Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 26, 2010 to revise its February 2010 forecast. This report provides a summary of the Commission's findings.

While national and state economic conditions have been improving over the past months, the rate of improvement has been slow. In August, Maine's year-over-year economic activity index crossed over into positive territory for the first time since April 2008. However, consumer sentiment remains weak and some states that had been seeing improvement are facing renewed declines. Personal income has been slow to recover, but corporate profits have been increasing significantly this year. While home sales experienced a temporary boost from the homebuyer credit, they have dropped off again following the expiration of that credit.

The October forecast reflects the slowing pace of the national and state economic recovery. The revised forecast has slightly upgraded its expectations for wage and salary employment and personal income in 2010, while reducing its expectations for growth in 2011 for wage and salary employment and the Consumer Price Index. Wage and salary employment is expected to begin slowly gaining ground in the first quarter of 2011, with more rapid gains expected in 2012 and 2013. Personal income growth is generally expected to be somewhat better than previously forecast, particularly in 2010, led by growth in wages and salaries, proprietors' income, and transfer payments.

The commission also made slight upward revisions in 2012 and 2013 to its forecast of Consumer Price Index (CPI), although 2011 was revised slightly downwards (from 2.0% to 1.5%). This reflects the expectation that there will be no sustained inflationary pressures in the economy for some time.

The table below provides the forecast's major indicators.

Calendar Years	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Wage & Salary Employment (Annual Percentage Change)						
CEFC Forecast 02/2010	**-1.3**	**1.2**	**2.2**	**2.0**		
CEFC Forecast 11/2010	**-1.0**	**0.4**	**1.5**	**2.1**	**1.7**	**1.0**
Personal Income (Annual Percentage Change)						
CEFC Forecast 02/2010	**1.5**	**3.0**	**4.0**	**4.6**		
CEFC Forecast 11/2010	**2.9**	**3.0**	**4.7**	**4.9**	**5.0**	**4.5**
CPI (Annual Percentage Change)						
CEFC Forecast 02/2010	**1.7**	**2.0**	**2.1**	**2.0**		
CEFC Forecast 11/2010	**1.7**	**1.5**	**2.3**	**2.6**	**2.3**	**2.2**

In making these adjustments, the CEFC drew upon information presented by several state agencies, including the Maine Department of Labor, Maine Revenue Services, and the Maine State Planning Office. In addition, the State Planning Office provided information on the national views taken by Moody's Analytics and Global Insight as well as forecasts for Maine prepared by Moody's Analytics, Global Insight, and Dr. Colgan for the New England Economic Partnership. The following sections summarize these reports.

Maine State Planning Office

The latest economic indicators show that economic conditions have improved slightly since the CEFC's last meeting. The Maine Coincident Economic Activity Index, an economic indicator that is a proxy for State GDP, increased 1.0% in August 2010 over August 2009. This is the first time Maine's year over year change has been positive since April 2008.

Nationally, for the three months ending in August, the indexes have increased in 40 states (including Maine), stayed the same in 4, and decreased in 6 states.

Total personal income grew by 2.6% over the first two quarters of 2010 compared to the first two quarters of 2009. Wage and salary income grew by 1.7%.

The Consumer Price Index was 1.1% higher in September 2010 than a year ago. Core inflation, which excludes food and energy, was 0.8% higher in the same time frame. The Consumer Price Index for the first half of 2010 was 2.1% higher than the first half of 2009.

In July 2010, the University of Michigan Consumer Sentiment Survey, a monthly survey that tracks consumer confidence in the U.S., declined after several months of stability. It has decreased 6% from February 2010 to August 2010.

The price of oil remained just below $80/barrel in the first half of 2010, still much lower than the 2008 peak of nearly $124/barrel. Prices have been increasing in recent weeks, with WTI currently trading around $83 (as of 10/18/10).

The price of heating oil for most of the 2009-2010 season was above the previous season's levels. The price for the 2010-2011 season, which has just begun, is currently above 2009-2010 levels, coming in at $2.74 per gallon as of October 11, 2010, and is similar to prices from early in the 2007-2008 season.

Existing-home sales in Maine rose slightly between the first and second quarters of 2010, from 23,600 to 26,400 (seasonally adjusted). Compared to the same period last year, existing-home sales in Maine were up 29.4% in the second quarter of 2010, exceeding year-over-year growth for the US. The jump in sales in late 2009 was significantly assisted by the homebuyer tax credit, and sales have been falling following the expiration of that credit.

