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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 October 28, 2022, Forecasting Meeting

Summary

Maine had a strong year of population growth in 2021, gaining just under 10,000 in population. Net domestic migration fueled Maine's growth as the state had the 7th highest net domestic migration rate in the U.S. and first in New England.

Total personal income grew by 4.5% in the second quarter of 2022. Wage and salary income, which is the largest component of personal income, grew by 6.0%. Meanwhile, Gross Domestic Product fell for two consecutive quarters, by 0.5% and 1.2% in the first two quarters of 2022. The Consumer Price Index continues to show persistently rapid price increases, reaching a peak of 9.1% year-over-year in June and decelerating to 8.2% by September. The PCE price index increased by 6.2% in August.

Given high inflation and economic uncertainty, the Consumer Sentiment Index was down almost 17% in October, though rebounding slightly from a series low in June. The Small Business Optimism Index was down 7.1% from a year ago in September.

Energy prices have been volatile recently but will put a major strain on Mainers this winter. Gasoline cost \$3.65 on average in New England during the week of October 24, about 20 cents higher than a year ago. Meanwhile, heating oil has soared to a series high of \$5.42 on average in Maine in the third week of October.

Single family existing-home sales have cooled, with the number of sales falling by 8.6% year-over-year in September, although prices continued to increase by a more modest 3.1%. Maine's House Price Index rose 21% in the second quarter of 2022 over a year prior, higher than both New England and the United States.

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

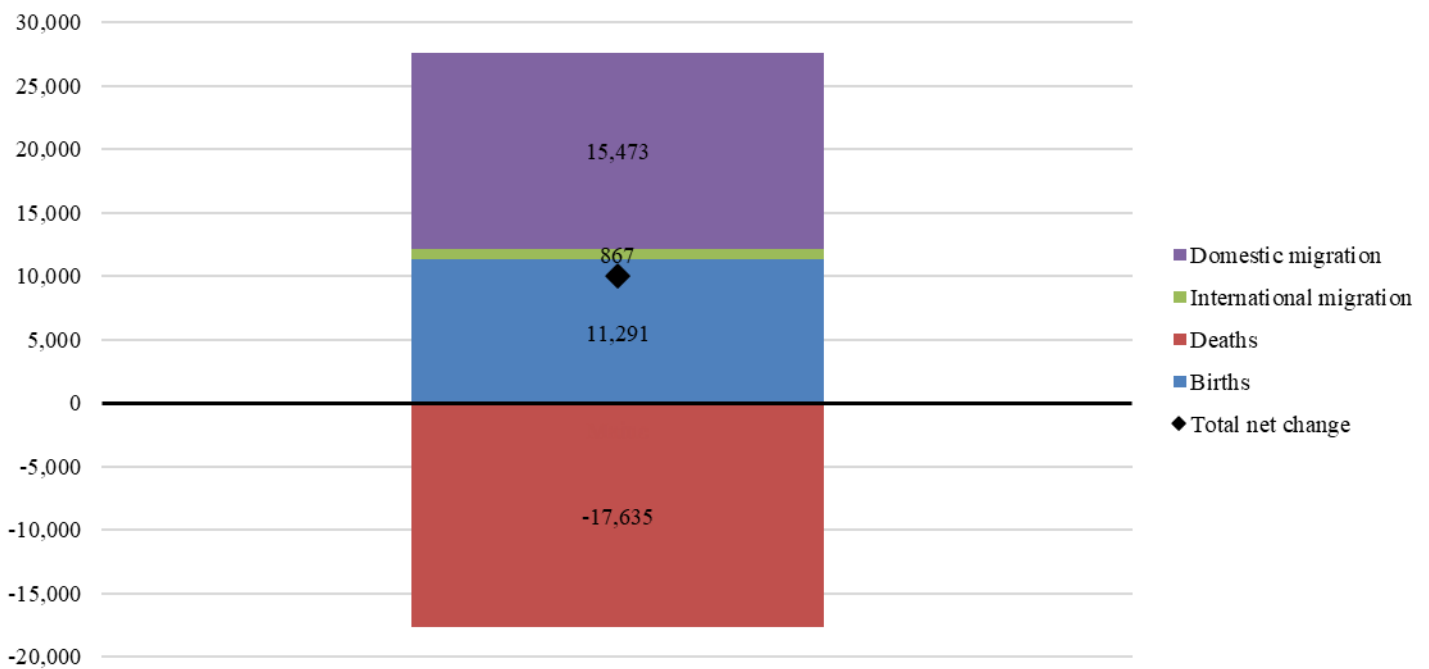
1. Demographic Trends

2021 Population Estimates

Maine gained just under 10,000 in population from July 2020 to July 2021, driven mostly by net domestic migration. Maine’s natural population decline accelerated in 2021; the state has consistently seen more deaths than births in recent years, however Maine saw even more deaths and fewer births than usual in 2021.

While the nation’s population grew at its slowest rate on record (0.1%), Maine’s population grew by 0.7% in 2021. Maine’s net domestic migration rate was the 7th highest in the nation and first in New England; Maine also had the most net in-migrants of its New England neighbors. All New England states had positive net domestic migration except for Massachusetts (-33,512). 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 2021

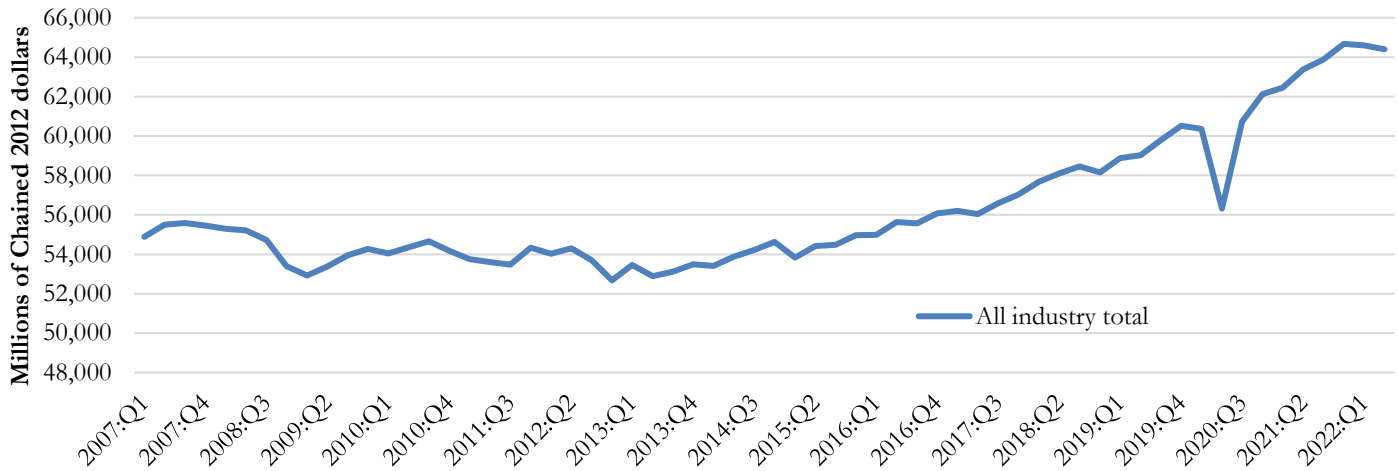


2. State Economy

Gross Domestic Product (GDP)

Real GDP for Maine declined for two quarters consecutively, falling 0.5% and 1.2% in the first and second quarters of 2022. Real GDP was \$64.4 billion in the second quarter of 2022.

