

An Outlook on Maine's Economy

MSSA WINTER CONVOCATION

APRIL 7, 2022

AMANDA RECTOR

MAINE STATE ECONOMIST

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES



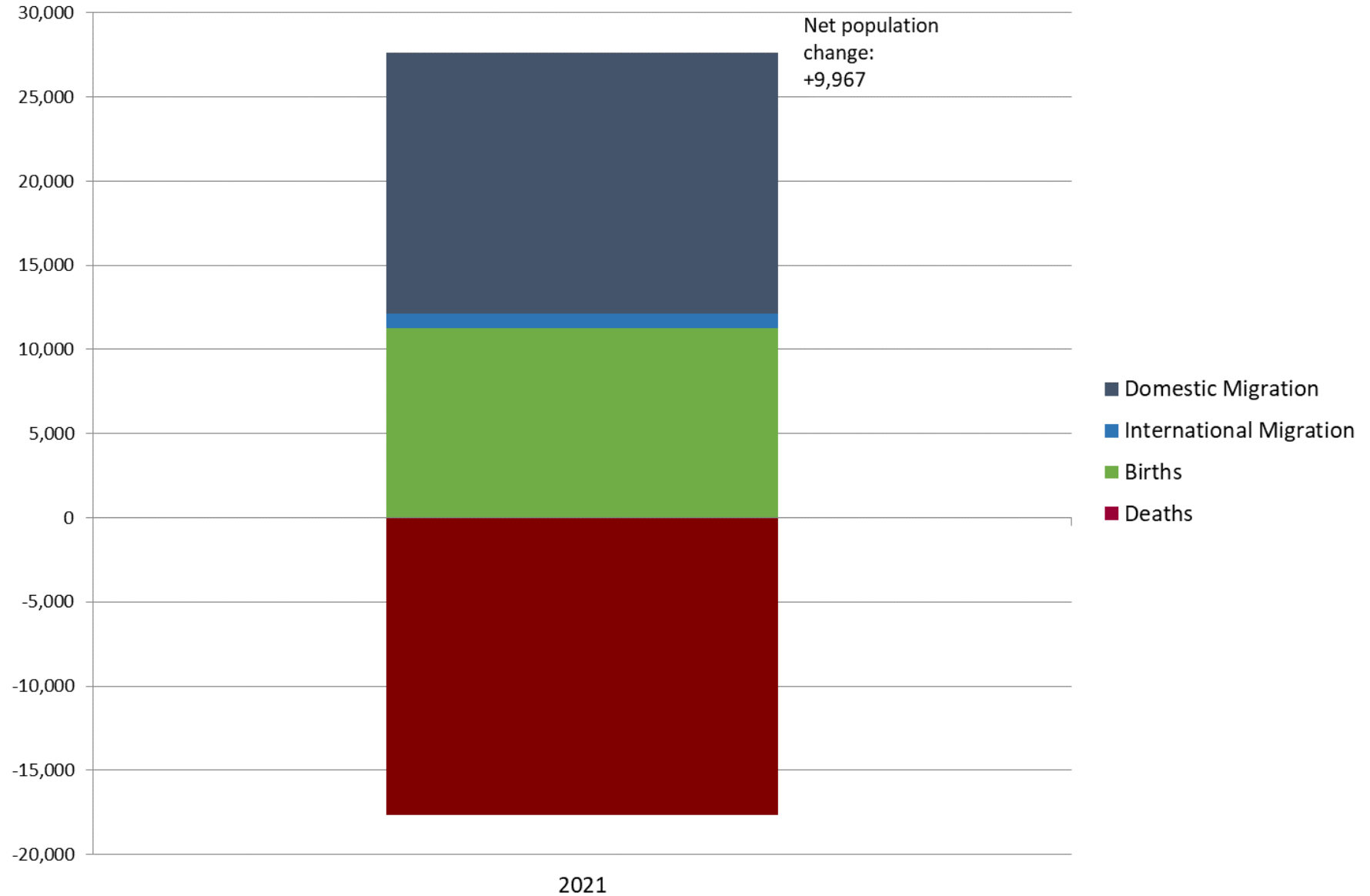
Components of Population Change, Maine

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

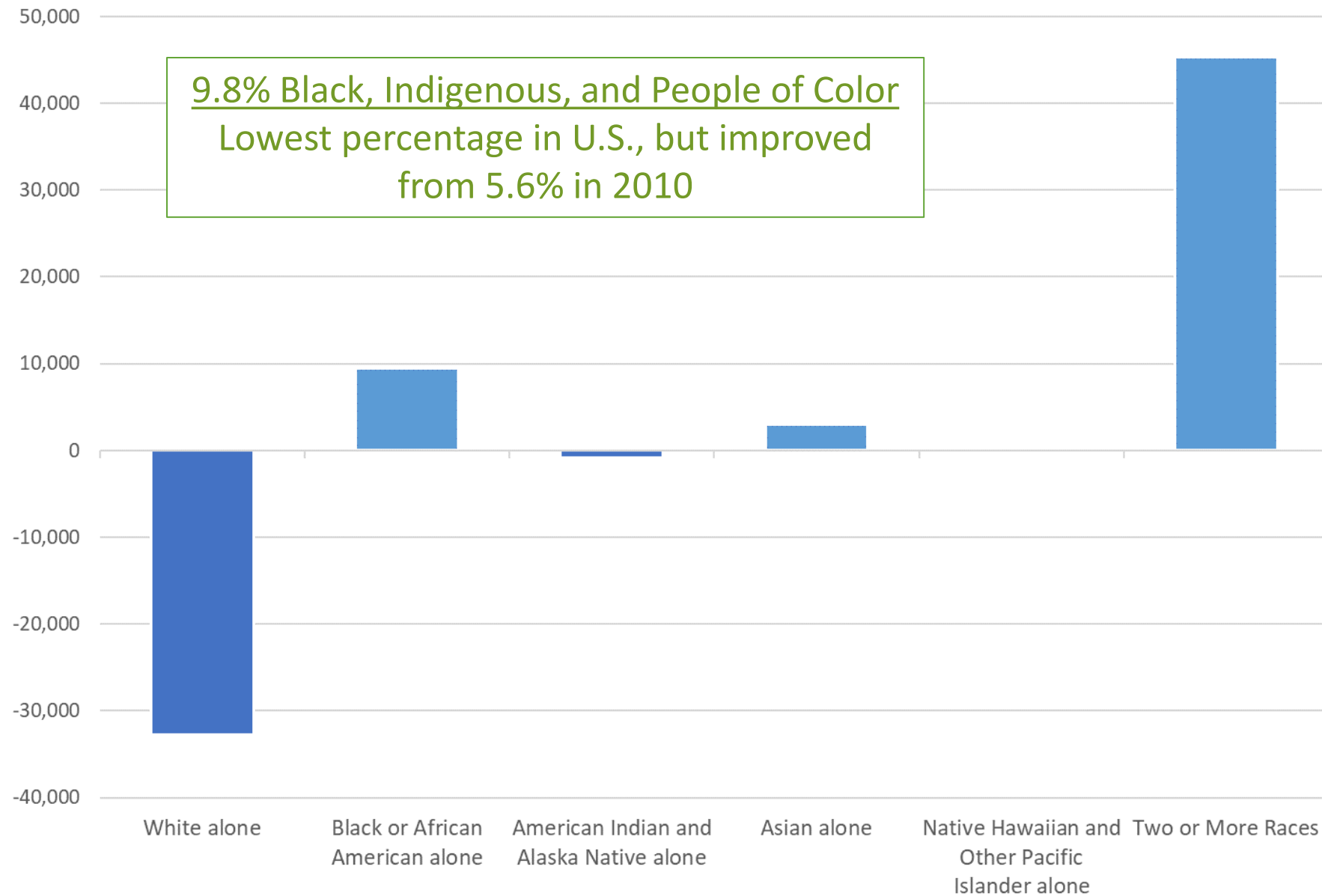
Population increase of 2.6%
from 2010-2020 (42nd in U.S.)

Population increase of 0.7%
from 2020-2021 (14th in U.S.)

Net migration = 12.0 per
thousand (7th in U.S.)

