

MAINE STATE LEGISLATURE

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

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 26, 2009 to revise its April 2009 forecast. A follow-up meeting was held November 2, 2009 to provide additional details on the components of personal income. This report provides a summary of the Commission's findings.

The decline in the national and state economic outlook has begun to ease since the CEFC met in March. The U.S. economy grew at 3.5% (preliminary estimate) in the third quarter of 2009, reversing four quarters of decline. Oil prices remain below their mid-2008 peak, and the fall in home sales and prices appear to be leveling off. Consumer sentiment has improved somewhat in recent months. Some states are beginning to see improving economic conditions. However, while there is growing belief that the national recession has now technically ended, economic conditions remain fragile.

The Fall forecast reflects a slowing of the sharp decline in national and state economic activity that began in the fall of 2008. The revised forecast reduces expectations of employment losses compared with the Spring forecast, but continues to expect three more quarters of employment loss. A modest recovery will begin in mid-2010. Sharp declines in wages and salaries and proprietors' income during the first quarter of 2009 will result in a slight decline in personal income over the year, followed by a weak recovery in this measure through 2010. The growth in transfer payments (including unemployment insurance) will offset losses in wage and salary income in 2010, resulting in a small positive change in personal income. Total wages and salaries will continue to decline in early 2010 and begin to grow in the second half of the year, but on a year-over-year basis wages and salaries will decline in 2010.

The commission projects continued losses in Maine non-farm wage and salary employment in 2009 and 2010 (-2.9% and -1.2% respectively, on an annual average year-over-year basis), followed by a recovery period starting in mid-2010. The forecast for personal income growth in 2011 through 2013 has been increased as wage and salary income is expected to begin picking up in 2011. The commission left its forecast largely untouched for the Consumer Price Index (CPI), a measure of household inflation, revising 2009 upwards (from -1.4% to -0.5%) and 2011 downwards (from 2.3% to 2.0%).

The table below provides the forecast's major indicators.

Calendar Years	2009	2010	2011	2012	2013
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 4/2009	-3.8	-1.6	1.4	2.2	2.0
CEFC Forecast 11/2009	-2.9	-1.2	1.2	2.2	2.0
Personal Income (Annual Percentage Change)					
CEFC Forecast 4/2009	1.0	1.2	2.8	4.0	4.7
CEFC Forecast 11/2009	-0.6	1.2	3.2	4.4	4.8
CPI (Annual Percentage Change)					
CEFC Forecast 4/2009	-1.4	1.7	2.3	2.1	2.0
CEFC Forecast 11/2009	-0.5	1.7	2.0	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 State Planning Office

The latest economic indicators show that while the recession may be beginning to ease since the CEFC's last meeting in March, economic conditions remain fragile. The Maine Coincident Economic Activity Index, a proxy for State GDP, decreased 4.9% in August 2009 over August 2008. Maine's year-over-year change has been flat or negative since June 2008. Nationally, for the three month period ending in August, the indexes have decreased for 40 states (including Maine).

Total personal income shrank by 0.4% over the first two quarters of 2009 compared to the first two quarters of 2008. Wage and salary income shrank by 3.7%. On October 16, 2009, the Bureau of Economic Analysis released a comprehensive revision of the personal income figures from 1969 to 2008. In some instances the revised figures are noticeably different from previous estimates used by the CEFC.

The Consumer Price Index was 1.3% lower in September 2009 than a year ago. Core inflation, which excludes food and energy, was 1.5% higher in September 2009 than a year ago. The Consumer Price Index for the first half of 2009 was 0.6% lower than the first half of 2008, mostly because of the decline in fuel prices since the mid-2008 spike.

In September 2009, the University of Michigan Consumer Sentiment Survey, a monthly survey that tracks consumer confidence in the U.S., rose to its highest level since the start of 2008. It has increased 30% since February 2009.

The price of oil rose to \$68/barrel in the third quarter of 2009, around half its 2008 peak of nearly \$124/barrel. Prices continue to inch upwards, with West Texas Intermediate currently trading around \$78 (as of 10/19/09).

