

**Report of the  
CONSENSUS ECONOMIC FORECASTING COMMISSION  
November 1, 2015**

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## Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 26, 2015, to review and revise the forecast through 2019. This report provides a summary of the Commission's findings.

The Maine and U.S. economies showed continued signs of gradual improvement since the Consensus Economic Forecasting Commission (CEFC) met in March 2015.

Maine's real GDP increased 0.2% from 2013-2014, the second year in a row of GDP growth. Personal income in Maine grew 2.7% from 2014 to 2015, while wage and salary income, which is the largest component of total personal income, grew 1.8% 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 2015. The Consumer Price Index was unchanged in September 2015 from a year ago, driven by declines in energy prices.

Nationwide, consumer sentiment in September 2015 was 3.1% higher than one year ago while small business optimism increased 0.8% over the previous year's level.

The price of crude oil decreased 50.4% from the third quarter of 2014 to the third quarter of 2015 to around \$51 per barrel. As a result of the continued declines in crude oil prices, heating oil prices declined throughout most of last year's heating season and have started this year's heating season considerably lower than the past five years while gasoline prices are also much lower. The number of new automobile titles issued by the Maine Bureau of Motor Vehicles increased 5.9% in FY 2015 compared to FY 2014, while the number of used auto titles increased 2.0%.

Existing single-family home sales in Maine were up 6.7% in August 2015 compared to August 2014 and housing permits for the October 2014-September 2015 year were 0.7% higher than the previous 12-month period. The median home price in the Portland-South Portland-Biddeford Metropolitan Statistical Area (which encompasses all of York, Cumberland, and Sagadahoc counties) increased 5.5% year-over-year in the second quarter of 2015. Mortgage delinquency rates in Maine have been declining but at a slower pace than nationally. The foreclosure rate in Maine was 0.52% in the second quarter of 2015 and has been above the national rate for eleven of the past twelve quarters.

Historical income revisions have been released since the CEFC last met. These revisions and new data contributed to minor adjustments in the forecast. The Commission largely decided to leave the forecast unchanged after the incorporation of the revised data. This forecast was based heavily on an alternative scenario ("LowPop") created by the Office of Policy and Management, which provides staff support to the CEFC. This alternative scenario is based on the Moody's Analytics baseline with adjustments that lowered the population and employment growth forecasts. These adjustments are a result of the consensus that the national level forecasts are based on overly optimistic population projections for the state of Maine, causing employment forecasts, among other things, to grow at an unattainable rate. However, this forecast does assume an increase in migration into Maine in the next few years.

In addition to the ongoing concerns about the demographic situation, the Commission considered some additional macroeconomic conditions, including the continuation of low oil prices, an easing in exchange rates as the U.S. dollar backs off a bit in the short term, and the lack of an interest rate hike in September 2015. The Commission hopes to have clearer data at their next

meeting in late January. Without compelling evidence of a major change in economic conditions, the Commission made only minor changes to the forecast.

The forecast for wage and salary employment was left unchanged, although starting from a slightly higher 2014 base level. The 2019 employment level is nearly the same as the 2007 pre-recession peak. CPI was adjusted only for 2015 and 2016; both years were revised downward as a result of the continued low oil prices. The largest forecast changes occurred in the personal income lines, as the 2014 figures were revised by the U.S. Bureau of Economic Analysis at the end of September. Total personal income was revised upward in 2015 and slightly downward in the rest of the forecast years. The forecast for wage and salary income was changed only for 2016, which was revised downward.

The table below provides the forecast’s major indicators.

<b>Calendar Years</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Wage &amp; Salary Employment (Annual Percentage Change)</b>						
CEFC Forecast 04/2015	0.4	0.9	0.7	0.4	0.2	0.1
CEFC Forecast 11/2015	0.5	0.9	0.7	0.4	0.2	0.1
<b>Personal Income (Annual Percentage Change)</b>						
CEFC Forecast 04/2015	2.9	3.1	3.8	4.4	3.8	3.5
CEFC Forecast 11/2015	3.1	3.5	3.7	4.0	3.7	3.3
<b>Wage and Salary Income (Annual Percentage Change)</b>						
CEFC Forecast 04/2015	2.7	3.4	4.5	4.1	3.9	3.6
CEFC Forecast 11/2015	3.7	3.4	4.1	4.1	3.9	3.6
<b>CPI (Annual Percentage Change)</b>						
CEFC Forecast 04/2015	1.6	0.5	2.1	2.4	2.6	2.3
CEFC Forecast 11/2015	1.6	0.0	1.8	2.4	2.6	2.3

