

## 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 Maine Consensus Economic Forecasting Commission (CEFC) convened on October 25, 2012, and followed up briefly on October 29, 2012, to review and revise the February 2012 forecast.

National and state economic indicators suggest little improvement in economic conditions since the CEFC met in February 2012. Maine’s coincident economic activity index was unchanged in the three months ending in August and remains below pre-recession levels. About half the states saw growth over the three months ending in August. Nationwide, consumer sentiment and small business optimism are up over year-ago levels. Personal income in Maine grew 3.0% year-over-year in the first half of 2012, while wage and salary income grew 1.3% over the same period. The Consumer Price Index was 2.0% higher in September 2012 than it was in September 2011.

The price of crude oil (West Texas Intermediate) remained fairly steady in the third quarter of 2012 around \$92 per barrel. Home sales in Maine increased in six of the seven months since January 2012. Month-over-month, housing permits in Maine grew 33% in August. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased 3.1% year-over-year in the second 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 second quarter of 2012 and remains well above pre-recession levels.

Uncertainty stemming from the “fiscal cliff” has continued to restrain economic growth in recent months. The “fiscal cliff” is a major fiscal tightening that includes the expiry of the Bush tax cuts, the payroll tax cut, emergency unemployment insurance benefits, and depreciation incentives as well as the sequester spending cuts, for a cliff estimated to be worth 3.0% of GDP nationally. *The CEFC assumes that there will be a constructive solution reached by the new Congress and president preventing any extensive deterioration of economic conditions. Given the severe impact to the economy if a solution is not successfully reached, the CEFC will reevaluate their forecast in the first quarter of calendar year 2013 in response to actual policy decisions at the federal level.*

Wage and salary employment growth was revised upwards slightly for 2012 and slightly downwards for 2013-2015 to reflect more robust current-year employment growth and longer-term structural workforce challenges, respectively. Personal income growth was revised upwards for 2012 in part to reflect the stronger employment growth and in 2013 to reflect increased dividends, interest and rent income, while 2014 and 2015 were revised downwards. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2012 and downwards for 2013-2015.

The table below provides the forecast’s major indicators. A more detailed list of economic assumptions, which are incorporated into the revenue forecasting models used by the Revenue Forecasting Committee, are on the following page.

Calendar Years	2011	2012	2013	2014	2015	2016	2017
<b>Wage &amp; Salary Employment</b> (Annual Percentage Change)							
CEFC Forecast 02/2012	0.1	0.1	0.8	1.3	1.4		
CEFC Forecast 11/2012	0.0	0.3	0.7	1.0	1.0	1.0	0.8
<b>Personal Income</b> (Annual Percentage Change)							
CEFC Forecast 02/2012	3.8	3.0	3.0	4.7	4.8		
CEFC Forecast 11/2012	4.6	3.5	3.2	4.1	3.9	4.2	3.8
<b>CPI</b> (Annual Percentage Change)							
CEFC Forecast 02/2012	3.1	1.3	1.9	2.3	2.1		
CEFC Forecast 11/2012	3.1	2.0	1.3	1.8	1.7	1.9	1.9

