

MAINE STATE LEGISLATURE

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**Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
November 1, 2011**

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 24, 2011, to review and revise the April 2011 forecast. This report provides a summary of the Commission's findings.

National and state economic conditions have shown little to no improvement over recent months. Maine's economic activity index shows weak growth and remains well below pre-recession levels. Many other states have seen a slowdown in what was already weak growth. Nationwide, consumer sentiment and small business optimism have both declined over the course of the year. According to the US Bureau of Economic Analysis, personal income in Maine was 3.9 percent higher in the second quarter of 2011 than it was in the second quarter of 2010. The Consumer Price Index was 3.8 percent higher in August 2011 than it was in August 2010. After rising on a quarter-over-quarter basis for three straight quarters, the price of a barrel of oil fell 12.5 percent in the third quarter of 2011. Since the end of the homebuyer tax credit in May 2010, home sales in Maine and the US have fallen on a year-over-year basis in three of the last four quarters and are just slightly above the bottom reached in early 2009. After hitting bottom in February 2011, housing permits in Maine inched up to about where they were in January 2009. Home prices in the Portland metropolitan area increased 1.0 percent year-over-year in the second quarter of 2011. Foreclosure starts and mortgage delinquencies remain well above pre-recession levels but below peak crisis levels.

The November 2011 forecast continues to see little progress in the national and state economic recovery through 2012, partly due to the European debt crisis and the expected recession in the euro zone. The revised forecast lowers the expectations for wage and salary employment growth through 2014. Personal income growth was generally revised downward for the near term. After an upward revision to growth in the Consumer Price Index (CPI) for 2011, the November forecast made a large downward revision for 2012, a slight downward revision in 2013 and no changes for 2014-2015. The downward revisions for CPI growth in 2012 and 2013 are due to reduced expectations for global economic demand growth and the relatively high prices for food and energy seen in 2010 and 2011.

The table below provides the forecast's major indicators.

Calendar Years	2011	2012	2013	2014	2015
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 04/2011	0.4%	1.5%	1.5%	1.4%	1.2%
CEFC Forecast 11/2011	0.1%	0.1%	0.8%	1.3%	1.4%
Personal Income (Annual Percentage Change)					
CEFC Forecast 04/2011	4.6%	2.9%	4.0%	4.0%	4.0%
CEFC Forecast 11/2011	3.8%	3.0%	3.0%	4.7%	4.8%
CPI (Annual Percentage Change)					
CEFC Forecast 04/2011	2.5%	1.8%	2.0%	2.3%	2.1%
CEFC Forecast 11/2011	3.0%	1.3%	1.9%	2.3%	2.1%

In making these adjustments, the CEFC considered 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 these reports.

Maine State Planning Office

In August 2011, the Maine Coincident Economic Activity Index, a composite of four economic indicators (three employment statistics plus real wage and salary income) that summarizes overall economic conditions, was 1.9 percent higher than it was in August 2010.

Nationally, for the three months ending in August 2011, the state coincident indexes increased in 33 states, decreased in 17 states, and stayed the same in one state. This is a decline from January 2011 (the data available at the last CEFC meeting), when the indexes increased in 42 states, decreased in five, and stayed the same in three.

According to preliminary estimates from the Bureau of Economic Analysis, personal income in Maine was 3.9 percent higher in the second quarter of 2011 than it was in the second quarter of 2010.

The Consumer Price Index (CPI) rose 3.8 percent from August 2010 to August 2011. Core inflation, which excludes food and energy, rose 2.0 percent over the same period. The CPI in January through August 2011 was 3.0 percent higher than the same period in 2010.

In September 2011, the University of Michigan Consumer Sentiment Index, a monthly survey that tracks consumer confidence in the U.S., increased by 6.6 percent from August. Although this marked the end of a precipitous period of decline that began in June, sentiment remained at a low level. Consumers appear to be expecting a prolonged period of economic stagnation.

In September 2011, after falling for six straight months, the survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index ticked up 0.9 percent. It is now 5.9 percent below its post-recession peak in February 2011. In September, small business owners said they expect lower sales over the next three months.

The price of oil fell from over \$100/barrel in the second quarter of 2011 to \$90/barrel in the third quarter of 2011. The price of heating oil in Maine (\$3.50/gallon on October 17) is higher than it was at the same time of year in any of the past four heating seasons.

Existing-home sales in Maine fell 10 percent from the first to the second quarter of 2011 (seasonally adjusted). Existing-home sales in Maine in the second quarter of 2011 were 21 percent below their post-recession peak, which occurred in the fourth quarter of 2009 and the second quarter of 2010. High sales numbers in the fourth quarter of 2009 and the second quarter of 2010 were due in part to the homebuyer credit.

