Appendix E

Consensus Economic Forecasting Commission Report

April 1, 2015

Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
April 1, 2015

Commissioners

John C. Atkinson

Dr. Sheena S. Bunnell
Professor of Business Economics
University of Maine Farmington

James A. Clair, Chair
Vice President
Goold Health Systems, an Emdeon Company

Gradon R. Haehnel
Manager of Engineering & Asset Management
Emera Maine

Eric N. Stinneford
Vice President – Controller, Treasurer & Clerk
Central Maine Power

Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on March 30, 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 continued to show signs of improvement since the Consensus Economic Forecasting Commission (CEFC) met in October 2014.

Personal income in Maine grew 2.9% from 2013 to 2014, while wage and salary income, which makes up around half 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 third quarter of 2014. The Consumer Price Index was unchanged in February 2015 from a year ago, driven by declines in energy prices.

Nationwide, consumer sentiment in February 2015 was 16.9% higher than one year ago while small business optimism increased 7.2% over the previous year's level.

The price of crude oil decreased 25.5% in the fourth quarter of 2014 to around $77 per barrel. As a result, heating oil prices declined throughout most of the heating season and were considerably lower than the past three years while gasoline prices are also much lower. The number of new automobile titles issued by the Maine Bureau of Motor Vehicles decreased 2.2% in FY 2014 compared to FY 2013, while the number of used auto titles increased 7.7%.

Existing single-family home sales in Maine were up 8.6% in January 2015 compared to January 2014 and housing permits for the February 2014-January 2015 year were 1.7% 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 0.5% year-over-year in the fourth quarter of 2014. Mortgage delinquency rates in Maine have been declining but at a slower pace than nationally. The foreclosure rate in Maine was 0.49% in the third quarter of 2014 and remained above the national rate for a ninth straight quarter.

Historical employment revisions and new 2014 data for employment, income, CPI, and corporate profits have been released since the CEFC last met. These revisions and new data contributed to adjustments in the forecast. Additionally, the Commission continued to largely follow 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.

There were three key factors identified during the CEFC's discussion as impacts on the forecast: Maine's demographic outlook, the recent steep decline in oil prices, and the strengthening U.S. dollar. Employment growth will likely be held back by the limited availability of workers in the next few years resulting from Maine's lack of growth in the working age population. This was a consideration in the previous CEFC forecast as well, so did not result in any significant changes to this forecast. The drop in oil prices and the surge in the dollar have both occurred since the previous forecast, however, and so contributed to changes in the forecast for CPI, personal income, and corporate profits.

Overall, the employment forecast saw only minor modifications to the growth rates, although the lower 2014 base results in employment levels that are lower than previously forecast. The 2019 employment level is nearly the same as the 2007 pre-recession peak. The largest change to CPI is in 2015: a significant downward revision resulting from the decline in oil prices. The remaining years were each revised slightly downward. Total personal income was also revised downward in 2015, resulting from a downward revision to wage and salary income linked to lower inflation. 2016-2019 wage and salary income and total personal income were revised upward. While many of the forecast indicators were taken from the LowPop scenario, some adjustments were made to specific years and in some cases, the IHS forecast seemed to be more realistic and so was used instead.

The table below provides the forecast's major indicators.

Calendar Years	*2013*	2014	2015	2016	2017	2018	2019
Wage & Salary Employment (Annual Percentage Change)							
CEFC Forecast 11/2014	*0.6*	1.0	0.9	0.6	0.4	0.1	0.1
CEFC Forecast 04/2015	*0.6*	*0.4*	0.9	0.7	0.4	0.2	0.1
Personal Income (Annual Percentage Change)							
CEFC Forecast 11/2014	*2.6*	3.3	3.5	3.7	3.9	3.4	3.1
CEFC Forecast 04/2015	*2.6*	*2.9*	3.1	3.8	4.4	3.8	3.5
Wage and Salary Income (Annual Percentage Change)							
CEFC Forecast 11/2014	*2.2*	2.9	3.9	4.0	3.6	3.4	3.0
CEFC Forecast 04/2015	*2.2*	*2.7*	3.4	4.5	4.1	3.9	3.6
CPI (Annual Percentage Change)							
CEFC Forecast 11/2014	*1.5*	1.8	2.1	2.4	2.8	2.9	2.6
CEFC Forecast 04/2015	*1.5*	*1.6*	0.5	2.1	2.4	2.6	2.3

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 2013, Maine's real Gross Domestic Product was $51.2 billion, with $44.1 billion coming from private industries and $7.1 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 0.9% from 2012 to 2013, the second year in a row of GDP growth. However, this was half the rate of national GDP growth, which was 1.8% from 2012 to 2013.