Building permits for single family homes were down 17.3% in July 2010 compared to July 2009, on a seasonally adjusted basis. All but one of the months from November 2009 to June 2010 saw positive year-over-year change.

Home prices in the Portland–South Portland–Biddeford metropolitan area were up 4% in the second quarter of 2010 compared to the same period last year. This marked the second consecutive quarter of growth following 15 consecutive quarters where prices remained flat (<1% increase) or decreased.

Maine Department of Labor

The unemployment rate remained below the national average in 2009 and in 2010 to date, due to a combination of slower population growth and a lower rate of job loss. As with other states, the unemployment rate in Maine has begun to decline in 2010, primarily because of a sharp drop in labor force participation. It appears that most of the workers leaving the labor force are younger and some may be leaving to take advantage of further educational opportunities. If Maine had not experienced this drop in labor force participation, the unemployment rate would be higher: likely around 9%, compared to the current 7.7%. As the economy improves and more people re-enter the workforce, the unemployment rate is likely to rise again.

The sharp decline in jobs appears to have ended in early 2010, with around 30,000 jobs lost since the start of the recession. Since the beginning of the year, nonfarm jobs estimates have been up and down without showing any consistent growth. The volatility in monthly figures created by the new estimating procedures required by the Bureau of Labor Statistics enhances these fluctuations, making it difficult to see month-to-month patterns. Revisions to the jobs estimates will likely result in the estimates for most months being revised upwards by around 4,000 jobs.

Total wages paid have continued to increase slowly, although they are still well below peak wages. Some of the increase in wages likely comes from the increase in average hours worked. For all private sector jobs, average weekly hours worked have increased nearly a full hour over 2009's lows.

Job postings are still up from 2009 levels, but have been trending slightly lower since spring. Following a surge in March and April, postings dropped off until July, when they experienced another jump. September's levels were on par with job postings for June.

The Bureau of Economic Analysis (BEA) recently revised its personal income estimates, including earnings by place of work, which is comparable to total wages paid from the Quarterly Census of Employment and Wages. The BEA revision brought the earnings by place of work more in line with total wages than previous estimates. Overall, wage and salary growth is flat for the first half of 2010 compared to the first half of 2009.

Employment in temporary help services trended up from year ago levels the first half of 2010. Rising temporary employment is often a precursor to more widespread job growth during a recovery. Employment in health services, the only sector to post consistent job growth throughout the recession, peaked last winter and has trended below year ago levels since. Health care job losses in 2010 have been concentrated in practitioners' offices and nursing and residential care facilities.

Maine Revenue Services

Total revenues for September 2010 were over budget by 1.3% (around $3.8 million) for the month and 4.7% (around $26.3 million) fiscal year to date. Most of the variance has come from the individual and corporate income tax lines. A surge in individual income tax withholding in August has provided most of the surplus. Individual income taxes were over budget by 6.3% (around $18.3 million) fiscal year to date, while corporate income taxes were over budget by 11.7% (around $4.6 million). The corporate income tax for the month of September was over budget by 24.1% (around $6.8 million).

An unusually large estate tax payment increased the year to date surplus to around $1.9 million, or 104.1% of budget. The sales and use tax and service provider tax combined are running a surplus of around $600,000 fiscal year to date, and will probably be close to budget for October.

Overall, the corporate income tax has held up revenues for the fiscal year. Estimated payments will be around $5 million over budget in October and final payments will be around $2.3 million over budget. Additionally, there have not been a lot of refund requests. This seems to be showing a return to profitability, particularly for large, multinational corporations.

Total taxable sales have been up year-over-year about 3.0% in both the first and second quarters of 2010, while the third quarter will probably be up about 2.0%. Most of the increases came from higher sales in March and April. Third quarter taxable sales for auto and transportation will probably be flat compared to 2009, due to the boost in 2009 sales from Cash for Clunkers.

National View

Both Global Insight and Moody's Analytics share similar views of the national picture. Overall, the economic recovery is slowing. Job creation is too slow to keep unemployment from rising, demand remains low as households and businesses continue to deleverage, and boosts from inventory replacement and the recovery act are ending. While it appeared that things were picking up in March and April of this year, the European debt crisis shattered confidence and caused businesses and consumers to retrench. New employment peaks will be slow to arrive: Global Insight projects a return to pre-recession U.S. employment levels by the first quarter of 2015, while Moody's Analytics, which is generally more optimistic, projects a return by the third quarter of 2013.