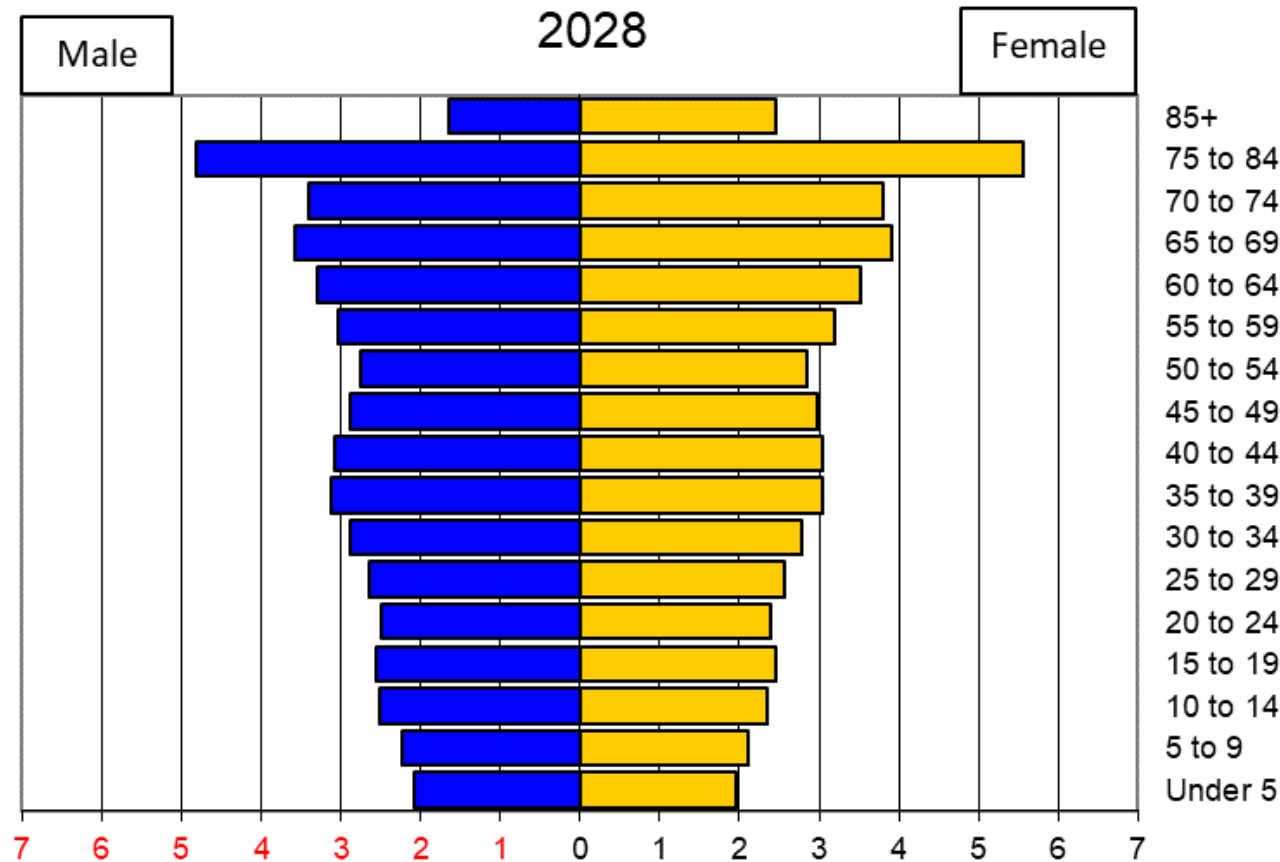


Change in Maine Population by Race, 2010-2020

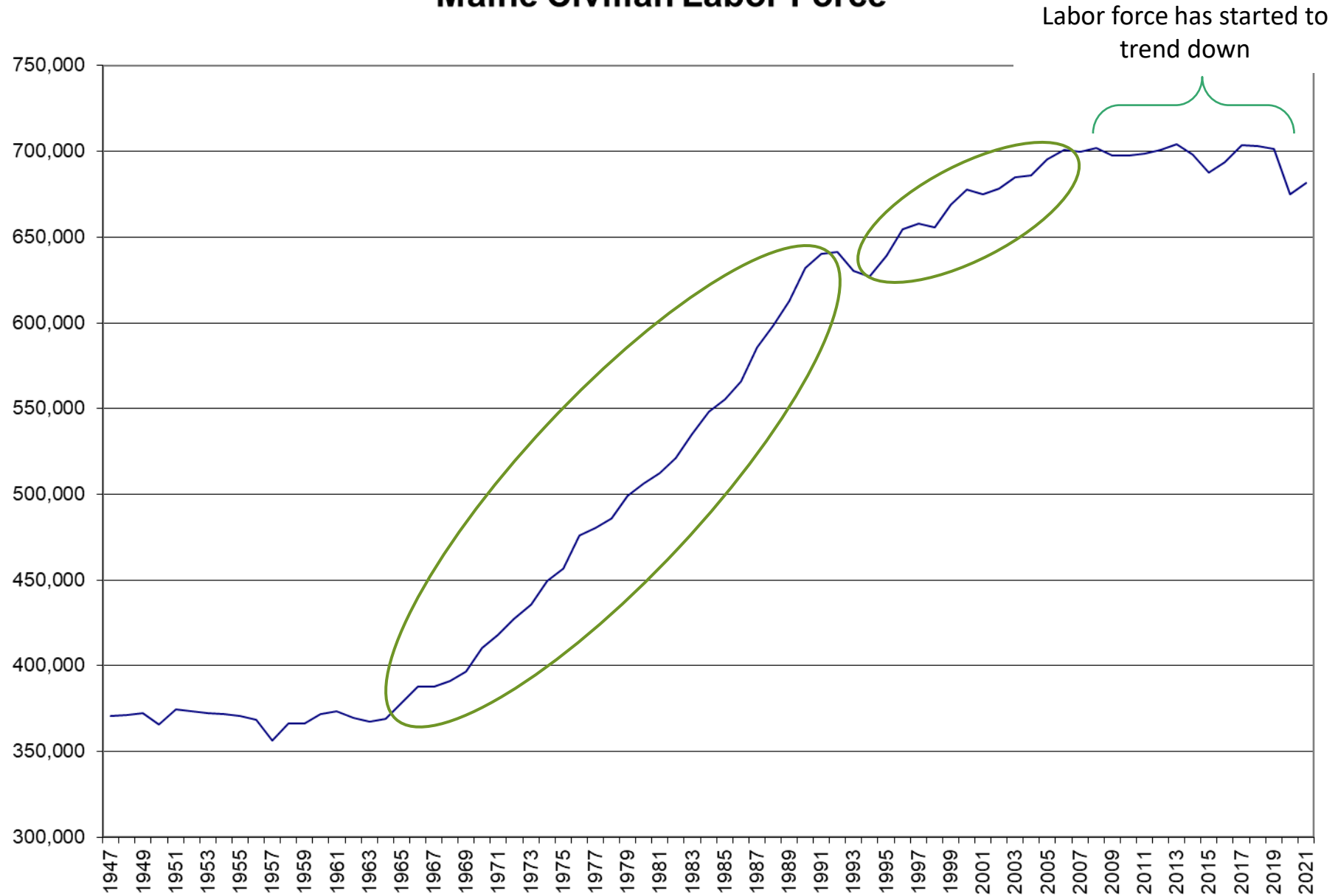


The Baby Boom Wave

Maine is the oldest state...
...by median age (45.0 years)
...and by % of population age 65+ (21.3%)

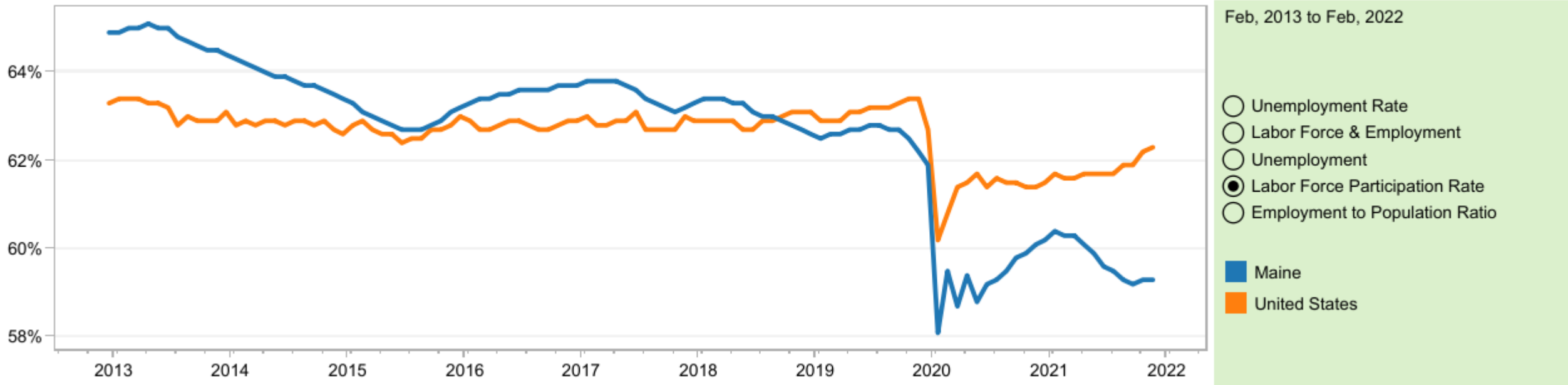


Maine Civilian Labor Force



In Feb. 2022, unemployment in Maine was 7,200 higher than in Feb. 2020 and the labor force was 19,500 lower

