

Consensus Economic Forecasting Commission Summary of Information Gathering Session, June 22, 2020

On Monday June 22, 2020, the Consensus Economic Forecasting Commission (CEFC) met for an information gathering session prior to its off-cycle forecasting meeting on June 25, 2020. At this session, presenters assembled virtually to share economic data and industry-specific information regarding current conditions and the near-term outlook. Participants were tasked with providing information about how COVID-19 has affected their industries and how it might impact operations in the future. 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. Opinions expressed by individual speakers are their own, and do not necessarily reflect the views and opinions of the CEFC.

A re-broadcast of this information gathering session can be found here: [Part I](#) and [Part II](#)

Nancy Beardsley, Maine Center for Disease Control & Prevention

Ms. Beardsley presented information about the Maine CDC's current efforts to combat the spread of COVID-19, particularly focusing on its new contact tracing platform. Currently, the Maine CDC has 30 epidemiologists acting as case investigators for each case in Maine. The CDC is in the process of recruiting to bolster its contact tracing workforce. In addition, Ms. Beardsley highlighted SARA Alert, an online platform that allows close contacts of those infected with COVID-19 to keep in touch with case investigators and conduct daily symptom reports.

Ms. Beardsley noted that primary challenges to successful contact tracing are cultural and language barriers, which are contributing to disparate rates of illness among Mainers. Educational materials are currently available in multiple languages, and communication about the SARA Alert system will soon be available in Lingala and French.

Edison Liu, The Jackson Laboratory

Dr. Liu offered perspective on the most current microbiological research available on COVID-19, as well as information about testing efforts underway. Dr. Liu emphasized that while an economic recovery is possible, it must be done thoughtfully and incorporate individualized decisions for each sector. Additionally, he noted that reopening must be accompanied by widespread testing, selective protection, and nimble adaptations as new information becomes available.

While Dr. Liu expects that a vaccine will likely not be available until early 2021, he noted that risk stratification, or isolation of those who are elderly or at elevated risk, will help to reopen the economy while mitigating health impacts, especially as 40-50% of cases are asymptomatic and capable of unknowingly spreading the disease.

Peggy Schaffer, ConnectME Authority

Broadband proved to be a recurring issue among several participants at the information gathering session, highlighting its importance in aiding the economic recovery and providing for further growth in the coming years. Ms. Schaffer discussed the present state of broadband development in Maine as well as challenges and roadblocks. Maine's primary challenge is its geography; its populations span a large distance but also lack density, which together make broadband unprofitable without public subsidy.

Additionally, one of Maine's largest broadband providers currently operates under an outdated copper network, while others are not required to improve speeds beyond 10/1 Mbps. Working from home requires fast upload speeds and 1 Mbps is insufficient.

New funding for broadband development is available through federal programs from the FCC and USDA. Additionally, there will be a \$15 million bond issue on Maine's ballot for broadband development in July.

Bo Zhao, New England Public Policy Center at the Federal Reserve Bank of Boston

Dr. Zhao presented recent economic data reflecting new changes spurred by the COVID-19 pandemic. Employment has taken a freefall since March in all regions of the United States, falling 13% compared to the pre-recession high in February. While Maine fared better than all other New England states in May, it remained 14% below its pre-pandemic high. The leisure & hospitality sector was the hardest hit in Maine, at -50.4% in May compared to a year ago. While the official Maine unemployment rate sits at 9.3% in May, low response rates and misclassification of unemployed workers led to an underestimate, and the true rate is estimated to be closer to 18%.

Dr. Zhao also noted changes in the housing market, as Maine's Federal Housing Finance Authority House Price Index rose by 8.3% in the first quarter of 2020 over the first quarter of 2019, the highest in New England and higher than the national average. However, he cautions that it is too early to tell what impact the pandemic will have on housing markets.

