

Office of Policy and Management

Executive Department

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Consensus Economic Forecasting Commission Background Materials for the October 25, 2012 Forecast Meeting

Summary

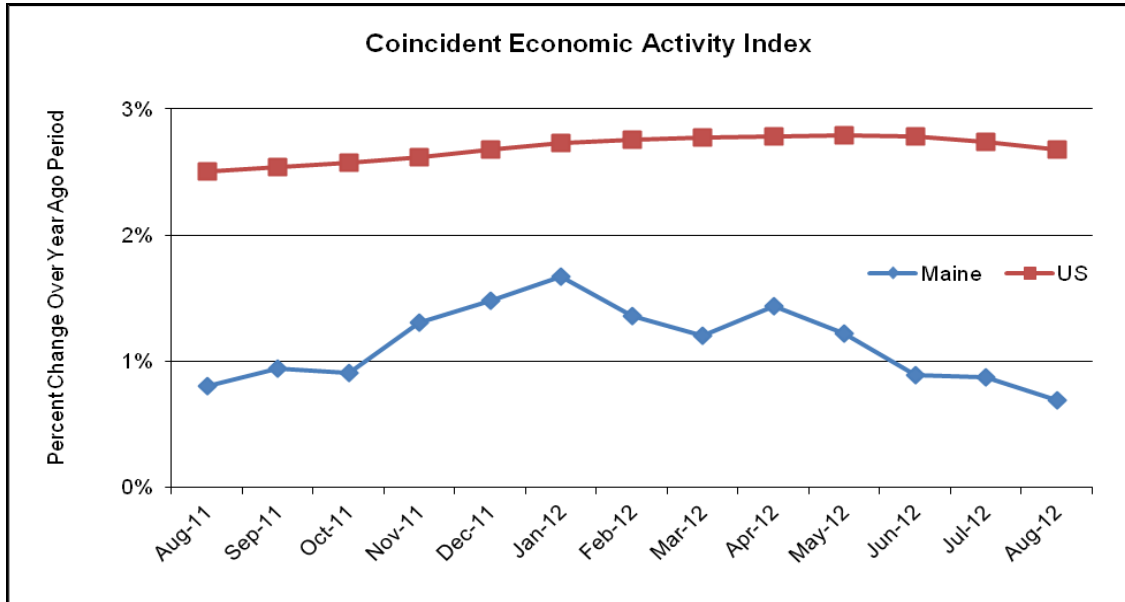
National and state economic indicators suggest a lack of improvement in economic conditions since the CEFC met in February 2012. Maine's coincident economic activity index was unchanged in the three months ending in August and remains below pre-recession levels. About half the states saw growth over 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 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.

The following presents a picture of the Maine economy, comparing current economic indicators to historical results.

Overall Economic Activity

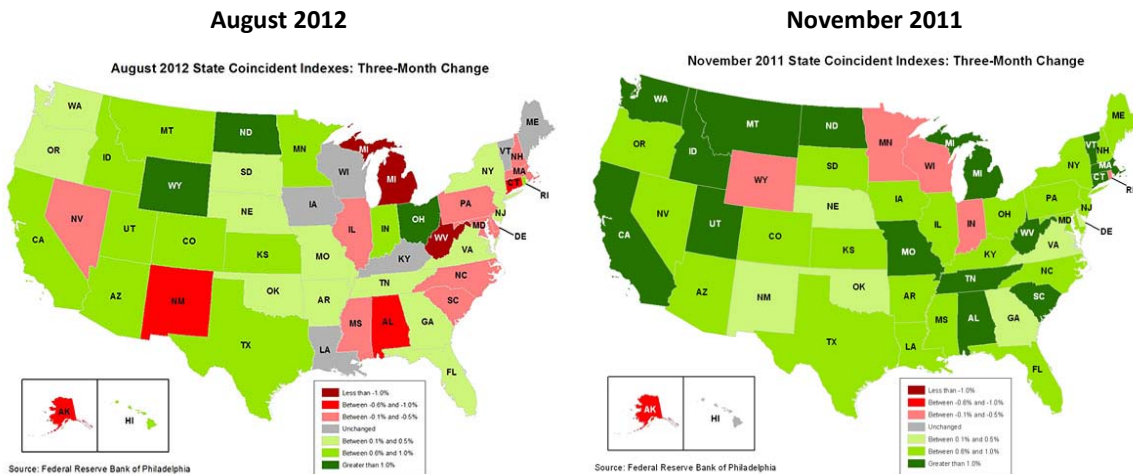
- In August 2012, the Maine Coincident Economic Activity Index, a composite of four economic indicators (three employment statistics plus real wage and salary income) that summarizes overall economic conditions, was 0.7% higher than it was in August 2011.



