

# MAINE STATE LEGISLATURE

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**Report of the  
CONSENSUS ECONOMIC FORECASTING COMMISSION  
February 1, 2007**

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## Summary

The Maine Consensus Economic Forecasting Commission (CEFC) met on January 23, 2007. As required by statute, the CEFC updated its November 2006 economic forecast for Maine. After reviewing the most recent economic data, the commission forecasted slightly stronger growth in both wage and salary employment and personal income, and slightly lower inflation, as measured by the Consumer Price Index.

The CEFC affirmed its forecast for 2006 wage and salary employment growth to be 0.5%, but increased the estimates for 2007 and 2008 to 0.7% and 0.8%, respectively. The adjustments were based, in part, on stronger than expected preliminary employment figures presented by the Maine Department of Labor (MDOL). In addition, the slowdown in the housing sector was noted as being less severe than originally thought. The commission did not change its job growth forecast for 2009 (0.8%), 2010 (0.7%), and 2011 (0.6%).

Based on new data from the federal Bureau of Economic Analysis (BEA), the commission increased its estimate of 2006 personal income growth from 5.2% to 5.6%.

The CEFC also reduced its inflation estimate for all but one year. New BLS data on the prices of goods and services used to measure inflation show that price increases slowed in the second half of 2006. The combination of lower energy costs, higher interest rates, and a cooling housing market reduced price pressures. The inflation forecast for 2006 is 3.2%, with future years staying in the 2.1 to 2.2% range.

Calendar Years	2006	2007	2008	2009	2010	2011
<b>Wage &amp; Salary Employment (Annual % Change)</b>						
CEFC Forecast 11/2006	0.5	0.4	0.6	0.8	0.7	0.6
CEFC Forecast 02/2007	0.5	0.7	0.8	0.8	0.7	0.6
<b>Personal Income (Annual % Change)</b>						
CEFC Forecast 11/2006	5.2	4.3	4.5	4.5	4.3	4.2
CEFC Forecast 02/2007	5.6	4.3	4.5	4.5	4.3	4.2
<b>Inflation (CPI-U Annual % Change)</b>						
CEFC Forecast 11/2006	3.5	2.5	2.2	2.2	2.2	2.2
CEFC Forecast 02/2007	3.2	2.1	2.2	2.1	2.1	2.1

In making these adjustments, the CEFC drew upon information presented by several state agencies. The following sections summarize their reports.

### **Maine Department of Labor**

MDOL's Labor Market Information Services presented preliminary December 2006 employment figures indicating that non-farm jobs and resident employment have both increased since November and are also higher than December 2005. MDOL indicated that, after annual revisions, the annual average non-farm wage and salary employment estimate for 2005 is expected to remain at 611,700 and the 2006 annual average will be revised upward from 613,600 to about 615,000. The 1,400 net job increase was based on updated Quarterly Census of Employment and Wages (QCEW) data for the first three quarters of 2006. Job gains between 2005 and 2006 occurred primarily in the health care, professional and business services, local government, construction, and leisure and hospitality service sectors, offsetting losses in the manufacturing sector.

Employment measured on a place of residence basis showed, an additional 7,600 people with jobs found work in 2006, while 5,900 people entered the labor force. As a result, the preliminary estimated unemployment rate for 2006 fell from the 4.8% average rate in 2005 to 4.6%. For the month of December, the unemployment rate was 4.7%, a level it had held for several months. That is not statistically different from the national rate of 4.5%.

### **Maine Revenue Services**

Maine Revenue Services reported that General Fund revenue is running 0.7% below budget through the first six months of the current fiscal year and 4.3% below budget for the month of December. The primary factor resulting in less than expected revenue is a 38.4%, or \$16.9 million, drop in December's corporate income tax receipts. This decrease is not inline with previous months' receipts and MRS is currently investigating possible reasons for the decrease. MRS also noted that future individual income tax receipts are likely to be above current forecasts because of higher than expected unearned income growth (capital gains, dividends, interest, and rent).

Taxable retail sales in Maine grew 3% in the first eleven months of 2006 compared to the same period in 2005. Restaurant/Lodging and Other Retail stores saw the strongest sales growth, 5% and 8%, respectively. The weakest growth was in the Automotive and Transportation category, where taxable sales actually declined by 2%. This likely reflects a shift in consumer demand toward smaller, more fuel efficient vehicles and the exhaustion of significant sales incentives offered by dealers over the last few years. Building Supply sales grew 3% during the same time period, but the year-to-date average reflects particularly strong growth in the first quarter of 2006. In November 2006, Building Supply sales were 10% lower than November 2005. Despite the shift in spending between sectors, total retail sales are still tracking with the current 3.5% annual growth estimate.

