APPENDIX E

Economic Background Information

Table of Contents

Consensus Economic Forecasting Commission (CEFC) February 2012 Report E-1
Assumptions used in Maine Revenue Services Tax Models E-7
Economic Variables Used in March 2012 Forecast.....E-8
Governor's Office Press Release on Heating Fuel Prices.....E-9

Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
February 1, 2012

Commissioners

James A. Clair, Chair
Chief Executive Officer
Goold Health Systems

Gradon R. Haehnel
Manager of Rates
Bangor Hydro Electric

Michael LeVert
Economist
Hannaford/Delhaize America

J. Scott Moody
Chief Economist
Maine Heritage Policy Center

Eric N. Stinneford
Vice President – Controller, Treasurer & Clerk
Central Maine Power

Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on January 26th, 2012, to review and revise the November 2011 forecast. This report provides a summary of the Commission's findings.

National and state economic indicators suggest little to no improvement in economic conditions since the CEFC met in October 2011. Maine's coincident economic activity index grew modestly in the three months ending in November but remains below pre-recession levels. Most other states saw growth over the three months ending in November as well. Nationwide, consumer sentiment and small business optimism both increased over the four months ending in December. According to preliminary estimates from the Bureau of Economic Analysis, personal income in Maine grew only 3.1% year-over-year in the first three quarters of 2011, with the largest component of personal income—wages and salaries—growing only 1.4% over the same period. The Consumer Price Index rose 3.1% from 2010 to 2011. After falling 12.5% in the third quarter of 2011, the price of crude oil rebounded 4.2% in the fourth quarter of 2011. Growth in Maine and US home sales was flat in the third quarter of 2011. Month-over-month, housing permits in Maine grew 15% in September, 13% in October, and 17% in November. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) declined 3% year-over-year in the third quarter of 2011. 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 2011 and remains well above pre-recession levels.

The official CEFC forecast for February 2012 is the same as the November 2011 forecast, as the Commission saw little to no change in the economic outlook. Wage and salary employment growth is expected to be 0.1% in 2012, which is a net increase of about 860 jobs. Annual personal income growth is expected to be 3% in 2012 and 2013. According to the January 19, 2012 release by the Bureau of Labor Statistics (BLS), the Consumer Price Index (CPI) rose 3.1% in 2011, a slightly higher rate of inflation than forecast by the CEFC in November 2011. The forecast for inflation, which now begins in 2012, remains unchanged from November.

The table below provides the forecast's major indicators.

Calendar Years	**2011**	**2012**	**2013**	**2014**	**2015**
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 11/2011	**0.1%**	**0.1%**	**0.8%**	**1.3%**	**1.4%**
CEFC Forecast 02/2012	**0.1%**	**0.1%**	**0.8%**	**1.3%**	**1.4%**
Personal Income (Annual Percentage Change)					
CEFC Forecast 11/2011	**3.8%**	**3.0%**	**3.0%**	**4.7%**	**4.8%**
CEFC Forecast 02/2012	**3.8%**	**3.0%**	**3.0%**	**4.7%**	**4.8%**
CPI (Annual Percentage Change)					
CEFC Forecast 11/2011	**3.0%**	**1.3%**	**1.9%**	**2.3%**	**2.1%**
CEFC Forecast 02/2012	***3.1%***	**1.3%**	**1.9%**	**2.3%**	**2.1%**

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 Maine State Planning Office. The following sections summarize these reports.

Maine State Planning Office

In November 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 November 2011, the state coincident indexes increased in 43 states, decreased in 6 states, and stayed the same in one state. This is an improvement from August 2011 (the data available at the last CEFC meeting), when the indexes increased in 33 states, decreased in 17, and stayed the same in one.

According to preliminary estimates from the Bureau of Economic Analysis (BEA), total personal income grew 3.1 percent year-over-year and wage and salary income grew 1.4% year-over-year in the first three quarters of 2011. However, these growth rates were substantially lower than the growth rates shown in embargoed preliminary data from the QCEW (provided by the Maine Department of Labor) and the most recent data on income tax withholdings from Maine Revenue Services.

The Consumer Price Index (CPI) rose 3.1 percent from 2010 to 2011. Core inflation, which excludes food and energy, rose 1.7 percent over the same period.

