Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 25, 2019, to review and revise its forecast through 2023. This report provides a summary of the Commission's findings.

Both the national and state economies had a good year in 2018 with annual data indicating that both the U.S. economy and Maine economy continue to grow. Since the last CEFC meeting in late March 2019, the U.S. Bureau of Economic Analysis (BEA) has released considerable revisions to state personal income data, as anticipated by the CEFC in their April 2019 forecast, with the 2018 total personal income growth for Maine being revised up from 4.0% to 5.3%.

The Commission made minor changes to the existing forecast. In large part, consensus was that there was no compelling evidence to change from the existing forecast, with cautious optimism holding for the near term.

Wage and salary employment growth for 2019 was revised up to 0.8% from the previous forecast of 0.5% and was also revised upward in 2020 to 0.4% from 0.2%. This decision was based on preliminary monthly data from 2019 which shows that employment in the first six months of 2019 is 0.8% higher than the first six months of 2018. These revised employment forecasts reach about 636,200 by 2020 and then remain at that level for 2021-2023.

In their March 2019 meeting, information from Maine Revenue Services and the Maine Department of Labor led the CEFC to (correctly) assume that BEA would revise 2018 personal income growth upward in September 2019. Therefore, the CEFC left growth rates for personal income and components of personal income largely unchanged for 2018 and 2019 in their April 2019 forecast. The CEFC's 2018 forecast for total personal income growth was 4.5%, higher than BEA's preliminary estimate of 4.0% but lower than the revised estimate of 5.3%. The CEFC's 2018 forecast for wage and salary income growth was also 4.5%, which was again higher than BEA's preliminary estimate of 3.9% and only slightly higher than the revised estimate of 4.4%.

At the October 2019 meeting, the CEFC made upward revisions of 0.1 percentage points to forecasts for total personal income in 2020, 2022, and 2023 (to 4.1%, 3.6%, and 3.5%, respectively). Wage and salary income was revised up in all years to 4.5%, 4.1%, 3.7%, 3.4% and 3.2%, chronologically. Supplements to wages and salaries saw similar upward revisions through 2021 to 4.0% in both 2019 and 2020 and 3.6% in 2021. Forecasts for non-farm proprietors' income; dividends, interest and rent; personal current transfer receipts; corporate profits; and CPI all remain unchanged.

The table below provides the forecast's major indicators.

Calendar Years	*2018*	2019	2020	2021	2022	2023
Wage & Salary Employment (Annual Percentage Change)						
CEFC Forecast 04/2019	*0.8*	0.5	0.2	0.0	0.0	0.0
CEFC Forecast 11/2019	*0.7*	0.8	0.4	0.0	0.0	0.0
Personal Income (Annual Percentage Change)						
CEFC Forecast 04/2019	*4.5*	4.6	4.0	3.9	3.5	3.4
CEFC Forecast 11/2019	*5.3*	4.6	4.1	3.9	3.6	3.5
Wage and Salary Income (Annual Percentage Change)						
CEFC Forecast 04/2019	*4.5*	4.2	3.8	3.6	3.1	3.1
CEFC Forecast 11/2019	*4.4*	4.5	4.1	3.7	3.4	3.2
CPI (Annual Percentage Change)						
CEFC Forecast 04/2019	*2.4*	1.9	2.0	2.0	2.0	2.0
CEFC Forecast 11/2019	*2.4*	1.9	2.0	2.0	2.0	2.0

Prior to the start of the forecasting meeting, the CEFC held the annual fall data gathering session, in which the Commission heard from Gordon Smith, Director of Opiate Response; Chris Pinkham, Maine Bankers Association; Bruce Wagner, Finance Authority of Maine (addressing the state's economic development strategic planning initiative); Dewey Martin, Certified Public Accountant; Richard Erb, Maine Health Care Association; and Nate Wildes, Live+Work in Maine. Written comments were provided by Wade Merritt, Maine International Trade Center. A summary of the data gathering session is available separately. Overall, these business perspectives generally had a tone of cautious optimism for the near-term forecast, which was reflected in the minor changes made in the CEFC forecast. In deliberations leading to consensus, the CEFC considered information presented by the Maine Department of Labor, Maine Revenue Services, and by the Office of the State Economist in the Department of Administrative and Financial Services (DAFS). The following sections summarize these reports.

