

**Report of the  
CONSENSUS ECONOMIC FORECASTING COMMISSION  
November 1, 2008**

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## Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 16, 2008 to revise its February 2008 forecast. The new forecast projects a slowdown in national and state economic activity in the fourth quarter of 2008 (reflected in revised 2008 estimates) and into 2009. Since the commission's last meeting in January, the continued decline of the housing market coupled with a rapid rise in energy costs has further reduced consumer and business spending and stressed the financial system. Despite federal interventions such as the economic stimulus package and the \$700 billion rescue bill, economic conditions have continued to weaken, leading to job losses, a credit freeze, and significant anxiety among consumers and business owners. The underlying weakness of the national economy, along with the impacts of the closure of Naval Air Station Brunswick in 2009 are the primary reasons for the current reductions in the CEFC's Maine economic forecast.

The commission is projecting modest losses in Maine non-farm wage and salary employment in 2008 and 2009 (-0.2% and -0.7%, respectively), followed by a slow recovery starting in 2010. The forecast for personal income in 2008 is projected to be slightly above the January forecast, but has been reduced for 2009 and 2010 as a result of the weak job market. The commission increased its forecast for the Consumer Price Index (CPI), a measure of household inflation, to 4.4% in 2008, reflecting the significant rise in energy prices observed in the first two quarters of this year.

The table below outlines the forecast's major indicators.

Calendar Years	2008	2009	2010	2011	2012	2013
<b>Wage &amp; Salary Employment (Annual Percentage Change)</b>						
<b>CEFC Forecast 1/2008</b>	<b>0.0</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	
<b>CEFC Forecast 11/2008</b>	<b>-0.2</b>	<b>-0.7</b>	<b>0.4</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>
<b>Personal Income (Annual Percentage Change)</b>						
<b>CEFC Forecast 1/2008</b>	<b>3.5</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>	<b>4.2</b>	
<b>CEFC Forecast 11/2008</b>	<b>3.7</b>	<b>2.6</b>	<b>3.9</b>	<b>4.0</b>	<b>4.3</b>	<b>4.3</b>
<b>CPI (Annual Percentage Change)</b>						
<b>CEFC Forecast 1/2008</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.1</b>	
<b>CEFC Forecast 11/2008</b>	<b>4.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>

In making these adjustments, the CEFC drew upon information presented by several state agencies. The following sections summarize their reports.

### Maine Department of Labor

The most recent labor market reports, reflecting employment conditions through August 2008, show a slow decline in resident and nonfarm wage and salary employment since their peak near the first of the year, resulting in a slow increase in the unemployment rate. These trends are consistent with observations from the national labor market. The current unemployment rate in Maine, 5.5%, is the highest since September 2003. The number of nonfarm wage and salary jobs in August 2008 is 2,000 less than in August 2007.

Comparing the first eight months of 2008 to the same period last year, resident employment increased 1,400, nonfarm wage and salary employment remained flat, and the unemployment rate increased from 4.7% to 5.1%. Since mid-summer, the number of initial claims for unemployment insurance (4-week moving average) has risen above comparable rates observed in each of the past 3 years. Since April 2008, continuing claims have also been running above averages seen in recent years. Keeping with recent trends, job gains have been in the industries of health care and social assistance, and professional and business services. Job losses have been in the construction, manufacturing, trade, transportation, and utilities, financial activities, government, and information sectors. Wages for the first half of 2008 are up 3.7% compared to the same period last year.

### **Maine Revenue Services**

The latest taxable retail sales figures indicate that consumer sales are flat year-to-date. Business operating sales are also starting to decline. Anemic restaurant and lodging sales in June, July, and August point to a weak summer tourism season. Retail sales in the building supply and transportation sectors are down 3.6% and 3.7% through the first eight months of the year compared to the same period last year.

General Fund revenues are about \$10 million under budget fiscal year-to-date (-1.6% for July through September), with the largest component of the variance due to under-budget corporate income taxes (-16.8%). Revenues from the sales and use tax are up slightly through the first three months of the fiscal year, but were \$2 million down in September (-2.2%). They are expected to continue to weaken in the near-term, mirroring declines in the underlying economy. Individual income tax payments are on budget year-to-date; however, this may be misleading as 2008 payments are based on 2007 income. Expectations are that estimated payments for the fourth quarter of 2008, a time when many taxpayers reconcile their estimated income to actual income, may be negligible, bringing growth this year compared to 2007 down from the current level of 4.5% to 3 to 3.5%. The recent downturn in financial markets will also have a negative impact on 2008 capital gains taxes.

