Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
November 1, 2017

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 27, 2017, with a brief follow-up on October 31, to review and revise the forecast through 2021. This report provides a summary of the Commission's findings.

There are some early indications that rates of growth in Maine's economy in 2017 have been somewhat lower than in 2016. However, gasoline and heating oil prices remain low, personal income continues to rise, and mortgage delinquencies and foreclosures continue to decline. The U.S. economy also continued to grow since the Consensus Economic Forecasting Commission (CEFC) last met in March 2017.

The Commission made modest changes to the existing forecasts for employment, inflation, personal income, and corporate profits. Most of the components of personal income for 2016 were revised downward by the U.S. Bureau of Economic Analysis, which contributed to adjustments in the forecast. Additionally, the elimination of the three percent surtax on incomes over $200,000 removed a previous concern for the Commission, leading to further adjustments in the forecast. The Commission remains concerned about the demographic situation in Maine and the resulting impacts on workforce availability.

The forecast for wage and salary employment growth was revised upward for 2017 and 2018 based on initial data showing that the first three quarters of 2017 have had stronger than anticipated growth. The new forecast reaches 623,300 in 2018 and remains at that level for 2019- 2021. CPI was revised slightly downward for 2017, from 2.7 percent to 2.4 percent, due to lower than expected growth in oil prices, while the remaining years were left unchanged. Total personal income was revised down by 0.2 percentage points in 2017 following the release of revised data from the U.S. Bureau of Economic Analysis resulting in a downward revision of 0.7 percentage points in 2016. The forecast for 2018 was revised downward by 0.5 percentage points while 2020 was revised upward by 0.2 percentage points. 2019 and 2021 were left unchanged. Wage and salary income growth for 2016 was also revised downward by the U.S. Bureau of Economic Analysis. The Commission revised 2017 growth downward by 0.2 percentage points and 2018 by 0.8 percentage points. The forecasts for the remaining years were left unchanged.

The table below provides the forecast's major indicators.

Calendar Years	***2016***	**2017**	**2018**	**2019**	**2020**	**2021**
Wage & Salary Employment (Annual Percentage Change)						
CEFC Forecast 04/2017	*1.1*	0.1	0.1	0.0	0.0	0.0
CEFC Forecast 11/2017	*1.1*	0.8	0.2	0.0	0.0	0.0
Personal Income (Annual Percentage Change)						
CEFC Forecast 04/2017	*3.7*	3.2	3.6	3.5	3.6	3.8
CEFC Forecast 11/2017	*3.0*	3.0	3.1	3.5	3.8	3.8
Wage and Salary Income (Annual Percentage Change)						
CEFC Forecast 04/2017	*4.5*	3.2	3.7	3.7	3.7	3.7
CEFC Forecast 11/2017	*3.2*	3.0	2.9	3.7	3.7	3.7
CPI (Annual Percentage Change)						
CEFC Forecast 04/2017	*1.3*	2.7	2.5	2.3	2.5	2.4
CEFC Forecast 11/2017	*1.3*	2.4	2.5	2.3	2.5	2.4

Prior to the start of the forecasting meeting, the CEFC held the annual fall data gathering session, in which the Commission heard from representatives of the Maine Restaurant Association and Maine Innkeepers Association, Maine Bankers Association, Maine Medical Association, Associated General Contractors Maine, and Maine Automobile Dealers Association. Additionally, the Maine Association of REALTORS provided written materials to the Commission. A summary of the data gathering session is available separately. Overall, these business perspectives helped confirm the CEFC's subsequent findings that Maine's economy continues to see slow growth with considerable challenges posed by the state's aging population and lack of population growth. 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 was unchanged from the fourth quarter of 2016 to the first quarter of 2017. Personal income in Maine grew 2.5% from the first half of 2016 to the first half of 2017, while wage and salary income, which is the largest component of total personal income, grew 2.7% over the same period. The debt-to-income level for Maine businesses and households continued to rise to new levels in the second quarter of 2017. The Consumer Price Index was up 2.2% in September 2017 from a year ago, boosted by recent increases in energy prices.

