

MAINE STATE LEGISLATURE

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**Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
February 2006**

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SUMMARY

The Consensus Economic Forecasting Commission (CEFC) held its first meeting of 2006 on January 27 at the State Planning Office. As required by statute, the Commission updated its October 2005 economic forecast for Maine. The table below summarizes the CEFC's new forecast for wage and salary employment growth, personal income growth, and the U.S. Consumer Price Index (CPI; a measure of inflation).

Calendar Years	2005	2006	2007	2008	2009
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 10/2005	0.8	0.9	0.7	0.8	0.8
CEFC Forecast 2/2006	0.0	0.5	0.6	0.6	0.7
Personal Income (Annual Percentage Change)					
CEFC Forecast 10/2005	5.5	5.5	5.0	5.0	5.0
CEFC Forecast 2/2006	5.0	5.0	4.5	4.5	4.5
CPI (Annual Percentage Change)					
CEFC Forecast 10/2005	3.2	2.8	2.5	2.2	2.2
CEFC Forecast 2/2006	3.4	3.0	2.8	2.8	2.8

The Commission based its forecast on newly available state and national economic data and economic forecasts from several sources. The following bullets outline the regional and national context for the forecast.

- On the day of the Commission's meeting, the U.S. Bureau of Economic Analysis (BEA) announced that fourth quarter U.S. gross domestic product (GDP) growth was 1.1%, lower than most analysts were expecting. BEA attributed the slow growth to declines in personal consumption and federal government spending, and increased imports.
- Oil prices have been persistently high. Several forecasts that had projected prices to decline over the next one to five years are now projecting sustained high prices. Energy is particularly expensive in Maine and other northeastern states. The combination of high energy prices and slow income growth has impacted retail sales. Businesses are also feeling the effect of high energy costs.
- The Commission noted the apparently growing number of residents in southern Maine who work in another state. This means that income and retail sales in southern Maine benefit from employment growth in New Hampshire and Massachusetts. It also means that an economic downturn in those states may be felt in Maine as well.
- The Commission noted that the vitality of Maine's economy will depend on the extent to which the state can secure a larger share of growing industries. Since

June 2004, year-over-year employment growth in Maine has been positive (based on unrevised estimates), but not as high as the national growth rate.

- The Commission discussed the impending closure of the Brunswick Naval Air Station. Given the uncertainty of the timeline for closing the facility, the Commission has decided not to make speculative adjustments to its forecast. Once reliable information becomes available, the Commission will incorporate that into a subsequent, scheduled revision.

STATE AGENCY REPORTS

Three state agencies provided the Commission with further insight into current economic conditions in Maine.

Maine Department of Labor

Maine Department of Labor (DOL) reported upcoming revisions of statewide employment figures for 2004 and 2005. These revisions are part of an annual benchmarking process undertaken by all 50 states using methodology provided by the U.S. Bureau of Labor Statistics. The process involves adjusting previous sample-based estimates using more complete data that become available later in the year. DOL reported its preliminary estimates that employment for 2004 will be revised from 613,900 to 611,600 and 2005 will be revised from 618,000 to 611,400. Moody's Economy.com estimates that New Hampshire, Vermont, Rhode Island, Connecticut, and Massachusetts will also have downward job-growth revisions.

Maine's revision could have several causes. The Commission discussed the possibility of more Maine residents commuting and telecommuting to jobs outside Maine. Their jobs would be counted in other state's employment estimates. DOL reported that it has not seen a decrease in the number of business establishments in Maine. Rather, the lack of job growth seems to stem from a lack of new hiring by Maine establishments.

Preliminary estimates show that from 2003 to 2005, employment grew in the industries of health care and social services, retail trade, and leisure and hospitality. Employment declined in the industries of manufacturing, professional and business services, and financial activities.

Maine Revenue Services

Maine Revenue Services reported that state revenues are slightly ahead of the Revenue Forecasting Committee's (RFC) November projections. The difference is mostly in revenues from the corporate income tax, cigarette tax, and estate tax. Individual income tax payments are also 1.5% ahead of projections. The growth of individual income tax withholding is slightly below the RFC's current projections (4.1% for 2005 versus 4.8% respectively). Sales tax revenues are also slightly below projections, with slow growth

coming from general merchandise stores and automobile sales. Sales at specialty retail establishments are strong.