While Dr. Zhao mentioned how difficult it is to project future conditions, he expects a return to pre-pandemic levels is not likely to happen for several years. For example, the Congressional Budget Office projects an unemployment rate of 8.6% in the last quarter of 2021. Ultimately, the recovery will depend largely on the public health situation.

Tom Cole & Justin Lamontagne, Maine REALTORS

Mr. Cole & Mr. Lamontagne presented information about Maine's real estate market, both residential and commercial, to the CEFC.

According to Mr. Cole, home sales totaled over \$5.8 billion in 2019, which was 7% more than in 2018. The real estate industry accounted for over \$12.8 billion of the state's GDP in 2019. For the past 8 years, the number of homes sold and the median price of homes sold have increased within the state, reaching the best year ever in 2019. Statistics for the first quarter of 2020 were strong, with sales up 11% and median prices up 9%. Since COVID-19, sales have fallen by about 15%. There has been upward price pressure as some prospective sellers have decided to hold off

on selling, restricting supply, despite high demand due to low interest rates. Mr. Cole expects a decline in sales in 2020, but a robust year in 2021.

Mr. Lamontagne briefed the CEFC on the commercial real estate market. He referred to March & April as the “great pause,” as many transactions were deferred. He highlighted the industrial market, referring to manufacturing, warehousing, and distribution as bright spots as their importance in the economy has increased in the wake of the public health crisis. Manufacturing and distribution of healthcare products, in particular, has seen drastically increasing demand for commercial space in the past few months. Alternatively, office space has seen more mixed outcomes. While some companies have found Work-From-Home (WFH) arrangements to be effective, potentially reducing demand for office space, others have found it has created a loss of income and are eager to return to their offices.

He noted that retail is one industry that is particularly struggling. While the first few months of the public health crisis saw empathetic landlords willing to defer rent, the time for foreclosures among small retailers may be coming within the next 1-3 months. Additionally, big box retail’s slowing business has been exacerbated by a shift to online sales.

Tara Williams, Maine Association for the Education of Young Children

Ms. Williams discussed the critical need for childcare during the economic recovery in Maine. According to the most recent data, 70% of children under the age of 6 have all available parents in the workforce, meaning they need childcare. Nationwide, childcare accounts for a \$52.1 billion spillover effect as it affords parents the opportunity to be a part of the workforce.

Before the pandemic, there was a trend toward loss of family childcare in Maine as many professionals reach retirement age and recruiting new educators is difficult for low-wage childcare jobs. Ms. Williams highlighted the challenges in increasing the supply of childcare labor, where providers have high startup costs and require well-trained but low-wage educators. This makes it difficult to restart after a shutdown, as many furloughed workers may have found different jobs.

Current data shows that 50% of providers have closed, with closures concentrated in Cumberland County and in centers, although some family-based providers have closed. A recent survey of Maine providers showed that 41% would not be able to survive a closure of 2 weeks or more, while 60% won’t be able to survive a shutdown longer than one month (excluding any federal and state support). As childcare centers have been forced to close for an extended period and reopen at a reduced capacity, many are operating at a loss, and without more support up to 48% of Maine’s childcare slots may be lost. Ms. Williams notes that infant and toddler care is particularly at risk, as those are the most expensive to support and therefore may be first to be cut by struggling providers.

Andrew Crawley, University of Maine School of Economics

Dr. Crawley is in the third week of a new rapid-result small business survey that collects information about the health and economic status of businesses from every sector in Maine. The survey shows that between 60-70% of businesses in Maine have experienced a large negative

effect due to the COVID-19 pandemic, although some businesses, primarily in manufacturing, have seen positive effects.

Fewer businesses reported declining operating revenues compared to the first week of results while more businesses report increased operating revenue, indicating that revenue is slowly recovering. Over 50% of businesses report that they have enough cash on hand to last several months, indicating most businesses are well positioned to weather the shutdowns and slow business. However, many are reporting supply chain disruptions, particularly in manufacturing and retail.

When asked when owners expect their businesses to recover to pre-pandemic levels, 50% say sometime in 2021, while about 10% say never and 10% say 2022 or later.