### **Maine State Planning Office**

The latest economic indicators show that the national and state economic outlook has worsened since the CEFC met in January. The Maine Coincident Economic Activity Index, an economic indicator that is a proxy for State GDP, decreased 1.0% in August 2008 over August 2007. Maine's year-over-year change has been flat or negative since March 2008. Nationally, for the past 3 months, the indexes have decreased for 35 states (including Maine), stayed the same for 3, and increased for 12.

Total personal income grew by 4.3% in the first 2 quarters of 2008 compared to the same period last year, partly due to the federal Economic Stimulus Act of 2008. Increases in transfer payments partially reflect economic stimulus payments to individuals with low or no tax liability. Wage and salary income grew by 3.7%.

The Consumer Price Index was 5.4% higher in August 2008 than a year ago. Year-to-date, prices are 4.6% higher than the same period last year. Core inflation, which excludes food and

energy, was 2.5% higher in August 2008 than a year ago, somewhat alleviating pressure on the Federal Reserve to raise interest rates.

The University of Michigan Consumer Sentiment Survey, a monthly survey that tracks consumer confidence in the economy, dropped 28% from January to June, but has been increasing since then.

The price of oil rose dramatically from \$89/barrel in January to a peak of just under \$150/barrel in July. Since July, a weakening economy has erased much of those gains, with WTI currently trading below \$80 (as of 10/15/08). There is still much uncertainty over where the price of oil is heading, as illustrated by divergent forecasts from Global Insights and Economy.com.

The price of heating oil has also risen dramatically since the beginning of this year, peaking at over \$4.50 per gallon. The price has fallen sharply in the past two months to a statewide average of \$3.62 (as of 10/6/08). This is still about a dollar more than the same time last year.

Existing home sales continue to fall, down over 20% in Maine in each of the first two quarters of 2008 compared to the same period last year. Building permits for single family homes also continue to trend downwards, down 40% in August 2008 compared to August 2007, on a seasonably adjusted basis. Since May 2006, 27 of 28 months have seen negative growth year over year. Home prices in the Portland–South Portland–Biddeford metropolitan area are down 6% in the second quarter compared to the same period last year. This makes nine consecutive quarters where prices have remained flat (< 1% increase) or decreased.

### **Consensus Forecast<sup>1</sup>**

In light of the latest economic data and the resulting changes in the forecast models, the CEFC made adjustments to its economic forecast. This round of adjustments primarily reflects lower expectations for national growth and changes in employment at Naval Air Station Brunswick (NASB) beginning in December 2008. (NASB will experience an initial reduction in force in 12/08 as the first P-3 squadron will be deployed overseas and will not return to Brunswick upon completion of their assignment. Three additional squadrons are slated to depart in summer 2009.) In considering these changes, the CEFC referred to economic forecasts from Global Insight, Economy.com, and the New England Economic Partnership (NEEP), all of which projected lower growth than previously forecast.

The economic situation for Maine, while worse than thought, is not catastrophic. Employment and income are now forecast to be lower than projected in January, but still better than headlines would lead one to believe. Maine will experience a tough fourth quarter, resulting in negative job growth for the year of -0.2%. 2009 will also see job losses, exacerbated by the closing of NAS Brunswick, and slow income growth. The CEFC forecasts growth in personal

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<sup>1</sup> In addition to the October 16<sup>th</sup> meeting, the CEFC met again by phone on October 29<sup>th</sup> to review its preliminary forecast. This meeting was held to augment information presented at the meeting on the 16<sup>th</sup> with additional economic data that had become available in the weeks after the first meeting. The CEFC consulted updated forecasts from the New England Economic Partnership (NEEP) and Global Insight. The CEFC incorporated this additional information into its official forecast, as presented in this report.

income to be 3.6% and 2.6% in 2008 and 2009, respectively. Wage and salary income is projected to be 3.4% in 2008 and then fall to 2.2% in 2009 before rising to 2.9% in 2010. The forecasts for personal income from nonfarm proprietors and dividends, interest, and rent have also been reduced.

A slow economic recovery will start in 2010, with a return in 2011–2013 to historical trends in employment and income growth. For comparison purposes, the current economic outlook for Maine may be similar to the recession seen in 1980–1982: about seven quarters of employment decline and then six quarters of recovery. In the near-term, Maine's economic climate may be worse than the mild recession in the early part of this decade, but better than the one in the early 1990s.

Because of the current volatility in the national economy, this forecast carries substantially more risk than past ones. It assumes that the financial crisis will resolve itself shortly, and that problems for small businesses and state and local governments in securing loans will not continue.

