

MAINE STATE LEGISLATURE

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**Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
February 1, 2016**

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on January 29, 2016, to review and revise the forecast through 2019. This report provides a summary of the Commission's findings.

The Maine and U.S. economies have generally continued to improve since the Consensus Economic Forecasting Commission (CEFC) last met in October 2015, although the decline in oil prices and global turmoil have recently caused some weakness in national consumer and business confidence.

Maine's real GDP increased 1.0% in the second quarter of 2015. While this follows a weak first quarter, the last three quarters of 2014 all saw increases in real GDP. Personal income in Maine grew 3.5% from the first three quarters of 2014 to the first three quarters of 2015, while wage and salary income, which is the largest component of total personal income, grew 3.3% over the same period. This is stronger growth than the CEFC had forecast in November 2015. The debt-to-income level for Maine businesses and households continued to rise to new levels in the third quarter of 2015. The Consumer Price Index was up just 0.7% in December 2015 from a year ago, weighed down by declines in energy prices.

Nationwide, consumer sentiment has trended down in recent months, peaking in January 2015. The December 2015 level was down 1.1% from a year ago. Small business optimism peaked in December 2014 and is down 5.2% from that month.

The price of crude oil decreased 12.8% in the fourth quarter of 2015 to just under \$45 per barrel. As a result of continued declines in crude oil prices, heating oil prices and gasoline prices have seen substantial declines as well. Heating oil dropped below \$2 per gallon in December and gasoline is currently averaging just over \$2 per gallon.

Existing single-family home sales in Maine were up 15.6% in December 2015 compared to December 2014 and housing permits for the December 2014-November 2015 year were 3.3% higher than the previous 12-month period. The median home price in the Portland-South Portland-Biddeford Metropolitan Statistical Area (which encompasses all of York, Cumberland, and Sagadahoc counties) increased 4.2% year-over-year in the third quarter of 2015. Mortgage delinquency rates in Maine have been declining but at a slower pace than nationally. The foreclosure rate in Maine was 0.41% in the third quarter of 2015 and has been above the national rate for twelve of the past thirteen quarters.

There was limited new data available since the CEFC last met three months ago. The Commission largely decided to leave the forecast unchanged, opting to make minor adjustment to the forecast in the near term to account for current actual trends. The employment forecast relies on an alternative scenario ("LowPop") created by the Office of Policy and Management, which provides staff support to the CEFC. This alternative scenario is based on the Moody's Analytics baseline with adjustments that lowered the population and employment growth forecasts. These adjustments are a result of the consensus that the national level forecasts are based on overly optimistic population projections for the state of Maine, causing employment forecasts, among other things, to grow at an unattainable rate. However, this forecast does assume an increase in migration into Maine in the next few years.

In addition to the ongoing concerns about the demographic situation, the Commission considered some additional macroeconomic conditions, including the continuation of low oil prices, the continued strength of the U.S. dollar, and the global economic situation. Without compelling evidence of a major change in economic conditions, the Commission made only minor changes to the forecast.

The forecast for wage and salary employment was left mostly unchanged, with 2015 and 2019 adjusted downward by 0.1 percentage points. The 2019 employment level is just shy of the 2007 pre-recession peak. CPI was adjusted upward by 0.1 percentage points in 2015 and down the same amount in 2016. Total personal income was revised downward by 0.1 percentage points in 2015 and left unchanged in the rest of the forecast years. The forecast for wage and salary income was left unchanged for all years.

The table below provides the forecast's major indicators.

| Calendar Years | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Wage & Salary Employment (Annual Percentage Change) | | | | | | |
| CEFC Forecast 11/2015 | 0.5 | 0.9 | 0.7 | 0.4 | 0.2 | 0.1 |
| CEFC Forecast 02/2016 | 0.5 | 0.8 | 0.7 | 0.4 | 0.2 | 0.0 |
| Personal Income (Annual Percentage Change) | | | | | | |
| CEFC Forecast 11/2015 | 3.1 | 3.5 | 3.7 | 4.0 | 3.7 | 3.3 |
| CEFC Forecast 02/2016 | 3.1 | 3.4 | 3.7 | 4.0 | 3.7 | 3.3 |
| Wage and Salary Income (Annual Percentage Change) | | | | | | |
| CEFC Forecast 11/2015 | 3.7 | 3.4 | 4.1 | 4.1 | 3.9 | 3.6 |
| CEFC Forecast 02/2016 | 3.7 | 3.4 | 4.1 | 4.1 | 3.9 | 3.6 |
| CPI (Annual Percentage Change) | | | | | | |
| CEFC Forecast 11/2015 | 1.6 | 0.0 | 1.8 | 2.4 | 2.6 | 2.3 |
| CEFC Forecast 02/2016 | 1.6 | 0.1 | 1.7 | 2.4 | 2.6 | 2.3 |

In deliberations leading to consensus, the CEFC considered information presented by several state agencies, including the Maine Department of Labor, Maine Revenue Services, and the Office of Policy and Management. The following sections summarize these reports.

