

# Office of Policy and Management

Executive Department

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## **Consensus Economic Forecasting Commission Background Materials for the March 26, 2013 Forecast Meeting**

### Summary

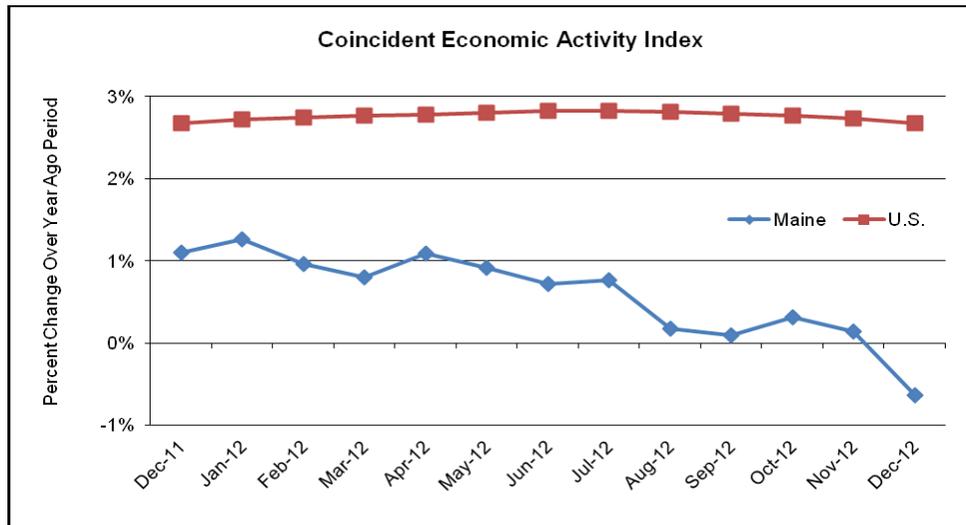
National and state economic indicators suggest a continued lack of improvement in economic conditions since the CEFC met in October 2012. Maine's coincident economic activity index decreased in the three months ending in December and remains below pre-recession levels. Most states saw growth over the three months ending in December. Nationwide, consumer sentiment and small business optimism are down over year-ago levels. Personal income in Maine grew 3.5% year-over-year in the first three quarters of 2012, while wage and salary income grew 2.1% over the same period. The Consumer Price Index was 2.0% higher in February 2013 than it was in February 2012.

The price of crude oil declined 4.5% in the fourth quarter of 2012 to \$88 per barrel. Home sales in Maine were up 21% in January 2013 compared to January 2012. Month-over-month, housing permits in Maine grew 38% in January. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased 4.6% year-over-year in the fourth quarter of 2012. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the third quarter of 2012 and remains well above pre-recession levels.

The following presents a picture of the Maine economy, comparing current economic indicators to historical results.

## Overall Economic Activity

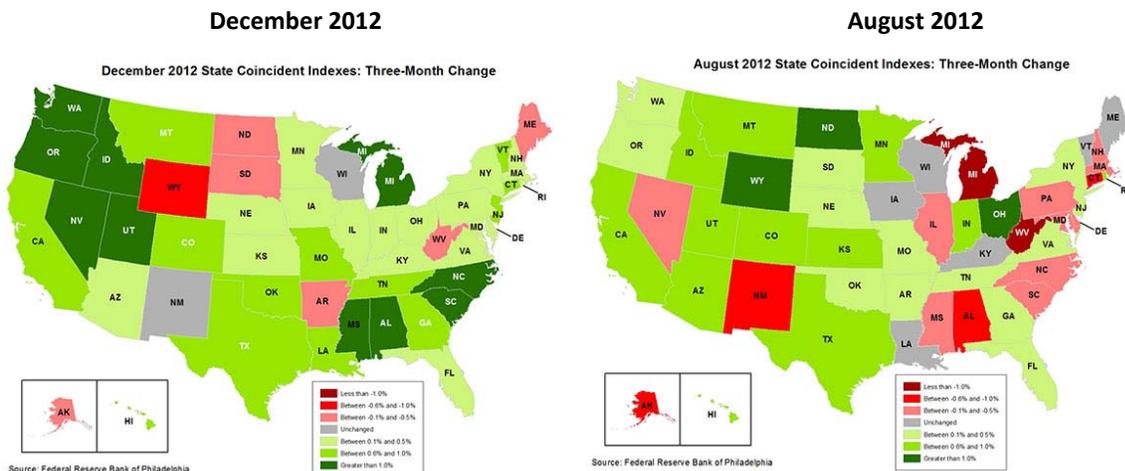
- In December 2012, the Maine Coincident Economic Activity Index, a composite of four economic indicators (three employment statistics plus real wage and salary income) that summarizes overall economic conditions, was 0.6% lower than it was in December 2011. This is the first time since July 2010 that the coincident index has been negative year-over-year.