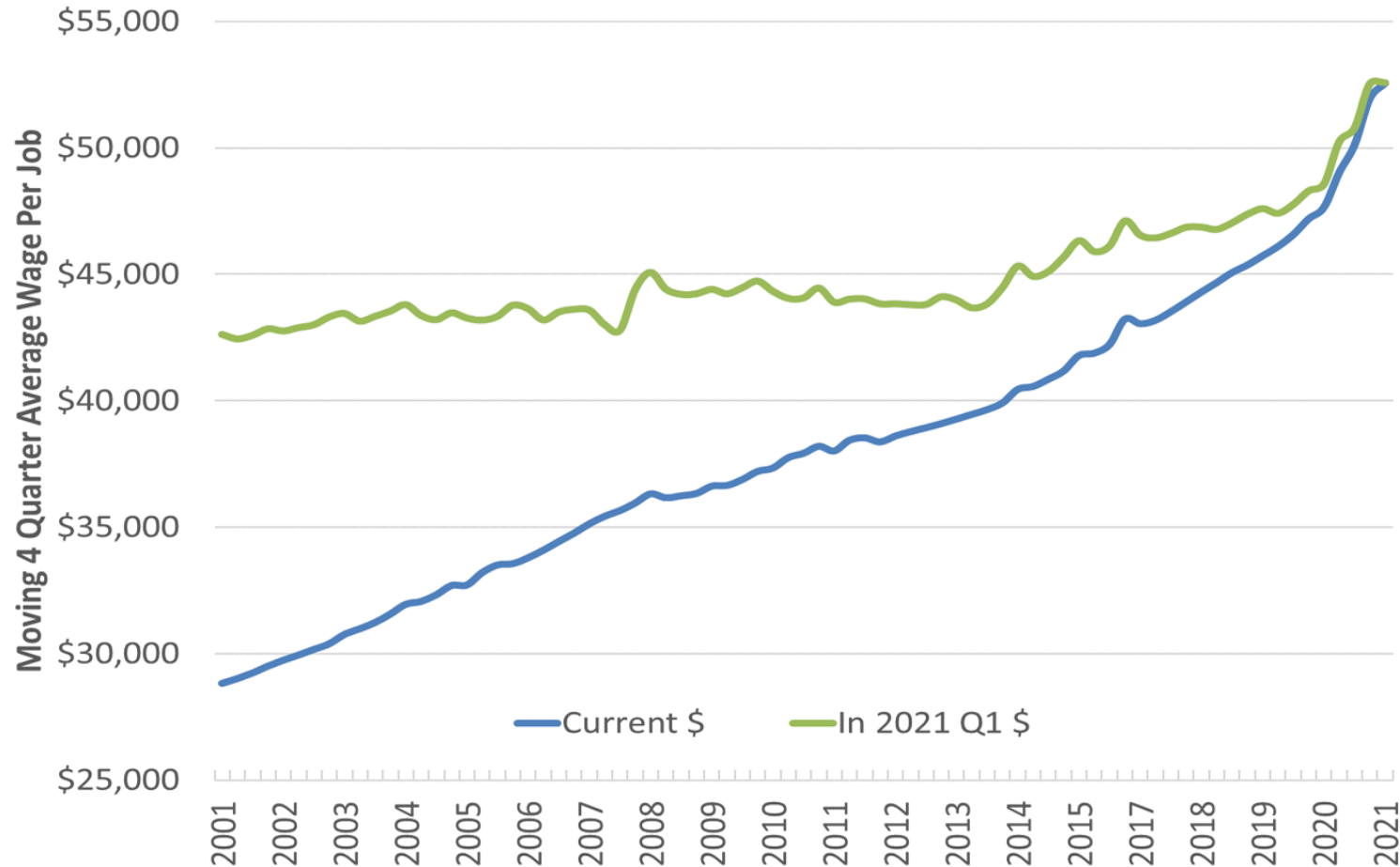
Labor Force Participation Rate
(seasonally adjusted)



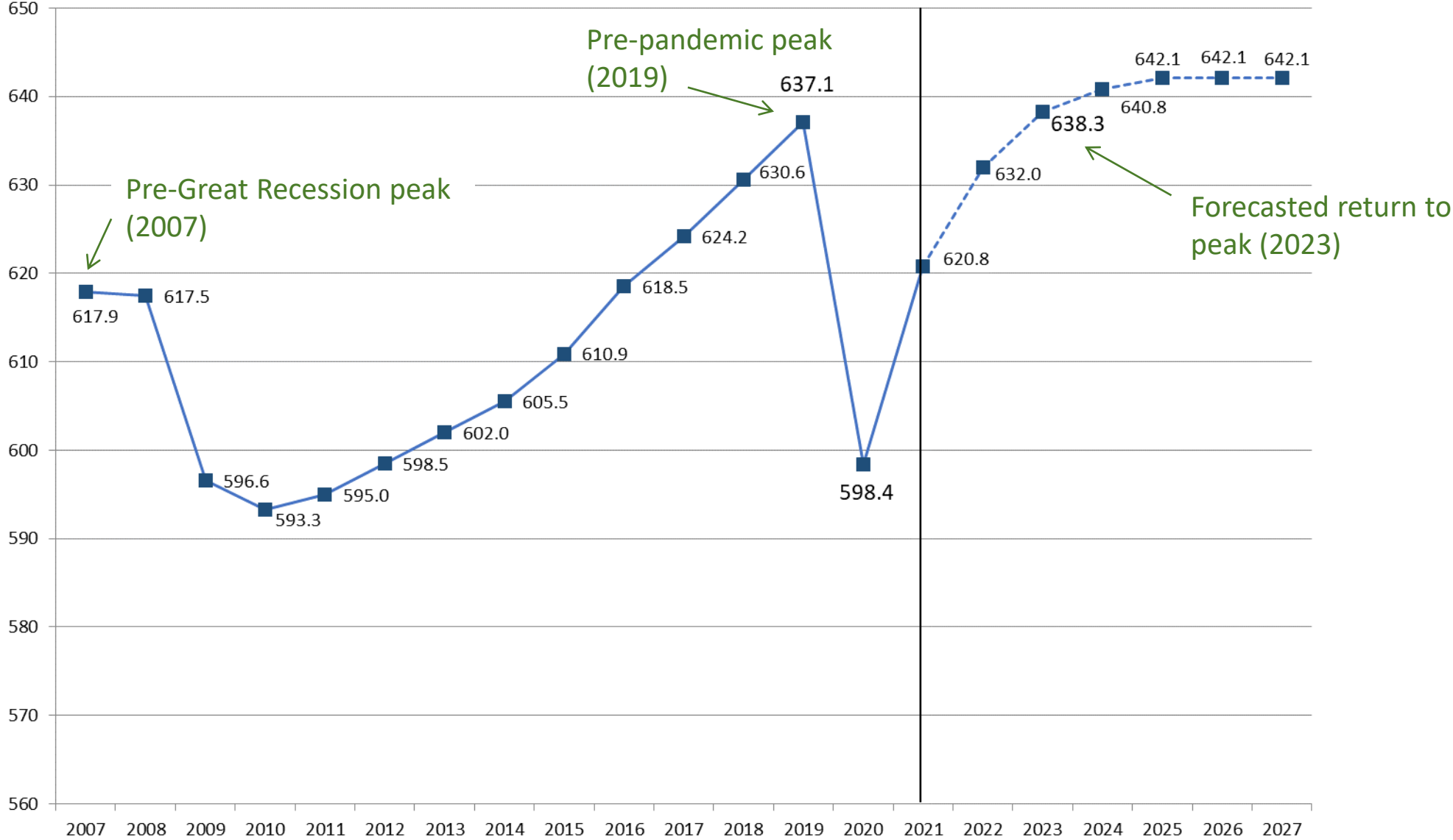
The Maine Department of Labor estimates that around two-thirds of the people who have left the labor force during the pandemic could be retirees

Nationally, in 2020, 22% of all parents were either not working (9%) or working less (13%) due to disruptions to childcare or education

Higher total wages spread across fewer jobs drove the average wage per job up sharply in the pandemic era

