

MAINE STATE LEGISLATURE

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**Report of the
MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION
January 26, 2005**

Commissioners present:

Charlie Colgan, Muskie School, USM, Chair
Michael Donihue, Colby College
John Davulis, CMP
Charles Lawton, Planning Decisions, Inc.

Staff Support present:

Michael Allen, (MRS), Dana Evans (DOL), John Nyada, (MRS), Galen Rose, (SPO),
Jerome Stanhope, MRS

The Commission met on January 26, 2005 to discuss whether their November 2004 forecast should be revised before the Revenue Forecasting Committee meets in February 2005. The Commission determined that there was insufficient cause to revise the November forecast. The table below summarizes that forecast. The detailed November forecast is shown on the following page.

Maine Wage & Salary Employment Growth

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
> Consensus 11/2004	0.9	1.7	1.5	1.1	1.3	1.3

Maine Total Personal Income Growth

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
> Consensus 11/2004	5.5	4.0	4.0	4.0	4.0	4.0

In evaluating the November CEFC forecast, three more recent Maine economic forecasts were used. These were produced by Colby College, Global Insights, and the State Planning Office. The wage and salary growth rates forecast by all of these models were similar, although somewhat lower than the CEFC had forecast in November. There was greater variation among the personal income growth rate forecasts of the three models, but the November CEFC forecast fell within the upper and lower bounds of these forecasts. The Commission also took note of preliminary evidence that employment growth for 2004 may be somewhat stronger than forecast in November when the benchmark revisions of the Quarterly Census of Employment and Wages data are completed by the Maine Department of Labor later this spring, and of indications that unemployment claims have recently grown at rates somewhat above those of 2003. However, the Commission did not find sufficient evidence to warrant a revision to the forecast at this time.