Office of Policy and Management

In the second quarter of 2015, Maine's real Gross Domestic Product was \$49.5 billion, with \$42.7 billion coming from private industries and \$6.8 billion from government (federal, state, and local). Maine's total real GDP increased 1.0% in the second quarter of 2015. This was slightly higher than the rate of national GDP growth, which was 0.9%. However, this follows a steep decline in GDP in the first quarter of 2015.

According to preliminary estimates from the U.S. Bureau of Economic Analysis, total personal income grew 3.5% from the first three quarters of 2014 to the first three quarters of 2015 and wage and salary income grew 3.3% during the same period. Total personal income for the fourth

quarter of 2015 would need to be 1.8% lower than the third quarter to hit the CEFC's annual forecast for 2015. Wage and salary disbursements would need to be 0.9% lower. Wage and salary disbursements, which are the largest component of personal income, averaged around \$26.4 billion in the first three quarters of 2015 (seasonally adjusted at annual rates). Total personal income averaged around \$55.7 billion. Maine's debt to income ratio was 26.0% in the third quarter of 2015. The ratio is at its highest point since the first quarter of 2008.

The Consumer Price Index (CPI) was up just 0.7% from December 2014 to December 2015, weighed down by significant energy price deflation. Core inflation, which excludes food and energy prices, rose 2.1% over that same period. The Chained Consumer Price Index (Chained CPI) increased 0.3% from December 2014 to December 2015, again slowed by the drop in energy prices. Core inflation rose 1.9% over the same period. Chained CPI allows for substitutions in the basket of goods and services being measured.

In December 2015, the survey-based University of Michigan Consumer Sentiment Index increased 1.4% month-over-month but was down 1.1% from a year ago. The survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index was up 0.4% from the previous month and down 5.2% from December 2014.

The price of Brent crude oil plunged starting in the later half of 2014 and was just under \$45 per barrel in the fourth quarter of 2015, a decrease of 12.8% from the third quarter of 2015 and a 41.9% decrease from the third quarter of 2014. The price of heating oil in Maine declined throughout most of the 2014-2015 heating season and the 2015-2016 heating season has been well below prices of the past few years, averaging \$1.85/gallon most recently. The price of heating oil in Maine had averaged around \$3.75/gallon before the recent decline in crude oil prices. The price of gasoline in New England on January 18, 2016 averaged \$2.07, a decrease of \$0.05 per gallon over the previous week and \$0.25 lower than one year ago. The price of gasoline has dropped \$1.78 per gallon since the July 2014 peak.

The number of new automobile titles issued by the Maine Bureau of Motor Vehicles increased 5.9% from FY 2014 to FY 2015, while the number of used automobile titles issued increased 2.0%. Total registrations were up 2.7% from FY 2014 to FY 2015.

Single family existing-home sales in Maine were up 15.6% in December 2015 compared to December 2014. Home sales in Maine have grown year-over-year in 51 of the last 54 months. Average monthly single unit housing permits in Maine in the 12-month period from December 2014 through November 2015 were 3.3% higher than in the previous 12-month period. The median home price in the Portland – South Portland – Biddeford metropolitan area increased 4.2% year-over-year in the third quarter of 2015. The median home price in the third quarter of 2015 was \$243,600. The share of mortgages in Maine that are delinquent 30 days or more was 6.3% in the third quarter of 2015. The rate of delinquencies in Maine has been above the U.S. rate for fourteen straight quarters now. Maine's foreclosure rate was 0.41% in the third quarter of 2015, down slightly from the previous quarter. Maine's foreclosure rate has been above the U.S. rate for twelve of the past thirteen quarters.

