Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on March 29, 2019, to review and revise its forecast through 2023. At the beginning of the meeting, the members appointed Dr. Sheena Bunnell to the fifth seat on the Commission and voted Ryan Low as the Chair. This report provides a summary of the Commission's findings.

Both the national and state economies had a good year in 2018 with preliminary annual data indicating that both the U.S. economy and Maine economy continue to grow.

The Commission made modest changes to the existing forecast. CPI was revised downward from 2018 to 2023 to match the Federal Reserve Bank's long-term inflation target of 2.0 percent and modest upward revisions were made to components of personal income for the later years (2021, 2022, 2023). Non-farm proprietors' income and corporate profits remain unchanged. While there has been more positive data on in-migration recently, the Commission remains concerned about the demographic situation in Maine and the resulting impacts on workforce availability.

In March 2019, the U.S. Bureau of Economic Analysis (BEA) released preliminary annual estimates for state personal income data for the year 2018. However, information from Maine Revenue Services and the Maine Department of Labor led the CEFC to assume that BEA will revise 2018 personal income upward in September 2019. Therefore, the Commission left growth rates for personal income and components of personal income largely unchanged for 2018 and 2019. In anticipation of Medicaid expansion, personal current transfer receipts were revised up. Similarly, there was a 0.1 percentage point upward revision to wage and salary income from 2020 through 2023.

The forecast for wage and salary employment growth was revised up for 2019 by 0.1 percentage points and left unchanged for the remaining years. The revised employment forecast reaches 633,100 in 2020 and remains at that level for 2021-2023. CPI was revised down by 0.2 percentage points in 2018 to reflect actual data and further revised down in each year from 2019 to 2023 (by 0.5, 0.5, 0.4, 0.3, and 0.3 percentage points, respectively) to reflect the Federal Reserve's interest in maintaining the 2.0 percent inflation target. Total personal income was revised upward by 0.1 percentage points in 2019 and was revised upward by 0.3 percentage points for 2021 to 2023. This increase can be attributed to upward revisions of 0.1 percentage points to wage and salary income from 2020 through 2023, an upward revision of 0.9 percentage points to supplements to wages and salaries in 2021, and upward revisions of 0.4, 1.0, and 1.0 percentage points to personal current transfer receipts in 2021-2023.

The table below provides the forecast's major indicators.

Calendar Years	*2018*	2019	2020	2021	2022	2023
Wage & Salary Employment (Annual Percentage Change)						
CEFC Forecast 11/2018	0.8	0.4	0.2	0.0	0.0	0.0
CEFC Forecast 04/2019	*0.8*	0.5	0.2	0.0	0.0	0.0
Personal Income (Annual Percentage Change)						
CEFC Forecast 11/2018	4.5	4.5	4.0	3.6	3.2	3.2
CEFC Forecast 04/2019	*4.5*	4.6	4.0	3.9	3.5	3.4
Wage and Salary Income (Annual Percentage Change)						
CEFC Forecast 11/2018	4.5	4.2	3.7	3.5	3.0	3.0
CEFC Forecast 04/2019	*4.5*	4.2	3.8	3.6	3.1	3.1
CPI (Annual Percentage Change)						
CEFC Forecast 11/2018	2.6	2.4	2.5	2.4	2.3	2.3
CEFC Forecast 04/2019	*2.4*	1.9	2.0	2.0	2.0	2.0

In deliberations leading to consensus, the CEFC considered information presented by several state agencies, including the Maine Department of Labor, Maine Revenue Services, and by the Maine State Economist at the Department of Administrative and Financial Services (DAFS). The following sections summarize these reports.

Maine State Economist (Department of Administrative and Financial Services)

Maine's real GDP grew 0.6% in the third quarter of 2018. The preliminary estimate of personal income for Maine is growth of 4.0% from 2017 to 2018, while wage and salary income, which is the largest component of total personal income, grew 3.9% over the same period. The debt-to-income level for Maine businesses and households has started declining since its highest level, which was in the fourth quarter of 2017. The Consumer Price Index was up 1.5% in February 2019 from a year ago.

