

MAINE STATE LEGISLATURE

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

Commissioners

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on Tuesday, October 16, to refine its February 2007 forecast. The CEFC expects annual employment growth of 0.3% to 0.7% over the next five years. Compared to their previous forecast, the commission decreased 2007's expected growth by 0.2 percentage points and 2008 by 0.5 percentage points. The continued weakness in the housing and financial sectors and the increase in energy prices are likely to limit future job growth.

The CEFC increased its estimate of 2007 income growth from 4.3% to 4.9% based on information for the first six months of 2007. Future years were adjusted in correspondence with the revisions to employment growth.

In response to higher than expected price increases in the first eight months of 2007 (2.4% compared to the previous forecast of 2.1%), the CEFC increased the inflation forecast, as measured by the Consumer Price Index (CPI), to 2.8% for 2007 and 2.5% for 2008 to 2011. The table below outlines the forecast's major indicators.

Calendar Years	2007	2008	2009	2010	2011
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 2/2007	0.7	0.8	0.8	0.7	0.6
CEFC Forecast 10/2007	0.5	0.3	0.6	0.7	0.7
Personal Income (Annual Percentage Change)					
CEFC Forecast 2/2007	4.3	4.5	4.5	4.3	4.2
CEFC Forecast 10/2007	4.9	4.4	4.5	4.5	4.6
CPI (Annual Percentage Change)					
CEFC Forecast 2/2007	2.1	2.2	2.1	2.1	2.1
CEFC Forecast 10/2007	2.8	2.5	2.5	2.5	2.5

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

Maine Department of Labor

Labor market indicators show that employment in Maine has grown since last year, although preliminary recent data suggest potential softening in the market. Average residential employment through September rose 2,800 over the first nine months of 2006. Over the same period, non-farm wage and salary jobs increased by 3,100. However, seasonally-adjusted non-farm wage and salary jobs for the third quarter were below the second quarter average. Through the first nine months of 2007, the average unemployment rate was 4.5%. For the same period in 2006, the unemployment rate was also 4.5%. The seasonally-adjusted unemployment rate for both July and August was 4.8%.

The breakdown of non-farm wage and salary jobs by industry reflects the long-term trend of contraction in manufacturing and the short-term impact of a weak housing sector. The fall in home sales and new residential construction reduced employment in construction and financial services. However, an increase in non-building and commercial construction absorbed some of the residential construction jobs.

Education and health services and the professional and business services experienced modest job gains. The Department of Labor noted that these are preliminary figures, subject to revision, but the trends are likely to continue.

The development of a modular construction facility in Brewer by Cianbro Corp. is projected to create 470 jobs by 2009. The commission considered this development in their forecast.

Maine Revenue Services

Retail sales at building supply stores, general merchandise stores, and specialty retail establishments, were weak in August, all well-below August 2006 levels. Restaurant, lodging and automobile sales were up, but overall sales were 2% below August 2006. For the first eight months of 2007, total retail sales have been flat, with gains in restaurant, lodging, and autos countered by losses in building supplies and general merchandise.

General fund revenue for the current fiscal year through September 2007 is 0.8% below projections. Corporate income tax and cigarette and tobacco tax were short by 6.8% and 16%, respectively. Estate tax, which is historically volatile, was also below projections.

Highway fund revenue for the current fiscal year was 6.5% below projections through September 2007. This is largely from fuel taxes being 7.0% below projections in the first three months of the fiscal year.

Growth in individual income tax withholdings for 2007 may be slowing. Compared to the previous year, withholdings grew 3.8% in the first quarter of 2007 and 5.3% in the second (higher growth than in 2006). However, in third quarter, growth slowed to 2.3%, which was a lower year over year increase than in 2006.

Maine State Planning Office

The most recent economic indicators available through the end of September present a similar view of the economy suggested by the labor figures. The year over year retail sales and income indicators are higher than they were in 2006, but more recent data suggests a slowdown in growth. The coincident economic activity index, a broad measure of the state economy that approximates growth in the State Gross Domestic Product, rose 2.0% in the first eight months of 2007. Growth was slower in the last three months than in the first half of the year.

Revised personal income data from the Bureau of Economic Analysis indicate that income is likely to finish 2007 above the January forecast. Total personal income in the first half of 2007 was 4.9% higher than in the first half of 2006. The largest income component, wage and salaries, increased 4.7% over the same time period. Other areas of higher than expected growth included transfer payments and the residence adjustment. Non-farm proprietor's income was slightly lower than the earnings reported in the first half of 2006.