According to preliminary estimates from the U.S. Bureau of Economic Analysis, total personal income grew 2.9% from 2013 to 2014 and wage and salary income grew 2.7% year-over-year. Wage and salary disbursements, which are the largest component of personal income, averaged around $25.5 billion in 2014 (seasonally adjusted at annual rates). Total personal income averaged around $56 billion. Maine's debt to income ratio was 24.2% in the third quarter of 2014. The ratio is at its highest point since the first quarter of 2008.

The Consumer Price Index (CPI) was flat from February 2014 to February 2015, dragged down by significant energy price deflation. Core inflation, which excludes food and energy prices, rose 1.7% over that same period. The Chained Consumer Price Index (Chained CPI) declined 0.5% from February 2014 to February 2015, again driven by the drop in energy prices. Core inflation rose 1.5% over the same period. Chained CPI allows for substitutions in the basket of goods and services being measured.

In February 2015, the survey-based University of Michigan Consumer Sentiment Index decreased 2.8% month-over-month but was up 16.9% from a year ago. The survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index was up 0.1% from the previous month and was up 7.2% from February 2014.

The price of Brent crude oil plunged starting in the latter half of 2015 and was just $77.03 per barrel in the fourth quarter of 2014, a decrease of 25.5% from the third quarter of 2014 and a 29.6% decrease from the fourth quarter of 2013. The price of heating oil in Maine began declining near the end of the 2013-2014 heating season and has continued to drop throughout most of the 2014-2015 heating season, most recently at $2.76/gallon. The price of heating oil in Maine had been fairly steady over the past three heating seasons, averaging around $3.75/gallon before the recent decline in crude oil prices. The price of gasoline in New England on March 23, 2015 averaged $2.47, a decrease of $0.05 per gallon over the previous week and $1.20 lower than one year ago. The price of gasoline has dropped $1.37 per gallon since the July 2014 peak.

The number of new automobile titles issued by the Maine Bureau of Motor Vehicles decreased 2.2% from FY 2013 to FY 2014, while the number of used automobile titles issued increased 7.7%. A major registrant re-titled a very large fleet of trailers in FY13, leading to the substantial decrease in trailer titles in FY14.

Single family existing-home sales in Maine were up 8.6% in January 2015 compared to January 2014. Home sales in Maine have continued to grow year-over-year in recent months while sales in the U.S. have been declining. Average monthly single unit housing permits in Maine in the 12-month period from February 2014 through January 2015 were 1.7% higher than in the previous 12-month period. The median home price in the Portland – South Portland – Biddeford metropolitan area increased 0.5% year-over-year in the fourth quarter of 2014. The median home price in the fourth quarter of 2014 was $229,000. The share of mortgages in Maine that are delinquent 30 days or more was 6.5% in the third quarter of 2014. The rate of delinquencies in Maine has been above the U.S. rate for ten straight quarters now. Maine’s foreclosure rate was 0.49% in the third quarter of 2014, down slightly from the previous quarter. Maine’s foreclosure rate has been above the U.S. rate for nine straight quarters now.

Full background materials are available at:
http://www.maine.gov/economist/forecasts/index.shtml

Maine Department of Labor

Labor market conditions continue to improve. The monthly survey of households indicates that the February unemployment rate of 5.0% was the lowest in nearly seven years and the employment to population ratio remains above the national average. On the hand, the labor force participation rate has been trending lower since the middle of 2013. The monthly survey of employer payrolls indicates job growth has slowed. On an annual average basis, the number of nonfarm payroll jobs increased 2,700 in 2014. The job gain (from the payroll survey) was much smaller than the 7,000 decline in the number of unemployed (from the household survey). This is the result of thousands of Baby Boomers exiting the workforce for retirement.

