

MAINE STATE LEGISLATURE

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**Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
February 1, 2008**

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on January 22, 2008 to update its November 2007 forecast. The new forecast projects a slowdown in national and state economic activity in 2008. Economic data released since the commission's last meeting in October indicate a weaker labor market and a slowdown in retail sales. The weaker national economy, which is slowing because of high oil prices, a decline in residential construction, and the impact of subprime mortgage losses on the financial markets, is the primary reason for the current reductions in the CEFC's Maine economic forecast.

At the time of the commission's meeting, Congress and the President were negotiating a federal response to the weakening of the national economy. Knowing the general size and scope of the proposed economic stimulus package, the CEFC considered its potential impact in Maine when developing this forecast. Just prior to the commission's meeting the Federal Reserve announced it would lower the discount rate by 0.75%. The commission also incorporated that information into its forecast.

The commission lowered its two primary growth indicators for 2008 and projected a slow recovery in 2009. Facing the national economic slowdown, the CEFC projects no net increase in Maine nonfarm wage and salary employment in 2008 and 0.6% annual growth in 2009, staying in the 0.6 to 0.7% range through 2011. The reduced job growth will lead to lower wage and salary growth. The commission lowered its personal income growth forecast for 2008 from 4.4% to 3.5%. The commission slightly increased its forecast for the Consumer Price Index, a measure of household inflation, to 2.3% in 2008, returning to 2.1%-2.2% in later years as the national economy stabilizes.

The table below outlines the forecast's major indicators.

Calendar Years	2007	2008	2009	2010	2011
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 10/2007	0.5	0.3	0.6	0.7	0.7
CEFC Forecast 1/2008	0.5	0.0	0.6	0.7	0.6
Personal Income (Annual Percentage Change)					
CEFC Forecast 10/2007	4.9	4.4	4.5	4.5	4.6
CEFC Forecast 1/2008	5.1	3.5	4.1	4.2	4.1
CPI (Annual Percentage Change)					
CEFC Forecast 10/2007	2.8	2.5	2.5	2.5	2.5
CEFC Forecast 1/2008	2.8	2.3	2.1	2.1	2.2

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

Maine Department of Labor

The most recent labor market reports, reflecting employment conditions through December 2007, show a slight increase in nonfarm wage and salary jobs coupled with a slight decrease in resident employment, resulting in a slight increase in unemployment. In December 2007, nonfarm wage and salary employment in Maine, representing the number of people on the payrolls of Maine companies, rose by 1,000 compared to November 2007. This increase was driven by above average job growth in accommodation and food services as the winter tourism sector responded to early snowfall. Residential employment, which is a

broader measure that includes nonfarm wage and salary employees, agricultural workers, the self employed, and Maine residents employed by out-of-state companies, fell 1,700 over the same time period. The decrease may reflect in part the decline in housing construction reducing demand for self-employed contractors. Overall, the unemployment rate rose from 4.9% in November to 5.1% in December. Both months exceeded December 2006's unemployment rate of 4.6%.

Changes in employment by industry for December 2007 also reflect long-term trends. Employment in manufacturing fell by 1,500 in December 2007 compared to December 2006. The slowdown in housing continues to impact job growth in construction and financial services. These sectors were down 1,000 and 200, respectively, from December 2006. These losses were offset by continued growth in education and health services, which increased 3,100. The preliminary 2007 numbers show net job growth of 0.5% for the year. Nationally, nonfarm wage and salary jobs grew 1.3% in 2007.

Maine Revenue Services

The latest taxable retail sales figures indicate an increase in sales in November with early reports for December suggesting weaker sales. Total sales increased 4% in November over the same period last year. General Merchandise and Other Retail stores reported strong year over year growth of 7% and 6%, respectively. November's early, pre-holiday price reductions and December's snowstorms were cited as potential reasons for the weakening of sales between November and December.

