Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on January 30, 2020, to review and revise its forecast through 2023 and to additionally forecast through 2025. Two additional hypothetical recession scenarios of varying severity were identified to meet the Commission's statutory requirement related to the stress-testing of revenues. This report provides a summary of the Commission's findings.

Both the national and state economies had a good year in 2019 with annual data indicating that both the U.S. economy and Maine economy continue to grow. There are few new data available since the CEFC's last meeting in October. In large part, consensus was that there was no compelling evidence to change from the existing forecast and cautious consideration given to slowing demographic projections. That said, a few minor revisions were made to the forecast.

Wage and salary employment growth was revised upward from 0.8% to 0.9% for 2019, relying on year-to-date figures and an anticipated upward revision when benchmarked data are released in March. 2020 through 2022 received minor upward revisions of 0.1 to 0.2 percentage points (to 0.5%, 0.2%, and 0.1%, respectively) with 0.0% growth projected from the years of 2023 through 2025. These revised employment forecasts reach about 639,400 by 2022 and then remain at that level through 2025, compared to a peak of 636,200 in the previous forecast.

Demographics remain a primary concern of the CEFC. This concern not only carries through the employment forecast but also through the income forecast. Income from transfer receipts is expected to continue to grow as the population ages and tightening of the labor market may encourage employers both to offer increased benefits as well as more competitive wages. These issues were at the forefront of consideration for various components of personal income.

At the January 2020 meeting, the CEFC made upward revisions of 0.1 percentage points to the forecasts for total personal income growth in 2019, 2021, and 2022 (to 4.7%, 4.0%, and 3.7%, respectively) and forecast 3.5% growth for 2024 and 2025. All major components of personal income were left unchanged for 2019 through 2023. Wage and salary income growth was forecast to grow by 3.2% in 2024 and 2025; supplements to wages and salaries was forecast at 3.4% growth for 2024 and 2025. The forecast for non-farm proprietors' income was 2.5% in 2024 and 2025; transfer receipts were forecast at 5.6% and 5.7% in 2024 and 2025, respectively. Dividends, interest and rent was forecast at 2.2% in 2024 and 2025.

The Consumer Price Index (CPI) came in at 1.8% actual growth in 2019, just below the CEFC's November 2019 forecast of 1.9%. The forecast for 2020 was revised down from 2.0% to 1.9% while the remaining years through 2023 as well as 2024 and 2025 were left at 2.0%, in line with the Federal Reserve Bank's 2.0% long-term inflation target. Growth in corporate profits was revised down from 4.8% to 4.0% for 2019 with 2020 through 2023 left unchanged and forecast at 2.7% in 2024 and 2025.

The table below provides the forecast's major indicators.

Calendar Years	*2018*	2019	2020	2021	2022	2023	2024	2025
Wage & Salary Employment (Annual Percentage Change)								
CEFC Forecast 11/2019	*0.7*	0.8	0.4	0.0	0.0	0.0		
CEFC Forecast 02/2020	*0.7*	0.9	0.5	0.2	0.1	0.0	0.0	0.0
Personal Income (Annual Percentage Change)								
CEFC Forecast 11/2019	*5.3*	4.6	4.1	3.9	3.6	3.5		
CEFC Forecast 02/2020	*5.3*	4.7	4.1	4.0	3.7	3.5	3.5	3.5
Wage and Salary Income (Annual Percentage Change)								
CEFC Forecast 11/2019	*4.4*	4.5	4.1	3.7	3.4	3.2		
CEFC Forecast 02/2020	*4.4*	4.5	4.1	3.7	3.4	3.2	3.2	3.2
CPI (Annual Percentage Change)								
CEFC Forecast 11/2019	*2.4*	1.9	2.0	2.0	2.0	2.0		
CEFC Forecast 02/2020	*2.4*	1.8	1.9	2.0	2.0	2.0	2.0	2.0

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. 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 Maine remain strong. Preliminary unemployment rates were below 3 percent in the last five months of 2019. Annual data revisions are just beginning. The Department of Labor expects unemployment rates for the latter part of 2018 and early 2019 will be reduced from around 3.5 percent to about 3.3 percent and that rates for the latter part of 2019 will be increased to near 3 percent. Effectively, there has been very little change in unemployment over the last two years. The unemployment rate has been below 4 percent for 48 months, more than double the previous record. Broader measures of labor market slack also are near all-time lows.