Nationwide, consumer sentiment has remained relatively stable in recent months. The September 2017 level was up 4.3% from a year ago and up 1.8% from August 2017. Small business optimism has also been fairly stable in recent months, but was down 2.2% from the previous month in September 2017.

The price of crude oil has continued increasing recently with prices in the third quarter of 2017 up 10.0% from the third quarter of 2016. As a result of the recent increases in crude oil prices, heating oil prices and gasoline prices have been higher as well, although gasoline prices have retreated from the post-Hurricane Harvey spike. Heating oil is around $2.28 per gallon while gasoline is currently averaging $2.69 per gallon.

New and used auto registrations increased in FY17, with new titles increasing 48.8% and used titles increasing 23.6%. However, a large decrease in trailer titles (both new and used) resulted in a 1.5% year-over-year decrease overall.

Existing single-family home sales in Maine were up 6.4% in August 2017 compared to the same month last year and housing permits for the September 2016 – August 2017 year were 9.1% higher than the previous 12-month period. The median home price in the Portland-South Portland Metropolitan Statistical Area (which encompasses all of York, Cumberland, and Sagadahoc counties) increased 8.9% year-over-year in the second quarter of 2017. Mortgage delinquency rates in Maine have been declining but remain higher than the national rate. The foreclosure rate in Maine was 0.25% in the second quarter of 2017, falling below the national rate for the first time since 2014.

Full background materials are available at:
http://www.maine.gov/economist/state/forecast.html

Maine Department of Labor

Workforce conditions remain tight throughout much of the state. The unemployment rate in September was 3.7%, the 24th consecutive month it was at or below 4%, the second longest such stretch in more than 40 years. Labor force participation has rebounded strongly over the last two years. The lingering cyclical effects from the recession appear to be mostly over; the structural effects of an advancing population age structure will limit the rise in participation rates going forward.

Nonfarm payroll job growth continues, though the rate of growth has slowed over the last 18 months after unemployment reached such historically low rates. Looking at a much longer horizon, job growth since 2000 has been historically low, reflecting the lack of young people aging into the workforce.

In the period since 2010, there has been an unusual amount of stability of jobs among sectors. The healthcare, professional & business services, and leisure & hospitality sectors continue to grow; no other sectors have had much net job change, including manufacturing, which has been quite flat after 30+ years of declines. We largely expect this situation to continue for the next several years. This recent trend is in contrast to the 1990s and 2000s when several sectors were growing or declining.

Total wages paid reached $26.4 billion in the year through June, the highest on record. Inflation-adjusted wages are up sharply over the last two years to an average of $43,500 per job, also a record.

The presentation is available at
www.maine.gov/labor/cwri/publications/pdf/CEFC%20October%202017.pdf

Maine Revenue Services - Office of Tax Policy

General Fund revenues ended fiscal year 2017 $41.4 million over budget (+1.2 percent). Most of that variance came in June ($38 million). Individual income tax ($9.5 million), sales and service provider tax ($7 million), corporate income tax ($11 million), and cigarette excise tax ($5 million) accounted for most of the total surplus for the fiscal year.

Taxable sales, including auto/transportation, were weak in the first quarter of calendar year 2017, but picked up considerably late in the second quarter. Second quarter taxable sales increased by 5.7 percent year over year, with auto/transportation increasing 7.6 percent year over year. Some of the growth in lodging and general merchandise in the second quarter of the calendar year (+10.1 percent) is attributable to new taxpayers who began collecting and remitting Maine sales tax in April. Broad robust May sales growth was likely a timing issue associated with spring activity that was delayed because of cool wet weather in March and April.

Final payments, withholding, and estimated payments were the major contributors to the FY17 surplus on the individual income tax line. The second estimated payment in June was $9.4 million over budget and was likely affected by the three percent surtax that had not been repealed by the due date of the payment. Withholding growth increased 5.8 percent in the second quarter of calendar year 2017, and may have been impacted by the surtax as well.

Most of the corporate income tax overage for the fiscal year was from final and estimated payments. Some of this is from unusually large audit payments that are not expected to be repeated in future fiscal years, and what may be timing issues with corporate estimated payments because of changes to the due date payments at the federal level that Maine conformed to.