Office of the State Economist (Department of Administrative and Financial Services)

Maine's real GDP grew 2.6% in the first quarter of 2019. Personal income in Maine grew 5.3% from 2017 to 2018, while wage and salary income, which is the largest component of total personal income, grew 4.4% over the same period. The debt-to-income level for Maine businesses and households has increased slightly in the end of 2018, although it seems to have stabilized since its peak in the second quarter of 2017. The Consumer Price Index was up 1.8% in August 2019 from a year ago.

Nationwide, sentiment is becoming less optimistic for both consumers and small businesses. The Consumer Sentiment Index in September 2019 was down 6.9% from a year ago but up 3.8% from the previous month. The Small Business Optimism Index has fallen both month-over-month and since last year, by 1.5% and 5.9%, respectively.

The price of crude oil has fallen recently quarter-over-quarter, and by 17% since this time last year. Heating oil prices for the winter of 2018-2019 were higher than the previous winter, but prices for the first week of the 2019-2020 season were over 70 cents lower than last year, and New England's price of $2.66 per gallon was the lowest on the East coast. Gasoline is currently averaging $2.60 per gallon.

Existing single-family home sales in Maine were up 11% in September 2019 compared to the same month last year and average monthly housing permits for the September 2018-August 2019 period were 9.4% higher than the previous 12-month period. The median home price in Cumberland County increased by 7.2%, year-over-year, and increased by 3.2% for Maine as a whole. Mortgage delinquency rates in Maine have seen an uptick in recent quarters to 2.9% in the second quarter of 2019 and remain higher than the national rate (2.6%). The foreclosure rate in Maine was 0.39% in the second quarter of 2019.

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

Maine Department of Labor

Workforce conditions in much of Maine are favorable. The number of jobs continues to rise and unemployment and other measures of labor underutilization are at or near all-time lows. These tight labor market conditions provide a positive environment for individuals, with high numbers of job openings and rising wages, but they are a challenge for employers, who are concerned about finding the staff they need.

Currently official nonfarm payroll jobs estimates indicate that Maine gained an average of 3,300 jobs in the 12-month period through September. The lagging complete job count, collected through quarterly unemployment insurance tax filings by employers, indicates that job growth has been stronger. Data from that complete count is used to revise monthly estimates that are published each year in March. At this point it appears that nonfarm estimates for the period from September 2018 to June 2019 may be revised higher by an average of close to 3,000 jobs.

Over the last nine years of economic expansion, nonfarm job gains have paralleled reductions in the number of unemployed. With an unemployment rate near three percent, it seems unlikely that reductions in unemployment will be a significant source of net job growth going forward. Additional gains will have to come from in-migration of working-age people to the state or from increased labor force participation.

In the 12-month period through June, a total of $28.5 billion in wages were paid in Maine, up 4.2 percent from a year earlier. The average wage per job increased to $46,150.

Newly available job openings estimates published by the U.S. Bureau of Labor Statistics indicate that the job openings rate in Maine is about the same as for the nation, close to five percent. Job openings rates generally are high both in states with faster- and slower-than-average labor force growth. The staffing challenges many Maine employers face are due to strong economic conditions that have driven unemployment to record lows, not due to lack of labor force growth. Maine's labor force participation rate is near the national rate.

The share of jobs held by people age 45 and over increased sharply over the last two decades. In 2018, 48 percent of jobs were held by people age 45+ and 27 percent by people age 55+, up from 33 percent and 12 percent in 1997. There will be large numbers of retirements over the next two decades.

The presentation is available at
https://www.maine.gov/labor/cwri/publications/pdf/CEFCOctober2019.pdf.