Full background materials are available at:
<http://www.maine.gov/economist/forecasts/index.shtml>

Maine Department of Labor

The Center for Workforce Research (CWRI) developed a new ten year workforce forecast for the period ending in 2024. The outlook is similar to the previous forecast to 2022, except that with two more years the advancing age structure of the population has more impact. CWRI expects that low unemployment and rising wages will spur rising rates of labor force participation among all age groups, but the total participation rate will decline as the age structure of the population continues to shift toward seniors. There is room for modest job growth in the next few years, but after 2019 rising numbers of retiring baby boomers are likely to be an overwhelming force, taking employment lower. For the full decade from 2014 to 2024 CWRI expects employment to grow and then decline with a net change of +5,000.

The two monthly surveys have been providing diverging indications of employment growth during the recovery. The household survey indicates the workforce is contracting. It has provided similar indications in the two previous economic recoveries. The payroll survey indicates modest job growth continues. It provides a more reliable indication of trends over the last few years.

Inflation-adjusted total wages paid in Maine are back to the pre-recession peak level in 2007 and average wages are rising at the fastest rate in more than a decade. This is partly due to a tighter, more competitive labor market and partly due to near zero inflation – in nominal dollars (what people are actually paid) the rise is modestly above previous years. It is too early to know if real wage growth will remain high when inflation returns, but less expensive oil has been good for Maine's workforce.

The presentation is available at
www.maine.gov/labor/cwri/publications/pdf/CEFC_January_2016.pdf

Maine Revenue Services

December General Fund revenues were over budget by \$26.7 million or 10.3%. For the first half of the fiscal year General Fund revenues are \$34.8 million over budget (+2.1%). Approximately \$20 million of the year-to-date overage is from property tax refunds being behind schedule. Those reimbursements are expected to catch up to budget in the next few months.

November taxable sales (December revenue) increased by 5.6% over a year ago, resulting in a monthly revenue surplus for sales and use and service provider taxes combined of \$1.3 million. Year-to-date sales and service provider taxes are a combined \$4.3 million over budget. Auto/transportation sales increased by 11.6% over last year, and were up 11.3% for the three month period ending in November. Tourism related sales, restaurants and lodging, increased by 3.4% over last November. Building supply store sales in November increased by 11.1% year-over-year, and have risen by 5.3% for the three month period ending November. Preliminary data on January receipts, December sales, is that taxable sales slowed in December, but were consistent with the budget forecast of 4.5% year-over-year growth. An improving economy and unexpectedly low energy prices are fueling the growth in consumer spending.

Individual income tax receipts were over budget for the month by \$14.2 million, and are now \$14.2 million over budget for the fiscal year. Withholding receipts were \$9.7 million over budget in December and ended calendar year 2015 5.9% higher than 2014. Estimated payments

exceeded budget for the month by \$3.7 million. The final estimated payment of the calendar year isn't due until January 15th, but many taxpayers file their final state level estimated payment in December to increase their federal itemized deductions. While the December estimated payment was over budget, it did decline by 11.3% compared to a year ago. With only one processing day remaining in January, it appears that withholding and estimated payments will exceed budget again. It appears the final estimated payment for 2015 will be 6.8% higher than 2014, bringing the growth in estimated payments for the entire tax year to 14.5%. This is the best growth absent unusual circumstances since 1998.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario and the IHS Economics baseline scenario for January 2016. Additionally, OPM provided two alternative scenarios based on assumptions of low population growth that limit employment growth (LowPop) – one using adjustments to the growth rates and one using adjustments to the levels. Each forecast was based on a different set of national macroeconomic assumptions. The LowPop scenarios were based on the Moody's Analytics baseline scenario with population projections taken from OPM's projections to 2032 adjusted for recent Census Bureau estimates and industry sector employment growth adjustments by OPM staff. These forecasts were then compared to the CEFC's November 2015 forecast. The key assumptions made by the CEFC are below.

- Maine population growth is likely to limit employment growth over the next few years. The employment forecast adopted by the CEFC assumes some in-migration to Maine.
- Oil prices remain low in the near term before beginning a gradual rise in the out years of the forecast. This will keep inflation low for 2015 and 2016.
- The largest risks to the forecast are in the credit markets; increased instability or a break down there would have negative implications for this economic forecast.

Consensus Forecast

The CEFC members continued to believe that the national forecasts are overly optimistic in their population and employment projections for the state, however the LowPop scenarios, designed to address these concerns, are based on the Moody's Analytics model that seems to do a poor job of reflecting the changing income situation in Maine. The Commission tried to fit their 2015 and 2016 forecasts to actual trends in employment and wage growth as much as possible while making modest changes elsewhere. Employment growth rates, based on the LowPop Levels scenario, targeted an employment level of 617,400 in 2019, just below the pre-recession peak. The growth rates for 2015 and 2019 were adjusted downward slightly.