State Planning Office

The State Planning Office reported on other indicators of economic activity in Maine in the second half of 2005. Maine's Coincident Economic Index grew respectably in October and November after slow growth in the second quarter. In late summer there was a surge of bankruptcies catalyzed by changes to federal laws. That surge passed in October. Personal income for the first three quarters of 2005 grew at or above the New England rate, although income growth in the rest of the nation has outpaced New England. Maine's real estate market seems to be cooling somewhat; the number of housing unit permits issued has been essentially flat since 2004. Fuel prices continue to be high. Gasoline and heating oil are currently about \$.50 per gallon more expensive than one year ago. The Commission noted the adverse impact of this expense on consumer spending, as reflected by sales tax revenue. Businesses are also feeling the impact of this cost.

CONSENSUS FORECAST

The above information and five forecasts formed the basis of the Commission's consensus forecast. The New England Economic Partnership and State Planning Office forecasts were based on a model prepared by Moody's Economy.com. Colby College and Central Maine Power Co. developed their own forecasting models. Global Insight, Inc. developed the fifth forecast.

The models did not incorporate the revised employment estimates reported by DOL. There was discussion about how the Commission would incorporate the new information with projections from models that had utilized unrevised estimates. The Commission concluded that the most reasonable forecast would call for 2005 employment growth reflecting DOL's estimate of revised employment figures. Therefore, the Commission changed its forecast for 2005 employment growth to 0.0%. Estimates for 2006-2009 were also adjusted. Economic models continue to estimate Maine's long-run potential growth somewhere below 1.0% and the gradual increase up to 0.7% in 2009 reflects those projections.

The Commission lowered its past forecast of personal income growth by 0.5 percentage points for 2005-2009. This revision was based on income growth for the first three quarters of 2005 reported by BEA, DOL's estimated employment revisions, and MRS's report on individual income tax withholding. For the most part, all the forecasts estimated income growth at or below the levels projected by the Commission in October. The Commission adjusted projections for several components of personal income (supplements to wages and salaries; non-farm proprietor's income; dividends, interest, and rent; and transfer payments) in accordance with its revision of total personal income.

The Commission raised its forecast for U.S. Consumer Price Index, citing the unexpected persistence of high oil prices, the federal deficit, and employment growth at the national level.

The table on the following page shows the Commission's forecast of the variables they regularly forecast (shaded in blue) and a breakdown of those variables as regularly done by the Commission's staff at the State Planning Office. The table also presents additional economic variables forecasted by Moody's Economy.com.