The possibility of a double-dip recession has increased. Both Global Insight and Moody's Analytics acknowledge the possibility, although Moody's Analytics gives the chances at one in three while Global Insight is at one in four. The uncertainty around fiscal policies is having a negative effect on businesses. For the forecasts, both Moody's Analytics and Global Insight assume that the Bush tax cuts will be extended temporarily through 2011 for all earners. While small businesses are still suffering from the credit crunch, lack of demand, and low consumer confidence, larger businesses have seen a dramatic increase in profits.

Inflation is not a concern at this point in time; in fact, if national unemployment rises back over 10%, nominal wages may be cut and deflation may become a reality. Housing remains an issue, as home values may drop further by the end of next year.

The Federal Reserve Bank will remain aggressive, intervening in money markets with a view to keep long-term interest rates low through 2011 at least. Demand for vehicles and housing is likely to start increasing soon. Household formations have been very low through the recession. In the next few years, increases in household formations will lead to increased demand for housing. Higher profits for firms should lead to hiring soon as firms seek to grow. Both Moody's Analytics and Global Insight agree that there will not be another substantial fiscal stimulus package.

Consensus Forecast

The CEFC made adjustments to its economic forecast according to the latest economic data and the resulting changes in the forecast models. This round of adjustments reflects the slowing pace of recovery from the recession. In considering these changes, the CEFC referred to economic forecasts from Global Insight, the New England Economic Partnership, and Moody's Analytics (formerly Moody's Economy.com).

The CEFC forecast of annual growth is based on forecasts of change on a quarterly basis for 2010 and 2011, which were then converted to annual year-over-year growth rates for these two years. This was done to allow the Commission to fully examine the question of when the turning point in the economy would be reached and the extent of the change from recession to recovery. The CEFC also seeks to provide more detailed advice on the issue of the timing of changes in the economy to help the Revenue Forecasting Committee translate an economic forecast based on calendar years into a revenue forecast based on fiscal years. It should be noted that there is a greater amount of uncertainty in forecasts of quarterly rates than annual ones, but the importance of identifying the turning point dictates the use of annualized quarterly growth rates. The Commission continued to consider only annual growth rates for 2012-2015.

The CEFC assumed that the Federal Reserve Bank would refrain from raising interest rates through 2011 in continued efforts to boost economic activity. In addition, the Commission assumed that the Bush tax cuts would be extended at all income levels through 2011. This is the assumption incorporated in both of the national forecasts used by the Commission. If this assumption proves incorrect, the Commission's revised forecast in April will incorporate the actual decisions made by Congress.

The revised forecast expects employment loss to begin a gradual increase in the first quarter of 2011, with a more substantial recovery beginning in 2012. Employment loss in 2009 was worse than expected, but the Commission projected a slightly smaller loss of jobs in 2010 than it had in February. The Commission is projecting an overall loss in Maine non-farm wage and salary employment in 2010 (-1.0% on an annual average year-over-year basis), followed by a recovery period starting in early 2011. Growth will be stronger in 2012-2014 before slowing down again in 2015. Despite recent declines in the unemployment rate, it is likely that it will begin to rise even as jobs are being created as people who had become discouraged and left the labor force during the recession begin searching for jobs again.

The Commission revised its estimate of total personal income upward for 2010 (from 1.5% to 2.9%). Personal income typically recovers before employment growth occurs as businesses increase hours, end furloughs, and reinstate overtime before hiring new employees. Recent improvements in average hours worked have borne this out, and wage and salary income has been revised upwards as a result.

Quarterly personal income forecasts were revised upwards for the third and fourth quarters of 2010 (from 2.0% and 2.6% to 3.2% and 2.7%, respectively). The annual forecast was revised upwards in 2010, 2012, and 2013 with 2011 being left unchanged.

The forecast for wage and salary income growth was revised upwards significantly for 2010 – 2013. Wage and salary income growth is projected to be 1.8% in 2010 (revised from -0.4%). Both Department of Labor wage data and Maine Revenue Services withholding data confirm stronger growth in wages indicating the Commission was too pessimistic in this aspect of the February forecast. Wages will grow at increasing rates to an estimated 6.2% growth in 2013. By 2015, wage and salary income growth will be back to typical growth levels. The forecast for other labor income was also revised upwards in 2010, 2012, and 2013.

