

Trends and Outlooks for the Maine Economy

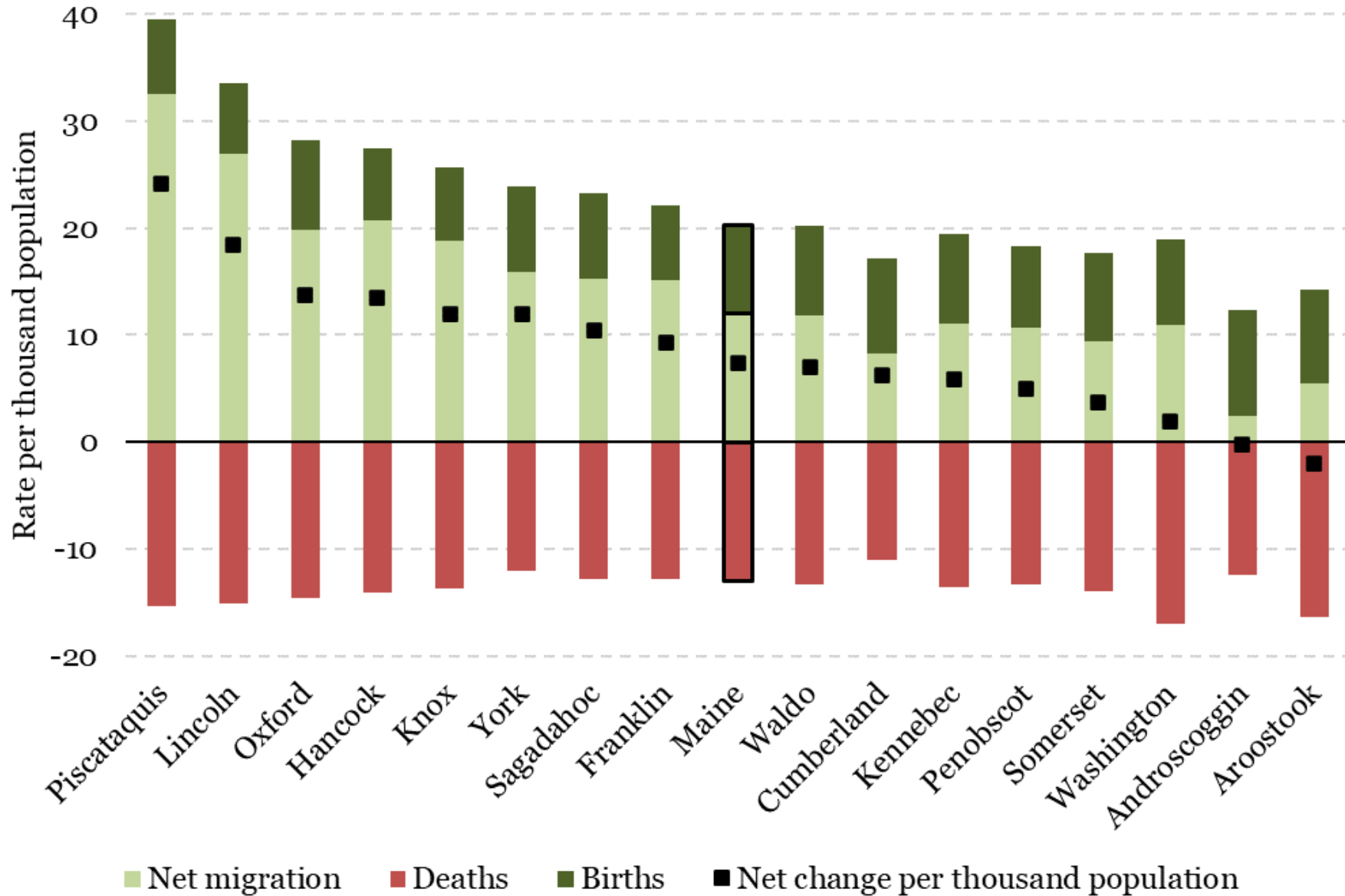
Maine Community College System
Board meeting

