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DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
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SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

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Consensus Economic Forecasting Commission Background Materials for the March 31, 2023, Forecasting Meeting

Summary

Maine had a fairly strong year of population growth in 2022, gaining just over 8,000 in population. Net domestic migration fueled Maine's growth as the state had the 11th highest net domestic migration rate in the U.S. and had the highest rate in New England.

Total personal income grew by 14.1% in the third quarter of 2022, following a 6.8% increase in the second quarter. Wage and salary income, which is the largest component of personal income, grew by 6.9%. Meanwhile, real GDP for Maine declined for two quarters consecutively in the first half of 2022. However, in the third quarter the state's real GDP increased to its highest point in 2022 at \$64.8 billion. Inflation remains persistent and three times the Fed's target level of 2%. The Consumer Price Index continues to show persistent price increases (6% year-over-year in February) and the PCE price index increased 5.4% in January.

The University of Michigan Consumer Sentiment Index was up 6.7% year-over-year in February. Meanwhile, in February the National Federation of Independent Business (NFIB) Small Business Optimism Index was down 5% from a year prior. This is the fourteenth consecutive month below the index's 49-year average.

Gasoline cost \$3.36 on average in New England during the week of March 27, about \$0.91 less than a year ago. The statewide average cash price of No. 2 heating oil in Maine was \$3.827/gal in the third week (March 20) of the 2022-2023 heating oil season, 20.5% lower than the same week of last year, and 12% lower than the first week of heating oil season. This brings prices back down to levels not seen since February of 2022.

Single-family existing-home sales have cooled, with the number of sales falling by 19.4% year-over-year in February, although prices continued to increase (10.7%). Maine's House Price Index rose 12.1% in the fourth quarter of 2022 over the previous year. Maine's year-over-year growth was higher than the U.S. and New England.

The following presents a picture of the Maine economy, comparing current economic indicators to historical trends.

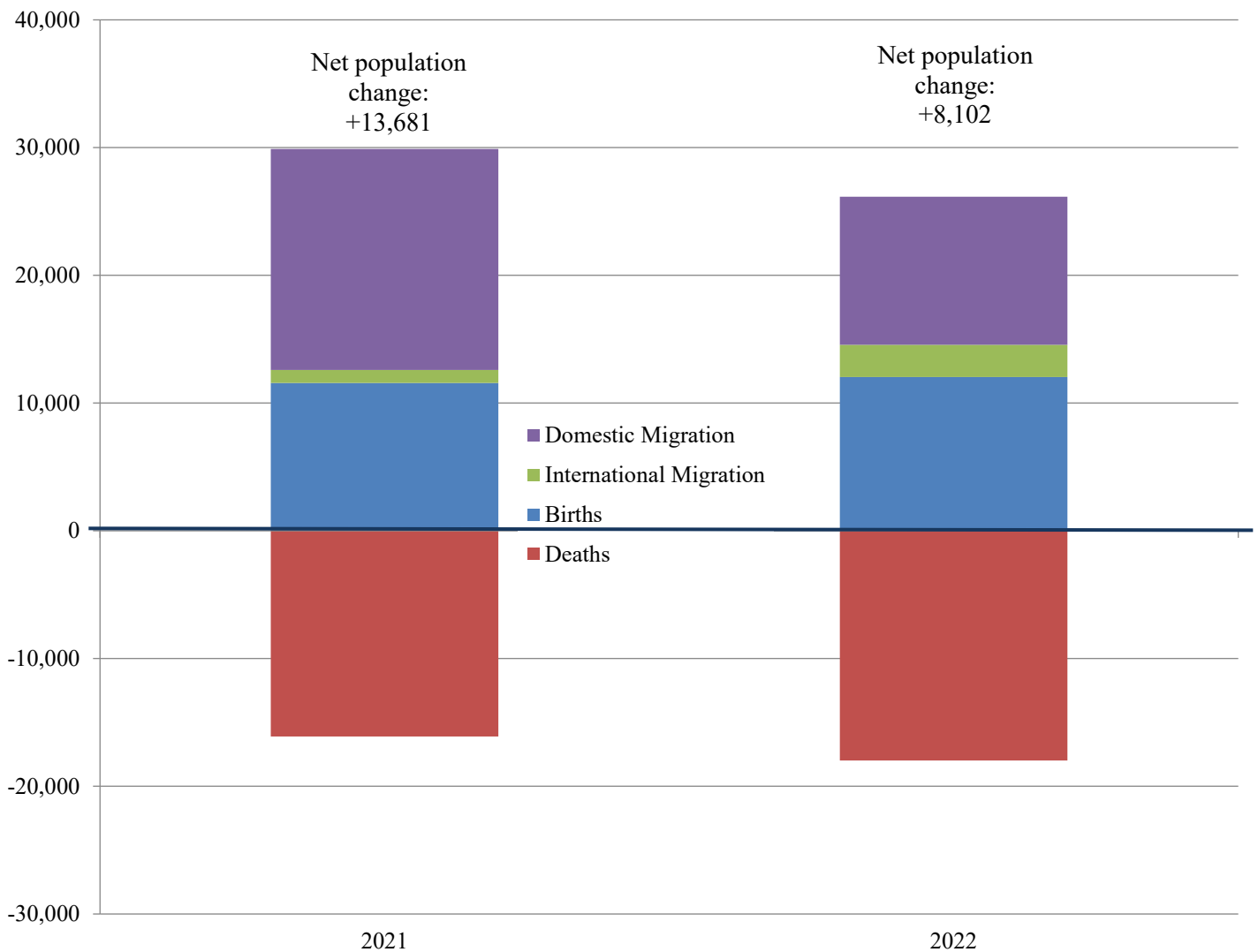
1. Demographic Trends

2022 Population Estimates

Maine gained just over 8,000 in population from July 2021 to July 2022, driven by net migration. Maine’s natural population decline accelerated in 2022; the state has consistently seen more deaths than births in recent years, however Maine saw even more deaths than usual in 2022.

In 2022 the nation’s population grew by 0.4%, slightly above the historic low of 0.1% in 2021, while Maine’s population grew by 0.6%. Maine’s net domestic migration rate was the 11th highest in the nation and first in New England; Maine also had the most net in-migrants of its New England neighbors. Only half of the New England states had positive net domestic migration. It is uncertain from this data whether Maine’s in-migration is temporary or permanent. Future data releases will lend more clarity on these population dynamics.