Prior to the forecasting meeting, the CEFC held a data gathering session during which they heard from a variety of Maine industries. The presenters included Albin, Randall & Bennett; Maine Bankers Association; Maine Tourism Association; NFIB Maine; Maine Staffing Association; Maine Accelerates Growth; Maine Restaurant Association; and Maine Innkeepers Association. Maine Automobile Dealers Association also provided written testimony. The summary of this data gathering session is available in a separate report. 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 the Office of Policy and Management. The following sections summarize these reports.

### **Office of Policy and Management**

In 2014, Maine’s real Gross Domestic Product was \$51.0 billion, with \$44.1 billion coming from private industries and \$6.9 billion from government (federal, state, and local). All of Maine’s recent growth in GDP has come from private industry. Maine’s total real GDP increased 0.2%

from 2013 to 2014, the second year in a row of GDP growth. However, this was considerably less than the rate of national GDP growth, which was 2.2% from 2013 to 2014.

According to preliminary estimates from the U.S. Bureau of Economic Analysis, total personal income grew 2.7% from the first half of 2014 to the first half of 2015 and wage and salary income grew 1.8% during the same period. Wage and salary disbursements, which are the largest component of personal income, averaged around \$25.9 billion in the first half of 2015 (seasonally adjusted at annual rates). Total personal income averaged around \$55 billion. Maine's debt to income ratio was 25.2% in the second quarter of 2015. The ratio is at its highest point since the first quarter of 2008.

The Consumer Price Index (CPI) was flat from September 2014 to September 2015, dragged down by significant energy price deflation. Core inflation, which excludes food and energy prices, rose 1.9% over that same period. The Chained Consumer Price Index (Chained CPI) declined 0.5% from September 2014 to September 2015, again driven by the drop in energy prices. Core inflation rose 1.7% over the same period. Chained CPI allows for substitutions in the basket of goods and services being measured.

In September 2015, the survey-based University of Michigan Consumer Sentiment Index decreased 5.1% month-over-month but was up 3.1% from a year ago. The survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index was up 0.2% from the previous month and was up 0.8% from September 2014.

The price of Brent crude oil plunged starting in the later half of 2014 and was just \$51 per barrel in the third quarter of 2015, a decrease of 19.2% from the second quarter of 2015 and a 50.4% decrease from the second quarter of 2014. The price of heating oil in Maine declined throughout most of the 2014-2015 heating season and has started the 2015-2016 heating season well below prices for the past few years, averaging \$2.09/gallon most recently. The price of heating oil in Maine had averaged around \$3.75/gallon before the recent decline in crude oil prices. The price of gasoline in New England on October 19, 2015 averaged \$2.30, \$1.05 lower than one year ago. The price of gasoline has dropped \$1.55 per gallon since the July 2014 peak.

The number of new automobile titles issued by the Maine Bureau of Motor Vehicles increased 5.9% from FY 2014 to FY 2015, while the number of used automobile titles issued increased 2.0%. Total registrations were up 2.7% from FY 2014 to FY 2015.

Single family existing-home sales in Maine were up 6.7% in August 2015 compared to August 2014. Home sales in Maine have grown year-over-year in 48 of the last 50 months. Average monthly single unit housing permits in Maine in the 12-month period from October 2014 through September 2015 were 0.7% higher than in the previous 12-month period. The median home price in the Portland – South Portland – Biddeford metropolitan area increased 5.5% year-over-year in the second quarter of 2015. The median home price in the second quarter of 2015 was \$239,800. The share of mortgages in Maine that are delinquent 30 days or more was 6.5% in the second quarter of 2015. The rate of delinquencies in Maine has been above the U.S. rate for thirteen straight quarters now. Maine's foreclosure rate was 0.52% in the second quarter of 2015, unchanged from the previous quarter. Maine's foreclosure rate has been above the U.S. rate for eleven of the past twelve quarters.

