

The Economic Outlook for Maine in 2023

MAINEBIZ 5 ON THE FUTURE FORUM KEYNOTE - JANUARY 19, 2023

AMANDA RECTOR

MAINE STATE ECONOMIST

What was I thinking about for 2022?

1. COVID variants and vaccinations
2. Inflation, including energy prices
3. Interest rates
4. Housing
5. Migration
6. Labor force participation
7. Summer tourism season and continuing recovery of leisure and hospitality sector
8. The Great Reshuffling (and its effects on wages and benefits)
9. Consumer and business sentiment
10. Ongoing roll-out of federal funds

What am I thinking about for 2023?

1. ~~COVID variants and vaccinations~~ New variants should be less disruptive to the economy
2. **Inflation, including energy prices** Still elevated in 2023; energy coming down, but shelter is expensive
3. **Interest rates** How much higher will they go?
4. **Housing** Affordability and availability remain a challenge
5. **Migration** Do the pandemic-era patterns continue?
6. **Labor force participation** An answer to the “where are the workers” question
7. ~~Summer tourism season and continuing recovery of leisure and hospitality sector~~ Less of a concern in 2023
8. ~~The Great Reshuffling (and its effects on wages and benefits)~~ See item 6
9. **Consumer and business sentiment** A leading indicator of economic conditions?
10. **Ongoing roll-out of federal funds** and other potential “cushions”

And, of course, the elephant in the room:

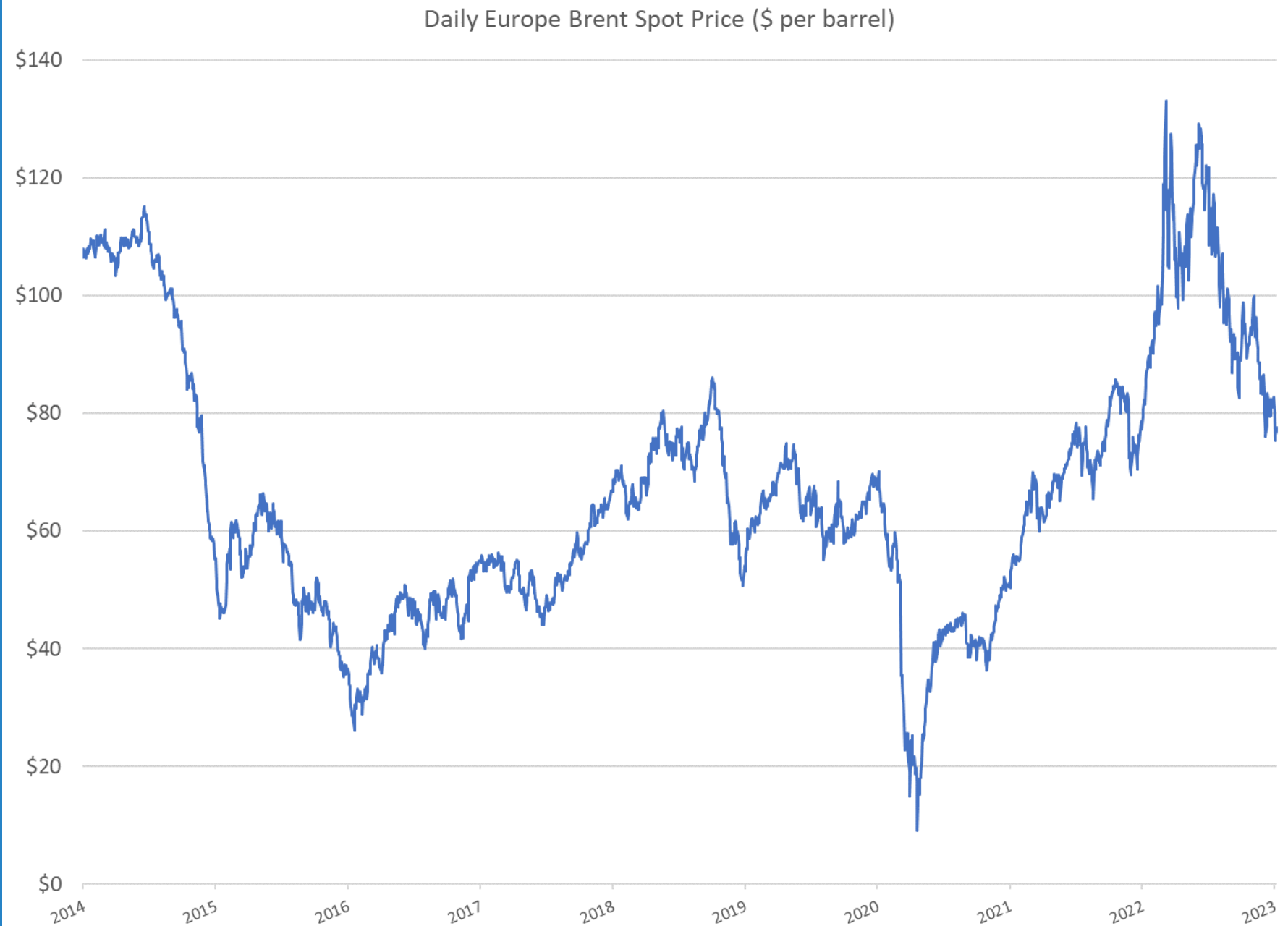
Will there be a U.S. recession in 2023???