In the first eight months of 2007 inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), increased 2.4%. This is less than the 3.2% average for 2006, but remains above the CEFC's January 2.1% forecast. The recent price increase in oil is not currently reflected in consumer prices.

High energy prices and weakness in the housing and financial services sectors are potential areas of concern for future growth. According to the National Association of Realtors, Maine existing home sales were 13% less in the first six months of 2007 than they were in 2006. The number of residential housing permits also dropped, with 18% fewer permits being issued through August 2007 than in the first eight months of 2006. The price of existing single family homes, as measured by the Freddie Mae Conventional Housing Price Index, increased 3.9% in the first six months of 2007 compared to the same period in 2006.

At the national level an increase in the default rate of sub-prime mortgages is reducing the availability of credit and impacting financial institutions outside the housing market. Maine has a similar percentage of outstanding loans that use the sub-prime market as the national rate with 15% (although lower percentage of adjustable-rate mortgages). Continued problems in the sub-prime market are likely to lead to weakness in the housing sector.

In the energy market, the average monthly price of oil increased from \$54.51 in January 2007 to \$79.91 in September 2007. During the same period, the price of regular gasoline has trended lower. Current retail gasoline prices do not reflect recent oil price increases. The price of home heating oil is starting the winter heating season 20% higher than in October 2006. The Energy Information Agency projects the higher price to be sustained through the winter.

The U.S. foreign exchange rate trended downward over the first eight months of 2007. The Canadian dollar is now trading at parity with the US dollar for the first time since 1976. This is important for Maine because it will encourage Canadian visitors to spend money in Maine while reducing the price of Maine exports compared to other countries in the global market. It may also increase the cost of foreign imports.

Consensus Forecast

The Consensus Economic Forecasting Commission made a number of adjustments to its January 2007 forecast. The commission lowered near-term estimates for wage and salary job growth and increased the estimates for inflation and personal income. The following outlines their discussion while making these changes.

Short- and near-term changes in wage and salary employment are likely to be driven by fallout from the housing sector, both in Maine and nationally. The unwillingness of investors to purchase securities backed by mortgages may limit the credit available for new mortgages. At the same time, falling housing prices may reduce the use of equity credit. However, compared to other areas of the country Maine housing prices might not be considered as significantly overpriced. The draw of Maine for second homes and relocating retirees may sustain housing prices.

Charlie Colgan modeled two forecast scenarios for the New England Economic Partnership. If the housing and financial services sectors recover in early 2008, the forecast shows only a limited short-term impact. The economy would recover jobs in construction and financial sectors (which includes realtors, bankers, mortgage brokers, etc.). If fallout from the housing sector decline is more pervasive, then job growth will be reduced through 2011.

Charles Lawton suggested that any job losses in the financial sector in Maine would likely occur in large blocks rather than gradually, as shown in some models. He added that without advance, inside knowledge, it would be impossible to predict whether that will happen and to incorporate it into the forecast.

The commission reduced its January wage and salary employment growth forecast in 2007, 2008 and 2009 to 0.5%, 0.3% and 0.6% respectively and adjusted it to 0.7% for 2010 and 2011.

Wages and salary income, and transfer payments, exceeded the CEFC's forecast in the first half of 2007. With the exception of the Global Insight forecast, all the economic models suggested a downward growth trend in later years. Based on that information, the CEFC increased its forecast for 2007 growth in total personal income from 4.3% to 4.9%. It projected annual growth for 2008 to 2011 to be 4.4% to 4.6%.

The softening labor market will hold down growth in the wage and salary income component. Income tax returns suggested that some of the recent income growth has been driven by bonuses and growth at higher income levels. Income growth at lower levels has been modest. The CEFC increased its forecast for

wage and salary income to 4.3% for 2007, based on actual data for the first half of 2007, and lowered it to 3.7% in 2008. Growth in wages for the 2009 to 2011 was reduced from the 4.2%-4.0% to 3.8%- 3.9%.

Dividend interest and rent, and transfer payments, are two income components that are likely to sustain growth in coming years. Profits by publicly traded companies in the last year have been strong suggesting continued growth in investment income. The aging of the population likely contributes to the increase in transfer payments, which includes social security payments and Medicare benefits.

