Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on March 29, 2017, to review and revise the forecast through 2021. This report provides a summary of the Commission's findings. At the beginning of the meeting, the four appointed members of the Commission unanimously voted in Andrew Marden as the fifth member of the Commission and Eric Stinneford was unanimously voted as Chair of the Commission.

Preliminary data indicate that 2016 was a strong year for Maine's economy, with most aspects of the economy improving. The U.S. economy also continued to grow since the Consensus Economic Forecasting Commission (CEFC) last met in November 2016.

The Commission made modest changes to the existing forecasts for employment, inflation, and personal income, but left corporate profits unchanged. Preliminary data for 2016 show stronger than expected growth in both employment and income, leading to a higher baseline level for this forecast. The Commission remains concerned about the demographic situation in Maine and the resulting impacts on workforce availability. There are additional concerns about the possibility of out-migration or decreased in-migration resulting from the three percent surtax on incomes over $200,000 as well as limitations on employment growth as the minimum wage reaches $11 and $12 per hour.

The forecast for wage and salary employment growth was revised downward for 2017 and 2018, but starting from a higher base so that the employment level is higher than previously forecast. The new forecast reaches 618,800 in 2019 and remains at that level for 2020 and 2021. CPI was revised slightly upward for 2017, from 2.4 percent to 2.7 percent, while 2018 was revised down from 2.6 percent to 2.5 percent. The remaining years were left unchanged. Total personal income was revised down by 0.4 percentage points in 2017 following the release of preliminary 2016 actual data from the U.S. Bureau of Economic Analysis resulting in stronger than anticipated growth. The downward revision was driven in part by concerns that the three percent surtax would cause high income taxpayers to either shift income or delay capital gains realizations. The forecast for 2018 was left unchanged while the forecasts for 2019-2021 were revised upward by 0.1, 0.2, and 0.3 percentage points, respectively. Wage and salary income growth for 2016 was also much stronger than previously forecast. 2017 was revised downward by 0.7 percentage points and 2018 was revised downward by 0.2 percentage points. The forecasts for 2019-2021 were revised upward, with 2018-2021 growth rates held steady at 3.7 percent.

The table below provides the forecast's major indicators.

Calendar Years	*2015*	*2016*	2017	2018	2019	2020	2021
Wage & Salary Employment (Annual Percentage Change)							
CEFC Forecast 11/2016	*0.8*	0.7	0.4	0.2	0.0	0.0	0.0
CEFC Forecast 04/2017	*0.9*	*1.1*	0.1	0.1	0.0	0.0	0.0
Personal Income (Annual Percentage Change)							
CEFC Forecast 11/2016	*3.7*	3.6	3.6	3.6	3.4	3.4	3.5
CEFC Forecast 04/2017	*3.7*	*3.7*	3.2	3.6	3.5	3.6	3.8
Wage and Salary Income (Annual Percentage Change)							
CEFC Forecast 11/2016	*4.1*	4.1	3.9	3.9	3.6	3.5	3.5
CEFC Forecast 04/2017	*4.1*	*4.5*	3.2	3.7	3.7	3.7	3.7
CPI (Annual Percentage Change)							
CEFC Forecast 11/2016	*0.1*	1.7	2.4	2.6	2.3	2.5	2.4
CEFC Forecast 04/2017	*0.1*	*1.3*	2.7	2.5	2.3	2.5	2.4

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. Additionally, the Office of Policy and Management presented a summary of their analysis of the potential economic impacts of the three percent surtax for education that was passed by referendum in November 2016. This analysis is available online at:
http://www.maine.gov/economist/state/pub/3%20percent%20surtax_final%20report.pdf

Office of Policy and Management

Maine's real GDP increased 1.2% in the third quarter of 2016. This was the sixth consecutive quarter of real GDP growth. Personal income in Maine grew 4.1% from the first three quarters of 2015 to the first three quarters of 2016, while wage and salary income, which is the largest component of total personal income, grew 5.3% over the same period. This is stronger growth than the CEFC had forecast in November 2016. The debt-to-income level for Maine businesses and households continued to rise to new levels in the third quarter of 2016. The Consumer Price Index was up 2.7% in February 2017 from a year ago, boosted by recent increases in energy prices.