Nationwide, consumer sentiment has improved after the recent government shutdown. The February 2019 level was down 5.9% from a year ago and up 2.9% from January 2019. The small business optimism index was down by 5.5% in February 2019 compared to one year ago, but up by 0.5% from the previous month. The price of crude oil has continued increasing recently compared to the last month of 2018. However, the price of crude oil is still lower than the high of $85.44 per barrel last year. Heating oil prices for the winter of 2018-2019 were higher than the previous winter. Heating oil is around $2.98 per gallon while gasoline is currently averaging $2.50 per gallon.

Existing single-family home sales in Maine were down 0.5% in February 2019 compared to the same month last year, and average housing permits for the February 2018 - January 2019 period were 1.0% lower than the previous 12-month period. The median home price in York, Cumberland, and Sagadahoc counties increased by 5.6, 7.3, and 1.9%, respectively, year-over-year. Mortgage delinquency rates in Maine have been declining but remain higher than the national rate. The foreclosure rate in Maine was 0.30% in the third quarter of 2018.

Average monthly exports for Maine in 2018 were $235 million compared to average monthly exports of $226 million in 2017. Between 2017 and 2018, there was a 4.2% increase in total export value.

Full background materials are available at:
https://www.maine.gov/dafs/economist/economic-forecasting

Maine Department of Labor

Labor market conditions in Maine are good. The February unemployment rate was 3.4%, the 38th consecutive month below 4%, the longest period on record. Other measures of labor underutilization also are at or near record lows. The number of very low wage earners in their primary job has declined sharply since 2013, and average wage growth has increased reflecting the tightening of the labor market since 2015.

Nonfarm payroll job growth has continued into the early part of 2019. Construction jobs were down somewhat over the last year; it is not clear how much of that was due to increased interest rates over the last year, or how much recent rate declines may spur activity. Manufacturing, retail trade, and local government jobs have stabilized at lower levels in recent years, and the healthcare, professional services, and hospitality sectors continue to add jobs.

Demographic trends in the population are impacting economic growth potential in the state. Declining numbers of births have reduced population growth significantly and created an imbalanced age structure. Today there are more people in their 50s and 60s who are nearing retirement than young people who will age into the workforce to replace them. The size of the labor force is likely to gradually subside with the size of the working-age population in the years ahead, though continued improvements in the capabilities of, and cost reductions in technology are likely to continue to increase productivity, at least partially offsetting the labor force constraints.

The presentation is available at www.maine.gov/labor/cwri/publications/pdf/CEFCMarch2019.pdf

Maine Revenue Services - Office of Tax Policy

February General Fund (GF) revenues were under budget by $28.3 million or 15.9 percent. For the first eight months of fiscal year 2019, GF revenues are $20.3 million under budget (-0.8 percent). Compared to the same eight-month period of last fiscal year, fiscal year 2019 GF revenues are up by 5.3 percent (+$122.4 million). February and year-to-date (YTD) revenues are relative to the RFC's December 1, 2018, forecast that increased FY19 GF revenue by $99.2 million. Preliminary March revenues indicate that the negative variance in February was a timing issue, and that GF revenue will return to budget, and possibly exceed budget, through the first three quarters of FY19.

The December revenue forecast increased sales and use tax receipts by $36.2 million in FY19 and $90.1 million for the FY20/21 biennium. The relatively large adjustments were the result of the revenue line's performance through October and applying the relevant economic variables from the November 1, 2018, CEFC forecast. The forecast of sales and use tax continues to assume that automobile unit sales will be flat to slightly declining over the FY19-FY21 forecast period, but begin to grow again starting in FY22. The current sales tax forecast assumes an average annual growth of approximately 4.3% per year over the FY20-FY23 period. Sales and Service Provider taxes combined will be essentially on budget at the close of March.