Inflation, including energy and shelter

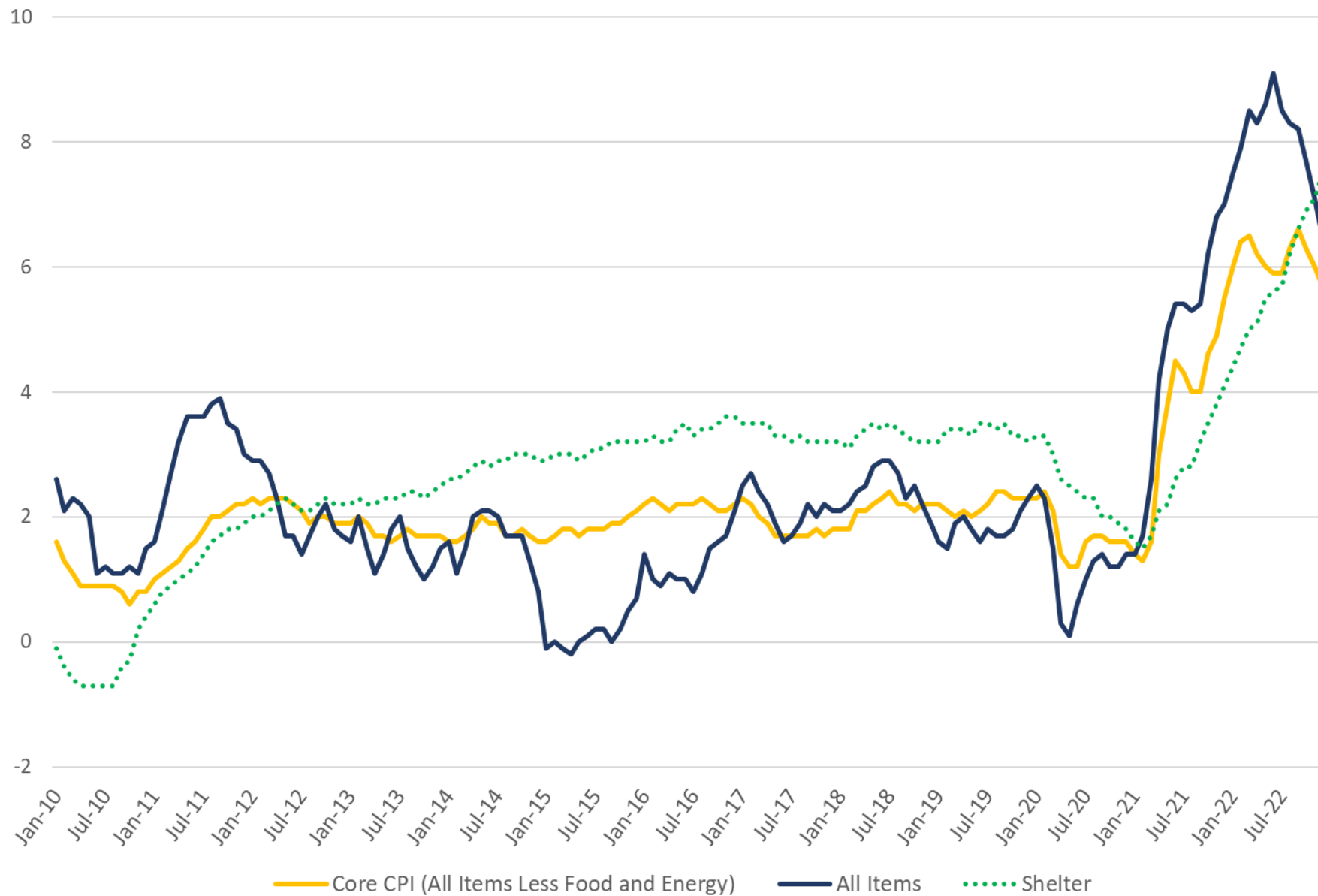
As of January 9, the daily Brent spot price was \$77.50, slightly lower than one year ago

Heating oil prices are around \$4.33 per gallon in Maine, down from the all-time record of \$5.69 set in early November 2022, but more than \$1.10 per gallon higher than one year ago

Electricity prices have risen sharply, in part due to higher natural gas prices



Year-over-year percent change in Consumer Price Index



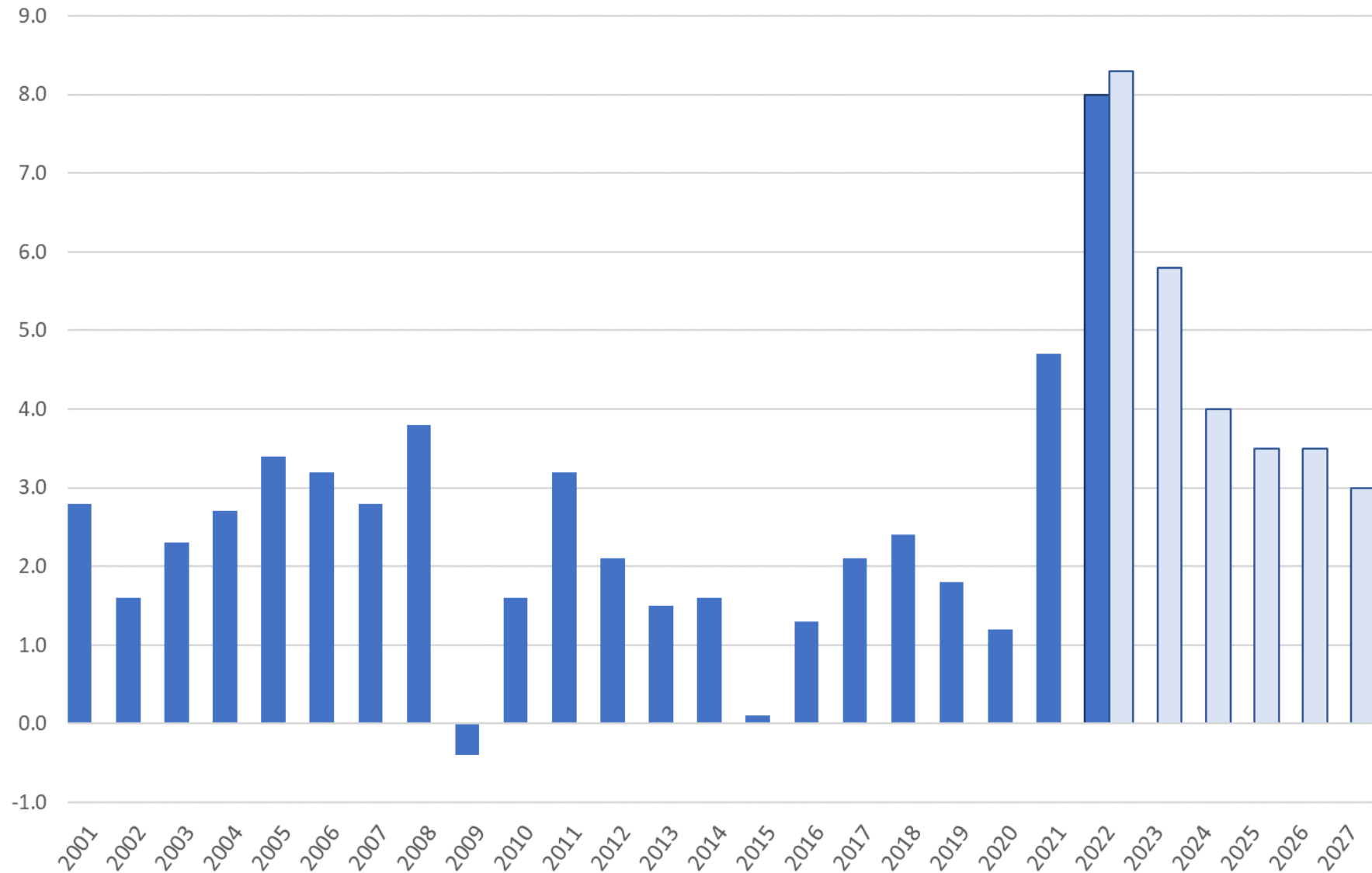
December 2022 inflation expectation from national Survey of Consumers (University of Michigan)