Nationwide, consumer sentiment has remained relatively stable in recent months with a slight bump up following the presidential election. The February 2017 level was up 5.0% from a year ago but down 2.2% from January 2017. Small business optimism also saw a post-election boost and is up 13.2% from a year ago.

The price of crude oil has begun increasing recently with prices in the fourth quarter of 2016 up 16.4% from the fourth quarter of 2015. As a result of the recent increases in crude oil prices, heating oil prices and gasoline prices have begun to tick up as well. Heating oil has risen to around $2.32 per gallon while gasoline is currently averaging $2.37 per gallon.

Motor vehicle registrations slowed in FY16, with a decline of 26% in new auto titles. However, a large increase in trailer titles (both new and used) resulted in a 5.9% year-over-year increase overall.

Existing single-family home sales in Maine were up 7.9% in January 2017 compared to the same month last year and housing permits for the February 2016 – January 2017 year were 40.3% higher than the previous 12-month period. The median home price in the Portland-South Portland Metropolitan Statistical Area (which encompasses all of York, Cumberland, and Sagadahoc counties) increased 7.1% year-over-year in the fourth quarter of 2016. Mortgage delinquency rates in Maine have been declining but remains higher than the national rate. The foreclosure rate in Maine was 0.37% in the third quarter of 2016 and has been above the national rate for sixteen of the past seventeen quarters.

Full background materials are available at:
http://www.maine.gov/economist/state/forecast.html

Maine Department of Labor

The labor market has tightened considerably over the last two years as job growth accelerated. The 3.2 percent unemployment rate in February was tied for the lowest since 1976. Unemployment has been below four percent 13 of the last 16 months, a run matched only two other times in the last four decades. The broadest measure of labor underutilization, known as U-6, averaged 8.7 percent in 2016, the second lowest figure in the 14 years this data has been available (U-6 includes those who want a job but didn’t engage in work search, those working part-time who prefer full-time work, as well as the unemployed).

Tighter labor market conditions are having two positive effects that are likely related. Average wages, adjusted for inflation, have increased the last two years at the fastest rate in two decades, the result of rising competition for workers. This appears to be what has spurred an increase in labor force participation. The recent rise in participation in the labor force bucks the long-term downward trend due to the advancing population age structure that has been occurring since the early 2000s.

Throughout the recovery, job gains have paralleled declining unemployment. Today there are fewer unemployed than at any time since 2001, when the labor force was smaller. Private sector jobs reached an all-time high in 2016, led by growth in healthcare, hospitality, and construction. Total nonfarm jobs finished the year just shy of the 2007 peak because of large declines in the number of state and local government jobs since then.

In previous presentations to the Commission, Center for Workforce Research staff have warned that the advancing age structure of the population would limit job growth in the years ahead as many more people retire than young people age into the workforce. The faster rate of job growth in 2015 and 2016 appears to stem from a combination of higher labor force participation, relocation of thousands of people from the northern part of the state to the southern part where job opportunities are more plentiful, and possibly smaller working-age population declines than the U.S. Census Bureau has estimated. At this point, it is not clear if the acceleration in growth over the last two years is sustainable going forward.

The presentation is available at www.maine.gov/labor/cwri/publications/pdf/CEFC_March_2017.pdf.

Maine Revenue Services - Office of Tax Policy

February General Fund revenues were under budget by $5.8 million or 3.6 percent. For the first eight months of fiscal year 2017, General Fund revenues are $30 million over budget (+1.4 percent). Compared to the same eight-month period of last fiscal year, FY17 General Fund revenues are up by 3.2 percent (+$68.2 million).

The holiday shopping season, combined November and December taxable sales, showed moderate growth of 5 percent year-over-year, with growth of 6 percent if the analysis is restricted to consumer sales. Adjusting for the expansion of sales tax to more food items would suggest that the holiday shopping season showed growth more in the 4 percent range compared to a year ago - about what was expected.

