Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
November 1, 2013

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 25, 2013, to review and revise the April 2013 forecast. This report provides a summary of the Commission's findings.

The Maine and U.S. economies continue on a slow and bumpy road to recovery since the CEFC last met in March 2013, with Maine's economy continuing to grow more slowly than the nation as a whole. Maine's Gross Domestic Product for 2012 was slightly higher than 2011, with all of the growth coming from private industry, but total GDP growth for the state was below the national rate of growth. Personal income in Maine grew 2.3% year-over-year in the first half of 2013, while wage and salary income, which makes up about half of total personal income, grew 2.1% over the same period. The debt-to-income level for Maine businesses and households continued its recent slow rise to 22.4%. The Consumer Price Index was 1.5% higher in August 2013 than it was in August 2012, driven largely by increases in fuels and utilities.

Nationwide, consumer sentiment declined 5.6% month-over-month in September due to the then-looming government shutdown, while small business optimism remained relatively stable over the month and was up over the previous year's level.

The price of crude oil increased 6.3% in the third quarter of 2013 to around $110 per barrel. Heating oil and gasoline prices remained relatively steady. The number of new automobile titles issued by the Maine Bureau of Motor Vehicles increased in FY 2012 compared to FY 2011, although the number of used auto titles decreased.

Existing single-family home sales in Maine were up 20% in August 2013 compared to August 2012 and housing permits for the September 2012-August 2013 year were 13% higher than the previous September-August period. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased 3.3% year-over-year in the second quarter of 2013. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the second quarter of 2013 and remains well above pre-recession levels.

The federal government experienced a 16-day shutdown earlier in October, ending shortly before the debt ceiling deadline was reached as Congress and the President came to agreement on a short-term solution. While there are certainly negative economic effects from the shutdown, not least of which is an erosion of consumer confidence, the relatively short length of the shutdown avoided any severe economic consequences. However, the next budget and debt ceiling debate will occur soon, with the next deadlines in January and February 2014. If a similar scenario were to play out, economic conditions may deteriorate further, posing a risk to the forecast in the near term. The CEFC will review and revise the forecast by February 1, 2014, and will consider the impacts of actual policy decisions at the federal level at that time. It is important to note that the national forecasts that were considered by the CEFC (IHS Global Insight and Moody's Analytics) were produced before the federal government shutdown had run its course and are based on more optimistic scenarios than actually occurred.

The major revisions to the forecast were to wage and salary employment, wage and salary income, supplements to wages and salaries, and total personal income. These changes were made based on a consensus that Moody's Analytics and Global Insight forecasts are based on overly optimistic population projections for the state of Maine, causing employment forecasts, among other things, to grow at an unattainable rate. For this reason, employment and the components of income most closely correlated with employment levels were revised downwards.

The 2013 wage and salary employment forecast was revised downwards 0.2 percentage points, from 0.7% to 0.5%, while the 2014-2017 employment forecast was revised downwards 0.3 percentage points each year (to 0.7% for 2014-2016 and 0.5% for 2017). Wage and salary income growth was revised downwards for 2014-2017 based on the lower employment growth. Total personal income was also revised downwards for 2013-2015, reflecting the lower wage and salary income growth. Personal income for 2016 was revised upwards by 0.1 percentage point and 2017 was left unchanged. Inflation, as measured by the Consumer Price Index (CPI), was revised downwards by 0.1 percentage point for 2013 and 2014 and upwards by 0.1 percentage point for 2015-2017.

The table below provides the forecast's major indicators.

Calendar Years	*2012*	2013	2014	2015	2016	2017
Wage & Salary Employment (Annual Percentage Change)						
CEFC Forecast 04/2013	*0.5*	0.7	1.0	1.0	1.0	0.8
CEFC Forecast 11/2013	*0.5*	0.5	0.7	0.7	0.7	0.5
Personal Income (Annual Percentage Change)						
CEFC Forecast 04/2013	*3.2*	2.5	4.6	3.9	4.0	4.3
CEFC Forecast 11/2013	*3.2*	2.3	4.4	3.8	4.1	4.3
Wage and Salary Income (Annual Percentage Change)						
CEFC Forecast 04/2013	*1.4*	2.4	3.9	3.8	3.8	3.7
CEFC Forecast 11/2013	*2.3*	2.4	3.4	3.4	3.4	3.4
CPI (Annual Percentage Change)						
CEFC Forecast 04/2013	*2.1*	1.6	1.7	1.6	1.8	1.8
CEFC Forecast 11/2013	*2.1*	1.5	1.6	1.7	1.9	1.9