Components of Population Change, Maine

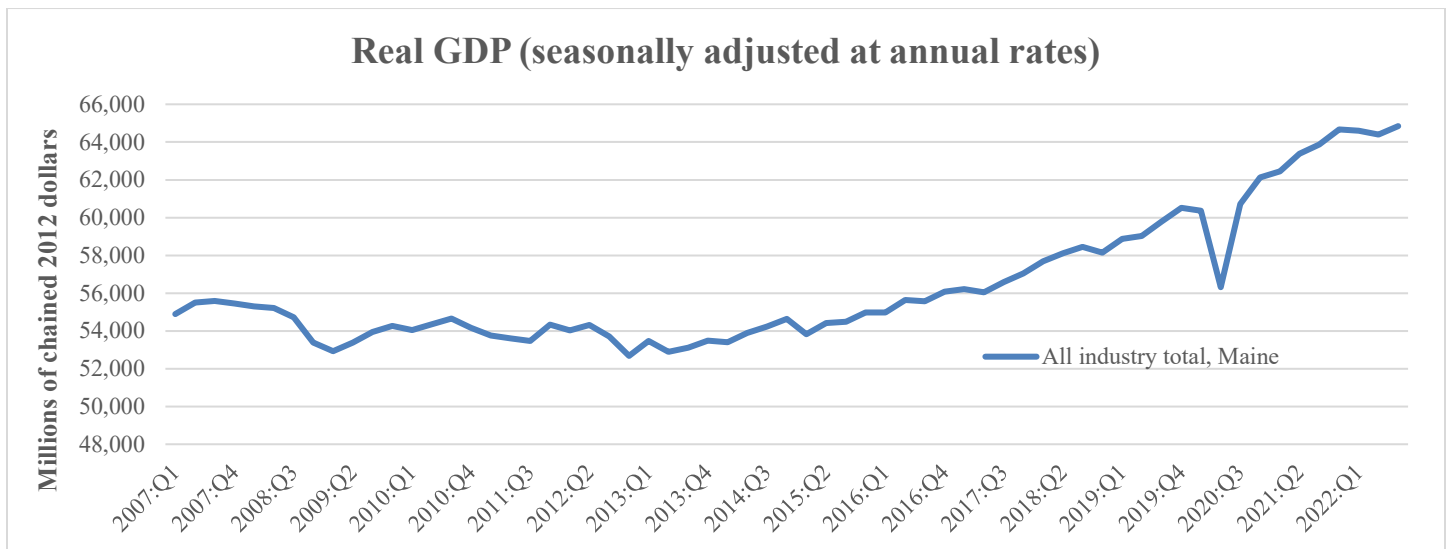


Source: U.S. Census Bureau, Population Estimates Program, 2022 vintage

2. State Economy

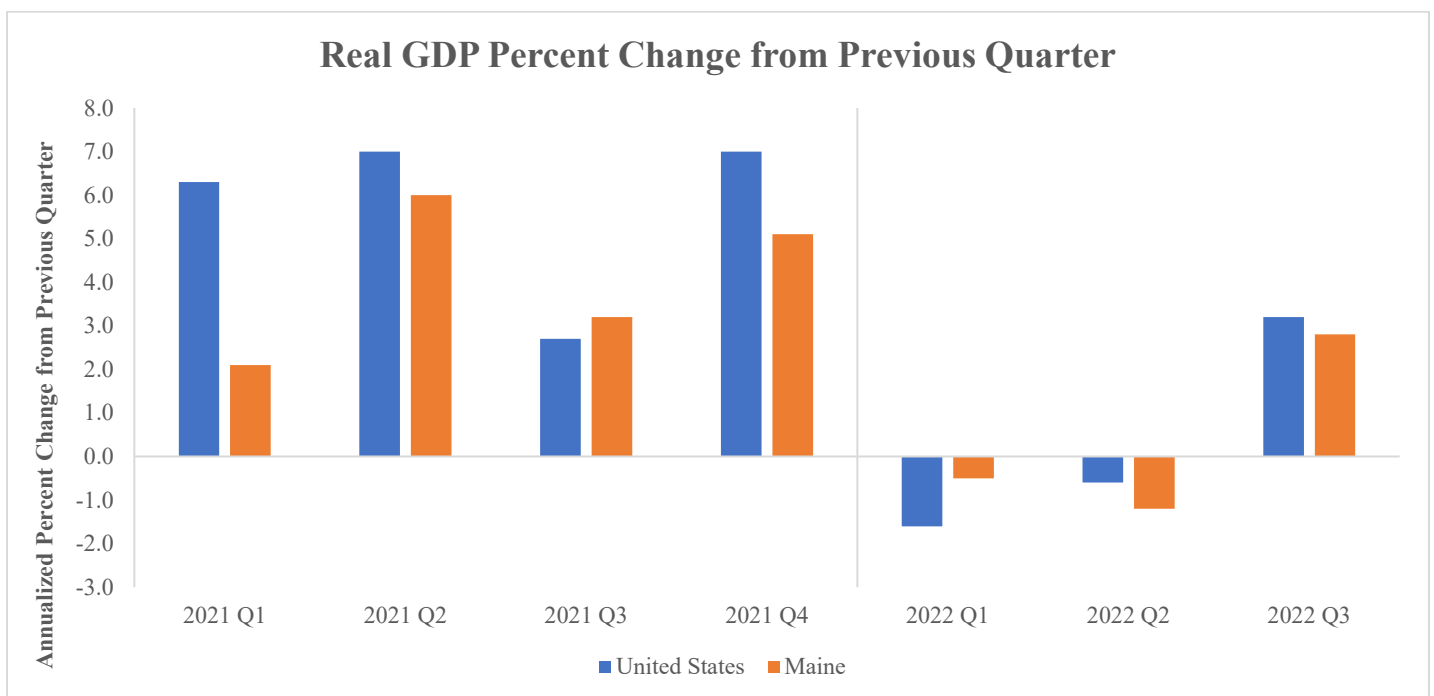
Gross Domestic Product (GDP)

Real GDP for Maine declined for two quarters consecutively, falling 0.5% and 1.2% in the first half of 2022. However, in the third quarter the state's real GDP increased to its highest point in 2022 at \$64.8 billion.



Source: U.S. Bureau of Economic Analysis, December 23, 2022, release

Maine's annualized growth rate for total real GDP was -1.2% in the second quarter of 2022, slightly worse than the nation's -0.6%. That said, Maine's decline in the first quarter was less severe than the nation's. In quarter three Maine saw a slightly smaller increase (2.8%) relative to the nation (3.2%).