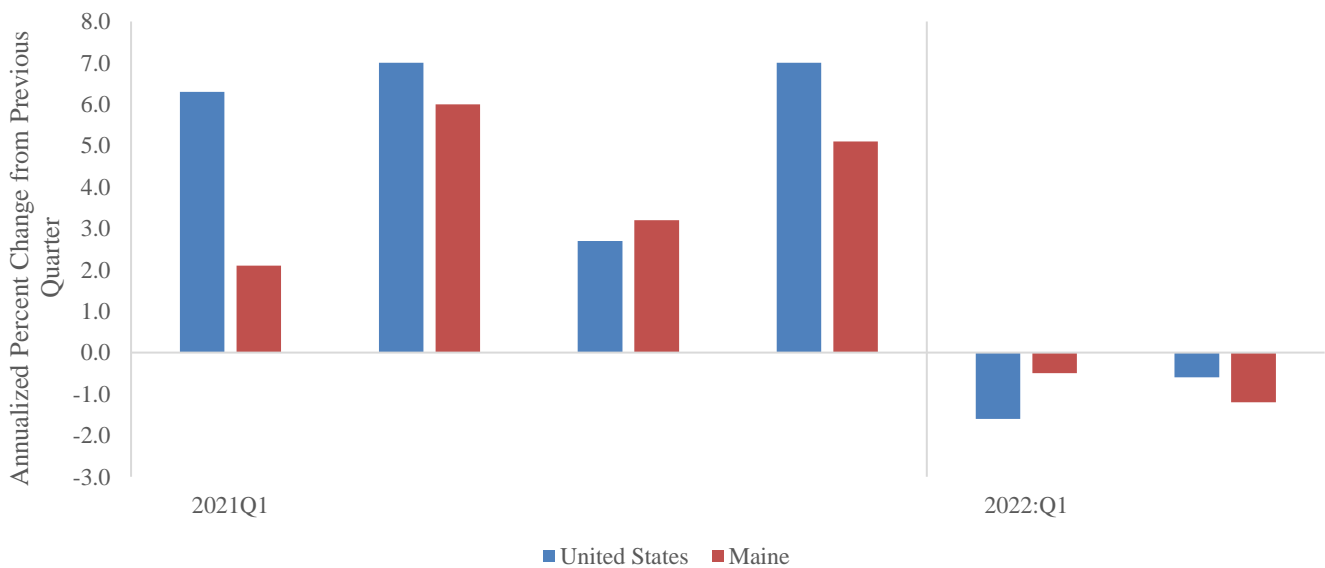
Real GDP (seasonally adjusted at annual rates)



Source: U.S. Bureau of Economic Analysis, September 30, 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.

Real GDP Percent Change from Previous Quarter



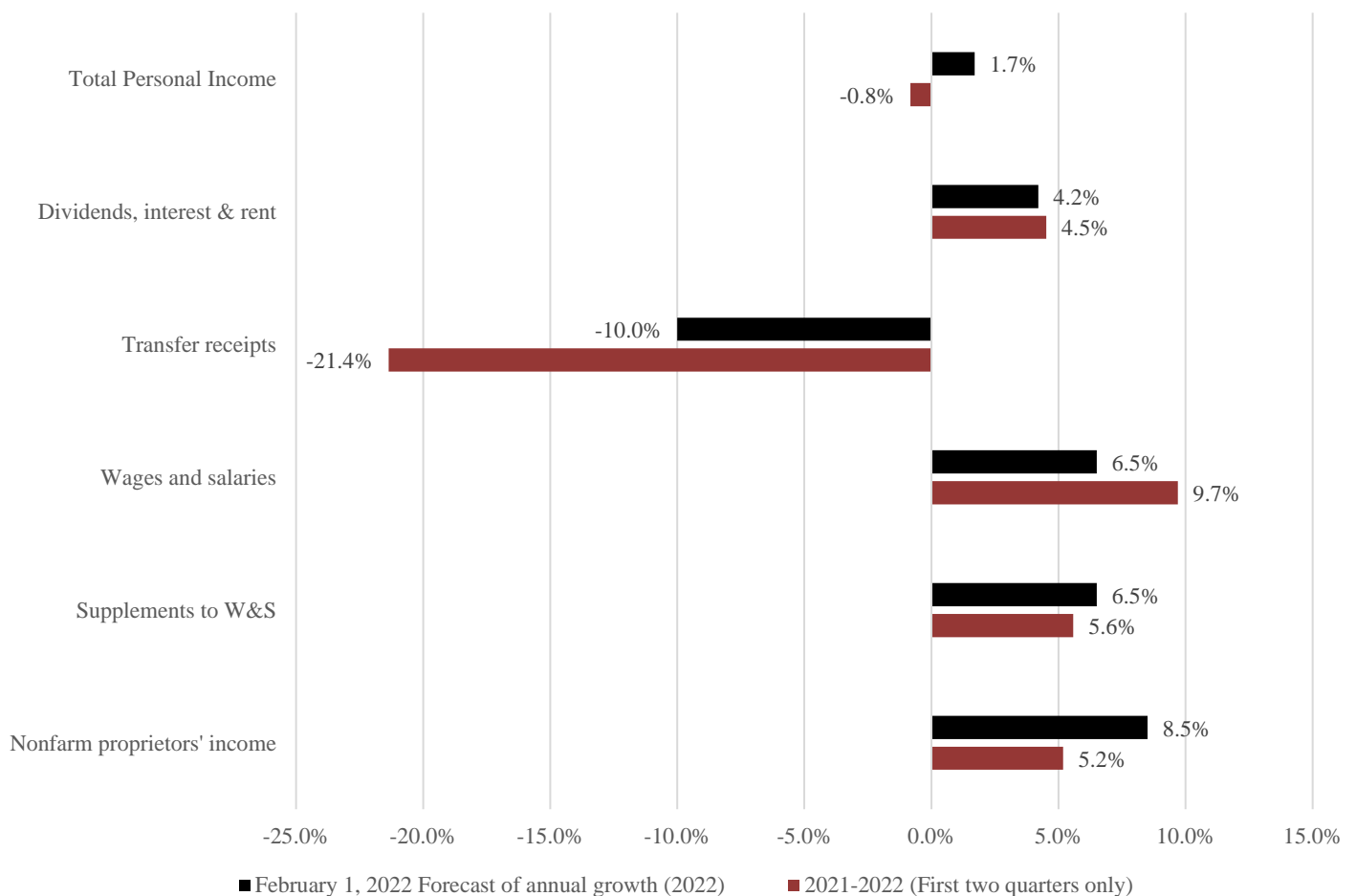
Source: U.S. Bureau of Economic Analysis, September 30, 2022 release

Personal Income

According to the U.S. Bureau of Economic Analysis, total personal income grew by 4.5% at a seasonally adjusted, annualized rate in the second quarter of 2022, following a 3.0% increase in the first quarter. All major components except for nonfarm proprietors' income have increased in both the first and second quarters, while wage and salary income, the largest component of personal income, has grown by 5.2% and 6.0% in the first two quarters, respectively.