Source: Federal Reserve Bank of Philadelphia, January 22, 2013 release.

## State Coincident Index Three-Month Percent Change

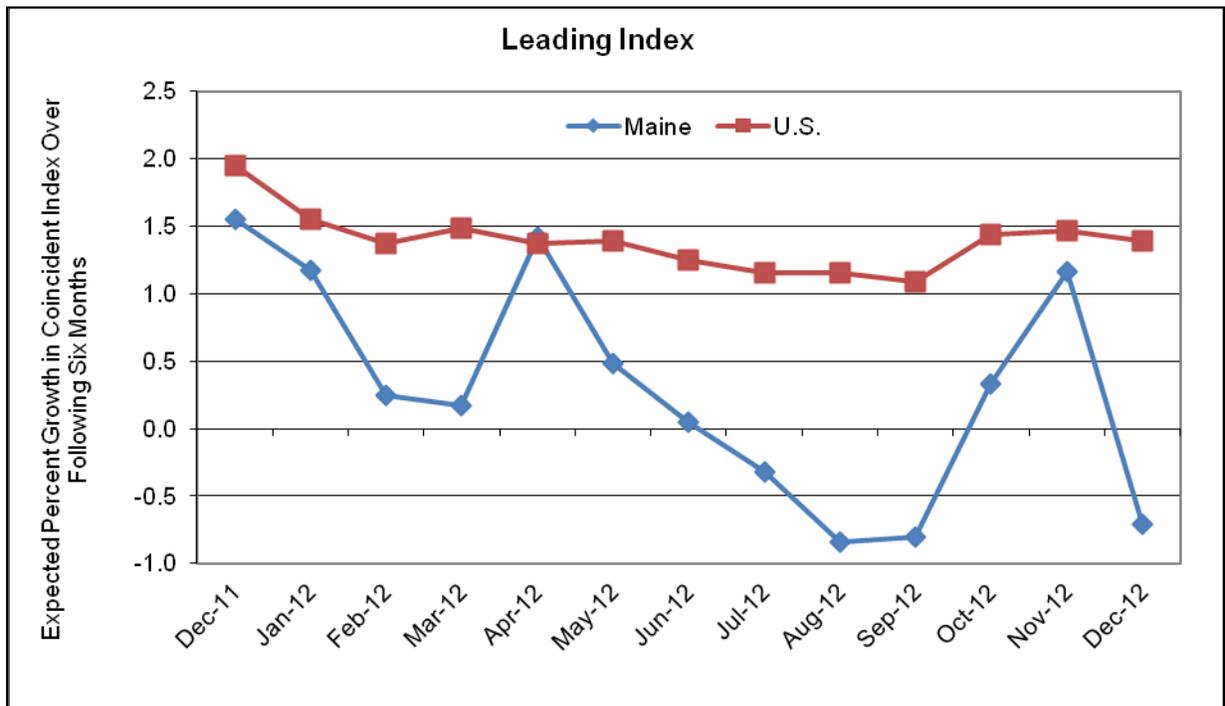
- For the three months ending in December 2012, the state coincident indexes increased in 41 states, decreased in seven, and remained unchanged in two.
- In August 2012 (the data available at the last CEFC meeting) the state coincident indexes increased in 28 states, decreased in 16 states, and remained unchanged in six, including Maine.