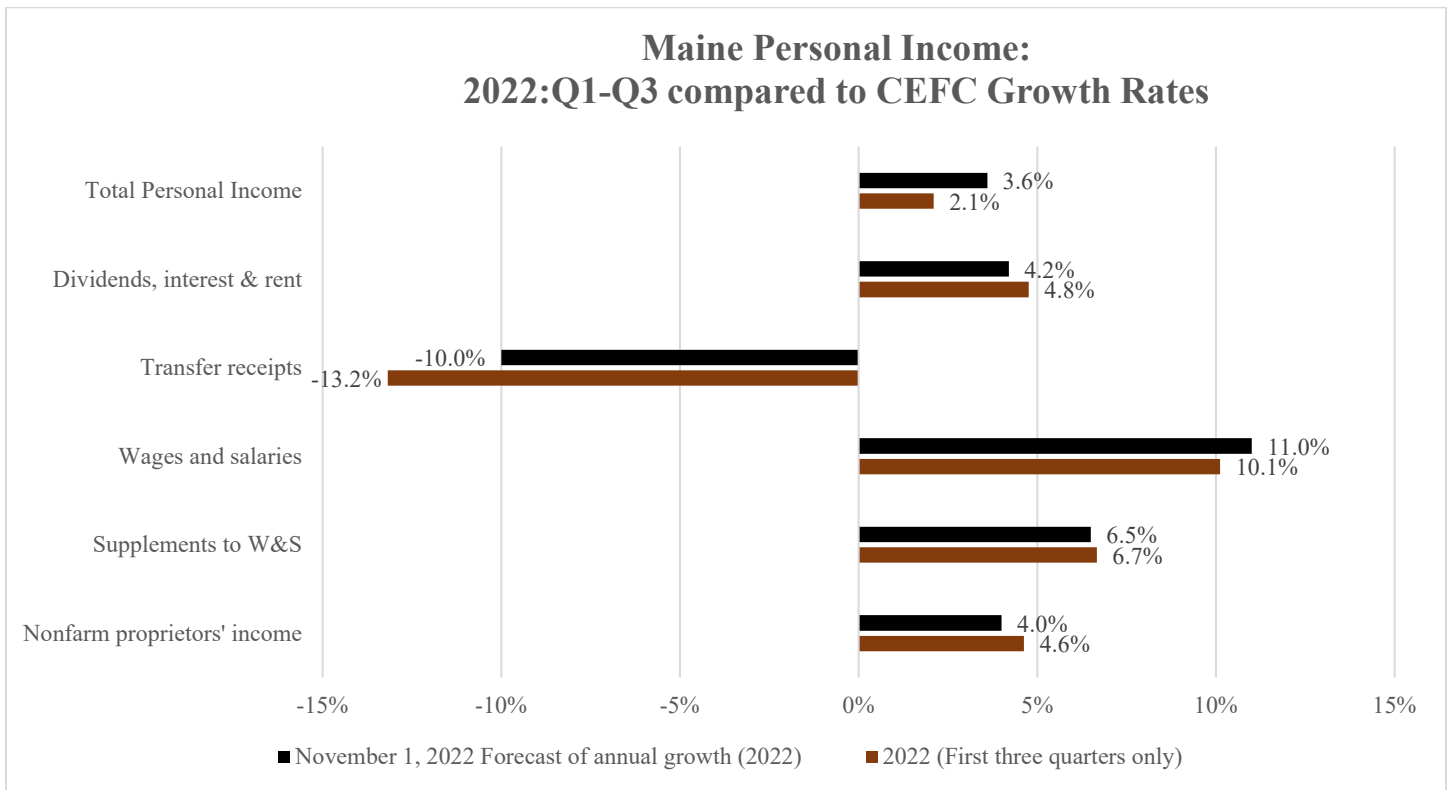


Source: U.S. Bureau of Economic Analysis, December 23, 2022, release

Personal Income

According to the U.S. Bureau of Economic Analysis, total personal income grew by 14.1% at a seasonally adjusted, annualized rate in the third quarter of 2022, following a 6.8% increase in the second quarter. All major components except for nonfarm proprietors' income have increased in all three quarters of 2022. Wage and salary income, the largest component of personal income, has grown 6.9%, 10.7%, and 6.9% during the first three quarters of 2022, respectively.

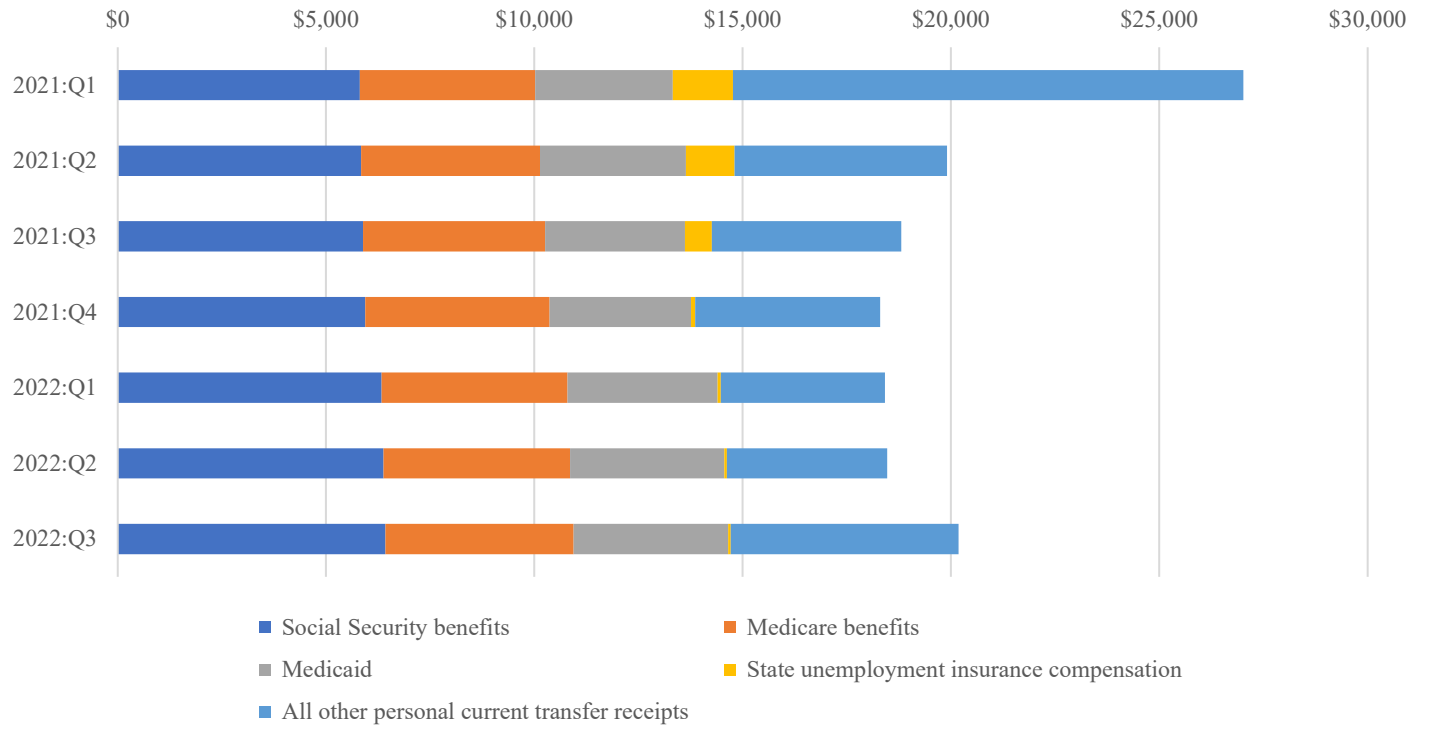
Compared to the first three quarters of 2021, growth in most components is relatively on track with the CEFC forecasts. The major exception is transfer receipts (where we have seen a decrease of 13.2%). It's important to note that transfer receipts are significantly lower in the first three quarters of 2022, primarily due to base effects; while the 2022:Q3 data reflects the \$850 relief payments from the state, \$2,000 in federal stimulus payments were sent in 2021:Q1. However, compared to annual 2021 figures, transfer receipts have only declined 9.4%, more in line with the CEFC forecasted growth rate of -10%.



Source: U.S. Bureau of Economic Analysis, December 23, 2022, release

Total transfer receipts grew by 42.7% at a seasonally adjusted, annualized rate between the second and third quarters of 2022. While all components of total transfer receipts saw an increase in quarter three, Social Security, Medicare, Medicaid, and state unemployment insurance only saw small or modest increases. However, all other personal current transfer receipts saw an increase of 308%. This large increase was due to \$850 relief payments distributed to over 850 thousand Maine residents.

Components of Transfer Receipts in Maine (Millions of Dollars)



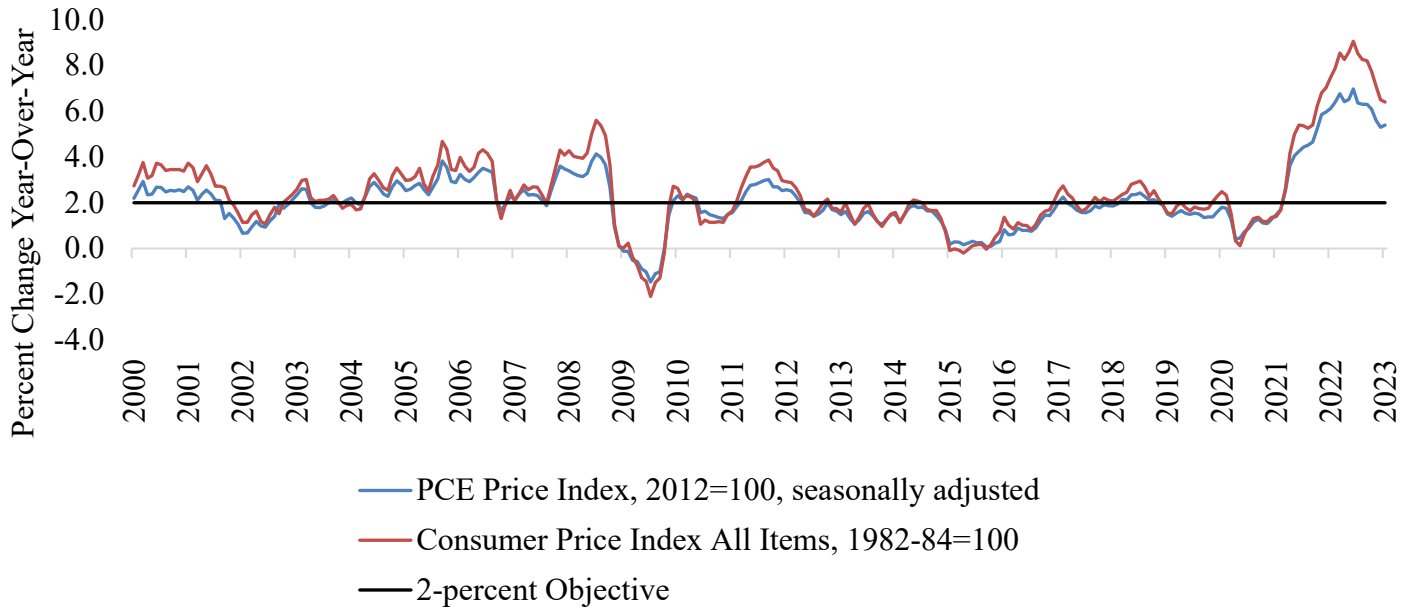
Source: U.S. Bureau of Economic Analysis, December 23, 2022, release