In December 2011, the survey-based University of Michigan Consumer Sentiment Index increased 9 percent month-over-month, driven by higher expectations for the economy in 2012. Although December marked the fourth consecutive month of improvement, the index was down 6.2 percent year-over-year and consumers continue to give their personal finances poor ratings.

In December 2011, the survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index gained 1.8 points, marking the fourth consecutive month of improvement. Overall, however, the index is still well below pre-recession levels.

After falling from over $100/barrel in the second quarter of 2011 to $90/barrel in the third quarter of 2011, the price of oil rose 4 percent to $93/barrel in the fourth quarter of 2011. The price of heating oil in Maine ($3.80/gallon on January 23, 2012) is higher than it was at the same time of year in any of the past four heating seasons.

Growth in existing-home sales in Maine was flat between the second and third quarters of 2011 (seasonally adjusted at annual rates). Existing-home sales in Maine were 21 percent below their post-recession peak, which occurred in the fourth quarter of 2009 and the second quarter of 2010.

Monthly single unit housing permits in Maine increased 17 percent in November 2011, representing the third consecutive month of growth. However, permits in the 12-month period from December 2010 through November 2011 were 28 percent lower than in the previous 12-month period.

The median home price in the Portland – South Portland – Biddeford metropolitan area decreased 3.3 percent year-over-year in the third quarter of 2011.The median home price in the Portland – South Portland – Biddeford metropolitan area in the third quarter of 2011 was $219,600. The peak third quarter value was $249,100, which was recorded in 2005.

Maine Department of Labor

There has been little change in the job market since the CEFC met in late October. From the start of the recession through the summer of 2010, Maine lost nearly 30,000 nonfarm jobs on a seasonally-adjusted basis. Annual benchmark estimates to nonfarm payroll jobs estimates (to be

released in early March) indicate the number of jobs to be virtually unchanged from September 2010.

The unemployment rate in Maine has declined to 7.0 percent in November and December, after peaking at 7.8 percent in June 2011. However, changes in the unemployment rate over the course of 2011 were driven in large part by changes in the labor force participation rate, not due to changes in the number of jobs.

In Maine and especially in the US, there is more slack in the labor market than indicated by the unemployment rate. If labor force participation were at pre-recession levels, unemployment rates would be 8 percent in Maine and 11.5% in the US. This is because labor force participation has not declined in Maine as much as it has in the US. The labor force participation rate in Maine appears to have settled between 65-66%, compared to 64% for the nation as a whole.

Maine's employment to population ratio is also significantly higher than the US but both remain low compared to pre-recession levels. Similarly, Maine outperforms the nation in each of the six "alternative measures of labor utilization", which account for discouraged workers, long-term unemployed, workers employed part-time for economic reasons, and other marginally attached workers.

Online job postings have fallen since last spring, but remain higher than 2010 on an over-the-year basis.

Inflation-adjusted total wages in the four quarters through 2011Q3 were up $72 million from the low period of 2009 Q3 to 2010 Q2, but they remain $830 million below the pre-recession peak

Population growth will be a challenge in the years ahead as baby boomers age and the number of births continues to trend lower. Maine's natural increase of births minus deaths was just 700 in 2010 and is expected to trend lower in the years ahead. In order to sustain population growth it will be important for Maine to attract more in-migrants than it has out-migrants.

Maine Revenue Services

Total revenues for December 2011 exceeded budget by 2.6 percent (around $6.3 million) for the month and 0.7 percent (around $8.9 million) fiscal year to date. Most of the positive variance came from the corporate income tax line, which was 14.2 percent over budget for the month of September and 5.4 percent over budget fiscal year to date.

Consumer retail sales remain weak. Growth in November 2011 was 3.8 percent year-over-year, not adjusted for inflation. Sales in the "Other retail" category, which is relatively more weighted toward boutiques and stores that cater to upper-middle income households, showed year-over-year growth of 6.0 percent for November, while "general merchandise" stores saw 1.1% year-over-year growth. In general, high-end retailers and discount retailers appear to be seeing stronger sales growth than mid-market retailers. Sales at automobile dealers and transportation-related stores declined 5.0 percent year-over-year in November.