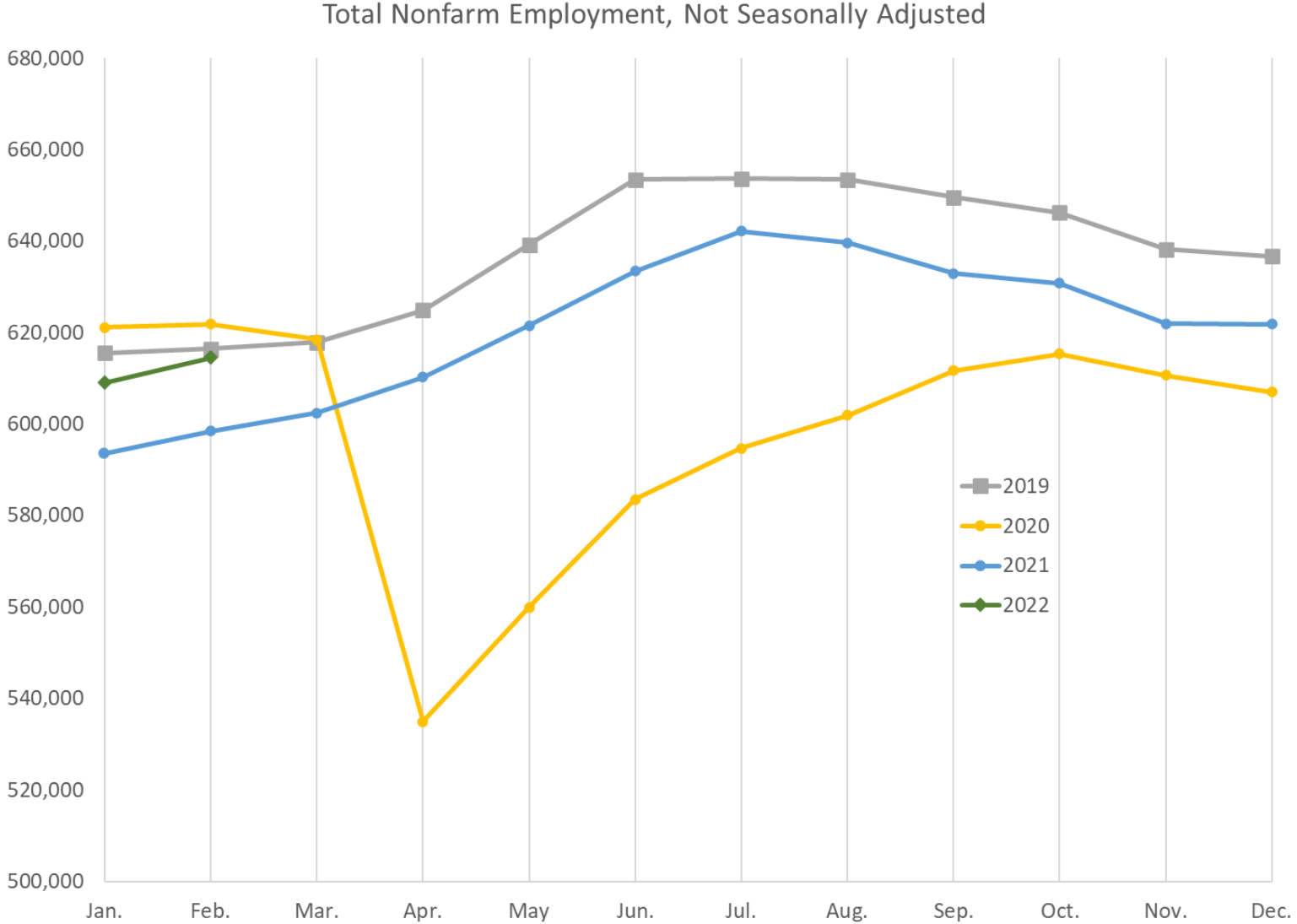


Total Nonfarm Employment (in thousands) History and CEFC forecast

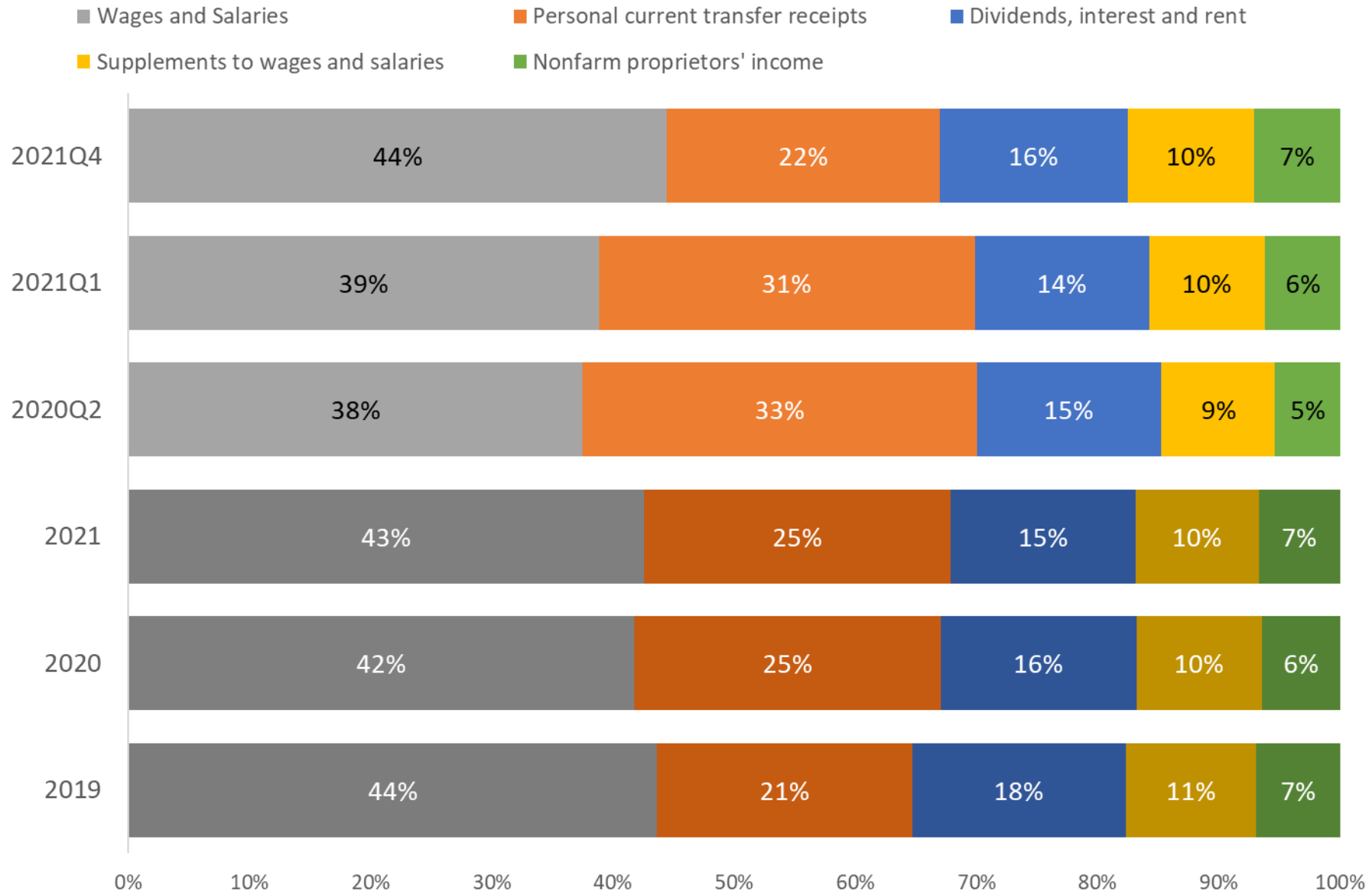


Sectors with remaining employment loss between Feb. 2020 and Feb. 2022:

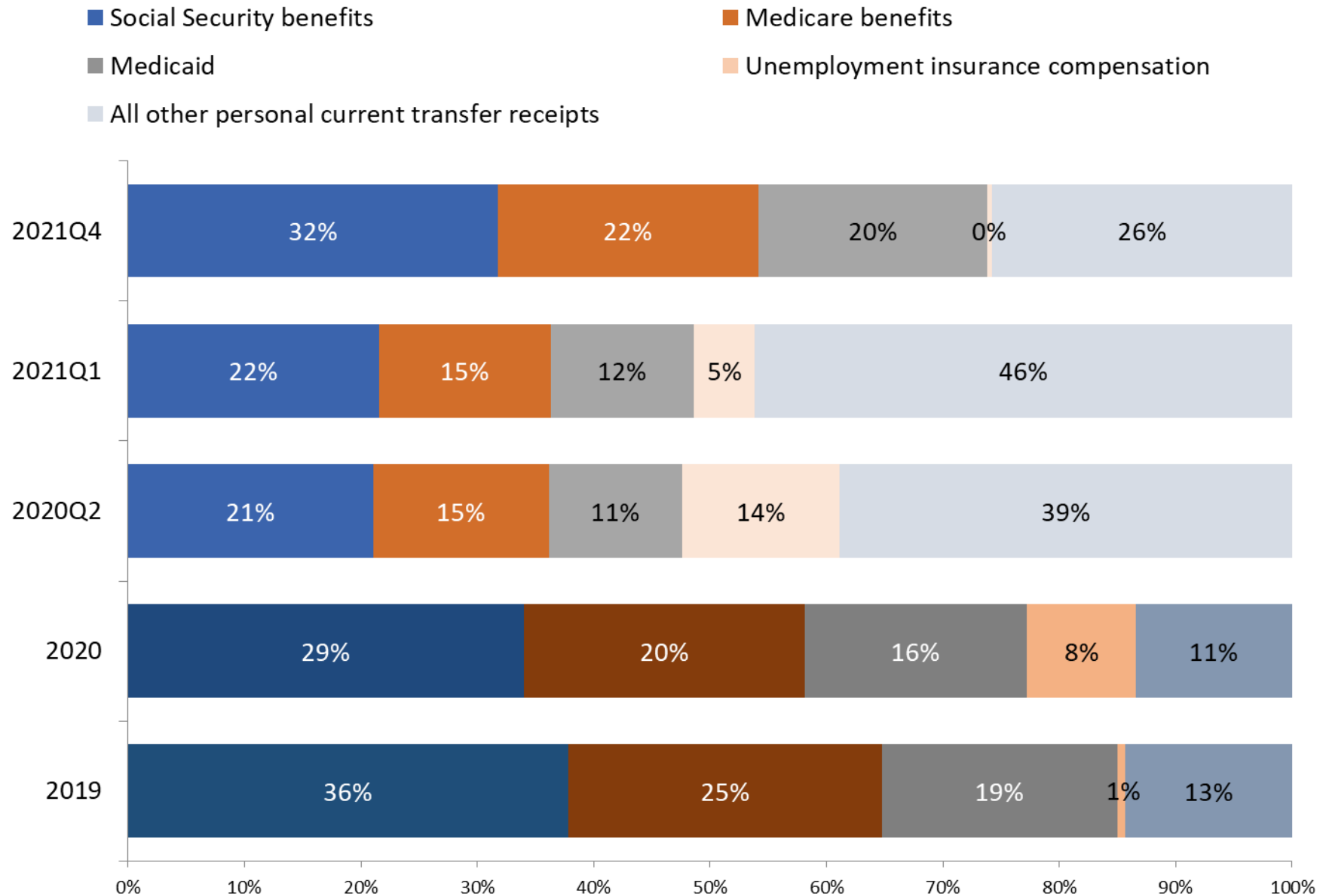
- 5,700 in healthcare and social assistance (half in long-term care, half split between hospitals and social assistance)
- 4,300 in leisure and hospitality (mostly restaurants and bars)
- 4,100 in state and local government (about two-thirds public education)