Source: Federal Reserve Bank of Philadelphia, September 25, 2012 release.

State Coincident Index Three-Month Percent Change

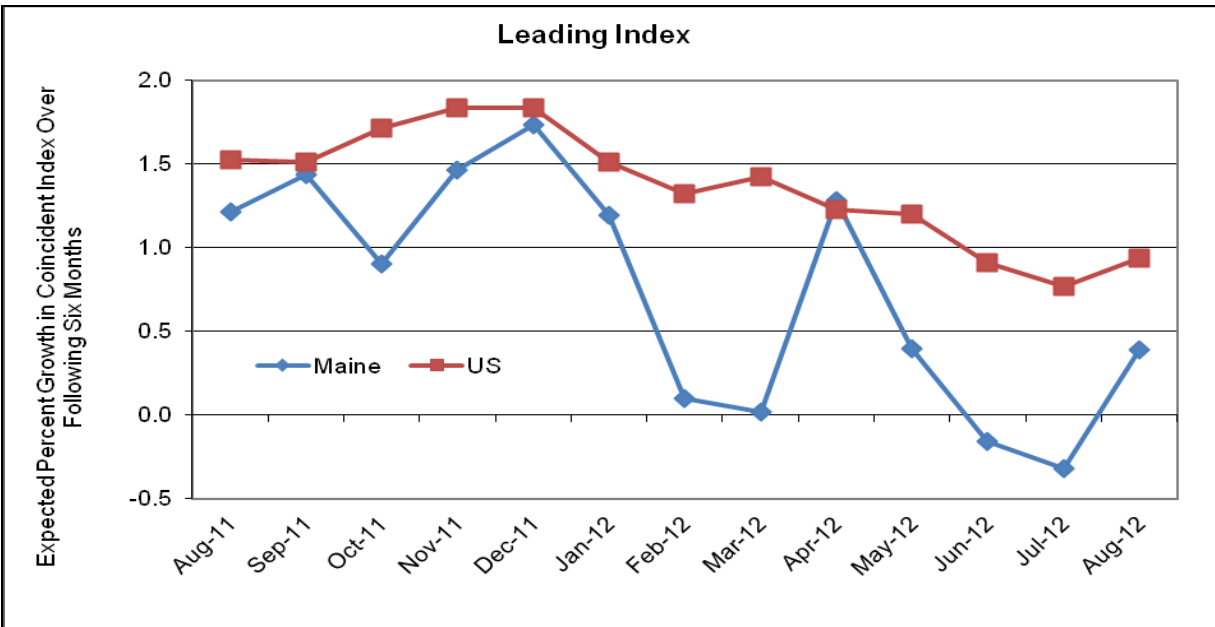
- For the three months ending in August 2012, the state coincident indexes increased in 28 states, decreased in 16, and remained unchanged in six, including Maine.
- In November 2011 (the data available at the last CEFC meeting) the state coincident indexes increased in 43 states, decreased in six states, and remained unchanged in one.