Source: Federal Reserve Bank of Philadelphia, January 22, 2013 release

## State Leading Indexes

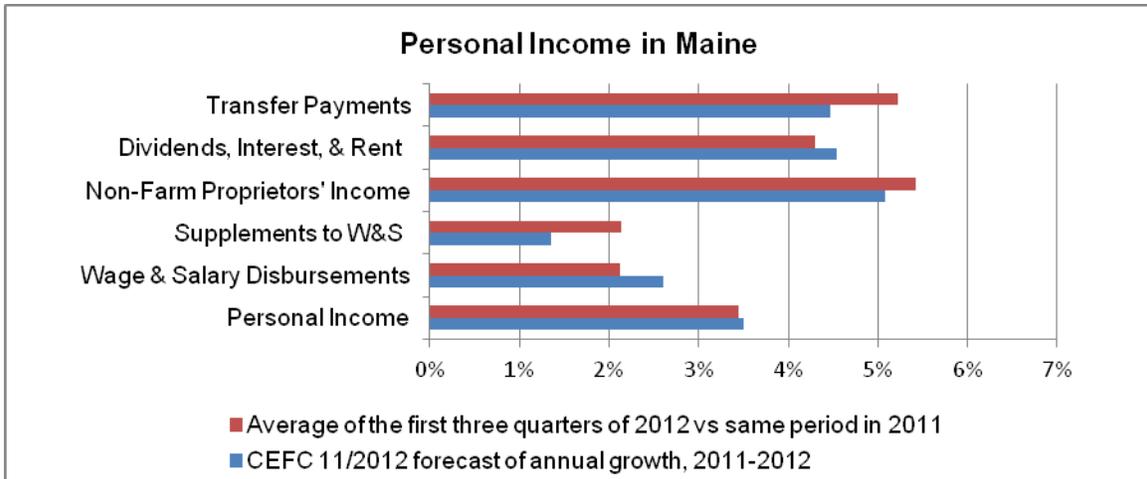
- The State Leading Index predicts the six-month growth rate of the State Coincident Index. It uses the Coincident Index plus four other variables that lead economic activity: state-level housing permits (1 to 4 units), state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. In December 2012, the State Leading Index for Maine was -0.71, meaning the State Coincident Index is expected to decline 0.71% over the six-month period from December 2012 to June 2013.



Source: Federal Reserve Bank of Philadelphia, January 31, 2013 release

## Personal Income

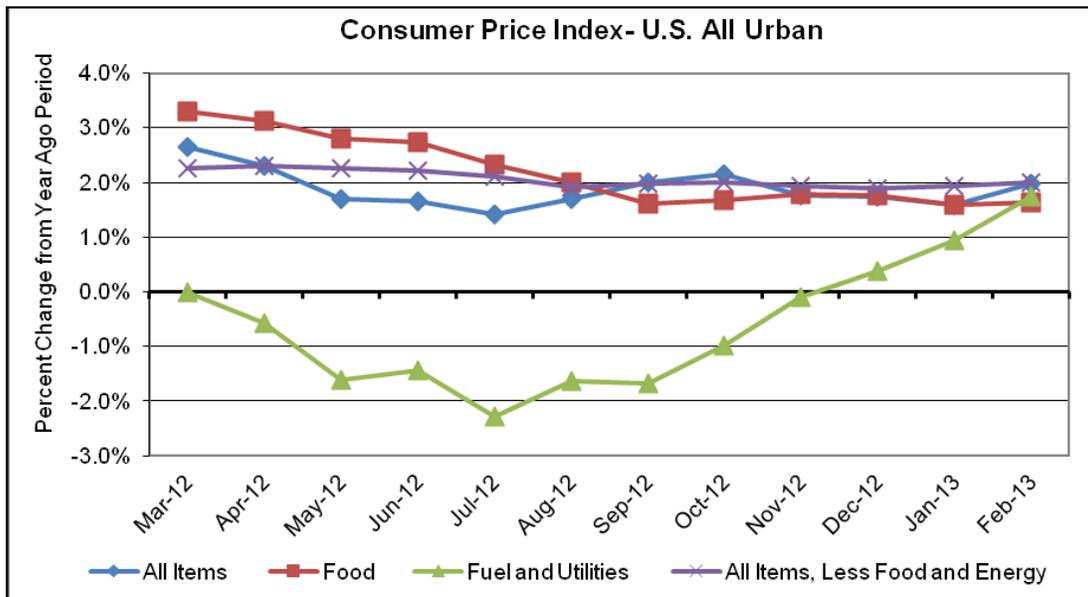
- According to preliminary estimates from the U.S. Bureau of Economic Analysis, total personal income grew 3.5% year-over-year and wage and salary income grew 2.1% year-over-year in the first three quarters of 2012.
- Total personal income for the fourth quarter of 2012 would need to be 0.8% higher than the third quarter of 2012 to hit the CEFC's annual forecast for 2012. Wage and salary disbursements for the fourth quarter of 2012 would need to be 2.0% higher than the third quarter of 2012 to hit the forecast.