General Fund revenues through the first six months of the 2008 fiscal year are currently 0.6% below budget. Reported tax revenue for the month of December was 4.6% below budget. Multiple revenue sources are coming in below earlier estimates. Sales and use tax (-2.1%), individual income tax (-2.0%), corporate income tax (-4.7%), and cigarette and tobacco taxes (-9.5%) were all below budget in December. Cigarette and tobacco tax revenues continue to fall below historical levels, with year to date revenue down 7.3% compared to last year.

Maine State Planning Office

The latest economic indicators show that Maine's economy expanded slowly through the end of 2007. The Maine Coincident Economic Activity Index, an economic indicator that is a proxy for overall growth in Maine's Gross Domestic Product, increased 1.8% in November 2007 compared to November 2006. For the same month, the combined indicator for all fifty states increased 2.6%. Although the rest of the nation grew at a higher rate than Maine during November, over the last eleven months Maine's growth has increased as the national growth rate has decreased.

In the first three quarters of 2007, personal income increased 5.1% over the first three quarters of 2006. The strongest growth was from Transfer Payments, which increased 8.2%, and Dividends, Interest, and Rent, which grew 5.9% through the third quarter of 2007. Wage and Salary income, which makes up just over half of total personal income, increased 4.5% during the same time period.

Inflation, as measured by the Consumer Price Index, ended 2007 up 2.8% over the 2006 annual average. In December the index increased 4.1% over December 2006, reflecting large price increases for food and energy. The core inflation index, which excludes the more volatile prices for food and energy, increased 2.4% over December of last year.

The decline in housing sales and construction and the persistence of high energy prices are likely to limit near-term economic growth. The housing market continues to slow down, with existing Maine home sales dropping 13.5% in the 4th quarter over 2006 and the number of housing permits for new residential construction issued in November down 46% from November 2006. Despite the reduced sales, the median sale price of existing single family homes has dropped only 1.3% below the peak median price of \$249,100 reported in the third quarter of 2005. The slowdown will have a direct impact on employment in construction and financial services, which will have a secondary impact in other areas of the economy.

Since the CEFC last met, the price of oil increased 22%, reaching over \$90 per barrel by the end of December. The increase in oil is keeping the price of home heating oil above historical averages. The statewide average price for residential heating oil was \$3.36 per gallon in the first week of January, or 47% above the year ago price. High energy prices absorb disposable income, decreasing spending in other areas of the economy. Price forecasts from Economy.com and the Energy Information Agency indicate a gradual reduction in prices, but returning to levels above historical prices.

Consensus Forecast

In light of the latest economic data and the resulting changes in the forecast models, the CEFC reduced its economic forecast for 2008 and following years. This round of adjustments primarily reflects lower expectations for national growth and sustained high energy prices. In considering these changes, the CEFC referred to economic forecasts from Global Insight, Economy.com, the New England Economic Partnership, and Colby College, all of which projected lower growth than previously forecast. The CEFC also adjusted its 2007 forecast based on more recent economic data.

The commission reduced its wage and salary employment growth forecast from 0.3% in 2008 to 0.0%, with growth in later years returning to 0.6%-0.7%. The extent to which the housing sector reduces overall employment growth will depend on how much the current inventory of houses exceeds demand. The demand for secondary and retirement housing from out-of-state residents is likely to be sustained by the lower prices of Maine compared to other states, particularly those in southern New England. At the same time, lenders may tighten credit standards and reduce the availability of mortgages for potential homebuyers. The construction and financial services sectors will continue to be weak until the current supply of housing is absorbed. The commission also discussed the housing market's effect on consumer spending. In recent years, rising home values have increased household equity and spurred consumer spending. A decline in home prices will likely reduce or reverse this trend.

Slower employment growth will reduce gains in employment earnings and reduce pressure for wage and salary increases. The commission lowered its personal income growth forecast to 3.5% in 2008 and 4.1% to 4.2% in 2009 through 2011. The Dividend, Interest and Rent component of personal income is also expected to grow slower than previously forecast as corporate profits decline with reduced national economic activity.

