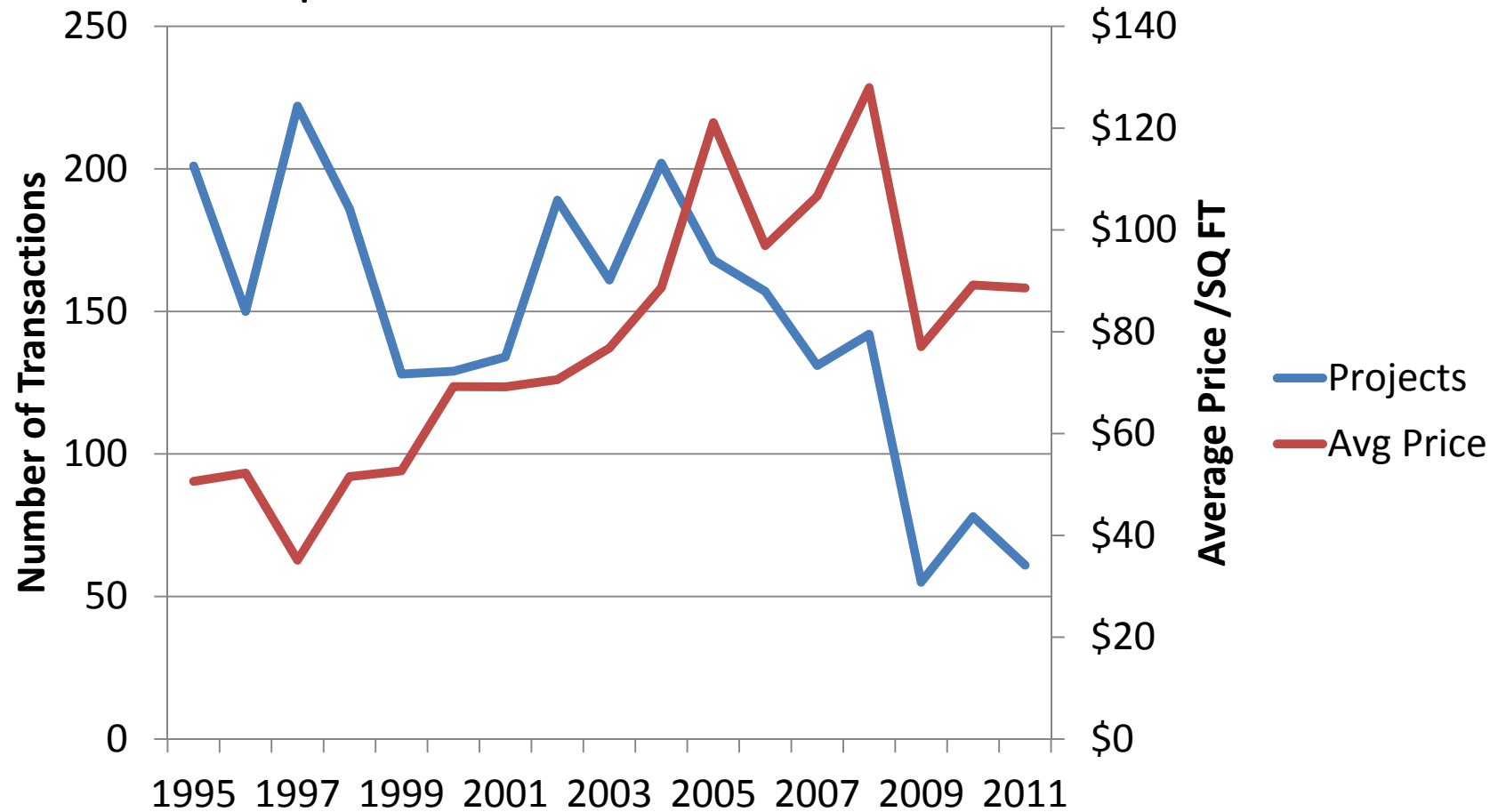


# Maine Housing Market remains weak



Commercial property transactions dropped steadily from 2005-09 and have stayed at a low level.