The positive variance on the cigarette and tobacco tax line was a timing issue associated with the government shutdown. Distributors stocked up on cigarette stamps in the final week of June to make sure they had a sufficient inventory of stamps in case of a prolonged government shutdown.

Through the first quarter of fiscal year 2018 general fund revenues are over budget by $33.7 million (+3.8 percent). Individual income tax ($18.7 million), sales and service provider tax ($4.5 million), and corporate income tax ($10.2 million) accounted for most of the quarterly surplus.

Taxable sales continued to be strong in the early stages of the quarter, but have started to slow consistent with the May 1, 2017, revenue forecast in the last couple of months. Most business categories continue to show robust growth, but auto sales in the last two months have weakened considerably from the pace of late spring and early summer. A key assumption of the sales tax forecast is that auto sales will be flat to slightly declining on a year over year basis for most of the forecasting period. Periods where the sales tax line records positive variances have been associated with stronger than projected auto sales activity. Early indications are that October sales tax revenues will look similar to September; just short of the monthly target.

Individual income tax continued to over perform in the first quarter of FY18. Withholding and estimated payments continue to be the main sources of surplus revenues on this line. The third estimated payment of tax year 2017 was due September 15th and it was flat compared to a year ago. The forecast had assumed a four percent reduction in the third estimated payment year over year. While it appears taxpayers have adjusted their estimated payments for the repeal of the three percent surtax, other factors are contributing to the stronger than projected revenues. The final estimated payment due in January will provide more definitive information on non-wage income growth during the 2017 tax year. October revenues are expected to be close to budget. The key factor is when quarterly withholding payments are received and recorded. Those payments are due October 31st and it is always difficult to determine how much of those payments will be October revenues vs. November.

While corporate income tax revenues are over budget by $10.2 million through the first quarter of FY18, most of the variance is in estimated payments. As mentioned above, we are still trying to adjust to the new pattern of payments because of the federal changes to corporate income tax due dates. Based on corporate estimated deposits in October, we expect estimated payments will be on budget for the first four months of FY18. The next few months are big months for corporate refunds, as most corporations file their tax year 2016 returns on extension. Refunds associated with 2016 and the final estimated payment for tax year 2017 due in December will determine where we stand on this line when the CEFC meets again in late January.

The only other tax line with a significant variance through FY18 is the cigarette and tobacco tax. As described previously, there was a significant amount of stamp sales shifted from July to June because of the impending government shutdown. That timing issue will need to be recognized in the December RFC forecast. Adjusting for the timing issue, cigarette and tobacco taxes are performing as expected through October.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for October 2017 and the IHS Economics baseline scenario for October 2017. Additionally, DAFS provided an alternative scenario based on demographic assumptions that limit 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 with industry sector employment growth adjustments by the State Economist. These three forecasts were then compared to the CEFC's April 2017 forecast. The key assumptions made by the CEFC are below.

- Maine population growth is likely to limit employment growth over the next few years, particularly as the baby boom generation continues to move into retirement age. The employment forecast adopted by the CEFC assumes that in-migration to Maine has been higher than recent Census Bureau estimates indicate.

- The downward revisions to 2016 personal income resulted in some adjustments to the growth rates going forward. Additionally, the elimination of the three percent surtax on incomes over $200,000 resulted in adjustments to the employment and personal income growth rates.

- The possibility of tax reform at the federal level could increase some growth rates starting in 2018, particularly corporate profits, nonfarm proprietors' income, and dividends, interest, and rent.

- The Commission will consider the outcome of the November referendum on Medicaid expansion at their January 2018 meeting and make any necessary adjustments at that time.

Consensus Forecast

The CEFC members continued to believe that the Moody's forecast is overly optimistic in its employment projections for the state. Moody's has moderated its population forecast to a more reasonable level and IHS has brought its employment growth down to a more realistic scenario. 2016 saw very strong employment growth in Maine, bringing non-farm payrolls back to pre-recession levels. 2017 has continued to see robust employment growth, although not as strong as 2016. While some growth is expected to continue in 2018, the demographics of the state still provide a limiting factor for employment growth in the remaining forecast years.

Employment growth rates were revised upward for 2017 and 2018 based on stronger than expected employment growth year-to-date in 2017. The remaining years were left unchanged, reaching a 0.0 percent growth level in 2019 and staying at that rate through 2020 and 2021. Employment reaches a peak level of 623,300 in 2018.