Next year: 4.6%
(lowest in 15 months, but well above two years ago)

Partly due to declines in gasoline prices

Sources: U.S. Bureau of Labor Statistics; CEFC report, November 1, 2022; University of Michigan Survey of Consumers

Year-over-year percent change in Consumer Price Index;
2001-2022 historical and 2022-2027 forecast



Interest rates

Current target range: 4.25% to 4.5%

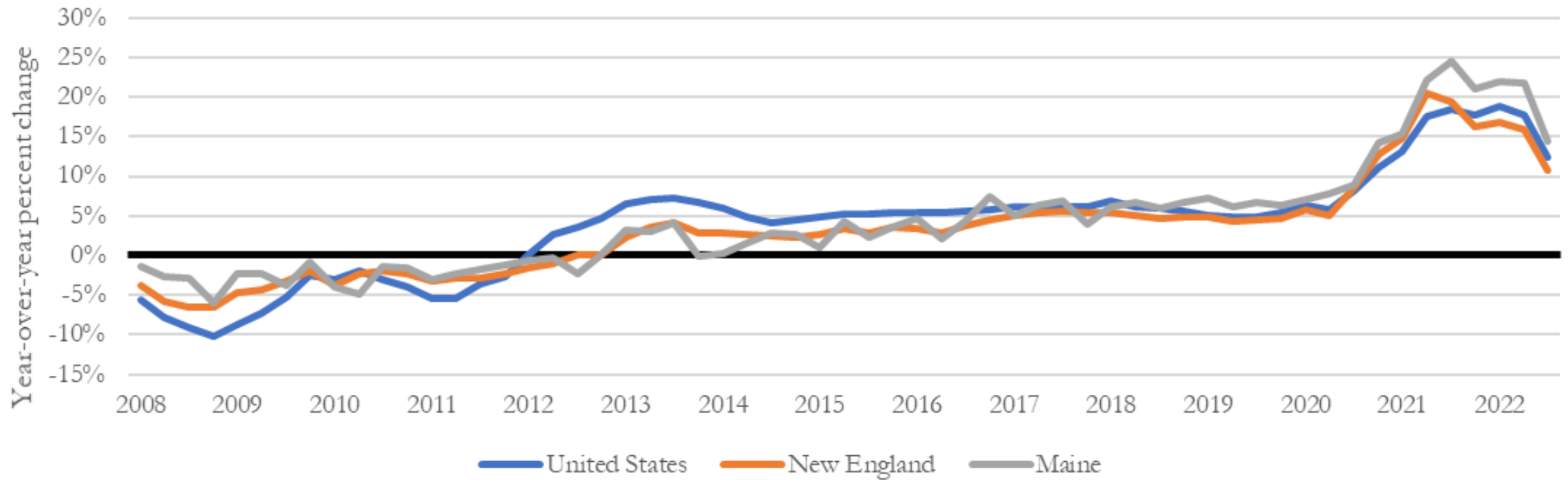
“The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.”