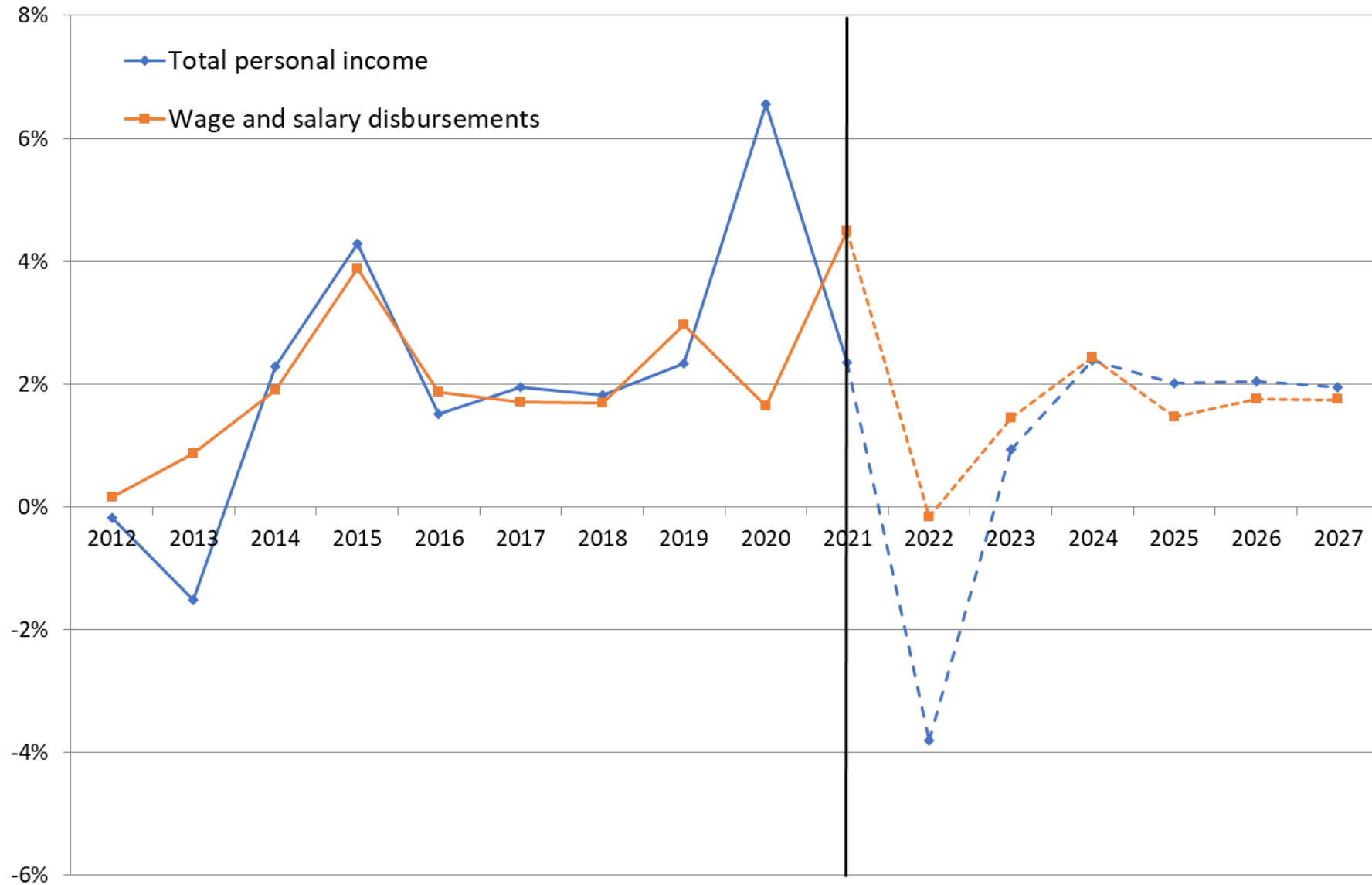
Major Components of Personal Income, Maine



Components of Personal Current Transfer Receipts, Maine



Percent Change in Real Personal Income, Maine 2012-2021 and forecast to 2027



March 2022 Revenue Forecasting Committee (RFC) report

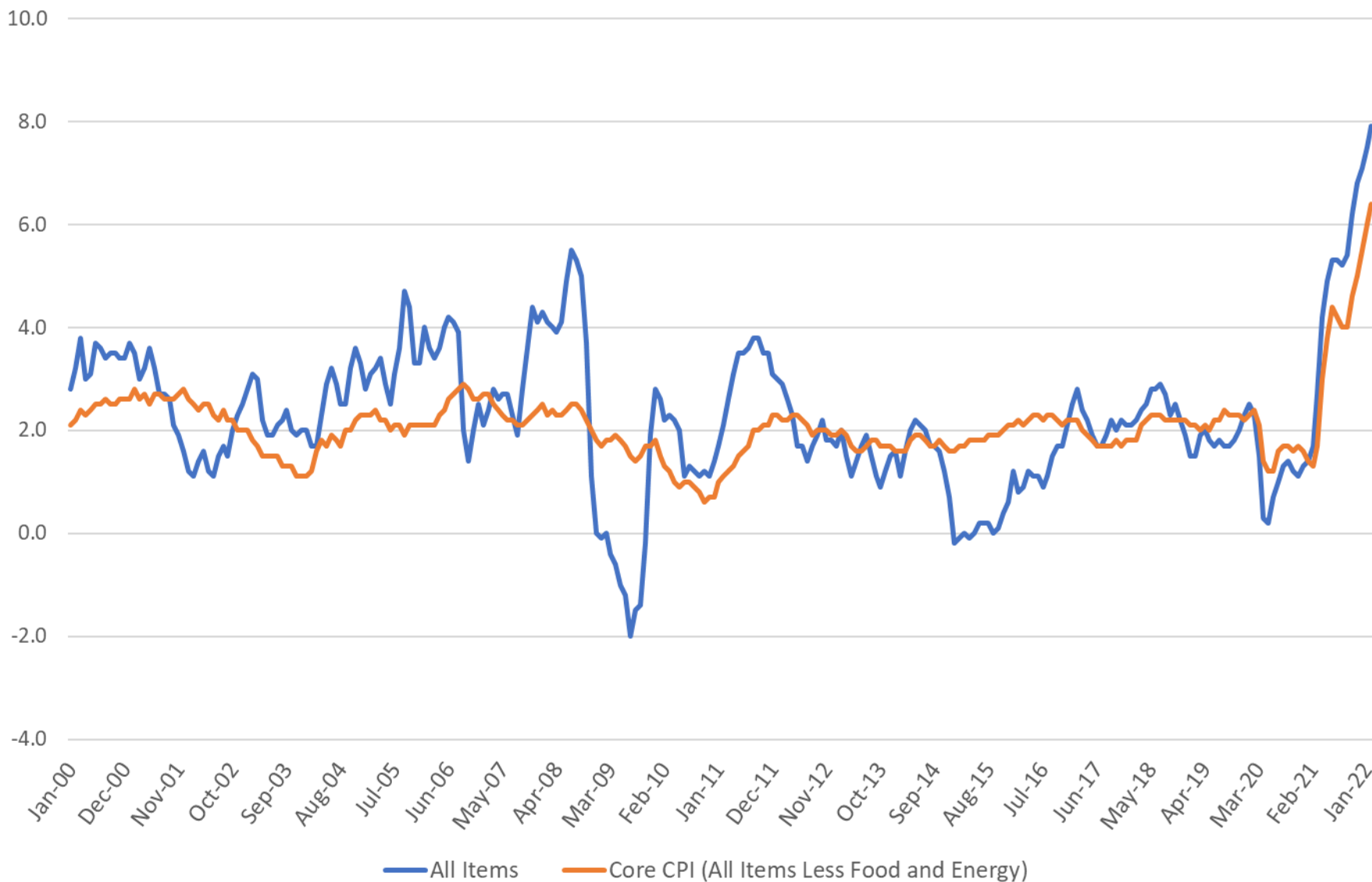
Upward adjustments to wage and salary income (as well as proprietors' income) resulted in upward adjustments to the latest revenue forecast

Tax year 2021 withholding and estimated payments growth were very strong and significantly over budget (from the Dec. 2021 revenue forecast)

February 2022 Consensus Economic Forecasting Commission report highlights

Calendar Years	2020	2021	2022	2023	2024	2025	2026	2027
Wage & Salary Employment (Annual Percentage Change)								
CEFC Forecast 02/2020	0.5	0.2	0.1	0.0	0.0	0.0		
CEFC Forecast 11/2021	-6.4	3.7	2.3	1.0	0.7	0.7		
CEFC Forecast 02/2022	-6.4	3.7	1.8	1.0	0.4	0.2	0.0	0.0
Personal Income (Annual Percentage Change)								
CEFC Forecast 02/2020	4.1	4.0	3.7	3.5	3.5	3.5		
CEFC Forecast 11/2021	7.9	5.2	0.5	4.6	4.8	4.6		
CEFC Forecast 02/2022	7.9	6.5	1.7	5.0	4.9	4.6	4.6	4.5
Wage and Salary Income (Annual Percentage Change)								
CEFC Forecast 02/2020	4.1	3.7	3.4	3.2	3.2	3.2		
CEFC Forecast 11/2021	2.9	5.5	5.0	5.0	5.0	4.0		
CEFC Forecast 02/2022	2.9	7.7	6.5	5.5	5.0	4.0	4.3	4.3
CPI (Annual Percentage Change)								
CEFC Forecast 02/2020	1.9	2.0	2.0	2.0	2.0	2.0		
CEFC Forecast 11/2021	1.2	4.4	3.5	2.1	2.1	2.1		
CEFC Forecast 02/2022	1.2	4.7	5.0	4.0	2.5	2.5	2.5	2.5