January taxable sales (February revenue) increased by 6.0 percent over a year ago. For the month, sales and use and service provider taxes combined were $1.6 million over budget; $4.7 million over budget year to date. Auto/transportation sales increased by 5.7 percent over last January and are up 5.6 percent year-over-year for the three-month period. Tourism-related sales, specifically those tied to restaurants and lodging, increased over last January, growing 1.3 percent and 3.7 percent, respectively. Other retail (7.4%), building supply (11.5%), and business operating (10.5%) were other sectors that performed well above the forecast for year-over-year growth.

Recent monthly sales tax surpluses have been supported by automobile sales exceeding expectations. If year-over-year auto sales growth flattens consistent with the December 2016 revenue forecast, then we would expect sales tax receipts to be closer to budgeted amounts over the remaining months of FY17. Preliminary March sales tax data indicates February sales were weak across all business sectors. The persistence of unseasonably cold, snowy weather will likely dampen spring shopping and push most spring clean-up purchases into April and May.

Individual income tax revenues were under budget in February by $8.9 million, with withholding and refunds accounting for the monthly negative variance. Withholding underperformed for the third straight month and is 1 percent below last year for the first two months of the calendar year. We continue to monitor withholding receipts to better understand why they are running behind a year ago. Confusion over the 2017 withholding tables that initially resulted in over-withholding of taxpayers at the start of the calendar year, the introduction of the 3 percent surtax, an increase in the minimum wage, and tightening labor markets would have led one to expect withholding to exceed the relatively conservative forecast for January and February. There is some evidence that March withholding has rebounded, but will not likely be enough to cover the negative variance of $18 million through February.

Individual income tax receipts in the December/January period provided mixed messages on the 2016 tax year. Much stronger final estimated payments would suggest that 2016 was a better than predicted year for capital gains, dividends, and business income. On the other hand, withholding growth has been consistently lower than projected. Limited information from other states and the federal government appear to show some shifting of income from 2016 into 2017 to take advantage of a potential federal income tax cut. At this point, there is some, albeit very limited, support that high-income Maine taxpayers may have shifted income into the end of 2016 to avoid the 3 percent surtax passed in November. April revenues will provide an abundance of information on the 2016 tax year and the first third of tax year 2017.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for February 2017 and the IHS Economics baseline scenario for March 2017. Additionally, OPM provided two alternative scenarios based on demographic assumptions that limit employment growth to specific levels. Each forecast was based on a different set of national macroeconomic assumptions. The OPM scenarios were based on the Moody's Analytics baseline scenario with industry sector employment growth adjustments by OPM staff. These four forecasts were then compared to the CEFC's November 2016 forecast. The key assumptions made by the CEFC are below.

- Maine population growth is likely to limit employment growth over the next few years, particularly as the baby boom generation continues to move into retirement age. The employment forecast adopted by the CEFC assumes some in-migration to Maine.

- The three percent surtax on incomes over $200,000 and the increased minimum wage present the probability of out-migration as well as limitations on employment growth, but it is difficult to determine what the net effects will be, particularly given potential policy changes at the federal level. This forecast does take the new laws into consideration, but adjustments may need to be made as further policy changes become clear and actual data become available.

- Overall, 2016 saw strong growth both in terms of employment and income; this starts the 2017 forecast at a higher baseline level than was previously forecast. While the growth in 2016 is probably not sustainable, some momentum is likely to carry through to 2017.

Consensus Forecast

The CEFC members continued to believe that the Moody's forecast is overly optimistic in its employment projections for the state. Moody's has moderated its population forecast to a more reasonable level and IHS has brought its employment growth down to a more realistic scenario. 2016 saw very strong employment growth in Maine, bringing non-farm payrolls back to pre-recession levels. While some growth in expected to continue into 2017 and 2018, the demographics of the state still provide a limiting factor for employment growth in the remaining forecast years.

Employment growth rates, revised downward for 2017 and 2018 and left unchanged from the previous forecast for 2019-2021, targeted an employment level for 2021 that was somewhat higher than the pre-recession peak. Employment reaches a 0.0 percent growth level in 2019 and stays at that point through 2020 and 2021.