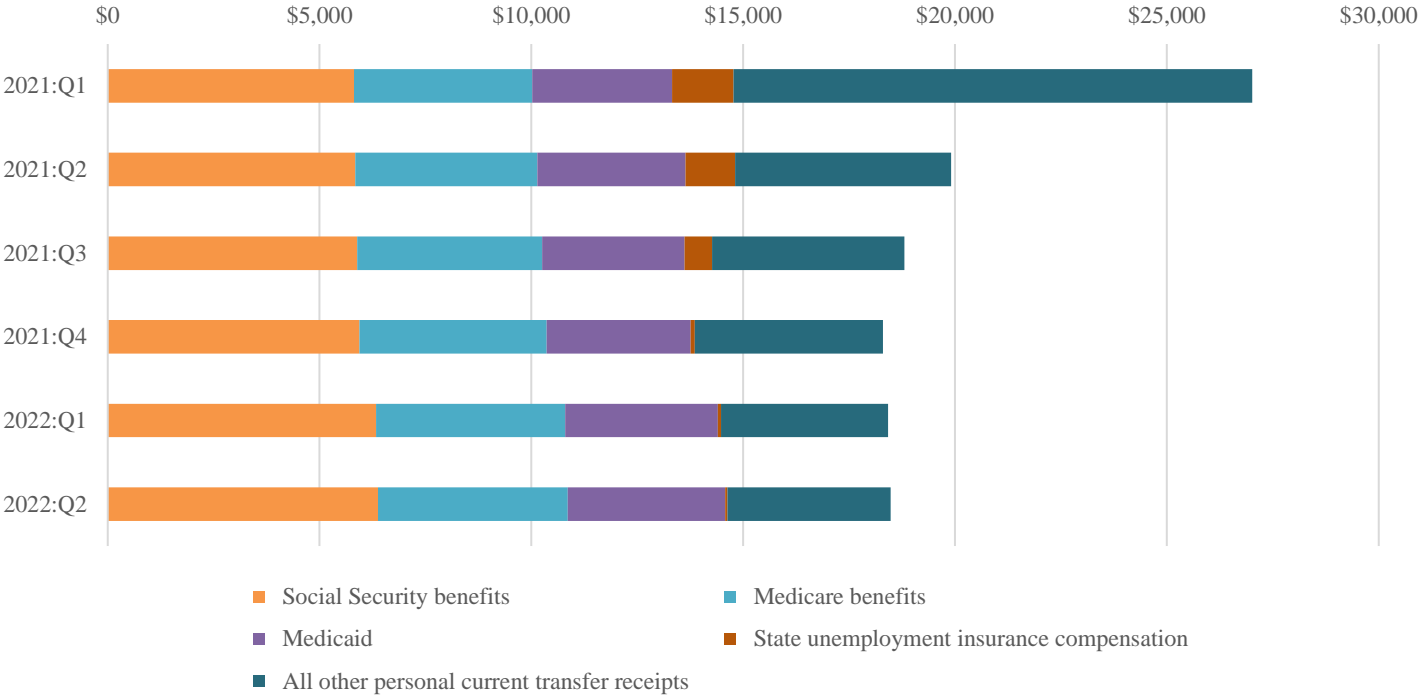
Compared to the first half of 2021, growth in most components is relatively on track with the CEFC forecasts. The major exceptions are transfer receipts and wages and salaries. Transfer receipts are significantly lower in the first half of the year, primarily due to base effects; \$2,000 of stimulus payments were sent in the first quarter of 2021. Compared to annual 2021 figures, transfer receipts have only declined 12.2%. Wages and salaries have so far outpaced the CEFC forecast, up 9.7% over the first half of 2021. Compared to annual 2021, wages and salaries are already up 6.4%, meaning wage and salary growth would need to remain relatively flat in the second half of the year in order to meet the CEFC forecasted growth rate for 2022.

Maine Personal Income: First half of 2022 compared to CEFC growth rates



Total transfer receipts have risen modestly in the last two quarters. While categories like state unemployment insurance and all other personal current transfer receipts have declined each quarter in 2022, the remaining three (Social Security, Medicare, and Medicaid) have offset declines and made up the bulk of the growth.

Components of Transfer Receipts in Maine (Millions of Dollars)