Full background materials are available at:

<http://www.maine.gov/economist/forecasts/index.shtml>

## **Maine Department of Labor**

Labor market conditions continue to tighten. The unemployment rate estimate of 4.4% for September was the lowest in nine years. The labor force participation rate continues to decline and recent monthly estimates of the size of the labor force indicate it is down more than 20,000 over the last two years. The lack of labor force growth is a primary factor in no real GDP growth over the last decade. The number of jobs in Maine is likely to peak in 2015 or 2016 because of the imbalance between the number of people retiring and entering the labor force. Beyond then there will have to be a significant rise in net in-migration to sustain job growth.

Inflation adjusted total wages have increased faster than the number of jobs in the year through the second quarter of 2015. This partly reflects a modest rise in average wages paid (in current dollars), but mostly reflects the near zero inflation of that period. It is too early to tell if the tighter labor market is driving average wages up.

The presentation is available at  
[www.maine.gov/labor/cwri/publications/pdf/CEFC\\_October\\_2015.pdf](http://www.maine.gov/labor/cwri/publications/pdf/CEFC_October_2015.pdf)

## **Maine Revenue Services**

September General Fund revenues were over budget by \$2.0 million or 0.6%. For the first quarter of the fiscal year General Fund revenues were \$10.8 million over budget (+1.3%).

August taxable sales (September revenue) increased by only 1.8% over a year ago, resulting in a monthly revenue deficit for sales and use and service provider taxes combined of \$2.3 million. Year-to-date sales and service provider taxes are a combined \$0.4 million over budget. With the exception of auto/transportation sales, which increased by 4.5% over last year, the remaining business categories all reported slow growth. Tourism related sales - restaurants and lodging - increased by a disappointing 1.8% over last August. Taxable sales for the quarter ending in August of 2015 increased by 4.2% compared to a year ago. The weak performance in August is consistent with national data showing a slowing of consumer activity in August as stock market volatility and concerns about events overseas dominated the second half of the month. August taxable sales aside, consumer sales activity in Maine has steadily picked up over the last year as energy prices have dropped and the economy has improved. Energy prices are expected to remain relatively low over the next two quarters which should help consumers during the upcoming holiday shopping season.

Individual income tax receipts were over budget for the month by \$4.9 million, and are now \$14.2 million over budget for the fiscal year. The monthly surplus was primarily from estimated payments which were over budget by \$6 million in September. The third estimated payment of the calendar year was 27% higher than a year ago. The first three estimated payments of calendar year (CY) 2015 are now up 20% over the same three payments for CY14. This is the strongest growth in the first three estimated payments since the stock market boom of the late 90s. While September withholding was under budget by \$3.6 million, CY15 withholding growth is still averaging 4.65%, well above the 3.25% assumed in the May Revenue Forecasting Committee forecast.

## **Macroeconomic Assumptions**

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for September 2015 and the IHS Economics baseline scenario for October 2015. Both were the most recent available forecasts. Additionally, OPM provided two alternative scenarios based on assumptions of low population growth that limit employment growth (LowPop) – one using adjustments to the growth rates and one using adjustments to the levels. Each forecast was based on a different set of national macroeconomic assumptions. The LowPop scenarios were based on the Moody's Analytics baseline scenario with population projections taken from OPM's projections to 2032 adjusted for recent Census Bureau estimates, and industry sector employment growth adjustments by OPM staff. These forecasts were then compared to the CEFC's April 2015 forecast. The key assumptions made by the CEFC are below.

- Maine population growth is likely to limit employment growth over the next few years. The employment forecast adopted by the CEFC assumes strong in-migration to Maine.
- Oil prices remain low in the near term before beginning a gradual rise in the out years of the forecast. This will keep inflation low for 2015 and 2016.
- The strengthening of the dollar will ease in the short term, making 2015 and 2016 better years for corporate profits.

## **Consensus Forecast**

The CEFC members continued to believe that the national forecasts are overly optimistic in their population and employment projections for the state. The previous forecast, as well as this new forecast, relied on the LowPop scenarios, designed to address these concerns. While the employment growth rates were left unchanged, the 2014 actual employment level was revised upward, resulting in slightly higher employment levels going forward. This forecast targets the LowPop Levels scenario employment level of 617,800 in 2019, just above the pre-recession peak.