Currently published nonfarm payroll jobs estimates indicate that the number of jobs was up an average of 4,400 in 2019. The lagging complete job count, which will be incorporated with annual revisions, indicates that job growth is likely to be revised up to around or slightly more than 5,000. Wage growth continued to be strong. In the first nine months of 2019 total wages paid were up 4.6 percent from the same period in 2018. Adjusted for inflation, real wages are rising at the fastest rate in decades, both in total and averages per job. The state is on track to exceed $29 billion in wages paid in 2019, a new high.

The Center for Workforce Research is in the process of developing a workforce forecast for the period from 2018 to 2028. There are several possible scenarios, depending on changes in rates of labor force participation and changes in the age composition of the population. The most notable issue is that the largest two age cohorts (60 to 64 and 55 to 59 in 2018) are approaching retirement. In 2018, 70 percent of this group was in the labor force; in 2028, just 33 percent of them are expected to be in the labor force, with most retired. The population gradually becomes smaller moving down in age, the result of a sharp decline in birth rates over the last five decades. With fewer young people aging into the workforce, the coming retirement of the largest cohorts presents a challenge to maintaining the size of the labor force.

Analysts are in the process of evaluating several scenarios for change in the size of the labor force through 2028 based on several available population forecasts and potential changes in labor force participation by age. Six of those scenarios were presented. For the five years through 2023, some of those scenarios yield continued labor force growth and some modest decline. For the decade through 2028, all the scenarios yield some level of contraction in the size of the labor force. It is important to note that scenarios are not necessarily reality. Continued tight labor markets with rising wages and ample job openings may well spur an increasing rate of in-migration of working-age people to the state to offset the advancing age of current residents of Maine.

The presentation is available at https://www.maine.gov/labor/cwri/publications/pdf/CEFCJan2020.pdf

Maine Revenue Services - Office of Tax Policy

The December 1, 2019, revenue forecast increased General Fund revenue estimates by $52.7 million for FY2020 and by $21.9 million for FY2021, for a combined increase of $74.6 million for the 2020-2021 biennium. The current forecasted rate of growth for General Fund revenue for FY2020 is now 2.8% over FY2019 final revenue amounts, followed by a 2.1% rate of growth for FY2021. The forecast for the 2022-2023 biennium was revised upward by $24.9 million for FY2022 and by $14.3 million for FY2023 (an increase of $39.2 million for the biennium). FY2022 General Fund revenue is now projected to grow at an overall rate of 2.8% and for FY2023 at a rate of 3.4%.

The net increase in General Fund revenue during the forecast period is primarily from individual income and sales and use taxes. In both cases the strong underlying Maine economy is producing equally strong revenue growth through the first four months of FY2020. Consistent with the November 2019 economic forecast, revenue growth is expected to moderate somewhat during the second half of FY2020 and even more beginning in FY2021. FY2020 revenue is further bolstered by corporate ($12 million) and estate tax ($5 million) revenue that is one-time and therefore not reflected in fiscal years FY2021-2023.

December revenues are the only month thus far where the accuracy of the December 1, 2019, revenue forecast can be evaluated. December General Fund revenues were over budget by $4.9 million with most of the positive variance coming from the sales and use tax line. For the month, sales and use taxes were $5.5 million over budget. November taxable sales (December revenue) increased 9.0 percent over last year. Consumer sales increased by 11.2 percent over a year ago, with all business categories except General Merchandise (+1.2 percent) exhibiting very strong year-over-year growth. Other retail sales grew by 29.2 percent buoyed by the marketplace facilitators bill that became effective October 1, 2019. Auto/transportation posted year-over-year growth of 10.5 percent, much higher than the 7.4 percent growth recorded over the last twelve months. Lodging sales increased by 14.6 percent in November, and 14.2 percent for the first eleven months of calendar year 2019. Restaurant sales had a good month in November, increasing 11.0 percent over a year ago. Business operating sales growth continued to be solid in November increasing by 5.2 percent over last November.

Individual income tax receipts were under budget in December by $4.9 million (3.2 percent). Withholding was under budget for the month by $10.4 million and is up 5.4 percent fiscal year-to-date. Fiduciary payments ($1.1 million) and refunds ($4.4 million) were the primary offsets to the negative variance from withholding. At this time the weak showing for withholding in December is thought to be a timing issue, but that won't be confirmed until all January receipts are counted.