Maine Economic Forecast
February 2006

	History					Forecast				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CPI-U*	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.0%	2.8%	2.8%	2.8%
Maine Unemployment Rate**	3.4%	3.9%	4.4%	5.0%	4.6%	4.9%	4.7%	4.8%	4.7%	4.6%
3-Month Treasury Bill Rate**	6.0%	3.5%	1.6%	1.0%	1.4%	3.3%	4.9%	4.9%	4.8%	4.8%
10-Year Treasury Note Rate**	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	5.2%	5.3%	5.4%	5.6%
Employment (thousands)										
Maine Wage & Salary Employment*	603.5	608.2	606.5	606.8	611.6	611.4	614.5	618.1	621.9	626.2
Natural Resources	2.7	2.7	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Construction	29.2	29.9	29.4	30.5	30.6	30.4	30.1	30.3	30.5	30.7
Manufacturing	79.5	74.7	68.0	64.1	63.4	62.1	61.2	60.7	60.0	59.2
Trade/Trans./Public Utils.	122.7	123.6	123.3	123.2	124.5	124.6	124.0	123.2	122.4	122.6
Information	12.1	12.1	11.6	11.3	11.3	11.3	11.4	11.4	11.5	11.6
Financial Activities	34.1	35.1	35.1	35.1	35.0	34.7	34.8	34.9	35.2	35.4
Prof. & Business Services	51.8	51.8	51.4	50.3	49.9	50.1	50.8	51.5	52.3	52.8
Education & Health Services	97.5	100.8	104.9	107.3	110.5	111.6	114.1	116.3	118.7	121.2
Leisure & Hospitality Services	55.9	56.5	57.3	58.5	58.7	58.9	59.9	61.0	62.1	62.8
Other Services	18.3	19.1	19.8	20.3	20.4	20.4	20.7	21.0	21.1	21.3
Government	99.5	102.0	103.1	103.7	104.7	104.7	105.1	105.4	105.7	106.2
Agricultural Employment	19.8	17.1	18.8	16.1	14.0	16.6	17.0	17.0	17.0	17.0
Annual Growth Rate										
Maine Wage & Salary Employment*	-	0.8%	-0.3%	0.0%	0.8%	0.0%	0.5%	0.6%	0.6%	0.7%
Natural Resources	-	-1.4%	-1.9%	-2.6%	-1.7%	-2.0%	-1.2%	-0.7%	-0.6%	-0.6%
Construction	-	2.1%	-1.4%	3.5%	0.4%	-0.5%	-1.1%	0.5%	0.7%	0.7%
Manufacturing	-	-6.1%	-8.9%	-5.8%	-1.1%	-2.0%	-1.4%	-0.8%	-1.2%	-1.3%
Trade/Trans./Public Utils.	-	0.8%	-0.3%	-0.1%	1.1%	0.1%	-0.5%	-0.6%	-0.6%	0.2%
Information	-	0.2%	-4.7%	-2.0%	-0.2%	0.0%	0.8%	0.2%	0.2%	0.9%
Financial Activities	-	3.0%	0.0%	-0.1%	-0.2%	-1.0%	0.3%	0.4%	1.0%	0.5%
Prof. & Business Services	-	0.0%	-0.9%	-2.1%	-0.7%	0.4%	1.3%	1.3%	1.6%	1.1%
Education & Health Services	-	3.4%	4.2%	2.3%	3.0%	1.0%	2.2%	2.0%	2.1%	2.1%
Leisure & Hospitality Services	-	1.0%	1.5%	2.0%	0.4%	0.4%	1.8%	1.8%	1.8%	1.2%
Other Services	-	4.1%	3.5%	2.5%	0.7%	0.1%	1.5%	1.2%	0.7%	0.7%
Government	-	2.5%	1.0%	0.7%	0.9%	0.0%	0.4%	0.3%	0.3%	0.4%
Agricultural Employment	-	-13.6%	9.9%	-14.4%	-13.0%	18.6%	2.4%	0.0%	0.0%	0.0%
Seasonally Adjusted (millions)										
Personal Income*	33173.25	35107.0	35964.5	37251.3	39481.8	41455.8	43528.6	45487.4	47534.4	49673.4
Wage & Salary Disbursements*	17194.75	17982.8	18551.8	19249.8	20191.5	21007.2	21890.4	22809.8	23767.8	24766.0
Supplements to Wages & Salaries*	3772.75	4058.5	4422.5	4630.8	5036.0	5368.6	5692.8	6034.4	6336.1	6652.9
Non-Farm Proprietors' Income*	2347	2768.3	2630.8	2773.3	3027.8	3271.2	3468.8	3642.2	3824.3	4015.5
Farm Proprietors' Income	57	27.5	-59.8	-23.3	-26.3	41.4	43.0	44.8	46.6	48.5
Dividends, Interest, & Rent*	6178.5	6338.3	6089.3	5834.0	6078.0	6138.8	6264.0	6389.3	6581.0	6778.4
Transfer Payments*	5588.25	6017.8	6477.3	7021.5	7499.0	8026.9	8608.1	9112.5	9635.6	10183.8
Less: Contributions to Social Insurance	2665.75	2811.8	2857.5	2941.0	3079.3	3202.4	3297.2	3446.9	3603.4	3765.7
Residence Adjustment	700.5	726.5	710.3	705.8	755.5	804.6	858.5	901.4	946.5	993.8
Farm Income	141	111.5	46.5	68.5	72.0	76.0	80.1	84.5	89.2	94.1
Annual Growth Rate										
Personal Income*	-	5.8%	2.4%	3.6%	6.0%	5.0%	5.0%	4.5%	4.5%	4.5%
Wage & Salary Disbursements*	-	4.6%	3.2%	3.8%	4.9%	4.0%	4.2%	4.2%	4.2%	4.2%
Supplements to Wages & Salaries*	-	7.6%	9.0%	4.7%	8.8%	6.6%	6.0%	6.0%	5.0%	5.0%
Non-Farm Proprietors' Income*	-	17.9%	-5.0%	5.4%	9.2%	8.0%	6.0%	5.0%	5.0%	5.0%
Farm Proprietors' Income	-	-51.8%	-317.3%	----- N/A - negative base values -----			3.9%	4.2%	4.0%	4.1%
Dividends, Interest, & Rent*	-	2.6%	-3.9%	-4.2%	4.2%	1.0%	2.0%	2.0%	3.0%	3.0%
Transfer Payments*	-	7.7%	7.6%	8.4%	6.8%	7.0%	7.2%	5.9%	5.7%	5.7%
Less: Contributions to Social Insurance	-	5.5%	1.6%	2.9%	4.7%	4.0%	3.0%	4.5%	4.5%	4.5%
Residence Adjustment	-	3.7%	-2.2%	-0.6%	7.0%	6.5%	6.7%	5.0%	5.0%	5.0%
Farm Income	-	-20.9%	-58.3%	47.3%	5.1%	5.5%	5.5%	5.5%	5.5%	5.5%

*CEFC Forecast

**Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - Jan. 2006
Remaining lines extrapolated from the CEFC forecast by the CEFC staff.