Wage and salary income growth was revised downward for 2016, but starting from a higher 2014 level due to the BEA revisions. The forecast for supplements to wages and salaries was taken from the IHS baseline forecast, which did incorporate the revised 2014 data. This resulted in a downward revision for 2015 and upward revisions for all other forecast years. Nonfarm proprietors' income was left unchanged, as was the forecast for personal current transfer receipts. Dividends, interest, and rent was taken from the OPM LowPop scenario, resulting in an upward revision for 2015 and downward revisions for the remaining years.

The overall result for total personal income was a 0.4 percentage point revision upward for 2015, while 2016-2019 were all revised downward: by 0.1 percentage point in 2016 and 2018, 0.4 percentage points in 2017 and 0.2 percentage points in 2019.

The CEFC set its 2015 and 2016 forecast for inflation, as measured by the Consumer Price Index, to the IHS baseline forecast, resulting in downward revisions to both years due to lower oil prices. The remaining three forecast years were left unchanged. The forecast for corporate profits was left unchanged from the previous forecast.

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. Both the low oil prices and revisions to 2014 income data played a role in the revisions made to this forecast.

The following page provides the full forecast.

# Maine Consensus Economic Forecasting Commission

November 2015 Forecast	History	Forecast				
	2014	2015	2016	2017	2018	2019
CPI-U* (Annual Change)	1.6%	0.0%	1.8%	2.4%	2.6%	2.3%
CPI for Energy Prices** (Annual Change)	-0.5%	-17.8%	-1.2%	4.4%	9.6%	4.6%
Avg. Price of New Vehicles** (Annual Change)	2.0%	3.1%	4.7%	3.0%	3.9%	3.4%
New Vehicle Registrations** (Annual Change)	10.4%	-6.5%	4.2%	3.3%	-1.1%	-2.4%
Personal Savings Rate**	4.8%	4.8%	4.8%	5.2%	5.6%	6.0%
Maine Unemployment Rate**	5.7%	4.7%	4.5%	4.4%	4.3%	4.4%
3-Month Treasury Bill Rate**	0.03%	0.05%	0.82%	1.81%	2.77%	3.05%
10-Year Treasury Note Rate**	2.54%	2.16%	2.60%	2.85%	3.32%	3.63%
Before-Tax Corporate Profits* (Annual Change)	2.1%	6.0%	6.0%	1.4%	1.6%	3.2%
<b>Maine Wage &amp; Salary Employment* (thousands)</b>	<b>604.5</b>	<b>609.7</b>	<b>613.8</b>	<b>616.1</b>	<b>617.1</b>	<b>617.8</b>
Natural Resources	2.5	2.5	2.5	2.5	2.5	2.4
Construction	25.9	25.6	25.3	25.2	25.2	25.3
Manufacturing	50.3	50.1	49.9	49.6	49.1	48.6
Trade/Trans./Public Utils.	119.1	119.6	120.4	121.4	122.4	122.9
Information	7.5	7.5	7.4	7.4	7.4	7.4
Financial Activities	30.4	31.1	31.1	31.0	30.4	30.1
Prof. & Business Services	63.2	65.4	66.9	67.6	67.7	67.8
Education & Health Services	122.4	123.6	125.6	126.7	127.5	128.4
Leisure & Hospitality Services	62.6	63.0	63.0	63.2	63.4	63.4
Other Services	21.0	21.6	21.5	21.4	21.3	21.1