December taxable sales (January revenue) increased 4.3 percent over last year. While the monthly year-over-year growth shows moderate growth, December holiday shopping sales fell short of expectations. National data showed retail sales in December plunged compared to November, and experienced the worst year-over-year performance of the calendar year. In Maine, taxable sales growth for the combined Nov./Dec. holiday shopping period increased 3.8 percent. January taxable sales (February revenue) increased 4.1 percent over last year. The three-month moving average of growth has slowed to 4 percent, compared to the 12-month moving average of 5.6 percent. National data showed retail sales in January rebounded from December, but January year-over-year retail sales only increased by 2.3 percent. Even when adjusting for volatile energy and auto sales, year-over-year growth in "core sales" in January (+3.7 percent) remained well below the growth during the summer and fall.

Individual income tax revenues were under budget in January by $14.7 million. Estimated payments were the primary source of the monthly variance, under budget by $10.2 million; this is a 2.4% decrease over last January's estimated payment. Other income tax states are reporting a larger reduction in January's final estimated payment. With passage of the federal "Tax Cuts and Jobs Act" the limitation on the state and local tax (SALT) deduction caused many taxpayers last year to accelerate payments into December and early January. With the loss of the incentive to pay the state estimated payment early, the Revenue Forecasting Committee (RFC) budgeted a 10 percent reduction in this year's final estimated payment, but actual payments fell by a much larger 26 percent. Based on discussions with tax practitioners across the state and federal non-withheld payments in January, we believe the $21 million year-to-date shortfall in estimated payments will be recovered through final payments in April.

Individual income tax revenues were under budget in February by $25.1 million. Most of the monthly variance was from refunds exceeding budget by $17 million. For the fiscal year refunds were over budget by $9.8 million. March refunds were under budget proving February was a timing issue and refunds are now slightly under budget YTD. Withholding (-$4.4 million), final payments (-$1.9 million), and fiduciary (-$2.8 million) receipts accounted for the remaining deficit in February. Like refunds, timing explains the negative variances in these other sources of individual income tax receipts, and we anticipate net individual income tax revenues will be close to forecast by the close of April.

Corporate income tax receipts were under budget in February by $7.6 million, but remain over budget for the fiscal year by $11.5 million. Refunds and estimated payments accounted for the weak monthly performance. February is not a big month for corporate income tax receipts, so the timing of refunds can result in negative revenues for the month. Like individual income tax, March corporate income tax receipts rebounded, and a positive YTD variance of approximately $22 million will exist through the first three quarters of FY19. April is the next big month for corporate income tax revenues when 2018 final payments and the first estimated payment for calendar year filers is due. There are many factors affecting corporate income tax revenues, with federal tax reform being the biggest factor. It will be years before there is a better understanding of the impacts of federal tax reform, and the state's conformity to it, on Maine corporate income tax receipts. For this reason, the RFC was very conservative on this volatile revenue line in its December forecast.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for March 2019 and the IHS Markit baseline scenario for March 2019. Additionally, DAFS provided an alternative scenario based on modified employment growth. Each forecast was based on a different set of national macroeconomic assumptions. The DAFS scenario was based on the Moody's Analytics baseline scenario for February 2019 with industry sector employment growth adjustments by the State Economist. These three forecasts were then compared to the CEFC's November 2018 forecast. The key assumptions made by the CEFC are below.

- Maine population growth is likely to limit employment growth in the coming years, particularly as the baby boom generation continues to move into retirement age. The employment forecast adopted by the CEFC assumes that Maine has seen stronger in-migration recently and this will continue for at least the next few years. While tightening in the labor market will continue to put upward pressure on wages, there will be some offset as workers at the top of the pay scale retire and new workers enter lower on the pay scale.

- The Federal Reserve will continue to target the 2.0 percent inflation rate going forward.
- Medicaid expansion will have an impact in the upcoming years, reflected in increased growth in personal current transfer receipts.
- BEA preliminary estimates for 2018 will be revised up to better match data presented by the Maine Revenue Services and the Maine Department of Labor.

Consensus Forecast

Maine has seen modest employment growth thus far in 2019 and will likely see continued growth for the next few years before leveling off.