Wage and salary income growth was left unchanged from the previous forecast. The forecast for supplements to wages and salaries was adjusted upward by 0.2 percentage points in 2015 and left unchanged for all other forecast years. Nonfarm proprietors' income was adjusted up by 0.4 percentage points in 2015 with the remaining years left unchanged. Dividends, interest, and rent was adjusted upwards by 0.3 percentage points in 2015 with the remaining years left unchanged. The forecast for personal current transfer receipts was adjusted downward by 0.2 percentage

points in 2015 and upward by 0.2 percentage points in 2016 with no further changes to the forecast.

The overall result for total personal income was a 0.1 percentage point revision downward for 2015, while 2016-2019 were left unchanged.

The CEFC set its 2015 forecast for inflation to the actual 0.1 percent Consumer Price Index annual 2015 growth rate recently released by the U.S. Bureau of Labor Statistics, an increase from the previous forecast of 0.0 percent growth. The 2016 forecast was set to the Moody's Analytics baseline forecast of 1.7%, a decrease of 0.1 percentage points from the previous forecast, while the remaining years were left unchanged. The forecast for corporate profits was left unchanged from the previous forecast.

Overall, the primary source of concern for the CEFC continues to be Maine's demographic situation, with an aging population and little to no population growth. Continued low oil prices and the strength of the U.S. dollar contributed to this forecast.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