The commission increased its inflation forecast for 2007 to 2.8%, reflecting further increases in energy prices captured by the Consumer Price Index. In 2008, CPI inflation is expected to decline as slower economic growth leads to less household consumption, keeping price increases down. In later years, CPI inflation should decline in tandem with energy price projections.

Maine Consensus Economic Forecasting Commission

February 2008 Forecast

	History				Forecast				
	2003	2004	2005	2006	2007	2008	2009	2010	2011
CPI-U* (Annual Change)	2.3%	2.7%	3.4%	3.2%	2.8%	2.3%	2.1%	2.1%	2.2%
Maine Unemployment Rate**	5.0%	4.6%	4.8%	4.6%	4.6%	5.1%	4.9%	4.7%	4.6%
3-Month Treasury Bill Rate**	1.0%	1.4%	3.1%	4.7%	4.4%	3.4%	4.2%	4.6%	4.3%
10-Year Treasury Note Rate**	4.0%	4.3%	4.3%	4.8%	4.9%	5.4%	5.6%	5.6%	5.5%
Employment (thousands)									
Maine Wage & Salary Employment*	606.7	611.7	611.8	614.7	617.8	617.9	621.3	625.7	629.6
Natural Resources	2.5	2.6	2.7	2.8	2.8	2.7	2.7	2.7	2.7
Construction	30.5	30.8	30.7	31.4	31.3	30.1	30.6	30.7	30.9
Manufacturing	64.1	63.0	61.4	60.2	59.4	58.9	58.7	58.5	58.3
Trade/Trans./Public Utils.	123.2	125.2	125.2	125.5	126.5	126.3	126.2	126.8	126.9
Information	11.4	11.2	11.2	11.2	11.3	11.3	11.4	11.6	11.6
Financial Activities	35.1	34.9	34.2	33.6	33.2	33.3	33.4	33.7	34.0
Prof. & Business Services	50.3	49.6	50.3	51.7	52.8	53.3	54.6	55.7	56.9
Education & Health Services	107.3	110.9	112.2	114.0	116.3	118.1	120.1	122.3	124.3
Leisure & Hospitality Services	58.4	58.8	59.2	59.7	60.0	60.2	60.8	61.6	62.8
Other Services	20.3	20.0	20.0	19.6	19.4	19.5	19.7	19.8	19.9
Government	103.7	104.7	104.8	105.0	104.9	104.0	103.2	102.2	101.2
Agricultural Employment	17.8	17.1	16.8	17.1	17.1	17.1	17.1	17.1	17.1
Annual Growth Rate									
Maine Wage & Salary Employment*	0.0%	0.8%	0.0%	0.5%	0.5%	0.0%	0.6%	0.7%	0.6%
Natural Resources	-3.8%	2.6%	3.8%	3.4%	-1.0%	-0.8%	-0.6%	-0.4%	-0.4%
Construction	3.7%	0.9%	-0.4%	2.4%	-0.3%	-3.8%	1.6%	0.5%	0.4%
Manufacturing	-5.7%	-1.7%	-2.6%	-1.9%	-1.3%	-0.9%	-0.3%	-0.2%	-0.4%
Trade/Trans./Public Utils.	-0.1%	1.7%	0.0%	0.2%	0.8%	-0.1%	-0.1%	0.5%	0.1%
Information	-2.6%	-1.2%	-0.5%	0.4%	1.2%	0.0%	0.7%	1.3%	0.7%
Financial Activities	0.0%	-0.7%	-2.1%	-1.6%	-1.3%	0.4%	0.3%	0.8%	0.9%
Prof. & Business Services	-2.1%	-1.5%	1.5%	2.8%	2.1%	1.0%	2.4%	2.2%	2.0%
Education & Health Services	2.3%	3.4%	1.2%	1.6%	2.0%	1.6%	1.6%	1.8%	1.7%
Leisure & Hospitality Services	1.9%	0.7%	0.7%	0.8%	0.5%	0.4%	0.9%	1.3%	2.0%