Source: Federal Reserve Bank of Philadelphia, September 25, 2012 release

State Leading Indexes

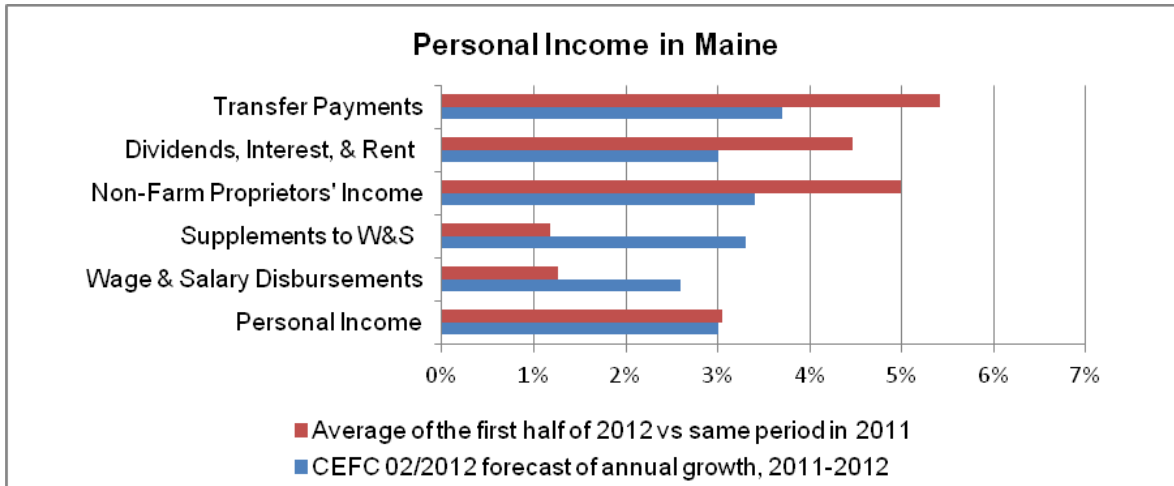
- The State Leading Index predicts the six-month growth rate of the State Coincident Index. It uses the Coincident Index plus four other variables that lead economic activity: state-level housing permits (1 to 4 units), state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. In August 2012, the State Leading Index for Maine was 0.39, meaning the State Coincident Index is expected to grow 0.39% over the six-month period from August 2012 to February 2013.



Source: Federal Reserve Bank of Philadelphia, October 2, 2012 release

Personal Income

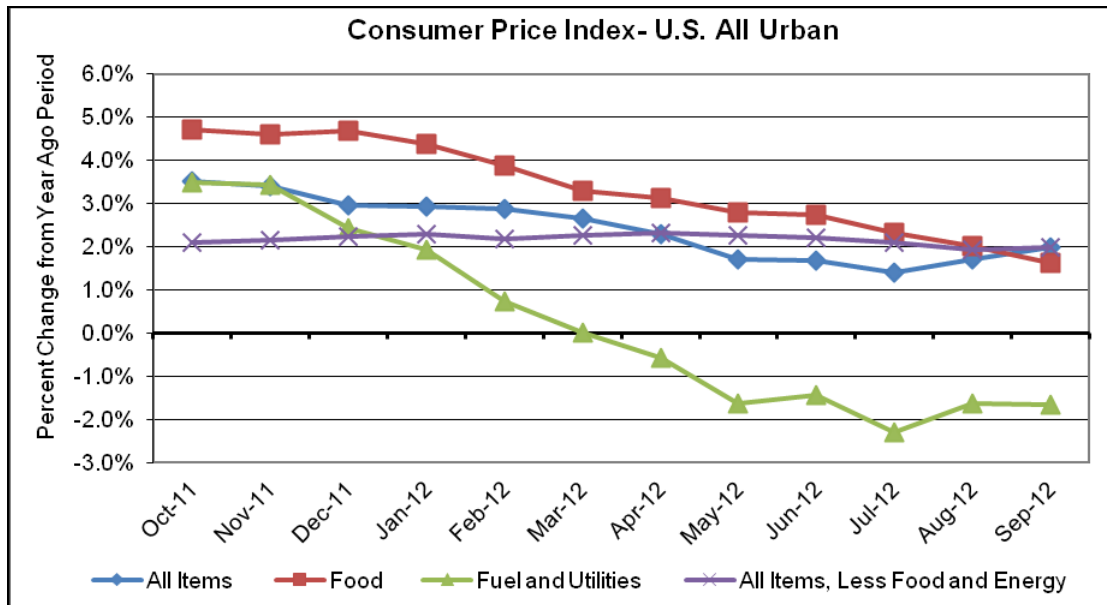
- According to preliminary estimates from the Bureau of Economic Analysis, total personal income grew 3.0% year-over-year and wage and salary income grew 1.3% year-over-year in the first half of 2012.
- Total personal income for the second half of 2012 would need to be 1.0% higher than the first half of 2012 to hit the CEFC's annual forecast for 2012. Wage and salary disbursements for the second half of 2012 would need to be 2.8% higher than the first half of 2012 to hit the forecast.