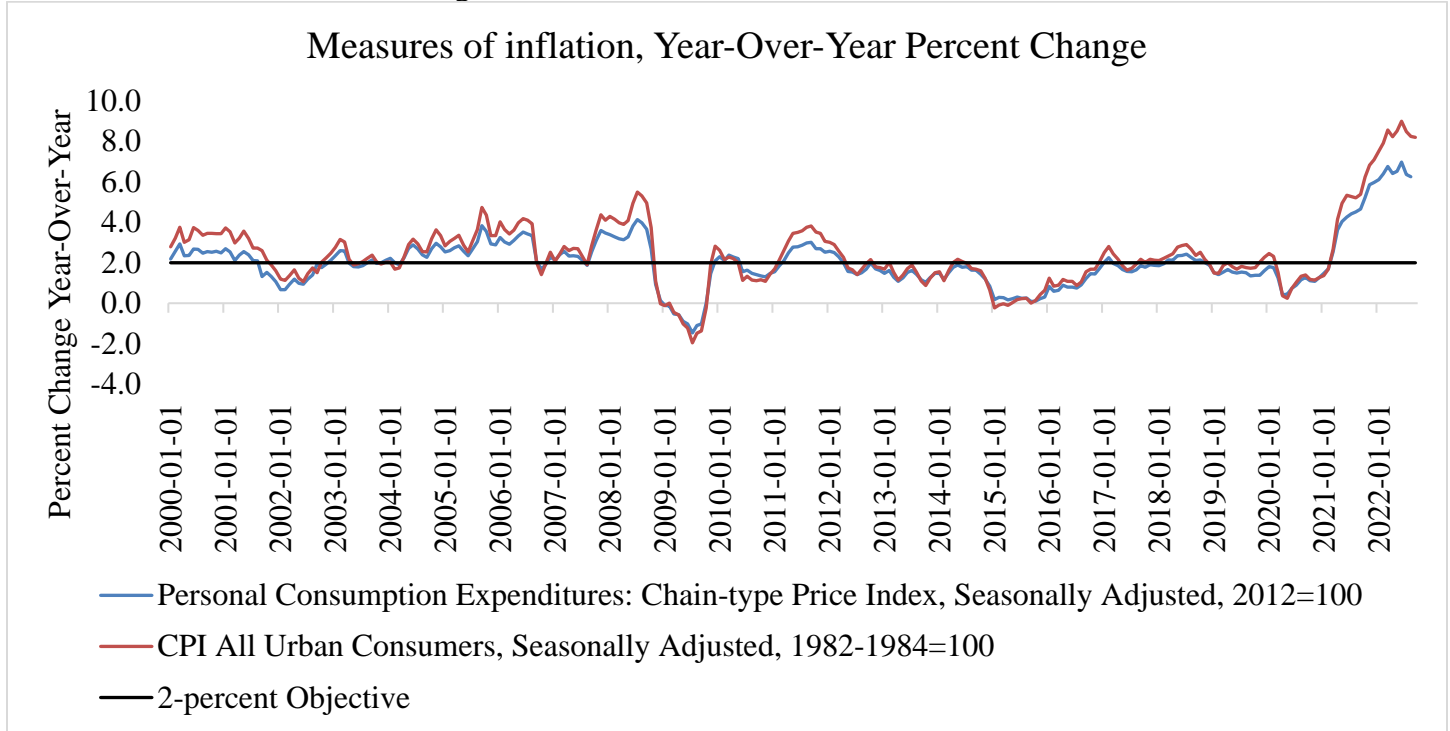


Source: U.S. Bureau of Economic Analysis, September 30, 2022 release

3. Consumption and Expenditures

Inflation measures

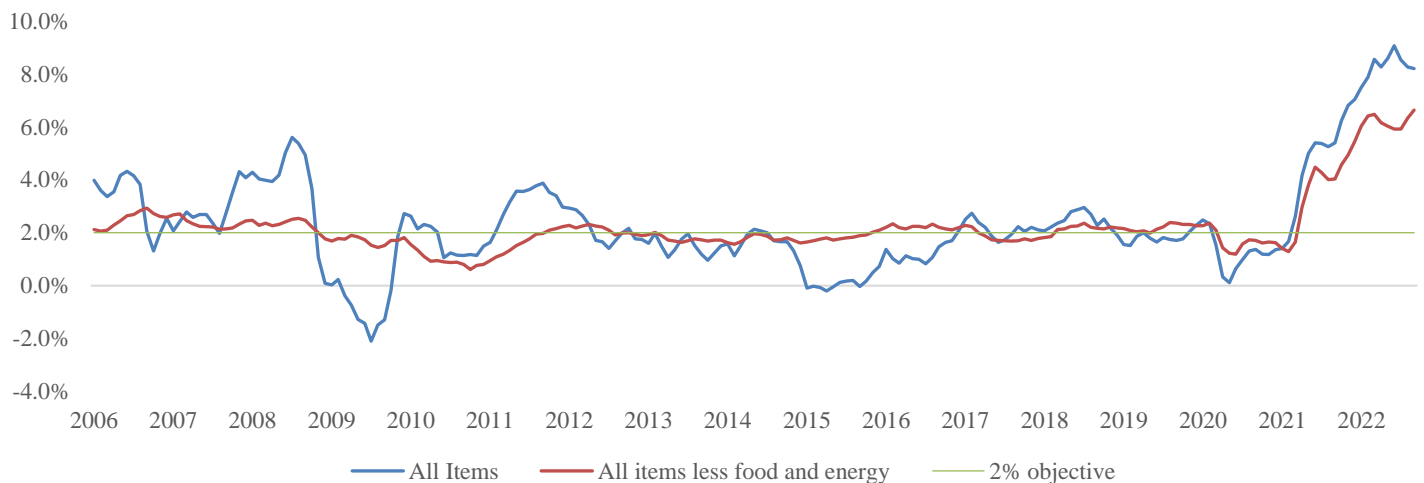
Inflation has remained higher than expected in recent months, with 12-month increases in the Consumer Price Index reaching a high of 9.1% in June 2022, though decelerating slightly to 8.2% by September. In September increases were broad, although shelter, food, and medical care indexes were the largest contributors to the overall monthly increase, while the gasoline index decreased. The most recent data for the PCE price index shows a 6.2% increase in August.



Sources: U.S. Bureau of Economic Analysis September 30, 2022 release; U.S. Bureau of Labor Statistics October 13, 2022 release

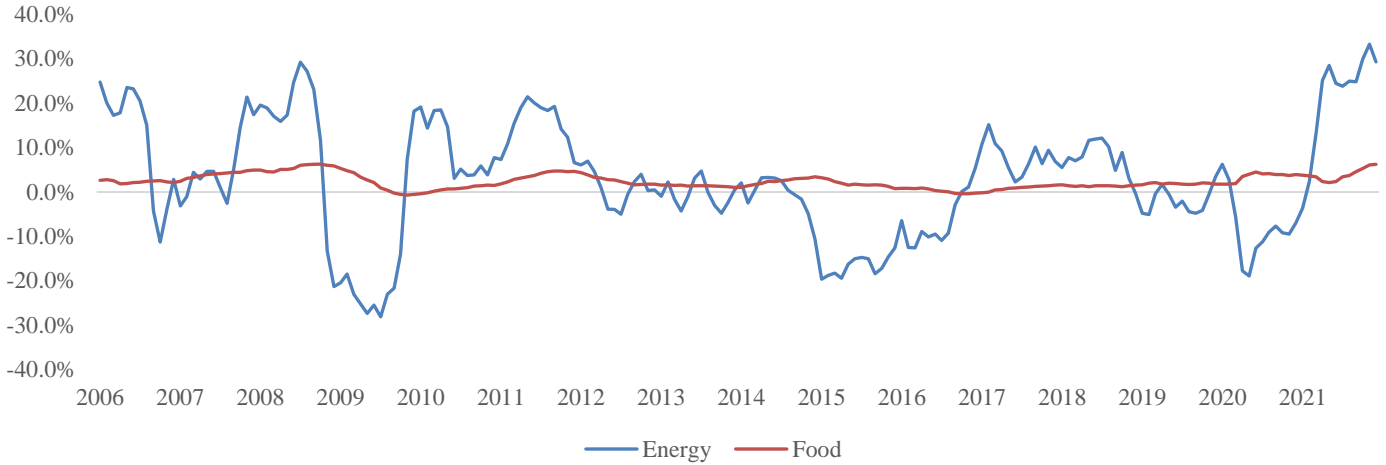
The Consumer Price Index (CPI) was up 8.2% in September 2022 over the previous year, higher than expected although continuing to decelerate from its high of 9.1% in June. Core inflation, which excludes food and energy prices, rose 6.6% over September of last year. Food and energy prices remain elevated, up 11.2% and 19.8% year-over-year, respectively.

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



Source: U.S. Bureau of Labor Statistics, October 13, 2022 release

CPI-U, seasonally adjusted, Energy and Food

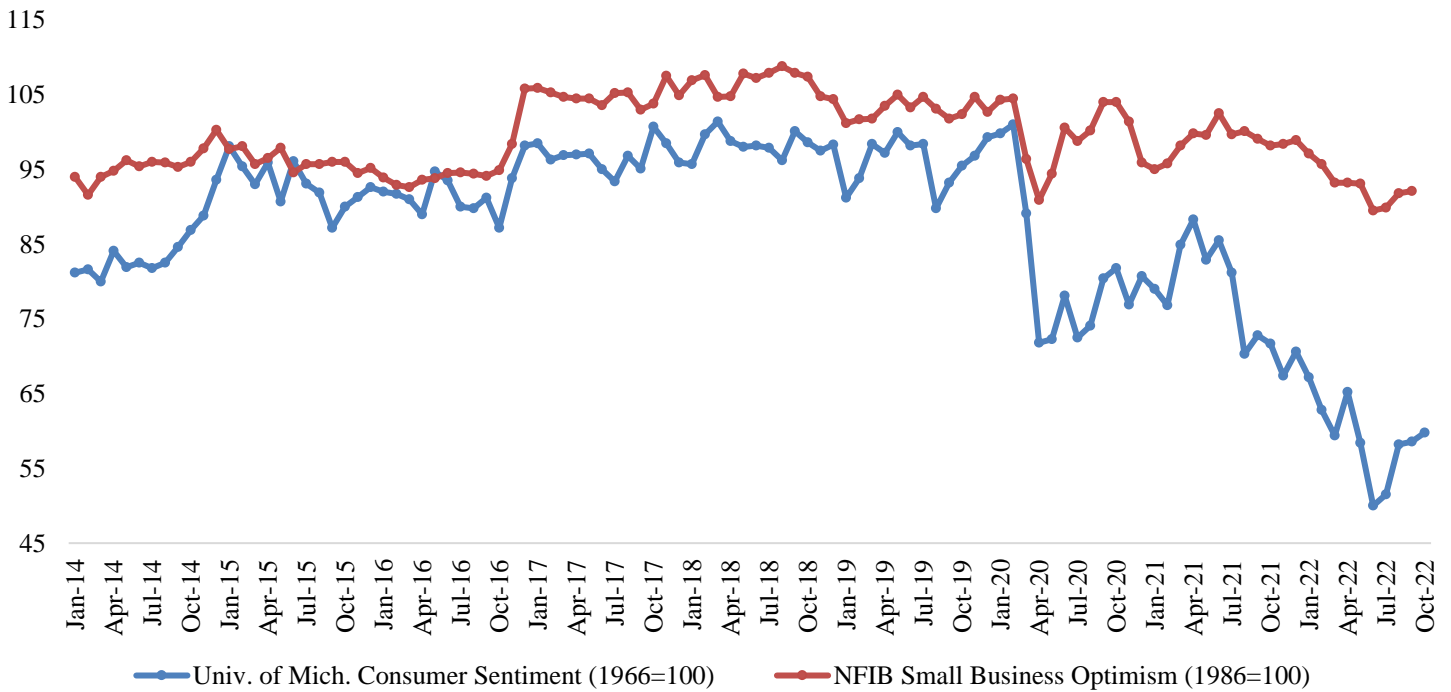


Source: U.S. Bureau of Labor Statistics, October 13, 2022 release

Consumer Sentiment and Small Business Optimism

In October 2022, the University of Michigan Consumer Sentiment Index was down 16.6% compared to October 2021. Meanwhile, the National Federation of Independent Business (NFIB) Small Business Optimism Index was down 7.1% from a year prior in September. Both have seen slight recovery after dips in May and June. The Consumer Sentiment Index reached a series low in June 2022.