- Excerpt from December 14, 2022, Federal Open Market Committee statement

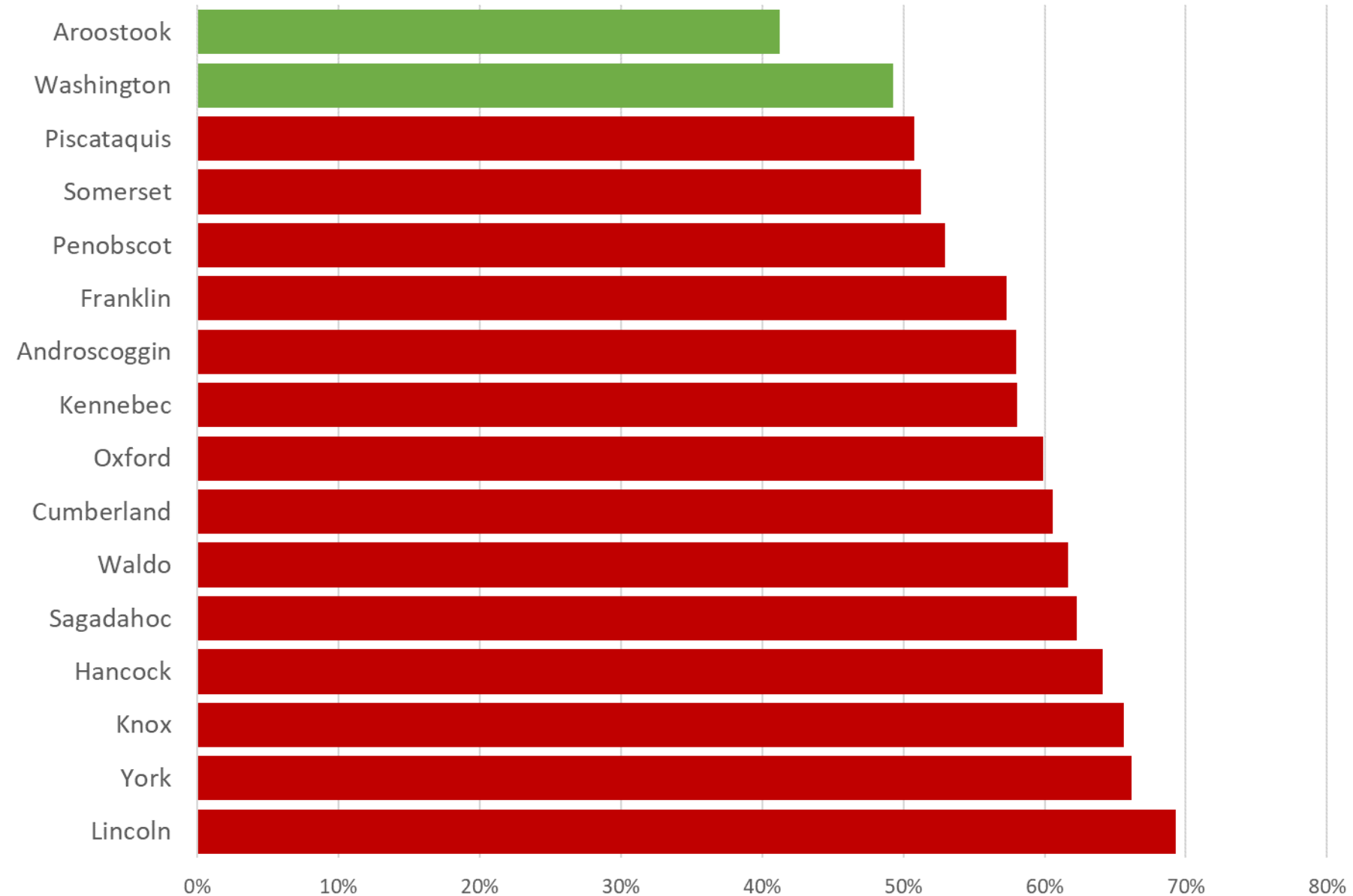
- Range of December FOMC projections for federal funds rate for 2023 was 4.9-5.6 percent, implying ongoing increases early this year

Housing

Percent Changes, Year-over-year in FHFA House Price Index (not seasonally adjusted)



Percent of Households Unable to Afford Median Home, 2021



Migration

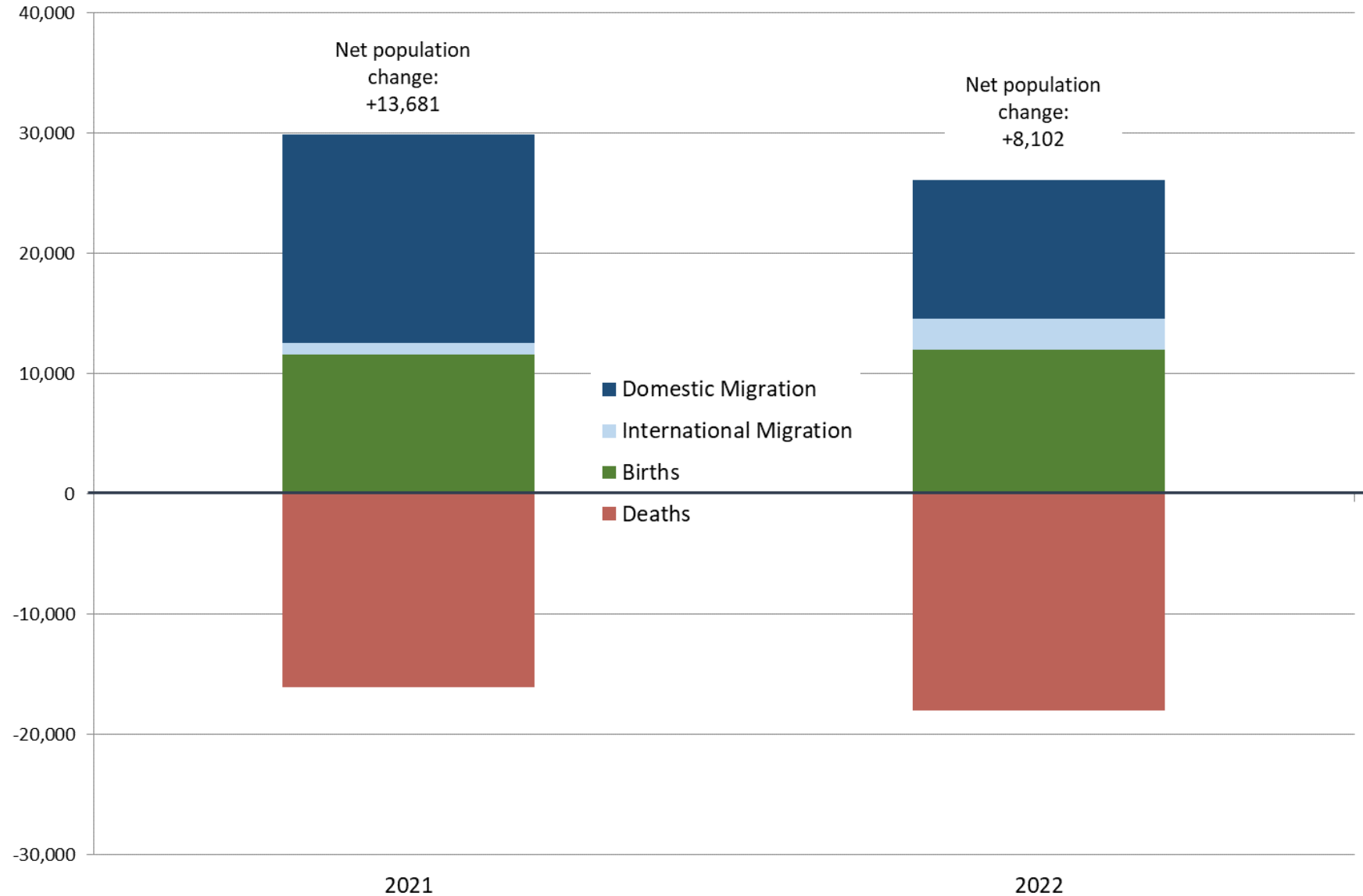
Components of Population Change, Maine

2020 Decennial Population =
1,362,359 (42nd in U.S.)

Population increase of 2.6%
from 2010-2020 (42nd in U.S.)