## Maine State Planning Office

The State Planning Office reported that the Maine economy grew moderately in 2006, finding stability despite the potential threats of high energy prices, rising interest rates, and a declining housing market. Oil prices have receded from summer highs, the Federal Reserve stopped raising interest rates mid-year, and to date the effects of the declining housing market have been relatively contained.

However, signs of the national housing slowdown reaching Maine, which emerged in late summer, continued through the fall. The first quarter of 2006 saw record home sales, with existing homes selling at a seasonally adjusted annual rate of 36,400. By the third quarter, sales had dropped 27% from that peak to 26,700. Despite the drop, the Office of Federal Housing Oversight's Home Price Index for Maine still grew 1% between the second and third quarters. However, recent data suggests this may not hold. The median price of single-family homes sold in September-November was 2.5% lower than the same period last year.

Sales of single-family homes were down 14.1% in September-November, compared to the same months last year. In the first eleven months of 2006, the value of residential construction contracts awarded was nearly 15% less than in 2005. Contracts in New England as a whole were down nearly 14% and ranged from a 6% decline in Connecticut to a 23% drop in New Hampshire.

Maine's Coincident Economic Index (CEI), a proxy for Gross State Product (GSP), grew by 1.5% in the first eleven months of 2006 compared to the same period in 2005. That was less than half the national growth rate of 3.2%. However, CEI and GSP can differ from year to year. In 2005, Maine's CEI declined by 0.3% while actual GSP grew by 4.0%.

Inflation slowed somewhat in 2006 but remained above recent historical levels, mainly due to energy prices. The Consumer Price Index (CPI-U) rose 3.2% in 2006, slightly less than 2005's 3.4% increase. The rate of inflation slowed at the end of the year as gas prices eased and the effect of earlier interest rate hikes circulated through the economy. In January, CPI was 4.0% above the year-ago month and the target federal funds rate was 4.25%. The Federal Reserve raised interest rates steadily until reaching 5.25% at the end of June, where it stayed for the rest of the year. In December, CPI growth was just 2.5% above the year-ago month.

The price of oil has recently dropped from the speculative highs of over \$70 per barrel to below \$60. However, it remains well above the average of \$30 per barrel seen in the three years prior to the March 2003 start of the Iraq war. Forecasts from Economy.com indicate that the price of oil should trend downward to below \$50 per barrel by the end of 2008.

## Consensus Forecast

The CEFC made several upward adjustments to its November economic forecast. In making these adjustments, the commission considered new economic data and trends at the national level.

The commission increased its forecast for annual growth in non-farm wage and salary employment based on an improved economic outlook. It increased its 2007 forecast from 0.4% to 0.7%. The rate for 2008 rose from 0.6% to 0.8%. In making the adjustments, the CEFC noted that the Economy.com model, used by the New England Economic Partnership and the State Planning Office, inaccurately assumes the impact of closing the Brunswick Naval Air Station to occur during 2008. However, the Navy has reported a closing date in 2011, with the shut down phased over the period 2009-2011.. Based on this information, the impact of the base closure will be spread over the last three years of the current forecast horizon..

The commissioners also discussed the potential impact of labor force constraints, suggesting that slow population growth will limit the future size of the available workforce. Baby boomers will begin reaching retirement age, 65, in 2010. It was noted that over the relatively short timeframe of the current forecast, population growth is not correlated with the labor force participation rate. In the years after 2011, however, labor force constraints may become an issue.

In the first three quarters of 2006, total personal income grew at an annual percentage rate of 5.4%. Based on this new data, the commission increased its forecast for 2006 personal income growth from 5.2% to 5.6%. It also increased its 2006 forecast for several of the components of personal income. Wage and salary income rose from 4.8% to 5.0%. "Other Labor" income, which includes benefits such as health insurance, rose from 4.5% to 5.2%. The commission left its forecast for 2007 to 2011 unchanged for these components and for total personal income.

The CEFC increased its growth forecast for dividends, interest, and rent by a full percentage point for 2006 through 2009. This was based on data indicating the continued strength of corporate profit and expectations of declining interest rates. Reviewing the different components, the commission noted that growth would mostly occur in dividends. Rents will feel the impact of the cooling housing market. The growth in imputed rent from home ownership should decrease because of the likely decrease in home prices. However, the Commission noted that dividends, interest, and rent are highly volatile data series, meaning they are very difficult to forecast with any precision.

The commission reduced its forecast of Consumer Price Index growth from 3.4% to 3.2% for 2006. The new rate is equal to the preliminary 2006 results reported by the Bureau of Labor Statistics. Forecasts of future inflation were also reduced slightly, based on expectations of lower energy prices and stable inflation.