High oil prices and a weak dollar increased the inflation forecast. Current retail gasoline prices do not reflect recent price increases in oil. As refiners start to pass the higher prices on to retailers, gasoline prices for consumers and businesses will rise. The extra cost of transportation will also be added to consumer good prices. The depreciation of the U.S. dollar is contributing to the increase in oil prices. Furthermore, if the dollar continues to depreciate, foreign companies will be under pressure to increase prices. So far, most foreign companies have chosen to maintain U.S. market share rather than increase prices. The higher energy prices and a weak dollar added an extra 0.3 points to the January 2007 forecast. In 2007 the Consumer Price Index is forecast to end the year up 2.8% and continue to increase 2.5% through 2011.

Maine Consensus Economic Forecasting Commission
November 2007 Forecast

	History					Forecast				
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CPI-U* (Annual Change)	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	2.5%	2.5%	2.5%	2.5%
Maine Unemployment Rate**	4.4%	5.0%	4.6%	4.8%	4.6%	4.6%	4.8%	4.7%	4.6%	4.5%
3-Month Treasury Bill Rate**	1.6%	1.0%	1.4%	3.1%	4.7%	4.7%	4.6%	4.7%	4.7%	4.4%
10-Year Treasury Note Rate**	4.6%	4.0%	4.3%	4.3%	4.8%	4.7%	5.3%	5.7%	5.7%	5.5%
Maine Wage & Salary Employment*	606.5	606.8	611.7	611.7	614.7	618.0	619.9	623.7	628.0	632.3
Natural Resources	2.6	2.5	2.6	2.7	2.8	2.7	2.7	2.7	2.7	2.7
Construction	29.4	30.5	30.8	30.7	31.4	31.6	30.8	30.8	31.2	31.5
Manufacturing	68.0	64.1	63.0	61.4	60.2	59.4	59.1	58.9	58.5	58.2
Trade/Trans./Public Utils.	123.2	123.2	125.2	125.2	125.5	125.4	125.1	125.4	126.1	126.8
Information	11.6	11.4	11.2	11.2	11.2	11.4	11.7	11.8	11.9	12.0
Financial Activities	35.1	35.1	34.9	34.2	33.6	33.9	33.9	34.4	35.0	35.5
Prof. & Business Services	51.4	50.3	49.6	50.3	51.7	53.2	54.0	54.9	55.4	56.5
Education & Health Services	104.9	107.3	110.9	112.2	114.0	115.4	116.4	116.9	118.5	120.0
Leisure & Hospitality Services	57.3	58.5	58.8	59.2	59.7	60.0	60.5	61.7	62.6	63.1
Other Services	19.8	20.3	20.0	20.0	19.6	19.9	20.3	20.6	20.7	21.0
Government	103.1	103.7	104.7	104.8	105.0	105.1	105.4	105.5	105.4	105.3
Agricultural Employment	18.0	17.8	17.1	16.8	17.1	17.1	17.1	17.1	17.1	17.1
Maine Wage & Salary Employment*	-0.3%	0.0%	0.8%	0.0%	0.5%	0.5%	0.3%	0.6%	0.7%	0.7%
Natural Resources	-3.7%	-3.8%	4.0%	3.8%	3.7%	-2.0%	-0.9%	-0.4%	0.0%	-0.2%
Construction	-1.3%	3.7%	1.0%	-0.3%	2.3%	0.6%	-2.5%	0.0%	1.3%	0.8%
Manufacturing	-8.8%	-5.7%	-1.7%	-2.5%	-2.0%	-1.3%	-0.5%	-0.3%	-0.7%	-0.6%
Trade/Trans./Public Utils.	-0.4%	0.0%	1.6%	0.0%	0.2%	-0.1%	-0.2%	0.2%	0.6%	0.5%
Information	-4.1%	-1.7%	-1.8%	0.0%	0.0%	1.8%	2.6%	0.9%	0.8%	0.4%