Maine Revenue Services - Office of Tax Policy

General Fund revenues ended fiscal year 2019 $14.5 million over budget (+0.4 percent). Compared to the previous fiscal year, fiscal year 2019 General Fund revenues were up by 7.3 percent (+$260.8 million). Sales and use, service provider, and income taxes, which represent 89 percent of gross General Fund revenues, increased by 7.7 percent year-over-year. The Office of the State Controller finalized its accounting of the fiscal year 2019 unappropriated surplus in late July and determined it was $167.8 million. After accounting for a $139.2 million budgeted balance forward, $28.6 million remained for priority transfers ($6.0 million) and transfers to the Budget Stabilization Fund ($18.1 million) and the Property Tax Relief Fund ($4.5 million). As of June 30, 2019, the Budget Stabilization Fund has a balance of $236.9 million and the Property Tax Relief Fund a balance of $33 million.

Fiscal year 2020 September General Fund revenues were over budget by $20.2 million or 5.0 percent. For the first quarter of the fiscal year General Fund revenues are over budget by $31.5 million or 3.1 percent. Compared to the first three months of last fiscal year, fiscal year 2020 General Fund revenues are up by 5.1 percent (+$51.0 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 6.0 percent compared to the same period last fiscal year.

August taxable sales (September revenue) increased 5.6 percent over last year. For the month, sales and use and service provider taxes, combined, were $2.7 million over budget. Consumer sales increased by 5.6 percent over a year ago, with solid growth across most business categories. Auto/transportation posted year-over-year growth of 2.3 percent, approximately half the growth recorded over the last twelve months. Lodging sales increased by 18.2 percent in August, and 16.7 percent for the first eight months of calendar year 2019. Restaurant sales rebounded in August, increasing 6.9 percent over a year ago. For the three-month summer tourism season, restaurant and lodging sales increased 4.7 percent and 16.4 percent, respectively. Business operating sales growth continued to improve in August (+4.6 percent), but growth over the last three months is well below the 12-month average rate of 7.7 percent.

Individual income tax receipts exceeded budget in September by $9.9 million (5.6 percent) and are $16.4 million over budget (3.8 percent) for the first quarter of fiscal year 2020. Withholding was over budget for the month by $5.4 million and is up 5.1 percent year-to-date. Except for fiduciary payments ($1.9 million under budget), all the sources of individual income tax are over budget after the first three months of the fiscal year. The third estimated payment for tax year 2019 was due in September 15th and exceeded budget by $4.1 million. For tax year 2019 the first-three estimated payments have averaged 12.3 percent growth. Federal tax reform has altered the pattern of state level estimated payments because of the $10,000 cap on state and local tax deductions. Therefore, it's possible that the final estimated payment due in January will be much lower than currently forecasted.

Corporate income tax receipts were over budget in September by $9.0 million and are $2 million over budget (3.4 percent) for the fiscal year. The third estimated payment for calendar year filers was due in September and was $7.5 million over budget. Like individual income tax, corporate estimated payments have been impacted by conformity to the 2017 federal tax reform law. After months of increasing by over 30 percent, estimated payments for tax year 2019 are currently down by 2 percent. While a decrease in corporate estimated payments was expected, through September the reduction has been less than projected. The final estimated payment for corporate calendar year filers is due December 15th.

Generally, the current view of state revenue forecasters is cautious, as one-time revenues from law changes and taxpayer behavior surrounding the 2017 federal tax reform law and uncertainties regarding near-term economic growth remain a challenge.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for October 2019 and the IHS Markit baseline scenario for October 2019. Additionally, DAFS provided an alternative scenario based on 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 for October 2019 with industry sector employment growth adjustments by the State Economist. These three forecasts were then compared to the CEFC's April 2019 forecast.

There were few explicit key assumptions made by the CEFC for this forecast. They noted that national policy concerns, including trade policies, pose uncertainty for the year heading into 2020, and that they remain cautiously optimistic in awaiting new data to answer questions about this uncertainty. The key assumptions made by the CEFC follow.