Building permits for single family homes in Maine were very low in July and August 2011, at about the same level they were in early 2009. There was an average of 178 permits per month from January through August 2011, compared with an average of 266 permits per month during the same period in 2010.

Home prices in the Portland – South Portland – Biddeford metropolitan area rose one percent in the second quarter of 2011 compared to the second quarter of 2009. The median home price in the Portland – South Portland – Biddeford metropolitan area in the second quarter of 2011 was \$219,300. The peak second quarter value was \$247,200, which was recorded in 2005.

Maine Department of Labor

From the start of the recession through the summer of 2010, Maine lost nearly 30,000 nonfarm jobs on a seasonally-adjusted basis. The official US Bureau of Labor Statistics (BLS) jobs numbers indicate a gain of about 5,000 jobs since then, but those numbers have been volatile from month to month due to changes in BLS methodology. In addition, they will likely be revised downward during the annual benchmarking process and are expected to show little to no

change in the total number of nonfarm payroll jobs between September 2010 and June 2011. The CEFC took note of this discrepancy between the official preliminary estimates and the likely downward revisions, and accounted for them accordingly in its forecast for wage and salary employment growth.

Maine's unemployment rate increased in the spring and declined in the summer, peaking at 7.8 percent in June. However, that rise and fall in the unemployment rate was due to changes in the labor force participation rate, not due to changes in the number of jobs.

The average weekly hours worked has increased from 2009 levels but is still below pre-recession levels.

After increasing in the first half of 2011, online job postings have fallen in recent months in both Maine and the US, almost erasing the gains from the first half of the year. However, they remain higher than 2009 levels.

Total wages paid are growing at pre-recession rates, but they are coming from a very low base. Inflation-adjusted total wages paid in the third quarter of 2010 through the second quarter of 2011 were \$140 million higher than the same period a year earlier, but they remain nearly \$800 million below the 2007 peak. Total wages in January through June of 2011 were 3 percent higher than in the same period in 2010, not adjusted for inflation.

Maine Revenue Services

Total revenues for September 2011 exceeded budget by 5.1 percent (around \$14.8 million) for the month and 1.0 percent (around \$5.9 million) fiscal year to date. Most of the positive variance came from the corporate income tax line, which was 28 percent over budget for the month of September and 30.5 percent over budget fiscal year to date.

The sales and use tax was also exceeding budget, by 3.0 percent fiscal year to date (around \$5.6 million). In early 2010 it appeared that the economy was beginning to rebound, with year-over-year sales tax growth rates around 8-9 percent for March through May. But with a run up in commodity prices and the emergence of the European debt crisis, the economy stalled again and retail sales growth has been weak.

Consumer retail sales remain weak. Growth in July and August 2011 was 2.5 percent and 3.9 percent year-over-year, not adjusted for inflation. Auto/transportation sales showed decent year-over-year growth of 6.0 percent for August, and building supply sales were up 12.1 percent year-over-year in August. The building supply sales jump in August 2011 is at least partially due to preparation and clean-up from Hurricane Irene. Other than auto sales, other consumer spending categories are showing weak growth that barely keeps up with inflation.

Macroeconomic Assumptions

Four different economic forecasts were examined at the meeting: three from Moody's Analytics and one from IHS Global Insight. Each forecast was based on a different set of national macroeconomic assumptions. These forecasts were then compared to this CEFC's April 2011 forecast. The CEFC felt that the Global Insight assumptions were closest to their own thoughts on the economy. Following is a summary of those assumptions:

Growth in the US economy will be weak. A recession is not expected, but the chance of recession is now 40 percent. The 2 percentage point social security payroll tax cut will be extended for 2012 and other federal tax cuts will be extended in 2013.

The Federal Reserve will hold rates near zero until January 2014 and another round of quantitative easing worth \$600 billion will begin in late 2011. The dollar will trend downward over the long run, but more against emerging-market currencies than against major currencies. The dollar/euro rate will fall to \$1.25 by February 2012 due to Europe's sovereign debt woes outweighing US debt problems.

Global growth will slow over the forecast period. A mild recession is expected in Europe in the fourth quarter of 2011 and the first quarter of 2012, but a deeper European recession triggered by wider contagion in Europe and featuring a euro decline to parity against the dollar has a one in four chance of occurring. GDP growth in the US' major currency trading partners will be 1.7 percent in 2011 and 1.5 percent in 2012. GDP growth in other important trading partners will slow from 7.3 percent in 2010 to 5.3 percent in 2011 to 4.2 percent in 2012.