Source: US Bureau of Economic Analysis, September 25, 2012 release

Consumer Price Index

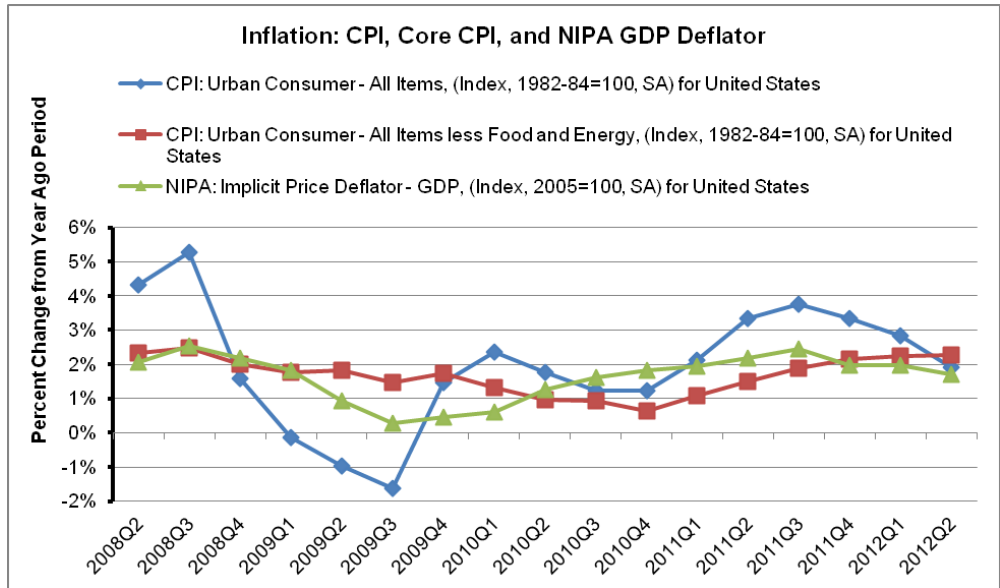
- On an annual basis, the CPI rose 3.2% from 2010 to 2011.
- The Consumer Price Index (CPI) rose 2.0% from September 2011 to September 2012.
- Core inflation, which excludes food and energy prices, also rose 2.0% over the same period, as increases in food costs offset declines in fuel and utilities costs.



Source: Bureau of Labor Statistics, October 16, 2012 release

Comparison of Inflation Indicators (seasonally adjusted data from Moody's Analytics)

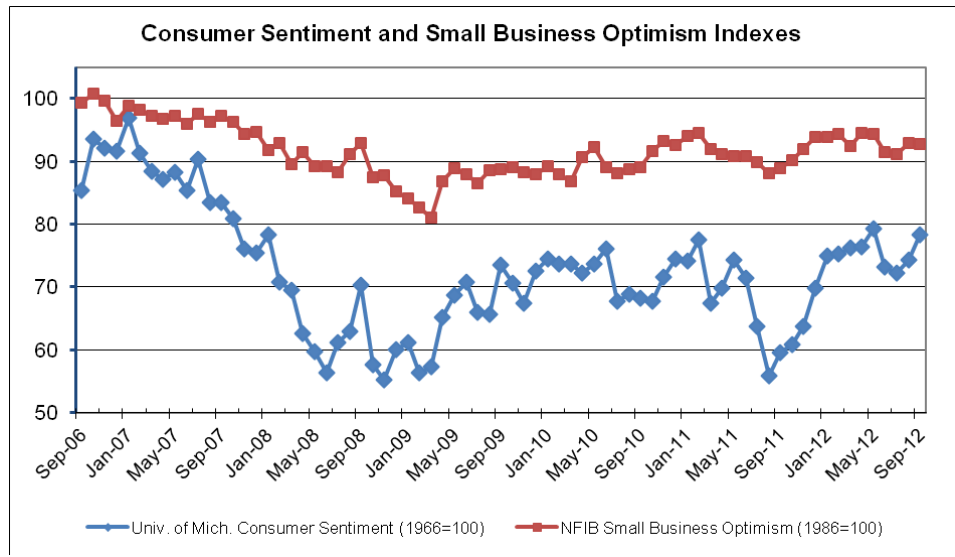
- The Consumer Price Index (CPI) rose 1.9% year-over-year in the second quarter of 2012.
- Core CPI (all items less food and energy) rose 2.3% over the same period.
- The BEA National Income and Product Accounts (NIPA) Implicit Price Deflator for Gross Domestic Product rose 1.7% over the same period.



