Maine Consensus Economic Forecasting Commission, Fall 2022 Information Gathering Session Summary

October 28, 2022

Abstract

For the twelfth year in a row, leaders of Maine businesses, industry groups and nonprofits shared 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 insight into current and future trends within their industries, as well as commentary about potential risks or opportunities in the near term. Any economic data, observations or forecasts contained in this summary appear as they were heard and interpreted at the meeting and the CEFC is not responsible for their accuracy. The views described in this summary do not necessarily reflect the views of the CEFC. The current official forecast of the CEFC can be found at https://www.maine.gov/dafs/economist/economic-forecasting.

Madeleine Hill – Maine Association of REALTORS®

In 2021, the real estate industry accounted for 19.5% of Maine's Gross State Product, a $2 billion increase from the year prior. 2021 was also the 10th year in a row of having an increasing number of year-over-year sales transactions, reaching 20,401 closed sales annually. Meanwhile, the median sale price of a home in Maine reached $299,000 in 2021, 16.8% growth over 2020.

In recent months, the number of transactions has cooled, with the first 9 months of the year being down 13.9% compared to the same period of 2021. While inventory is low, home prices have escalated to a median price of $340,000 in September – almost 8% higher than a year ago and 49% higher than September 2019, before the pandemic.

Ms. Hill also notes that while historically 75% of buyers in Maine were in-state buyers, the number of out-of-state buyers has ticked up since the pandemic began. This peaked at 35% of buyers in the third quarter of 2020 but has eased to 31% more recently. According to Ms. Hill, 10% of these out-of-state buyers come from Massachusetts, with an additional 4% coming from New Hampshire.

Ms. Hill notes that rising interest rates have cooled activity and shifted the short-term landscape of the market, with less cash available to buy homes. Additionally, low supply has further impacted affordability, and more houses need to be built in order to improve the affordability of homes in the state. Finally, telecommunications infrastructure such as broadband access will be important for future development of housing.

Matthew French – U.S. Energy Information Administration

Heating oil expenditures are forecast to increase significantly this winter, both due to higher prices and a colder weather forecast. Of the 27% forecasted increase in heating oil expenditures this winter, 16% is expected to be due to higher prices, while 9% will be due to increased consumption due to colder temperatures.

More recently, wholesale margins are causing high heating oil prices. These increased heavily in the second quarter of 2022 and are forecast to remain high through the start of 2023.

Meanwhile, distillate inventories on the East coast are low due to geopolitical events as well as reductions in refining capacity within the region. Low imports in recent months are directly related to global supply, and began to fall off in February 2022, at the start of the Russian invasion of Ukraine.

Overall, the EIA forecasts heating oil to average $4.54 per gallon during the 2022-2023 heating oil season.

Jeffrey Austin – Maine Hospital Association

The Maine Hospital Association is comprised of all 36 hospitals in Maine. In 2022, the average margin across all hospitals was -6.0%, a number that Mr. Austin notes is significant, given that the normal average margin is between 0-2%. Inflation has presented significant challenges to hospitals, leading them to face higher costs without bringing in higher revenues.

Mr. Austin notes that federal aid was extremely helpful in 2021, with almost $600 million of aid. That said, this aid has run out in 2022 as hospitals are facing high costs. One cause of higher costs comes from labor – while historically travel nurses were less frequently relied on, the pandemic created worldwide demand for travel nurses, driving travel wages higher. In addition, insurance claim denial has created a major problem both for revenue as well as administrative cost.

Other problems persist, such as lack of labor force in nursing homes, high rates of high deductible health plans, and increasing vendor costs. That said, Medicaid expansion has provided some good news to the industry. Mr. Austin expects 2023 will be a difficult year for hospitals given high inflation and an expectation that federal aid will not continue.

Michael Santo – Maine Society of CPAs

Mr. Santo provided insights about the current state of the economy based on anecdotes from his clients. Staffing and debt concerns are the primary concerns of business clients, although they remain cautiously optimistic.

Mr. Santo provided updates about several industries:

- Restaurants: Seasonal restaurants are struggling; 2021 seems like a false boom, and 2022 saw a decline. Meanwhile, restaurants are facing high labor costs and staffing challenges. Menu prices are increasing overall, but service and quality are declining due to inflation and labor force challenges.
- Manufacturing: Supply chains continue to be a challenge for many manufacturing businesses. Additionally, debt remains a concern, as many firms took on debt for capital improvements, but now cannot refinance. Finally, distribution is a concern, as it has been difficult to find drivers.
- Hospitality: Lodging businesses are cautiously optimistic and have experienced a good comeback in 2021 and 2022. Heating oil will cause a squeeze during the winter, and businesses are concerned that next summer may not be strong.

- Service sector: Labor is the biggest challenge for these businesses. Lack or workers has caused them to delay work or turn away clients. For example, in accounting, there is not enough capacity industry-wide to service clients. This may present issues during tax season.

April Gleason, Maine Association of Mortgage Professionals

Nationally, mortgage applications as of mid-October were down 38% since last year, while refinance applications are down 86% as interest rates are at their highest levels since 2002. In Maine, the total volume of mortgages has dropped between 25-50% since last year. Affordability is a major roadblock to potential homeowners. For example, the median home in Maine would have a monthly payment that is $647 more than at the beginning of the year due to higher interest rates.

Despite high prices demand remains strong, and low inventory makes Maine's market particularly challenging. Additionally, first-time home buyers in Maine Housing programs have a difficult time competing in the market when up against cash offers and conventional mortgages. Further challenges are brought on by increasing prices of associated services, such as inspections. Ms. Gleason noted that recently, an inspection was quoted at $1,200 despite normally costing $300 elsewhere in the state. Overall, the current real estate market in Maine is challenging for potential home buyers, particularly first-time home buyers.

Greg Dugal, Hospitality Maine

The hospitality industry in Maine shows an uneven recovery from the pandemic. Mr. Dugal notes that while lodging establishments are doing well, restaurants are struggling. Food, labor, and debt service are primary concerns for the industry; particularly, Economic Injury Disaster Loans, which were used to weather the pandemic, are now coming due. Some businesses are concerned about their ability to pay these loans.

Supply chain disruptions continue to present major challenges for restaurants. Some key inputs that have faced disruptions recently are CO_2 used for beer production, restaurant equipment, HVAC and plumbing, and food ingredients. Many restaurants have cut hours, changed meal periods, reduced menus, and closed areas of the restaurant to make up for rising costs, short staffing, and supply disruptions.

That said, Mr. Dugal noted some silver lining in growth of new markets during the pandemic. Maine has a high return rate of tourists, with 70-80% visiting more than once. During the pandemic, Maine saw expansion of New York and New Jersey markets; the return of Canadian and Massachusetts tourist markets has added to growth and will help the recovery. Other silver linings are the addition of registered apprenticeships, which will help the industry's labor force situation.

Todd Mason, Maine Credit Union League

2020-2021 saw a significant spike in savings of Maine credit union members, driven by pandemic stimulus payments. During that period, there was a 20% growth in savings. The savings rate has more recently slowed to normal levels and was about 8.1% in June.
The overall loan delinquency rate in Maine was 0.48% in June. This is up 3 basis points quarter-over-quarter, although Mr. Mason notes that this is a comfortable rate of delinquency. While banks were expecting high rates of delinquency during the pandemic, federal aid prevented that from happening. Mortgage lending has seen a dramatic decline more recently, while new and used auto loans have begun to pick up.

Overall, Mr. Mason notes that credit unions remain strong and are prepared to assist businesses and individuals through a potential economic downturn.