Consensus Economic Forecasting Commission
Summary of Data Gathering Session on October 29, 2021

For the eleventh 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 updates on how the COVID-19 pandemic and the early recovery from the associated recession have shaped their respective industries' operations and performance 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.

Lisa Martin, Manufacturers Association of Maine
Ms. Martin provided an update on the manufacturing industry and how it adapted to meet new needs caused by the pandemic. She noted that the manufacturing industry accounts for a significant portion of Maine's economy, employing 8.41% of the workforce, paying $3.6 billion in wages (or 12% of all statewide wages), and contributing 9.8% of total GDP in Maine. She noted that although employment in the sector has declined in the last several decades, output has increased, suggesting the role that automation has played in the industry in recent history.

The health of Maine's manufacturing industry has been graded as a C- overall. However, the industry as a whole stepped up to the challenges of the pandemic by shifting production to create PPE such as masks, gloves, and face shields to create a safe working environment for Maine workers. The Association supports policies that support U.S. and Maine manufacturing, and is aligned with the state's 10-year Economic Plan. Through the pandemic, it collaborated to assess the impact of the pandemic on producers. Businesses that were struggling were able to access consulting resources to mitigate those challenges through the Association.

Additionally, the Association is working on plans to attract talent to move to Maine and work in manufacturing establishments, including redistributing temporary workers employed to produce pandemic-related goods (such as test kits) in order to address labor challenges that the industry has experienced in recent years.

Dr. Dora Mills, MaineHealth
Dr. Mills delivered an update on the state of the COVID-19 pandemic in Maine and its course in recent months. The Delta variant, which is more contagious, more virulent, and causes more immune evasion, has wreaked havoc on global health efforts. This variant has significantly impacted rural areas nationwide, including Maine's rural areas– the state's highest incidence rates are in Franklin and Somerset counties. While Maine has been successful with its vaccination rollout, ranking 2nd in the U.S., there are regional disparities. Maine's overall vaccination rate is 70%, while counties range from 55% in Somerset County to 78% in Cumberland County. In counties with lower vaccination rates, the Delta surge has been much more severe.

Approximately half of recent COVID-19 cases are occurring in Mainers under 30 years old, while many of these individuals are unvaccinated and ineligible for the vaccine. Overall, hospitalizations due to the virus in recent weeks have been surging, reaching the highs of a year ago. Dr. Mills notes that vaccinations, social distancing, masking, proper ventilation, and testing are the most effective measures to prevent the spread of the virus, particularly the Delta variant.

Forecasting the path of the virus is difficult, but high levels of hospitalizations are expected throughout the next three weeks. Other forecast models predict high levels of hospitalizations with some moderate increases through the end of the year, although Dr. Mills notes that COVID-19 overall is very unpredictable.

Maine's healthcare providers have long faced worker shortages, though this issue has been exacerbated due to COVID-19. National research shows that nearly 1 in 5 health care workers have left the field throughout COVID-19. Maine's health care vacancy rate has jumped from about 6% pre-pandemic to a current rate of approximately 13%. Lastly, disease burdens for other non-COVID-19 illnesses have increased recently and are not entirely explained by delayed care. Some research suggests that natural disasters may lead to other health issues, and the pandemic could have larger-reaching impacts on public health.

Dr. Todd Landry, Maine DHHS, Office of Child and Family Services
Dr. Landry updated the CEFC on the current standing of the childcare industry and the recent Child Care Plan. A pre-pandemic review of Maine's childcare system found an approximately 10% gap between supply and demand in Maine, with gaps being higher in rural areas. At the start of the pandemic, almost 50% of childcare providers were temporarily closed. Currently, 97% of licensed providers are open. Since the start of the pandemic Maine's licensed capacity has fallen by approximately 1%, with family childcare facilities being more significantly impacted than childcare centers.

Federal COVID-19 relief bills have provided significant funding for childcare infrastructure, including $19.3 million through the CARES Act, $30.5 million from CRRSA, and $121.9 million from ARPA. Many of these funds were used to provide direct grants to childcare providers, while the latter also provided discretionary funding that was used in part to develop and execute the recent Child Care Plan for Maine. Maine was one of the first states to distribute stabilization funds from ARPA to providers. Other funding through CRF Funds, the Payroll Protection Program, and the Governor's ARPA Infrastructure Initiative also provide supports to Maine's childcare sector.