Aging Baby Boomers will be a major constraint, limiting growth potential for years to come. Maine has the highest share of people in their 60s and the second highest share in their 50s in the nation. Thousands will be retiring each year for the next two decades. At the other end of the spectrum, Maine has the lowest share of people under age 25 to replace retirees in the workforce, the result of a precipitous decline in births in the 1990s. The size of the labor force reached a plateau in 2005; it began to decline in 2013.

If the working-age population was unchanged and 1) the unemployment rate declined to 4.0%, and 2) labor force participation rates of those under age 55 returned to the average that prevailed before the recession, as many as 24,000 more people could be employed. But the working-age population is declining. The number age 16 to 54 (whose labor force participation has not recovered to pre-recession levels) is forecast to decline more than 6,500 per year through 2022. So the challenge for forecasters is what will be the balance between potentially lower unemployment and higher labor force participation versus fewer working-age people? Economists at the Center for Workforce Research believe job growth in the next year or two will be modest. After that it will be very difficult to post job growth unless we are able to entice thousands of working-age people to move into the state.

The presentation is available at
www.maine.gov/labor/cwri/publications/pdf/CEFC_March_2015.pdf

Maine Revenue Services

Overall, revenues seem to be generally on track. Total general fund revenues for the month of February 2015 were over budget by $37.8 million and over budget for the fiscal year to date by $42.4 million (2.2%). This was due largely to the individual income tax line. The individual income tax was over budget by $58.8 million (6.8%) fiscal year to date, largely because refunds were $49 million under projections in the month of February. This was likely due at least in part to the tax refund fraud that was occurring nationally, which led to Maine slowing the refund process considerably. March has started to catch up with refunds, although they remain under budget. It looks like April 15 could wrap up a strong individual income tax season. Withholding is up 5.4% over the same period last year and the final estimated payment for 2014 was up 2.5% over 2013. The corporate income tax was under budget by $14.3 million (15.6%) year to date. March looks like it will be okay, but the risk going forward is on the down side due to the strong U.S. dollar.

The sales and use tax line was just 0.1% under budget for the fiscal year to date, although $2.8 million (3.7%) under for February 2015. This is likely due to the weather and could rebound once spring weather arrives. February receipts represent January sales. Year-over-year taxable sales growth in January was 1.0%, and the 12-month moving total ending in January 2015 was up 3.9% over the previous year. Auto/transportation sales were 3.4% lower in January year-over-year, likely due to the weather.

The highway fund was just 0.4% over budget fiscal year-to-date, with fuel taxes just 0.1% under budget. For fiscal year-to-date compared to last year, fuel taxes were actually up 0.6%. This is likely helped by the decline in prices at the pump.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario for February 2015 and the IHS Economics baseline scenario for March 2015. Both were the most recent available forecasts. Additionally, OPM provided an alternative scenario based on assumptions of low population growth that limit employment growth (LowPop). Each forecast was based on a different set of national macroeconomic assumptions. The LowPop scenario was based on the Moody's Analytics baseline scenario with population projections taken from OPM's updated 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 November 2014 forecast. In many cases, the CEFC felt the LowPop assumptions and forecast better reflected their current views of the economy, however the IHS forecast seemed more realistic in a few places. The key assumptions made by the CEFC are below.

- Maine population growth is likely to limit employment growth over the next few years. A return to pre-recession employment would require some combination of unprecedented labor force participation and very strong in-migration.

- The lack of available workforce will likely contribute to upward pressure on wages in the near future.

- Inflation in 2015 will be low due to low oil prices and the strong U.S. dollar. The strengthening of the dollar combined with a weakening global economy will contribute both to lower inflation and to lower GDP growth.

Consensus Forecast

The CEFC members continued to believe that the national forecasts are likely overly optimistic in their population and employment projections for the state. The previous forecast, as well as this new forecast, relied on the LowPop scenario, designed to address these concerns. While only minor adjustments were made to the growth rates, the 2014 actual employment level was lower than previously forecast, resulting in lower employment levels going forward. This forecast reaches an employment level of 617,600 in 2019.