Corporate income tax receipts were over budget in December by $0.3 million. Total corporate income tax revenue is 19.3 percent ($24.2 million) below fiscal year 2019 receipts through the first six months of the fiscal year. The final estimated payment for calendar year filers due in December was $1.1 million under budget and down 16.5 percent from last December.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for January 2020 and the IHS Markit baseline scenario for January 2020. 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 January 2020 with industry sector employment growth adjustments by the State Economist. These three forecasts were then compared to the CEFC's November 2019 forecast. By and large, the CEFC did not see any compelling new evidence to warrant significant changes to their November 2019 forecast, resulting in only a few minor changes to the forecast. 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.
- The aging population in Maine will lead to higher transfer receipts in future years, as the current population ages into Medicare and Social Security.

Consensus Forecast

Maine saw modest employment growth in 2019 and will likely see continued slow growth through 2022 before leveling off. The employment growth rate was increased modestly by 0.1 percentage points in 2019, 2020 and 2022 to 0.9% 0.5%, and 0.1%, and 0.2 percentage points in 2021 to 0.2%, with growth stagnating at 0% in the years 2023-2025. This anticipates an upward revision in the 2019 benchmark data that will be released in March. Employment reaches a peak level of 639,400 in 2022 and stays at that level throughout the rest of the forecast period.

The CEFC made upward revisions of 0.1 percentage points to the forecasts for total personal income growth in 2019, 2021, and 2022 (to 4.7%, 4.0%, and 3.7%, respectively) and forecast 3.5% growth for 2024 and 2025. All major components of personal income were left unchanged for 2019 through 2023. Wage and salary income growth was forecast to grow by 3.2% in 2024 and 2025; supplements to wages and salaries was forecast at 3.4% growth for 2024 and 2025. The forecast for non-farm proprietors' income was 2.5% in 2024 and 2025; transfer receipts were forecast at 5.6% and 5.7% in 2024 and 2025, respectively. Dividends, interest and rent was forecast at 2.2% in 2024 and 2025.

The Consumer Price Index (CPI) came in at 1.8% actual growth in 2019, just below the CEFC's November 2019 forecast of 1.9%. The forecast for 2020 was revised down from 2.0% to 1.9% while the remaining years through 2023 as well as 2024 and 2025 were left at 2.0%, in line with the Federal Reserve Bank's 2.0% long-term inflation target. Growth in corporate profits was revised down from 4.8% to 4.0% for 2019 with 2020 through 2023 left unchanged and forecast at 2.7% in 2024 and 2025.