The price of heating oil remains below levels from the past two years, coming in at \$2.38 per gallon as of October 16, 2009. Heating oil prices in the late summer of 2009 were well below prices for those same months in 2008.

Existing home sales in Maine rose slightly between the first and second quarters of 2009. Compared to the same period last year, sales were down 5.6% in the second quarter of 2009. Building permits for single family homes were down 22.8% in August 2009 compared to August 2008, on a seasonally adjusted basis. Since May 2006, 38 of 40 months have seen negative growth year over year. In July 2009, housing permits authorized in Maine were 8.3% higher than they were in July 2008, the first time year-over-year growth was positive since July 2007.

Home prices in the Portland–South Portland–Biddeford metropolitan area were down 9% in the second quarter of 2009 compared to the same period last year. This makes 13 consecutive quarters where prices have remained flat (< 1% increase) or decreased.

Maine Department of Labor

Since the beginning of the recession, nonfarm wage and salary employment has declined steeply, with around 27,000 jobs lost through September 2009. Maine has generally been tracking with national figures on over-the-month changes, with the particularly large differences in October 2008 and January 2009 due to the seasonal adjustment process.

Overall, Maine's job loss has not been as bad as the U.S. From the start of the recession through September 2009, nonfarm jobs are down 4.4% in Maine compared with 5.2% nationally. Job losses have been widespread across industry sectors, with education and health care the only

sector to actually add jobs throughout the recession. Growth in health care and social assistance jobs have driven growth in that industry, while educational services jobs have remained relatively flat.

The current recession is starting to look like that from the early 1990s in terms of the rate of job loss 21 months into the recession, and it does not appear that job losses have bottomed out yet.

The unemployment rate has been fairly steady for the past few months, despite job losses, and has remained below the national average in 2009. The unemployment rate for Maine was 8.5% in September 2009. The labor force has been basically flat for about four months now. There has been divergence between the establishment-based nonfarm jobs numbers and the household-based resident employed and unemployed numbers. The household series is not reflecting as dramatic a decline in workforce conditions as the establishment series.

Total wages paid were down significantly in the first half of 2009 and came in below 2007 levels (not adjusted for inflation). The decline in wages paid relative to jobs has been greater than during the early 1990s recession. Job losses were the primary factor contributing to the loss in wages, but a reduction of average hours worked also contributed.

The number of initial claims for unemployment insurance (4-week moving average) remains above comparable rates from the past three years. There have been spikes in claims whenever new unemployment programs were established, and the U.S. Senate is currently considering a bill to extend benefits further. If this bill does not pass, there will soon be a large increase in the number of people exhausting their benefits. The total benefits paid from March 2008 to March 2009 are equivalent to the third largest private payroll in the state during that time.

In the past, online job postings and nonfarm jobs have seemed to be related; job postings have begun to pick up in recent months, especially in the health care sector. Whether these job postings will be a good leading indicator remains to be seen.

This past spring was a very difficult time to estimate nonfarm job numbers because of the large number of furloughs, shutdown days, temporary layoffs, and reduced workweeks. These may have run their course, and the number of businesses reporting mass layoffs has diminished in recent months.

Maine Revenue Services

Declines in Maine revenues have continued through September 2009, with total revenues under budget by 7.2% (around \$42.3 million) fiscal year to date. The sales and use tax and individual income tax have seen the most variance from budget. General Fund revenues for the first quarter of fiscal year 2010 were 9.5% lower than for the first quarter of fiscal year 2009.

Taxable sales were down 6.0% in August 2009 compared to August 2008, and are down 8.0% for the 12 months ending August 2009 compared to the previous 12-month period. The only other month since the 1970s that has seen a decline in taxable sales similar to the current situation was January 1992 compared to January 1991. Total taxable sales have been flat or declining since the third quarter of 2008.