Maine Consensus Economic Forecasting Commission
Forecast of November 2004

	HISTORY						FORECAST					
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Rate or Annual Growth Rate												
CPI-u	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.8%	2.0%	2.0%	2.0%	2.0%	2.0%
Me. Unemployment Rate	4.4	4.1	3.4	4.0	4.4	5.0	4.3	4.2	4.1	4.1	4.0	4.0
3-Month Treasury Bill Rate	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	1.2	2.8	4.1	4.7	4.6	4.4
10-Year Treasury Note Rate	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.5	5.0	5.7	5.7	5.5	5.7
Maine Agricultural Empl.(1,000's)												
	16	13.0	16.0	12.0	14.0	16.0	13.0	14.0	14.0	14.0	14	14.0
Employment Levels (1,000's)												
Maine Wage & Salary Employment	569.1	586.3	603.5	608.1	606.5	606.1	611.3	621.4	630.9	638.2	646.7	655.4
Natural Resources	2.7	2.7	2.7	2.7	2.6	2.5	2.6	2.7	2.6	2.6	2.6	2.6
Construction	25	27.8	29.2	29.8	29.4	30.4	31.5	30.1	29.1	29.2	29.5	29.9
Manufacturing	81.1	80.6	79.5	74.6	68	63.8	61.3	61.1	60.7	60.4	60.1	59.8
Trade/Transp//Publ. Utils.	115.9	119.5	122.7	123.6	123.2	123.0	124.0	125.2	127.1	127.6	128.3	129.0
Information	11.1	11.7	12.1	12.2	11.6	11.2	11.3	11.6	11.8	12.0	12.3	12.5
Financial Activities	31.2	32.8	34.1	35.1	35.1	35.0	35.4	36.3	37.2	38.0	38.6	39.1
Prof. & Business Services	46.6	48.3	51.8	51.8	51.4	50.6	51.0	53.8	55.7	57.0	58.4	59.8
Education & Health Services	90	94.2	97.5	100.7	104.9	106.8	109.0	112.7	115.9	118.4	121.8	125.1
Leisure & Hospitality Services	53.2	54.3	55.9	56.5	57.3	58.3	59.3	61.2	63.2	64.8	66.4	68.2
Other Services	17.7	18	18.3	19.1	19.8	21.0	21.8	22.3	22.6	22.9	23.2	23.6
Government	94.6	96.7	99.6	102	103.1	103.5	104.1	104.5	104.8	105.2	105.5	105.8
Annual Growth Rates												
Maine Wage & Salary Employment	-	3.0%	2.9%	0.8%	-0.3%	-0.1%	0.9%	1.7%	1.5%	1.1%	1.3%	1.3%
Natural Resources	-	0.0%	0.0%	0.0%	-3.7%	-3.8%	5.9%	1.2%	-2.0%	-1.3%	-0.5%	-0.3%
Construction	-	11.2%	5.0%	2.1%	-1.3%	3.4%	3.7%	-4.6%	-3.2%	0.3%	1.0%	1.4%
Manufacturing	-	-0.6%	-1.4%	-6.2%	-8.8%	-6.2%	-3.9%	-0.4%	-0.5%	-0.6%	-0.5%	-0.5%
Trade/Transp//Publ. Utils.	-	3.1%	2.7%	0.7%	-0.3%	-0.2%	0.8%	1.0%	1.5%	0.4%	0.5%	0.5%
Information	-	5.4%	3.4%	0.8%	-4.9%	-3.4%	0.7%	2.8%	1.8%	2.0%	2.0%	1.9%
Financial Activities	-	5.1%	4.0%	2.9%	0.0%	-0.3%	1.0%	2.6%	2.7%	2.1%	1.5%	1.2%
Prof. & Business Services	-	3.6%	7.2%	0.0%	-0.8%	-1.6%	0.7%	5.6%	3.5%	2.3%	2.5%	2.4%
Education & Health Services	-	4.7%	3.5%	3.3%	4.2%	1.8%	2.0%	3.4%	2.9%	2.1%	2.9%	2.7%
Leisure & Hospitality Services	-	2.1%	2.9%	1.1%	1.4%	1.7%	1.7%	3.1%	3.3%	2.6%	2.5%	2.8%
Other Services	-	1.7%	1.7%	4.4%	3.7%	6.1%	3.8%	2.2%	1.5%	1.3%	1.4%	1.4%
Government	-	2.2%	3.0%	2.4%	1.1%	0.4%	0.6%	0.4%	0.4%	0.3%	0.3%	0.3%
Million \$ - at Seas. Adjusted Annual Rates												
Personal income	29709.75	31016.25	33173.25	35102.25	36295.5	37781.5	39859.5	41453.9	43112.0	44836.5	46630.0	48495.2
Wage and salary disbursements	15204	16234.0	17194.8	17978.3	18500.0	19169.3	20166.1	21154.2	22190.7	23211.5	24279.2	25396.1
Supplements to Wages & Salaries	3359.75	3554	3772.75	4056.5	4451.25	4731	4977.0	5136.3	5295.5	5454.4	5596.2	5741.7
Non-farm Proprietors' income	2,131	2227.5	2347.0	2768.0	2806.5	3010.8	3197.4	3418.0	3612.9	3800.7	3983.2	4174.4
Farm Proprietors' income	55.5	77.0	57.0	26.8	-3.5	-33.8	39.8	41.4	43.0	44.8	46.6	48.5
Dividends, interest, and rent	5745	5618.5	6178.5	6342.0	6217.3	6100.0	6520.9	6547.0	6579.7	6764.0	6960.1	7155.0
Transfer payments	5122	5279.3	5588.3	6017.3	6464.3	7003.8	7396.0	7710.7	8005.7	8338.5	8674.3	9005.7
less: Personal contrb. for social insur.	2418	2554.8	2665.8	2812.0	2848.8	2926.3	3089.0	3203.4	3358.5	3522.5	3688.7	3852.2
Adjustment for residence	511	580.3	700.5	725.5	707.8	726.5	699.7	714.9	737.9	768.5	802.0	836.7
Farm Income	138	153.8	145.8	117.0	90.5	80.0	79.7	82.9	86.2	89.7	93.3	97.0
Annual Growth Rates												
Personal income	-	4.4%	7.0%	5.8%	3.4%	4.1%	5.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Wage and salary disbursements	-	6.8%	5.9%	4.6%	2.9%	3.6%	5.2%	4.9%	4.9%	4.6%	4.6%	4.6%
Supplements to Wages & Salaries	-	5.8%	6.2%	7.5%	9.7%	6.3%	5.2%	3.2%	3.1%	3.0%	2.6%	2.6%
Non-farm Proprietors' income	-	4.5%	5.4%	17.9%	1.4%	7.3%	6.2%	6.9%	5.7%	5.2%	4.8%	4.8%
Farm Proprietors' income	-	38.7%	-26.0%	-53.1%	Not Available - negative base values			4.0%	3.9%	4.2%	4.0%	4.1%
Dividends, interest, and rent	-	-2.2%	10.0%	2.6%	-2.0%	-1.9%	6.9%	0.4%	0.5%	2.8%	2.9%	2.8%
Transfer payments	-	3.1%	5.9%	7.7%	7.4%	8.3%	5.6%	4.3%	3.8%	4.2%	4.0%	3.8%
less: Personal contrb. for social insur.	-	5.7%	4.3%	5.5%	1.3%	2.7%	5.6%	3.7%	4.8%	4.9%	4.7%	4.4%
Adjustment for residence	-	13.5%	20.7%	3.6%	-2.4%	2.6%	-3.7%	2.2%	3.2%	4.2%	4.4%	4.3%
Farm Income	-	11.4%	-5.2%	-19.7%	-22.6%	-11.6%	-0.4%	4.0%	4.0%	4.0%	4.0%	4.0%