3. Consumption and Expenditures

Inflation measures

Inflation remains persistent and three times the Fed’s target level of 2%. The most recent data for the PCE price index shows a 5.4% increase in January, up from 5.3% in December. The CPI all-items index grew 6.4% in January before seasonal adjustment, down from 6.5% in December. The year-over-year CPI figure in January was the lowest since October 2021, while the PCE figure is up slightly from December 2022, which was its lowest point during the same period.

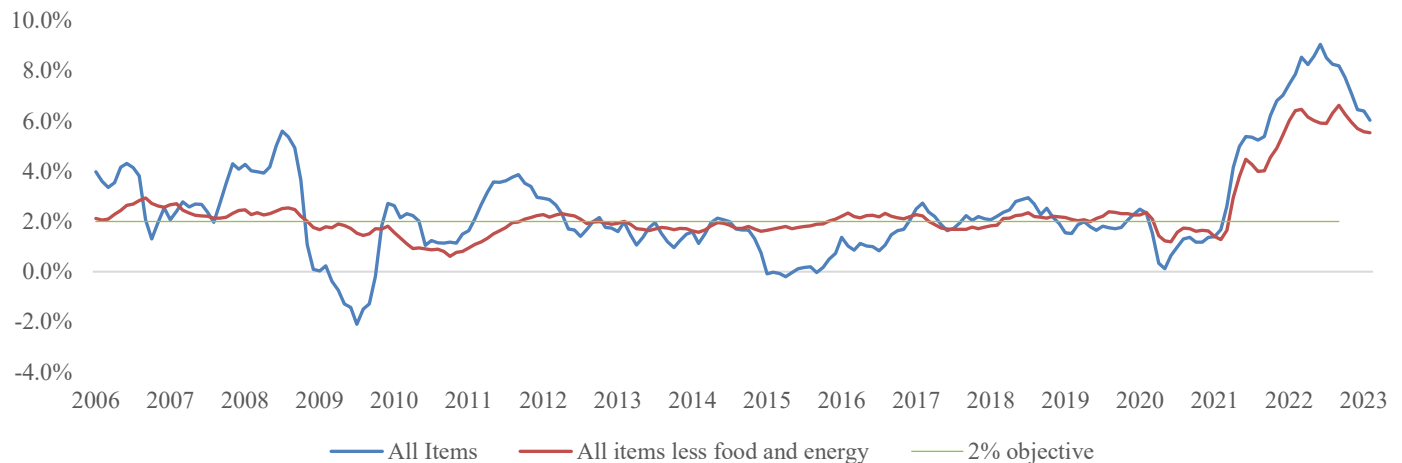
Measures of Inflation, Year-Over-Year Percent Change



Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics

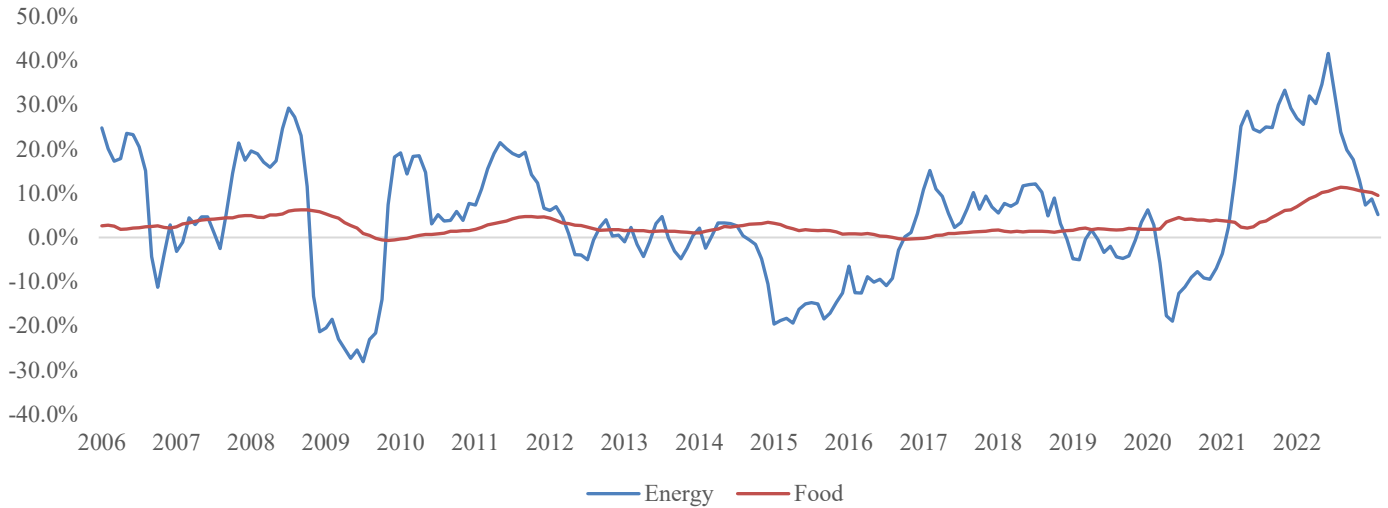
The CPI for all urban consumers increased 6.0% year-over-year in February and 0.4% from a month prior. Shelter costs (+0.8%) account for more than 70% of the increase. The food index is up 9.5% for the year and is still running higher than the all-items index. Core inflation, which excludes food and energy prices, rose 5.5% over February of last year. Food and energy prices remain elevated, up 9.5% and 5.2% year-over-year, respectively.