Taxable retail sales are weak in nearly all sectors; for August 2009 compared to August 2008, sales were down 18.1% for building supplies, 9.2% for lodging, 8.4% for general merchandise, and 5.1% for restaurants. Auto sales were actually 8.1% higher in August 2009 compared to August 2008 because of increased sales from the Cash for Clunkers program. Since the program has ended, auto sales for September 2009 are expected to be around 15-20% lower than they were in September 2008 based on sample data.

Over the three months making up the summer tourist season (June, July, and August), taxable sales for restaurants were down 4% compared to the same three months in 2008 and lodging sales were down 11%. The weather in June and July was very rainy, but August sales did not see a bump up, despite improvements in the weather.

The sales and use tax revenues are expected to be about \$7 million under budget for October 2009. Individual income tax revenues have been under budget consistently since their precipitous decline in April. Employer tax withholdings are down around 3% for 2009 year-to-date compared to 2008; the only other time withholdings had this type of year-over-year decline was in the early 1990s, but then it never exceeded 3%. Withholdings for October will be under budget again, and each month's withholdings seems to be further off budget.

Corporate income tax revenues seemed to hold up fairly well, but requests for refunds have increased with the October 15 deadline. Substantial sums will be refunded to large corporations over the next few months. The oil companies in particular had a worse year in 2008 than 2007. The real estate transfer tax has been holding up and is running ahead of budget. Transfers to tax relief programs have been less than anticipated at this stage as well.

Overall, there are not yet any signs of a bottom, and other states are seeing similar situations.

Consensus Forecast

The CEFC adjusted its economic forecast according to the latest economic data and the resulting changes in the forecast models. This round of adjustments reflects a slowing of the sharp decline in 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 as well as the forecast for the New England Economic Partnership (NEEP). The comprehensive revisions to personal income made by the Bureau of Economic Activity were also considered. In several cases, the revised personal income data are substantially different from the personal income data upon which the previous economic forecasts were based.

For the first time, the CEFC forecast of annual growth is based on forecasts of change on a quarterly basis for 2009 and 2010, which were then converted to annual year-over-year growth rates for these two years. This was done to allow the Commission to fully examine the question of when the turning point in the economy would be reached and the extent of the change from recession to recovery. The CEFC also seeks to provide more detailed advice on the issue of the timing of changes in the economy to help the Revenue Forecasting Committee translate an economic forecast based on calendar years into a revenue forecast based on fiscal years. It should be noted that there is a greater amount of uncertainty in forecasts of quarterly rates than annual ones, but the importance of identifying the turning point dictates the use of annualized quarterly growth rates. The Commission continued to consider only annual growth rates for 2011-2013.

The revised forecast reduces expectations of employment declines compared with the Spring forecast, but three more quarters of employment loss are still expected, with a modest recovery beginning in mid-2010. The Commission is projecting continued losses in Maine non-farm wage and salary employment in 2009 and 2010 (-2.9% and -1.2% respectively, on an annual average year-over-year basis), followed by a recovery period starting in mid-2010.

The Commission left its forecast largely untouched for the Consumer Price Index (CPI), a measure of household inflation, revising 2009 upwards (from -1.4% to -0.5%) and 2011 downwards (from 2.3% to 2.0%). In previous recessions, income growth has been held up by inflation, but during this recession incomes have not had this boost. For example, there will not be a cost-of-living adjustment for social security this year because of the decline in the CPI.

The CEFC forecasts a -0.6% decline in personal income in 2009 with 1.2% growth in 2010. Steep declines in wages and salaries and proprietors' income during the first quarter of 2009 will result in a slight decline in personal income over the year, followed by a weak recovery through 2010.

The growth in transfer payments (which includes unemployment insurance and medical benefits) will offset losses in wage and salary income in 2010, resulting in a small positive change in personal income even while wage and salary income falls. The forecast for personal income growth in 2011 through 2013 has been increased as wage and salary income is expected to begin picking up in 2011.

The forecast for wage and salary income growth in 2009 was reduced to -4.7% and is projected to be -0.4% in 2010 before rising to 2.5% growth in 2011. The forecast for other labor income has been reduced for 2009 (from 1.9% to 0.5%) but increased for 2010 and 2011 (to 3.1% and 3.3%, respectively, from 1.3% and 2.7%).