Prices held up until the recession came in full force



Source: The Boulos Company



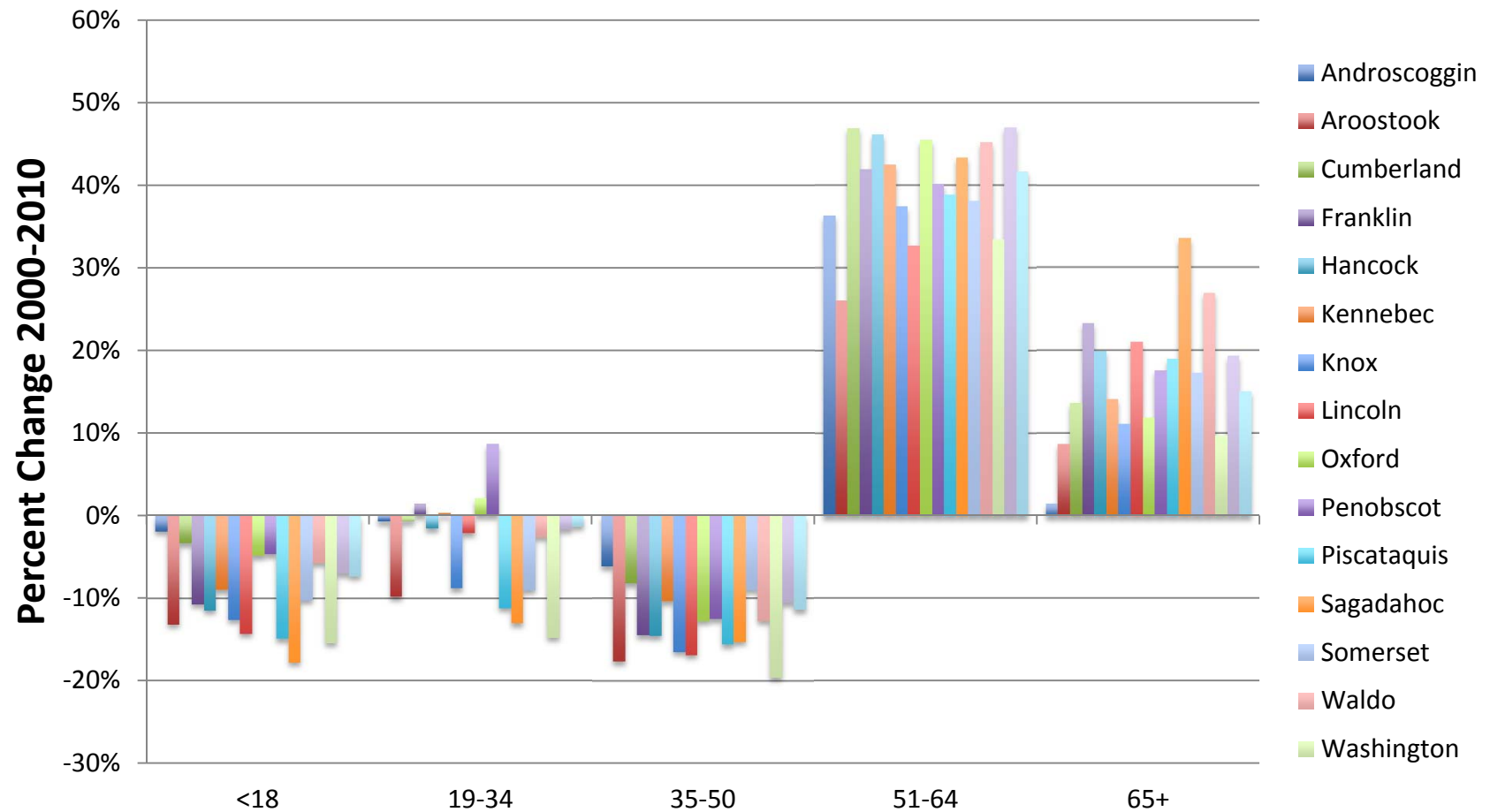
# Key National Trends in Housing

- Real home equity fell from \$14.6 trillion in 2006q1 to \$6.3 trillion in 2010q4
- Large shift of single family homes to rentals, but falling rental vacancy rates
- Housing price declines have been accompanied by large income declines leaving affordability a major issue