Oil prices (West Texas Intermediate) average \$76 per barrel in the fourth quarter of 2011 and \$89 per barrel in 2012.

Consensus Forecast

The CEFC made adjustments to its economic forecast according to the latest economic data and the resulting changes in the forecast models. The outlook for growth has darkened since the CEFC last convened, so this forecast is generally a downward revision of the April forecast. These changes reflect an impending recession in Europe and the subsequent negative effects of reduced US export demand and a stronger dollar. The CEFC forecast also reflects expectations that global growth will slow and that inflation will ease from 2011 rates.

Of the various forecasts presented to Commission members, the Global Insight forecast resonated most strongly with the Commission, so most of the CEFC's assumptions follow those of Global Insight. The CEFC assumed that the Federal Reserve Bank would refrain from raising interest rates until mid-2013 at the earliest. In addition, the Commission assumed that oil prices (West Texas Intermediate) would average about \$90 per barrel in 2012. There were specific concerns about employment growth in 2011 and 2012, given that businesses are likely to maintain strong balance sheets amid uncertainty over how far the contagion from the European debt crisis will spread.

The November 2011 forecast for employment is generally a downward revision of the Commission's previous forecast in April 2011, with an upward revision in 2015 that reflects a postponement of the economic recovery and lower base to start from. Employment growth is expected to register 0.1 percent in 2011 and 2012, before improving modestly to 0.8 percent in 2013, 1.3 percent in 2014, and 1.4 percent in 2015. The unemployment rate is expected to peak at 7.8 percent in 2012 and then decline gradually to 6.3 percent in 2015. The 0.1 percent growth forecast for 2011 is based, in part, on an expected downward revision in the official figure for total nonfarm jobs published by the US Bureau of Labor Statistics.

The CEFC agreed with the Global Insight forecast for personal income and its components. This forecast revises total personal income downward for 2011 (from 4.6 percent to 3.8 percent). This reflects the fact that personal income growth for the first half of 2011 was lower than the April 2011 CEFC forecast and the general economic stagnation since the April forecast. The very weak employment growth thus far in 2011 also weighs on personal income growth. Personal income growth will decline to an annual rate of 3.0 percent in 2012 and 2013, despite the expected extension through 2012 of the two percentage point cut in the Social Security tax. The forecast was also revised upward for 2014-2015, reflecting the new, lower base in 2011-2013 and the continued postponement of real economic recovery.

The Commission concurred with the Global Insight forecast of the Consumer Price Index (CPI), a measure of household inflation. This forecast revises inflation upward for 2011, reflecting the run up in commodity prices seen thus far this year, but it revises inflation downward in 2012 and 2013. This reflects the expectation for slower global economic growth and demand for commodities over the forecast period. It also reflects the expectation that the recent rise in commodity prices leaves the forecast starting from a high base.

The Commission also accepted Global Insight's forecast of before-tax corporate profits. Following record 25 percent growth in 2010, profits are forecast to grow a modest 3.7 percent in 2011. 2012 is expected to see slightly increased profits, with much stronger growth coming in 2013 before slowing again in 2014 and decreasing in 2015.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