In deliberating whether to revise their November 2004 forecast, the Commissioners considered the following:

1) The Maine and national economies continued to make modest progress through the fall, but job growth is still quite slow for both.

US real gross domestic product expanded at a 4% annual rate during the 3rd quarter, an improvement over the 2nd quarter's 3.3% rate. Payroll job growth, however, was only 1% for the full year. In fact, average monthly national payroll employment was greater in 2000 than in 2004.

The Maine experience has been similar. The Maine Coincident Economic Index (which approximates real gross state product growth) expanded at a 2.3% for the year through November, compared to the same period last year. This growth rate was 30th best of the 50 states. Meanwhile, payroll employment for the first 11 months of the year was up only 0.8%, an increase of 4,700 jobs. November unemployment rates (seasonally adjusted) were two-tenths to three-tenths lower than January rates in both Maine and the nation, but Maine's latest rate (4.5%) was nearly a point below the national average (5.4%).

Taxable retail sales through October were up 5.2% over the same period last year; sales grew 4.6% for the full year 2003. The building supply store-type-group had by far the largest year-over-year growth for the first 10 months at 15.1%. Auto store sales (includes dealers and parts stores) were a major disappointment, with only 1.2% growth for the period.

The housing sector has been extremely strong throughout the year. Housing permit growth through November, versus the same period last year, was a very impressive 22.5%. Residential construction contract awards, by value, were up 23% over the same period. And, sales of existing (as opposed to 'new') housing units were up 12.5% for the first 3 quarters of the year over last year.

Monthly bankruptcy filings have edged downward slightly over the past 4 months, but are still very close to the record 4,600+ annual rate around which they have hovered for the past 2 years.

2) Preliminary benchmarking revision work at the Maine Dept. of Labor suggests that the total 2004 wage and salary employment gain may be closer to 7,000 than the approximate 5,000 suggested by preliminary data. However, year-over-year temporary help services employment (often used as a leading indicator of employment trends) was down slightly in August and September (latest available data). Also, weekly initial claims for unemployment insurance have been running slightly above year ago levels since mid November. Employment growth may have been somewhat stronger during the first half-year than the last, and this appears to be corroborated by Bureau of Revenue Services withholding data.

3) General Fund revenues were running slightly over budget through late January. Estimated payments of the personal income tax line were strong in the 4th quarter (calendar year), about 10% above budget, yet many other states were reporting even stronger estimated payments.

Withholding collections were weaker in the second half-year, and in January of 2005, than in the first half of 2004.

4. While all of the national forecasts reviewed called for continuing moderate growth over the next few years, the Commissioners noted that there were many downside risks, including national fiscal imbalances because of increasing federal debt, continued weakening of the US dollar, expected higher interest rates, and the cost of the Iraq war.

Also, the Commissioners expressed concern that Maine military activities, especially the Kittery Naval Shipyard and Brunswick Naval Air Station are imperiled by the US Department of Defense Base Realignment and Closure Commission deliberations expected to begin this spring. Any change in the operation of either of these bases would have substantial impact on the accuracy of current employment forecasts.