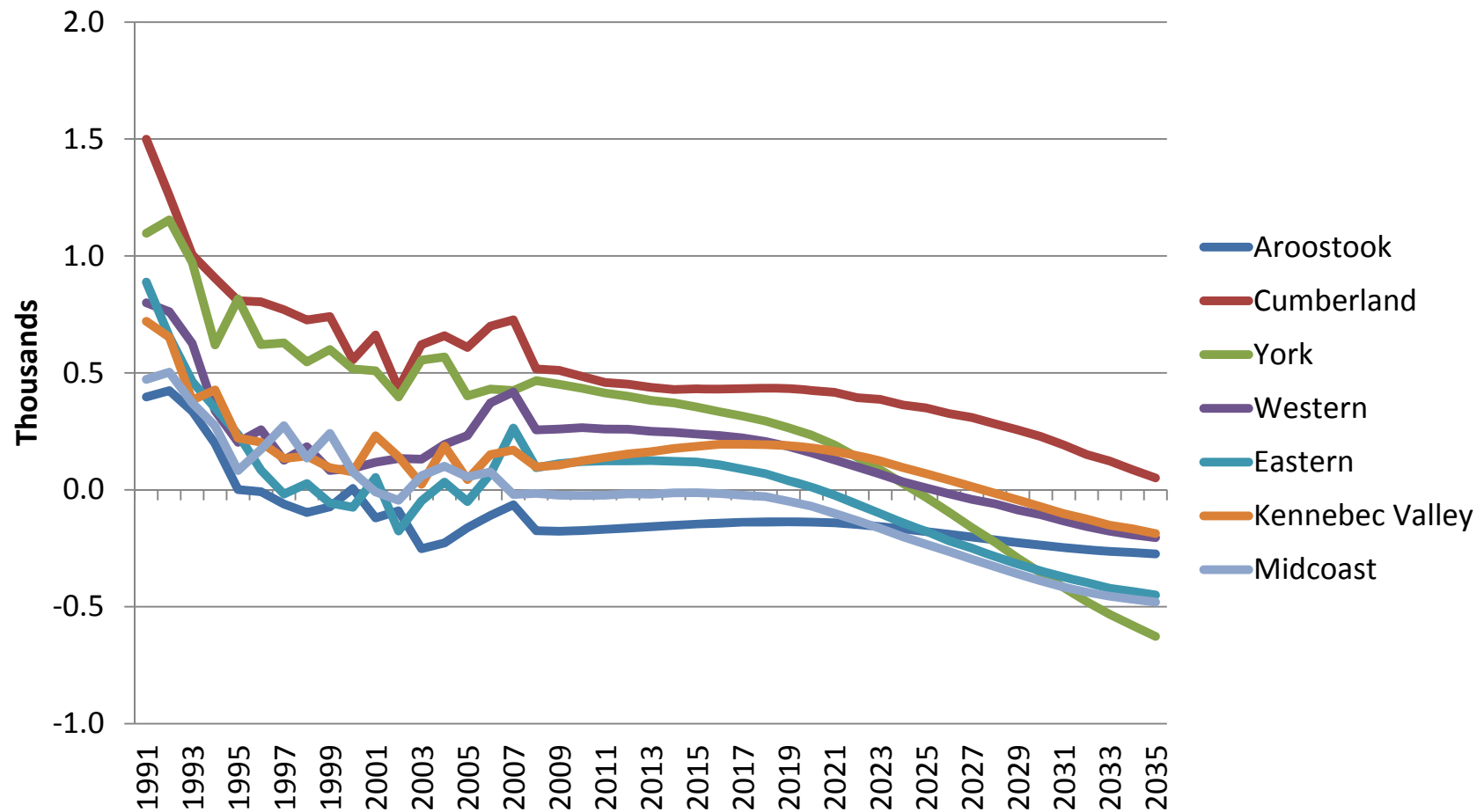
# Key Demographics

- Low household formation rates
  - Baby boom echo should be driving the housing market- it's bigger than the baby boom
  - But delays in household formation plus slowing of international in-migrants
  - First timers are still having problems:
    - Income
    - Underwriting standards
- Aging population
  - Majority Aging in Place
  - 1 in 3 of households 65-74 move, mostly to smaller housing