Source for CPI: Bureau of Labor Statistics, via Moody's Analytics October 2012 release
 Source for GDP Deflator: Bureau of Economic Analysis, via Moody's Analytics October 2012 release

Consumer Sentiment and Small Business Optimism

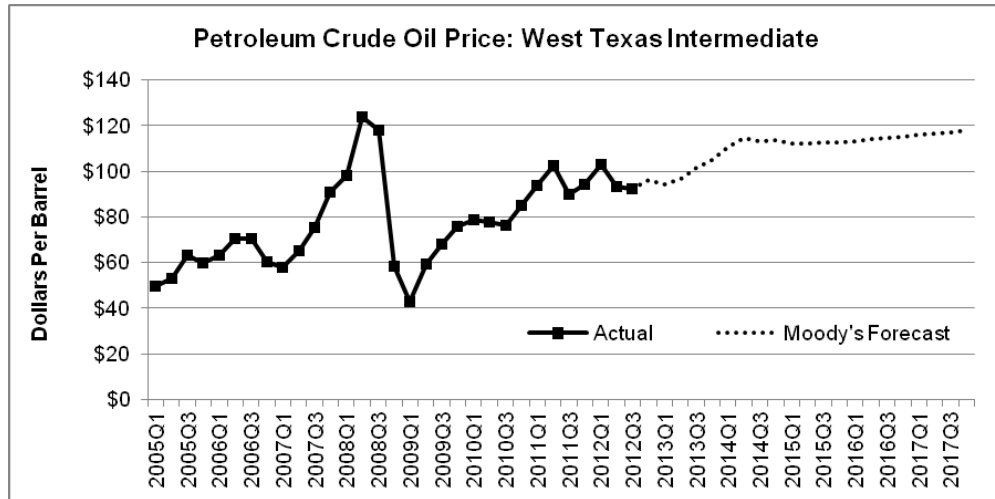
- In September 2012, the survey-based University of Michigan Consumer Sentiment Index increased 5.4% month-over-month, the highest monthly increase since January 2012. The index was up 32% from a year ago.
- In September 2012, the survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index declined 0.1%, although it was up 4.4% from one year ago.



Source: Reuters, University of Michigan, September 28, 2012 release; National Federation of Independent Businesses, October 9, 2012 release

Crude Oil

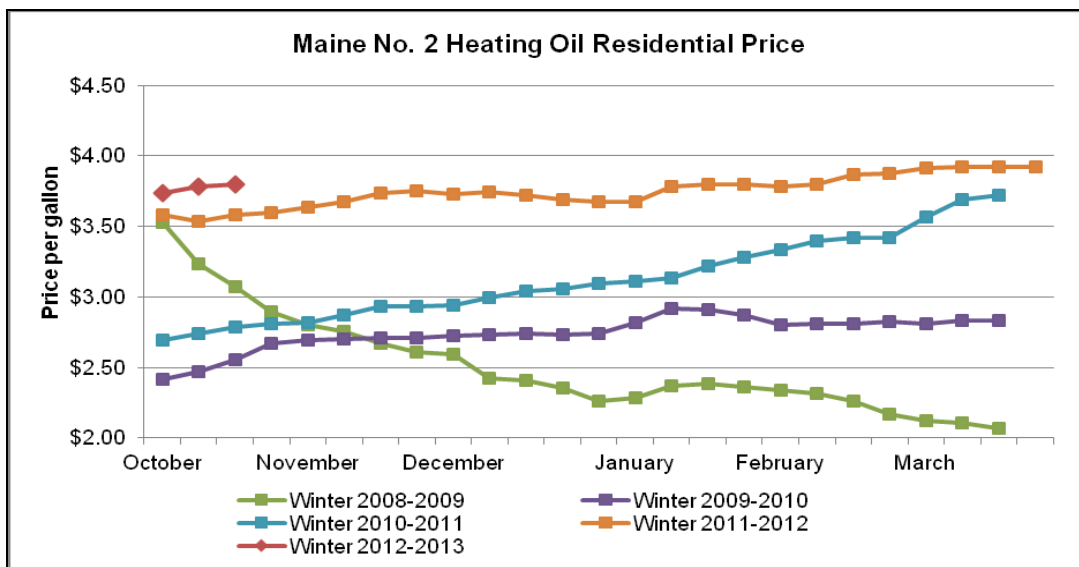
- The price of West Texas Intermediate was \$92.27 per barrel in the third quarter of 2012.
- The price of WTI declined 1.3% from the second quarter of 2012 to the third quarter of 2012.