Consumer Price Index - U.S. All Urban, seasonally adjusted



Source: U.S. Bureau of Labor Statistics

CPI-U, seasonally adjusted, Energy and Food

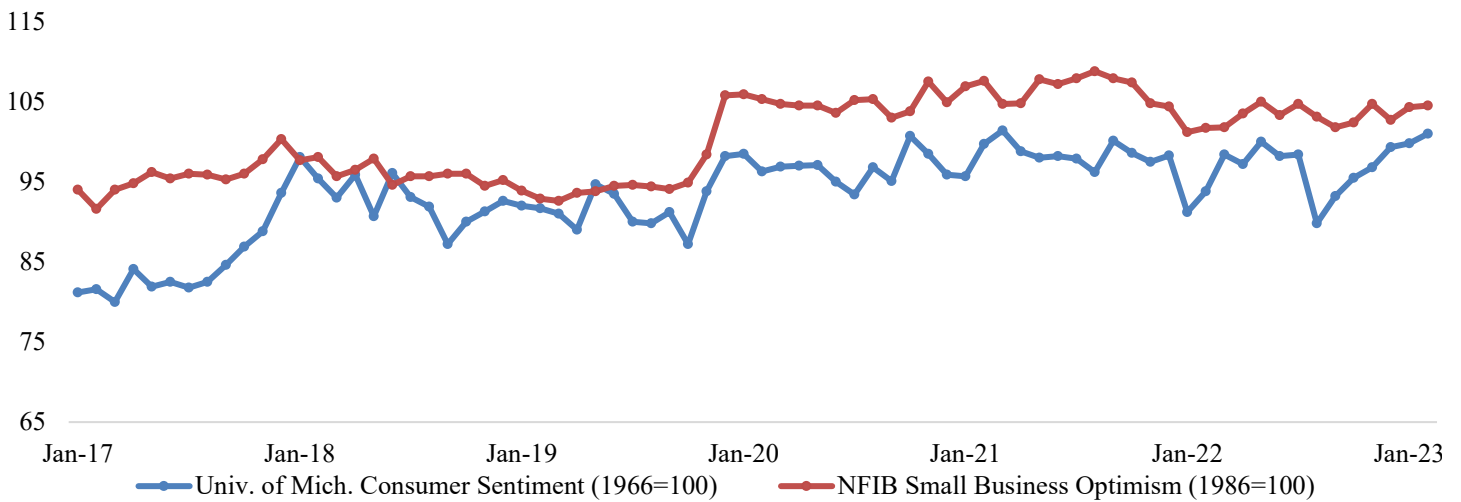


Source: U.S. Bureau of Labor Statistics

Consumer Sentiment and Small Business Optimism

In February 2023, the University of Michigan Consumer Sentiment Index was up 6.7% compared to February 2022. Meanwhile, the National Federation of Independent Business (NFIB) Small Business Optimism Index was down 5% from a year prior. This is the fourteenth consecutive month below the 49-year average.

Consumer Sentiment and Small Business Optimism Indexes



Sources: University of Michigan and National Federation of Independent Business

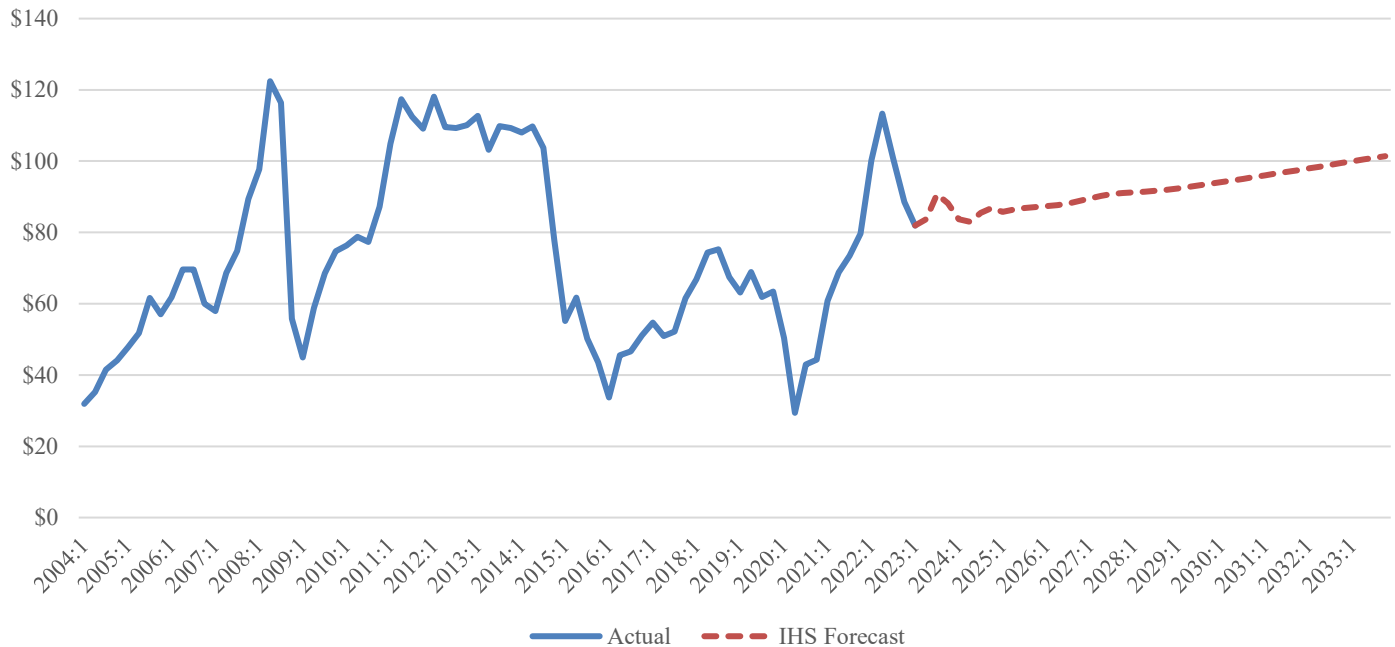
4. Energy Sector

In its March 2023 Short-term Energy Outlook, the Energy Information Administration (EIA) forecasts that increasing global oil inventories will contribute to falling crude oil prices beginning in the third quarter of 2023. They project Brent crude oil prices will fall from an average of \$84 per barrel in the second quarter of 2023 to \$81 per barrel by the fourth quarter.

Crude Oil

The price of Brent crude oil in the first quarter of 2023 was \$81.90, which was 8% lower than the previous quarter and 18% lower than a year prior.