November 16, 2022

Amanda Rector
Maine State Economist

Components of Population Change in Maine, 2021

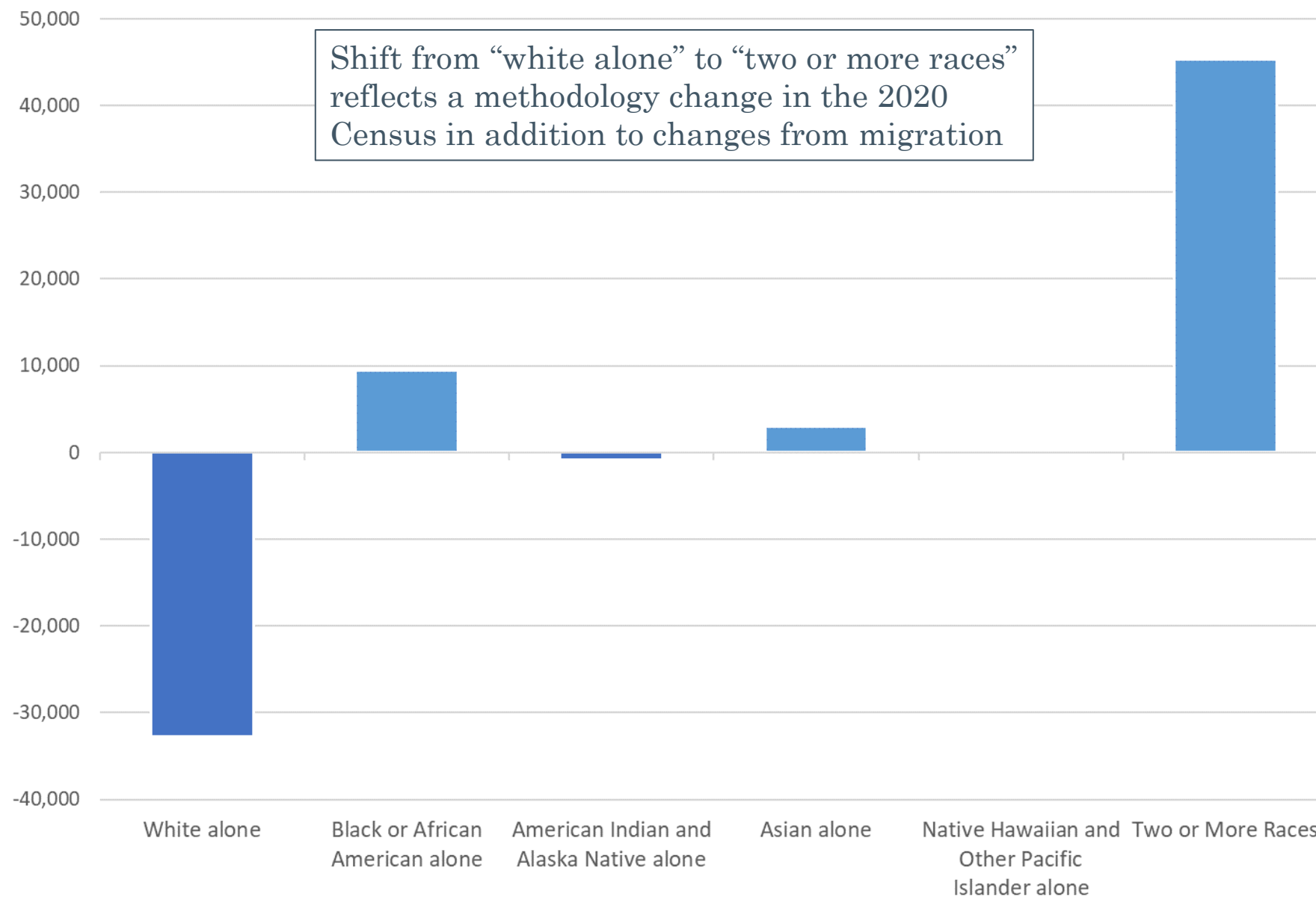
Rate per thousand population



Maine:
Population increase of
9,967 from 2020-2021
(0.7% = 14th in U.S.)

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

Change in Maine Population by Race, 2010-2020

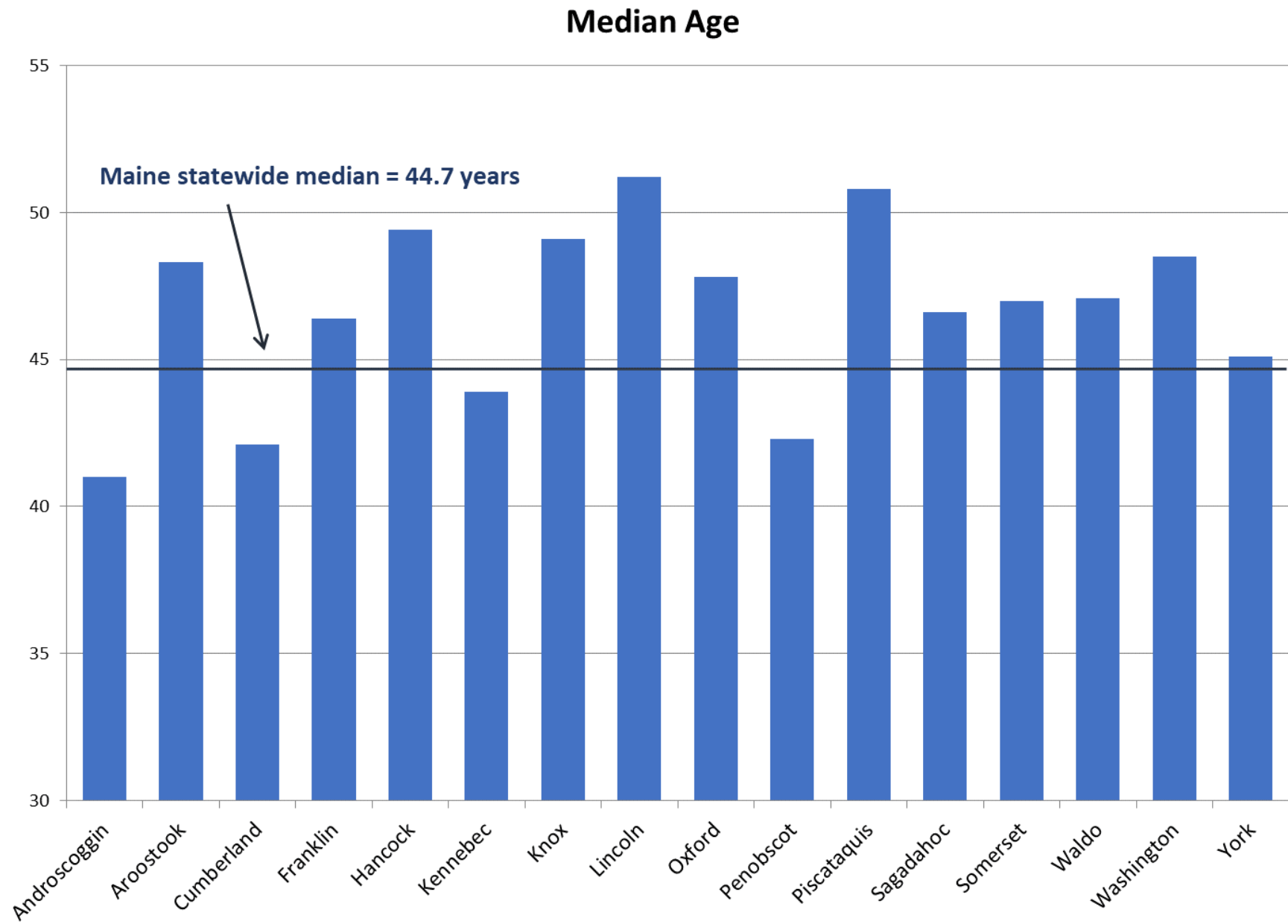


9.8% Black, Indigenous, and People of Color
Lowest percentage in U.S., but improved from 5.6% in 2010