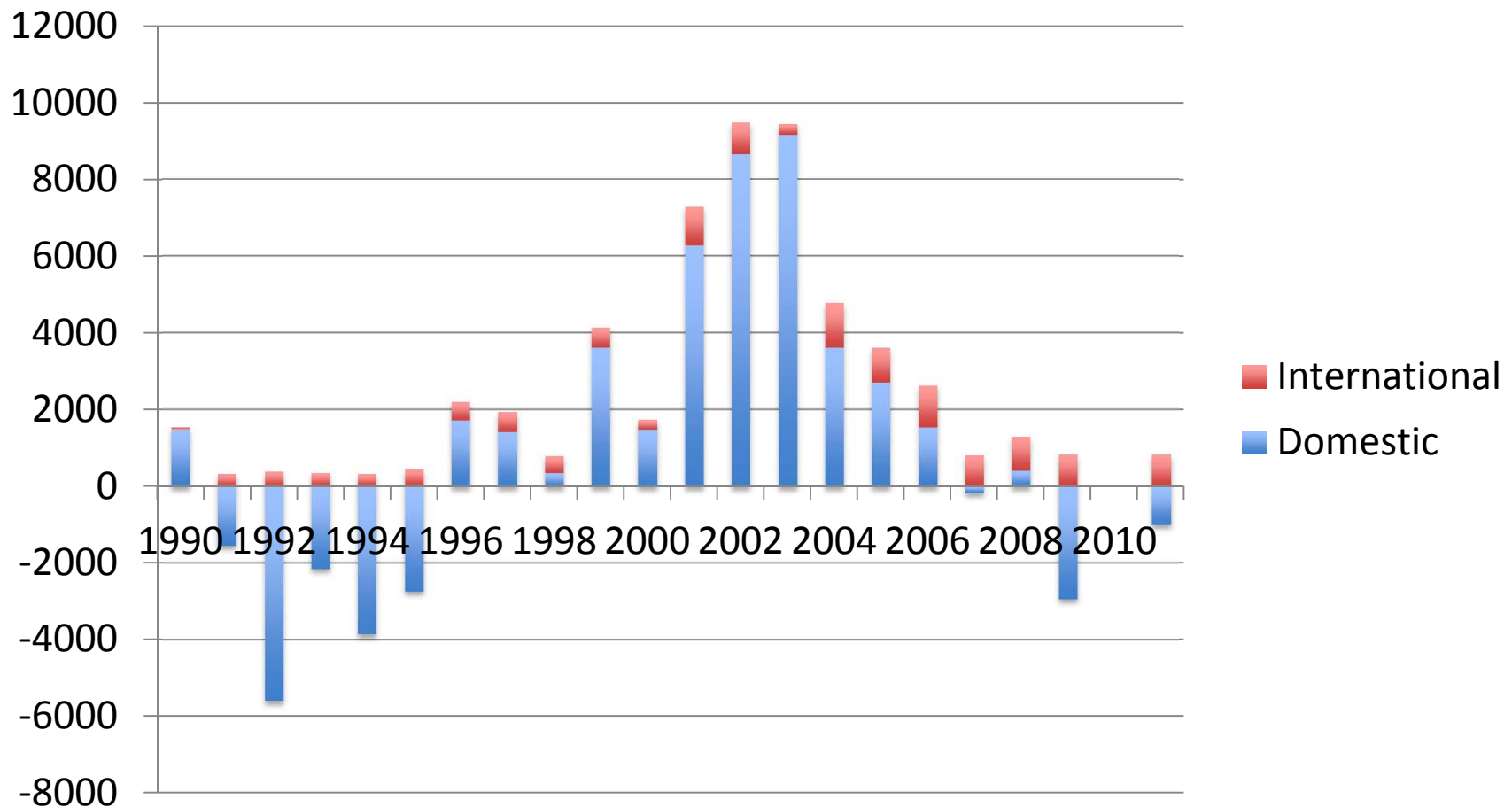
Demand for first time buyers is likely to be weak.  
Demand for downsizers likely to be strong