Wage and salary income growth for 2016 was considerably stronger than previously forecast, providing a higher baseline level for the forecast. 2017 was revised downward by 0.7 percentage points and 2018 was revised downward by 0.2 percentage points. The forecasts for 2019-2021 were revised upward, with 2018-2021 growth rates held steady at 3.7 percent.
The forecast for supplements to wages and salaries was left unchanged in 2017, followed by upward revisions of 0.5 percentage points in 2018 and 0.2 percentage points in each of the remaining years. The growth rates for nonfarm proprietors' income were left unchanged, but starting from a higher level in 2016. The forecast for dividends, interest, and rent was left unchanged in 2017, 2018, and 2021, with 2019 and 2020 revised upward by 0.4 and 0.2 percentage points, respectively, to match the Moody's baseline forecasts for those two years. The forecast for personal current transfer receipts was left unchanged for 2017-2019, with 2020 and 2021 revised upward by 0.5 and 0.6 percentage points, respectively, to account for increasing numbers of Maine's baby boom population receiving Social Security and Medicare.

The overall result for total personal income was a 0.4 percentage point revision downward for 2017, no change for 2018, and upward revisions of 0.1, 0.2, and 0.3 percentage points 2019, 2020, and 2021 respectively. The downward revision to the growth rate for 2017 was driven in part by concerns that the three percent surtax would cause high income taxpayers to either shift income or delay capital gains realizations. The 2017 level is still higher than the previous forecast, however, due to the higher level in 2016.

The CEFC revised its forecast for inflation using the Consumer Price Index upward by 0.3 percentage points in 2017 and downward by 0.1 percentage points in 2018 while leaving the remaining years unchanged from the previous forecast.

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. While 2016 showed strong employment and income growth, there is little confidence that these growth rates will continue into future years, especially as the baby boom generation continues to move into retirement age.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

