Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
November 1, 2018

Commissioners

John C. Atkinson

Dr. Sheena S. Bunnell
Professor of Business Economics
University of Maine Farmington

Andrew N. Marden
Buyer/Merchandiser
Marden's

Eric N. Stinneford, Chair
Vice President – Controller and Treasurer
Central Maine Power Company

Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 26, 2018, to review and revise the forecast through 2023. This report provides a summary of the Commission's findings.

Both the national and state economies had a good year in 2017 and the available data for the first half of 2018 indicates that both the U.S. economy and Maine economy continue to grow. Since the last CEFC meeting in late January 2018, the Bureau of Economic Analysis (BEA) has released considerable revisions to state personal income data, with the 2017 total personal income growth for Maine being revised up from 2.7% to 4.2%. However, oil and gasoline prices have continued to trend upward as well.

The Commission made modest changes to the existing forecast, mainly in 2018 and 2019, for employment, inflation, and personal income and its components, while leaving corporate profits unchanged. Many of the revisions were based on anticipated results such as moderate growth in the economy, increased interest rates, increases in energy prices, and increases in inflation. While there has been more positive data on in-migration recently, the Commission remains concerned about the demographic situation in Maine and the resulting impacts on workforce availability.

In September 2018, the U.S. Bureau of Economic Analysis released a comprehensive revision to state personal income data from 1998-2017. This forecast incorporates those revisions, including a revision for 2017 annual growth from 2.7 percent to 4.2 percent for total personal income and from 2.8 percent to 4.0 percent for wages and salaries. At the previous CEFC meeting, the Commission anticipated potential upward revisions to these figures and had forecast 3.4 percent growth for total personal income and 4.0 percent for wages and salaries.

The forecast for wage and salary employment growth was left unchanged for 2019, 2021, 2022 and 2023 and revised upward for 2018 and 2020 based on data showing stronger than expected recent in-migration and employment growth. The new forecast reaches 631,700 in 2020 and remains at that level for 2021-2023. CPI was revised slightly upwards by 0.1 percentage points for 2018, 2019, 2022, and 2023, while 2020 and 2021 were left unchanged. Total personal income was revised upward by 0.1 percentage points in 2018 based on information from Maine Revenue Services and Maine Department of Labor regarding wage growth through the year. The forecast for 2019 was revised upward by 0.2 percentage points and 2020 was revised upward by 0.1 percentage points while 2021 was revised downward by 0.1 percentage point. Both 2022 and 2023 were revised upward by 0.1 percentage points. Wage and salary income growth rates for 2018 and 2019 were revised upward by 0.2 and 0.3 percentage points, respectively, due to preliminary data from Maine Revenue Services and Maine Department of Labor. The forecast for 2020 through 2023 was left unchanged.

This forecast, coming shortly before the November 6 elections, is based on state and federal laws as of November 1, 2018. If referendum Question 1 (Universal Home Care Program) does pass, the CEFC will meet jointly with the Revenue Forecasting Committee on November 9th to discuss the potential impacts and make any necessary adjustments to the economic forecast.

The table below provides the forecast's major indicators.

Calendar Years	*2017*	2018	2019	2020	2021	2022	2023
Wage & Salary Employment (Annual Percentage Change)							
CEFC Forecast 02/2018	*0.8*	0.4	0.4	0.0	0.0	0.0	0.0
CEFC Forecast 11/2018	*0.7*	0.8	0.4	0.2	0.0	0.0	0.0
Personal Income (Annual Percentage Change)							
CEFC Forecast 02/2018	*3.4*	4.4	4.3	3.9	3.7	3.1	3.1
CEFC Forecast 11/2018	*4.2*	4.5	4.5	4.0	3.6	3.2	3.2
Wage and Salary Income (Annual Percentage Change)							
CEFC Forecast 02/2018	*4.0*	4.3	3.9	3.7	3.5	3.0	3.0
CEFC Forecast 11/2018	*4.0*	4.5	4.2	3.7	3.5	3.0	3.0
CPI (Annual Percentage Change)							
CEFC Forecast 02/2018	*2.1*	2.5	2.3	2.5	2.4	2.2	2.2
CEFC Forecast 11/2018	*2.1*	2.6	2.4	2.5	2.4	2.3	2.3