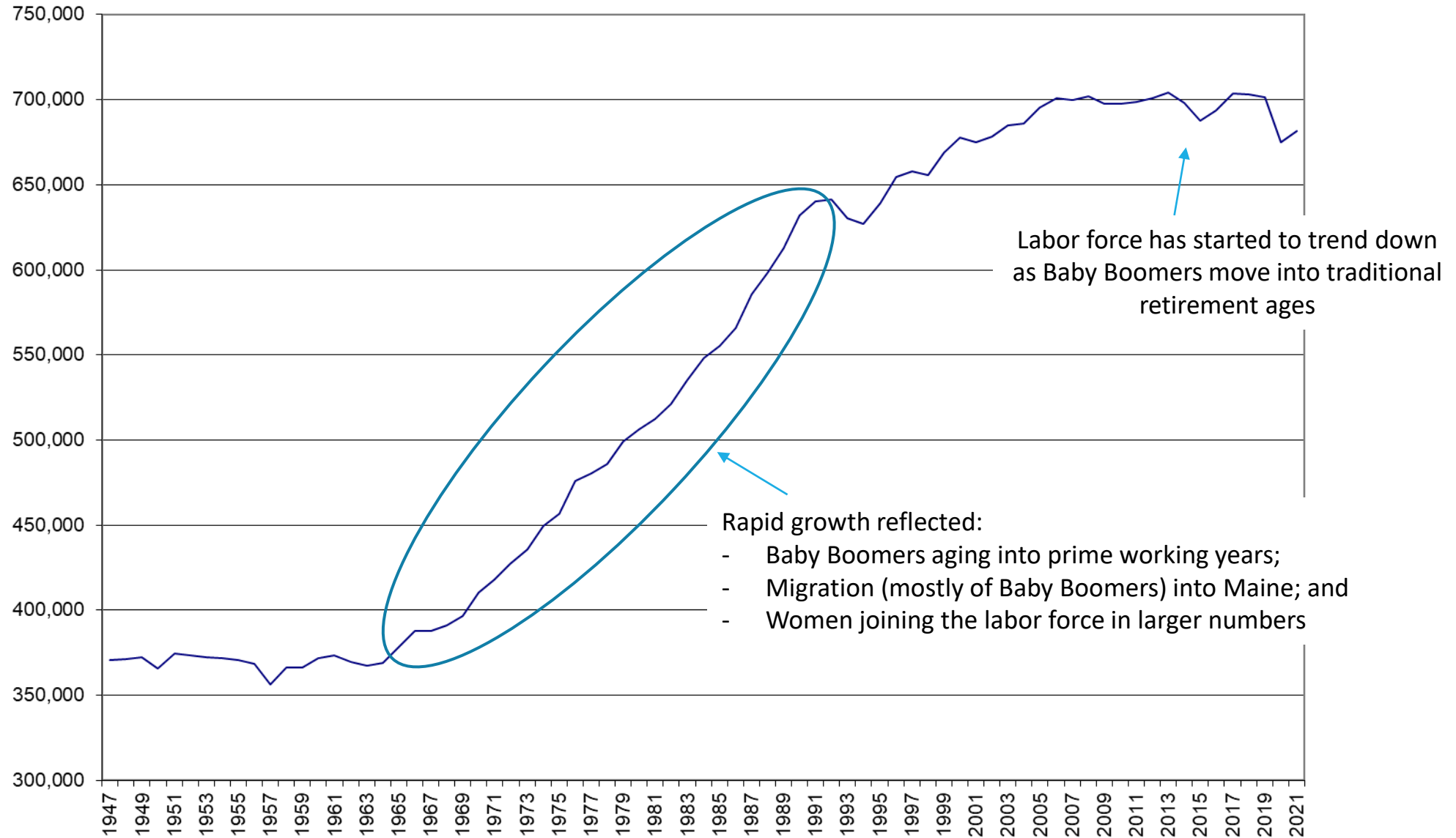
Population increase of 1.7%
from 2020-2022
(14th in U.S.)

2022 net migration =
10.2 per thousand
(11th in U.S.)