Year-over-year percent change in Consumer Price Index (1982-84=100, seasonally adjusted)

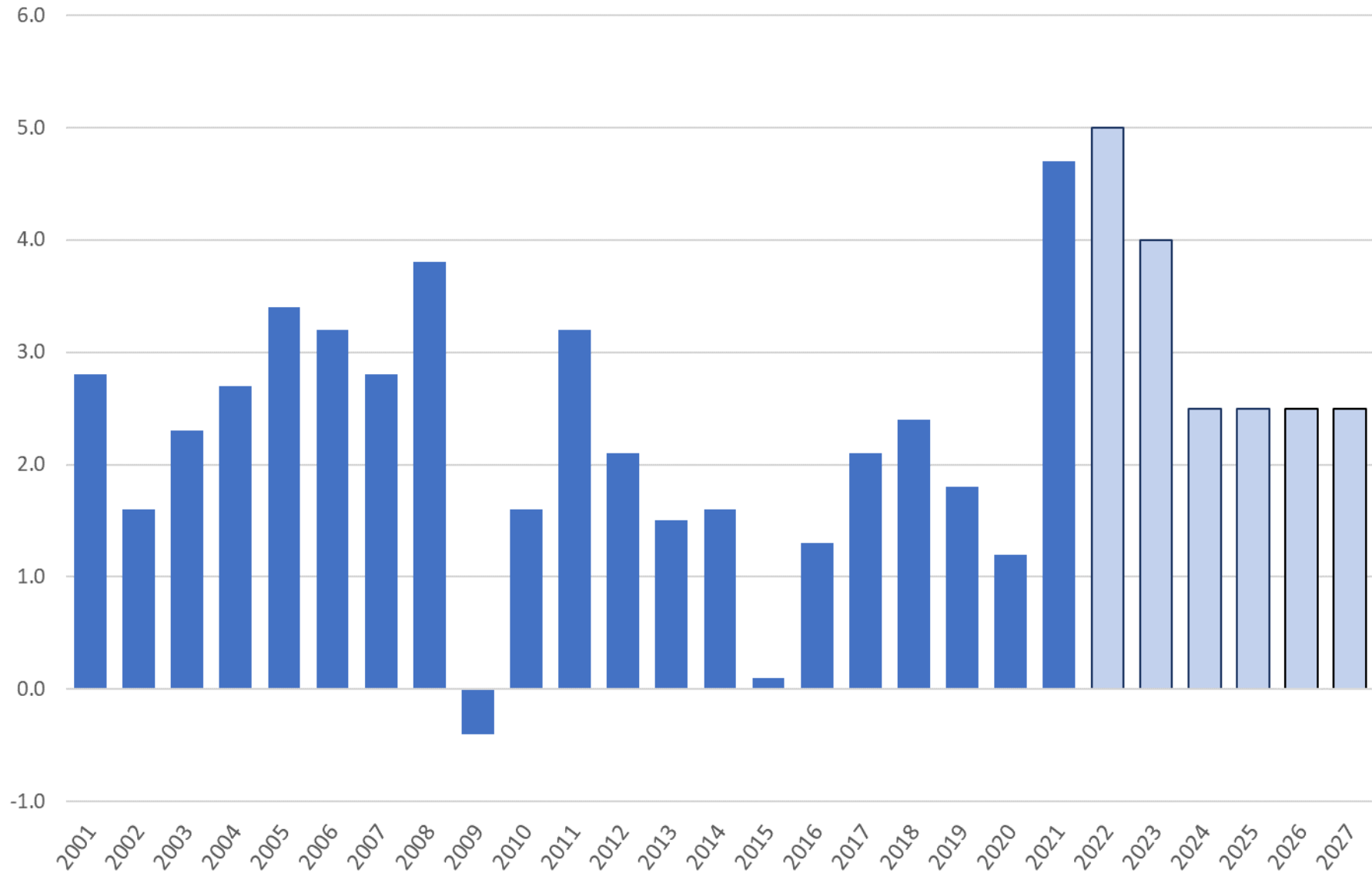


For the revenue forecast, higher inflation reduces revenues, all else equal

Income tax brackets for Maine as well as federal standard deduction and other parameters are adjusted according to inflation

Higher inflation means lower tax liability and lower revenues, leaving out any other changes that might occur

Year-over-year percent change in Consumer Price Index (1982-84=100, seasonally adjusted)



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

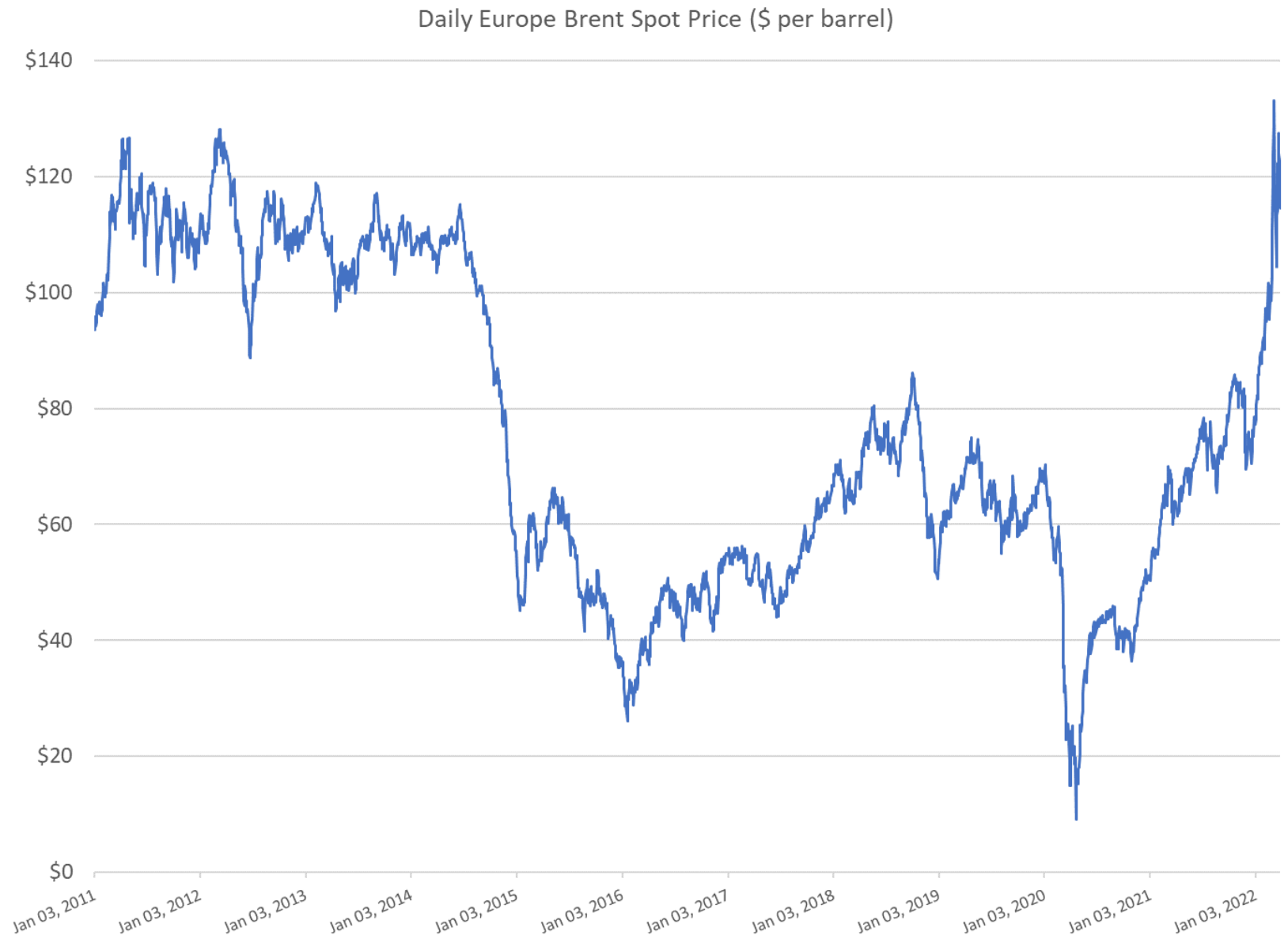
Next year: 4.9%
(up from 3.3% one year ago)

Next 5 years: 3.0%
(up from 2.7% one year ago)