Prior to the start of the forecasting meeting, the CEFC held the annual fall data gathering session, in which the Commission heard from representatives of the Maine Bankers Association, Maine Society of Certified Public Accountants, Maine Health Care Association, Governor's Energy Office, and Maine International Trade Center. Additionally, the Department of Administrative and Financial Services provided written materials to the Commission on Maine's Medical-use and Adult-use marijuana programs. A summary of the data gathering session is available separately. Overall, these business perspectives helped confirm the CEFC's subsequent findings that Maine's economy continues to see growth with considerable challenges posed by the state's aging population and lack of population growth. Recent trends demonstrate that there has been increased in-migration of working age population to Maine, which has helped counter some of the demographic changes. In deliberations leading to consensus, the CEFC considered information presented by several state agencies, including the Maine Department of Labor, Maine Revenue Services, and by the Maine State Economist at the Department of Administrative and Financial Services (DAFS). The following sections summarize these reports.

Maine State Economist (Department of Administrative and Financial Services)

Maine's real GDP grew 0.6% in the first quarter of 2018. Personal income in Maine grew 4.3% from the first two quarters of 2017 to the first two quarters of 2018, while wage and salary income, which is the largest component of total personal income, grew 4.1% over the same period. The debt-to-income level for Maine businesses and households continued to rise to new levels in the fourth quarter of 2017. The Consumer Price Index was up 2.3% in September 2018 from a year ago, boosted by recent increases in energy prices.

Nationwide, consumer sentiment has been relatively stable in recent months. The August 2018 level was down 0.6% from a year ago and down 1.7% from July 2018. Small business optimism reached a new record high in August 2018 of 108.8. Compared to August 2017, the index was up by 3.3% and up by 0.8% from the previous month (July 2018).

The price of crude oil has continued increasing recently with prices in the third quarter of 2018 over $79 per barrel. As a result, heating oil prices and gasoline prices have been higher as well. Heating oil is around $3.04 per gallon while gasoline is currently averaging $2.92 per gallon.

Existing single-family home sales in Maine were down 5.1% in September 2018 compared to the same month last year and average housing permits for the September 2017–August 2018 period were 6.9% lower than the previous 12-month period. The median home price in York, Cumberland, and Sagadahoc counties increased by 4.0, 5.7, and 7.5%, respectively, year-over-year. Mortgage delinquency rates in Maine have been declining but remain higher than the national rate. The foreclosure rate in Maine was 0.30% in the third quarter of 2018.

Full background materials are available at:
https://www.maine.gov/dafs/economist/economic-forecasting

Maine Department of Labor

Labor market conditions remain tight throughout much of the state. Unemployment and other measures of labor market slack are at or near historic lows. After a period of slowing through the middle of 2017, job growth has modestly accelerated in the last year. The number of business establishments has been rising as well, likely a result of easier access to credit and more risk taking.

The average annual wage per job, adjusted for inflation, has been relatively unchanged over the last two years, following the most rapid rate of increase in nearly two decades in the three years through 2016. Much of that rise appears to have been from increased hours worked. By 2017 there was less room for increasing hours. Rising employment and wages contributed to the lowest poverty rate in decades and some closing of the gap with the nation in median household income.

DOL's forecast is that employment will be relatively unchanged between 2016 and 2026, though large numbers of job openings are expected. More than 728,000 job openings are expected in the decade, which is more than the number of people employed today. Many openings will be to replace retiring baby boomers.

The structure of employment is expected to continue to gradually shift with job growth in healthcare, hospitality, and professional services, offset by modest declines in some other sectors. Net growth is expected in occupations that pay at the upper and lower ends of the earnings spectrum, though the distribution of jobs by earnings cohort is not expected to change much.

The presentation is available at
http://www.maine.gov/labor/cwri/publications/pdf/CEFC_October2018.pdf

Maine Revenue Services - Office of Tax Policy

At the close of fiscal year 2017-18, General Fund revenues were $82.1 million over budget (+2.3 percent). Compared to last fiscal year, fiscal year 2017-18 General Fund revenues were up by 3.8 percent (+$132.8 million). Most of the fiscal year positive variance came from individual income tax (+$40.4 million), sales and use tax (+$14 million), and corporate income tax (+$13.8 million). Maine ended fiscal year 2017-18 with approximately $101 million of surplus revenue and lapsed balances. After accounting for certain priority transfers, $95.3 million remained to be allocated to the Maine Budget Stabilization Fund (80% or $76.2 million) and the Tax Relief Fund for Maine Residents (20% or $19.1 million). At the close of the fiscal year, the Maine Budget Stabilization Fund (BSF) now has $272.9 million in reserve for an economic downturn, representing 8.1% of fiscal year 2018-19 expenditures.