A preliminary sample of December retail sales suggests a relatively weak month of December in retail stores. More complete data for December will be available in mid-February.

Macroeconomic Assumptions

Five different economic forecasts were examined at the meeting: four 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 November 2011 forecast. The CEFC concluded that the economic outlook had not changed significantly

since their last meeting in late October and decided to leave the November 2011 forecast unchanged. Therefore, many of the assumptions underlying the November forecast continue to hold.

Growth in the US economy will be weak. A recession is not expected, but chances are still uncomfortably high (30-40 percent). The 2 percentage point social security payroll tax cut will be extended for 2012 and then phased out over several years.

The Federal Reserve will hold rates near zero until January 2014 and another round of quantitative easing worth $600 billion is still imminent, although it will mostly target mortgage-backed securities. 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 in early 2012 due to the continuing sovereign debt crisis in Europe.

Global growth will slow over the forecast period. It is assumed that Europe tipped into a mild recession in the fourth quarter of 2011. GDP growth in the US' major currency trading partners will be 1.7 percent in 2011 and 1.1 percent in 2012. GDP growth in other important trading partners will slow from 7.3 percent in 2010 to 5.2 percent in 2011 to 4.1 percent in 2012.

Oil prices have proven resilient to recession fears due to emerging-market demand growth, limited spare capacity, and supply risks. Oil prices in 2012 will be about the same as they were in 2011.

Consensus Forecast

The CEFC made no adjustments to its economic forecast, seeing few significant changes in most economic indicators and the overall economic outlook. The slow growth in employment and personal income in 2012 reflects the expectation of a continuing crisis 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.

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 between $95-100 per barrel in 2012. There continue to be 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.

Preliminary BEA estimates for the third quarter of 2011 suggest that wage and salary growth in 2011 is likely to fall short of the current forecast. However, these preliminary BEA estimates are substantially lower than growth rates shown in embargoed preliminary data from the QCEW (provided by the Maine Department of Labor) and the most recent data on income tax withholdings from Maine Revenue Services. Given that BEA preliminary estimates will be revised in subsequent data releases according to QCEW data, the CEFC remains confident in the current forecast of 2.8 percent annual growth in wages and salaries in 2011.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

February 2012 Forecast

	History	Forecast				
	2010	2011	2012	2013	2014	2015
CPI-U* (Annual Change)	1.6%	*3.1%*	1.3%	1.9%	2.3%	2.1%
CPI for Energy Prices** (Annual Change)	9.6%	*15.2%*	-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	594.3	599.1	607.0	615.7
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

Assumptions Used in Sales & Excise Model

(1) Total Personal Income

(2) Inflation (CPI-U)

(3) Total Employment Growth
  (a) Growth by Sector

(4) Forecast of CPI for Energy Prices (Global Insights – October 2011)

(5) Forecast of new passenger car & light truck registrations in Maine (Global Insights – October 2011)

(6) Forecast of average price of new vehicle (Global Insight – October 2011)

(7) Forecast of Personal Savings Rate (Global Insight – October 2011)

Assumptions Used in Individual Income Tax Model

(8) Total Personal Income
  (a) Growth by Component

(9) Inflation (CPI-U)

(10) Total Employment Growth

(11) Unemployment Rate

(12) 3-Month Treasury Bill Rate

(13) 10-Year Treasury Note Rate

Assumptions Used in Corporate Income Tax Model

(14) Inflation (CPI-U)

(11) Total Employment Growth
  (a) Growth by Sector

(12) Forecast of Before-Tax Corporate Book Profits (Global Insight – October 2011)

Economic Variables Used in Revenue Forcast - Actuals 2009-11 & October, 2011 Global Insight Forecast 2012-15