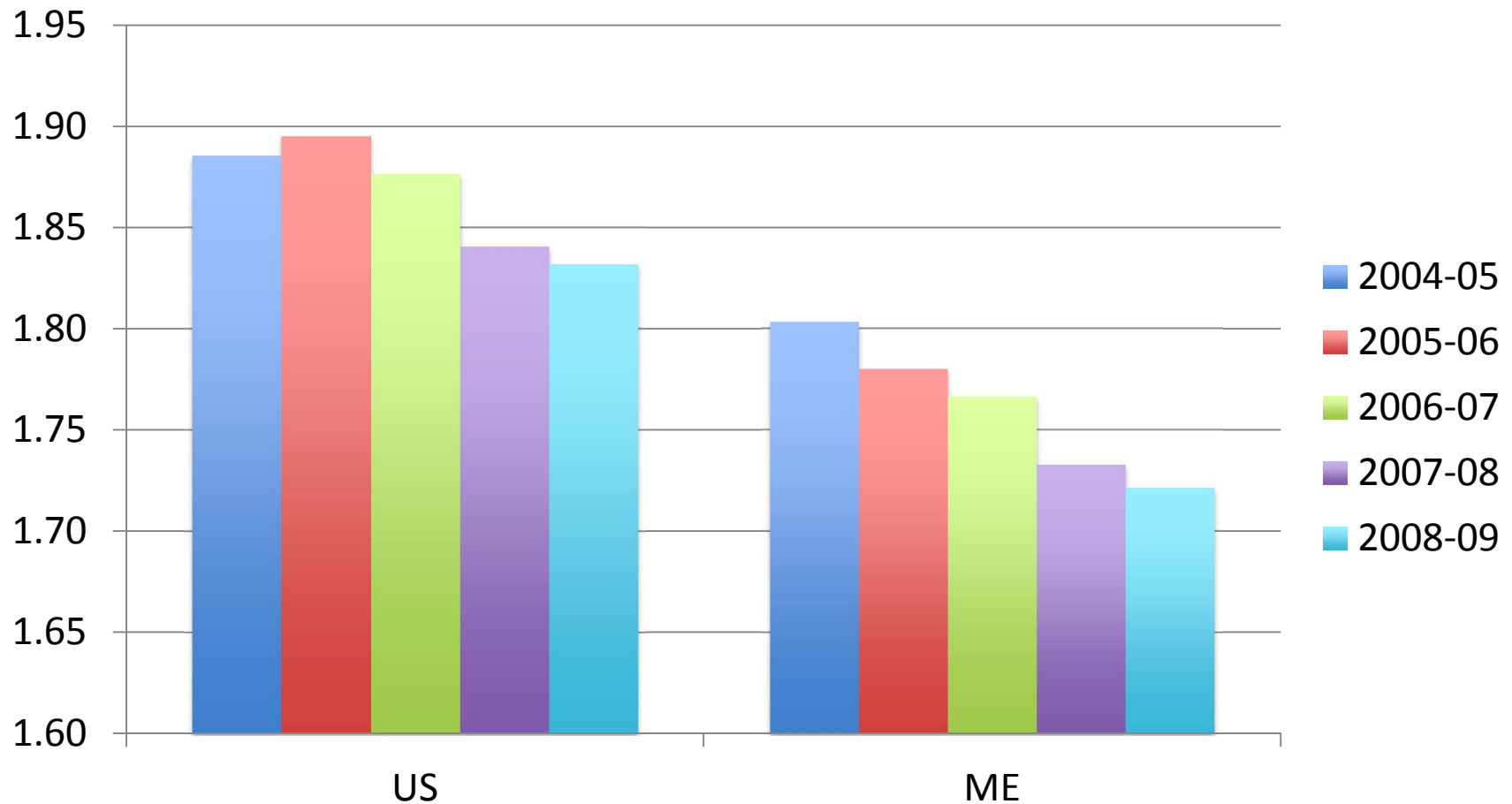
# Headed towards natural decrease



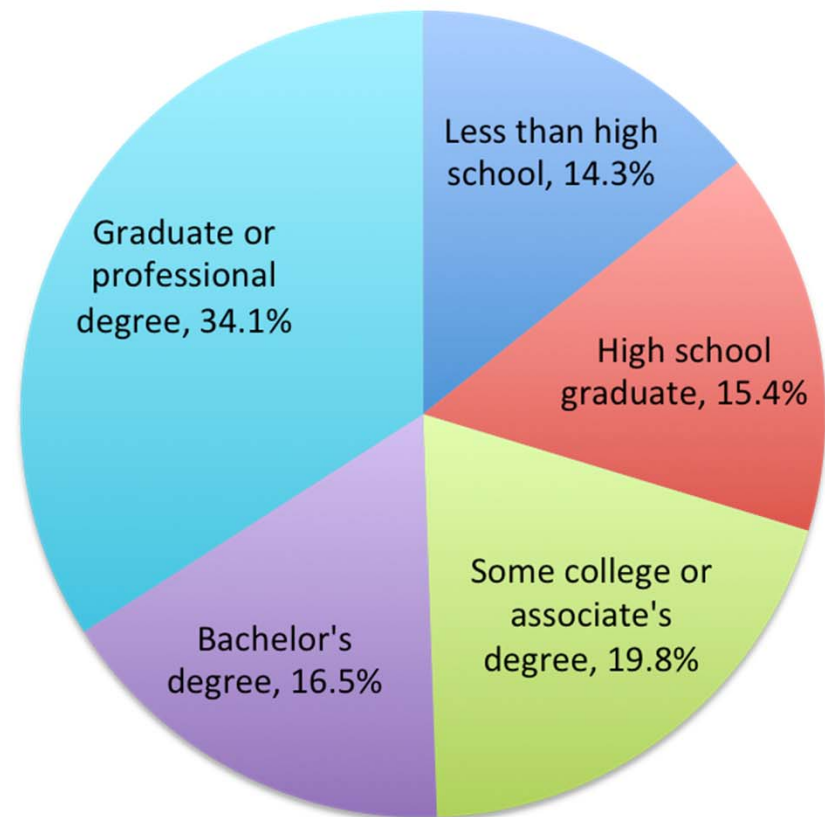