The employment growth rate was increased modestly for 2019 by 0.1 percentage points with growth rates left unchanged for the remaining years of the forecast. Employment reaches a peak level of 633,100 in 2020 and stays at that level throughout the rest of the forecast period.

No revisions were made to wage and salary income growth rates for 2018 and 2019. The CEFC left 2018 growth rates unchanged despite preliminary estimates being released by BEA due to reports from Maine Revenue Services and Maine Department of Labor showing stronger 2018 year to date wage growth. Wage and salary income growth for 2020, 2021, 2022, and 2023 were revised upward by 0.1 percentage points each year.

The forecast for supplements to wages and salaries was left unchanged for all years besides 2021. An upward revision of 0.9 percentage points was made to 2021 to align with supplements to wage and salary's ongoing growth trend of 3.4 percent. Growth rates for nonfarm proprietors' income and dividends, interest, and rent were left unchanged. The forecast for personal current transfer receipts was revised up by 0.4, 0.1, and 0.1 percentage points for 2021, 2022, and 2023, respectively, reflecting anticipated impacts from Medicaid expansion. The remaining years were left unchanged.

The overall result for total personal income was a 0.1 percentage point increase in 2019 (coming from increases in other minor lines) and 0.3 percentage point revisions upward for 2021, 2022, and 2023.

The CEFC made downward revisions of 0.5, 0.5, 0.4, 0.3, and 0.3 percentage points to CPI for the years 2019, 2020, 2021, 2022, and 2023, respectively, to align with the Fed's 2.0 inflation target rate. Additionally, 2018 was revised downward by 0.2 percentage points to reflect actual results.

The forecast for corporate profits was left unchanged for all years, as the previous forecast already reflected the corporate tax cuts passed in the Tax Cuts and Jobs Act and there is too little additional information available at this time to warrant changes in the forecast.

