

Consensus Economic Forecasting Commission Summary of Data Gathering Session on October 25, 2019

For the ninth year in a row, leaders of several Maine business and industry groups assembled at the State House to share 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 a general overview of recent and future trends in their industries as well as comment on potential challenges and opportunities in the near term. Following is a summary of those presentations. Any economic data, observations, or forecasts contained in this summary appear as they were heard and interpreted at the meeting, so the CEFC is not responsible for their accuracy. Nothing in this summary necessarily reflects the views of the CEFC. The current official forecast of the CEFC can be found at <https://www.maine.gov/dafs/economist/economic-forecasting>.

Gordon Smith, Director of Opiate Response

In the last two decades, opioid use has affected every sector of Maine's economy and countless families, communities, and school systems. Several key industries such as fishing, forestry, and transportation have seen great loss as a result. In 2017, Maine had the 8th highest drug overdose rate in the country at 34.4 deaths per 100,000 total population. This epidemic will continue to have ripple effects through the economy due to its impacts on the families who have lost loved ones, workforce, and healthcare costs. The average age of an overdose victim is 41 years of age, younger than Maine's median age, which demonstrates addiction's impact on Maine's already-shrinking prime working age population. By 2015 it had taken more than 6,000 Mainers out of the labor force, approximately two-thirds men and one-third women, and cost approximately 92 million work hours.

This issue also profoundly impacts families in Maine. The state has one of the highest rates of infants born drug affected in the nation, at 952 babies statewide in 2017. Nationally, the average cost for these infants is \$66,700 each compared to \$3,500 for those not born substance exposed. Another symptom is an increasing number of children in Maine's schools who are impacted negatively by parents' drug use. Current efforts include finding opportunities for those in recovery to pursue meaningful work, as well as early intervention for students to prevent future use.

Chris Pinkham, Maine Bankers Association

Data from the first 6 months of 2019 show that Maine banks are healthy. There are currently 31 retail banks in Maine, 26 of which are headquartered within the state. The 463 banking offices statewide employ just under 9,000 individuals. Among the 26 Maine-headquartered banks, total assets grew 1.9% in the first 6 months of 2019 (\$29.2 billion), with total loans growing 2.6% in the same time period (\$22.1 billion). Within loan categories, commercial real estate loans grew by 2.8 percent and commercial and industrial (C&I) loans grew by 5.9 percent in the first six months of 2019. Delinquencies have continued to decline to a 12-year low.

There were two key topics of interests that Mr. Pinkham noted. First is the robust competition Maine banks are facing for real estate lending. There has been substantial change in the dynamic of commercial real estate lenders in recent history, with a number of out of state and online

lenders entering the market in Southern Maine. This presents a net positive for buyers but should warrant caution to Maine banks.

The second significant challenge for bankers in Maine is the hemp and marijuana industry and the often vague policy guidelines that govern them. Both politically and structurally, any revenues generated by the cannabis industry are unbankable, spanning from growers to transportation to HVAC and beyond. Mr. Pinkham expects these industries to experience substantial growth in the next several years, but state-federal tension currently presents a large barrier and significant regulatory challenges for bankers.

Dewey Martin, Certified Public Accountant

Mr. Martin helped to articulate the likely changes in Maine's economy for the coming year. He noted that there was slow growth in 2019 due to several factors identified by clients including a slow tourism season, minimum wage's effect on small family-owned businesses, and few new businesses.

Of particular interest was the lengthy backlog of many construction companies through 2020. Mr. Martin notes that many of the construction companies with whom he works have 12 full months of work ahead of them; 2019 was a profitable year, and 2020 will likely be as well. However, a major constraint for businesses across the board is finding employees. Many firms report it is difficult to find employable workers and are passing up contracts simply for lack of labor.