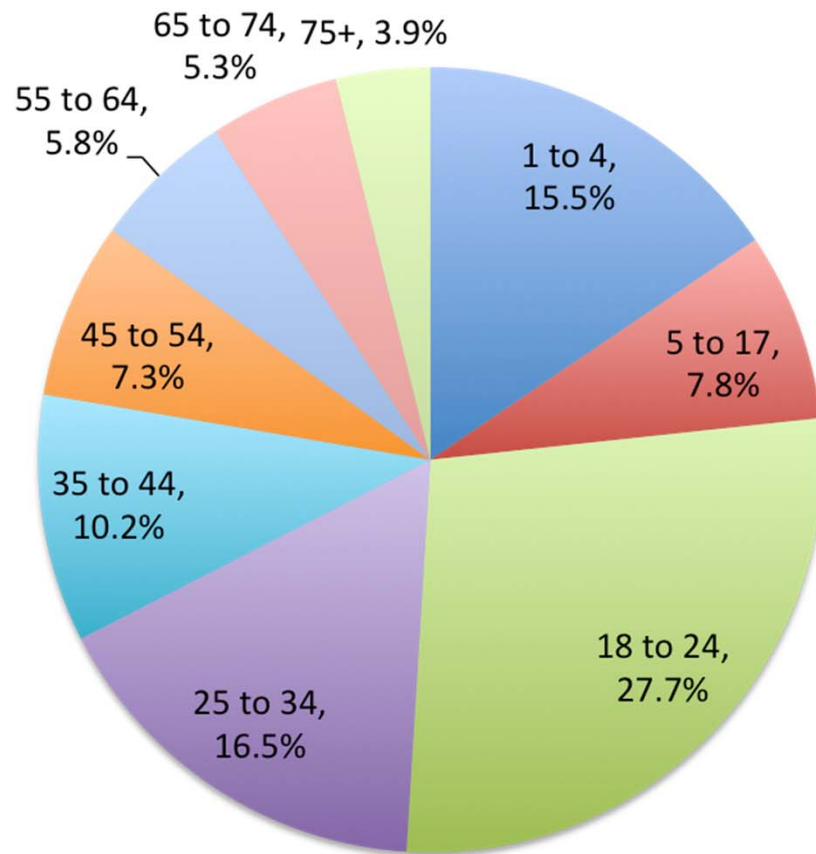
Maine needs in-migrants, but immigration from the rest of the U.S. is dependent on the economy