On October 18, 2013, the CEFC held a data gathering session during which they heard from a variety of Maine industry associations as well as from Alicia Sasser Modestino, a senior economist for the Federal Reserve Bank of Boston's New England Public Policy Center. The presenters included the Maine Bankers Association, Maine Association of REALTORS, Manufacturers Association of Maine, Maine Automobile Dealers Association, Maine Medical Association, and Maine Forest Products Council, with additional material provided by the Maine Hospital Association. The summary of this data gathering session is available in a separate report. Overall, these business perspectives helped confirm the CEFC's subsequent findings that demographic headwinds present significant challenges for economic growth in the state.

In deliberations leading to consensus, the CEFC considered information presented by several state agencies, including the Maine Department of Labor, Maine Revenue Services, and the Office of Policy and Management. The following sections summarize these reports.

Office of Policy and Management

In 2012, Maine's real Gross Domestic Product was $45.986 billion, with $39.992 billion coming from private industries and $6.011 billion from government (federal, state, and local). All of Maine's recent growth in GDP has come from private industry. Maine's total real GDP increased

0.5% from 2011 to 2012, the third year in a row of GDP growth. However, this was considerably lower than national GDP growth, which was 2.5% from 2011 to 2012.

According to preliminary estimates from the U.S. Bureau of Economic Analysis, total personal income grew 2.3% year-over-year and wage and salary income grew 2.1% year-over-year in the first half of 2013. Total personal income for the second half of 2013 would need to be 1.0% higher than the first half of 2013 to hit the CEFC's annual forecast for 2013. Wage and salary disbursements would need to be 0.4% higher. Wage and salary disbursements, which are the largest component of personal income, averaged around $25 billion in the first half of 2013 (seasonally adjusted at annual rates). Total personal income averaged around $54 billion. Maine's debt to income ratio was 22.4% in the second quarter of 2013. The debt to income ratio has been rising gradually since early 2011 following a sharp increase in the fourth quarter of 2010.

The Consumer Price Index (CPI) rose 1.5% from August 2012 to August 2013. Core inflation, which excludes food and energy prices, rose 1.8% over the same period, due largely to increases in fuel and utilities. The Chained Consumer Price Index (Chained CPI) rose 1.4% from August 2012 to August 2013. Core inflation rose 1.6% over the same period. Chained CPI allows for substitutions in the basket of goods and services being measured.

In September 2013, the survey-based University of Michigan Consumer Sentiment Index decreased 5.6% month-over-month and was down 1.0% from a year ago as a result of the as-then anticipated government shutdown. The survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index decreased 0.2% from the previous month, although it was up 1.2% from September 2012.

The price of Brent crude oil was $109.65 per barrel in the third quarter of 2013, an increase of 6.3% from the second quarter of 2013 and a 0.2% increase from the third quarter of 2012. The price of heating oil in Maine at the start of the 2013-2014 season ($3.57/gallon on October 7, 2013) is slightly lower than the end of the 2012-2013 season. The price of heating oil in Maine has been fairly steady over the past two heating seasons, averaging around $3.76/gallon. The price of gasoline in New England on October 7, 2013 averaged $3.65, a decrease of $0.04 per gallon over the previous week and a decrease of $0.38 from the previous year. The price of gasoline has ranged between approximately $3.50 and $4.00 per gallon since March of 2011.

The number of new automobile titles issued by the Maine Bureau of Motor Vehicles increased 6.5% from FY 2011 to FY 2012, while the number of used automobile titles issued decreased 3.5%.