Source: Moody's Analytics, October 2012 release

Heating Oil

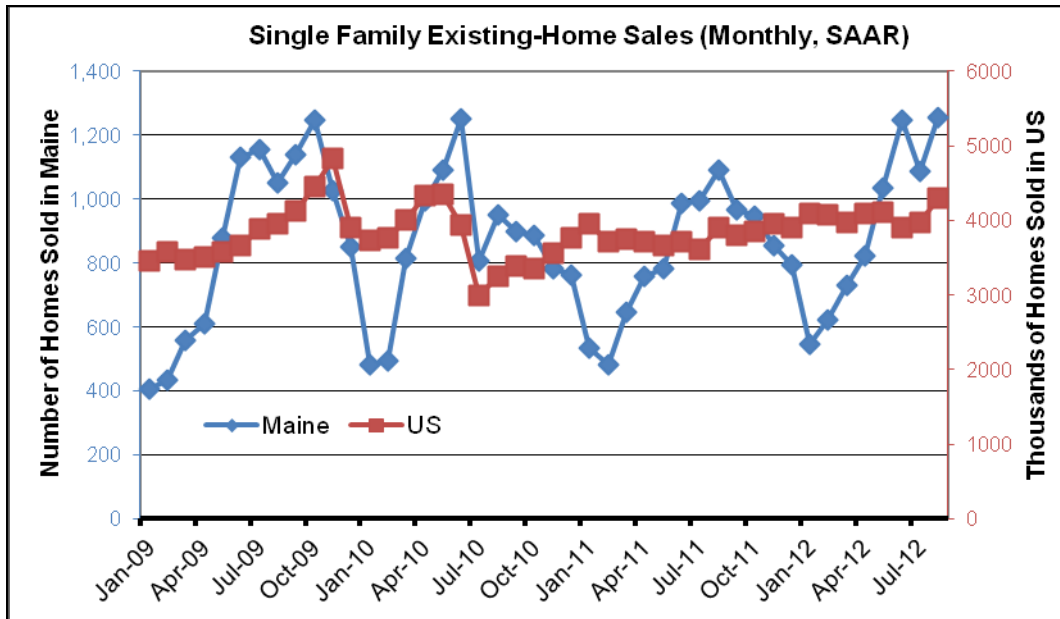
- The price of heating oil in Maine (\$3.80/gallon on October 15, 2012) is higher than it was at the same time of year in any of the past four heating seasons.
- The price of heating oil in Maine has increased over the course of three of the last four heating seasons. The price declined over the course of the 2008-2009 heating season, which coincided with the financial crisis and its immediate economic effects.