April 2017 Forecast	History	Forecast					
	2015	2016^	2017	2018	2019	2020	2021
CPI-U* (Annual Change)	0.1%	1.3%	2.7%	2.5%	2.3%	2.5%	2.4%
CPI for Energy Prices** (Annual Change)	-16.7%	-6.4%	8.2%	5.1%	4.0%	6.3%	3.8%
Avg. Price of New Vehicles** (Annual Change)	2.1%	2.3%	5.7%	4.1%	3.7%	3.1%	2.8%
New Vehicle Registrations** (Annual Change)	3.3%	1.7%	-2.1%	-3.1%	-2.4%	-2.0%	-3.1%
Personal Savings Rate**	5.8%	5.9%	5.5%	6.3%	6.5%	6.7%	6.9%
Maine Unemployment Rate**	4.4%	3.8%	3.7%	3.6%	3.5%	3.5%	3.6%
3-Month Treasury Bill Rate**	0.05%	0.32%	0.89%	1.65%	2.51%	2.85%	2.85%
10-Year Treasury Note Rate**	2.14%	1.84%	2.65%	3.15%	3.84%	4.06%	4.06%
Before-Tax Corporate Profits* (Annual Change)	-5.5%	1.0%	3.0%	3.2%	4.8%	3.2%	3.5%
Maine Wage & Salary Employment* (thousands)	610.6	617.2	617.9	618.5	618.8	618.8	618.8
Natural Resources	2.4	2.3	2.3	2.3	2.2	2.2	2.2
Construction	26.6	27.4	27.3	27.3	27.3	27.5	27.7
Manufacturing	50.7	50.7	50.5	50.0	49.6	49.2	48.7
Trade/Trans./Public Utils.	119.7	120.6	121.0	121.8	122.1	122.1	121.9
Information	7.6	7.7	7.7	7.7	7.7	7.7	7.8
Financial Activities	30.7	31.0	30.8	30.5	30.1	29.7	29.3
Prof. & Business Services	64.8	65.5	65.8	65.9	66.0	66.0	66.2
Education & Health Services	123.1	125.2	125.9	126.4	127.0	128.1	129.3
Leisure & Hospitality Services	64.1	65.3	65.3	65.4	65.3	65.1	64.8
Other Services	21.4	21.7	21.6	21.4	21.3	21.1	20.9
Government	99.5	99.9	99.8	100.0	100.0	100.1	100.1
Maine Wage & Salary Employment* (Annual Change)	0.8%	1.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Natural Resources	-1.0%	-5.9%	-0.3%	-0.3%	-0.4%	-0.5%	-0.5%
Construction	1.7%	3.0%	-0.4%	0.0%	0.2%	0.5%	0.8%
Manufacturing	0.6%	0.1%	-0.5%	-0.9%	-0.8%	-0.9%	-1.0%
Trade/Trans./Public Utils.	0.4%	0.7%	0.4%	0.6%	0.3%	0.0%	-0.2%
Information	1.6%	1.2%	-0.2%	-0.6%	0.0%	0.2%	0.8%
Financial Activities	0.5%	0.9%	-0.4%	-1.2%	-1.2%	-1.3%	-1.3%
Prof. & Business Services	1.6%	1.1%	0.4%	0.2%	0.2%	0.0%	0.2%
Education & Health Services	1.4%	1.6%	0.6%	0.4%	0.5%	0.8%	1.0%
Leisure & Hospitality Services	1.3%	1.8%	0.0%	0.2%	-0.1%	-0.4%	-0.4%
Other Services	1.0%	1.7%	-0.5%	-0.7%	-0.7%	-0.9%	-1.0%
Government	-0.3%	0.4%	-0.1%	0.1%	0.1%	0.1%	0.0%
	2015	2016	2017	2018	2019	2020	2021
Personal Income* ($ million)	56,894	59,005	60,867	63,045	65,248	67,603	70,187
Wages & Salaries*	26,833	28,052	28,949	30,020	31,131	32,283	33,477
Supplements to Wages & Salaries*	6,677	6,921	7,133	7,354	7,589	7,840	8,091
Nonfarm Proprietors' Income*	4,041	4,256	4,426	4,601	4,733	4,874	5,043
Farm Proprietors' Income**	0	0	-6	-4	-3	-1	0
Dividends, Interest, & Rent*	10,090	10,257	10,503	10,713	10,959	11,201	11,514
Dividends	2,939	2,903	2,899	2,989	3,047	3,066	3,110
Interest	4,519	4,564	4,695	4,857	5,140	5,437	5,733
Rent	2,631	2,790	2,909	2,869	2,773	2,699	2,671
Personal Current Transfer Receipts*	12,833	13,221	13,781	14,436	15,128	15,900	16,711
Less: Contributions for Social Ins.**	4,490	4,665	4,883	5,039	5,270	5,492	5,662
Adjustment for Residence**	909	964	963	964	979	999	1,013
Personal Income* (Annual Change)	3.7%	3.7%	3.2%	3.6%	3.5%	3.6%	3.8%
Wages & Salaries*	4.1%	4.5%	3.2%	3.7%	3.7%	3.7%	3.7%
Supplements to Wages & Salaries*	3.7%	3.7%	3.1%	3.1%	3.2%	3.3%	3.2%
Nonfarm Proprietors' Income*	3.3%	5.3%	4.0%	3.9%	2.9%	3.0%	3.5%
Farm Proprietors' Income**	***	***	***	***	***	***	***
Dividends, Interest, & Rent*	2.9%	1.7%	2.4%	2.0%	2.3%	2.2%	2.8%
Dividends	2.6%	-1.2%	-0.1%	3.1%	1.9%	0.6%	1.4%
Interest	0.0%	1.0%	2.9%	3.4%	5.8%	5.8%	5.5%
Rent	8.8%	6.0%	4.3%	-1.4%	-3.4%	-2.6%	-1.0%
Personal Current Transfer Receipts*	4.0%	3.0%	4.2%	4.7%	4.8%	5.1%	5.1%
Less: Contributions for Social Ins.**	4.8%	3.9%	4.7%	3.2%	4.6%	4.2%	3.1%
Adjustment for Residence**	6.5%	6.0%	-0.1%	0.1%	1.6%	2.0%	1.4%

^2016 preliminary actuals for employment, income, and CPI

*CEFC Forecast

**From IHS Economics (Mar. 2016), OPM Low Pop Scenario and Moody's Analytics Baseline

Remaining lines derived from CEFC forecast by CEFC staff and review ed by CEFC

***Farm Proprietors' income w as negative from 2015 to 2020