Single family existing-home sales in Maine were up 20.0% in August 2013 compared to August 2012. Average monthly single unit housing permits in Maine in the 12-month period from September 2012 through August 2013 were 13.1% higher than in the previous 12-month period. The median home price in the Portland – South Portland – Biddeford metropolitan area increased 3.3% year-over-year in the second quarter of 2013. The median home price in the second quarter of 2013 was $233,400. The share of mortgages in Maine that are delinquent 30 days or more was 7.3% in the second quarter of 2013. That is below the recent peak of 9% in the first quarter of 2010 but well above pre-recession levels. Maine's foreclosure rate increased to 1.04% in the second quarter of 2013 and remains well above pre-recession levels and is now considerably higher than the U.S. rate.

Maine Department of Labor

Workforce conditions continue to gradually improve in Maine. Our unemployment rate has trended modestly lower the last three years due to a rising share of employed population. This is in significant contrast to the nation. The U.S. unemployment rate has declined much more than in Maine, but that has entirely been due to millions leaving the labor force. The U.S. share of employed population has been virtually unchanged for 3.5 years. National job growth has been just under working age population growth.

Payroll job growth in Maine has lagged the nation during the recovery, reflecting our lack of working age population growth, a consequence of far fewer births the last 25 years. Private sector payroll job growth continues to be partially offset by declines in government. During the recovery, growth has been concentrated in human capital intensive sectors, including professional services, education, and health care. Job losses during and after the downturn have been concentrated in labor-intensive sectors, including manufacturing, construction, and retail. A large share of workers displaced from those sectors lack the education or experience to become employed in the sectors that are growing. This gap is a significant constraint to growth that hampers re-employment prospects for thousands.

The other major constraint to growth is the age structure of our population. We have an unusually large share of people approaching retirement age. The CEFC has relied on forecasts provided by Moody's Analytics and Global Insight, two of the leading commercial forecasters. Their forecasts have consistently over-projected growth in Maine, in large part because they have not fully accounted for our age profile. Staff at the Department of Labor's Center for Workforce Research developed an alternative employment forecast by applying employment to population ratios for age cohorts to population projections developed by the Office of Policy and Management for each cohort. That simple forecast method indicates job growth is unlikely to reach levels Moody's or GI have forecast. Rather, it indicates that once the labor market slack in the form unemployed workers becoming re-employed is alleviated, the number of jobs in Maine is likely to begin to trend lower sometime around 2020.

The presentation is available at
www.maine.gov/labor/cwri/publications/pdf/CEFC_October_2013.pdf

Maine Revenue Services

Total general fund revenues for the month of September 2013 were over budget by $20 million and over budget for the fiscal year-to-date by $13.3 million (2.2%). This positive variance is coming primarily from the individual income tax line, which was $19 million over budget for the month and $13 million over budget fiscal year-to-date. Of the variance for the month, about half is from estimated payments, which are up about 12% over September 2012. Most other states also saw an increase in the third estimated payment for the tax year. Withholding receipts were slightly behind budget for the fiscal year, but on target for the calendar year.

The sales and use tax line was over budget by 3.9% (about $4 million) for September and over by 3.7% (about $7.6 million) for the fiscal year-to-date. There could have been some pre-buying of high end goods in advance of the October 1 tax increase, but it will be impossible to separate that effect out from the effects of the government shutdown, which also began October 1. Taxable sales were up 6.0% for August 2013 compared to August 2012 and for the three months ending in August were up 5.5% compared to a year ago. The growth is coming in large part from two categories: building supply and auto/transportation, although lodging sales were also up significantly for August. Both building supply and auto/transportation are interest rate-sensitive; when interest rates increase, home and auto sales may decline. The national holiday shopping season forecast is for growth at approximately 3%, which is historically low and would be lower than last year. If this growth rate holds true for Maine, it would be low compared to historical growth but higher than last year's 1.8% decline.

The highway fund is about $1.4 million over budget fiscal year-to-date, with a 3.5% increase in fuel tax collections driving the increase. However, even with the current increase, the fuel tax is flat compared to last year.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody's Analytics baseline scenario and the IHS Global Insight baseline scenario. Each forecast was based on a different set of national macroeconomic assumptions. These forecasts were then compared to the CEFC's April 2013 forecast. Overall, the CEFC felt the Global Insight assumptions and forecast better reflected their current views of the economy. The key national macroeconomic assumptions from Global Insight are outlined below.