Dr. Landry notes that a key component of the Child Care Plan will be supporting the workforce, and Maine has made it a requirement that ARPA stabilization funds include $200 per month per employee of supports to childcare providers. Additionally, strategies will focus on improving access and quality in rural areas to reduce the gap in services in rural parts of the state.

Nate Wildes, Live and Work in Maine
Live and Work in Maine is dedicated to attracting and retaining Maine's workforce. Mr. Wildes noted that in the six years of the nonprofit's existence its strategies have changed, and detailed

the strengths, weaknesses, opportunities, and threats associated with attracting and retaining workers in Maine.

Mr. Wildes notes that Maine has many strengths, including strong value proposition – clean air, ample space, and attractive landscapes – that has become even more in-demand because of the pandemic. Additionally, Maine has passionate people and organizations involved, the right partners, and policies and incentives already available that are world class, for example, the Opportunity Maine tax credit. Meanwhile, Maine has two primary weaknesses. First, not all Mainers are aligned and welcoming to an influx of people into Maine. Additionally, an increasing lack of housing makes it difficult for workers to move to the state.

Maine has several opportunities in attracting and retaining workers, including a strong brand affinity, and the state's 10-year strategy aligns with employer talent needs. While previously Maine was viewed as a challenging environment (for example, sparse populations), this perception is now attractive to many because of the pandemic. Additionally, Maine has an opportunity to take advantage of a strong ROI on funding talent attraction. Finally, Mr. Wildes noted that threats include competition, the complementary challenge of business attraction, uncoordinated efforts, the need to retain workers, and the threat of thinking too small in the world of remote work, internet connectivity, etc.

Jim Roche, Maine Bankers Association
Mr. Roche reported on the state of the Maine banking industry as of June 30th, 2021.

He reports that despite operating for 18 months of the pandemic, Maine banks are doing well so far in 2021. Residential real estate loans have grown modestly, up 1.6% in the first six months of the year, while the loan delinquency rate has remained very low. Commercial and industrial loans are down in 2021, largely due to PPP loan forgiveness; C&I loans excluding PPP show 3.2% growth in the first half of the year.

Mr. Roche also relayed some observations based on conversations with leaders at Maine banks. Uncertainty for the future remains front and center, particularly due to the fluctuations of revenue associated with PPP loans as well as ongoing supply chain challenges that their customers face. According to bankers, these two factors may inhibit growth in the near term. Additionally, Maine banks are facing increasing competition from financial technology firms. The regulatory climate may also make it more difficult to innovate and invest in technology, particularly in an era of changing demographics.

Aaron Bolster, Maine Association of REALTORS
Aaron Bolster reported on the status of Maine's residential real estate market. The real estate market has been robust in the last year. Residential real estate transactions accounted for over $7.2 billion of sales in 2020, a 25% increase over the year prior. In fact, Maine has experienced a 9-year trend of real estate recovery, with 92 of the past 117 months showing year-over-year growth. Mr. Bolster notes that 2020 was the best year on record, with annual sales volume up 10% over 2019 amidst the pandemic.

Rapid sale turnover, high demand, and likely some other COVID-19 impacts have contributed to low inventory, leading to a very tight market with multiple offers common. The past three months have shown a decrease in sales volume paired with continued growth in median sales price (MSP), reaching $320,000 in September; seven of Maine’s sixteen counties have MSP over $300,000, with Cumberland and York surpassing $400,000 for six consecutive months. Mr. Bolster expects good activity to continue through the end of 2021.

Finally, Mr. Bolster noted that about 35% of buyers come from out of state; historically that number was approximately 25%. During the pandemic, the greatest number of buyers are coming from Massachusetts, New Hampshire, New York, Florida, California, and Connecticut. Additionally, raw land sales have increased 47% during the pandemic.

Mr. Bolster notes five things will continue to impact residential real estate in the future: interest rates, the end of mortgage forbearance, low housing supply, economic development in rural areas, and telecommunications infrastructure, particularly broadband connectivity.