Chris Pinkham, Maine Bankers Association

Mr. Pinkham briefed the CEFC on the banking industry and its role in the COVID-19 pandemic. The most recent data shows that Maine has 30 retail banks, 25 of which are headquartered in Maine. This accounts for \$34 billion of deposits and 8,651 employees who received \$575 million in annual compensation in 2018.

The state of the banking industry in early 2020 is strong, with low interest rates providing an opportunity for many consumers to refinance or consolidate their loans. The first quarter of 2020 had a 2.1% year-over-year increase in commercial real estate loans to \$8.1 billion and 0.88% growth to \$10 billion in residential real estate loans.

The Paycheck Protection Program (PPP) disbursed \$2.2 billion to 26,000 businesses throughout Maine, facilitated by Maine banks. Mr. Pinkham estimates that about 2/3 of operating small businesses received PPP funds. Additional funding for small businesses was available through loan programs from the Small Business Administration and the Finance Authority of Maine. However, Mr. Pinkham noted that businesses may be hesitant to take on more loans in the short term, and a move towards grants will be more helpful for those that are struggling.

Tony Cameron & Alison Sucey, Maine Tourism Association

Mr. Cameron & Ms. Sucey emphasized the challenges that the Maine tourism industry are currently facing, highlighting travel restrictions currently under effect. They note that hotels, in particular, are struggling as they face an average of 8-15% occupancy rates and cancellations throughout the summer. Additionally, the loss of group travel, such as business travel, bus tours, and cruise ships, has created a major hole in revenues.

Travel spending in Maine was down by 86% in May and 66% in the first two weeks of June. Businesses in the tourism industries fear that they will not make enough during the summer months to last through the winter, and it is likely that many will close permanently. Many have had to cut costs, primarily in payroll, marketing, renovations, and maintenance, all of which will create negative spillovers for other local businesses in tourism-dependent areas.

Matt Marks, Maine Association of General Contractors

Mr. Marks updated the CEFC on conditions in the construction industry, highlighting results of a recent survey to Maine contractors. Nationally, a million jobs were lost in the industry in April. Although Maine lost 1% of its construction employment in April, it has been relatively insulated from losses experienced in some other states. That said, many projects across the state have been halted. 66% say that was due to compliance with halting non-essential activity, 37% due to the owner's concern about COVID-19's danger surrounding the project, and 22% due to reduced demand for the project, among other reasons for a halt to operations.

In the vertical division, subcontractors reported more project availability as some firms reported as much as 50% loss of anticipated projects. There are concerns with the future of municipal projects such as public safety buildings and other city buildings, as well as state-funded projects and higher education projects for 2021.

In the site work/highway division, there are concerns about lost revenue on water and wastewater projects and culvert investment. Additionally, an estimated loss of gas tax revenue of around \$125 million and lost toll revenue may present longer-term challenges for construction of infrastructure.

Wade Merritt, Maine International Trade Center

Mr. Merritt provided insight into Maine's export and import environment. According to Mr. Merritt, there are around 700-800 exporting businesses in Maine, accounting for around \$3 billion in merchandise exports and 181,000 jobs supported both directly and indirectly. In the first four months of 2020, exports were down 3% over the same period last year, largely driven by transactions put on hold in February and March due to freight transportation challenges.

Some sectors are faring better than others. For example, manufacturers largely remained open throughout the public health crisis, but faced challenges in freight transportation. Additionally, there are many concerns regarding the supply chain of manufacturing industries that rely on imports as intermediary inputs. The life sciences sector has performed exceedingly well as their goods have faced increasing demand globally. Conversely, companies with short sales cycles that are dependent on rapid transportation, such as lobster and other food products, have faced larger problems.

The World Trade Organization predicted a 30-32% decline in trade in 2020. However, Mr. Merritt reports that the sentiment among partner businesses is about 50/50. At this point, businesses are still seeking support to develop sales and markets but are less interested in market entry.