

# MAINE STATE LEGISLATURE

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**Report of the  
CONSENSUS ECONOMIC FORECASTING COMMISSION  
April 1, 2009**

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## Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on March 31, 2009 to revise its November 2008 forecast. The Commission delayed its normal spring meeting time in order to have the most recent employment data for Maine available at the time of the meeting. This report provides a summary of the Commission's findings.

The spring forecast reflects the sharp decline in national and state economic activity that began in the fall of 2008. The revised forecast estimates that this decline will result in continued employment losses through 2009 and the beginning of 2010, with a recovery beginning in late 2010. Personal income will continue to grow in 2009 and 2010 but at significantly diminished rates. Sharp declines in employment will result in reductions in total wages and salaries paid in Maine on a year over year basis in both 2009 and 2010.

The national and state economic outlook has continued to worsen since the CEFC met in October. Although oil prices fell from their mid-2008 peak, the housing and credit markets have continued to decline. Significant anxiety among consumers and business owners along with tight credit conditions have caused steep drops in consumption, which has resulted in drops in business activity and U.S. gross output. While funds from the American Recovery and Reinvestment Act of 2009 have begun entering the economy, these majority of these funds will not begin to affect the economy until later in 2009, and then will only ameliorate the decline in economic activity.

The commission is projecting continued losses in Maine non-farm wage and salary employment in 2009 and 2010 (-3.8% and -1.6% respectively, on an annual average year over year basis), followed by a recovery period starting in late 2010. The forecast for personal income in 2009 through 2012 has been reduced as a result of the weak job market. The commission decreased its forecast for the Consumer Price Index (CPI), a measure of household inflation, reflecting the significant drop in energy prices that followed the 2008 peak.

The table below provides the forecast's major indicators.

<b>Calendar Years</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Wage &amp; Salary Employment (Annual Percentage Change)</b>						
<b>CEFC Forecast 11/2008</b>	-0.2	-0.7	0.4	1.0	0.8	0.7
<b>CEFC Forecast 4/2009</b>	-0.3	-3.8	-1.6	1.4	2.2	2.0
<b>Personal Income (Annual Percentage Change)</b>						
<b>CEFC Forecast 11/2008</b>	3.7	2.6	3.9	4.0	4.3	4.3
<b>CEFC Forecast 4/2009</b>	4.2	1.0	1.2	2.8	4.0	4.7
<b>CPI (Annual Percentage Change)</b>						
<b>CEFC Forecast 11/2008</b>	4.4	2.5	2.5	2.2	2.2	2.2
<b>CEFC Forecast 4/2009</b>	3.8	-1.4	1.7	2.3	2.1	2.0

In making these adjustments, the CEFC drew upon information presented by several state agencies, including the Maine Department of Labor, Maine Revenue Services, and the Maine State Planning Office. The following sections summarize their reports.

### **Maine Department of Labor**

The most recent labor market reports, reflecting employment conditions through February 2009, show a continued decline in both resident and nonfarm wage and salary employment since their peak at the beginning of 2008, resulting in a sharp increase in the unemployment rate since October. These trends are consistent with observations from the national labor market. The current unemployment rate in Maine, 8.0%, is the highest since May 1991. The number of nonfarm wage and salary jobs in February 2009 is 15,500 less than in February 2008 (seasonally adjusted).

Beginning in June 2008, the number of initial claims for unemployment insurance (4-week moving average) climbed above comparable rates observed in each of the past 3 years, and is now significantly higher. Through 2008, continuing claims also ran above averages seen in recent years, and the beginning of 2009 has continued to climb. The average duration of regular unemployment claims has also increased over the past year, from 14.2 weeks in February 2008 to 17.8 weeks in February 2009.

In both Maine and the U.S., the only job gains over the past year have been in education and health services. Job losses have occurred in trade, transportation, and utilities; manufacturing; construction; leisure and hospitality services; government; financial activities; professional and business services; and information sectors.

### **Maine Revenue Services**

Declines in Maine revenues began in November 2008, coincident with declines in other indicators such as employment. Since November, taxable retail sales have weakened considerably from all sources. For January 2009 compared to January 2008, taxable sales were down 22.6% for building supplies, 8.9% for lodging, 7.2% for general merchandise, and 1.2% for restaurants. Business operating sales have also declined, down 15.3% in January and 14% for the three months ending in January (year over year). Auto sales are down 13% year over year.