Nate Stevens, Maine Commercial Association of REALTORS

Nate Stevens updated the Commission on the state of the commercial real estate market in Maine. He noted that the four sectors of commercial real estate (office, retail, industrial and investment) have all been impacted by the pandemic in different ways.

The office real estate market was heavily impacted by the shift to work-from-home, though Mr. Stevens reports that most workers have returned to the office, and leasing demand finally ticked up in the second quarter of 2021. The office market has closely followed COVID-19 infection rates, and the Delta variant has created new challenges. Meanwhile, hybrid work environments are coming to fruition and will allow offices to expand and hire without having to acquire new real estate, while also mitigating the reduction of office space. According to Mr. Stevens, a survey of his customers showed that fewer than 10% intend to downsize. That said, he noted that he enters 2022 with considerable caution.

Meanwhile, retail space has seen significant recovery following a challenging summer in 2020. He notes optimism that downtown space had a great summer, and that there is little vacancy for downtown space particularly for food establishments. Home improvement and fitness facilities, along with some other alternative uses, have bolstered the regional retail market.

The industrial real estate market is amidst the hottest market ever seen, with an alarming <2% vacancy rate in Southern Maine. Low vacancy in the industrial market comes as the demand for home improvement as well as last mile distribution has increased throughout the pandemic. Additionally, lease rates in the cannabis and brewing industries have increased by 60-70% in the past four years. The lack of vacancy, particularly for 60,000+ square foot space, has led to speculative building for businesses needing space. That said, high building costs and delays have impeded growth and ability to meet demand. Mr. Stevens notes that some evidence points to softening of this market in Massachusetts and New Hampshire and says that Maine may follow suit in the coming months.

Finally, low interest rates have driven robust demand in the investment real estate market. Currently, there are not many opportunities for investors. There is strong interest from out of state investors as capitalization rates are typically much higher in Maine compared to its neighbors, however lack of inventory has driven sale prices up, leading cap rates to decline in Maine.

Thomas Brown, Maine Automobile Dealers Association
While Mr. Brown was unable to attend the data gathering session, he provided written notes following the meeting, which are included here.

<u>Current Demographics</u> --- 114 franchised new car and truck dealerships, 1 less than last year; these dealerships operate from about 225 buildings from Fort Kent to York and Calais to Bridgton; most dealerships represent multiple manufacturers and several franchises, although there are still a number with single franchises; dealership total employment is approximately 5,700 people, down about 6% from 2019; total wages continue upward and in 2020 topped $350 million.

<u>Sales of vehicles, parts and service</u> --- 2020 was unusual due to COVID and parts supply problems; vehicle sales were higher than dealerships expected after COVID hit; Maine-franchised new car and truck dealerships sold approximately 61,000 new vehicles in calendar year 2020, down about 5% from 2019, which was down about 5% from 2018. Used vehicle sales through franchised dealerships have stayed steady at about 52,000 annually and increased slightly in calendar year 2020. Transaction prices have increased for both new and used vehicles, with new vehicle prices influenced by additional technology in the vehicles while both new and used vehicle prices have a significant supply/demand component. Financing options are still attractive, which has helped the sales numbers. Parts and Service activity has continued strong.

<u>Issues of Concern</u> --- challenges with inventory availability, mostly due to computer chips and transportation from non-U.S. suppliers, are likely to extend into 2023; employment levels have decreased in part due to the inability to generate replacements for retirees and those seeking a change in career – this is a problem not unique to the automobile dealerships, and does not show any signs of resolving itself, especially with technicians; there is a continued need to significantly invest in facilities – equipment – training – employees to handle quickly changing technology; electrification is a huge issue – the ability to have product meeting customer need, uncertain customer acceptance, charging infrastructure, and the sufficiency of the electric "grid" to handle the load.

<u>Taxes</u> --- sales and income taxes from our sector are likely to increase, given transaction prices and higher income levels; gas taxes will continue to decrease.

<u>2022 and 2023</u> --- we expect sales of new vehicles to be down slightly in 2022 but return to an upward trend in 2023 as computer chips, parts supply and product transportation to manufacturers and dealerships become more normal. Used vehicle sales may decline slightly. Parts and Service should continue strong.