# In-migrants to Maine are smaller households

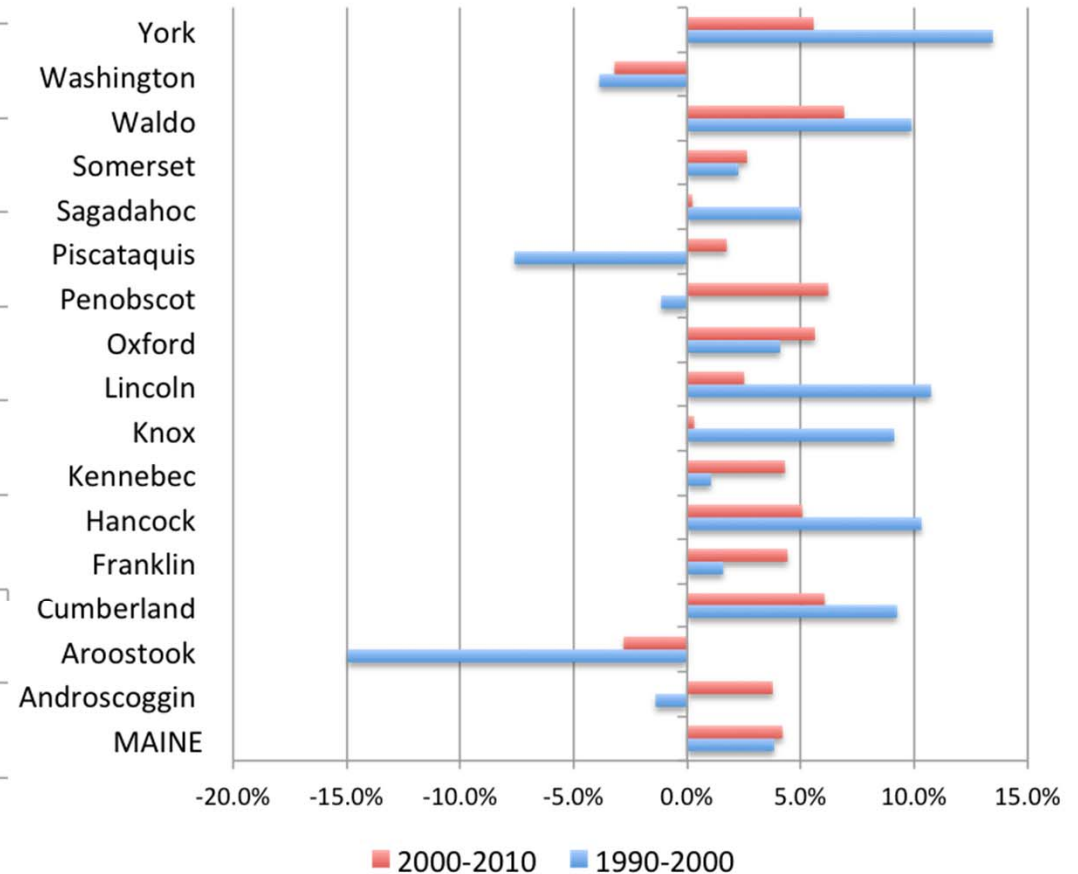
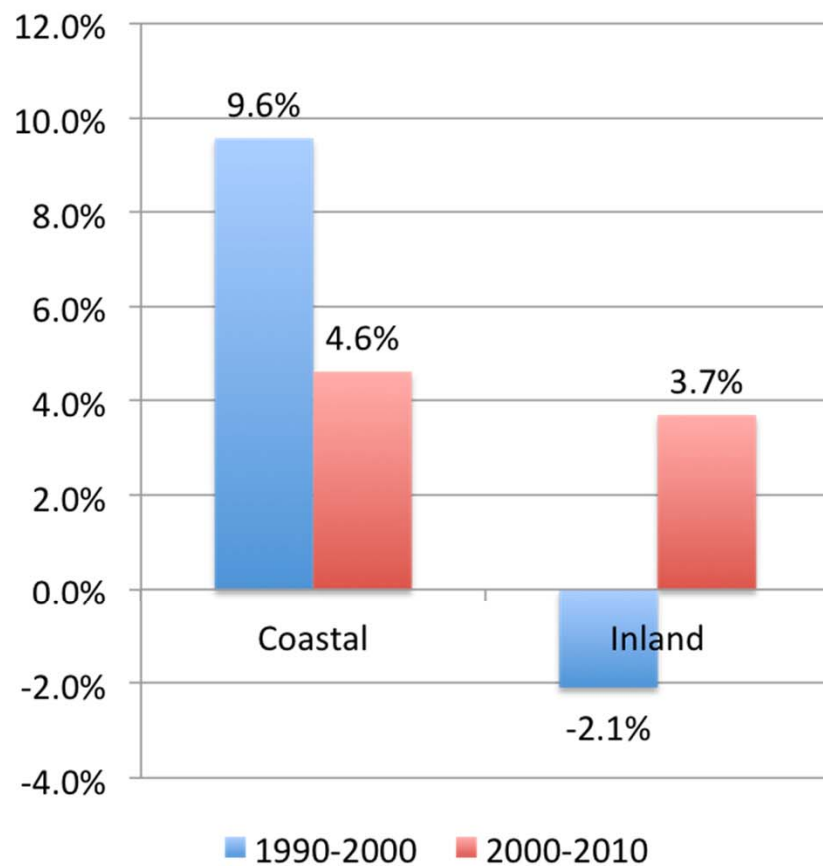