Consumer Sentiment and Small Business Optimism Indexes



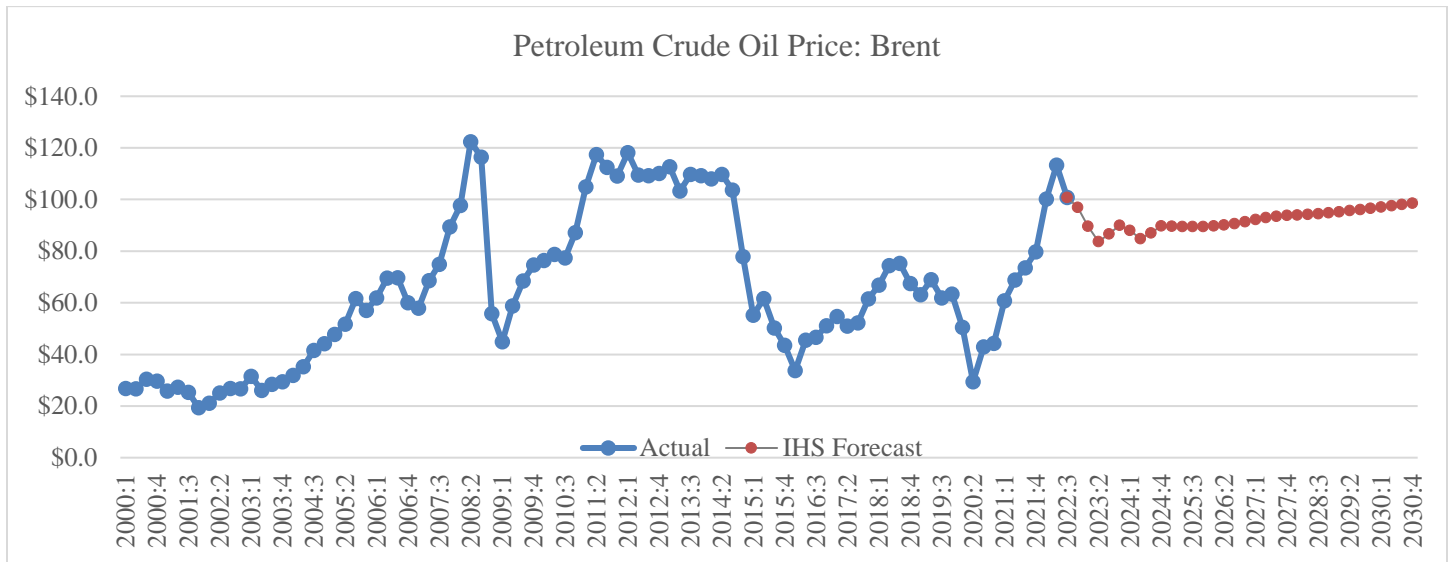
Sources: University of Michigan and National Federation of Independent Business

4. Energy Sector

In its October 2022 Short-term Energy Outlook, the Energy Information Administration (EIA) projects Brent crude oil prices will rise to an average of \$95 per barrel in 2023, up from \$93 in the fourth quarter of 2022. The EIA also notes that while OPEC has announced a production cut of 2 million barrels per day, U.S. crude oil production is forecast to average 12.4 million barrels per day in 2023, surpassing its record high in 2019.

Crude Oil

The price of Brent crude oil in the third quarter of 2022 was \$100.80, which was 11% lower than the previous quarter but 37% higher than a year prior.

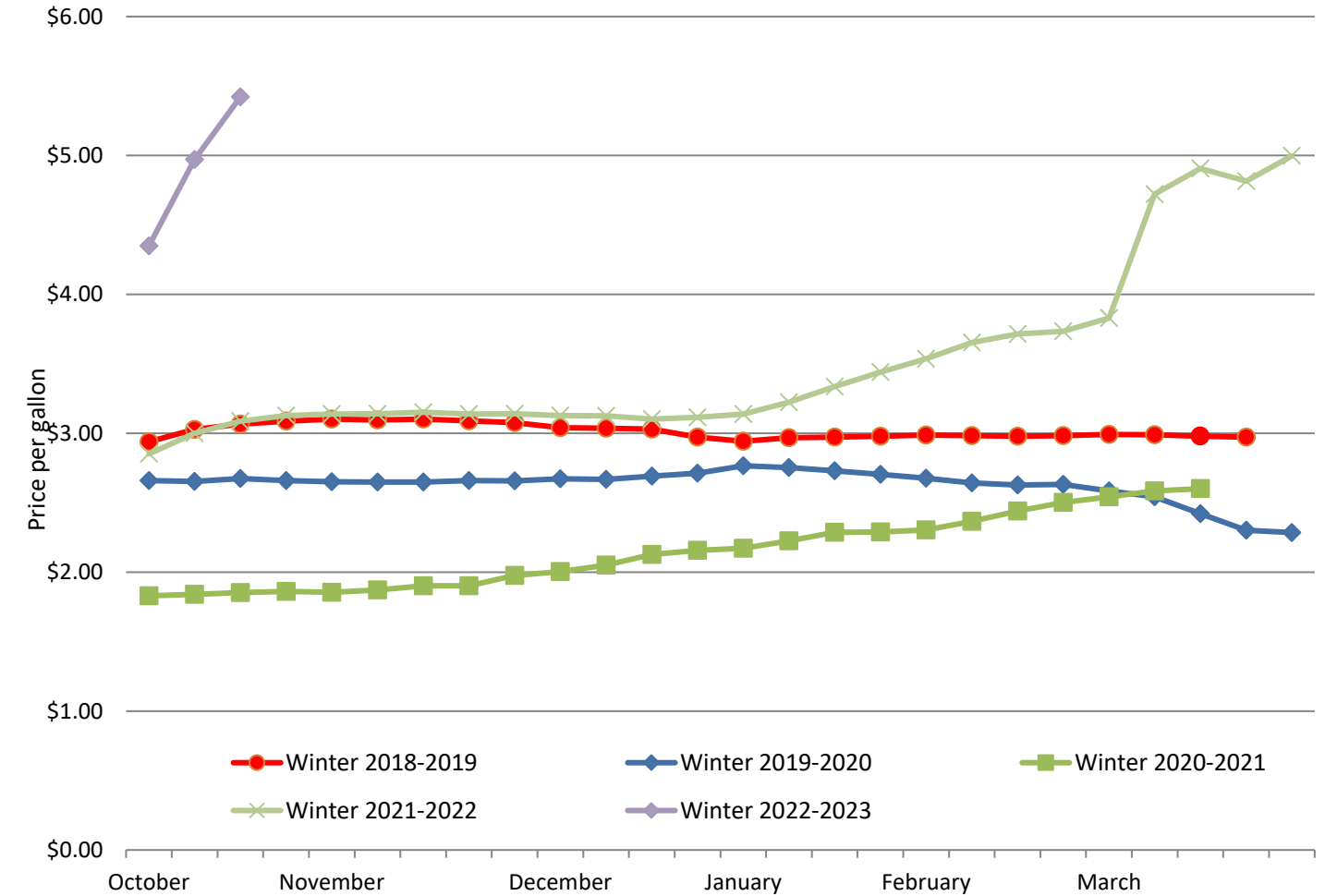


Sources: IHS, October 2022 release

Heating Oil

The statewide average cash price of No. 2 heating oil in Maine reached a series-high \$5.421/gal in the third week (October 17) of the 2022-2023 heating oil season, \$2.33 per gallon higher than the same week of last year and \$1.07 higher than two weeks prior, during the first week of the heating oil season.