Petroleum Crude Oil Price: Brent

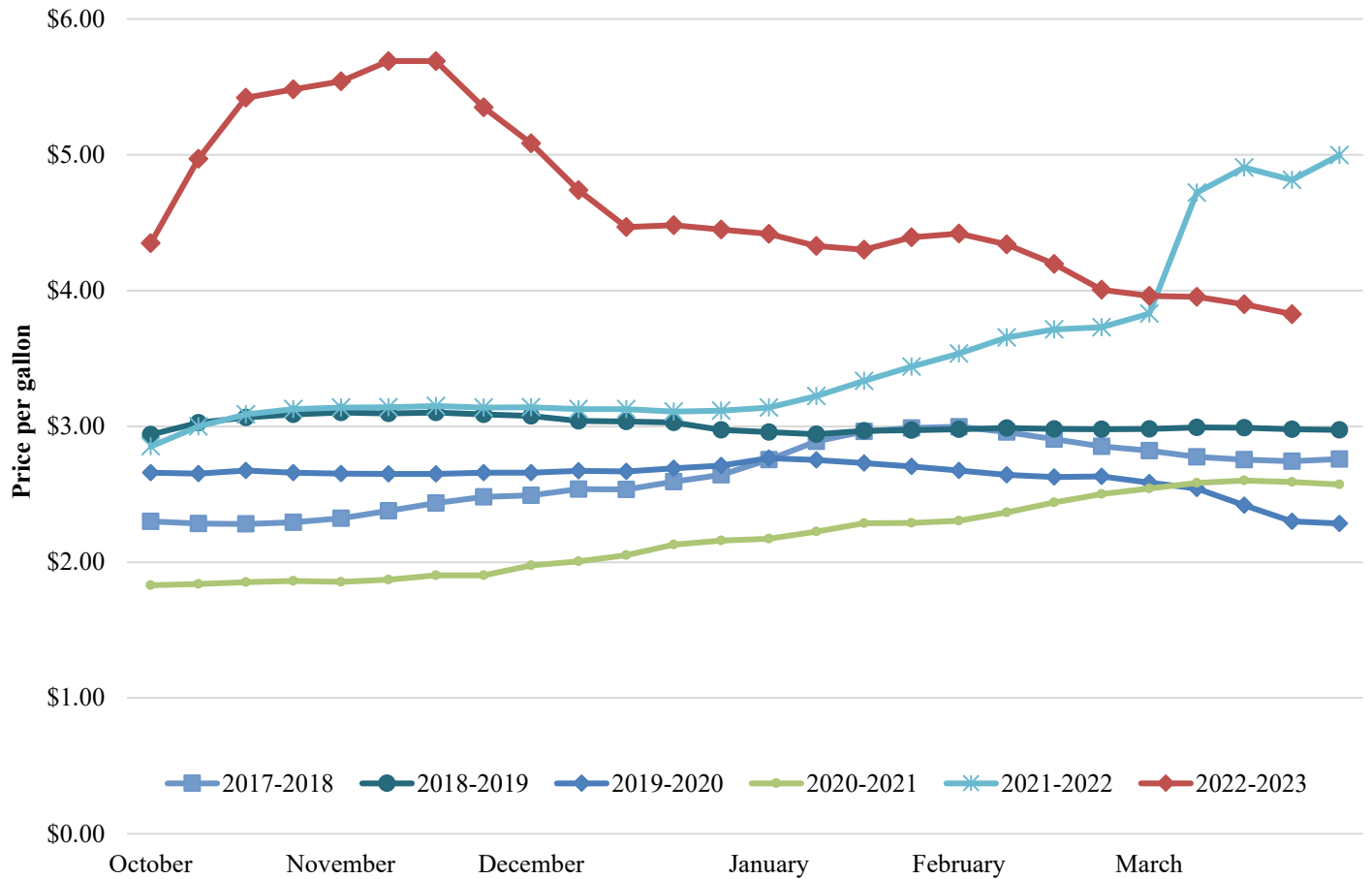


Sources: IHS, March 2023 release

Heating Oil

The statewide average cash price of No. 2 heating oil in Maine was \$3.827/gal in the third week (March 20) of the 2022-2023 heating oil season, 20.5% lower than the same week of last year and 12% lower than the first week of the heating oil season. This brings prices back down to levels not seen since February of 2022.

Maine No. 2 Heating Oil Residential Price

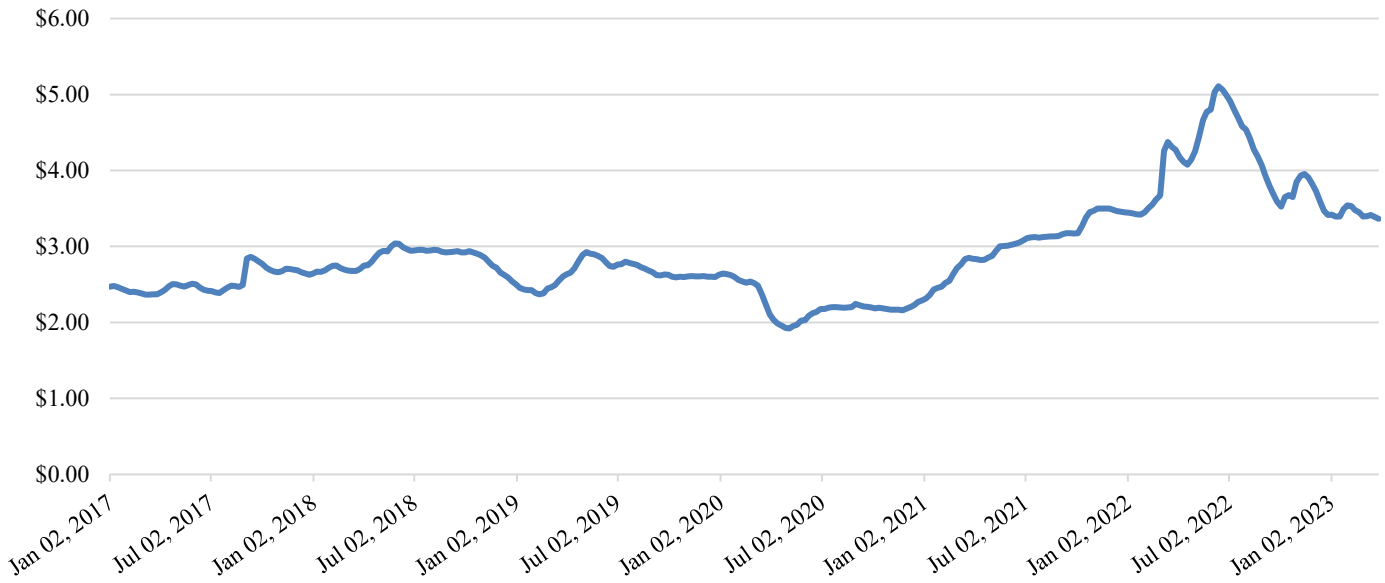


Source: U.S. Energy Information Agency, March 20, 2023 release

Gasoline

The price of a gallon of gasoline in New England was an average of \$3.36 during the week of March 27, about \$0.91 less than a year ago.

New England - All Grades and Formulations Gasoline Price Per Gallon

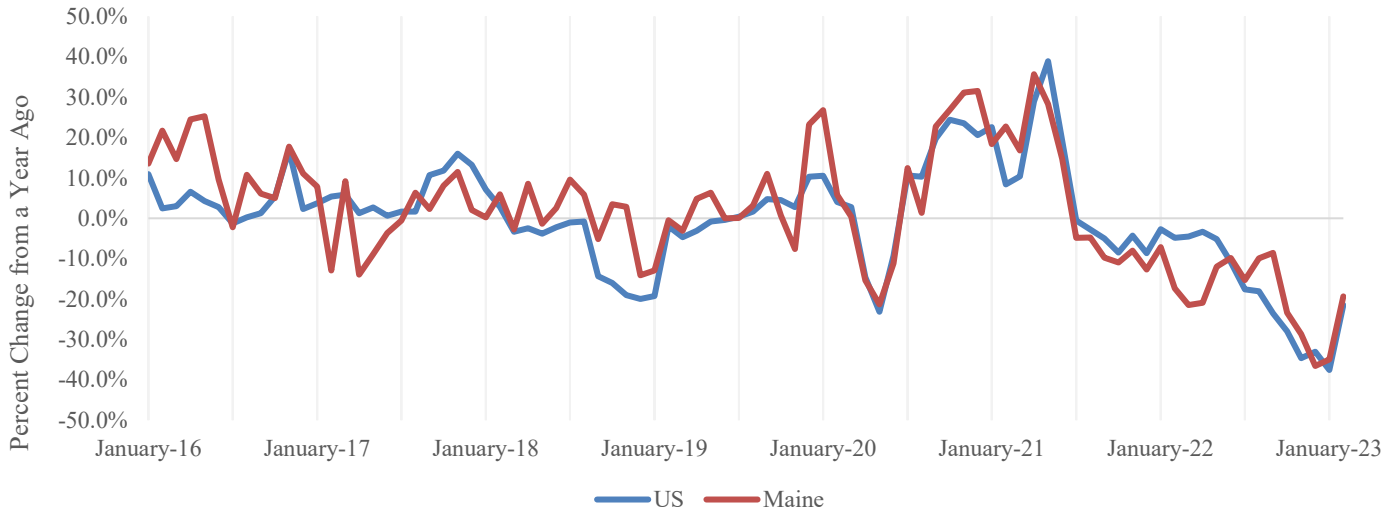


Source: U.S. Energy Information Agency, March 27, 2023 release

5. Housing

Single family existing-home sales in Maine in February 2023 were down 19.4% from 12 months prior. The median sales price continued to increase (10.7%) from a year prior (to \$329,250 statewide) in February. Total existing single-family sales nationwide were down 21.4% in February compared to a year prior, with a median price of \$367,500, down 0.7% over last year.