Migrants to Maine tend to be younger (half between 18 and 44) and over half have a bachelor's or graduate degree



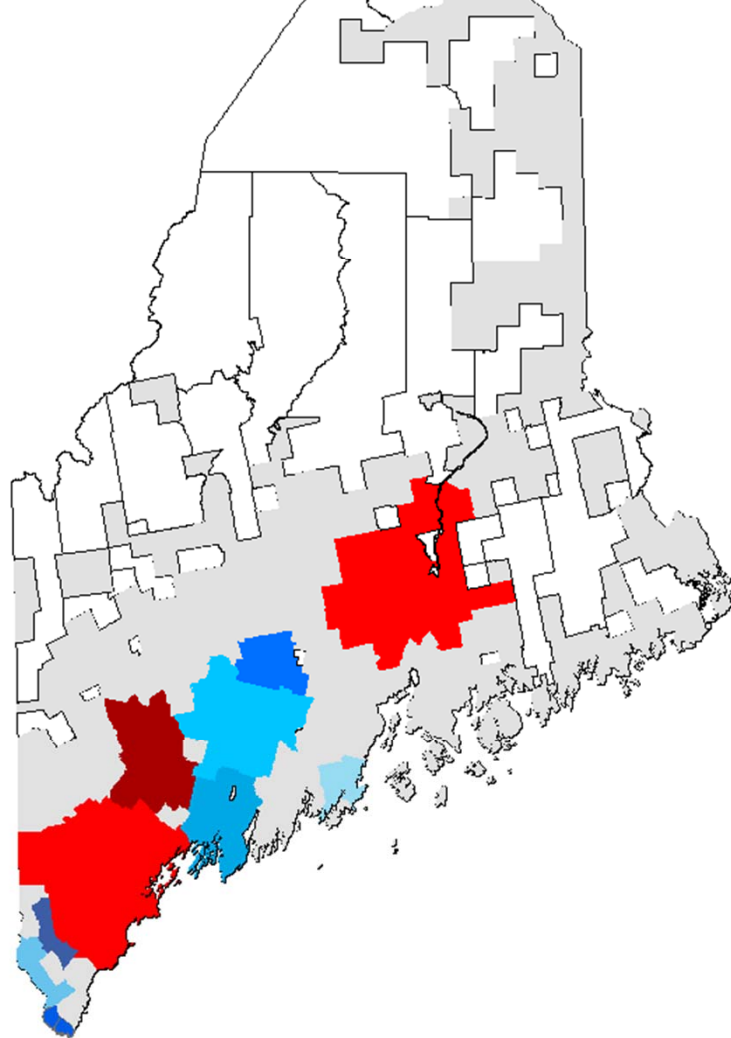
Source: ACS 2010

# Distribution of Maine Population Change within the state changes noticeably

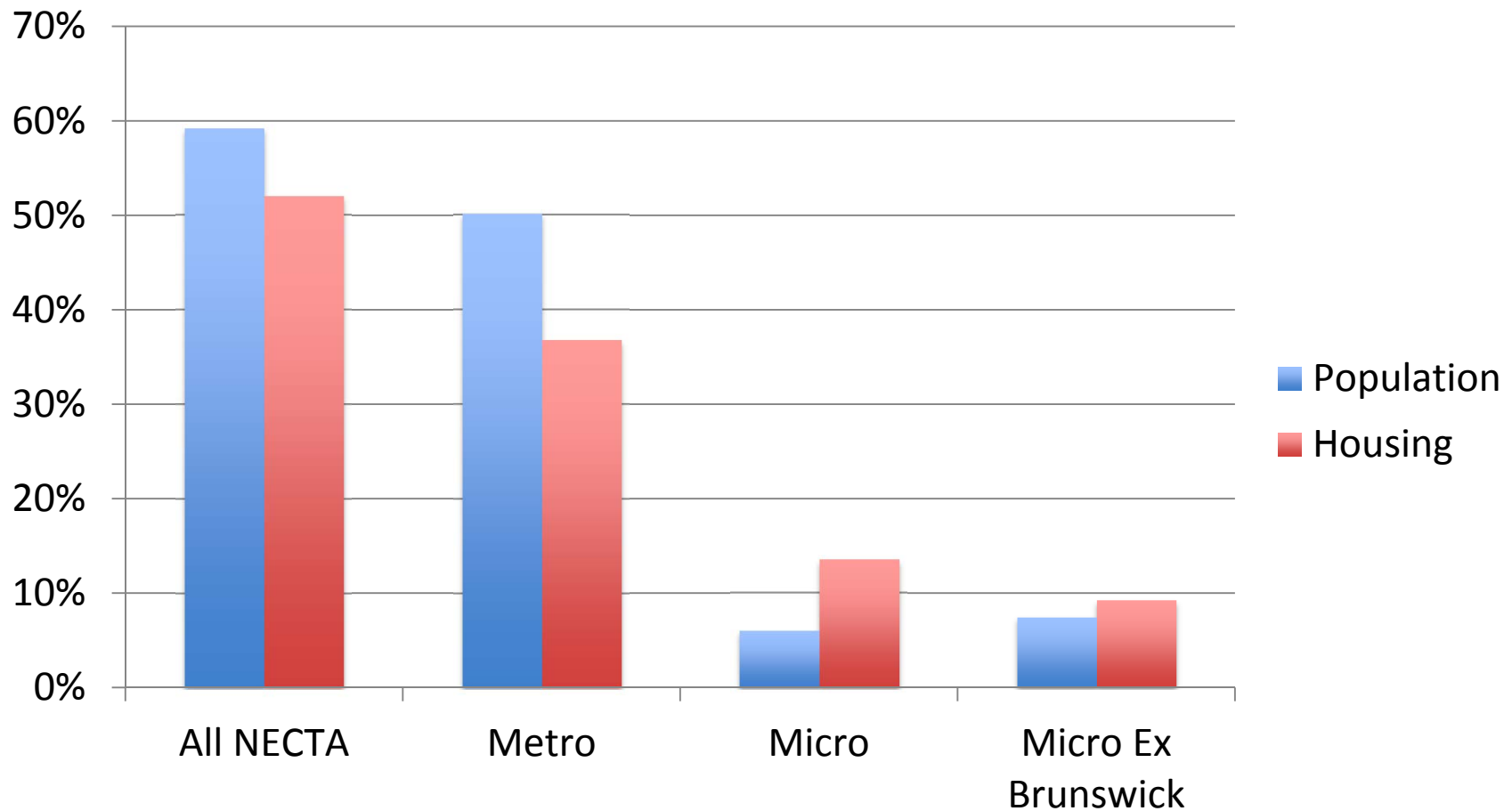




# Urban Maine



# Share of 2000-2010 Population and Housing Growth in Urban Maine





# Conclusions

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Outlook for 2012 is for continued weakness, though upside potential exists

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Existing housing market will improve, but not significantly until 2013; New housing will remain well below historic levels

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Maine real estate is economically and demographically challenged

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Population changes likely to favor older buyers, smaller houses and rentals, and more urban core and inner-ring suburbs

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