Financial Activities	0.0%	0.0%	-0.6%	-2.0%	-1.8%	0.9%	0.0%	1.5%	1.7%	1.4%
Prof. & Business Services	-0.8%	-2.1%	-1.4%	1.4%	2.8%	2.9%	1.5%	1.7%	0.9%	2.0%
Education & Health Services	4.1%	2.3%	3.4%	1.2%	1.6%	1.2%	0.9%	0.4%	1.4%	1.2%
Leisure & Hospitality Services	1.6%	2.1%	0.5%	0.7%	0.8%	0.5%	0.8%	2.0%	1.5%	0.8%
Other Services	3.7%	2.5%	-1.5%	0.0%	-2.0%	1.5%	2.0%	1.5%	0.2%	1.7%
Government	1.1%	0.6%	1.0%	0.1%	0.2%	0.1%	0.3%	0.0%	0.0%	-0.1%
Agricultural Employment	1.3%	-1.0%	-4.2%	-1.5%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Income*	35998.8	37532.8	39510.5	40634.0	42199.5	44267.3	46204.0	48271.6	50443.8	52739.0
Wage & Salary Disbursements*	18551.8	19277.0	20211.3	20608.5	21427.3	22337.9	23164.4	24062.0	25006.5	25966.7
Supplements to Wages & Salaries*	4422.5	4711.3	4902.5	5107.0	5286.3	5448.0	5591.5	5777.9	5997.4	6246.3
Non-Farm Proprietors' Income*	2630.8	2704.0	3092.3	3271.5	3395.5	3477.0	3639.3	3833.3	4032.7	4234.3
Farm Proprietors' Income	-36.0	-0.3	14.8	5.0	24.5	25.5	26.5	27.5	28.6	29.7
Dividends, Interest, & Rent*	6089.3	6048.0	6144.8	5928.8	6295.0	6745.7	7258.4	7788.3	8317.9	8839.1
Dividends	1673.7	1878.2	2233.3	2009.1	2200.7	2420.8	2660.4	2907.8	3157.9	3385.3
Interest	3797.6	3623.3	3416.6	3676.3	3895.1	4144.4	4426.2	4709.5	4987.3	5281.6
Rent	618.0	546.5	494.9	243.5	199.1	180.2	171.2	171.2	172.1	172.9
Transfer Payments*	6477.5	7030.8	7488.3	8132.5	8294.0	8799.9	9195.9	9582.2	9984.6	10413.9
Less: Contributions to Social Ins.	2846.5	2936.8	3083.3	3184.0	3334.8	3452.8	3577.6	3735.3	3895.4	4072.7
Residence Adjustment	709.8	698.3	740.0	764.8	812.3	864.2	905.7	948.3	992.9	1039.5
Farm Income	71.0	91.5	105.8	80.5	103.5	107.9	111.9	116.2	120.8	125.4
Personal Income*	2.5%	4.3%	5.3%	2.8%	3.9%	4.9%	4.4%	4.5%	4.5%	4.6%
Wage & Salary Disbursements*	3.2%	3.9%	4.8%	2.0%	4.0%	4.3%	3.7%	3.9%	3.9%	3.8%
Supplements to Wages & Salaries*	9.0%	6.5%	4.1%	4.2%	3.5%	3.1%	2.6%	3.3%	3.8%	4.2%
Non-Farm Proprietors' Income*	-5.0%	2.8%	14.4%	5.8%	3.8%	2.4%	4.7%	5.3%	5.2%	5.0%
Farm Proprietors' Income	N/A	N/A	N/A	-66.1%	390.0%	4.3%	3.7%	3.9%	3.9%	3.8%
Dividends, Interest, & Rent*	-3.9%	-0.7%	1.6%	-3.5%	6.5%	7.2%	7.6%	7.3%	6.8%	6.3%
Dividends	8.8%	12.2%	18.9%	-10.0%	9.5%	10.0%	9.9%	9.3%	8.6%	7.2%
Interest	-6.9%	-4.6%	-5.7%	7.6%	6.0%	6.4%	6.8%	6.4%	5.9%	5.9%
Rent	-14.4%	-11.6%	-9.4%	-50.8%	-18.2%	-9.5%	-5.0%	0.0%	0.5%	0.5%
Transfer Payments*	7.6%	8.5%	6.5%	8.6%	2.0%	6.1%	4.5%	4.2%	4.2%	4.3%
Less: Contributions to Social Ins.	1.2%	3.2%	5.0%	3.3%	4.7%	3.5%	3.6%	4.4%	4.3%	4.5%
Residence Adjustment	-2.3%	-1.6%	6.0%	3.3%	6.2%	6.4%	4.8%	4.7%	4.7%	4.7%
Farm Income	-36.3%	28.9%	15.6%	-23.9%	28.6%	4.3%	3.7%	3.9%	3.9%	3.8%

*CEFC Forecast

**Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - September 2007

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