- The forecast, which was released in early October, assumed a one-week government shutdown with back pay for furloughed employees restored and an increase in the debt ceiling before the October 17 deadline.
- The sequester stays in place through the end of the year. For FY 2014, a budget slightly more than $967 billion will be in effect and contributions to GDP from federal government are slightly negative throughout most of the forecast period.
- Emergency unemployment insurance benefits were extended for 2013 and are assumed to phase out over several years instead of cutting off in 2014. The 50% bonus depreciation is not extended for 2014.
- Global oil capacity will be lower than anticipated in 2014 and 2015. Brent crude oil averages $104/barrel in 2014.
- The Federal Reserve will hold rates near zero until late 2015 and the QE3 program of mortgage-backed security purchases will end during 2014.
- The euro will weaken in late 2014 before rising in 2015 as the Eurozone economy strengthens.
- GDP growth in the U.S.'s major-currency trading partners will pick up in 2014 and 2015 as the Eurozone and UK experience stronger growth.

Consensus Forecast

The CEFC members were sympathetic to the population and labor force issues raised in the Department of Labor presentation and concurred that the national forecasts are likely overly optimistic in their population and employment projections for the state. The Commission decided to lower the employment forecast to reach a level more in line with current population trends and historical employment to population ratios. The new forecast results in employment around 616,000 in 2017; this remains below the pre-recession employment peak.

The CEFC then adjusted its forecast of wage and salary income growth to reflect the reduction in employment. This resulted in leaving 2013 growth untouched and then reducing wage and salary income by 0.5 percentage points in 2014, 0.4 percentage points in 2015-2016, and 0.3 percentage points in 2017 for a rate of 3.4% for 2014-2017. The forecast for other labor income (also known as supplements to wages and salaries) was also reduced, assuming a high correlation with employment levels. The other components of personal income were adopted from the Global Insight baseline. This overall result was a slight reduction in the total personal income forecast for 2013-2015, a 0.1 percentage point increase for 2016, and no change to 2017.

The CEFC accepted the Global Insight forecast for inflation, as measured by the Consumer Price Index, for all years. The inflation forecast calls for relatively steady growth between 1.5% this year and 1.9% in 2016-2017. The CEFC also agreed with the Global Insight forecast for corporate profits.

In general, the CEFC felt that Maine is experiencing growth, albeit at a slower rate than the U.S., and there continue to be some sources of concern, including the upcoming federal budget and debt ceiling debate that will lend a high degree of uncertainty to the February 1, 2014, forecast.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