Maine No. 2 Heating Oil Residential Price

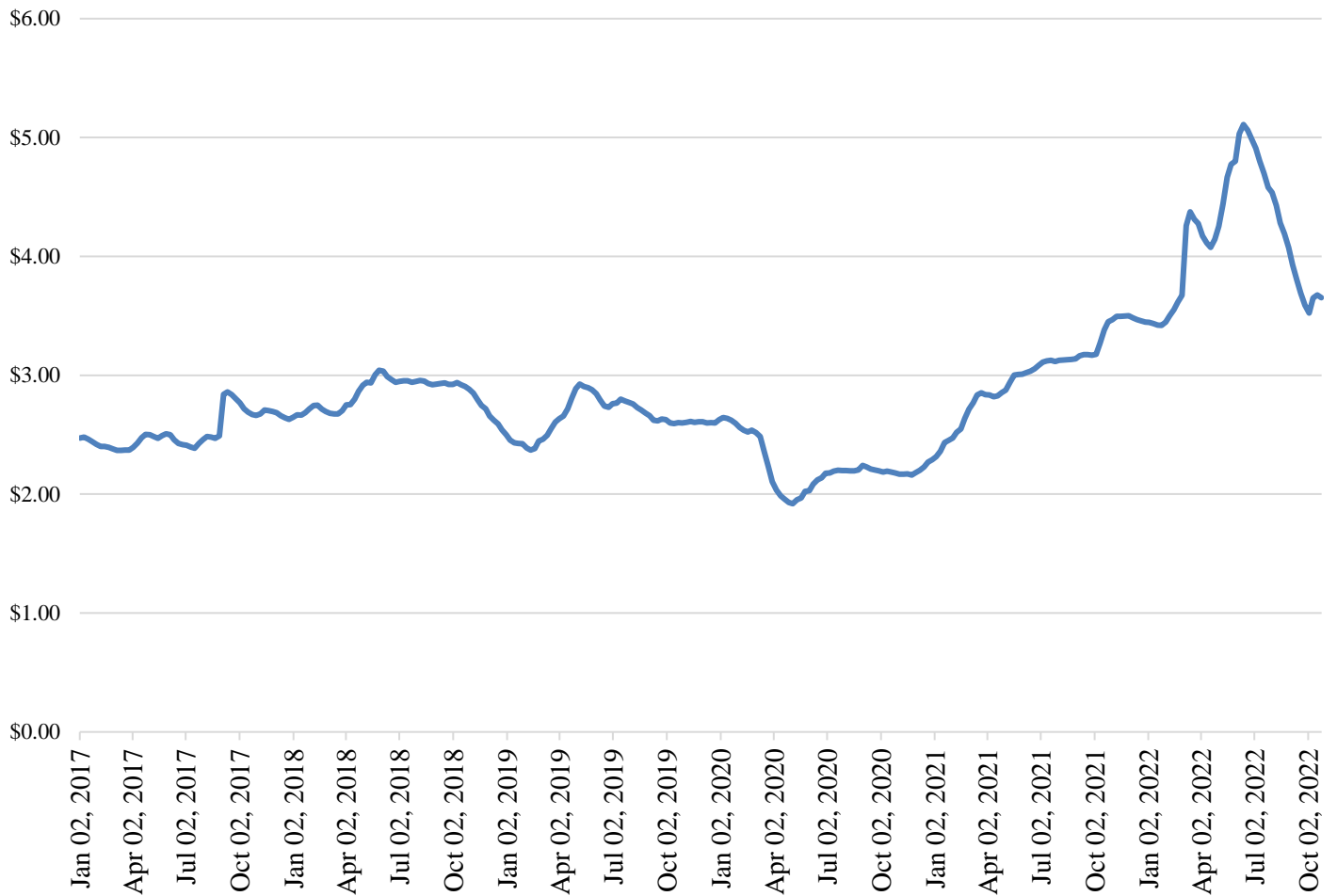


Source: U.S. Energy Information Agency, October 19, 2022 release

Gasoline

The price of a gallon of gasoline in New England was \$3.65 on October 24, 2022, about \$0.20 higher than a year ago and two cents less than a week prior.

All Grades, All Formulations Gasoline, New England (Dollars per Gallon)