Non-farm proprietors' income for 2010 was revised significantly upwards, from 1.6% to 6.2%. 2011 – 2013 were also revised strongly upwards before again returning to typical growth levels by 2015.

The forecast for dividends, interest, and rent was revised downwards for 2010 – 2013. This reflects the longer period of exceedingly low interest rates and continued weakness in the real estate market. 2014 and 2015 are projected to see higher rates of growth (6.0% in each year).

Transfer payments were revised upward for 2010 (from 2.0% to 6.1%) to reflect continuing government aid, however, 2011 – 2013 were revised slightly downwards. 2014 and 2015 are expected to see higher rates of growth as the health care reform act takes full effect.

The Commission made only minor adjustments to its forecast for the Consumer Price Index (CPI), a measure of household inflation, revising 2011 downward (from 2.0% to 1.5%) and 2012 and 2013 upward (from 2.1% and 2.0% to 2.3% and 2.6%, respectively). In previous recessions, income growth has been held up by inflation, but during this recession incomes have not had this boost. For example, there was no cost-of-living adjustment for social security in 2009 or 2010 because of the decline in the CPI.

The following two pages provide the full annual forecast and the quarterly forecast for key indicators.

Maine Consensus Economic Forecasting Commission

November 2010 Forecast

	Annual History	Annual Forecast					
	2009	2010	2011	2012	2013	2014	2015
CPI-U* (Annual Change)	-0.4%	1.7%	1.5%	2.3%	2.6%	2.3%	2.2%
Maine Unemployment Rate**	8.0%	8.2%	8.3%	7.9%	6.3%	5.4%	5.4%
3-Month Treasury Bill Rate**	0.2%	0.2%	0.4%	1.5%	3.2%	3.9%	3.7%
10-Year Treasury Note Rate**	3.3%	3.2%	3.6%	5.1%	5.0%	4.6%	4.5%
Maine Wage & Salary Employment*	595.1	589.2	591.5	600.4	613.0	623.4	629.7
Natural Resources	2.4	2.7	2.9	3.0	3.0	3.0	3.0
Construction	25.1	22.6	22.5	22.7	23.0	23.3	23.4
Manufacturing	52.5	52.6	53.3	54.0	54.8	55.2	55.2
Trade/Trans./Public Utils.	118.3	116.4	116.8	117.5	118.7	119.5	119.5
Information	9.2	9.1	9.0	9.1	9.3	9.5	9.7
Financial Activities	31.6	30.1	30.1	30.6	31.4	32.1	32.4
Prof. & Business Services	54.8	54.1	55.4	57.3	59.5	60.6	61.3
Education & Heath Services	118.8	118.4	119.0	121.3	124.9	128.2	131.3
Leisure & Hospitality Services	59.3	61.0	62.0	63.8	66.2	68.2	69.6
Other Services	19.5	19.4	19.9	20.1	20.5	20.8	21.0
Government	103.5	102.9	100.8	101.3	102.0	103.0	103.4
Agricultural Employment	16.5	16.7	16.9	16.9	16.9	16.9	16.9
Maine Wage & Salary Employment*	-3.6%	-1.0%	0.4%	1.5%	2.1%	1.7%	1.0%
Natural Resources	-6.6%	11.4%	8.7%	1.5%	1.5%	0.8%	-0.2%
Construction	-14.7%	-9.9%	-0.6%	1.0%	1.5%	1.4%	0.1%
Manufacturing	-10.7%	0.1%	1.4%	1.4%	1.4%	0.7%	0.0%
Trade/Trans./Public Utils.	-5.2%	-1.6%	0.3%	0.6%	1.0%	0.7%	0.0%
Information	-12.3%	-1.8%	-0.7%	0.8%	2.5%	2.1%	1.7%
Financial Activities	-3.4%	-4.6%	0.0%	1.5%	2.8%	2.0%	1.1%
Prof. & Business Services	-3.1%	-1.2%	2.3%	3.5%	3.8%	1.9%	1.1%
Education & Heath Services	1.1%	-0.3%	0.5%	1.9%	3.0%	2.6%	2.5%
Leisure & Hospitality Services	-1.4%	2.9%	1.6%	2.8%	3.8%	3.1%	2.0%
Other Services	-1.8%	-0.5%	2.2%	1.0%	2.0%	1.7%	0.7%
Government	-0.9%	-0.6%	-2.0%	0.5%	0.6%	1.0%	0.4%
Agricultural Employment	-7.3%	1.2%	1.2%	0.0%	0.0%	0.0%	0.0%