Non-farm proprietors' income dropped substantially in the first half of 2009, causing the CEFC to reduce its 2009 forecast from -2.2% to -6.1%. Dividends, interest, and rent also experienced a decline in the first half of 2009, leading to a projected rate of -3.5% for 2009 (down from -1.0% in the previous CEFC forecast). As interest rates rise and the real estate market recovers, the forecast for dividends, interest, and rent is expected to pick up in 2012 and 2013, with growth rates of 6.0% and 7.0%, respectively, revised upwards from 3.0% and 4.0% in the previous forecast.

Maine Consensus Economic Forecasting Commission

November 2009 Forecast

	Annual History		Annual Forecast				
	2007	2008	2009	2010	2011	2012	2013
CPI-U* (Annual Change)	2.8%	3.8%	-0.5%	1.7%	2.0%	2.1%	2.0%
Maine Unemployment Rate**	4.6%	5.4%	8.4%	9.4%	8.8%	7.0%	5.8%
3-Month Treasury Bill Rate**	4.4%	1.4%	0.2%	0.4%	2.1%	3.8%	4.3%
10-Year Treasury Note Rate**	4.6%	3.7%	3.4%	4.6%	5.4%	5.8%	5.1%
Maine Wage & Salary Employment*	617.8	615.8	597.9	590.7	597.8	611.0	623.2
Natural Resources	2.7	2.5	2.3	2.2	2.2	2.2	2.3
Construction	30.8	29.3	26.0	24.5	24.6	24.9	25.4
Manufacturing	59.1	58.9	53.4	51.8	52.4	52.9	53.0
Trade/Trans./Public Utils.	126.4	124.5	119.0	115.4	115.9	117.6	119.3
Information	11.3	10.8	10.3	10.0	9.9	9.9	9.9
Financial Activities	33.3	32.6	31.7	31.3	31.8	32.4	32.9
Prof. & Business Services	53.6	55.9	55.5	56.0	57.6	60.0	62.0
Education & Health Services	116.1	117.6	119.2	120.5	123.2	127.3	131.7
Leisure & Hospitality Services	60.1	59.7	58.2	58.4	60.3	63.3	65.8
Other Services	19.9	19.9	19.4	18.9	18.9	19.0	19.1
Government	104.3	104.1	102.8	101.6	101.2	101.2	101.7
Agricultural Employment	17.6	17.8	16.5	16.7	16.9	16.9	16.9
Maine Wage & Salary Employment*	0.5%	-0.3%	-2.9%	-1.2%	1.2%	2.2%	2.0%
Natural Resources	-1.8%	-7.1%	-8.5%	-5.4%	1.8%	2.0%	1.0%
Construction	-1.6%	-5.0%	-11.0%	-5.9%	0.2%	1.5%	2.0%
Manufacturing	-1.6%	-0.3%	-9.3%	-2.9%	1.0%	1.0%	0.2%
Trade/Trans./Public Utils.	0.6%	-1.5%	-4.3%	-3.0%	0.4%	1.5%	1.5%
Information	0.7%	-4.3%	-5.2%	-2.9%	-0.2%	0.0%	0.0%
Financial Activities	-1.0%	-2.0%	-2.8%	-1.2%	1.6%	2.0%	1.5%
Prof. & Business Services	3.0%	4.4%	-0.8%	0.9%	2.8%	4.3%	3.3%
Education & Health Services	1.8%	1.4%	1.3%	1.1%	2.2%	3.4%	3.4%
Leisure & Hospitality Services	0.4%	-0.6%	-2.5%	0.3%	3.2%	4.9%	4.0%
Other Services	0.9%	-0.1%	-2.5%	-2.5%	0.1%	0.5%	0.5%
Government	-0.1%	-0.2%	-1.2%	-1.1%	-0.5%	0.0%	0.5%
Agricultural Employment	-2.2%	1.1%	-7.3%	1.2%	1.2%	0.0%	0.0%