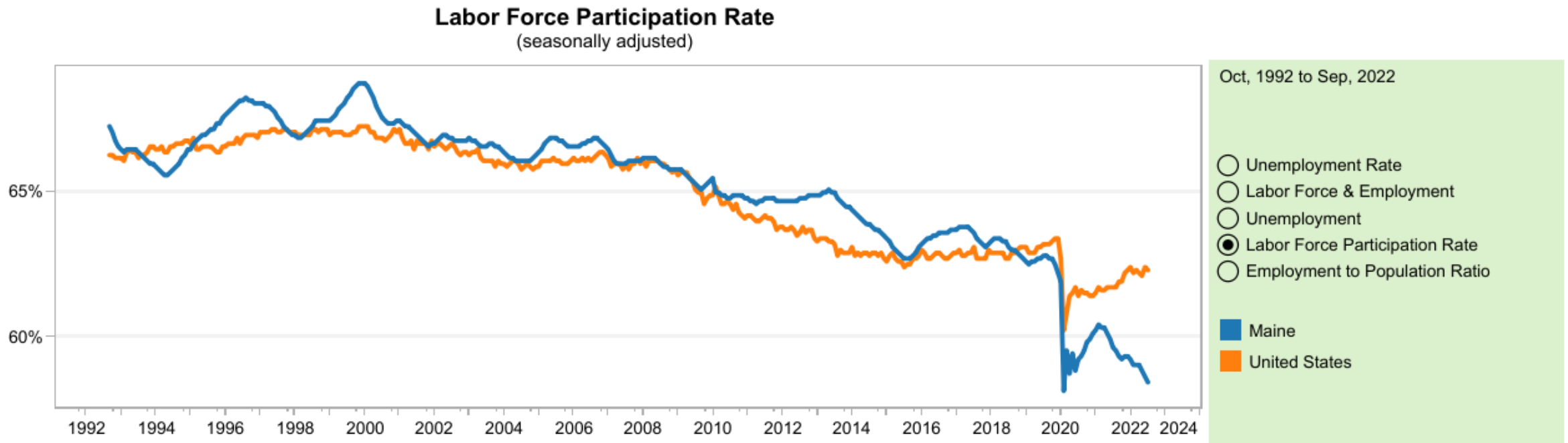
Maine has the oldest population...
...by median age
(44.7 years)
...and by % of population
age 65+ (21.7%)

BUT!

Maine was the **ONLY**
state in the U.S. to see a
decrease in median age
from 2020 to 2021

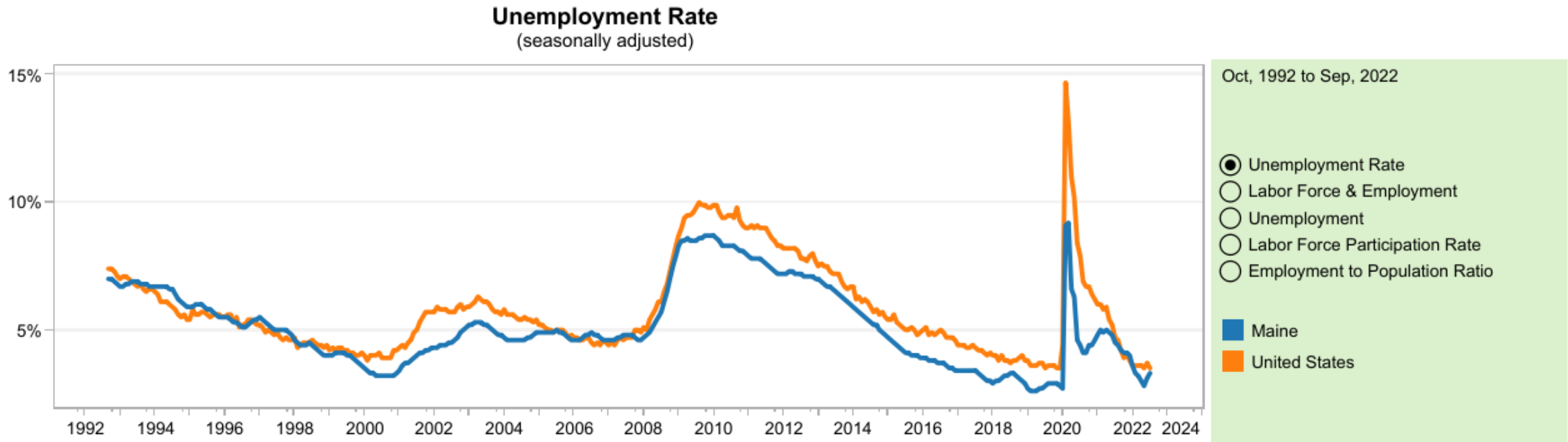


The Maine Department of Labor finds that, “(...) the persistently lower rates through the summer of 2022 are mostly caused by aging and retirement decisions that may have been accelerated during the pandemic and not by lower participation among people between the ages of 20-54”