Labor Force Participation

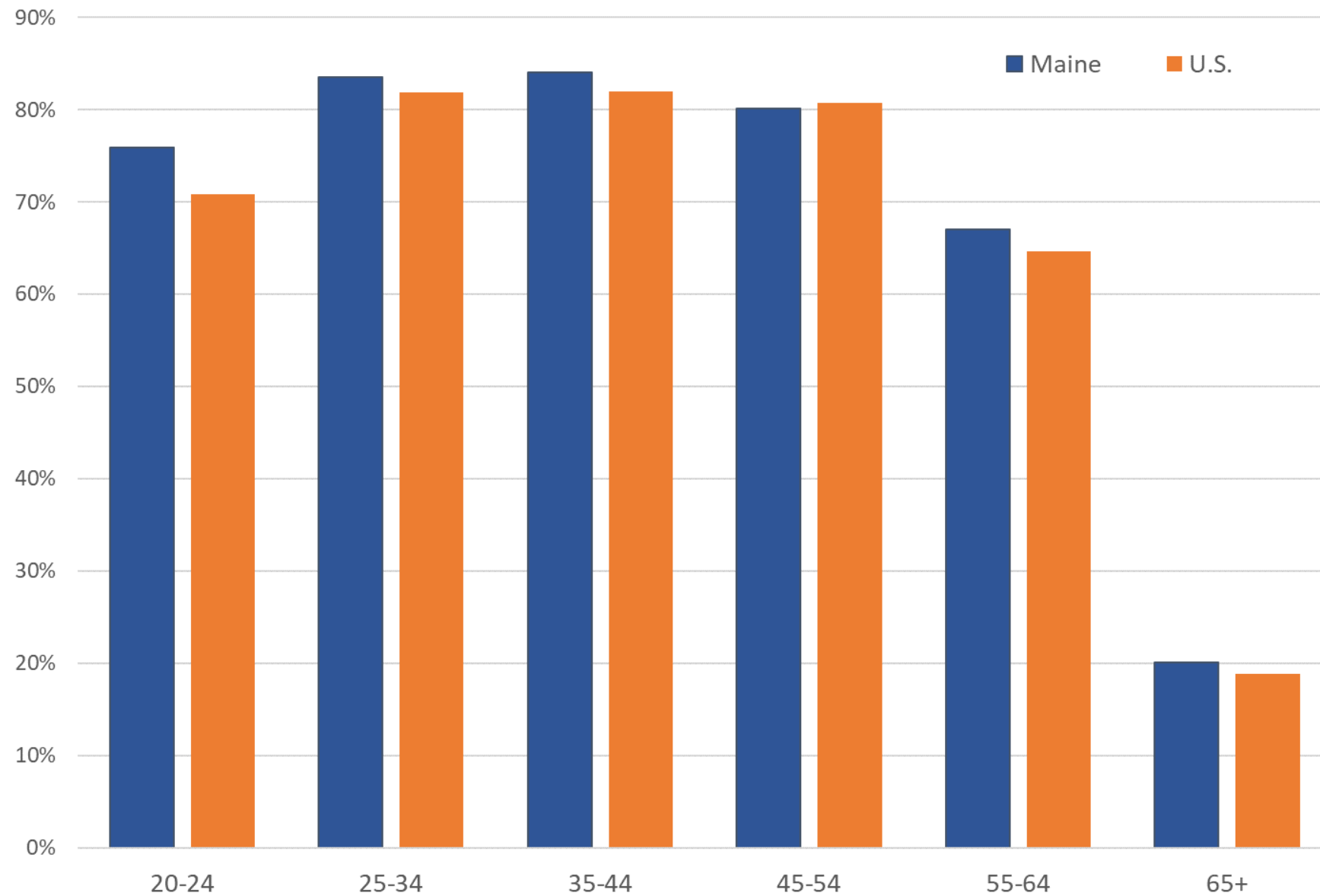
Maine Civilian Labor Force



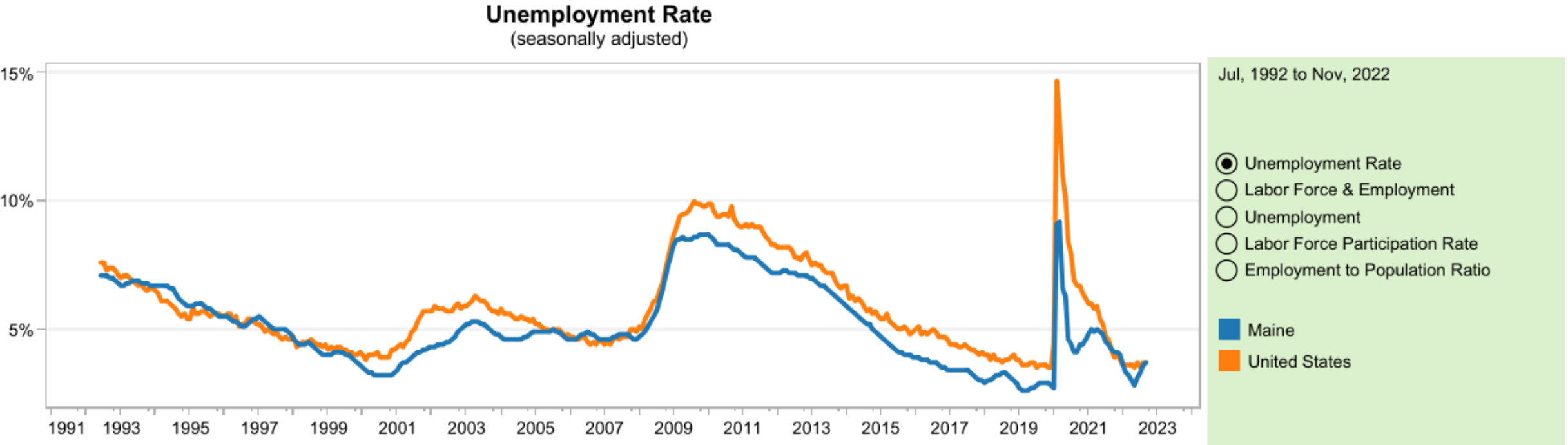
In the *Annual Workforce Report for 2021*, the Maine Department of Labor notes:

- The rising share of retired population is the primary factor in lower participation in the state.
- A higher share of retirement age population is the reason total labor force participation is lower in Maine than the nation.