Government	99.8	99.8	100.1	100.2	100.3	100.4
<b>Maine Wage &amp; Salary Employment* (Annual Change)</b>	<b>0.5%</b>	<b>0.9%</b>	<b>0.7%</b>	<b>0.4%</b>	<b>0.2%</b>	<b>0.1%</b>
Natural Resources	1.0%	0.3%	0.1%	0.3%	-0.4%	-0.5%
Construction	1.0%	-1.0%	-1.2%	-0.5%	0.0%	0.3%
Manufacturing	-0.3%	-0.3%	-0.4%	-0.6%	-1.1%	-0.9%
Trade/Trans./Public Utils.	1.0%	0.4%	0.7%	0.8%	0.8%	0.4%
Information	-2.0%	-0.3%	-0.2%	-0.5%	-0.6%	0.0%
Financial Activities	0.1%	2.5%	-0.1%	-0.4%	-1.8%	-1.2%
Prof. & Business Services	2.8%	3.5%	2.3%	1.0%	0.2%	0.2%
Education & Health Services	0.3%	1.0%	1.6%	0.9%	0.6%	0.7%
Leisure & Hospitality Services	-0.2%	0.6%	0.1%	0.2%	0.4%	0.0%
Other Services	1.3%	2.9%	-0.1%	-0.6%	-0.7%	-1.0%
Government	-0.7%	0.0%	0.3%	0.1%	0.1%	0.1%
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Personal Income* (\$ million)	54,195	56,077	58,141	60,472	62,683	64,722
Wages & Salaries*	25,794	26,671	27,768	28,906	30,033	31,115
Supplements to Wages & Salaries*	6,252	6,314	6,528	6,799	7,044	7,301
Nonfarm Proprietors' Income*	3,833	4,009	4,205	4,369	4,535	4,726
Farm Proprietors' Income**	75	59	73	69	65	63
Dividends, Interest, & Rent*	9,323	9,640	10,036	10,588	10,969	11,155
Dividends	2,464	2,602	2,648	2,689	2,731	2,822
Interest	4,476	4,512	4,871	5,462	5,901	6,024
Rent	2,384	2,526	2,519	2,435	2,336	2,309
Personal Current Transfer Receipts*	12,351	12,808	13,089	13,469	13,954	14,498
Less: Contributions for Social Ins.**	4,278	4,297	4,465	4,671	4,892	5,145
Adjustment for Residence**	846	874	907	944	975	1,011
<b>Personal Income* (Annual Change)</b>	<b>3.1%</b>	<b>3.5%</b>	<b>3.7%</b>	<b>4.0%</b>	<b>3.7%</b>	<b>3.3%</b>
<b>Wages &amp; Salaries*</b>	<b>3.7%</b>	<b>3.4%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>3.9%</b>	<b>3.6%</b>
<b>Supplements to Wages &amp; Salaries*</b>	<b>-1.5%</b>	<b>1.0%</b>	<b>3.4%</b>	<b>4.1%</b>	<b>3.6%</b>	<b>3.6%</b>
<b>Nonfarm Proprietors' Income*</b>	<b>5.8%</b>	<b>4.6%</b>	<b>4.9%</b>	<b>3.9%</b>	<b>3.8%</b>	<b>4.2%</b>
<b>Farm Proprietors' Income**</b>	<b>-8.7%</b>	<b>-21.1%</b>	<b>24.5%</b>	<b>-5.6%</b>	<b>-6.6%</b>	<b>-3.0%</b>
<b>Dividends, Interest, &amp; Rent*</b>	<b>3.9%</b>	<b>3.4%</b>	<b>4.1%</b>	<b>5.5%</b>	<b>3.6%</b>	<b>1.7%</b>
Dividends	3.3%	5.6%	1.8%	1.6%	1.6%	3.3%
Interest	1.9%	0.8%	8.0%	12.1%	8.0%	2.1%
Rent	8.6%	5.9%	-0.3%	-3.3%	-4.1%	-1.1%
<b>Personal Current Transfer Receipts*</b>	<b>2.6%</b>	<b>3.7%</b>	<b>2.2%</b>	<b>2.9%</b>	<b>3.6%</b>	<b>3.9%</b>
<b>Less: Contributions for Social Ins.**</b>	<b>3.0%</b>	<b>0.4%</b>	<b>3.9%</b>	<b>4.6%</b>	<b>4.7%</b>	<b>5.2%</b>
<b>Adjustment for Residence**</b>	<b>7.2%</b>	<b>3.2%</b>	<b>3.8%</b>	<b>4.1%</b>	<b>3.3%</b>	<b>3.7%</b>

\*CEFC Forecast

\*\*From IHS Economics October 2015, OPM Low Pop Scenarios and Moody's Analytics Baseline, Sept. 2015

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