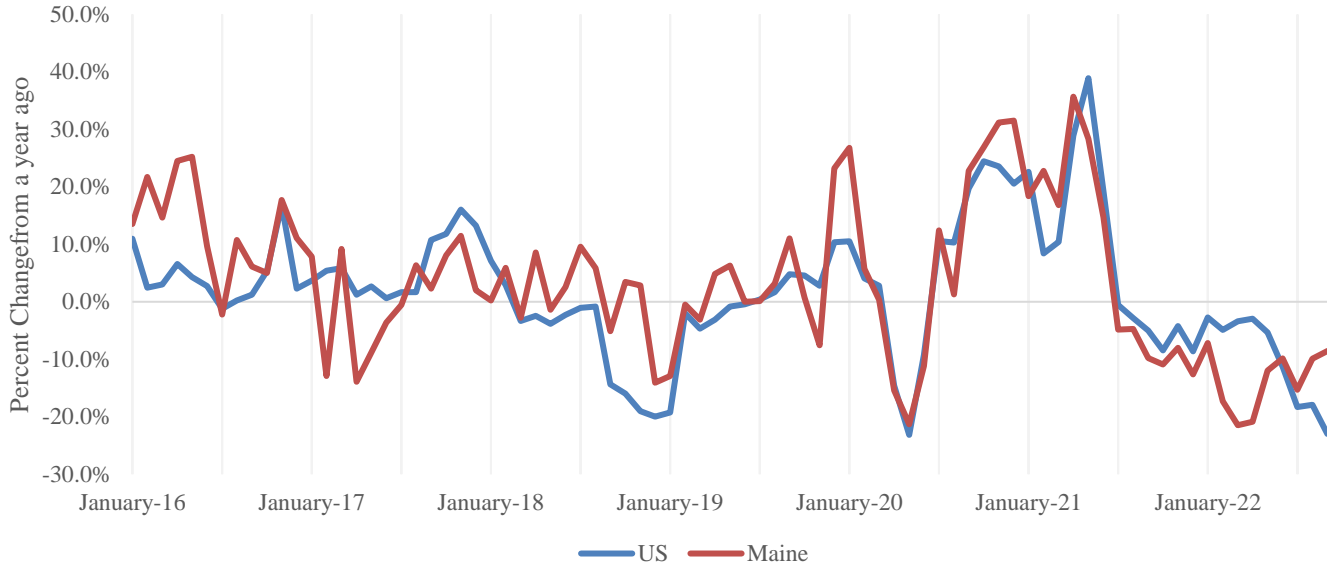


Source: U.S. Energy Information Agency, October 24, 2022 release

5. Housing

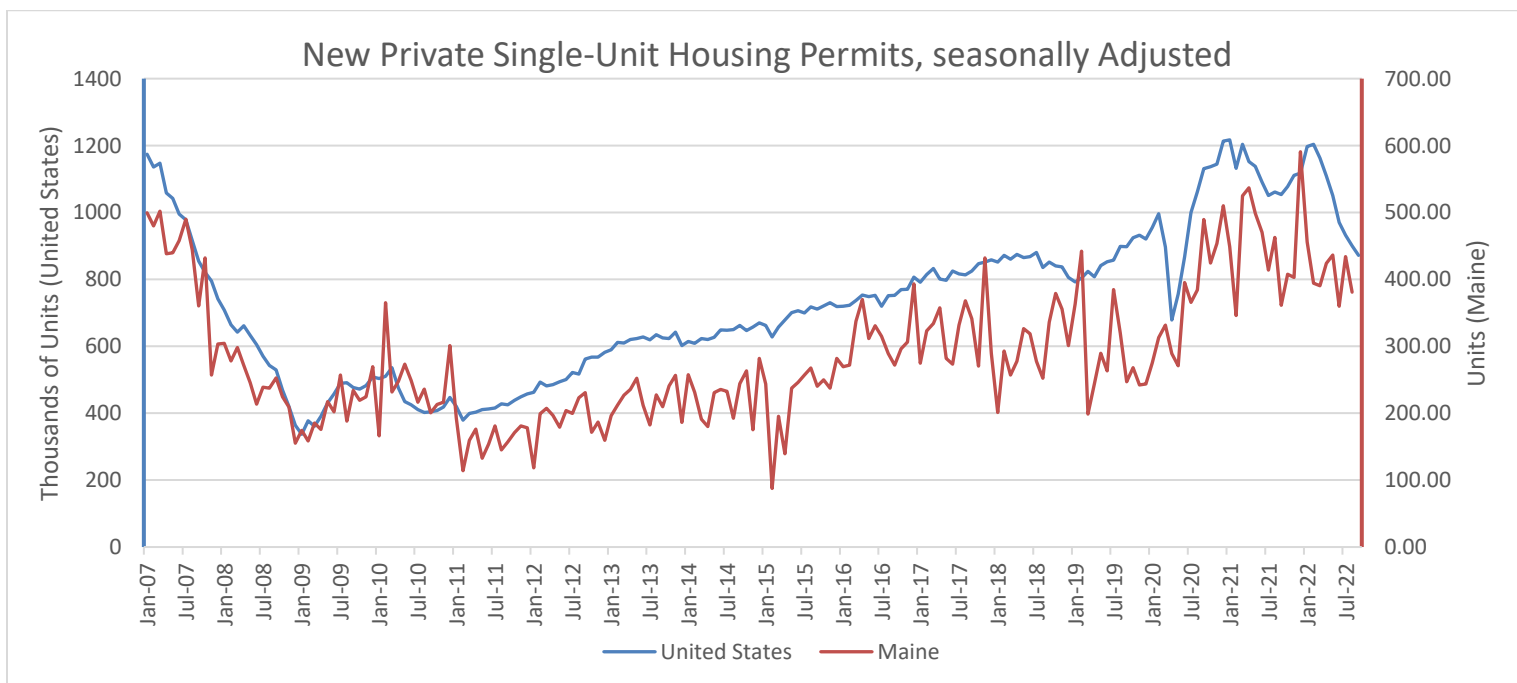
Single family existing-home sales in Maine in September 2022 were down 8.6% from 12 months prior. The median sales price continued to increase, though at a significantly slower rate of 3.13% growth from a year prior (to \$330,000 statewide) in September. Total existing single-family sales nationwide were down 23.0% in September compared to a year prior, with a median price of \$391,000, up 8.1% over last year.

Single Family Existing-Home Sales



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

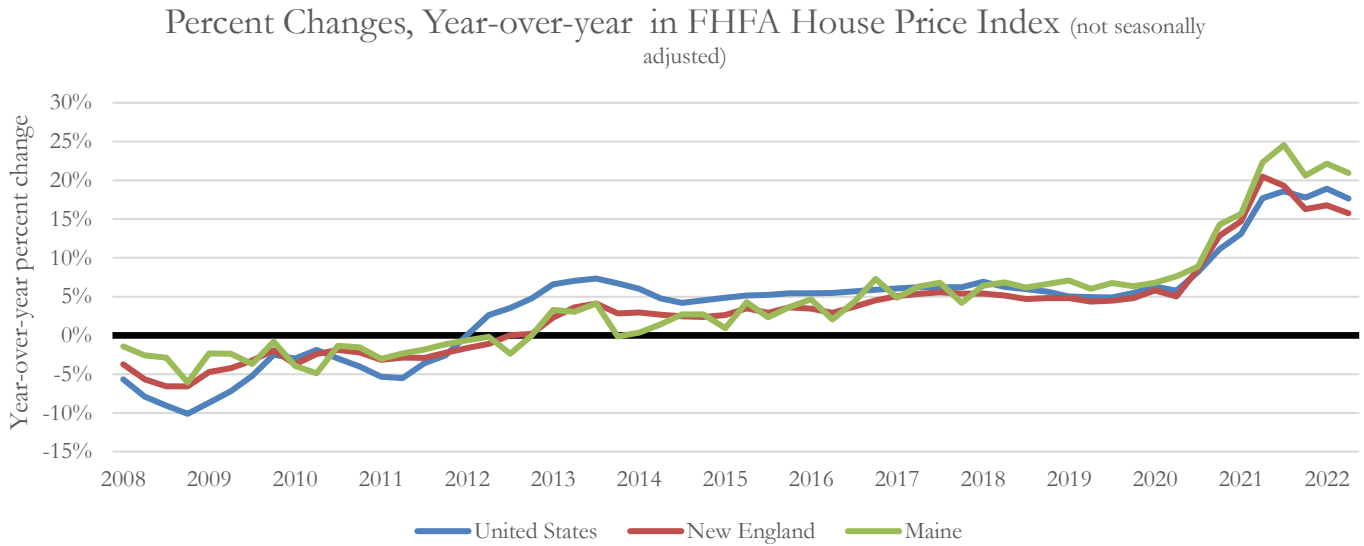
In the U.S., single-unit housing permits were down 17% in September 2022 over the previous year and 3.1% over the previous month. In Maine, permits were down 18% year-over-year and 12% month-over-month in August.



Source: US Census Bureau, October 19, 2022 release, via FRED

House Price Index

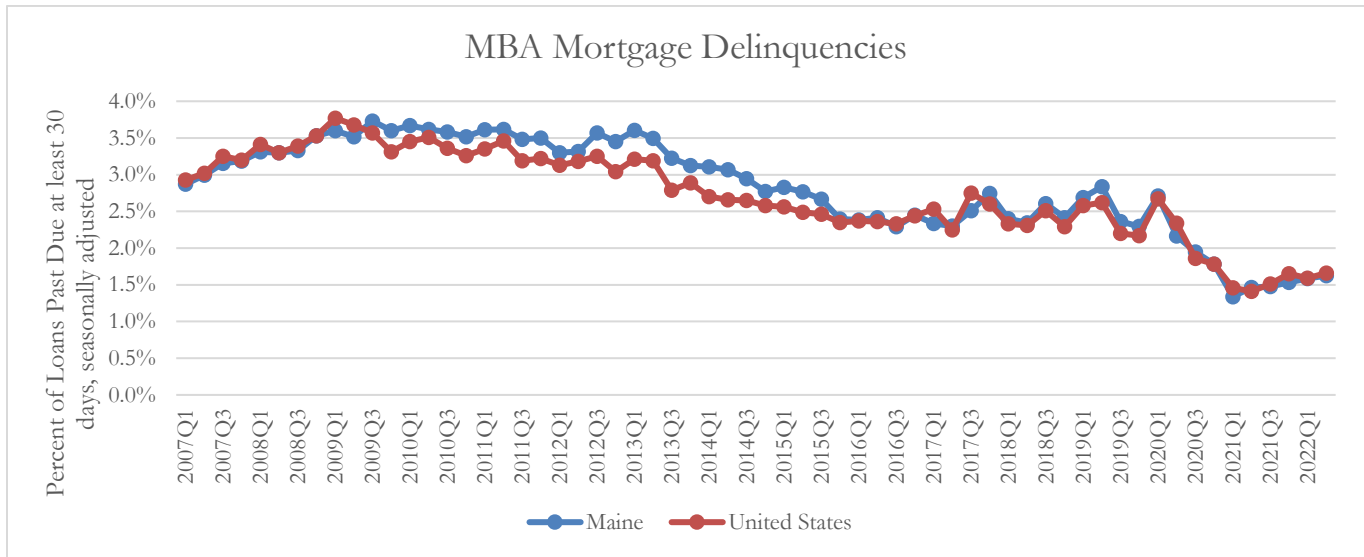
According to the Federal Housing Finance Agency (FHFA), the House Price Index (HPI) “measures average price changes in repeat sales or refinancing on the same properties.” Maine’s house price index increased substantially, by 21% in the second quarter of 2022 over the previous year. Maine’s year-over-year growth was higher than the U.S. and region, with New England growing by 16% and the U.S. by 18%. Maine’s Metropolitan Statistical Areas – Bangor, Lewiston-Auburn, and Portland-South Portland – all saw substantial increases in the second quarter, at 23%, 22% and 22%, respectively, over the same quarter last year.