Source: US Bureau of Economic Analysis, December 19, 2012 release

### Consumer Price Index

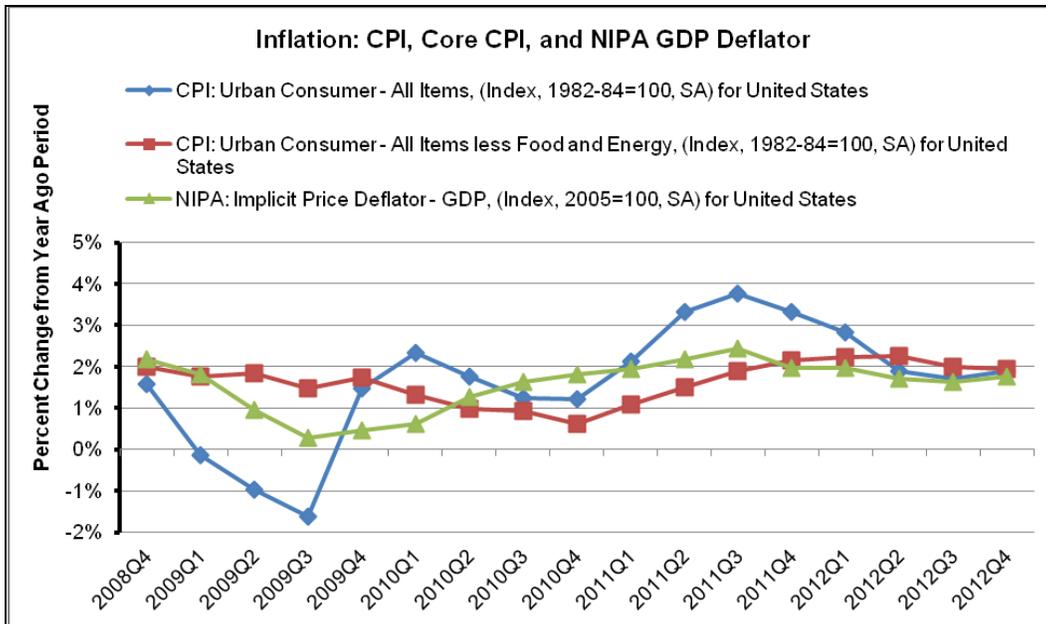
- On an annual basis, the CPI rose 1.5% from 2011 to 2012.
- The Consumer Price Index (CPI) rose 2.0% from February 2012 to February 2013.
- Core inflation, which excludes food and energy prices, also rose 2.0% over the same period, as increases in fuel and utilities offset declines in food costs.



Source: Bureau of Labor Statistics, March 15, 2013 release

### Comparison of Inflation Indicators (seasonally adjusted data from Moody's Analytics)

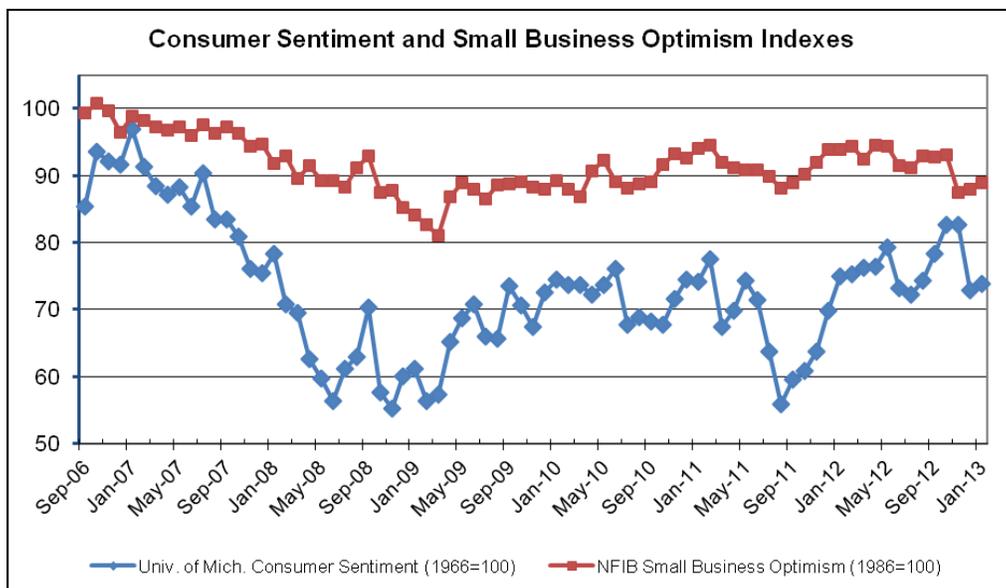
- The Consumer Price Index (CPI) rose 1.9% year-over-year in the fourth quarter of 2012.
- Core CPI (all items less food and energy) rose 1.9% over the same period.
- The BEA National Income and Product Accounts (NIPA) Implicit Price Deflator for Gross Domestic Product rose 1.8% over the same period.



