

## Economic Outlook and Forecast

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### **Background**

The Consensus Economic Forecasting Commission was originally established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations for state economic assumptions to be used in developing state revenue forecasts. Creation of the commission was in response to a recommendation of the Special Commission on Government Restructuring in 1991 to establish an independent, consensus process for state economic and revenue forecasting. Public Law 1995, chapter 368 enacted in statute the Consensus Economic Forecasting Commission, maintaining both the structure and intent of the original Executive Order.

The commission consists of five members having professional credentials and demonstrated expertise in economic forecasting. Members of the commission are appointed as follows: two members appointed by the Governor; one member recommended for appointment to the Governor by the President of the Senate; one member recommended for appointment to the Governor by the Speaker of the House of Representatives; and one member appointed by the other members of the commission. One member of the commission must be selected by a majority vote of the other commission members to serve as the chair of the commission.

The commission is required to develop two year and four year economic forecasts for the State of Maine. In performing this duty, the commission is required by statute to meet twice each fiscal year. No later than April 1st and November 1st of each odd-numbered year and no later than February 1st and November 1st of each even-numbered year the commission shall submit to the Governor, the Legislative Council, the Revenue Forecasting Committee and the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs a report that presents the commission's findings and recommendations for adjustments to the economic assumptions for the current fiscal biennium. In each report the commission shall fully describe the methodology employed in reaching its recommendations. The Revenue Forecasting Committee is required to use the economic assumptions and forecast of the commission in developing its four-year revenue projections.

## Findings

The Consensus Economic Forecasting Commission met in October, 2010 to prepare the economic assumptions that would become the basis for the Revenue Forecasting Committee's revenue projections for fiscal years 2010-11 through 2014-15.

While national and state economic conditions have been improving over the past months, the rate of improvement has been slow. In August, Maine's year-over-year economic activity index crossed over into positive territory for the first time since April 2008. However, consumer sentiment remains weak and some states that had been seeing improvement are facing renewed declines. Personal income has been slow to recover, but corporate profits have been increasing significantly this year. While home sales experienced a temporary boost from the homebuyer credit, they have dropped off again following the expiration of that credit.

The October forecast reflects the slowing pace of the national and state economic recovery. The revised forecast has slightly upgraded its expectations for wage and salary employment and personal income in 2010, while reducing its expectations for growth in 2011 for wage and salary employment and the Consumer Price Index. Wage and salary employment is expected to begin slowly gaining ground in the first quarter of 2011, with more rapid gains expected in 2012 and 2013. Personal income growth is generally expected to be somewhat better than previously forecast, particularly in 2010, led by growth in wages and salaries, proprietors' income, and transfer payments.

The commission also made slight upward revisions in 2012 and 2013 to its forecast of Consumer Price Index (CPI), although 2011 was revised slightly downwards (from 2.0% to 1.5%). This reflects the expectation that there will be no sustained inflationary pressures in the economy for some time.

The major economic growth assumptions are summarized in **Table A-1**.

**TABLE A-1**

<b>Major Underlying Growth Rate Assumptions</b>						
<b>Calendar Years</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Wage &amp; Salary Employment</b>						
(Annual % Change)						
CEFC Forecast 1/2010	-1.3	1.2	2.2	2.0		
CEFC Forecast 11/2010	-1.0	0.4	1.5	2.1	1.7	1.0
<b>Personal Income</b>						
(Annual % Change)						
CEFC Forecast 1/2010	1.5	3.0	4.0	4.6		
CEFC Forecast 11/2010	2.9	3.0	4.7	4.9	5.0	4.5
<b>CPI</b>						
(Annual % Change)						
CEFC Forecast 1/2010	1.7	2.0	2.1	2.0		
CEFC Forecast 11/2010	1.7	1.5	2.3	2.6	2.3	2.2

A more detailed list of economic assumptions, which are incorporated into the revenue forecasting models used by the Revenue Forecasting Committee, is reflected below.

November 2010 Forecast	Annual History	Annual Forecast					
	2009	2010	2011	2012	2013	2014	2015
CPI-U* (Annual Change)	-0.40%	1.70%	1.50%	2.30%	2.60%	2.30%	2.20%
Maine Unemployment Rate**	8.00%	8.20%	8.30%	7.90%	6.30%	5.40%	5.40%
3-Month Treasury Bill Rate**	0.20%	0.20%	0.40%	1.50%	3.20%	3.90%	3.70%
10-Year Treasury Note Rate**	3.30%	3.20%	3.60%	5.10%	5.00%	4.60%	4.50%
Maine Wage & Salary Employment*	595.1	589.2	591.5	600.4	613	623.4	629.7
Natural Resources	2.4	2.7	2.9	3	3	3	3
Construction	25.1	22.6	22.5	22.7	23	23.3	23.4
Manufacturing	52.5	52.6	53.3	54	54.8	55.2	55.2
Trade/Trans./Public Utils.	118.3	116.4	116.8	117.5	118.7	119.5	119.5
Information	9.2	9.1	9	9.1	9.3	9.5	9.7
Financial Activities	31.6	30.1	30.1	30.6	31.4	32.1	32.4
Prof. & Business Services	54.8	54.1	55.4	57.3	59.5	60.6	61.3
Education & Health Services	118.8	118.4	119	121.3	124.9	128.2	131.3
Leisure & Hospitality Services	59.3	61	62	63.8	66.2	68.2	69.6
Other Services	19.5	19.4	19.9	20.1	20.5	20.8	21
Government	103.5	102.9	100.8	101.3	102	103	103.4
Agricultural Employment	16.5	16.7	16.9	16.9	16.9	16.9	16.9
Maine Wage & Salary Employment*	-3.60%	-1.00%	0.40%	1.50%	2.10%	1.70%	1.00%
Natural Resources	-6.60%	11.40%	8.70%	1.50%	1.50%	0.80%	-0.20%
Construction	-14.70%	-9.90%	-0.60%	1.00%	1.50%	1.40%	0.10%
Manufacturing	-10.70%	0.10%	1.40%	1.40%	1.40%	0.70%	0.00%
Trade/Trans./Public Utils.	-5.20%	-1.60%	0.30%	0.60%	1.00%	0.70%	0.00%
Information	-12.30%	-1.80%	-0.70%	0.80%	2.50%	2.10%	1.70%
Financial Activities	-3.40%	-4.60%	0.00%	1.50%	2.80%	2.00%	1.10%
Prof. & Business Services	-3.10%	-1.20%	2.30%	3.50%	3.80%	1.90%	1.10%
Education & Health Services	1.10%	-0.30%	0.50%	1.90%	3.00%	2.60%	2.50%
Leisure & Hospitality Services	-1.40%	2.90%	1.60%	2.80%	3.80%	3.10%	2.00%
Other Services	-1.80%	-0.50%	2.20%	1.00%	2.00%	1.70%	0.70%
Government	-0.90%	-0.60%	-2.00%	0.50%	0.60%	1.00%	0.40%
Agricultural Employment	-7.30%	1.20%	1.20%	0.00%	0.00%	0.00%	0.00%

\*CEFC Forecast

\*\*Maine Unemployment Rate and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Analytics - 10//2010  
Remaining lines derived from the CEFC forecast by CEFC staff and reviewed by the CEFC.