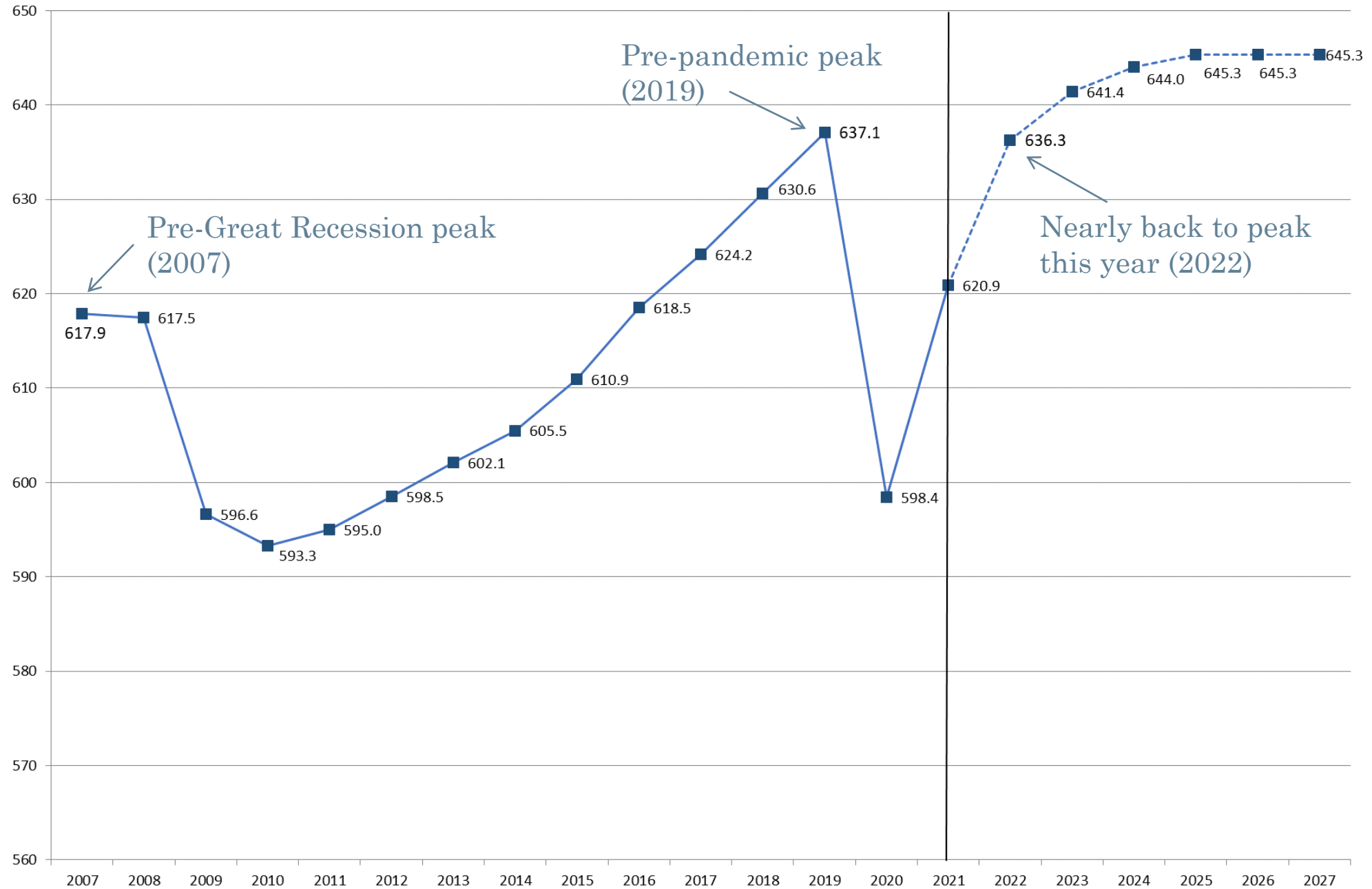


Note: it is likely that the household survey is underestimating available labor supply and estimates from the past year will be revised up, although remaining below pre-pandemic levels

Maine's unemployment rate in September 2022 is just above pre-pandemic levels and well below the long-run average unemployment