Overall, the primary sources of concern for the CEFC were slowing population growth and an aging workforce but the Commission remains cautiously optimistic for growth in the near term. Additionally, the CEFC intends to monitor the effects the tight labor market is having on in-migration and changes in labor force participation.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission								
February 2020 Forecast	History	Forecast						
	2018	2019	2020	2021	2022	2023	2024	2025
CPI-U* (Annual Change)	2.4%	1.8%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
CPI for Energy Prices** (Annual Change)	7.4%	-2.2%	4.5%	2.8%	2.5%	2.4%	2.8%	2.8%
CPI for New Vehicles** (Annual Change)	-0.5%	0.4%	-0.2%	-0.1%	0.0%	0.0%	0.0%	0.1%
New Vehicle Registrations** (Annual Change)	8.3%	-2.5%	-2.6%	-2.9%	-2.4%	-2.0%	-1.5%	-1.2%
Personal Savings Rate**	7.7%	7.9%	7.5%	7.8%	7.9%	7.6%	7.2%	7.0%
Maine Unemployment Rate**	3.4%	3.1%	2.8%	2.9%	3.1%	3.5%	3.7%	3.8%
3-Month Treasury Bill Rate**	1.94%	2.06%	1.54%	1.69%	2.31%	2.75%	2.80%	2.83%
10-Year Treasury Note Yield**	2.91%	2.15%	2.17%	2.72%	3.56%	3.92%	4.08%	4.24%
Before-Tax Corporate Profits* (Annual Change)	-3.3%	4.0%	3.2%	3.5%	3.7%	2.7%	2.7%	2.7%
Maine Wage & Salary Employment* (thousands)	628.7	634.4	637.5	638.8	639.4	639.4	639.4	639.4
Natural Resources	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1
Construction	28.9	29.1	30.3	30.3	30.3	30.3	30.3	30.2
Manufacturing	52.0	53.2	53.2	53.0	52.8	52.0	51.3	50.6
Trade/Trans./Public Utils.	119.2	120.5	120.6	120.9	121.0	121.1	121.3	121.5
Information	7.3	7.2	7.7	7.7	7.7	7.7	7.7	7.6
Financial Activities	32.0	32.4	32.3	32.3	32.4	32.4	32.4	32.4
Prof. & Business Services	69.3	69.7	69.7	70.0	70.0	70.0	70.0	70.0
Education & Health Services	127.2	127.3	127.3	127.8	127.8	127.8	127.8	127.8
Leisure & Hospitality Services	68.4	69.8	70.7	71.1	71.4	71.5	71.5	71.5
Other Services	22.2	22.5	22.7	22.7	22.7	22.7	22.7	22.7
Government	100.2	100.5	101.0	100.8	101.3	101.8	102.3	102.9
Maine Wage & Salary Employment* (Annual Change)	0.7%	0.9%	0.5%	0.2%	0.1%	0.0%	0.0%	0.0%
Natural Resources	1.1%	-0.5%	-2.3%	0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Construction	2.0%	0.7%	4.1%	0.0%	0.0%	0.0%	0.0%	-0.2%
Manufacturing	1.7%	2.4%	-0.1%	-0.2%	-0.5%	-1.5%	-1.4%	-1.2%
Trade/Trans./Public Utils.	-0.2%	1.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.2%
Information	-1.4%	-1.5%	6.8%	0.1%	0.0%	-0.1%	-0.2%	-0.2%
Financial Activities	1.5%	1.4%	-0.3%	0.1%	0.1%	0.1%	0.0%	0.0%
Prof. & Business Services	2.8%	0.6%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%
Education & Health Services	0.1%	0.1%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%
Leisure & Hospitality Services	0.9%	2.1%	1.3%	0.5%	0.5%	0.2%	0.0%	0.0%
Other Services	1.8%	1.6%	0.7%	0.1%	0.0%	0.0%	-0.1%	-0.2%
Government	0.1%	0.3%	0.5%	-0.1%	0.5%	0.5%	0.6%	0.5%
	2018	2019	2020	2021	2022	2023	2024	2025
Personal Income* ($ million)	65,454	68,505	71,342	74,167	76,898	79,575	82,359	85,270
Wages & Salaries*	29,991	31,341	32,626	33,833	34,983	36,103	37,258	38,450
Supplements to Wages & Salaries*	7,651	7,957	8,275	8,573	8,864	9,166	9,477	9,799
Nonfarm Proprietors' Income*	4,948	5,166	5,321	5,491	5,673	5,814	5,960	6,109
Farm Proprietors' Income**	43	51	18	34	68	62	49	50
Dividends, Interest, & Rent*	12,571	13,136	13,557	13,963	14,284	14,599	14,920	15,248
Dividends	3,777	4,007	4,103	4,252	4,346	4,412	4,507	4,617
Interest	6,032	6,234	6,381	6,473	6,642	6,877	7,115	7,337
Rent	2,762	2,899	3,071	3,234	3,293	3,309	3,295	3,287
Personal Current Transfer Receipts*	14,265	15,050	15,878	16,751	17,672	18,644	19,688	20,810
Less: Contributions for Social Ins.**	5,056	5,297	5,473	5,666	5,884	6,098	6,327	6,587
Adjustment for Residence**	1,042	1,102	1,141	1,189	1,238	1,285	1,334	1,390
Personal Income* (Annual Change)	5.3%	4.6%	4.1%	3.9%	3.6%	3.5%	3.3%	3.2%
Wages & Salaries*	4.4%	4.5%	4.1%	3.7%	3.4%	3.2%	3.2%	3.2%
Supplements to Wages & Salaries*	5.1%	4.0%	4.0%	3.6%	3.4%	3.4%	3.4%	3.4%
Nonfarm Proprietors' Income*	4.3%	4.4%	3.0%	3.2%	3.3%	2.5%	2.5%	2.5%
Farm Proprietors' Income**	-48.5%	19.5%	-65.4%	91.1%	103.6%	-8.6%	-20.8%	1.7%
Dividends, Interest, & Rent*	8.1%	4.5%	3.2%	3.0%	2.3%	2.2%	2.2%	2.2%
Dividends	8.5%	6.1%	2.4%	3.6%	2.2%	1.5%	2.1%	2.4%
Interest	9.3%	3.3%	2.4%	1.4%	2.6%	3.5%	3.5%	3.1%
Rent	5.0%	5.0%	5.9%	5.3%	1.8%	0.5%	-0.4%	-0.2%
Personal Current Transfer Receipts*	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.6%	5.7%
Less: Contributions for Social Ins.**	5.0%	4.8%	3.3%	3.5%	3.8%	3.6%	3.8%	4.1%
Adjustment for Residence**	3.1%	5.7%	3.6%	4.1%	4.1%	3.8%	3.8%	4.2%