September General Fund revenues exceeded projections by $19.3 million, or 5.1 percent. Through the first quarter of fiscal year 2018-19, General Fund revenues are over budget by $47.5 million, or 5 percent. Compared to the first quarter of the prior fiscal year, General Fund revenues increased by 8.2 percent (+$76.2 million).

August taxable sales (September revenue) increased 7.9 percent over last year. For the month, sales and use and service provider taxes, combined, were above forecasted projections by $6.6 million, or 4.3 percent. Tourism-related sales, specifically those tied to restaurants and lodging, increased in August—increasing by 6.1 percent and 4.6 percent, respectively. Building supply sales (+7.8 percent) remain strong, and the other retail sales category (+13.1 percent) continues to experience robust year-over-year results. Auto/Transportation sales were strong for a second straight month, increasing 11 percent over last August. Business operating sales grew 11.7 percent year-over-year. The growth of the business operating line in recent months appears to be the result of increased investment by businesses in response to the federal Tax Cuts and Jobs Act (TCJA).

Individual income tax revenues were over budget in September by $4.5 million, with significant positive variances to the forecast in payments from fiduciary returns (+$3.6 million) and refunds (+$2.7 million) more than offsetting negative variances for withholding (-$0.7 million) and estimated payments (-$2 million). Despite being slightly under budget, withholding receipts increased 6.2 percent compared to last September and are up 8 percent over the first quarter of fiscal year 2018. Through the first three-quarters of calendar year 2018 withholding has increased by 6 percent.

Corporate income taxes exceeded budget in September by $7.3 million. Most of the positive variance is attributable to estimated payments being over budget by $6.3 million and final payments being over budget by $1.9 million. Similar to the individual income tax, the third estimated payment for corporate calendar year filers was due on September 15. Final enactment of tax conformity may have affected the third estimated payment, which was over budget by 19 percent. Also, enactment could have a large impact on payments made with tax year 2017 extension returns due in mid-October because of the deemed repatriation provision of the TCJA being effective for tax year 2017. The provision mandated businesses to recognize, as one-time income, post-1986 accumulated cash and non-cash assets held overseas. With Maine's adoption of conformity, Maine Revenue Services estimates that our state will receive $31.2 million in corporate income tax revenue due to this one provision of the law, $22.9 million of which is projected for the current fiscal year.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for October 2018 and the IHS Markit baseline scenario for October 2018. Additionally, DAFS provided an alternative scenario based on revised population projections and modified employment growth. Each forecast was based on a different set of national macroeconomic assumptions. The DAFS scenario was based on the Moody's Analytics baseline scenario with population and industry sector employment growth adjustments by the State Economist. These three forecasts were then compared to the CEFC's February 2018 forecast. The key assumptions made by the CEFC are below.

- Maine population growth is likely to limit employment growth in the coming years, particularly as the baby boom generation continues to move into retirement age. The employment forecast adopted by the CEFC assumes that Maine has seen stronger in-migration recently and this will continue for at least the next few years. Additionally, tightening in the labor market will put upward pressure on wages.

- The CEFC took into consideration increasing energy prices and expects both inflation and interest rates to pick up in the coming years. The Commission also incorporated tariff impacts to the best of its abilities. Furthermore, the CEFC also assumes that Medicaid expansion will have an impact in the upcoming years, reflected in increased growth in personal current transfer receipts.
- This forecast, coming shortly before the November 6 elections, assumes the status quo regarding the pending referendum question on a universal home care program. If the referendum does pass, the CEFC will meet jointly with the Revenue Forecasting Committee on November 9th to discuss the potential impacts and make any necessary adjustments to the forecast.

Consensus Forecast

Maine has seen modest employment growth thus far in 2018 and will likely see continued growth for the next few years before demographic forces create too much of an opposing headwind.

Employment growth rates were left unchanged for 2019, 2021, 2022 and 2023 while 2018 and 2020 were revised upward slightly. Employment reaches a peak level of 631,700 in 2020 and stays at that level throughout the rest of the forecast period.