Overall, the primary source of concern for the CEFC continues to be Maine's demographic situation, with an aging population and limited population growth, although there has been a recent increase in in-migration.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission						
April 2019 Forecast	History	Forecast				
	2018	2019	2020	2021	2022	2023
CPI-U* (Annual Change)	2.4%	1.9%	2.0%	2.0%	2.0%	2.0%
CPI for Energy Prices** (Annual Change)	7.4%	-0.6%	0.6%	1.9%	2.8%	2.7%
CPI for New Vehicles** (Annual Change)	-0.5%	0.6%	-0.1%	-0.1%	0.2%	0.1%
New Vehicle Registrations** (Annual Change)	8.3%	-6.2%	-4.5%	-2.8%	-1.6%	0.0%
Personal Savings Rate**	6.8%	6.5%	7.1%	7.0%	6.7%	6.3%
Maine Unemployment Rate**	3.4%	3.3%	3.2%	3.2%	3.4%	3.6%
3-Month Treasury Bill Rate**	1.94%	2.53%	2.69%	2.68%	2.67%	2.54%
10-Year Treasury Note Yield**	2.91%	2.84%	3.11%	3.23%	3.29%	3.31%
Before-Tax Corporate Profits* (Annual Change)	6.0%	4.8%	3.2%	3.5%	3.7%	2.7%
Maine Wage & Salary Employment* (thousands)	628.7	631.9	633.1	633.1	633.1	633.1
Natural Resources	2.2	2.2	2.2	2.2	2.3	2.2
Construction	28.9	29.3	29.5	29.9	30.1	30.2
Manufacturing	52.0	52.0	51.4	51.2	50.9	50.3
Trade/Trans./Public Utils.	119.2	117.6	117.0	116.5	116.3	116.1
Information	7.3	7.1	7.1	7.0	7.0	7.0
Financial Activities	32.0	32.5	32.6	32.6	32.5	32.4
Prof. & Business Services	69.3	71.4	71.9	72.0	72.3	72.4
Education & Health Services	127.2	127.6	128.4	128.8	128.7	128.8
Leisure & Hospitality Services	68.4	69.4	69.7	69.9	69.9	70.1
Other Services	22.2	22.5	22.4	22.3	22.2	22.3
Government	100.2	100.4	100.9	100.8	100.9	101.2
Maine Wage & Salary Employment* (Annual Change)	0.8%	0.5%	0.2%	0.0%	0.0%	0.0%
Natural Resources	1.1%	1.0%	-0.1%	0.6%	0.1%	-0.3%
Construction	2.0%	1.4%	0.9%	1.1%	0.6%	0.4%
Manufacturing	1.7%	0.0%	-1.2%	-0.4%	-0.6%	-1.2%
Trade/Trans./Public Utils.	-0.2%	-1.4%	-0.5%	-0.4%	-0.2%	-0.1%
Information	-1.4%	-2.9%	-0.1%	-0.6%	0.0%	-0.1%
Financial Activities	1.5%	1.7%	0.4%	-0.1%	-0.3%	-0.2%
Prof. & Business Services	2.8%	3.0%	0.7%	0.2%	0.5%	0.2%
Education & Health Services	0.1%	0.3%	0.7%	0.3%	0.0%	0.0%
Leisure & Hospitality Services	0.9%	1.5%	0.5%	0.2%	0.0%	0.3%
Other Services	1.8%	1.5%	-0.4%	-0.5%	-0.2%	0.1%
Government	0.1%	0.2%	0.5%	-0.1%	0.1%	0.3%
	2018	2019	2020	2021	2022	2023
Personal Income* ($ million)	64,878	67,885	70,615	73,364	75,935	78,539
Wages & Salaries*	30,032	31,294	32,483	33,652	34,695	35,771
Supplements to Wages & Salaries*	7,346	7,596	7,860	8,128	8,404	8,690
Nonfarm Proprietors' Income*	5,049	5,269	5,427	5,601	5,786	5,930
Farm Proprietors' Income**	5	43	57	68	72	70
Dividends, Interest, & Rent*	12,099	12,644	13,048	13,440	13,749	14,051
Dividends	3,523	3,675	3,724	3,763	3,808	3,822
Interest	5,709	5,936	6,209	6,515	6,782	7,059
Rent	2,871	3,035	3,119	3,165	3,162	3,176
Personal Current Transfer Receipts*	14,301	15,087	15,917	16,792	17,716	18,690
Less: Contributions for Social Ins.**	5,006	5,142	5,314	5,498	5,708	5,928
Adjustment for Residence**	1,052	1,093	1,137	1,182	1,222	1,264
Personal Income* (Annual Change)	4.5%	4.6%	4.0%	3.9%	3.5%	3.4%
Wages & Salaries*	4.5%	4.2%	3.8%	3.6%	3.1%	3.1%
Supplements to Wages & Salaries*	3.2%	3.4%	3.5%	3.4%	3.4%	3.4%
Nonfarm Proprietors' Income*	6.5%	4.4%	3.0%	3.2%	3.3%	2.5%
Farm Proprietors' Income**	-86.7%	832.5%	32.9%	18.9%	5.5%	-1.9%
Dividends, Interest, & Rent*	4.5%	4.5%	3.2%	3.0%	2.3%	2.2%
Dividends	3.5%	4.3%	1.3%	1.0%	1.2%	0.4%
Interest	5.6%	4.0%	4.6%	4.9%	4.1%	4.1%
Rent	3.7%	5.7%	2.8%	1.5%	-0.1%	0.4%
Personal Current Transfer Receipts*	4.9%	5.5%	5.5%	5.5%	5.5%	5.5%
Less: Contributions for Social Ins.**	4.4%	2.7%	3.4%	3.5%	3.8%	3.8%
Adjustment for Residence**	4.0%	4.0%	4.0%	3.9%	3.4%	3.5%

*CEFC Forecast

**From IHS Economics (Mar. 2019), DAFS Low Emp Scenario (Feb. 2019) and Moody's Analytics Baseline (Mar. 2019)

Remaining lines derived from CEFC forecast by CEFC staff and reviewed by CEFC