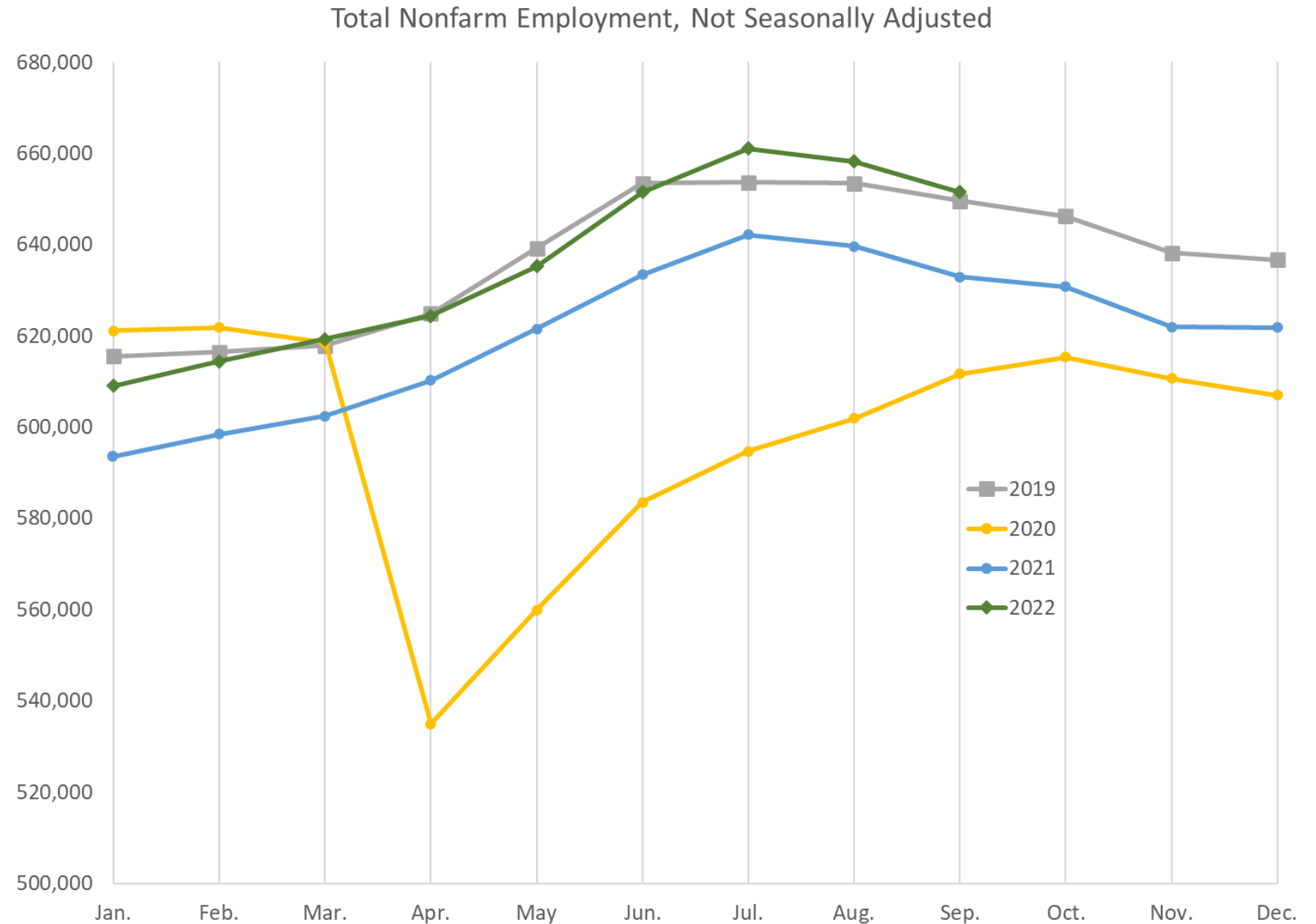


Total Nonfarm Employment (in thousands) History and CEFC forecast

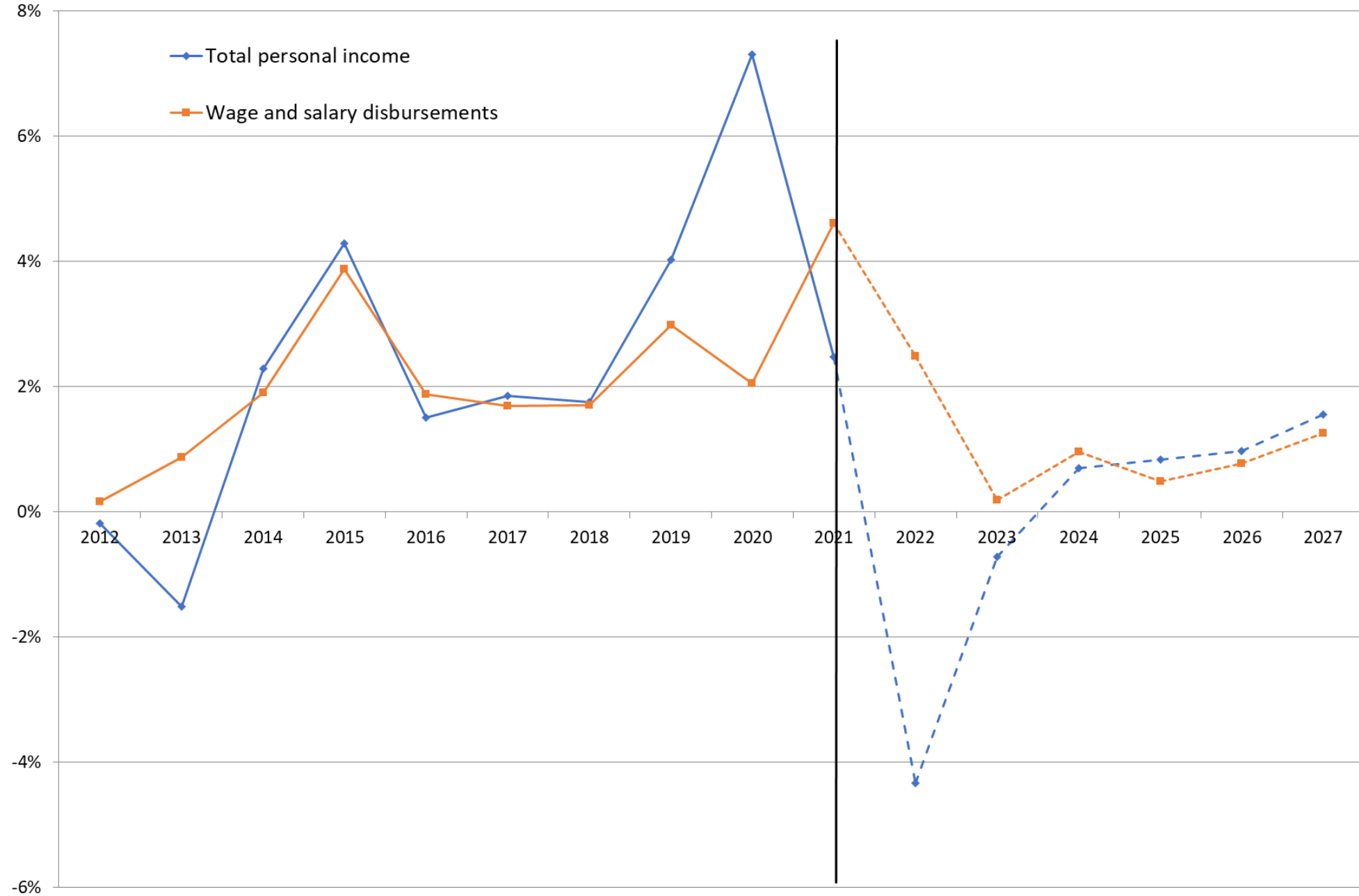


Most sectors in September 2022 were near or above September 2019 levels, the exceptions being:

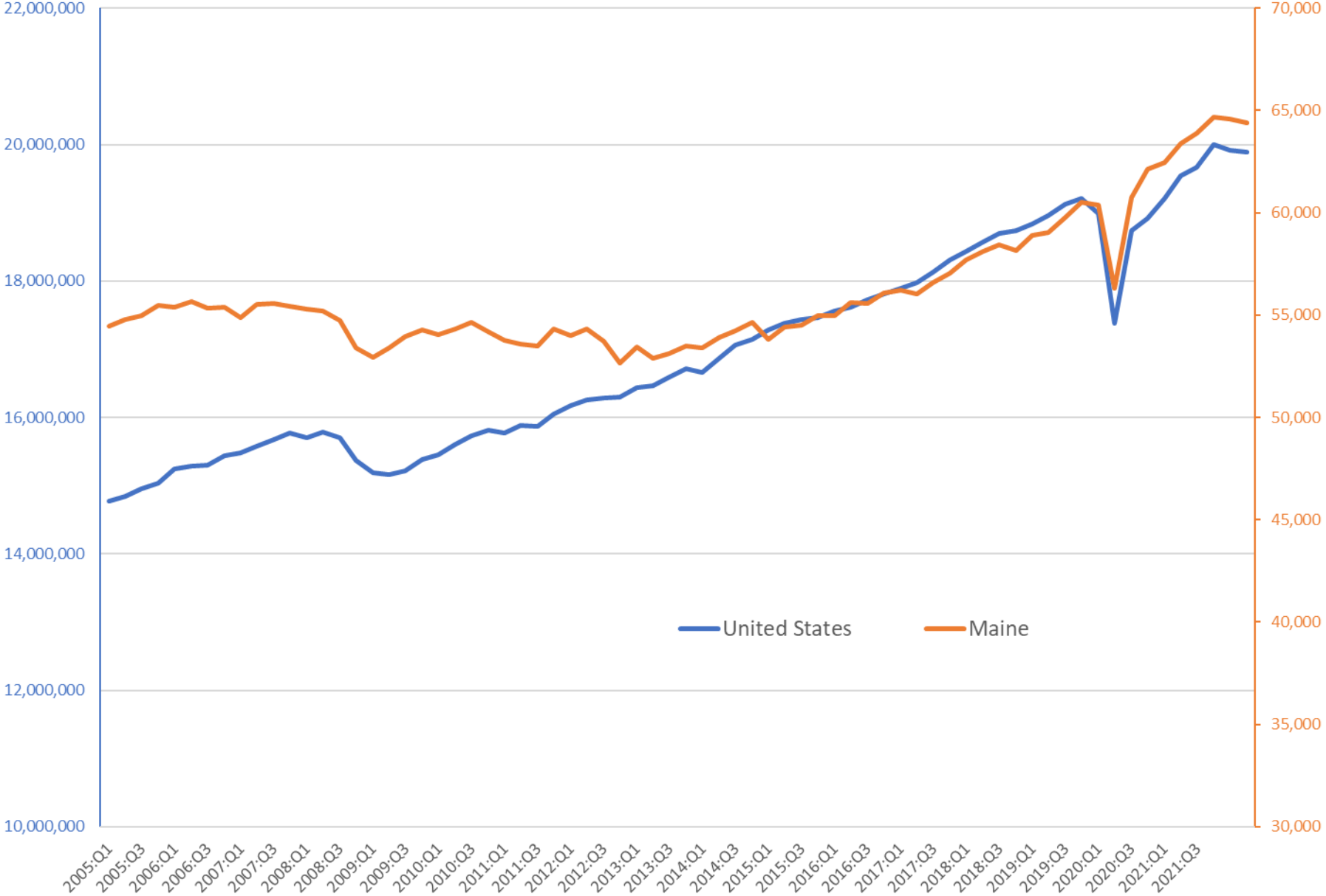
- healthcare and social assistance (mostly long-term care and social assistance)
- state government education (public higher education)