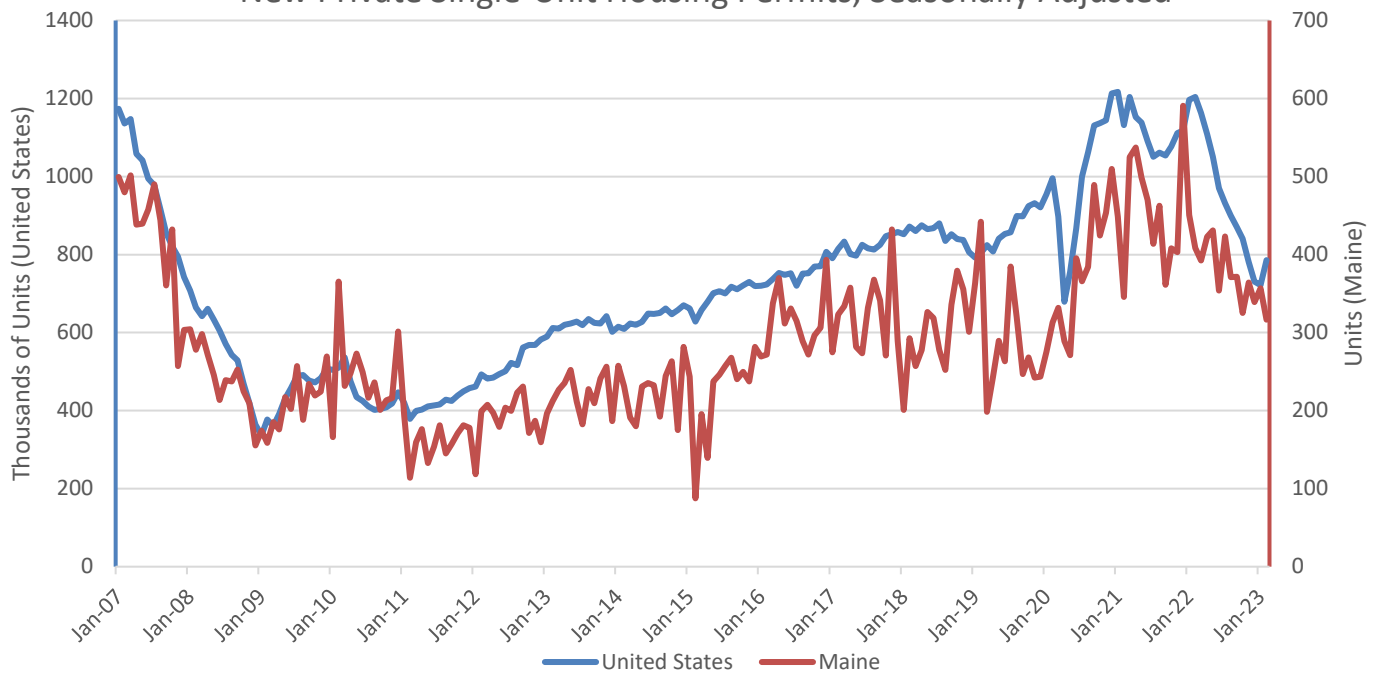
Single Family Existing-Home Sales



Sources: National Association of REALTORS and Maine Association of REALTORS, monthly releases

In the U.S., single-unit housing permits were down 34.7% in February 2023 over the previous year and up 9% over the previous month. In Maine, permits were down 22.5% year-over-year and 11.3% month-over-month in February.

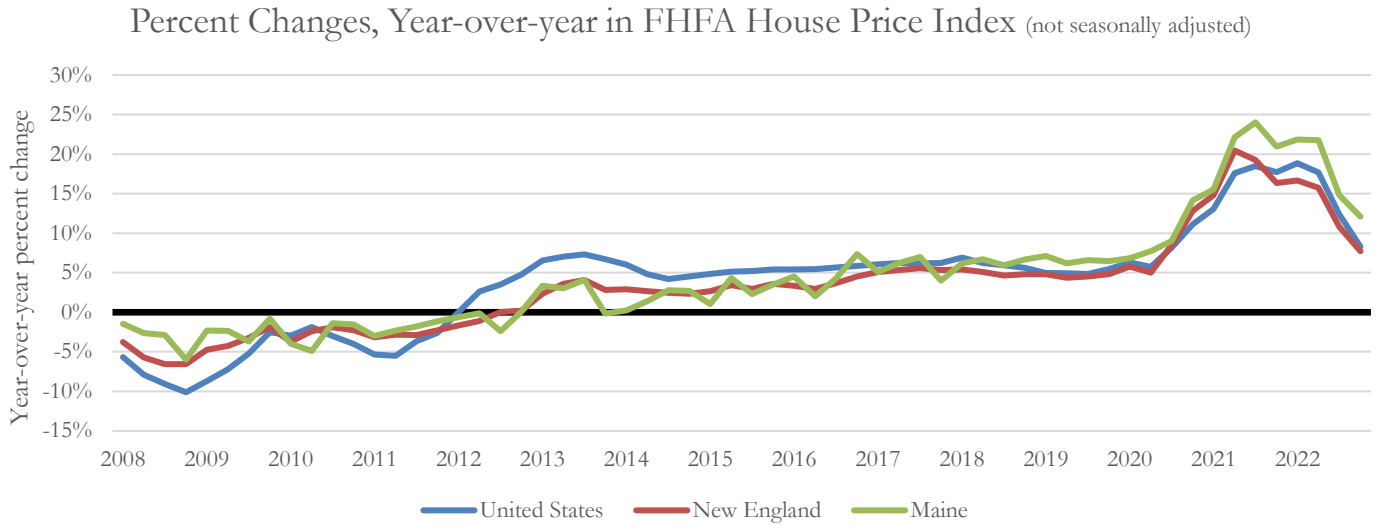
New Private Single-Unit Housing Permits, Seasonally Adjusted



Source: US Census Bureau, March 23, 2023, release, via FRED

House Price Index

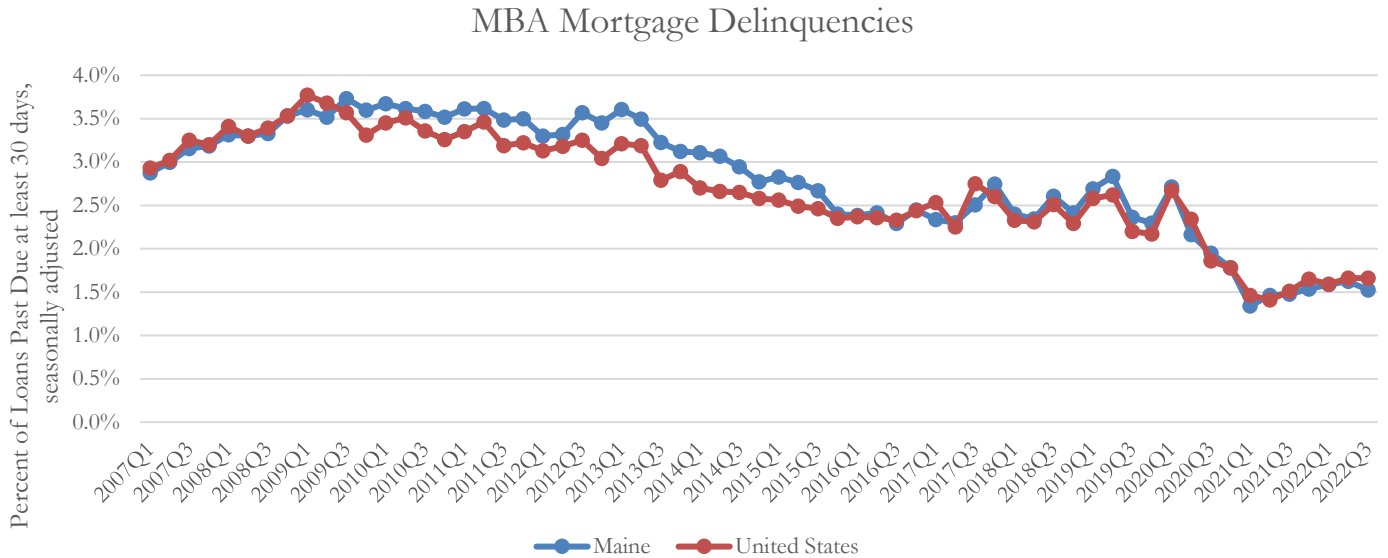
According to the Federal Housing Finance Agency (FHFA), the House Price Index (HPI) “measures average price changes in repeat sales or refinancing on the same properties.” Maine’s house price index increased by 12.1% in the fourth quarter of 2022 over the previous year. Maine’s year-over-year growth was higher than the U.S. and region, with New England growing by 7.7% and the U.S. by 8.3%.