Revisions to wage and salary income growth reflected preliminary reports from Maine Revenue Services and Maine Department of Labor showing strong 2018 year to date wage growth. Wage and salary income growth for 2018 and 2019 were revised upward by 0.2 and 0.3 percentage points, respectively. The forecast for 2020 through 2023 were left unchanged.

The forecast for supplements to wages and salaries was revised downward by 0.8, 0.8, 0.6 and 0.7 percentage points for 2018, 2019, 2020, and 2021, respectively. Supplements to wages and salaries were revised upward by 0.5 and 0.3 percentage points for 2022 and 2023, respectively. Growth rates for nonfarm proprietors' income were left unchanged for 2018, 2019, and 2023, revised downward by 0.2 percentage points for 2020, and then upward by 0.2 and 0.8 percentage points for 2021 and 2022, respectively. The forecast for dividends, interest, and rent was revised downward by 0.5 percentage points for 2018 and 2019 with the remaining years left unchanged. The forecast for personal current transfer receipts was revised up by 2.0, 1.5, and 0.4 percentage points for 2018, 2019, and 2020, respectively, reflecting anticipated impacts from Medicaid expansion and revised historical data. The remaining years were left unchanged.

The overall result for total personal income was a 0.1 percentage point revision upward for 2018, a 0.2 percentage point revision upward for 2019, a 0.1 percentage point revision upward for 2020, a 0.1 percentage point revision downward for 2021, and a 0.1 percentage point revision upward for 2022 and 2023.

The CEFC made an upward revision of 0.1 percentage points to CPI for the years 2018, 2019, 2022 and 2023 while leaving 2020 and 2021 unchanged.

The forecast for corporate profits was left unchanged for all years, as the previous forecast already reflected the corporate tax cuts passed in the Tax Cuts and Jobs Act and there is too little additional information available at this time to warrant changes in the forecast.

Overall, the primary source of concern for the CEFC continues to be Maine's demographic situation, with an aging population and limited population growth, although there has been a recent increase in in-migration. There were modest increases to many lines of the forecast in 2018 and 2019 following increases in interest rates, energy prices and inflation. If referendum Question 1 passes on November 6, a joint meeting of the CEFC and the RFC will be held on November 9 to consider if adjustments to the economic forecast need to be made at that time.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