	2009	2010	**2011**	2012	2013	2014	2015
Oil - WTI ($ per barrel)	$61.69	$79.41	**$95.08**	$88.60	$97.77	$106.04	$108.01
Consumer Prices	-0.3	1.6	**3.1**	1.3	1.9	2.3	2.1
Fuel Oil & Other Fuels	-32.2	17.3	**28.3**	-6.1	3.7	3.2	1.7
Electricity	3.0	0.2	**1.9**	2.8	2.7	3.7	2.9
Natural Gas	-22.0	-2.0	**-2.7**	-0.2	10.7	4.4	0.9
New Motor Vehicles	1.0	2.1	**2.8**	-0.7	0.9	1.7	1.5
Motor Vehicle Fuels, Lubricants & Fluids	-26.8	18.3	**25.9**	-5.1	4.1	3.4	1.1
Saving Rate (%)	5.2	5.3	**4.3**	4.8	3.8	4.4	5.0
Maine New Passenger Car & Light Truck Registrations (Thous.)	45.00	47.22	**48.02**	51.54	55.86	58.17	59.47
Maine Population (Thous.)	1329.34	1328.63	**1328.24**	1331.62	1334.07	1337.17	1340.80
Population US, Millions	307.8	310.8	**313.8**	316.9	319.9	323.0	326.2
Maine Home Price, Existing Median (Dollars)	$160,854	$157,716	**$153,330**	$145,941	$152,812	$161,889	$172,600
Maine Home Sales, Existing Single-Family (Thousands)	22.00	22.70	**21.70**	22.96	24.32	26.48	28.48

STATE OF MAINE
OFFICE OF THE GOVERNOR
22 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0001

PAUL R. LEPAGE
GOVERNOR

KENNETH C. FLETCHER
DIRECTOR
OFFICE OF ENERGY
INDEPENDENCE AND SECURITY

For Immediate Release
February 21, 2012

Contact: Jeffrey Marks
(207) 287-8927

Heating Oil Price Escalation Should Prompt Home and Business Energy Assessments

Augusta, Maine – The Governor's Office of Energy Independence and Security (OEIS) conducted its weekly heating fuel price survey on Monday, February 20, 2012 and found that the current statewide average cash price for No. 2 heating oil to be **$3.79 per gallon,** an increase of 2 cents from last week.

$3.37 2/21/11

"Crude oil prices rose to their highest level since May 2011 in the midst of geopolitical turmoil in Iran and Syria and potential inroads in the Greek economic crisis, but supplies appear to be adequate to meet world demand, " said OEIS Director Ken Fletcher. "State government's primary role is to ensure that people have the information and options to gain access to resources needed to reduce their energy use and costs. For example, the Governor and my office are working with natural gas stakeholders to explore expansion of service to residential, commercial and industrial customers. Wood pellets, insulation and conservation strategies may also be available depending on homeowners' and business' needs and motivations." Using this week's average heating oil price and converting to a common heating unit value (million Btu) the price of fuel oil is at $27.33. This compares with an equivalent heating unit value for natural gas of $15.70 (at $1.57/therm); propane, $34.93 (at $3.19/gallon); wood pellets, $14.30 (at $236/ton); and cord wood, $10.50 (at $210/cord). OEIS has a calculator on its web site that allows consumers to estimate home heating costs and price impacts of various energy sources. http://www.maine.gov/oeis/docs/heatcalculatorMEv3_1.xls.

As of February 20, 2012

Heating Oil	**Statewide**	**Southwest**	**Central**	**Eastern**	**Western**	**Northern**
Average	3.79	3.72	3.85	3.83	3.70	3.90
High	4.07	3.85	4.07	3.99	3.85	3.93
Low	3.54	3.54	3.70	3.70	3.55	3.85
Kerosene	4.18	4.13	4.23	4.22	4.06	4.30
Propane	3.19					

It is important to note that the price for heating oil is a statewide average and that prices in a given geographic region of the state may be considerably higher or lower than the statewide average. Within the OEIS sample, the lowest actual heating oil price of $3.54 per gallon can be found in the Southwest region. The highest price of $4.07 per gallon was found in the Central region. The statewide kerosene price average is $4.18 per gallon at this time. The statewide average for propane ***based on a use of 925 gallons a year*** is $3.19 per gallon. The table above provides current Maine cash prices in dollars rounded to the nearest penny. On February 20, the price of WTI crude oil, a major driver of refined petroleum product prices, including heating oil, was at $104.26 per barrel. Efficiency Maine links Maine homeowners and businesses with qualified, certified contractors who provide access to energy improvement options. For program details call 866-376-2463 or visit www.efficiencymaine.com.

PHONE: (207) 287-3292