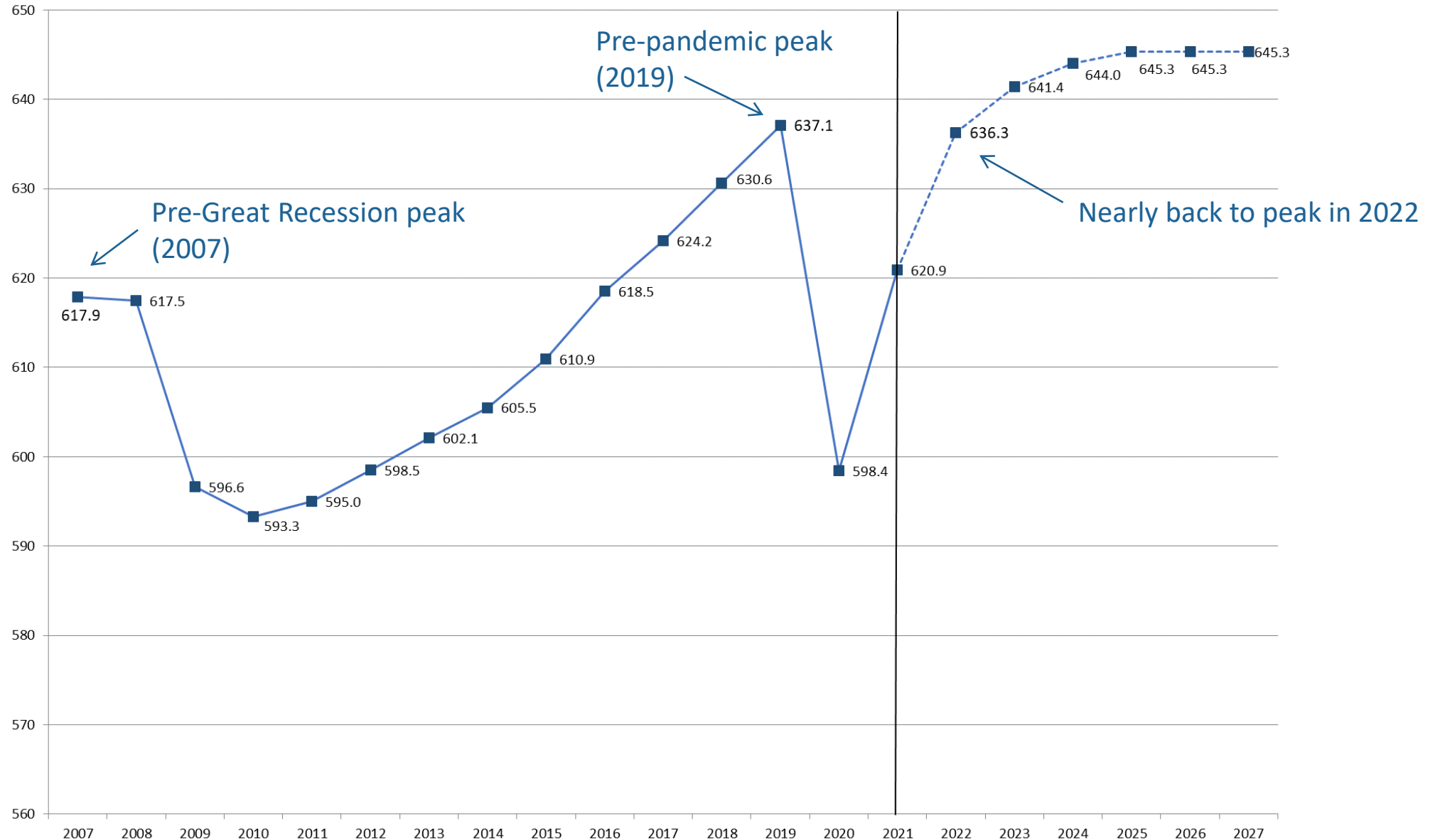
2021 Labor Force Participation Rate



Maine’s unemployment rate in November 2022 is above pre-pandemic levels but well below the long-run average unemployment

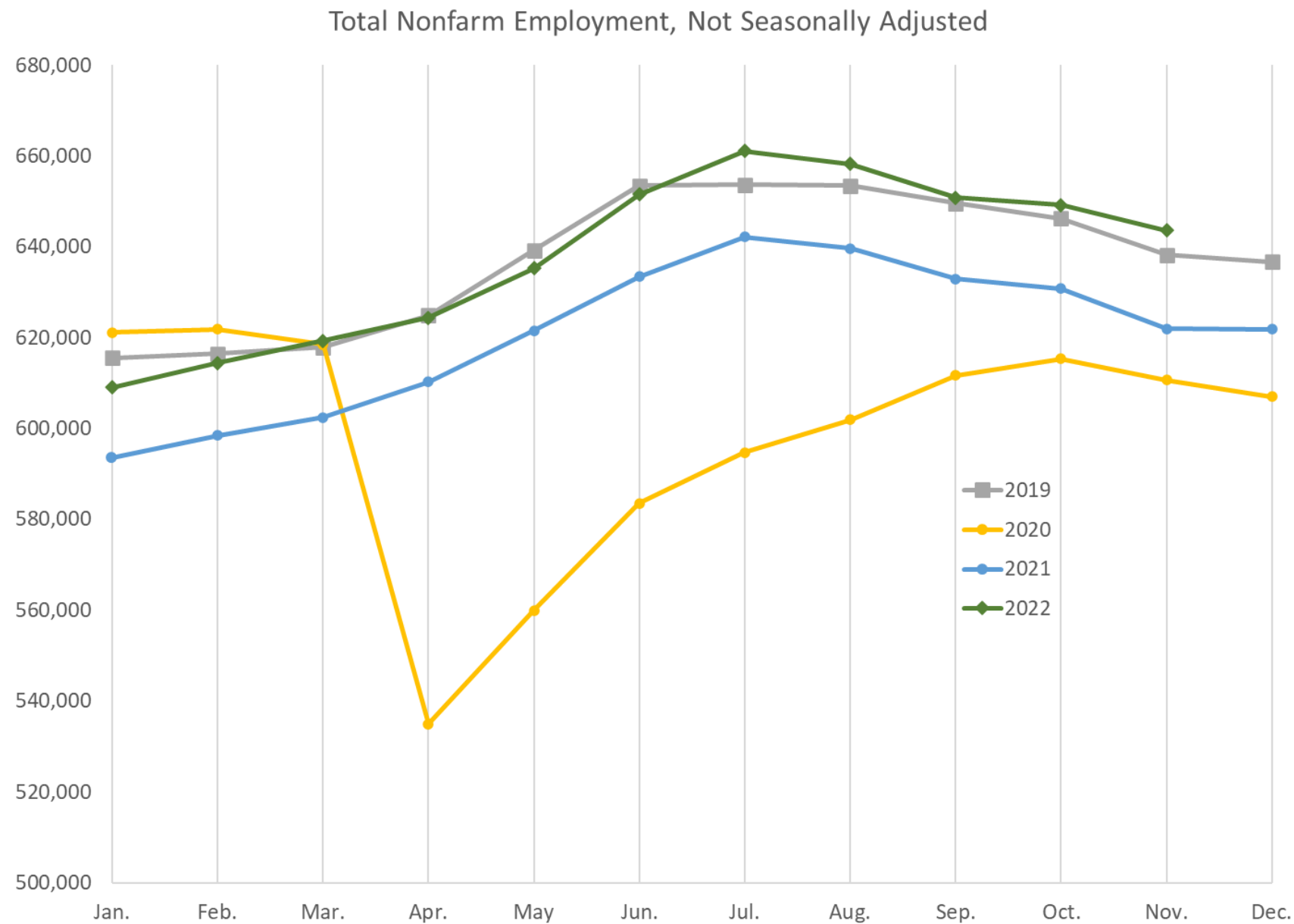


Total Nonfarm Employment (in thousands) History and CEFC forecast



Most sectors in November 2022 were near or above November 2019 levels, the exceptions being:

- healthcare and social assistance (mostly long-term care and social assistance)
- state government education (public higher education)



Workforce questions and considerations

Migration: will the trends continue?