Maine Consensus Economic Forecasting Commission

January 2007 Forecast

	2001	2002	2003	2004	History 2005	Forecast 2006	2007	2008	2009	2010	2011
<b>CPI-U* (Annual Change)</b>	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.1%	2.2%	2.1%	2.1%	2.1%
<b>Maine Unemployment Rate</b>	3.8%	4.4%	5.0%	4.6%	4.8%	4.6%	5.0%	5.0%	4.8%	4.7%	4.7%
<b>3-Month Treasury Bill Rate**</b>	3.4%	1.6%	1.0%	1.4%	3.1%	4.7%	4.7%	4.6%	4.6%	4.4%	4.4%
<b>10-Year Treasury Note Rate**</b>	5.0%	4.6%	4.0%	4.3%	4.3%	4.8%	4.9%	5.4%	5.6%	5.6%	5.5%
Employment (thousands)											
<b>Maine Wage &amp; Salary Employment*</b>	608.1	606.4	606.7	611.7	611.7	615.0	619.1	623.8	628.5	632.6	636.1
<b>Natural Resources</b>	2.7	2.6	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.6
<b>Construction</b>	29.8	29.4	30.5	30.7	30.5	31.1	31.2	31.2	31.1	31.6	31.8
<b>Manufacturing</b>	74.6	68.0	64.1	63.0	61.4	59.9	59.5	59.1	59.0	58.8	58.5
<b>Trade/Trans./Public Utils.</b>	123.7	123.3	123.2	125.2	125.4	125.4	125.5	125.7	125.9	126.3	126.8
<b>Information</b>	12.1	11.6	11.3	11.2	11.2	11.3	11.5	11.6	11.8	11.9	12.1
<b>Financial Activities</b>	35.1	35.1	35.1	34.9	34.1	34.3	34.7	35.0	35.1	35.4	35.8
<b>Prof. &amp; Business Services</b>	51.8	51.4	50.3	49.6	50.1	51.9	53.3	54.8	55.7	56.5	57.5
<b>Education &amp; Health Services</b>	100.8	104.9	107.3	110.9	112.2	114.1	115.4	116.7	118.9	120.6	121.7
<b>Leisure &amp; Hospitality Services</b>	56.4	57.3	58.4	58.8	59.0	59.1	60.1	61.0	62.1	62.7	63.0
<b>Other Services</b>	19.1	19.8	20.3	20.0	20.0	20.1	20.2	20.4	20.7	20.8	21.0
<b>Government</b>	102.0	103.1	103.7	104.7	105.1	105.1	105.1	105.6	105.5	105.3	105.3
<b>Agricultural Employment</b>	17.7	18.0	17.8	17.1	16.8	17.1	17.1	17.1	17.1	17.1	17.1
Annual Growth Rate											
<b>Maine Wage &amp; Salary Employment*</b>	-	-0.3%	0.0%	0.8%	0.0%	0.5%	0.7%	0.8%	0.8%	0.7%	0.6%
<b>Natural Resources</b>	-	-3.7%	-3.8%	4.0%	3.8%	0.4%	-0.4%	-0.4%	-0.4%	-0.2%	-2.8%
<b>Construction</b>	-	-1.3%	3.7%	0.7%	-0.7%	1.9%	0.4%	0.0%	-0.3%	1.6%	0.6%
<b>Manufacturing</b>	-	-8.8%	-5.7%	-1.7%	-2.5%	-2.4%	-0.8%	-0.6%	-0.2%	-0.3%	-0.5%
<b>Trade/Trans./Public Utils.</b>	-	-0.3%	-0.1%	1.6%	0.2%	0.0%	0.1%	0.2%	0.2%	0.3%	0.4%
<b>Information</b>	-	-4.1%	-2.6%	-0.9%	0.0%	0.9%	1.5%	1.1%	1.7%	0.8%	1.7%
<b>Financial Activities</b>	-	0.0%	0.0%	-0.6%	-2.3%	0.6%	1.2%	0.9%	0.3%	0.9%	1.1%
<b>Prof. &amp; Business Services</b>	-	-0.8%	-2.1%	-1.4%	1.0%	3.6%	2.8%	2.7%	1.6%	1.4%	1.8%
<b>Education &amp; Health Services</b>	-	4.1%	2.3%	3.4%	1.2%	1.7%	1.1%	1.1%	1.9%	1.4%	0.9%
<b>Leisure &amp; Hospitality Services</b>	-	1.6%	1.9%	0.7%	0.3%	0.2%	1.7%	1.5%	1.8%	1.0%	0.5%