General Fund revenues are about \$16 million under budget for the first half of the fiscal year (-1% for July through December). February revenues were under by about \$20.5 million (15%). March revenues from the sales and use tax are likely to be around \$5 million under budget. Withholding on individual income taxes has been declining since November 2008, and the November to March period is down 3.4% compared to the same period last year. Individual income tax withholdings are close to budget year-to-date, but around 5% below last year. Expectations are that estimated payments for 2009 may be negligible. Cash receipts for cigarettes and tobacco are down about \$3 million for the year (around 4-5%). Estate taxes are under budget by about \$1.7 million for the month, but about \$600,000 over for the year. Overall, revenues are in decent shape heading into April 15.

## **Maine State Planning Office**

The latest economic indicators show that the national and state economic outlook has worsened considerably since the CEFC met in October. The Maine Coincident Economic Activity Index, a proxy for State GDP, decreased 6.3% in January 2009 over January 2008. Maine's year-over-year change has been flat or negative since April 2008. Nationally, for the past 3 months, the indexes have decreased for 48 states (including Maine).

Total personal income grew by 4.2% in 2008 compared to the previous year. Wage and salary income grew by 3.6%.

The Consumer Price Index was 0.2% higher in February 2009 than a year ago. Core inflation, which excludes food and energy, was 1.8% higher in February 2009 than a year ago. The annual Consumer Price Index was 3.8% higher in 2008 than the previous year, driven mostly by the mid-2008 spike in fuel prices.

The University of Michigan Consumer Sentiment Survey, a monthly survey that tracks consumer confidence in the economy, dropped 20% from September 2008 to February 2009.

The price of oil has fallen to less than \$60/barrel, less than half its 2008 peak of nearly \$124/barrel. Prices continue to decline, with West Texas Intermediate currently trading around \$52 (as of 3/19/09).

The price of heating oil has also fallen dramatically since mid-2008, coming in at over \$2.06 per gallon as of March 16, 2009. Heating oil prices in February and March of 2009 are below prices for those same months in 2007.

Existing home sales continue to fall, down 14% in Maine in the last quarter of 2008 compared to the same period last year. Building permits for single family homes also continue to trend downwards, down 42.5% in January 2009 compared to January 2008, on a seasonally adjusted basis. Since May 2006, 32 of 33 months have seen negative growth year over year. Home prices in the Portland–South Portland–Biddeford metropolitan area were down 11% in the fourth quarter of 2008 compared to the same period last year. This makes 11 consecutive quarters where prices have remained flat (< 1% increase) or decreased.

## **Consensus Forecast**

In light of the latest economic data and the resulting changes in the forecast models, the CEFC made adjustments to its economic forecast. This round of adjustments was based on the sharp decline in national and state economic activity that began in the fall of 2008. In considering these changes, the CEFC referred to economic forecasts from Global Insight and Economy.com, and the preliminary forecast for the New England Economic Partnership (NEEP), all of which projected lower growth than previously forecast.

The CEFC forecasts growth in personal income to be 1.0% and 1.2% in 2009 and 2010, respectively. While personal income stayed high in previous recessions due to inflation, the current lack of inflation is contributing to much slower personal income growth. Wage and salary income growth is projected to be -1.3% in 2009 and -0.4% in 2010 before rising to

2.1% in 2011. The forecasts for personal income from nonfarm proprietors and dividends, interest, and rent have also been reduced.

The total peak to trough employment loss during this recession is expected to be similar in magnitude to that from the 1990-1991 recession, when 35,470 jobs were lost in Maine. However, in percentage terms, the expected job loss will be less than that experienced during the 1990-1991 recession. The recovery period for the current recession is expected to be shorter. While it took 20 quarters for employment to return to pre-recession levels in the 1990s, the recovery period for this recession is expected to be closer to 10 quarters. Employment is expected to return to pre-recession levels by 2013; Maine might be the only state in New England to rebound this quickly.

Employment is expected to continue to drop through the second quarter of 2010. Economic recovery will begin in late 2010, with a return by 2013 to historical trends in employment and income growth. At the time of this forecast, Maine is likely at the halfway point of the downward cycle. The forecast does take into account stimulus funds from the American Recovery and Reinvestment Act of 2009, which are expected to mitigate the effects of the decline in economic activity.