November 2013 Forecast	History	Forecast				
	2012	2013	2014	2015	2016	2017
CPI-U* (Annual Change)	2.1%	1.5%	1.6%	1.7%	1.9%	1.9%
CPI for Energy Prices** (Annual Change)	0.9%	-0.8%	-1.3%	-0.4%	1.4%	1.3%
Average Price of a New Vehicle** (Annual Change)	0.5%	1.2%	3.4%	2.9%	2.3%	3.0%
New Vehicle Registrations** (Annual Change)	11.2%	12.1%	0.6%	0.7%	0.7%	0.1%
Personal Savings Rate**	5.6%	4.5%	5.0%	5.4%	5.8%	6.2%
Maine Unemployment Rate**	7.3%	6.9%	6.3%	5.7%	5.3%	5.0%
3-Month Treasury Bill Rate**	0.09%	0.05%	0.08%	0.40%	2.18%	3.62%
10-Year Treasury Note Rate**	1.80%	2.33%	2.91%	3.23%	3.81%	4.48%
Before-Tax Corporate Profits* (Annual Change)	18.5%	1.3%	12.3%	0.8%	0.2%	-1.3%
Maine Wage & Salary Employment* (thousands)	597.6	600.6	604.8	609.0	613.3	616.4
Natural Resources	2.5	2.5	2.4	2.4	2.5	2.5
Construction	25.6	26.3	26.3	26.3	26.3	26.4
Manufacturing	50.8	50.9	50.9	52.0	52.4	52.0
Trade/Trans./Public Utils.	117.5	118.8	120.1	120.8	121.7	122.6
Information	7.9	8.2	8.3	8.3	8.4	8.6
Financial Activities	31.4	31.2	31.0	30.8	30.5	30.2
Prof. & Business Services	57.9	59.3	61.5	64.0	66.0	67.7
Education & Health Services	121.1	120.2	121.2	122.2	124.3	126.5
Leisure & Hospitality Services	61.7	62.9	63.2	63.7	63.9	64.3
Other Services	20.0	20.0	19.7	19.5	19.3	19.2
Government	101.3	100.2	100.2	100.3	100.4	100.6
Agricultural Employment	14.0	14.0	14.0	14.0	14.0	14.0
Maine Wage & Salary Employment* (Annual Change)	0.5%	0.5%	0.7%	0.7%	0.7%	0.5%
Natural Resources	0.0%	-0.4%	-2.4%	0.7%	0.4%	0.0%
Construction	1.2%	2.8%	-0.2%	0.0%	0.1%	0.2%
Manufacturing	0.2%	0.1%	0.1%	2.2%	0.7%	-0.8%
Trade/Trans./Public Utils.	0.4%	1.1%	1.1%	0.6%	0.7%	0.7%
Information	-4.8%	3.7%	1.0%	0.1%	1.9%	1.6%
Financial Activities	-0.6%	-0.7%	-0.6%	-0.6%	-0.9%	-1.3%
Prof. & Business Services	0.7%	2.5%	3.6%	4.1%	3.1%	2.5%
Education & Health Services	1.2%	-0.7%	0.8%	0.8%	1.7%	1.8%
Leisure & Hospitality Services	2.8%	2.0%	0.5%	0.8%	0.3%	0.6%
Other Services	0.5%	-0.2%	-1.3%	-0.9%	-0.9%	-0.5%
Government	-0.8%	-1.1%	0.0%	0.1%	0.0%	0.2%
Agricultural Employment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	2012	2013	2014	2015	2016	2017
Personal Income* ($ million)	53,283	54,505	56,910	59,070	61,475	64,134
Wage & Salary Disbursements*	24,359	24,943	25,792	26,668	27,575	28,513
Supplements to Wages & Salaries*	6,296	6,441	6,664	6,904	7,160	7,439
Non-Farm Proprietors' Income*	3,932	4,182	4,404	4,621	4,830	4,991
Farm Proprietors' Income**	88	123	127	138	148	141
Dividends, Interest, & Rent*	9,249	9,684	10,342	10,863	11,503	12,466
Dividends	2,662	2,908	3,243	3,368	3,525	3,652
Interest	4,297	4,558	4,754	5,175	5,707	6,566
Rent	2,289	2,219	2,345	2,321	2,271	2,248
Transfer Payments*	11,828	12,204	12,850	13,369	13,985	14,515
Less: Contributions to Social Ins.**	3,602	4,217	4,449	4,703	4,963	5,199
Residence Adjustment**	1,133	1,146	1,180	1,208	1,237	1,268
Personal Income* (Annual Change)	3.2%	2.3%	4.4%	3.8%	4.1%	4.3%
Wage & Salary Disbursements*	2.3%	2.4%	3.4%	3.4%	3.4%	3.4%
Supplements to Wages & Salaries*	3.3%	2.3%	3.5%	3.6%	3.7%	3.9%
Non-Farm Proprietors' Income*	7.6%	6.4%	5.3%	4.9%	4.5%	3.3%
Farm Proprietors' Income**	-13.5%	39.4%	3.4%	9.0%	7.0%	-4.5%
Dividends, Interest, & Rent*	5.6%	4.7%	6.8%	5.0%	5.9%	8.4%
Dividends	9.6%	9.2%	11.5%	3.8%	4.7%	3.6%
Interest	0.2%	6.1%	4.3%	8.9%	10.3%	15.1%
Rent	12.1%	-3.1%	5.7%	-1.0%	-2.1%	-1.0%
Transfer Payments*	1.6%	3.2%	5.3%	4.0%	4.6%	3.8%
Less: Contributions to Social Ins.**	2.6%	17.1%	5.5%	5.7%	5.5%	4.8%
Residence Adjustment**	2.8%	1.1%	3.0%	2.3%	2.4%	2.5%

*CEFC Forecast

**From Global Insight - October 2013

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