- *Remote work*: here to stay, but hybrid situations are geographically limiting
- *Housing*: limited availability and unaffordability
- *Childcare*: limited availability and unaffordability

Retirements: will some retirees rejoin the workforce?

Wages: will the tight labor market continue to put upward pressure on wages?

The Great Reshuffle: how does the search for “better” work pan out in the long run?

Self-employment: are more workers sticking with self-employment and gig work?

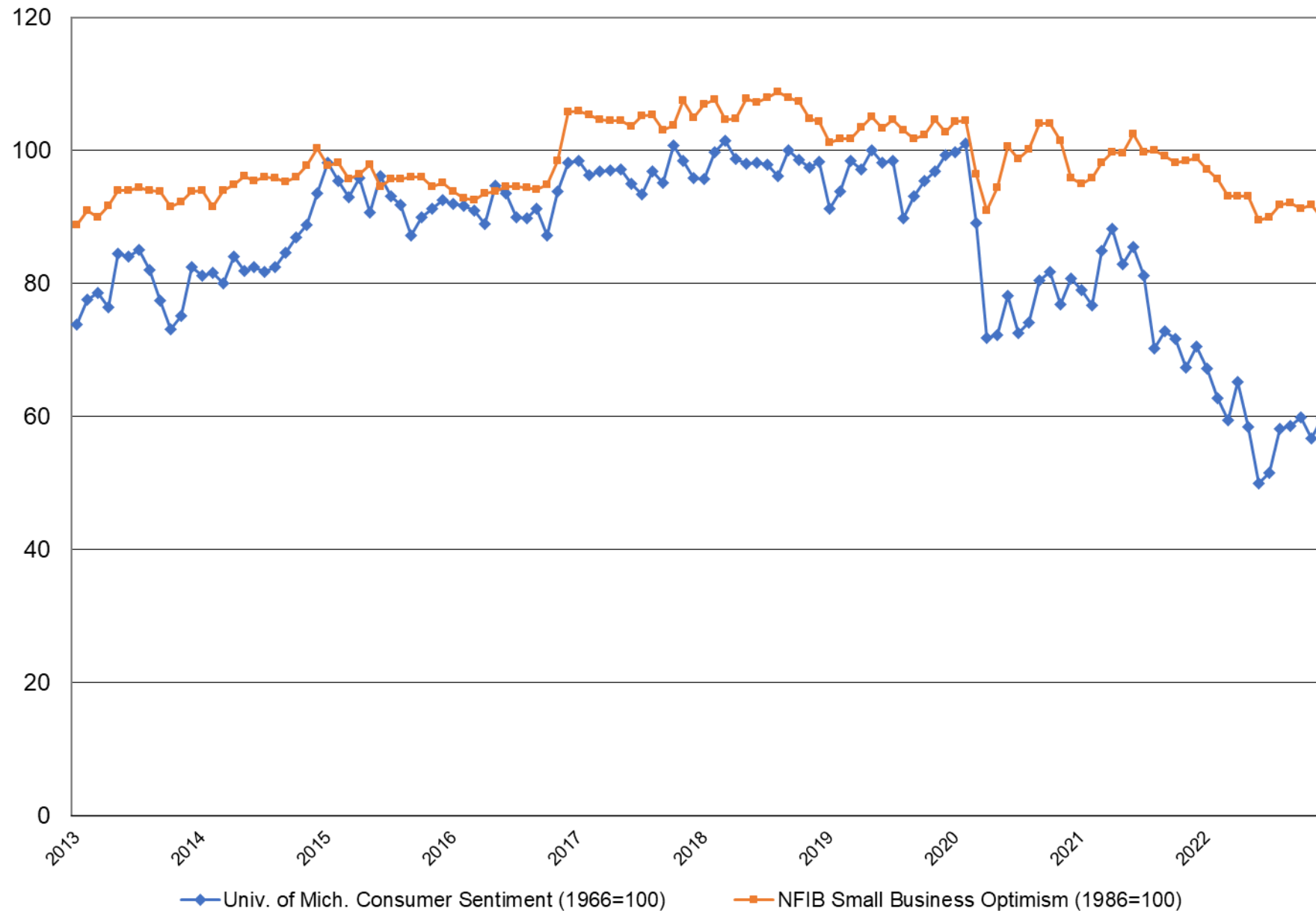
Automation: will employers who struggle to find workers substitute with technology?

The question on everyone's minds:

Will there be a U.S. recession in 2023???

Consumer and Business Sentiment

Consumer Sentiment and Small Business Optimism Indexes



Ongoing rollout of federal funds and other potential “cushions”

Continuing rollout of funding from the Maine Jobs and Recovery Plan (which distributes the nearly \$1 billion Maine received from the federal American Rescue Plan Act)

- Areas of focus based on 10-year Economic Development Strategy and recommendations of the Governor’s Economic Recovery Committee

- The Budget Stabilization Fund is at a record level of nearly \$900 million
- \$450 relief checks should help alleviate household budgets stressed by high energy prices

What am I thinking about for 2023?

1. Inflation, including energy and shelter
2. Interest rates
3. Housing
4. Migration
5. Labor force participation and workforce considerations
6. Recession?
7. Consumer and business sentiment
8. Ongoing roll-out of federal funds and other potential “cushions”

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