Source: US Energy Information Agency

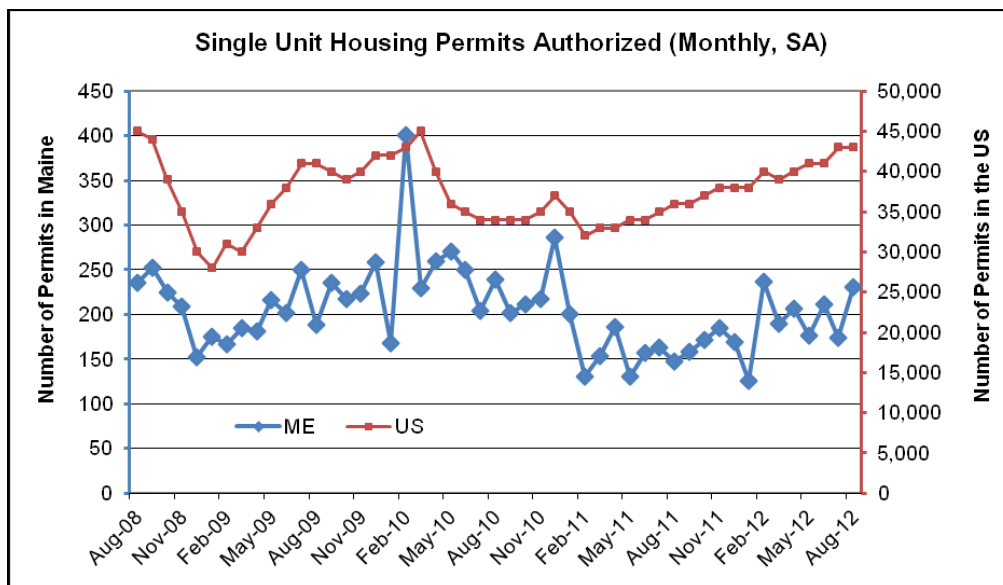
Housing

- Single family existing-home sales in Maine were up 15.1% in August 2012 over August 2011.



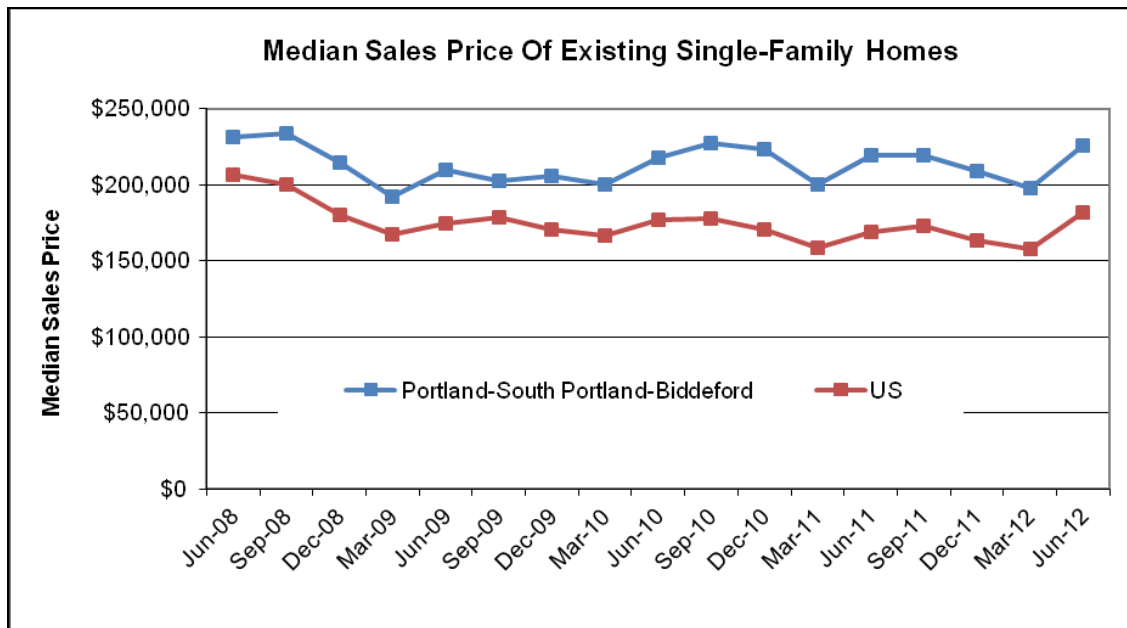
Source: National Association of REALTORS and Maine Association of REALTORS, monthly releases

- In August 2012, single unit housing permits in Maine increased 33% from July.
- Single unit housing permits in Maine in the 12-month period from September 2011 through August 2012 were 2% higher than in the previous 12-month period.