Other Services	2.5%	-1.5%	0.0%	-2.0%	-1.1%	0.6%	0.8%	0.7%	0.5%
Government	0.6%	0.9%	0.0%	0.2%	-0.1%	-0.9%	-0.7%	-1.0%	-0.9%
Agricultural Employment	-1.0%	-4.2%	-1.5%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Seasonally Adjusted (millions)									
Personal Income*	37532.8	39510.5	40634.0	42199.5	44368.6	45906.1	47801.1	49792.1	51848.1
Wage & Salary Disbursements*	19277.0	20211.3	20608.5	21427.3	22412.9	23117.6	23992.9	24914.0	25841.7
Supplements to Wages & Salaries*	4711.3	4902.5	5107.0	5286.3	5468.6	5620.1	5800.8	6026.4	6271.7
Non-Farm Proprietors' Income*	2704.0	3092.3	3271.5	3395.5	3463.4	3591.6	3749.3	3912.8	4073.9
Farm Proprietors' Income	-0.3	14.8	5.0	24.5	25.6	26.4	27.4	28.5	29.5
Dividends, Interest, & Rent*	6048.0	6144.8	5928.8	6295.0	6729.4	7108.9	7551.7	8010.0	8455.4
Dividends	1878.2	1916.4	1841.4	1996.1	2179.7	2262.8	2376.8	2490.9	2596.8
Interest	3623.3	3352.8	3543.5	3766.8	4162.3	4457.8	4783.3	5127.7	5466.1
Rent	546.5	527.1	387.1	387.1	387.9	388.6	389.8	391.4	392.9
Transfer Payments*	7033.3	7486.8	8155.7	8294.0	8949.2	9226.7	9590.5	9964.5	10403.0
Less: Contributions to Social Ins.	2936.8	3083.3	3184.0	3334.8	3463.3	3603.3	3762.4	3933.8	4108.0
Residence Adjustment	698.3	740.0	764.8	812.3	856.9	898.9	932.2	949.3	975.9
Farm Income	91.5	105.8	80.5	103.5	108.3	111.7	115.9	120.3	124.8
Annual Growth Rate									
Personal Income*	4.4%	5.3%	2.8%	3.9%	5.1%	3.5%	4.1%	4.2%	4.1%
Wage & Salary Disbursements*	3.9%	4.8%	2.0%	4.0%	4.6%	3.1%	3.8%	3.8%	3.7%
Supplements to Wages & Salaries*	6.5%	4.1%	4.2%	3.5%	3.5%	2.8%	3.2%	3.9%	4.1%
Non-Farm Proprietors' Income*	2.8%	14.4%	5.8%	3.8%	2.0%	3.7%	4.4%	4.4%	4.1%
Farm Proprietors' Income	NA	NA	-66.1%	390.0%	4.6%	3.1%	3.8%	3.8%	3.7%
Dividends, Interest, & Rent*	-0.7%	1.6%	-3.5%	6.2%	6.9%	5.6%	6.2%	6.1%	5.6%
Dividends	12.2%	2.0%	-3.9%	8.4%	9.5%	4.8%	6.0%	5.8%	5.3%
Interest	-4.6%	-7.5%	5.7%	6.3%	10.2%	6.6%	7.0%	6.6%	6.2%
Rent	-11.6%	-3.5%	-26.6%	0.0%	0.2%	0.2%	0.3%	0.4%	0.4%
Transfer Payments*	8.6%	6.4%	8.9%	1.7%	7.9%	3.1%	3.9%	3.9%	4.4%
Less: Contributions to Social Ins.	1.6%	5.0%	3.3%	4.7%	3.9%	4.0%	4.4%	4.6%	4.4%
Residence Adjustment	-0.5%	6.0%	3.3%	6.2%	5.5%	4.9%	3.7%	1.8%	2.8%
Farm Income	30.9%	15.6%	-23.9%	28.6%	4.6%	3.1%	3.8%	3.8%	3.7%

*CEFC Forecast

**Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - December 2007
 Remaining lines derived from the CEFC forecast by CEFC staff and reviewed by the CEFC.