February 2016 Forecast

| | History | Forecast | | | | |
|--|--------------|---------------|--------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| CPI-U* (Annual Change) | 1.6% | 0.1% | 1.7% | 2.4% | 2.6% | 2.3% |
| CPI for Energy Prices** (Annual Change) | -0.5% | -16.6% | 0.3% | 8.6% | 7.6% | 5.4% |
| Avg. Price of New Vehicles** (Annual Change) | 2.0% | 2.1% | 3.1% | 4.2% | 4.2% | 3.9% |
| New Vehicle Registrations** (Annual Change) | 10.4% | 1.2% | -2.9% | 3.2% | -1.2% | -2.4% |
| Personal Savings Rate** | 4.8% | 5.2% | 5.1% | 5.2% | 5.7% | 5.3% |
| Maine Unemployment Rate** | 5.7% | 4.6% | 4.3% | 4.6% | 4.9% | 5.0% |
| 3-Month Treasury Bill Rate** | 0.03% | 0.05% | 0.43% | 1.53% | 2.97% | 3.17% |
| 10-Year Treasury Note Rate** | 2.54% | 2.14% | 2.84% | 3.86% | 4.04% | 3.98% |
| Before-Tax Corporate Profits* (Annual Change) | 2.1% | 6.0% | 6.0% | 1.4% | 1.6% | 3.2% |
| Maine Wage & Salary Employment* (thousands) | 604.5 | 609.1 | 613.7 | 616.1 | 617.4 | 617.4 |
| Natural Resources | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Construction | 25.9 | 25.6 | 25.8 | 25.8 | 25.8 | 25.8 |
| Manufacturing | 50.3 | 50.0 | 49.8 | 49.6 | 49.1 | 48.6 |
| Trade/Trans./Public Utils. | 119.1 | 119.7 | 120.2 | 121.0 | 122.0 | 122.4 |
| Information | 7.5 | 7.4 | 7.4 | 7.4 | 7.3 | 7.3 |
| Financial Activities | 30.4 | 31.1 | 31.1 | 31.0 | 30.6 | 30.2 |
| Prof. & Business Services | 63.2 | 65.4 | 66.8 | 67.5 | 67.7 | 67.8 |
| Education & Health Services | 122.4 | 123.2 | 124.7 | 125.9 | 126.7 | 127.4 |
| Leisure & Hospitality Services | 62.6 | 63.3 | 64.2 | 64.4 | 64.6 | 64.6 |
| Other Services | 21.0 | 21.5 | 21.4 | 21.4 | 21.2 | 21.0 |
| Government | 99.8 | 99.6 | 99.7 | 99.7 | 99.9 | 99.9 |
| Maine Wage & Salary Employment* (Annual Change) | 0.5% | 0.8% | 0.7% | 0.4% | 0.2% | 0.0% |
| Natural Resources | 1.0% | -1.7% | -0.2% | 0.2% | -0.3% | -0.4% |
| Construction | 1.0% | -1.1% | 1.0% | -0.1% | 0.0% | 0.0% |
| Manufacturing | -0.3% | -0.4% | -0.4% | -0.5% | -0.9% | -1.1% |
| Trade/Trans./Public Utils. | 1.0% | 0.4% | 0.5% | 0.7% | 0.8% | 0.3% |
| Information | -2.0% | -0.6% | -0.5% | -0.2% | -0.6% | 0.0% |
| Financial Activities | 0.1% | 2.4% | 0.1% | -0.4% | -1.2% | -1.2% |
| Prof. & Business Services | 2.8% | 3.4% | 2.1% | 1.2% | 0.2% | 0.2% |
| Education & Health Services | 0.3% | 0.7% | 1.2% | 1.0% | 0.6% | 0.5% |
| Leisure & Hospitality Services | -0.2% | 1.0% | 1.5% | 0.2% | 0.4% | 0.0% |
| Other Services | 1.3% | 2.3% | 0.0% | -0.4% | -0.7% | -1.0% |
| Government | -0.7% | -0.2% | 0.1% | 0.0% | 0.1% | 0.0% |
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Personal Income* (\$ million) | 54,195 | 56,038 | 58,104 | 60,440 | 62,650 | 64,690 |
| Wages & Salaries* | 25,794 | 26,671 | 27,768 | 28,906 | 30,033 | 31,115 |
| Supplements to Wages & Salaries* | 6,252 | 6,327 | 6,541 | 6,812 | 7,058 | 7,315 |
| Nonfarm Proprietors' Income* | 3,833 | 4,024 | 4,221 | 4,386 | 4,553 | 4,744 |
| Farm Proprietors' Income** | 75 | 57 | 65 | 64 | 62 | 59 |
| Dividends, Interest, & Rent* | 9,323 | 9,668 | 10,065 | 10,618 | 11,001 | 11,188 |
| Dividends | 2,464 | 2,610 | 2,667 | 2,710 | 2,772 | 2,864 |
| Interest | 4,476 | 4,510 | 4,823 | 5,405 | 5,814 | 5,929 |
| Rent | 2,384 | 2,550 | 2,574 | 2,499 | 2,413 | 2,394 |
| Personal Current Transfer Receipts* | 12,351 | 12,783 | 13,090 | 13,469 | 13,954 | 14,498 |
| Less: Contributions for Social Ins.** | 4,278 | 4,374 | 4,564 | 4,773 | 5,001 | 5,255 |
| Adjustment for Residence** | 846 | 883 | 919 | 958 | 990 | 1,026 |
| Personal Income* (Annual Change) | 3.1% | 3.4% | 3.7% | 4.0% | 3.7% | 3.3% |
| Wages & Salaries* | 3.7% | 3.4% | 4.1% | 4.1% | 3.9% | 3.6% |
| Supplements to Wages & Salaries* | -1.5% | 1.2% | 3.4% | 4.1% | 3.6% | 3.6% |
| Nonfarm Proprietors' Income* | 5.8% | 5.0% | 4.9% | 3.9% | 3.8% | 4.2% |
| Farm Proprietors' Income** | -8.7% | -23.8% | 14.9% | -2.3% | -3.2% | -4.0% |
| Dividends, Interest, & Rent* | 3.9% | 3.7% | 4.1% | 5.5% | 3.6% | 1.7% |
| Dividends | 3.3% | 5.9% | 2.2% | 1.6% | 2.3% | 3.3% |
| Interest | 1.9% | 0.8% | 7.0% | 12.1% | 7.6% | 2.0% |
| Rent | 8.6% | 7.0% | 0.9% | -2.9% | -3.4% | -0.8% |
| Personal Current Transfer Receipts* | 2.6% | 3.5% | 2.4% | 2.9% | 3.6% | 3.9% |
| Less: Contributions for Social Ins.** | 3.0% | 2.3% | 4.3% | 4.6% | 4.8% | 5.1% |
| Adjustment for Residence** | 7.2% | 4.3% | 4.0% | 4.3% | 3.4% | 3.6% |

*CEFC Forecast

**From IHS Economics, OPM Low Pop Scenarios and Moody's Analytics Baseline, January 2016

Remaining lines derived from CEFC forecast by CEFC staff and reviewed by CEFC