	2007	2008	2009	2010	2011	2012	2013
Personal Income*	46,142.1	47,994.1	47,706.2	48,278.6	49,823.6	52,015.8	54,512.6
Wage & Salary Disbursements*	23,039.0	23,783.1	22,665.3	22,574.7	23,139.0	24,041.5	25,219.5
Supplements to Wages & Salaries*	5,641.0	5,817.9	5,846.2	6,027.6	6,226.5	6,475.6	6,812.3
Non-Farm Proprietors' Income*	4,115.6	4,000.5	3,755.9	3,788.0	3,962.2	4,160.3	4,347.5
Farm Proprietors' Income	80.4	66.2	103.4	116.2	123.2	130.1	137.3
Dividends, Interest, & Rent*	7,442.2	7,586.9	7,321.3	7,431.1	7,720.9	8,184.2	8,757.1
Dividends	2,609.9	2,313.1	2,033.5	1,992.6	2,012.5	2,108.6	2,265.9
Interest	4,237.8	4,388.8	4,166.0	4,261.3	4,525.7	4,887.8	5,298.1
Rent	594.5	884.9	1,121.8	1,177.2	1,182.7	1,187.8	1,193.1
Transfer Payments*	8,733.8	9,765.3	11,079.3	11,477.8	11,938.4	12,504.9	12,971.6
Less: Contributions to Social Ins.	3,750.4	3,882.0	3,797.8	3,873.7	4,038.8	4,251.3	4,527.8
Residence Adjustment	840.5	856.3	732.4	737.0	752.0	770.5	795.0
Personal Income*	4.1%	4.0%	-0.6%	1.2%	3.2%	4.4%	4.8%
Wage & Salary Disbursements*	4.3%	3.2%	-4.7%	-0.4%	2.5%	3.9%	4.9%
Supplements to Wages & Salaries*	2.8%	3.1%	0.5%	3.1%	3.3%	4.0%	5.2%
Non-Farm Proprietors' Income*	-2.0%	-2.8%	-6.1%	0.9%	4.6%	5.0%	4.5%
Farm Proprietors' Income	3.2%	-17.7%	56.1%	12.4%	6.0%	5.6%	5.5%
Dividends, Interest, & Rent*	6.9%	1.9%	-3.5%	1.5%	3.9%	6.0%	7.0%
Dividends	10.2%	-11.4%	-12.1%	-2.0%	1.0%	4.8%	7.5%
Interest	6.6%	3.6%	-5.1%	2.3%	6.2%	8.0%	8.4%
Rent	-3.7%	48.8%	26.8%	4.9%	0.5%	0.4%	0.4%
Transfer Payments*	5.7%	11.8%	13.5%	3.6%	4.0%	4.7%	3.7%
Less: Contributions to Social Ins.	4.4%	3.5%	-2.2%	2.0%	4.3%	5.3%	6.5%
Residence Adjustment	4.0%	1.9%	-14.5%	0.6%	2.0%	2.5%	3.2%

*CEFC Forecast

**Maine Unemployment Rate and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - October 2009
Remaining lines derived from the CEFC forecast by CEFC staff and reviewed by the CEFC.

Maine Consensus Economic Forecasting Commission

November 2009 Forecast

Seasonally adjusted, annualized, quarter-to-quarter growth rates

	Quarterly History		Quarterly Forecast					
	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4
CPI-U (Percent Change)	-2.4%	1.3%	3.3%	1.3%	1.6%	1.1%	1.9%	1.7%
Maine Wage & Salary Employment	604.9	598.4	595.4	592.8	590.9	590.1	590.3	591.3
Maine Wage & Salary Employment (Percent Change)	-1.7%	-4.3%	-2.0%	-1.7%	-1.3%	-0.5%	0.1%	0.7%
Personal Income	47,280.0	47,738.0	47,912.1	47,955.9	48,075.4	48,219.0	48,386.9	48,579.3
Personal Income (Percent Change)	-8.0%	3.9%	1.5%	0.4%	1.0%	1.2%	1.4%	1.6%