- As assumed in their previous forecast, the Federal Reserve will continue to target the 2.0 percent inflation rate going forward.
- Medicaid expansion will continue to have an impact in the upcoming years, but not more than already realized in the April 2019 forecast. This is reflected in the growth forecast for personal current transfer receipts.

Consensus Forecast

Maine has seen modest employment growth thus far in 2019 and will likely see continued growth in 2020 before leveling off. The employment growth rate was increased modestly by 0.3 percentage points in 2019 to 0.8% and 0.2 percentage points in 2020 to 0.4%, with growth rates left unchanged for the remaining years of the forecast. This reflects data for the first half of 2019 showing estimated growth of 0.8%. Employment reaches a peak level of 636,200 in 2020 and stays at that level throughout the rest of the forecast period.

Wage and salary income also increased modestly for all years. The forecasts for both 2019 and 2020 were raised by 0.3 percentage points, given new data showing recent gains in average annual wages. The forecast for wage and salary income was also revised upwards in 2021, 2022, and 2023 by 0.1, 0.3, and 0.1 percentage points, respectively. The forecast for supplements to wages and salaries was revised upwards for 2019, 2020, and 2021, to follow the trend in wage and salary income growth. The forecast for 2019 was raised 0.6 percentage points to 4.0%, followed by upward revisions of 0.5 percentage points in 2020 and 0.2 percentage points in 2021. The forecasts for 2022 and 2023 were left unchanged. Growth rates for nonfarm proprietors' income; dividends, interest and rent; and personal current transfer receipts were left unchanged for all years. The overall result for total personal income was a 0.1 percentage point increase in 2020, 2022, and 2023.

The CEFC made no revisions to CPI, with the assumption that inflation will continue to move towards the Federal Reserve's inflation target rate. There was no other evidence to suggest changes to the CPI forecast were necessary. The forecast for corporate profits was left unchanged for all years as well.