November 2018 Forecast

	History	Forecast					
	2017	2018	2019	2020	2021	2022	2023
CPI-U* (Annual Change)	2.1%	2.6%	2.4%	2.5%	2.4%	2.3%	2.3%
CPI for Energy Prices** (Annual Change)	8.0%	8.7%	2.9%	3.0%	1.1%	1.4%	0.9%
CPI for New Vehicles** (Annual Change)	-0.2%	-0.3%	0.6%	-0.2%	-0.1%	0.2%	0.1%
New Vehicle Registrations** (Annual Change)	0.6%	7.7%	-12.0%	-1.3%	-0.8%	-0.8%	0.8%
Personal Savings Rate**	6.7%	6.7%	6.4%	6.4%	6.3%	6.3%	6.5%
Maine Unemployment Rate**	3.3%	3.0%	2.9%	2.9%	3.1%	3.4%	3.7%
3-Month Treasury Bill Rate**	0.93%	1.96%	2.76%	3.16%	3.17%	3.15%	3.03%
10-Year Treasury Note Yield**	2.33%	2.95%	3.46%	3.54%	3.89%	4.29%	4.27%
Before-Tax Corporate Profits* (Annual Change)	2.4%	6.0%	4.8%	3.2%	3.5%	3.7%	2.7%
Maine Wage & Salary Employment* (thousands)	622.8	627.8	630.2	631.7	631.7	631.7	631.7
Natural Resources	2.2	2.2	2.2	2.2	2.2	2.3	2.3
Construction	28.0	28.8	29.1	29.1	29.2	29.4	29.7
Manufacturing	51.1	51.8	51.8	51.6	51.5	51.1	50.9
Trade/Trans./Public Utils.	120.2	120.4	119.3	119.1	119.1	118.5	117.8
Information	7.4	7.2	7.1	7.0	7.1	7.1	7.1
Financial Activities	31.4	31.7	32.1	32.2	32.2	32.1	32.1
Prof. & Business Services	66.6	67.0	68.6	69.5	69.8	70.5	71.1
Education & Health Services	127.4	129.1	130.0	130.4	130.6	130.7	130.7
Leisure & Hospitality Services	66.9	67.7	68.2	68.3	68.3	68.4	68.4
Other Services	21.7	21.5	21.3	21.1	21.1	21.1	21.0
Government	100.0	100.5	100.7	101.1	100.4	100.6	100.7
Maine Wage & Salary Employment* (Annual Change)	0.7%	0.8%	0.4%	0.2%	0.0%	0.0%	0.0%
Natural Resources	-3.3%	1.0%	0.1%	0.0%	1.0%	1.1%	0.2%
Construction	2.1%	2.7%	0.9%	0.1%	0.5%	0.6%	0.8%
Manufacturing	0.6%	1.5%	0.0%	-0.4%	-0.2%	-0.8%	-0.3%
Trade/Trans./Public Utils.	-0.1%	0.2%	-0.9%	-0.2%	0.0%	-0.5%	-0.5%
Information	-4.8%	-2.8%	-1.4%	-0.4%	0.7%	0.0%	-0.2%
Financial Activities	0.9%	1.1%	1.2%	0.4%	0.0%	-0.3%	-0.2%
Prof. & Business Services	1.1%	0.7%	2.3%	1.4%	0.5%	0.9%	0.9%
Education & Health Services	1.9%	1.3%	0.7%	0.3%	0.2%	0.1%	0.0%
Leisure & Hospitality Services	1.7%	1.1%	0.8%	0.1%	0.1%	0.1%	0.0%
Other Services	0.0%	-1.0%	-1.0%	-0.7%	0.0%	0.0%	-0.7%
Government	0.0%	0.4%	0.2%	0.4%	-0.7%	0.1%	0.1%
	2017	2018	2019	2020	2021	2022	2023
Personal Income* ($ million)	62,060	64,874	67,802	70,502	73,068	75,422	77,804
Wages & Salaries*	28,739	30,032	31,294	32,452	33,587	34,595	35,633
Supplements to Wages & Salaries*	7,119	7,346	7,596	7,860	8,054	8,327	8,611
Nonfarm Proprietors' Income*	4,741	5,049	5,269	5,427	5,601	5,786	5,930
Farm Proprietors' Income**	35	8	29	65	79	70	65
Dividends, Interest, & Rent*	11,578	12,099	12,644	13,048	13,440	13,749	14,051
Dividends	3,404	3,525	3,679	3,701	3,699	3,712	3,766
Interest	5,406	5,687	5,938	6,336	6,768	7,102	7,395
Rent	2,769	2,892	3,033	3,014	2,970	2,929	2,881
Personal Current Transfer Receipts*	13,633	14,301	15,087	15,917	16,729	17,482	18,268
Less: Contributions for Social Ins.**	4,796	5,029	5,226	5,419	5,617	5,823	6,033
Adjustment for Residence**	1,012	1,067	1,109	1,152	1,196	1,236	1,279
Personal Income* (Annual Change)	4.2%	4.5%	4.5%	4.0%	3.6%	3.2%	3.2%
Wages & Salaries*	4.0%	4.5%	4.2%	3.7%	3.5%	3.0%	3.0%
Supplements to Wages & Salaries*	3.8%	3.2%	3.4%	3.5%	2.5%	3.4%	3.4%
Nonfarm Proprietors' Income*	7.2%	6.5%	4.4%	3.0%	3.2%	3.3%	2.5%
Farm Proprietors' Income**	-9.6%	-75.9%	245.0%	124.6%	22.6%	-12.2%	-6.2%
Dividends, Interest, & Rent*	4.8%	4.5%	4.5%	3.2%	3.0%	2.3%	2.2%
Dividends	3.0%	3.6%	4.4%	0.6%	0.0%	0.3%	1.4%
Interest	5.8%	5.2%	4.4%	6.7%	6.8%	4.9%	4.1%
Rent	5.0%	4.5%	4.9%	-0.6%	-1.5%	-1.4%	-1.6%
Personal Current Transfer Receipts*	3.5%	4.9%	5.5%	5.5%	5.1%	4.5%	4.5%
Less: Contributions for Social Ins.**	4.3%	4.9%	3.9%	3.7%	3.7%	3.7%	3.6%
Adjustment for Residence**	1.3%	5.5%	3.9%	3.9%	3.8%	3.4%	3.4%

*CEFC Forecast

**From IHS Economics (Oct. 2018), DAFS Low Emp Scenario and Moody's Analytics Baseline (Oct. 2018)

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