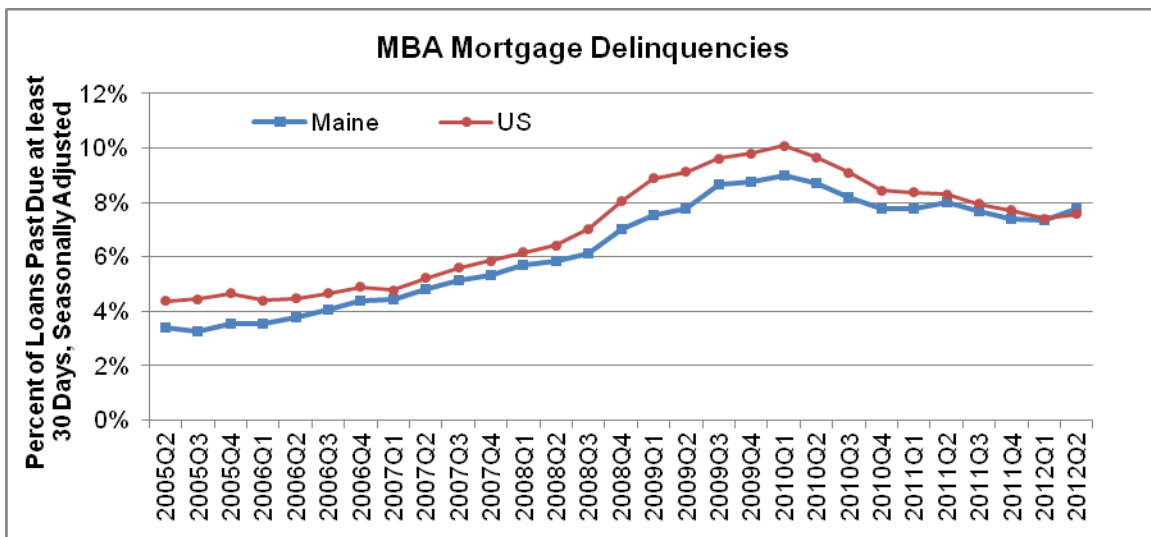
Source: US Census Bureau, September 27, 2012 release, via Federal Reserve Bank of Boston

- The median home price in the Portland – South Portland – Biddeford metropolitan area increased 3.1% year-over-year in the second quarter of 2012.
- The median home price in the Portland – South Portland – Biddeford metropolitan area in the second quarter of 2012 was \$226,000.



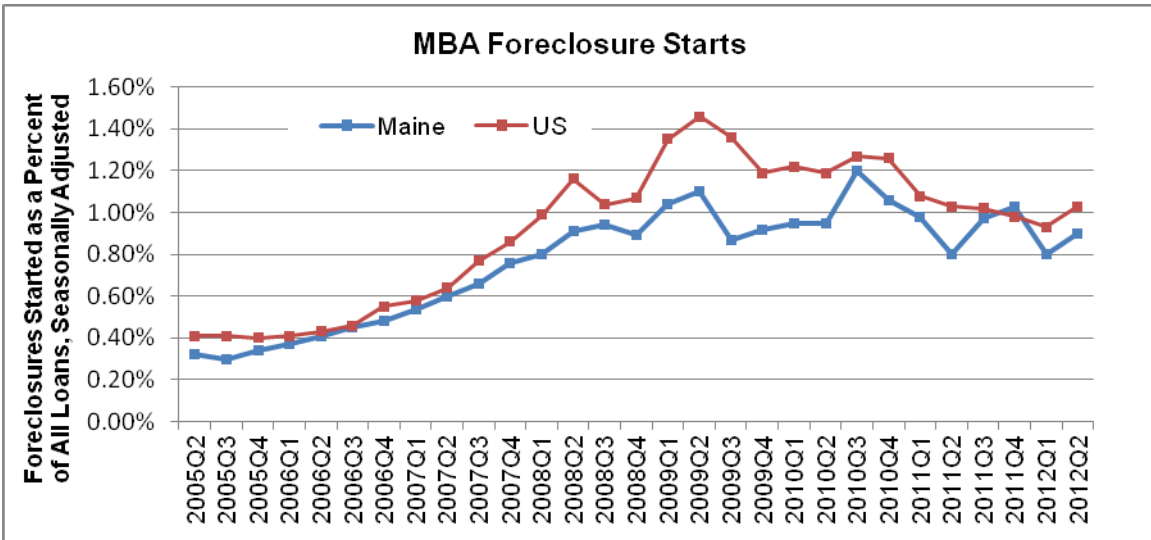
Source: National Association of Realtors, August 9, 2012 release, via Federal Reserve Bank of Boston

- The share of mortgages in Maine that are delinquent 30 days or more was 7.8% in the second quarter of 2012. That is below the recent peak of 9% in the first quarter of 2010 but well above pre-recession levels.



Source: Mortgage Bankers Association, via Moody's Analytics October 2012 release

- Maine’s foreclosure rate increased in the second quarter of 2012 and remains well above pre-recession levels.
- The rate of foreclosure starts was 0.9% in the second quarter of 2012.



Source: Mortgage Bankers Association, via Moody’s Analytics October 2012 release