	2009	2010	2011	2012	2013	2014	2015
Personal Income*	48,089.7	49,484.3	50,968.8	53,364.4	55,979.2	58,778.2	61,423.2
Wage & Salary Disbursements*	23,184.4	23,601.7	24,404.1	25,795.2	27,394.5	28,901.2	30,115.0
Supplements to Wages & Salaries*	5,926.2	6,127.7	6,323.7	6,602.0	6,951.9	7,327.3	7,657.0
Non-Farm Proprietors' Income*	3,409.5	3,620.8	3,830.9	4,072.2	4,275.8	4,446.8	4,624.7
Farm Proprietors' Income	66.1	71.2	70.9	73.9	77.1	80.4	83.8
Dividends, Interest, & Rent*	7,481.0	7,481.0	7,570.8	7,941.8	8,338.9	8,839.2	9,369.6
Dividends	2,227.9	2,256.9	2,306.6	2,415.0	2,528.5	2,680.2	2,841.0
Interest	4,102.7	3,983.7	3,983.7	4,182.9	4,400.4	4,638.0	4,896.3
Rent	1,150.4	1,240.2	1,279.9	1,343.8	1,409.7	1,521.1	1,632.1
Transfer Payments*	11,033.9	11,706.9	11,999.6	12,311.6	12,644.0	13,187.7	13,833.9
Less: Contributions to Social Ins.	3,835.8	3,970.0	4,100.3	4,314.1	4,622.4	4,947.1	5,202.4
Residence Adjustment	824.5	831.0	848.3	872.1	904.8	936.4	961.4
Personal Income*	-0.2%	2.9%	3.0%	4.7%	4.9%	5.0%	4.5%
Wage & Salary Disbursements*	-2.5%	1.8%	3.4%	5.7%	6.2%	5.5%	4.2%
Supplements to Wages & Salaries*	1.7%	3.4%	3.2%	4.4%	5.3%	5.4%	4.5%
Non-Farm Proprietors' Income*	-6.5%	6.2%	5.8%	6.3%	5.0%	4.0%	4.0%
Farm Proprietors' Income	-12.4%	7.7%	-0.5%	4.3%	4.3%	4.3%	4.3%
Dividends, Interest, & Rent*	-6.8%	0.0%	1.2%	4.9%	5.0%	6.0%	6.0%
Dividends	-14.1%	1.3%	2.2%	4.7%	4.7%	6.0%	6.0%
Interest	-8.6%	-2.9%	0.0%	5.0%	5.2%	5.4%	5.6%
Rent	21.7%	7.8%	3.2%	5.0%	4.9%	7.9%	7.3%
Transfer Payments*	12.3%	6.1%	2.5%	2.6%	2.7%	4.3%	4.9%
Less: Contributions to Social Ins.	-0.5%	3.5%	3.3%	5.2%	7.1%	7.0%	5.2%
Residence Adjustment	-4.7%	0.8%	2.1%	2.8%	3.7%	3.5%	2.7%

*CEFC Forecast

**Maine Unemployment Rate and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Analytics - October 2010

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

Maine Consensus Economic Forecasting Commission

November 2010 Forecast

Seasonally adjusted, annualized, quarter-to-quarter growth rates

	Quarterly History			Quarterly Forecast					
	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4
CPI-U (Percent Change)*	0.8%	1.6%	1.9%	1.5%	1.5%	1.7%	1.5%	1.9%	2.2%
Maine Wage & Salary Employment	589.4	590.5	588.2	589.4	589.2	589.8	590.7	592.2	593.9
Maine Wage & Salary Employment (Percent Change)	-2.5%	0.7%	-1.5%	0.8%	-0.1%	0.4%	0.6%	1.0%	1.2%
Personal Income	48,493	48,830	49,301	49,691	50,023	50,296	50,632	51,118	51,696
Personal Income (Percent Change)	1.9%	2.8%	3.9%	3.2%	2.7%	2.2%	2.7%	3.9%	4.6%

* Not Seasonally Adjusted