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



Quarterly Real GDP (in millions of chained 2012 dollars)



What is a recession, anyway?

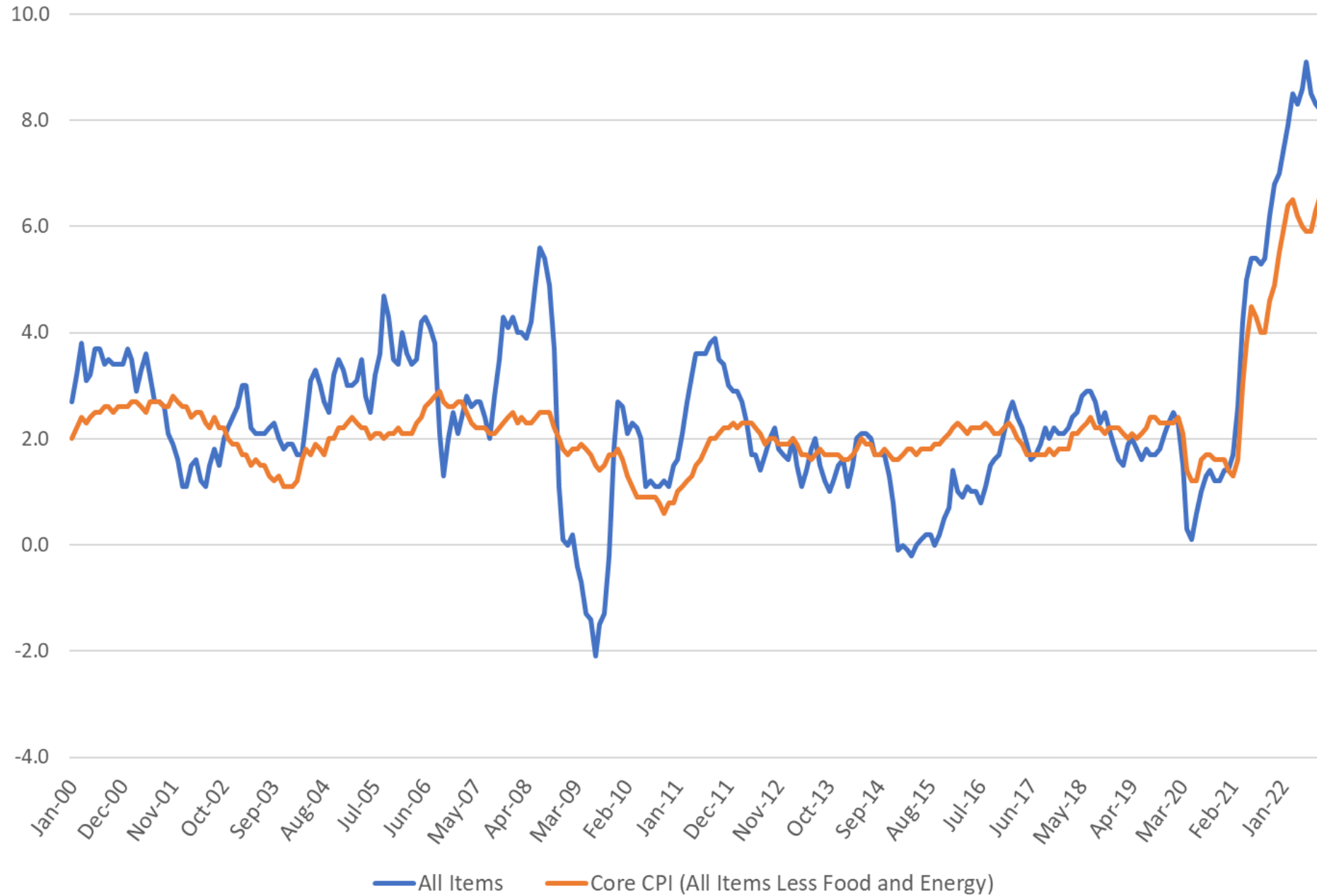
National real GDP declined at an estimated annual rate of 1.6% in the first quarter of 2022 and 0.6% in the second quarter of 2022

In the U.S., recessions are officially declared by the National Bureau of Economic Research:

“a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months”

The advance estimate of GDP for the third quarter of 2022 is growth of 2.6%

Year-over-year percent change in Consumer Price Index



Source: U.S. Bureau of Labor Statistics (CPI-U, 1982-84=100, not seasonally adjusted)

What does this mean for interest rates?