Wage and salary income growth for 2016 was revised downward by the U.S. Bureau of Economic Analysis, providing a lower baseline level for the forecast. 2017 was revised downward by 0.2 percentage points and 2018 was revised downward by 0.8 percentage points. The forecasts for 2019-2021 were left unchanged, with growth holding steady at 3.7 percent.

The forecast for supplements to wages and salaries was revised upward by 0.9 percentage points in 2017, left unchanged in 2018, revised upward by 1.0 percentage points in 2019, revised upward by 0.8 percentage points in 2020, and left unchanged in 2021. This general trend of increases reflects the Commission's view that continued tightening of the state's labor market will likely induce employers to provide increased benefits at the same time that health insurance costs continue to increase. The growth rate for nonfarm proprietors' income was revised downward by 0.5 percentage points in 2017, upward by 1.8 percentage points in 2018, upward by 1.5 percentage points in 2019, upward by 0.2 percentage points in 2020, and downward by 0.2 percentage points in 2021. The forecast for dividends, interest, and rent was revised upward by 0.5 percentage points in 2018 and left unchanged in all other years. The forecast for personal current transfer receipts was revised downward for 2017-2019, by 1.7, 1.8, and 0.8 percentage points, respectively, with 2020 and 2021 left unchanged.

The overall result for total personal income was a 0.2 percentage point revision downward for 2017, a 0.5 percentage point revision downward for 2018, no change to 2019, a 0.2 percentage point revision upward for 2020, and no change to 2021. This follows a revision by the U.S. Bureau of Economic Analysis bringing the 2016 growth rate down from 3.7 percent to 3.0 percent.

The CEFC revised its forecast for inflation using the Consumer Price Index downward by 0.3 percentage points in 2017 and left the remaining years unchanged from the previous forecast.

The forecast for corporate profits was revised upward by 1.5 percentage points in 2017 and 2.8 percentage points in 2018, reflecting the possibility of corporate tax cuts that would be implemented in 2018. The remaining years were left unchanged.

Overall, the primary source of concern for the CEFC continues to be Maine’s demographic situation, with an aging population and little to no population growth. While 2016 and 2017 showed strong employment growth, perhaps indicating that there has been an increase in in-migration to Maine in recent years, there is little confidence that these growth rates will continue into future years, especially as the baby boom generation continues to move into retirement age.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