Source for CPI: Bureau of Labor Statistics, via Moody's Analytics February 2013 release  
 Source for GDP Deflator: Bureau of Economic Analysis, via Moody's Analytics February 2013 release

### Consumer Sentiment and Small Business Optimism

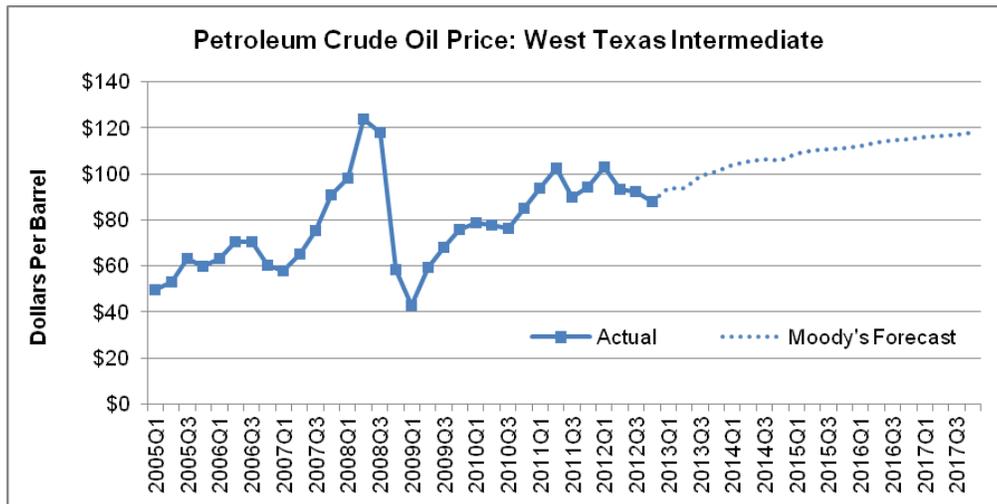
- In January 2013, the survey-based University of Michigan Consumer Sentiment Index increased 1.2% month-over-month. The index was down 1.6% from a year ago.
- In January 2013, the survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index increased 1.0%, although it was down 5.3% from one year ago.



Source: Reuters, University of Michigan, February 1, 2013 release; National Federation of Independent Businesses, March 12, 2013 release

## Crude Oil

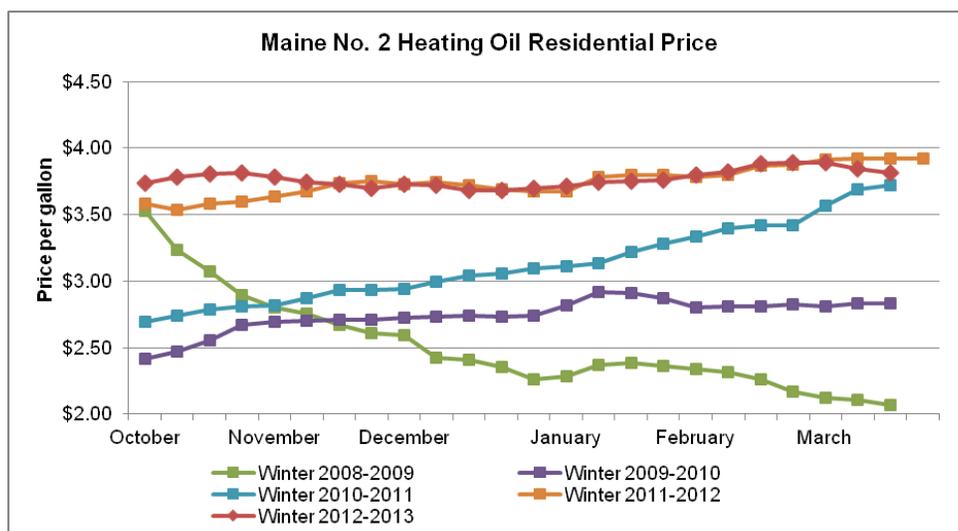
- The price of West Texas Intermediate was \$88.16 per barrel in the fourth quarter of 2012.
- The price of WTI declined 4.5% from the third quarter of 2012 to the fourth quarter of 2012.