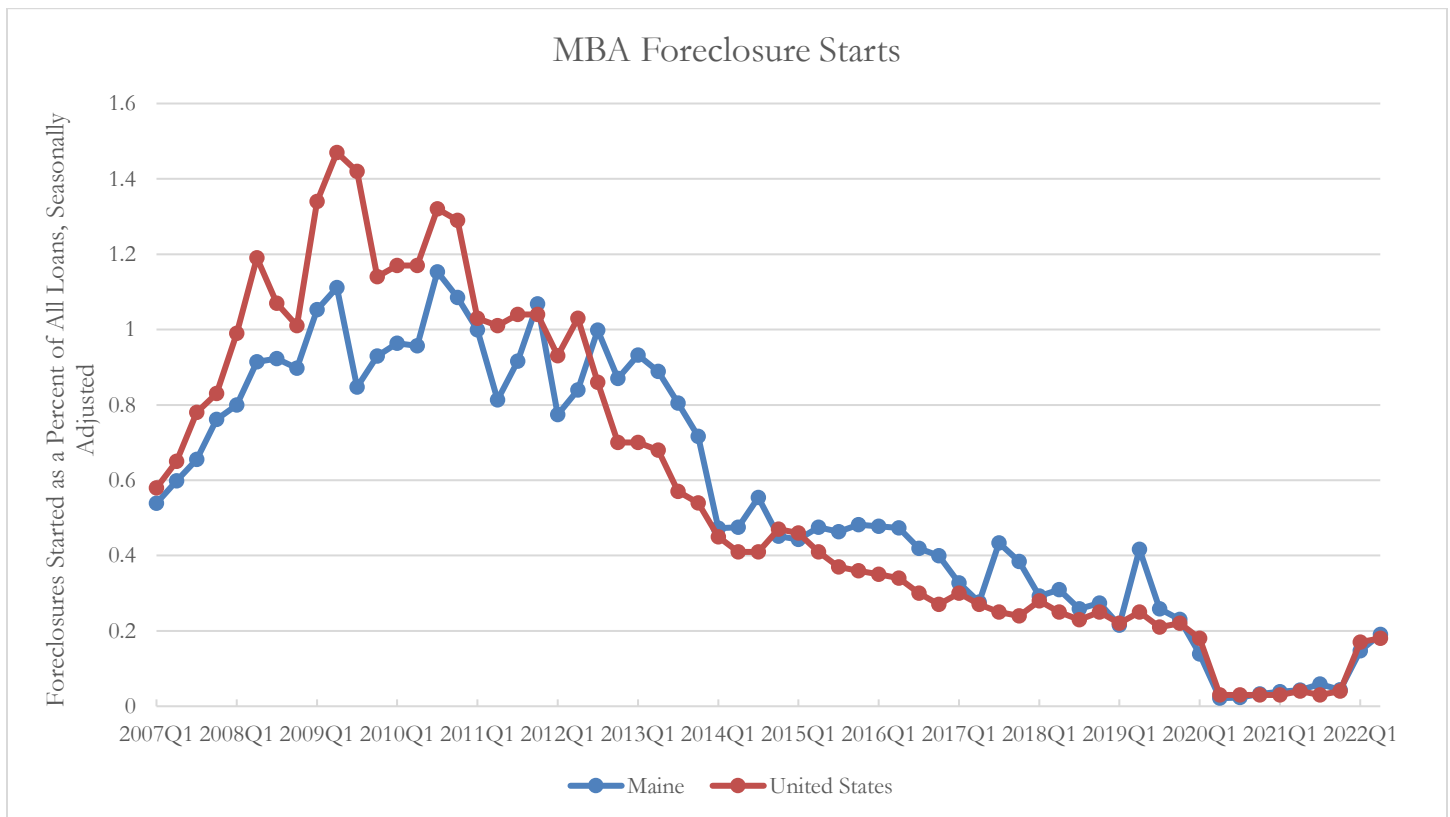
Source: Federal Housing Finance Agency, August 30, 2022 release

6. Borrowing

The share of mortgages in Maine that are delinquent 30 days or more was 1.6% in the second quarter of 2022. Maine's foreclosure rate was 0.19%, 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 22.9 in the fourth quarter of 2021.

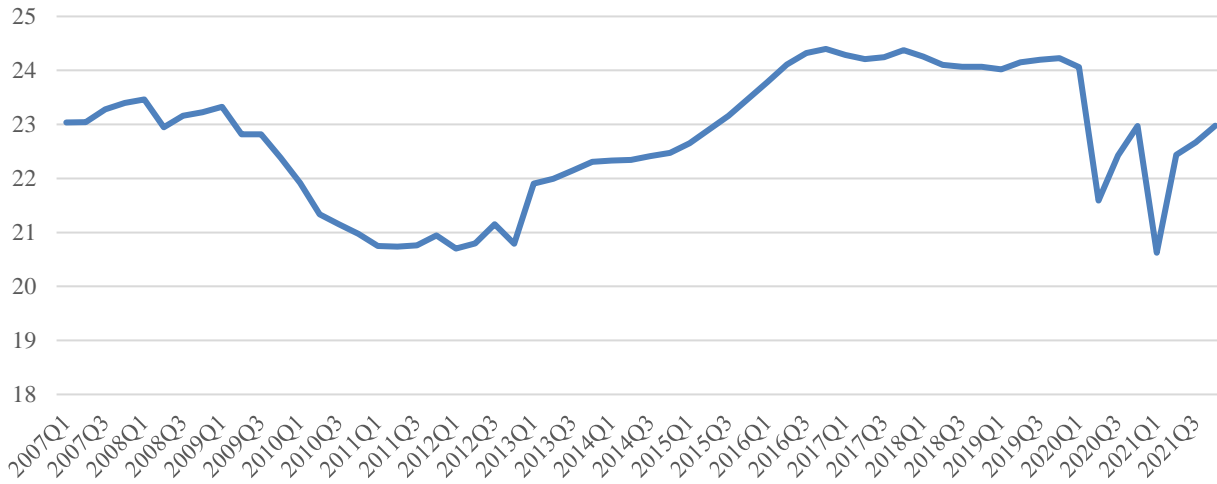


Source: Mortgage Bankers Association, via Moody's Analytics October 14, 2022 release



Source: Mortgage Bankers Association, via Moody's Analytics October 14, 2022 release

Debt to Income Ratio, (%) for Maine



Source: Federal Reserve Board of Governors; U.S. Bureau of Economic Analysis, via Moody's Analytics October 14, 2022 release