Maine Consensus Economic Forecasting Commission, Fall 2024 Information Gathering Session Summary

October 25, 2024

Abstract

For the fourteenth consecutive year, business leaders, industry groups, state agencies, and higher education professionals shared economic data and industry-specific information with the Consensus Economic Forecasting Commission (CEFC) prior to their fall economic forecasting meeting. Presenters provided their perspectives on trends in their industries and their perspectives on Maine's economic challenges and opportunities. 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/economicforecasting.

Greg Payne, Governor's Office of Policy Innovation and the Future
Adam Krea, MaineHousing

Mr. Payne provided an overview of housing conditions in the state, shared housing data resources, and elaborated on actions taken at the state level to increase the supply of housing in Maine. Since 2019, $315 million has been allocated to affordable housing development.

As of July 1, 2024, zoning reforms have been implemented with the goal of allowing private development to take a larger role in increasing housing supply. These reforms address accessory dwelling units and density regulations (including density bonuses for affordable housing units).

Mr. Payne also shared two resources for housing data, the State of Maine Housing Data Portal and the Governor's Office of Policy Innovation and the Future (GOPIF) Housing Production Dashboard, which focuses on affordable housing. Outside of affordable housing, it is more difficult to get building permit and occupancy data for the state overall. The Census Bureau provides some of this information, but accuracy is limited. GOPIF is exploring ways to gather more information from Maine municipalities, similar to efforts going on in other New England states.

The gap between housing supply and demand continues to be a pressing concern. A study commissioned by Maine Department of Economic and Community Development, MaineHousing, and GOPIF have identified a current gap of 38,500 units and a gap of 84,000 units by 2030.

Mr. Krea shared information on housing conditions from MaineHousing's perspective. On the single-family lending side, refinances are down due to interest rate conditions, but the first-time homebuyer market has improved over the past 6-9 months. MaineHousing's first-time homebuyer product offers interest rates of 5 3/8 percentage points and $5,000 in downpayment assistance. This is a competitive product compared to what is available in the general market.

A bigger market for MaineHousing is its rent-restricted multifamily lending. MaineHousing has a pipeline of $1.3 billion in total development costs and the status of these projects range from initial underwriting to nearly complete (a 2–3-year process). A few hundred units are expected to be ready for leasing by the end of the year, with 2000 units in process through 2027. Historically, MaineHousing had been involved with about 250 of these units per year but are currently averaging 750 units per year.

MaineHousing is also involved with other initiatives to increase access to housing in Maine. For example, they were involved with LD 709, legislation creating a pilot project that increases access to affordable housing through homesharing. Nesterly holds the contract for the program and runs the platform, including background checks and rental agreements.

Jeffrey Austin, Maine Hospital Association

The Maine Hospital Association represents all of Maine's hospitals except for the two state-run psychiatric hospitals. Mr. Austin provided an update on financial conditions for these hospitals with a focus on workforce, payer mix, and insurance company relationships. Hospitals are facing a challenging financial situation, though not quite as challenging as 2022.

From April to June of 2024, 61% of hospitals had negative operating margins and the aggregate margin was 0.7%. This is better than an aggregate margin of -7% in 2022 for the same quarter. Margins were worse for larger critical access hospitals.

Maine has a larger share (64%) of public payers (Medicare and Medicaid) than rural hospitals that consistently had positive operating margins. It is easier for hospitals to collect payment from public payers than directly from uninsured or underinsured patients, but reimbursement rates are lower than for commercial insurers and this impacts operating margins.

Labor shortages and wage pressures also present financial challenges for hospitals. Hospital employment levels have not fully rebounded from the pandemic. Travel nurse pay is down from 2022, but rates are still 50% above where they were in 2019, and Maine is still 9th highest in the country for travel nurse pay. Travel nurse utilization rates remain above pre-pandemic levels.

Drug prices make up a large share of hospital expenses and drug prices have increased 27% over the past two years. A federal drug subsidy, the 340B drug discount program is currently at risk, and this program has a $300 million impact on the Maine hospitals that qualify.

Securing payment from insurance companies also continues to be a challenge. Maine has one of the highest rates of Medicare Advantage plans, but these plans are not the only issue. Overall, average claim denial rates range from 10-20% and can be even higher for higher-priced claims. High deductible plans are also on the rise, and this means that hospitals are having to seek more large payments directly from patients.

Looking ahead to the next five years, Maine's age demographics will continue to impact demand for medical care and the switch from commercial insurers to Medicare will have financial impacts. Workforce constraints are anticipated in the near future as well.

Nate Cloutier, Hospitality Maine

Mr. Cloutier provided an overview of trends in the restaurant and lodging sectors, with a focus on the period from 2021 to August of 2024. Nominal taxable restaurant sales were up 2.0% between August 2023 YTD and August 2024 YTD and lodging was up 1.7% during that period.

On a monthly basis, June 2024 restaurant sales were up 2.9% in 2024 compared to June 2023. July 2024 sales were down 1.6%, and August 2024 sales were up 2.7%, compared to the same month in 2023.

The same general pattern held for nominal taxable lodging sales. June 2024 sales were up 5.3% compared to June 2023. July 2024 sales were down 2.3% compared to July 2023, and August 2024 sales were up 3.1% compared to August 2024. Calendar effects may be underlying the June/July dynamic in 2024 for both restaurant and lodging sales. June had one *more* weekend in 2024 and July had one *fewer* weekend compared to the prior year.

Overall, nominal taxable restaurant and lodging sales are seeing steady growth, but rising costs are squeezing profit margins. Restaurant menu prices are up 4% over the past year and inflation has been higher for restaurant meals than for food from grocery stores. Labor costs have grown even faster. On the lodging side, Maine had a very impressive 81% August occupancy rate, but September 2024 occupancy was down compared to the prior year and Maine continues to lag behind regional competitors for year-round occupancy.