Source: Moody's Analytics, February 2013 release

## Heating Oil

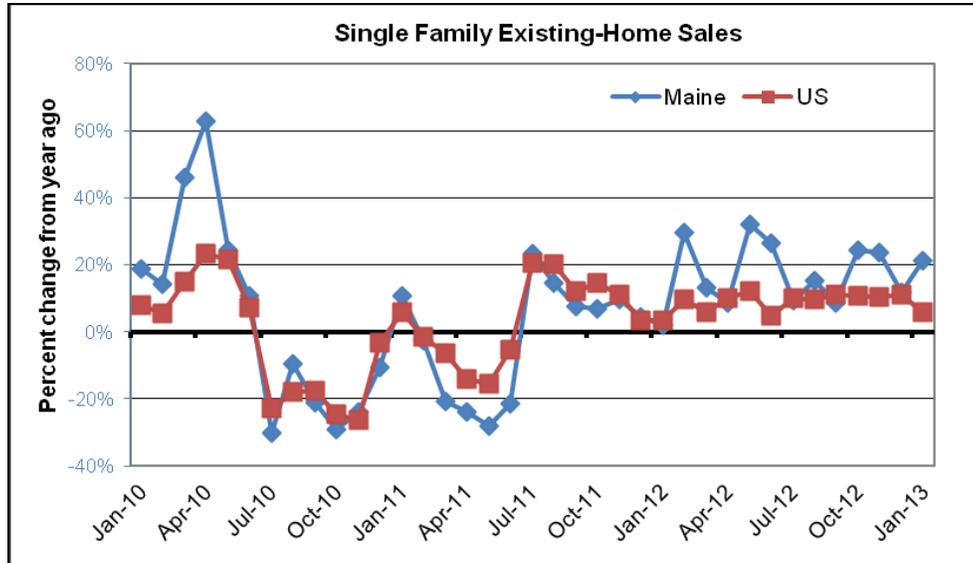
- The price of heating oil in Maine (\$3.81/gallon on March 11, 2013) is slightly lower than last season at this time, but higher than the three previous heating seasons.
- The price of heating oil in Maine has been fairly steady over the past two heating seasons, averaging around \$3.75/gallon.