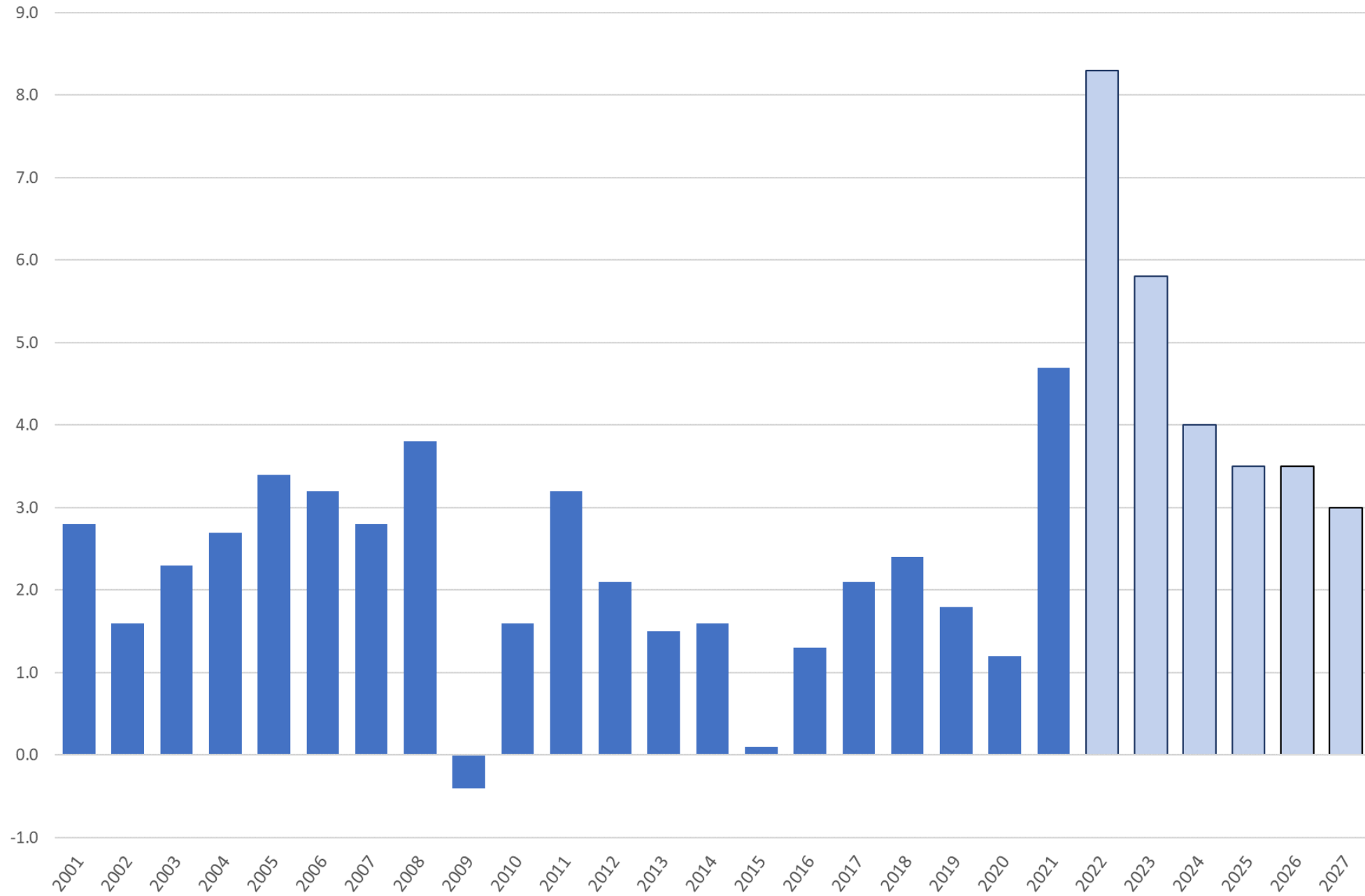
Current target range: 3.75% to 4%

“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 November 2, 2022, Federal Open Market Committee statement

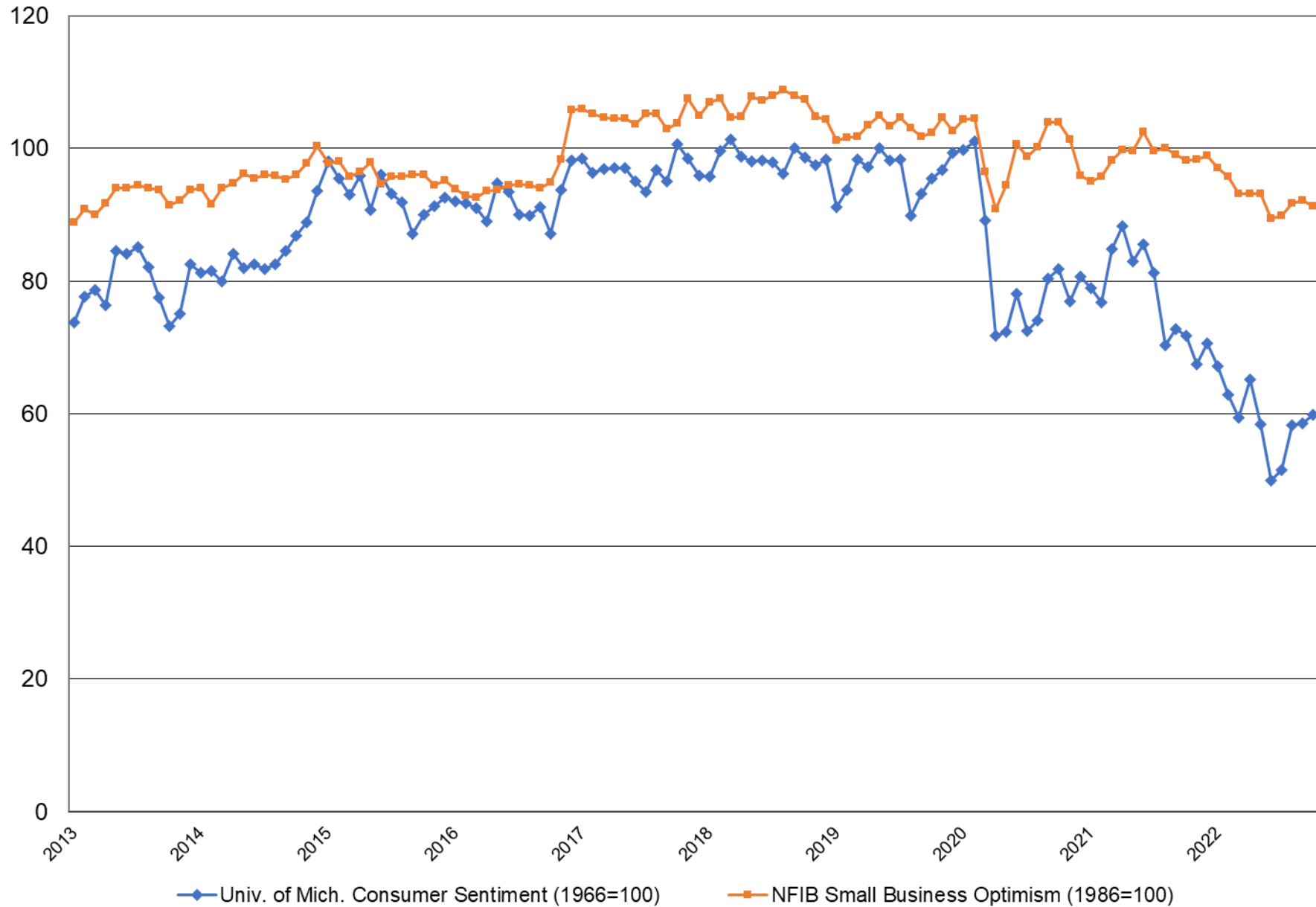
- Range of September FOMC projections for federal funds rate for 2022 was 3.9-4.6 percent and for 2023 was 3.9-4.9 percent
- This implied increases of 0.5 to 0.75 percentage points at next 2-3 meetings (could be fewer but higher or more but lower); 0.75 percentage point increase made in November
- Increases are expected into early next year