**Maine Consensus Economic Forecasting Commission**

November 2008 Forecast

	History				Forecast					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>CPI-U* (Annual Change)</b>	2.7%	3.4%	3.2%	2.8%	4.4%	2.5%	2.5%	2.2%	2.2%	2.2%
<b>Maine Unemployment Rate**</b>	4.6%	4.8%	4.6%	4.7%	5.4%	6.1%	5.8%	5.2%	4.9%	4.9%
<b>3-Month Treasury Bill Rate**</b>	1.4%	3.1%	4.7%	4.4%	1.8%	2.5%	4.0%	4.7%	4.4%	4.4%
<b>10-Year Treasury Note Rate**</b>	4.3%	4.3%	4.8%	4.9%	3.9%	5.2%	5.5%	5.0%	5.1%	
Employment, thousands										
<b>Maine Wage &amp; Salary Employment*</b>	611.7	611.7	614.7	617.4	616.1	611.8	614.3	620.4	625.4	629.8
<b>Natural Resources</b>	2.6	2.7	2.7	2.7	2.6	2.5	2.5	2.6	2.6	2.5
<b>Construction</b>	30.8	30.7	31.3	30.8	29.6	27.8	27.8	28.1	28.3	28.3
<b>Manufacturing</b>	63.0	61.4	60.0	59.1	58.4	57.2	57.5	58.1	58.0	57.5
<b>Trade/Trans./Public Utils.</b>	125.2	125.2	125.7	126.4	125.2	122.7	122.2	122.4	121.9	121.4
<b>Information</b>	11.2	11.2	11.2	11.3	11.2	11.1	11.1	11.1	11.1	11.1
<b>Financial Activities</b>	34.9	34.2	33.6	33.3	32.8	32.6	33.0	33.6	34.0	34.4
<b>Prof. &amp; Business Services</b>	49.6	50.3	52.0	53.6	54.7	55.5	56.4	58.3	59.9	61.5
<b>Education &amp; Health Services</b>	110.9	112.2	114.1	116.1	117.9	119.6	121.2	123.7	126.2	128.7
<b>Leisure &amp; Hospitality Services</b>	58.8	59.2	59.9	60.1	60.1	59.7	60.5	62.0	63.0	64.1
<b>Other Services</b>	20.0	20.0	19.7	19.9	19.8	19.4	19.2	19.1	19.0	19.0
<b>Government</b>	104.7	104.8	104.4	104.3	104.1	103.6	102.7	101.4	101.4	101.2
<b>Agricultural Employment</b>	14.0	18.8	18.0	17.6	18.4	18.4	18.4	18.4	18.4	18.4
Annual Growth Rate										
<b>Maine Wage &amp; Salary Employment*</b>	0.8%	0.0%	0.5%	0.4%	-0.2%	-0.7%	0.4%	1.0%	0.8%	0.7%
<b>Natural Resources</b>	4.0%	3.8%	1.5%	-1.8%	-5.0%	-2.0%	0.9%	1.8%	-0.1%	-0.9%
<b>Construction</b>	1.0%	-0.3%	2.0%	-1.6%	-4.0%	-6.0%	0.0%	1.0%	0.7%	0.0%
<b>Manufacturing</b>	-1.7%	-2.6%	-2.2%	-1.6%	-1.1%	-2.0%	0.5%	1.0%	-0.2%	-0.9%
<b>Trade/Trans./Public Utils.</b>	1.6%	0.0%	0.3%	0.6%	-1.0%	-2.0%	-0.4%	0.2%	-0.4%	-0.4%
<b>Information</b>	-0.9%	-0.4%	0.6%	0.7%	-1.3%	-0.6%	-0.2%	-0.2%	0.0%	0.4%
<b>Financial Activities</b>	-0.6%	-2.1%	-1.6%	-1.0%	-1.5%	-0.4%	1.0%	2.0%	1.2%	1.0%
<b>Prof. &amp; Business Services</b>	-1.4%	1.4%	3.4%	3.0%	2.0%	1.5%	1.7%	3.3%	2.7%	2.7%
<b>Education &amp; Health Services</b>	3.4%	1.2%	1.6%	1.8%	1.6%	1.4%	1.4%	2.0%	2.0%	2.0%
<b>Leisure &amp; Hospitality Services</b>	0.7%	0.7%	1.1%	0.4%	0.0%	-0.6%	1.3%	2.5%	1.7%	1.7%
<b>Other Services</b>	-1.5%	0.0%	-1.4%	0.9%	-0.7%	-1.8%	-1.3%	-0.3%	-0.4%	-0.3%
<b>Government</b>	1.0%	0.1%	-0.3%	-0.1%	-0.2%	-0.4%	-0.9%	-1.3%	0.0%	-0.2%