Source: US Energy Information Agency

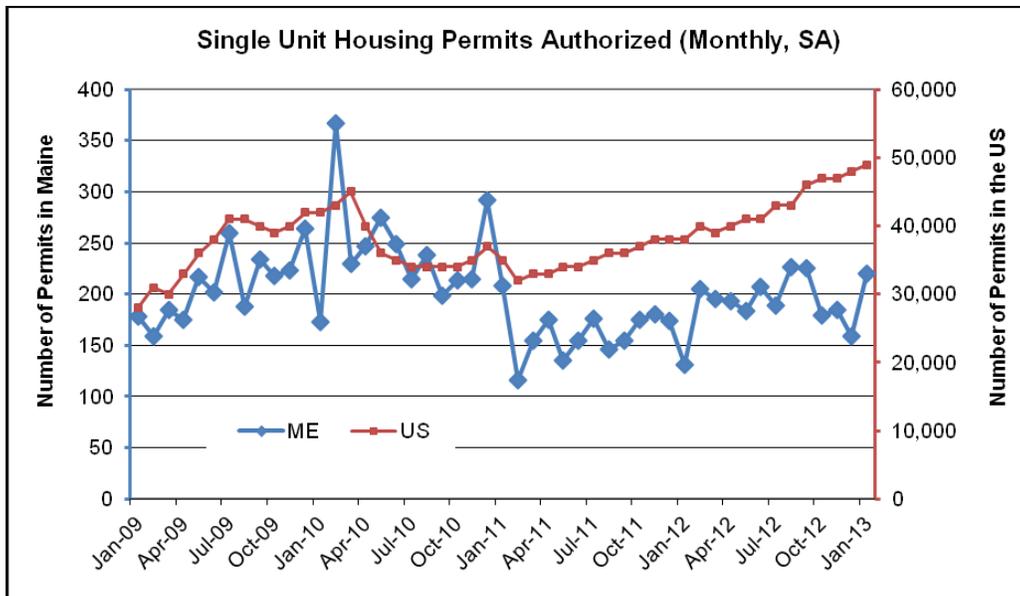
## Housing

- Single family existing-home sales in Maine were up 21.4% in January 2013 over January 2012.



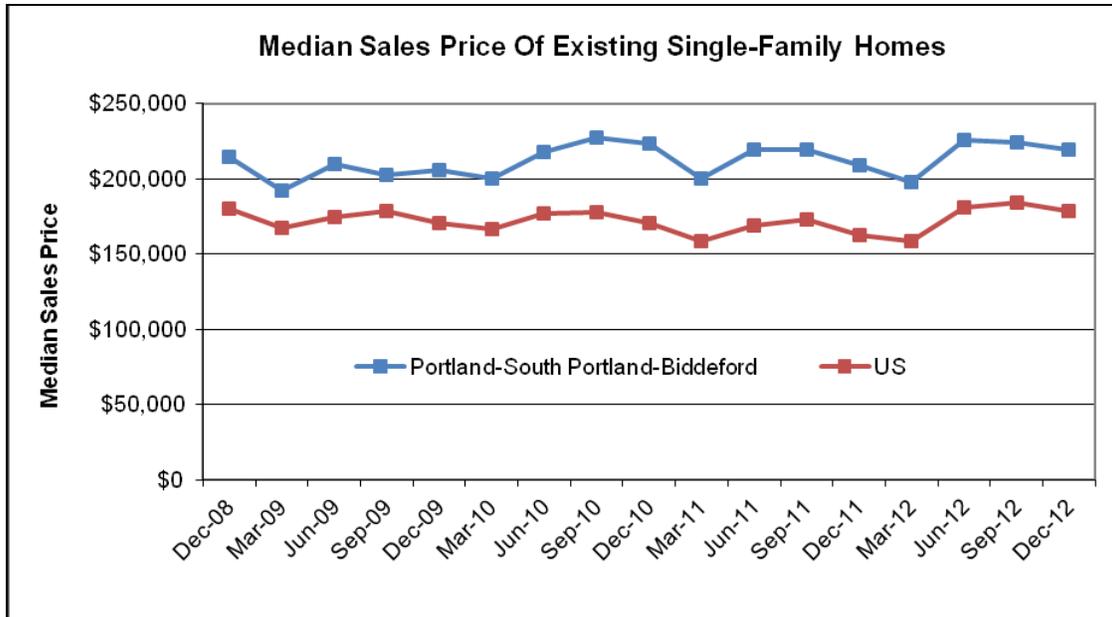
Source: National Association of REALTORS and Maine Association of REALTORS, monthly releases

- In January 2013, single unit housing permits in Maine increased 38.4% from the previous month.
- Average monthly single unit housing permits in Maine in the 12-month period from February 2012 through January 2013 were 26.4% higher than in the previous 12-month period.