Year-over-year percent change in Consumer Price Index;
2001-2021 historical and 2022-2027 forecast



Sources: U.S. Bureau of Labor Statistics (CPI-U, 1982=100, seasonally adjusted);
CEFC report, November 1, 2022

Consumer Sentiment and Small Business Optimism Indexes



Inflation has been a major contributor to the downward trend in small business and consumer sentiment over the past year

Lower gas prices in July/August helped improve current sentiment, but gains have slowed and uncertainty about future economic trajectory persists

Daily Europe Brent Spot Price (\$ per barrel)



Source: U.S. Energy Information Administration

November 2022 Consensus Economic Forecasting Commission report highlights

Calendar Years	2021	2022	2023	2024	2025	2026	2027
Wage & Salary Employment (Annual Percentage Change)							
CEFC Forecast 11/2021	3.7	2.3	1.0	0.7	0.7		
CEFC Forecast 02/2022	3.7	1.8	1.0	0.4	0.2	0.0	0.0
CEFC Forecast 11/2022	3.8	2.5	0.8	0.4	0.2	0.0	0.0
Personal Income (Annual Percentage Change)							
CEFC Forecast 11/2021	5.2	0.5	4.6	4.8	4.6		
CEFC Forecast 02/2022	6.5	1.7	5.0	4.9	4.6	4.6	4.5
CEFC Forecast 11/2022	7.3	3.6	5.0	4.7	4.4	4.5	4.6
Wage and Salary Income (Annual Percentage Change)							
CEFC Forecast 11/2021	5.5	5.0	5.0	5.0	4.0		
CEFC Forecast 02/2022	7.7	6.5	5.5	5.0	4.0	4.3	4.3
CEFC Forecast 11/2022	9.5	11.0	6.0	5.0	4.0	4.3	4.3
CPI (Annual Percentage Change)							
CEFC Forecast 11/2021	4.4	3.5	2.1	2.1	2.1		
CEFC Forecast 02/2022	4.7	5.0	4.0	2.5	2.5	2.5	2.5
CEFC Forecast 11/2022	4.7	8.3	5.8	4.0	3.5	3.5	3.0

Key assumptions from November 2022 CEFC report

- Economic conditions are highly uncertain, with the potential for a slowdown in 2023.
- High inflation, high interest rates, low consumer sentiment, housing affordability/availability, and the correction in the stock market combine to create a challenging macroeconomic environment.
- There is a risk of continued higher inflation into 2023, with higher energy prices posing a particular concern for consumers in Maine where heating oil and gasoline are heavily relied on. Heating oil prices have started the heating season high and are expected to remain elevated, with the potential for even larger costs to households and businesses if there is a colder than usual winter. Inflation risks are likely to take several years to fully ease.
- We have transitioned to an endemic phase of COVID-19; people's behavior has adjusted to living with the risks of the virus (the “new normal”) and the economy and health system will be minimally disrupted by foreseeable future waves.
- There is an opportunity for Maine to see continued increased in-migration in the coming years due to telework and people looking for locations that allow for work-life balance and access to outdoor recreation, but housing and childcare/schooling for those with children are potential limiting factors.

How much is Maine at risk and how well-positioned are we to deal with the results?

- High energy prices are troubling, especially as we've just started the fall heating season
- Ongoing roll-out of funds from Maine Jobs and Recovery Plan with targeted investments based on 10-year Economic Development Strategy

The Budget
Stabilization Fund
is at a record level
of nearly \$900
million

Workforce considerations

- Migration: will the trends continue? Depends on:
 - *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: how will wage expectations adjust to inflation and the tight labor market?
- The Great Reshuffle: how does the search for “better” work pan out in the long run?
- Self-employment: are more workers choosing self-employment and gig work?
- Automation: will employers who struggle to find workers substitute with technology?

Things to keep in mind:

- Housing costs have increased sharply as demand far outstripped supply and then interest rate hikes made mortgages more expensive – this limits availability for ongoing migration and workforce expansion
- Wages have increased, but so has inflation – real gains aren't as robust
- What happens with pandemic-related workforce trends in the long term?
- We're not officially in a recession, but short- and medium-term conditions remain at a higher-than-usual level of uncertainty; the CEFC recognized an increased possibility of an economic slowdown in 2023
- Maine has a robust Budget Stabilization Fund and spending from Maine Jobs and Recovery Plan is still rolling out, which will help Maine weather a potential slowdown

Contact Information

Amanda Rector

Maine State Economist

Department of Administrative and Financial Services

www.maine.gov/dafs/economist

amanda.rector@maine.gov