<b>Agricultural Employment</b>	-21.3%	34.3%	-4.3%	-2.2%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Seasonally adjusted, millions										
<b>Personal Income*</b>	39487.5	40379.6	42410.5	44735.5	46390.7	47596.8	49453.1	51431.2	53642.8	55949.4
<b>Wage &amp; Salary Disbursements*</b>	20210.9	20555.7	21410.3	22366.0	23126.5	23635.3	24320.7	25123.3	26103.1	27068.9
<b>Supplements to Wages &amp; Salaries*</b>	4902.8	5103.8	5231.8	5381.7	5510.9	5692.7	5892.0	6127.7	6391.2	6678.8
<b>Non-Farm Proprietors' Income*</b>	3092.1	3190.3	3329.1	3395.5	3409.1	3511.4	3641.3	3765.1	3878.0	3994.4
<b>Farm Proprietors' Income</b>	20.1	15.2	13.2	44.9	45.1	46.5	48.2	49.8	51.3	52.9
<b>Dividends, Interest, &amp; Rent*</b>	6144.8	5777.6	6632.2	7365.5	7683.7	7760.6	8179.6	8555.9	8975.1	9423.9
<b>Dividends</b>	2233.3	2033.0	2452.6	2902.8	3137.7	3201.1	3303.6	3357.1	3354.1	3337.4
<b>Interest</b>	3416.6	3505.4	3941.8	4224.3	4283.4	4247.0	4563.6	4886.3	5308.7	5773.0
<b>Rent</b>	494.9	239.2	237.7	238.4	262.5	312.4	312.4	312.4	312.4	313.7
<b>Transfer Payments*</b>	7460.6	8131.8	8286.8	8785.0	9392.1	9851.8	10433.5	11045.5	11653.6	12326.3
<b>Less: Contributions to Social Ins.</b>	3083.5	3166.8	3314.4	3465.2	3619.2	3764.3	3947.5	4142.7	4336.7	4545.4
<b>Residence Adjustment</b>	739.8	772.0	821.5	861.9	842.5	862.9	885.3	906.7	927.1	949.8
<b>Farm Income</b>	110.6	87.7	96.2	118.9	123.5	128.5	134.0	139.8	139.8	139.8
Annual Growth Rate										
<b>Personal Income*</b>	5.2%	2.3%	5.0%	5.5%	3.7%	2.6%	3.9%	4.0%	4.3%	4.3%
<b>Wage &amp; Salary Disbursements*</b>	4.8%	1.7%	4.2%	4.5%	3.4%	2.2%	2.9%	3.3%	3.9%	3.7%
<b>Supplements to Wages &amp; Salaries*</b>	4.1%	4.1%	2.5%	2.9%	2.4%	3.3%	3.5%	4.0%	4.3%	4.5%
<b>Non-Farm Proprietors' Income*</b>	14.3%	3.2%	4.3%	2.0%	0.4%	3.0%	3.7%	3.4%	3.0%	3.0%
<b>Farm Proprietors' Income</b>		-24.1%	-13.3%	239.9%	0.4%	3.0%	3.7%	3.4%	3.0%	3.0%
<b>Dividends, Interest, &amp; Rent*</b>	1.6%	-6.0%	14.8%	11.1%	4.3%	1.0%	5.4%	4.6%	4.9%	5.0%
<b>Dividends</b>	18.9%	-9.0%	20.6%	18.4%	8.1%	2.0%	3.2%	1.6%	-0.1%	-0.5%
<b>Interest</b>	-5.7%	2.6%	12.5%	7.2%	1.4%	-0.8%	7.5%	7.1%	8.6%	8.7%
<b>Rent</b>	-9.4%	-51.7%	-0.6%	0.3%	10.1%	19.0%	0.0%	0.0%	0.0%	0.4%
<b>Transfer Payments*</b>	6.1%	9.0%	1.9%	6.0%	6.9%	4.9%	5.9%	5.9%	5.5%	5.8%
<b>Less: Contributions to Social Ins.</b>	5.0%	2.7%	4.7%	4.5%	4.4%	4.0%	4.9%	4.9%	4.7%	4.8%
<b>Residence Adjustment</b>	5.9%	4.3%	6.4%	4.9%	-2.3%	2.4%	2.6%	2.4%	2.3%	2.4%
<b>Farm Income</b>	21.0%	-20.7%	9.7%	23.7%	3.9%	4.0%	4.3%	4.3%	0.0%	0.0%

\*CEFC Forecast

 \*\*Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - September 2007  
 Remaining lines derived from the CEFC forecast by CEFC staff and reviewed by the CEFC.