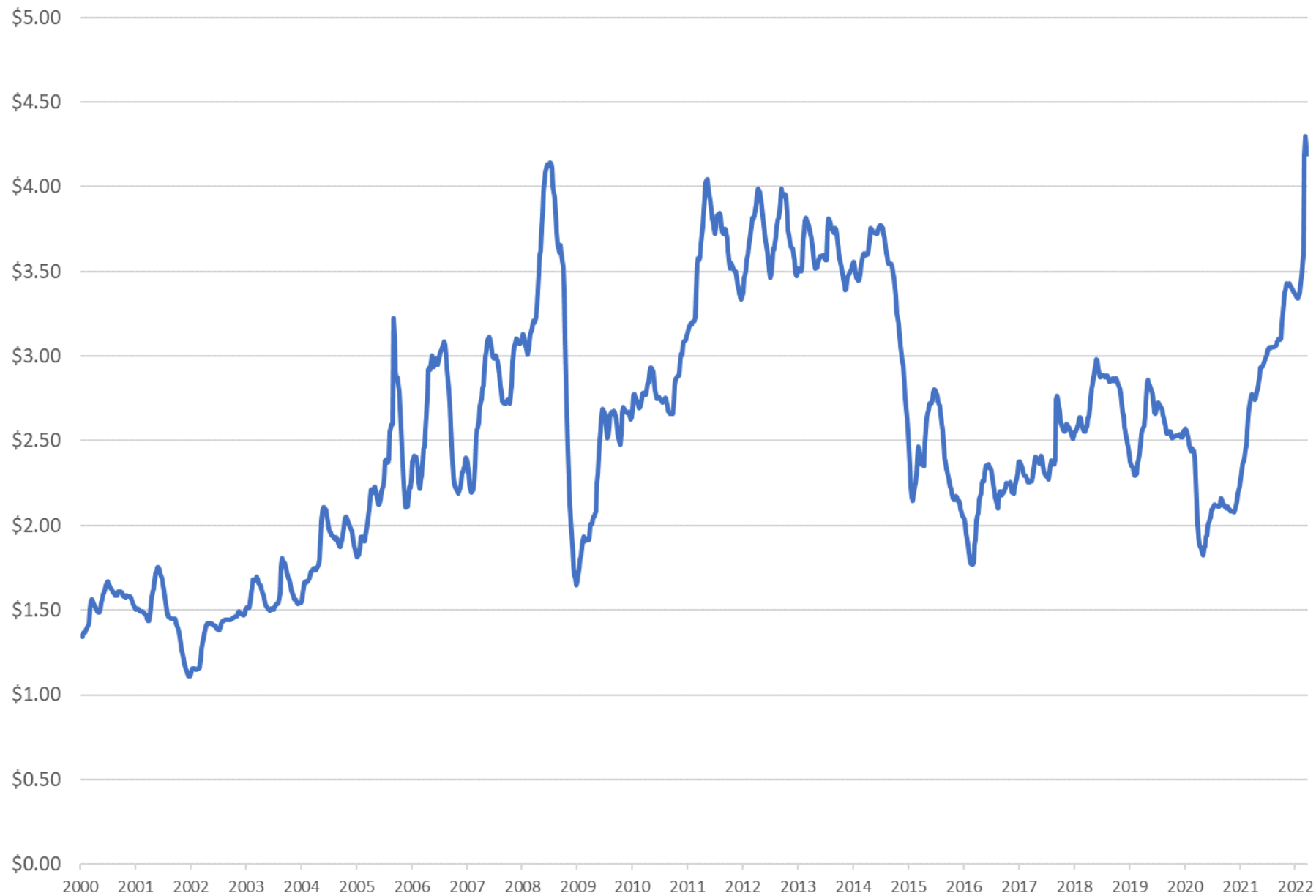
Sources: U.S. Bureau of Labor Statistics; CEFC report, February 1, 2022; University of Michigan Survey of Consumers

Oil prices have increased and are highly volatile

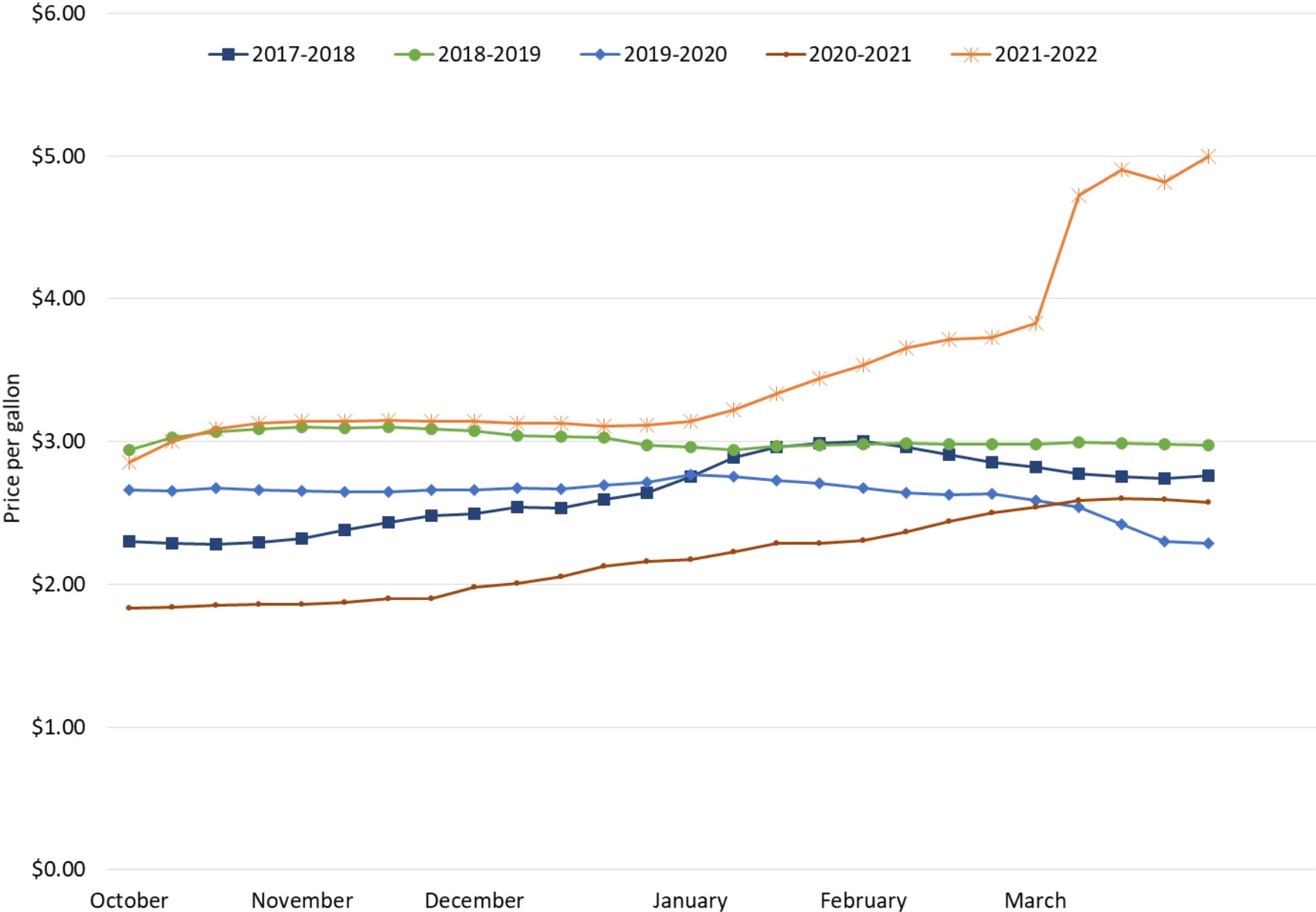
- As of March 28, 2022, the daily Brent spot price was \$114.50
- Prices have recently reached levels not seen since 2008