November 2011 Forecast

	History	Forecast				
	2010	2011	2012	2013	2014	2015
CPI-U* (Annual Change)	1.6%	3.0%	1.3%	1.9%	2.3%	2.1%
CPI for Energy Prices** (Annual Change)	9.6%	14.0%	-2.3%	4.3%	3.6%	1.6%
Average Price of a New Vehicle** (Annual Change)	1.8%	3.1%	-1.2%	0.5%	2.8%	2.8%
New Vehicle Registrations** (Annual Change)	1.7%	0.4%	8.7%	8.4%	4.1%	2.2%
Personal Savings Rate**	5.3%	4.9%	4.8%	3.8%	4.4%	5.0%
Maine Unemployment Rate**	7.9%	7.6%	7.8%	7.6%	7.0%	6.3%
3-Month Treasury Bill Rate**	0.14%	0.06%	0.06%	0.09%	1.33%	3.27%
10-Year Treasury Note Rate**	3.20%	2.76%	2.32%	2.84%	3.58%	4.60%
Before-Tax Corporate Profits* (Annual Change)	25.0%	3.7%	6.7%	12.2%	5.3%	-2.5%
Maine Wage & Salary Employment* (thousands)	592.8	593.4	594.0	598.8	606.6	615.0
Natural Resources	2.6	2.6	2.7	2.6	2.6	2.6
Construction	24.4	24.4	22.5	21.8	23.5	26.1
Manufacturing	50.9	51.1	50.8	50.6	50.4	50.3
Trade/Trans./Public Utils.	116.9	116.8	118.0	120.0	120.8	121.9
Information	9.1	9.0	9.1	9.2	9.1	9.3
Financial Activities	31.3	31.6	31.9	32.1	32.1	32.2
Prof. & Business Services	55.7	55.9	56.2	57.9	61.5	64.5
Education & Health Services	118.9	121.1	123.0	124.9	126.6	128.5
Leisure & Hospitality Services	59.9	61.4	62.0	62.4	62.5	62.7
Other Services	19.8	19.6	19.7	19.7	19.7	19.5
Government	103.4	100.1	98.0	97.6	97.7	97.6
Agricultural Employment	16.7	16.9	16.9	16.9	16.9	16.9
Maine Wage & Salary Employment* (Annual Change)	-0.6%	0.1%	0.1%	0.8%	1.3%	1.4%
Natural Resources	7.2%	1.1%	1.5%	-1.1%	-0.7%	0.8%
Construction	-2.9%	0.0%	-7.6%	-3.2%	7.7%	11.1%
Manufacturing	-2.7%	0.4%	-0.6%	-0.4%	-0.3%	-0.3%
Trade/Trans./Public Utils.	-1.7%	-0.1%	1.0%	1.7%	0.7%	0.9%
Information	-1.1%	-1.6%	1.4%	0.8%	-0.7%	1.6%
Financial Activities	-1.7%	0.9%	1.1%	0.5%	0.2%	0.2%
Prof. & Business Services	0.6%	0.4%	0.5%	3.0%	6.2%	4.9%
Education & Health Services	0.3%	1.8%	1.6%	1.5%	1.4%	1.5%
Leisure & Hospitality Services	1.1%	2.4%	1.1%	0.6%	0.2%	0.2%
Other Services	0.1%	-1.0%	0.9%	-0.1%	-0.3%	-1.0%
Government	-0.3%	-3.2%	-2.0%	-0.5%	0.1%	-0.1%
Agricultural Employment	1.2%	1.2%	0.0%	0.0%	0.0%	0.0%
	2010	2011	2012	2013	2014	2015
Personal Income* (\$ million)	48,745	50,607	52,140	53,712	56,214	58,894
Wage & Salary Disbursements	23,586	24,235	24,872	25,722	26,792	27,915
Supplements to Wages & Salaries	6,033	6,144	6,344	6,609	6,919	7,261
Non-Farm Proprietors' Income	3,781	3,967	4,103	4,278	4,580	4,825
Farm Proprietors' Income	91	63	101	105	94	94
Dividends, Interest, & Rent	7,351	7,796	8,027	8,109	8,436	9,074
Dividends	2,421	2,825	3,106	3,241	3,333	3,384
Interest	3,569	3,540	3,493	3,599	3,952	4,632
Rent	1,361	1,432	1,428	1,269	1,151	1,058
Transfer Payments	10,986	11,114	11,521	11,948	12,708	13,437
Less: Contributions to Social Ins.	3,935	3,625	3,777	4,044	4,328	4,760
Residence Adjustment	852	913	948	985	1,013	1,047
Personal Income* (Annual Change)	1.7%	3.8%	3.0%	3.0%	4.7%	4.8%
Wage & Salary Disbursements	1.5%	2.8%	2.6%	3.4%	4.2%	4.2%
Supplements to Wages & Salaries	2.0%	1.8%	3.3%	4.2%	4.7%	4.9%
Non-Farm Proprietors' Income	6.6%	4.9%	3.4%	4.3%	7.0%	5.4%
Farm Proprietors' Income	56.0%	-30.3%	60.9%	3.6%	-10.8%	-0.2%
Dividends, Interest, & Rent	2.8%	6.1%	3.0%	1.0%	4.0%	7.6%
Dividends	20.5%	16.7%	10.0%	4.4%	2.8%	1.5%
Interest	-9.8%	-0.8%	-1.3%	3.0%	9.8%	17.2%
Rent	14.9%	5.2%	-0.3%	-11.1%	-9.3%	-8.1%
Transfer Payments	-0.8%	1.2%	3.7%	3.7%	6.4%	5.7%
Less: Contributions to Social Ins.	2.4%	-7.9%	4.2%	7.1%	7.0%	10.0%
Residence Adjustment	3.2%	7.2%	3.8%	3.9%	2.9%	3.4%

*CEFC Forecast

**From Global Insight - October 2011

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