Overall, the primary sources of concern for the CEFC were uncertainty regarding possible changes in national trade, fiscal, and regulatory policies, and an awareness that unexpected events flowing from the current election cycle could negatively impact consumer confidence. Barring such surprises, the CEFC remains cautiously optimistic for the near term.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission						
November 2019 Forecast	History	Forecast				
	2018	2019	2020	2021	2022	2023
CPI-U* (Annual Change)	2.4%	1.9%	2.0%	2.0%	2.0%	2.0%
CPI for Energy Prices** (Annual Change)	7.4%	-2.4%	2.0%	3.4%	2.5%	2.4%
CPI for New Vehicles** (Annual Change)	-0.5%	0.5%	0.1%	-0.3%	0.2%	0.1%
New Vehicle Registrations** (Annual Change)	8.3%	-5.4%	-5.7%	-2.6%	-1.4%	0.4%
Personal Savings Rate**	7.7%	8.0%	7.4%	7.3%	7.0%	6.9%
Maine Unemployment Rate**	3.4%	3.1%	2.9%	3.0%	3.2%	3.5%
3-Month Treasury Bill Rate**	1.94%	2.12%	1.56%	1.84%	2.14%	2.34%
10-Year Treasury Note Yield**	2.91%	2.11%	2.12%	2.72%	3.12%	3.29%
Before-Tax Corporate Profits* (Annual Change)	-3.3%	4.8%	3.2%	3.5%	3.7%	2.7%
Maine Wage & Salary Employment* (thousands)	628.7	633.8	636.2	636.2	636.2	636.2
Natural Resources	2.2	2.2	2.2	2.2	2.2	2.2
Construction	28.9	29.0	29.3	29.7	30.0	29.9
Manufacturing	52.0	53.2	52.6	52.4	51.8	51.2
Trade/Trans./Public Utils.	119.2	120.2	119.4	119.0	118.4	118.3
Information	7.3	6.9	7.0	7.0	7.0	6.9
Financial Activities	32.0	32.4	32.5	32.5	32.5	32.5
Prof. & Business Services	69.3	70.0	71.9	71.8	72.3	72.6
Education & Health Services	127.2	127.4	127.7	128.0	128.4	128.9
Leisure & Hospitality Services	68.4	69.8	70.7	70.8	70.8	71.0
Other Services	22.2	22.4	22.2	22.1	22.1	22.1
Government	100.2	100.3	100.9	100.8	100.7	100.7
Maine Wage & Salary Employment* (Annual Change)	0.7%	0.8%	0.4%	0.0%	0.0%	0.0%
Natural Resources	1.1%	-0.3%	0.6%	0.0%	-0.1%	-0.4%
Construction	2.0%	0.5%	1.0%	1.3%	1.0%	-0.1%
Manufacturing	1.7%	2.2%	-1.1%	-0.3%	-1.1%	-1.3%
Trade/Trans./Public Utils.	-0.2%	0.8%	-0.7%	-0.3%	-0.5%	-0.2%
Information	-1.4%	-5.3%	1.5%	-0.6%	-0.2%	-0.1%
Financial Activities	1.5%	1.4%	0.3%	0.0%	0.0%	0.0%
Prof. & Business Services	2.8%	1.0%	2.7%	-0.1%	0.7%	0.4%
Education & Health Services	0.1%	0.2%	0.3%	0.2%	0.3%	0.3%
Leisure & Hospitality Services	0.9%	2.1%	1.2%	0.1%	0.1%	0.2%
Other Services	1.8%	1.0%	-1.0%	-0.4%	0.0%	0.0%
Government	0.1%	0.1%	0.6%	-0.1%	-0.1%	0.0%
	2018	2019	2020	2021	2022	2023
Personal Income* ($ million)	65,454	68,485	71,304	74,119	76,799	79,457
Wages & Salaries*	29,991	31,341	32,626	33,833	34,983	36,103
Supplements to Wages & Salaries*	7,651	7,957	8,275	8,573	8,864	9,166
Nonfarm Proprietors' Income*	4,948	5,164	5,319	5,489	5,670	5,812
Farm Proprietors' Income**	43	47	45	37	33	32
Dividends, Interest, & Rent*	12,571	13,136	13,557	13,963	14,284	14,599
Dividends	3,777	3,989	4,130	4,262	4,328	4,375
Interest	6,032	6,234	6,338	6,482	6,706	6,973
Rent	2,762	2,907	3,083	3,214	3,248	3,253
Personal Current Transfer Receipts*	14,265	15,050	15,878	16,751	17,672	18,644
Less: Contributions for Social Ins.**	5,056	5,317	5,523	5,660	5,856	6,063
Adjustment for Residence**	1,042	1,108	1,128	1,133	1,148	1,165
Personal Income* (Annual Change)	5.3%	4.6%	4.1%	3.9%	3.6%	3.5%
Wages & Salaries*	4.4%	4.5%	4.1%	3.7%	3.4%	3.2%
Supplements to Wages & Salaries*	5.1%	4.0%	4.0%	3.6%	3.4%	3.4%
Nonfarm Proprietors' Income*	4.3%	4.4%	3.0%	3.2%	3.3%	2.5%
Farm Proprietors' Income**	-48.5%	9.5%	-2.8%	-17.5%	-11.9%	-2.7%
Dividends, Interest, & Rent*	8.1%	4.5%	3.2%	3.0%	2.3%	2.2%
Dividends	8.5%	5.6%	3.5%	3.2%	1.5%	1.1%
Interest	9.3%	3.3%	1.7%	2.3%	3.5%	4.0%
Rent	5.0%	5.3%	6.0%	4.2%	1.1%	0.1%
Personal Current Transfer Receipts*	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Less: Contributions for Social Ins.**	5.0%	5.2%	3.9%	2.5%	3.5%	3.5%
Adjustment for Residence**	3.1%	6.3%	1.8%	0.4%	1.3%	1.5%

*CEFC Forecast

**From IHS Markit and Moody's Analytics baselines (Oct. 2019)

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