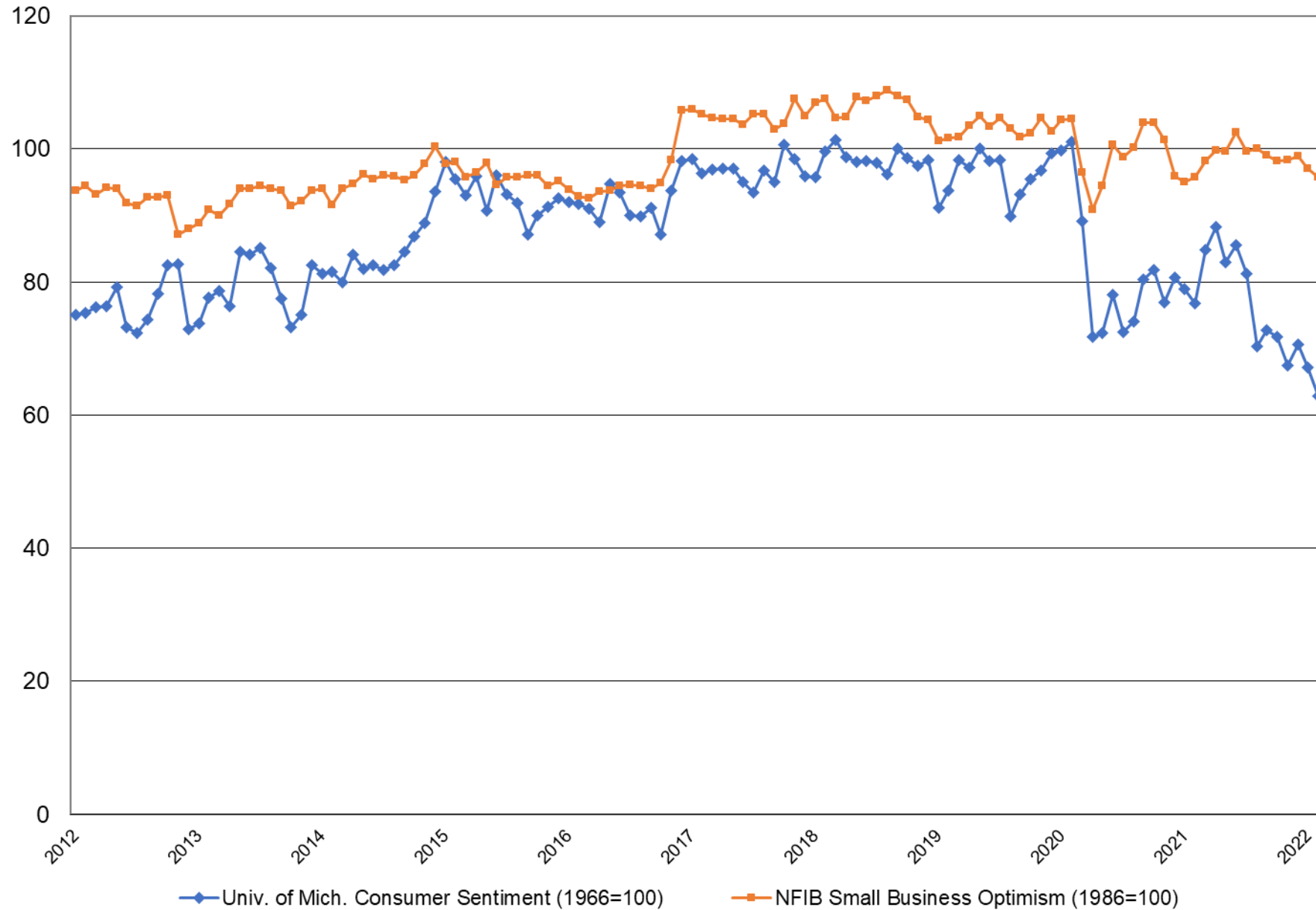
New England - Regular All Formulations Retail Gasoline Price Per Gallon



Maine No. 2 Heating Oil Residential Price



Consumer Sentiment and Small Business Optimism Indexes



Maine Taxable Retail Sales	% Change from Jan. 2021 to Jan. 2022	% Change from Jan. 2020 to Jan. 2022	% Change last three months / same 3 month period one year ago
Building Supply	4.2%	32.8%	8.9%
Food Store	2.0%	8.0%	1.3%
General Merchandise	-3.0%	15.1%	10.0%
Other Retail	2.3%	46.2%	10.2%
Restaurant	10.9%	-6.6%	29.4%
Lodging	61.9%	50.2%	78.4%
Auto Transportation	0.6%	17.1%	5.4%
Total	4.2%	21.5%	11.0%

March 2022 revenue forecast assumes a return to longer-term growth trend (3.0%-3.5%) for sales and use tax revenues starting in FY23

Federal supports including stimulus payments and enhanced UI played a role in reducing poverty in 2020

Official 2020 U.S. poverty rate = 11.4%, 1.0 percentage points higher than 2019

Supplemental Poverty Measure (SPM) = 9.1%, 2.6 percentage points LOWER than 2019

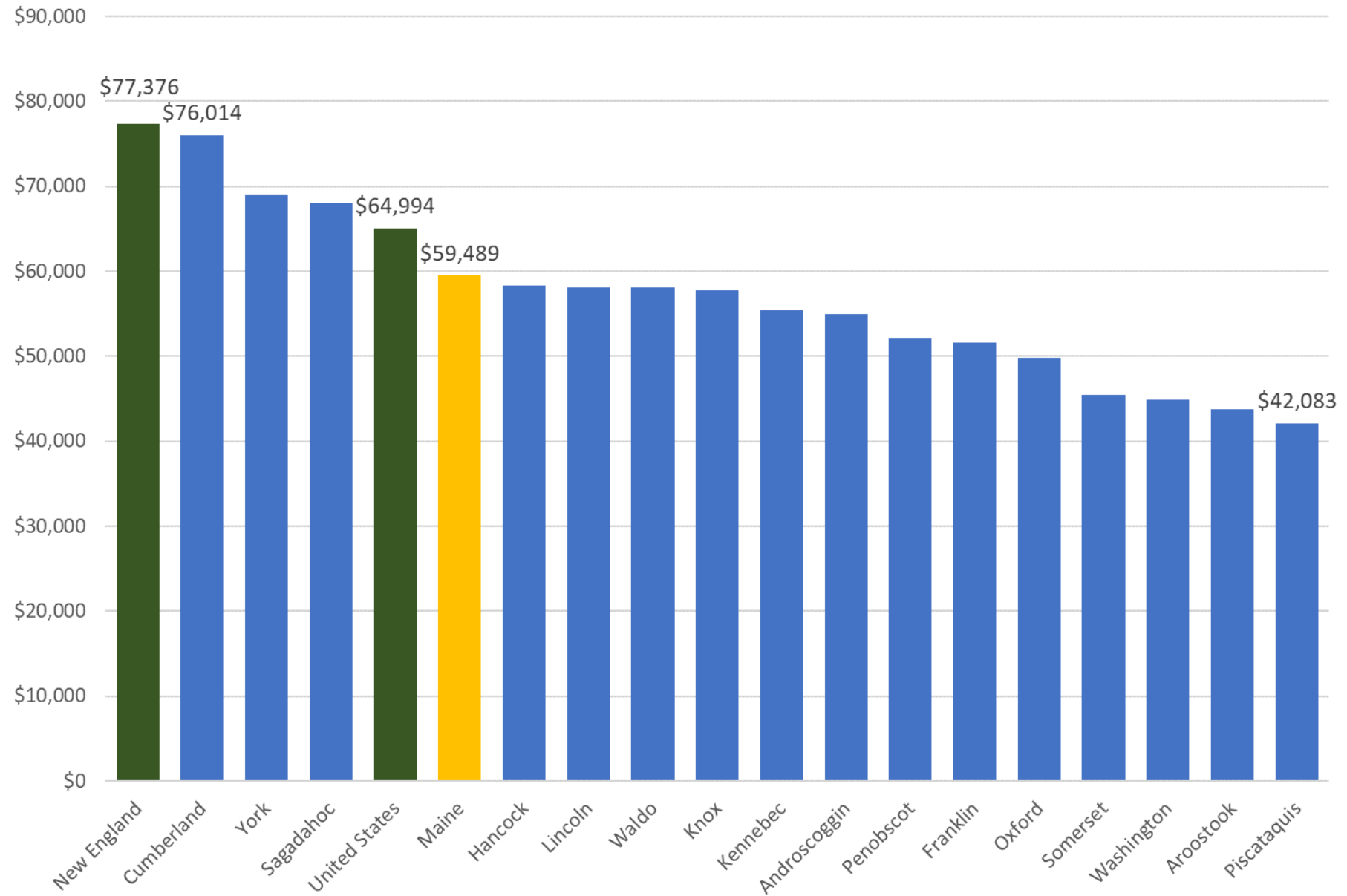
- Without stimulus payments, the SPM would have been 12.7%

Maine was one of 30 states where the 2018-2020 SPM (7.3%) was lower than the official measure (10.0%)

Nationally, people moved out of poverty due to federal programs:

- Social Security moved 26.5 million people out of poverty
- Unemployment benefits = 5.5 million
- Stimulus payments = 11.7 million

Median Household Income



The ongoing roll-out of funding from the **Maine Jobs and Recovery Plan** (which distributes the nearly **\$1 billion** Maine is getting from the federal American Rescue Plan Act) will continue to bolster economic activity

- Areas of focus based on 10-year Economic Development Strategy and recommendations of the Governor's Economic Recovery Committee
- \$300 million already rolling out for job training, housing/health care/childcare affordability, and small business assistance

<https://www.maine.gov/jobsplan/>

Latest RFC forecast – March 2022

General Fund revenues revised up:

- \$234.9 million in FY22 (to \$4.857 billion)
- \$176.8 million in FY23 (to \$4.881 billion)
- \$162.6 million in FY24 (to \$5.049 billion)
- \$198.1 million in FY25 (to \$5.247 billion)

March 2022 forecast reflects revenue collections through first seven months of FY22 and preliminary data through Feb. 2022 as well as Feb. 2022 CEFC forecast

FY22 risks are **mostly positive**, but FY23-FY25 portions of the forecast are “**volatile and susceptible to significant downside risk**”

Uncertainties include:

- inflation
- stock and real estate markets
- supply chain and labor force constraints
- new COVID variants
- international events

Things to keep in mind:

- The 2020 recession was both the deepest and the shortest (2 months) on record; federal support was crucial for staving off what could have been far worse economic consequences
- We're moving into an endemic phase of COVID, but widespread global vaccinations are needed to bring the public health crisis fully under control and minimize new variants
- Housing costs have increased sharply as demand far outstrips supply, limiting availability for workforce expansion; interest rate increases may cool some demand, but will make affordability a continuing problem
- Wages have increased, but so has inflation – real gains aren't as robust
- Other trends likely have been accelerated by the pandemic, e.g. gig work and automation
- What happens with remote work, retirements, migration, and job quality in the long term?
- Near- to medium-term global and national economic conditions are increasingly uncertain

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