<b>Other Services</b>	-	3.7%	2.5%	-1.5%	0.0%	0.5%	0.2%	1.2%	1.2%	0.7%	1.0%
<b>Government</b>	-	1.1%	0.6%	1.0%	0.4%	0.0%	0.0%	0.5%	-0.1%	-0.2%	0.0%
<b>Agricultural Employment</b>	-	1.3%	-1.0%	-4.2%	-1.5%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Seasonally Adjusted (millions)											
<b>Personal Income*</b>	35,107.1	35,998.5	37,588.0	39,313.7	40,713.6	42,994.5	44,859.4	46,886.0	49,013.4	51,121.0	53,291.1
<b>Wage &amp; Salary Disbursements*</b>	17,982.9	18,551.6	19,277.0	20,213.1	20,612.9	21,650.9	22,552.7	23,491.8	24,486.7	25,488.7	26,500.3
<b>Supplements to Wages &amp; Salaries*</b>	4,058.4	4,422.4	4,710.2	5,004.5	5,255.5	5,531.1	5,777.6	6,037.6	6,309.3	6,559.6	6,819.1
<b>Non-Farm Proprietors' Income*</b>	2,768.0	2,630.7	2,704.2	3,031.7	3,239.4	3,385.2	3,537.5	3,696.7	3,863.0	4,029.1	4,202.4
<b>Farm Proprietors' Income</b>	27.3	-35.8	0.9	32.5	29.9	31.2	32.5	33.8	35.2	36.6	38.1
<b>Dividends, Interest, &amp; Rent*</b>	6,338.2	6,089.3	6,048.0	5,796.3	5,772.0	6,149.9	6,517.7	6,911.3	7,329.2	7,696.9	8,085.1
<b>Dividends</b>	1,538.3	1,673.7	1,878.2	1,916.4	1,841.4	1,996.1	2,154.8	2,325.0	2,508.7	2,684.3	2,872.2
<b>Interest</b>	4,078.3	3,797.6	3,623.3	3,352.8	3,543.5	3,766.8	3,975.8	4,198.5	4,431.5	4,622.0	4,820.8
<b>Rent</b>	721.6	618.0	546.5	527.1	387.1	387.1	387.1	387.9	389.0	390.6	392.1
<b>Transfer Payments*</b>	6,017.5	6,477.5	7,033.3	7,486.8	8,155.7	8,754.0	9,200.0	9,600.0	10,120.0	10,600.0	11,073.0
<b>Less Contributions to Social Ins.</b>	2,811.7	2,846.9	2,891.6	3,001.1	3,140.4	3,340.0	3,600.0	3,850.0	4,130.0	4,380.0	4,600.0
<b>Residence Adjustment</b>	726.5	709.6	706.0	749.9	788.6	844.0	890.0	950.0	999.4	1,050.0	1,100.0
<b>Farm Income</b>	111.4	70.7	92.5	127.8	114.7	121.1	126.3	132.1	138.0	144.0	150.0
Annual Growth Rate											
<b>Personal Income*</b>	-	2.5%	4.4%	4.6%	3.6%	5.6%	4.3%	4.5%	4.5%	4.3%	4.2%
<b>Wage &amp; Salary Disbursements*</b>	-	3.2%	3.9%	4.9%	2.0%	5.0%	4.2%	4.2%	4.2%	4.1%	4.0%
<b>Supplements to Wages &amp; Salaries*</b>	-	9.0%	6.5%	6.2%	5.0%	5.2%	4.5%	4.5%	4.5%	4.0%	4.0%
<b>Non-Farm Proprietors' Income*</b>	-	-5.0%	2.8%	12.1%	6.9%	4.5%	4.5%	4.5%	4.5%	4.3%	4.3%
<b>Farm Proprietors' Income</b>	-	NA	NA	3584.5%	-8.0%	4.3%	4.1%	4.1%	4.1%	4.1%	4.1%
<b>Dividends, Interest, &amp; Rent*</b>	-	-3.9%	-0.7%	-4.2%	-0.4%	6.5%	6.0%	6.0%	6.0%	5.0%	5.0%
<b>Dividends</b>	-	8.8%	12.2%	2.0%	-3.9%	8.4%	8.0%	7.9%	7.9%	7.0%	7.0%
<b>Interest</b>	-	-6.9%	-4.6%	-7.5%	5.7%	6.3%	5.6%	5.6%	5.6%	4.3%	4.3%
<b>Rent</b>	-	-14.4%	-11.6%	-3.6%	-26.6%	0.0%	0.0%	0.2%	0.3%	0.4%	0.4%
<b>Transfer Payments*</b>	-	7.6%	8.6%	6.4%	8.9%	7.3%	5.1%	4.3%	5.4%	4.7%	4.5%