Wage and salary income growth was revised downward for 2015 due to the lower CPI but pinned to the IHS growth rate of 3.4% rather than the LowPop growth rate of 2.6%, which was seen as too strong a downward revision for the current withholding data. 2015-2019 were revised upward and adopted from the LowPop scenario. Supplements to wages and salaries and personal current transfer receipts were taken from the LowPop scenario as well; both were modest upward revisions for most years, although 2015 supplements and 2017 transfer receipts were revised slightly downward. Nonfarm proprietors' income was set as the average of the IHS and LowPop growth rates, with rates ranging from 3.8% in 2018 to 4.9% in 2016. All years were revised downward except for 2019, which was revised upward. Dividends, interest, and rent for 2015 was revised downward and taken from the IHS forecast, while the remaining years were adopted from the LowPop scenario. 2016 and 2019 were revised downward while 2017 and 2018 saw considerable upward revisions resulting in part from expectations of higher interest rate growth in those years.

The overall result for total personal income was a 0.4 percentage point revision downward for 2015, while 2016-2019 were all revised upward: by 0.1 percentage point in 2016, 0.5 percentage points in 2017 and 0.4 percentage points in 2018 and 2019.

The CEFC set its 2015 forecast for inflation, as measured by the Consumer Price Index, at 0.5%, slightly lower than the LowPop forecast, while the remaining years were taken from the IHS forecast. 2015 was revised downward from 2.1% to 0.5%, reflecting low oil prices. Each remaining year was revised downward by 0.3 or 0.4 percentage points.

The forecast for corporate profits was set at 6.0% for 2015 and 2016, which was a considerable downward revision for 2015 to reflect concerns that the weaker global economy and strengthening dollar would make the previous growth rate of 9.9% unattainable. 2016 and 2017 were unchanged, while 2018 was revised upward and 2019 was revised downward.