Bruce Wagner, FAME, 10-year Economic Strategic Planning Initiative

Since early this year, a working group of over 50 volunteers has been crafting Maine's 10-year economic strategic plan, which touches a diverse set of topics that affect Maine's economy in many ways. While talent is the economic driver at the heart of the plan, the three strategic goals are:

1. Equitably grow the real average annual wage from \$45,370 to \$49,900 (10.0%) by investing in long-term talent development.
2. Drive the real dollar value added contribution per job from \$87,160 to \$95,876 (10.0%) while protecting Maine's quality of life by focusing on sectors of promise in each region of the state.
3. Attract 75,000 people to Maine's talent pool by retaining seniors, attracting domestic and international migration, and retaining talent at our colleges and universities.

Mr. Wagner noted the planning process has engaged over 1,000 Mainers over the course of its development and that the working team is on track for a November 15th submission to Governor Mills, and that deployment of the plans will begin in December.

Richard Erb, Maine Health Care Association

Mr. Erb notes that the situation of long-term care in Maine has not changed significantly since last year. In 2019 there are just over 6,500 nursing home beds and 4,393 assisted living beds available throughout the state. While the number of nursing home beds has declined since 2015, the number of assisted living beds has increased in the same time frame, likely due to fewer staffing challenges associated with assisted living facilities. Two-thirds of nursing home

residents are paid for by MaineCare, and the gap between payments received versus costs from MaineCare patients decreased in 2018.

Currently, staffing is the largest challenge for long-term care facilities in Maine. The rise in minimum wage has made it attractive for the lowest-paid employees in these facilities to find work in other industries, forcing these facilities to be more competitive with pay. On a more optimistic note, he draws attention to the fact that long-term care is an important gateway to healthcare careers as these jobs are accessible to students while still in high school. He also reports that LPN programs are appearing across Maine and will produce new graduates within the next year, every one of which will be hired immediately.

Nate Wildes, Live + Work in Maine

Mr. Wildes seemed to be most optimistic about the future of Maine's workforce. During this data gathering session, he spoke primarily about the attraction and retention of young Mainers and opportunities for growth. In recent years, there has been positive net migration. Mr. Wildes is energetic about the several niches Maine is especially attractive for: "boomerangs" (those who have left Maine but want to come back), soon-to-be-grads, and veterans, and noted that the Opportunity Maine Tax Credit is the best student relief program in the US and has significant potential to attract educated workers from outside of Maine.

Mr. Wildes also provided examples of future action areas, for both Live + Work in Maine as well as the State through its strategic plan. First is funding for workforce attraction and marketing that is comparable to tourism spending. He drew attention to the success of the state in attracting tens of millions of tourists each year; a similar effort could have immense impact if applied to workforce attraction. Conversation also focused heavily on simplification of the Opportunity Maine Tax Credit. Currently the credit is complicated and underutilized. He believes this credit, if simplified, could be leveraged to draw thousands of new Mainers to the state.

Wade Merritt; Maine International Trade Center

Mr. Merritt was unable to participate in the data gathering session but provided the committee with written notes regarding the role of international trade in Maine's economy. Maine's exports are poised to fall 6% from 2018. This is due to the major headwinds the lobster industry has faced because of trade policy, primarily from the US-China trade dispute as well as European markets. While the first three rounds of retaliatory tariffs fell mostly on lobster, the most recent list impacts most remaining products that Maine exports to China. In the first 6 months of 2019 exports to China were down 50% from the same time last year, with the biggest losses in lobster and wood pulp (China accounted for 17% of all lobster exports before trade tension).

Other impacts of trade tensions are realized in the costs of raw materials used in manufacturing, specifically aluminum and steel, which will impact companies' ability to compete in global and domestic markets. Some manufacturers in Maine have seen costs increase by as much as 65%. The effects of these trade policies pose a risk for job loss and potentially firm closure over time. Recent analysis shows that this could lead to a net effect of 4,400 jobs lost in Maine. MITC is currently working with businesses to mitigate these impacts.