# Maine Consensus Economic Forecasting Commission

April 2009 Forecast

	History				Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>CPI-U* (Annual Change)</b>	3.4%	3.2%	2.8%	3.8%	-1.4%	1.7%	2.3%	2.1%	2.0%
<b>Maine Unemployment Rate**</b>	4.8%	4.6%	4.6%	5.4%	8.4%	9.8%	8.3%	6.0%	4.9%
<b>3-Month Treasury Bill Rate**</b>	3.1%	4.7%	4.4%	1.4%	0.6%	1.0%	2.5%	3.6%	3.7%
<b>10-Year Treasury Note Rate**</b>	4.3%	4.8%	4.6%	3.7%	2.5%	4.3%	4.9%	4.8%	4.8%
Employment, thousands									
<b>Maine Wage &amp; Salary Employment*</b>	611.7	614.7	617.8	615.8	592.4	582.9	591.1	604.1	616.2
<b>Natural Resources</b>	2.7	2.7	2.7	2.5	2.4	2.4	2.4	2.5	2.6
<b>Construction</b>	30.7	31.3	30.8	29.3	27.3	25.8	26.0	27.2	28.7
<b>Manufacturing</b>	61.4	60.0	59.1	58.9	54.2	52.6	52.6	52.6	52.6
<b>Trade/Trans./Public Utils.</b>	125.2	125.7	126.4	124.4	117.0	114.9	116.3	118.2	120.0
<b>Information</b>	11.2	11.2	11.3	10.8	10.2	10.0	10.0	10.2	10.4
<b>Financial Activities</b>	34.2	33.6	33.3	32.6	30.5	30.0	30.6	31.4	32.2
<b>Prof. &amp; Business Services</b>	50.3	52.0	53.6	55.9	54.3	53.3	55.3	57.6	59.4
<b>Education &amp; Health Services</b>	112.2	114.1	116.1	117.6	118.2	118.8	121.8	125.7	129.4
<b>Leisure &amp; Hospitality Services</b>	59.2	59.9	60.1	59.7	57.1	55.7	57.1	59.8	61.8
<b>Other Services</b>	20.0	19.7	19.9	19.9	19.1	18.7	18.9	19.2	19.6
<b>Government</b>	104.8	104.4	104.3	104.1	102.1	100.4	100.0	99.8	99.6
<b>Agricultural Employment</b>	18.8	18.0	17.6	17.8	17.8	17.8	17.8	17.8	17.8
Annual Growth Rate									
<b>Maine Wage &amp; Salary Employment*</b>	0.0%	0.5%	0.5%	-0.3%	-3.8%	-1.6%	1.4%	2.2%	2.0%
<b>Natural Resources</b>	3.8%	1.5%	-1.8%	-7.1%	-4.5%	-0.9%	2.8%	3.7%	1.7%
<b>Construction</b>	-0.3%	2.0%	-1.6%	-5.0%	-6.7%	-5.5%	0.7%	4.5%	5.7%
<b>Manufacturing</b>	-2.6%	-2.2%	-1.6%	-0.3%	-8.0%	-3.0%	0.0%	0.0%	0.0%
<b>Trade/Trans./Public Utils.</b>	0.0%	0.3%	0.6%	-1.5%	-6.0%	-1.8%	1.2%	1.7%	1.5%
<b>Information</b>	-0.4%	0.6%	0.7%	-4.3%	-6.0%	-1.9%	0.7%	1.8%	2.0%
<b>Financial Activities</b>	-2.1%	-1.6%	-1.0%	-2.0%	-6.5%	-1.5%	1.9%	2.6%	2.4%
<b>Prof. &amp; Business Services</b>	1.4%	3.4%	3.0%	4.4%	-3.0%	-1.8%	3.8%	4.2%	3.1%
<b>Education &amp; Health Services</b>	1.2%	1.6%	1.8%	1.4%	0.5%	0.5%	2.5%	3.2%	2.9%
<b>Leisure &amp; Hospitality Services</b>	0.7%	1.1%	0.4%	-0.6%	-4.4%	-2.4%	2.5%	4.7%	3.3%
<b>Other Services</b>	0.0%	-1.4%	0.9%	-0.1%	-3.7%	-2.1%	1.0%	1.5%	1.9%