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 the strong U.S. dollar played a role in the revisions made to this forecast.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission							
April 2015 Forecast	History		Forecast				
	2013	2014	2015	2016	2017	2018	2019
CPI-U* (Annual Change)	1.5%	1.6%	0.5%	2.1%	2.4%	2.6%	2.3%
CPI for Energy Prices** (Annual Change)	-0.7%	-0.3%	-9.2%	4.3%	6.4%	8.0%	4.4%
CPI for New Vehicles** (Annual Change)	1.1%	0.3%	1.1%	1.3%	0.5%	0.1%	-0.1%
New Vehicle Registrations** (Annual Change)	8.4%	12.3%	-10.2%	-2.4%	-1.7%	0.5%	2.6%
Personal Savings Rate**	4.9%	4.9%	4.6%	4.4%	4.3%	4.2%	3.8%
Maine Unemployment Rate**	6.7%	5.8%	5.4%	5.2%	5.0%	4.8%	4.8%
3-Month Treasury Bill Rate**	0.06%	0.03%	0.16%	1.49%	2.76%	3.23%	3.34%
10-Year Treasury Note Rate**	2.35%	2.54%	2.65%	3.76%	4.56%	4.51%	4.50%
Before-Tax Corporate Profits* (Annual Change)	4.6%	8.3%	6.0%	6.0%	1.4%	1.6%	3.2%
Maine Wage & Salary Employment* (thousands)	601.7	604.4	609.8	613.8	616.1	617.0	617.6
Natural Resources	2.4	2.5	2.6	2.6	2.6	2.6	2.6
Construction	25.6	25.8	25.9	25.7	25.7	26.1	26.2
Manufacturing	50.4	50.2	50.2	50.1	49.9	49.4	49.0
Trade/Trans./Public Utils.	118.0	119.0	120.3	121.2	121.2	121.0	120.9
Information	7.6	7.5	7.5	7.5	7.5	7.4	7.5
Financial Activities	30.4	30.4	30.7	30.6	30.5	30.0	29.7
Prof. & Business Services	61.5	63.3	65.3	66.8	67.6	67.8	68.0
Education & Health Services	121.9	122.4	124.2	126.0	127.4	128.4	129.5
Leisure & Hospitality Services	62.7	62.6	63.3	63.3	63.6	63.9	63.9
Other Services	20.7	20.9	20.9	20.9	20.8	20.7	20.5
Government	100.5	99.8	99.3	99.3	99.4	99.8	99.9
Agricultural Employment	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Maine Wage & Salary Employment* (Annual Change)	0.6%	0.4%	0.9%	0.7%	0.4%	0.2%	0.1%
Natural Resources	-4.0%	4.2%	2.8%	0.2%	0.1%	-0.3%	-0.4%
Construction	0.0%	0.8%	0.4%	-0.9%	0.0%	1.4%	0.6%
Manufacturing	-0.8%	-0.4%	0.0%	-0.3%	-0.4%	-1.0%	-0.8%
Trade/Trans./Public Utils.	0.5%	0.8%	1.1%	0.8%	0.0%	-0.2%	-0.1%
Information	-3.8%	-1.3%	-0.3%	-0.2%	-0.2%	-0.2%	0.4%
Financial Activities	0.7%	0.0%	0.9%	-0.1%	-0.3%	-1.7%	-1.0%
Prof. & Business Services	3.4%	2.9%	3.2%	2.2%	1.3%	0.3%	0.3%
Education & Health Services	0.5%	0.4%	1.5%	1.4%	1.2%	0.7%	0.9%
Leisure & Hospitality Services	1.8%	-0.2%	1.1%	0.1%	0.5%	0.4%	0.1%
Other Services	3.5%	1.0%	-0.1%	-0.1%	-0.4%	-0.6%	-0.8%
Government	-1.0%	-0.7%	-0.5%	0.0%	0.1%	0.4%	0.1%
Agricultural Employment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	2013	2014	2015	2016	2017	2018	2019
Personal Income* ($ million)	54,359	55,958	57,706	59,923	62,530	64,922	67,163
Wages & Salaries*	24,848	25,517	26,384	27,559	28,687	29,804	30,868
Supplements to Wages & Salaries*	6,357	6,484	6,604	6,818	7,048	7,274	7,524
Nonfarm Proprietors' Income*	4,043	4,313	4,514	4,734	4,918	5,104	5,321
Farm Proprietors' Income**	97	100	123	130	138	146	153
Dividends, Interest, & Rent*	9,477	9,795	9,981	10,459	11,287	11,802	12,100
Dividends	2,661	2,778	2,883	2,961	3,104	3,234	3,340
Interest	4,327	4,358	4,347	4,794	5,488	5,911	6,123
Rent	2,489	2,659	2,751	2,704	2,695	2,658	2,638
Personal Current Transfer Receipts*	12,521	12,815	13,294	13,588	13,981	14,483	15,042
Less: Contributions for Social Ins.**	4,147	4,287	4,423	4,617	4,803	4,987	5,162
Adjustment for Residence**	1,163	1,221	1,229	1,251	1,274	1,296	1,319
Personal Income* (Annual Change)	2.6%	2.9%	3.1%	3.8%	4.4%	3.8%	3.5%
Wages & Salaries*	2.2%	2.7%	3.4%	4.5%	4.1%	3.9%	3.6%
Supplements to Wages & Salaries*	3.4%	2.0%	1.9%	3.2%	3.4%	3.2%	3.4%
Nonfarm Proprietors' Income*	5.9%	6.7%	4.6%	4.9%	3.9%	3.8%	4.2%
Farm Proprietors' Income**	18.8%	3.6%	22.7%	6.0%	5.8%	5.5%	5.4%
Dividends, Interest, & Rent*	2.4%	3.4%	1.9%	4.8%	7.9%	4.6%	2.5%
Dividends	-0.7%	4.4%	3.8%	2.7%	4.8%	4.2%	3.3%
Interest	-0.5%	0.7%	-0.3%	10.3%	14.5%	7.7%	3.6%
Rent	11.6%	6.9%	3.4%	-1.7%	-0.3%	-1.4%	-0.8%
Personal Current Transfer Receipts*	6.3%	2.3%	3.7%	2.2%	2.9%	3.6%	3.9%
Less: Contributions for Social Ins.**	16.0%	3.4%	3.2%	4.4%	4.0%	3.8%	3.5%
Adjustment for Residence**	2.4%	5.0%	0.6%	1.8%	1.8%	1.8%	1.7%

*CEFC Forecast

**From IHS Economics March 2015, OPM Low Pop Scenario and Moody's Analytics Baseline, Feb. 2015

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