*CEFC Forecast

**From IHS Markit and Moody's Analytics baselines (Jan. 2020)

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

<u>Alternative Economic Scenarios</u>

Statute and Background: 5 M.R.S.A. §1710-A

*4. **Alternative economic scenarios.** No later than February 1st of each even-numbered year the commission shall provide to the State Budget Officer, the State Economist and the Associate Commissioner for Tax Policy at least 2 additional economic forecasts that assume potential economic recession scenarios of varying levels of severity. These additional forecasts must include economic assumptions for the current fiscal biennium and the next 2 fiscal biennia. In each report the commission shall fully describe the methodology employed in reaching its recommendations.*

Every other year, beginning in 2018, statute requires the CEFC to provide the State Economist, the State Budget Officer, and the Associate Commissioner for Tax Policy with at least two alternative economic recession scenarios of varying levels of severity. The alternative scenarios are required to be included in the CEFC's report due February 1st of each even-numbered year and also must include assumptions for calendar years that encompass the current and next two biennia. By October 1st of each even-numbered year the CEFC and RFC will jointly issue a report to the Governor, the Legislative Council and the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs that utilizes the alternative economic scenarios recommended by the CEFC. The report will include analyses and findings that detail the stress impact such economic recession scenarios would have on the current General Fund revenue projections of sales and income tax revenues. In addition, the report must include an analysis of the sufficiency of the current level of the Budget Stabilization Fund and an estimate of the reserves in the Budget Stabilization Fund necessary to offset the declines in revenue as a result of potential economic recession scenarios.

Methodology

The CEFC decided to designate two alternative scenarios provided by Moody's Analytics in January 2020 as the moderate and severe recession scenarios. While the scenarios describe a particular set of specific events surrounding the recessions, the Commission does not ascribe to these specifics, instead selecting the scenarios based on the numbers and growth rates that seemed reasonable as generic "moderate" and "severe" recessions. These scenarios should provide plausible economic inputs for an analysis of the General Fund revenue projections in both a moderate and severe downturn. In both cases, the scenarios will be adjusted to reflect the CEFC's January 2020 baseline forecast and will show hypothetical downturns beginning in the first quarter of calendar year 2021. Brief descriptions of the economic conditions follow; forecast details will be included in the October 1, 2020, stress test report.

Moderate recession scenario

The moderate recession scenario selected by the CEFC is the "S7" Next-Cycle Recession scenario. On a macroeconomic level, this recession lasts a full year, which is comparable to the postwar average of recessions. The national unemployment rate peaks at 7.3 percent and real gross domestic product declines around 0.9 percent. Employment in Maine declines around 1.8 percent. Wage and salary income in Maine declines around 1.3 percent, while total personal income continues to grow but at a slower pace. If necessary, the recovery period in this scenario will be modified to reflect a relatively slow return to the baseline.

Severe recession scenario

The severe recession scenario selected by the CEFC is the "S4" Protracted Slump scenario. On a macroeconomic level, this deep recession lasts over a year and a half. The national unemployment rate peaks near 8.3 percent and real gross domestic product declines around 1.6 percent. Inflation is negative in the first year of this recession. Employment in Maine declines around 2.2 percent. Wage and salary income in Maine declines around 0.7 percent and total personal income declines around 2.5 percent.