<b>Government</b>	0.1%	-0.3%	-0.1%	-0.2%	-1.9%	-1.6%	-0.5%	-0.2%	-0.2%
<b>Agricultural Employment</b>	34.3%	-4.3%	-2.2%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Seasonally adjusted, millions									
<b>Personal Income*</b>	40379.6	42410.5	44711.1	46577.9	47043.7	47608.2	48941.3	50898.9	53291.2
<b>Wage &amp; Salary Disbursements*</b>	20555.7	21410.3	22361.7	23156.1	22855.1	22763.7	23241.7	24241.1	25428.9
<b>Supplements to Wages &amp; Salaries*</b>	5103.8	5231.8	5377.3	5573.8	5679.7	5753.5	5908.8	6145.2	6477.0
<b>Non-Farm Proprietors' Income*</b>	3190.3	3329.1	3395.5	3348.4	3274.8	3327.1	3480.2	3647.2	3800.4
<b>Farm Proprietors' Income</b>	15.2	13.2	49.3	78.4	76.1	81.9	87.6	93.3	99.2
<b>Dividends, Interest, &amp; Rent*</b>	5777.6	6632.2	7365.5	7683.9	7607.1	7683.2	7913.7	8151.1	8477.1
<b>Dividends</b>	2033.0	2452.6	2902.8	3081.2	2962.7	2962.7	3031.4	3101.8	3194.8
<b>Interest</b>	3505.4	3941.8	4224.3	4224.3	4228.0	4310.5	4465.6	4626.2	4852.9
<b>Rent</b>	239.2	237.7	238.4	378.5	416.3	410.1	416.5	423.1	429.5
<b>Transfer Payments*</b>	8131.8	8286.8	8772.5	9472.9	10299.0	10778.9	11205.3	11710.1	12339.4
<b>Less: Contributions to Social Ins.</b>	3166.8	3314.4	3464.1	3610.9	3643.3	3682.8	3813.5	4029.2	4300.4
<b>Residence Adjustment</b>	772.0	821.5	853.4	875.4	895.3	902.8	917.4	940.2	969.5
Annual Growth Rate									
<b>Personal Income*</b>	2.3%	5.0%	5.4%	4.2%	1.0%	1.2%	2.8%	4.0%	4.7%
<b>Wage &amp; Salary Disbursements*</b>	1.7%	4.2%	4.4%	3.6%	-1.3%	-0.4%	2.1%	4.3%	4.9%
<b>Supplements to Wages &amp; Salaries*</b>	4.1%	2.5%	2.8%	3.7%	1.9%	1.3%	2.7%	4.0%	5.4%
<b>Non-Farm Proprietors' Income*</b>	3.2%	4.3%	2.0%	-1.4%	-2.2%	1.6%	4.6%	4.8%	4.2%
<b>Farm Proprietors' Income</b>	-24.1%	-13.3%	273.1%	59.0%	-2.9%	7.6%	7.1%	6.4%	6.3%
<b>Dividends, Interest, &amp; Rent*</b>	-6.0%	14.8%	11.1%	4.3%	-1.0%	1.0%	3.0%	3.0%	4.0%
<b>Dividends</b>	-9.0%	20.6%	18.4%	6.1%	-3.8%	0.0%	2.3%	2.3%	3.0%
<b>Interest</b>	2.6%	12.5%	7.2%	0.0%	0.1%	2.0%	3.6%	3.6%	4.9%
<b>Rent</b>	-51.7%	-0.6%	0.3%	58.8%	10.0%	-1.5%	1.6%	1.6%	1.5%
<b>Transfer Payments*</b>	9.0%	1.9%	5.9%	8.0%	8.7%	4.7%	4.0%	4.5%	5.4%
<b>Less: Contributions to Social Ins.</b>	2.7%	4.7%	4.5%	4.2%	0.9%	1.1%	3.5%	5.7%	6.7%
<b>Residence Adjustment</b>	4.3%	6.4%	3.9%	2.6%	2.3%	0.8%	1.6%	2.5%	3.1%

\*CEFC Forecast

\*\*Maine Unemployment Rate and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - March 2009

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