November 2017 Forecast	History	Forecast				
	2016	2017	2018	2019	2020	2021
CPI-U* (Annual Change)	1.3%	2.4%	2.5%	2.3%	2.5%	2.4%
CPI for Energy Prices** (Annual Change)	-6.4%	6.6%	0.6%	3.8%	6.4%	4.6%
CPI for New Vehicles** (Annual Change)	0.1%	-0.1%	-0.2%	0.0%	-0.3%	0.2%
New Vehicle Registrations** (Annual Change)	2.8%	-7.2%	-3.2%	-4.2%	-4.1%	1.7%
Personal Savings Rate**	4.9%	3.6%	3.6%	4.3%	4.7%	5.0%
Maine Unemployment Rate**	3.9%	3.5%	3.6%	3.7%	3.7%	3.7%
3-Month Treasury Bill Rate**	0.32%	0.93%	1.65%	2.51%	2.85%	2.85%
10-Year Treasury Note Rate**	1.84%	2.37%	3.12%	3.84%	4.06%	4.06%
Before-Tax Corporate Profits* (Annual Change)	0.0%	4.5%	6.0%	4.8%	3.2%	3.5%
Maine Wage & Salary Employment* (thousands)	617.2	622.1	623.3	623.3	623.3	623.3
Natural Resources	2.3	2.4	2.4	2.4	2.4	2.4
Construction	27.4	28.9	28.8	28.8	29.0	29.1
Manufacturing	50.7	50.5	50.5	50.4	50.3	50.2
Trade/Trans./Public Utils.	120.6	120.9	121.0	121.2	120.6	120.6
Information	7.7	7.5	7.4	7.4	7.4	7.4
Financial Activities	31.0	30.6	30.5	30.5	30.3	30.2
Prof. & Business Services	65.5	65.1	65.5	65.6	65.7	65.8
Education & Health Services	125.2	127.8	128.2	128.3	128.7	129.0
Leisure & Hospitality Services	65.3	66.6	67.1	66.9	66.8	66.8
Other Services	21.7	21.0	20.2	19.7	19.4	19.2
Government	99.9	100.8	101.7	102.1	102.7	102.7
Maine Wage & Salary Employment* (Annual Change)	1.1%	0.8%	0.2%	0.0%	0.0%	0.0%
Natural Resources	-5.9%	5.6%	0.3%	0.0%	-0.3%	0.1%
Construction	3.0%	5.7%	-0.6%	0.2%	0.7%	0.2%
Manufacturing	0.1%	-0.4%	0.0%	-0.2%	-0.3%	-0.3%
Trade/Trans./Public Utils.	0.7%	0.3%	0.1%	0.1%	-0.5%	0.0%
Information	1.2%	-3.4%	-0.8%	0.0%	-0.1%	0.2%
Financial Activities	0.9%	-1.1%	-0.2%	-0.3%	-0.6%	-0.2%
Prof. & Business Services	1.1%	-0.6%	0.6%	0.2%	0.2%	0.1%
Education & Health Services	1.6%	2.1%	0.3%	0.1%	0.3%	0.2%
Leisure & Hospitality Services	1.8%	2.0%	0.8%	-0.3%	-0.1%	0.0%
Other Services	1.7%	-3.2%	-4.0%	-2.4%	-1.4%	-1.0%
Government	0.4%	0.9%	0.9%	0.4%	0.5%	0.0%
	2016	2017	2018	2019	2020	2021
Personal Income* ($ million)	58,655	60,396	62,275	64,477	66,909	69,445
Wages & Salaries*	27,705	28,536	29,357	30,443	31,570	32,738
Supplements to Wages & Salaries*	6,939	7,214	7,435	7,749	8,065	8,324
Nonfarm Proprietors' Income*	4,341	4,493	4,749	4,956	5,112	5,281
Farm Proprietors' Income**	-14	21	53	54	55	57
Dividends, Interest, & Rent*	10,264	10,511	10,774	11,021	11,264	11,579
Dividends	2,899	2,670	2,758	2,799	2,861	2,953
Interest	4,719	4,951	5,074	5,356	5,643	5,917
Rent	2,646	2,890	2,941	2,866	2,760	2,709
Personal Current Transfer Receipts*	13,130	13,458	13,848	14,402	15,137	15,909
Less: Contributions for Social Ins.**	4,625	4,775	4,886	5,112	5,269	5,431
Adjustment for Residence**	915	938	946	964	976	989
Personal Income* (Annual Change)	3.0%	3.0%	3.1%	3.5%	3.8%	3.8%
Wages & Salaries*	3.2%	3.0%	2.9%	3.7%	3.7%	3.7%
Supplements to Wages & Salaries*	3.4%	4.0%	3.1%	4.2%	4.1%	3.2%
Nonfarm Proprietors' Income*	7.7%	3.5%	5.7%	4.4%	3.2%	3.3%
Farm Proprietors' Income**	***	***	149.7%	1.8%	2.0%	2.1%
Dividends, Interest, & Rent*	1.6%	2.4%	2.5%	2.3%	2.2%	2.8%
Dividends	-5.4%	-7.9%	3.3%	1.5%	2.2%	3.2%
Interest	3.5%	4.9%	2.5%	5.6%	5.4%	4.9%
Rent	6.8%	9.2%	1.8%	-2.6%	-3.7%	-1.8%
Personal Current Transfer Receipts*	2.3%	2.5%	2.9%	4.0%	5.1%	5.1%
Less: Contributions for Social Ins.**	2.8%	3.2%	2.3%	4.6%	3.1%	3.1%
Adjustment for Residence**	1.0%	2.5%	0.9%	1.9%	1.2%	1.3%

*CEFC Forecast

**From IHS Economics (Oct. 2017), Low Emp Scenario and Moody's Analytics Baseline

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

***Farm Proprietors' income was negative in 2015 and 2016