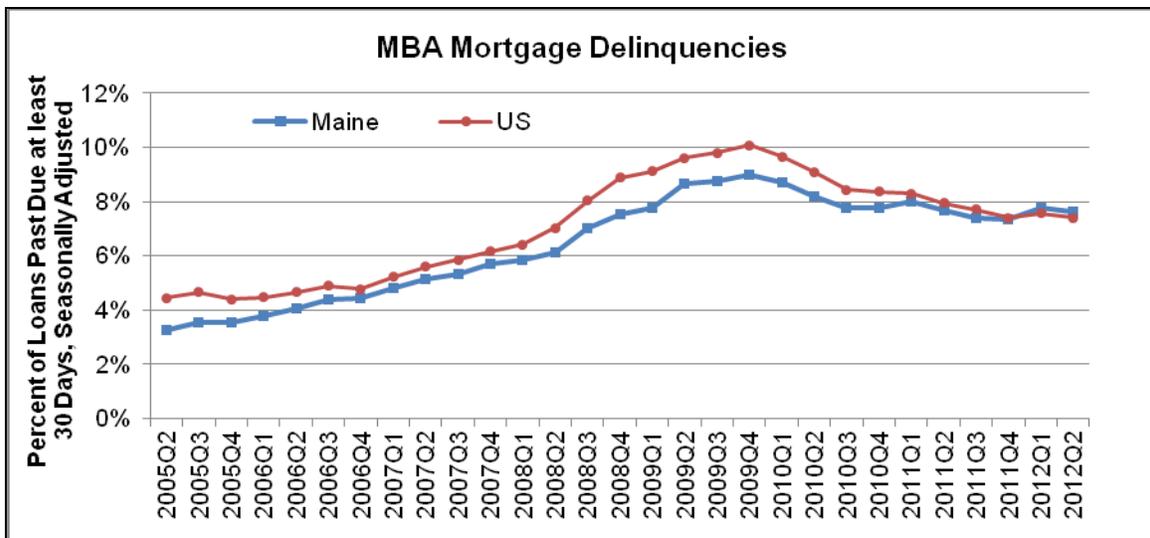
Source: US Census Bureau, February 27, 2013 release, via Federal Reserve Bank of Boston

- The median home price in the Portland – South Portland – Biddeford metropolitan area increased 4.6% year-over-year in the fourth quarter of 2012.
- The median home price in the Portland – South Portland – Biddeford metropolitan area in the fourth quarter of 2012 was \$218,900.



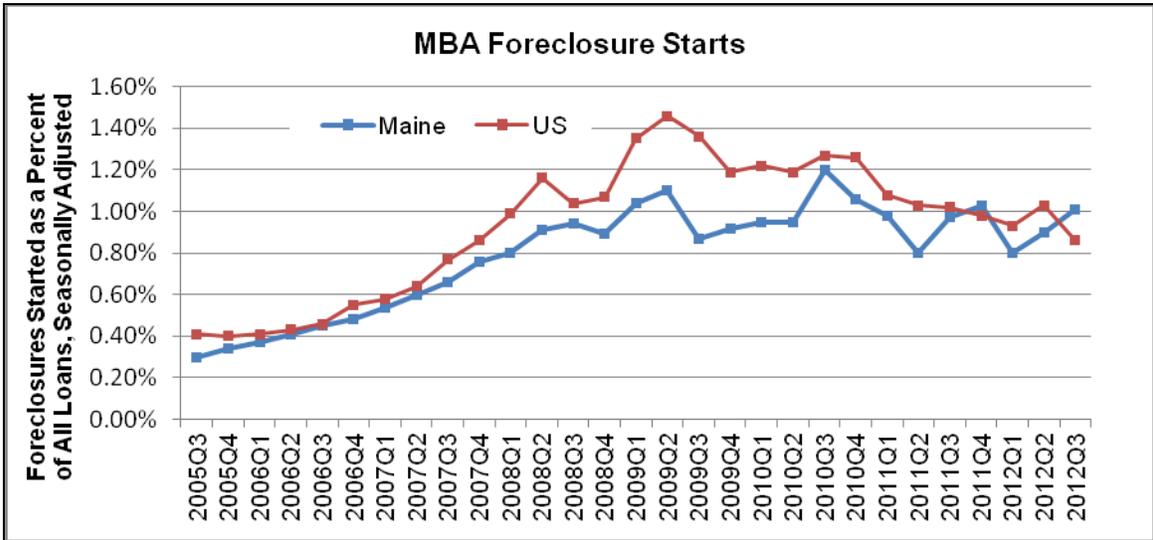
Source: National Association of Realtors, February 12, 2013 release, via Federal Reserve Bank of Boston

- The share of mortgages in Maine that are delinquent 30 days or more was 7.6% in the third quarter of 2012. That is below the recent peak of 9% in the first quarter of 2010 but well above pre-recession levels.



Source: Mortgage Bankers Association, via Moody's Analytics February 2013 release

- Maine’s foreclosure rate increased in the third quarter of 2012 and remains well above pre-recession levels.
- The rate of foreclosure starts was 1.0% in the third quarter of 2012.



Source: Mortgage Bankers Association, via Moody’s Analytics February 2013 release