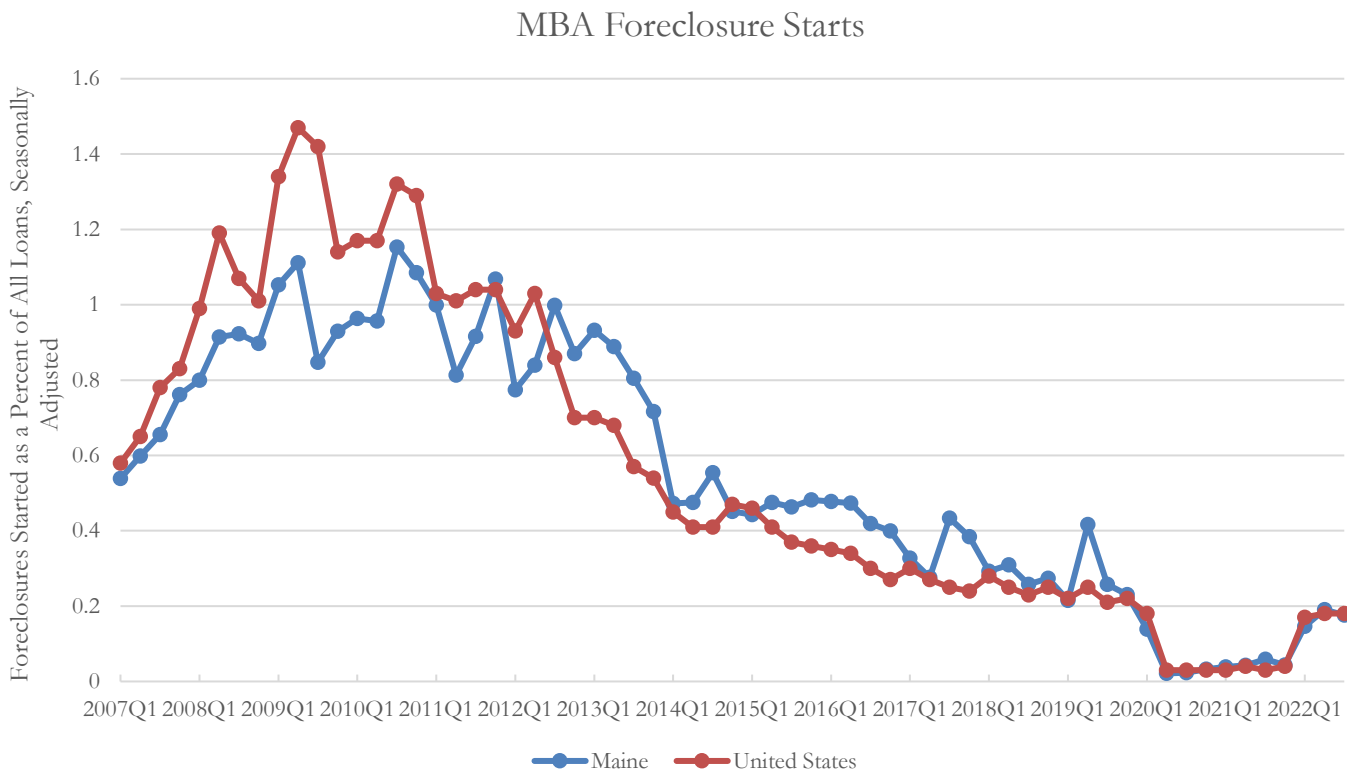
Source: Federal Housing Finance Agency, February 28, 2023, release

6. Borrowing

The share of mortgages in Maine that are delinquent 30 days or more was 1.5% in the third quarter of 2022. Maine's foreclosure rate was 0.17%, about the same as the national rate of 0.18%. The federal foreclosure moratorium ended on July 31, 2021, and foreclosures began to tick up slightly in the first quarter of 2022. The average debt-to-income ratio in Maine was 23.6 in the first quarter of 2022.

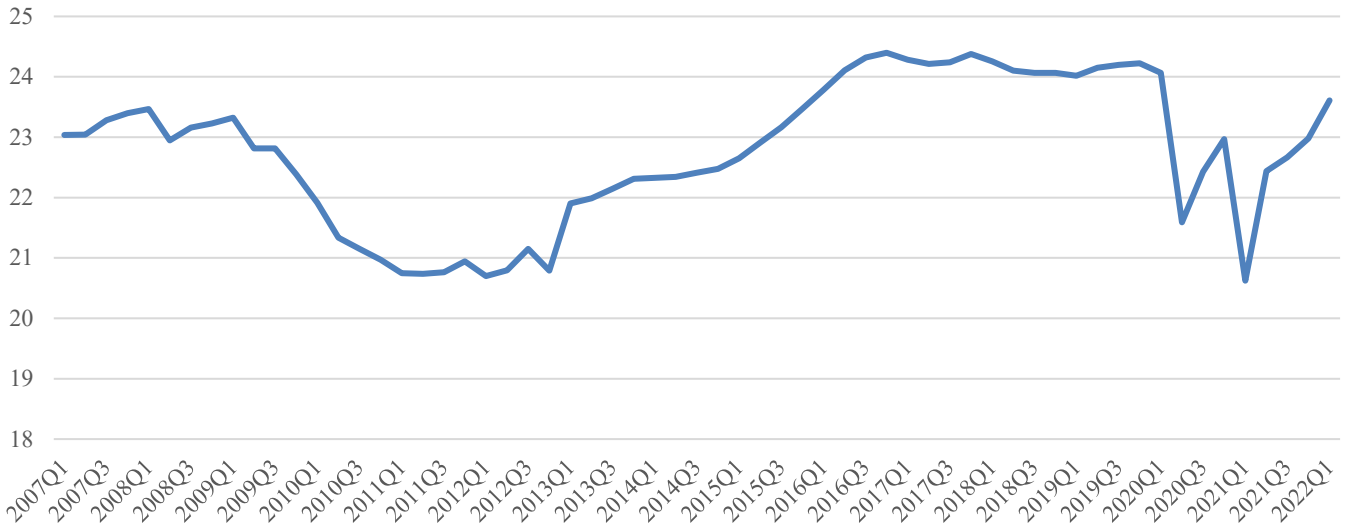


Source: Mortgage Bankers Association, via Moody's Analytics March 22, 2023 release



Source: Mortgage Bankers Association, via Moody's Analytics March 22, 2023 release

Debt to Income Ratio, (%) for Maine



Source: Federal Reserve Board of Governors; U.S. Bureau of Economic Analysis, via Moody's Analytics March 22, 2023 release