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Maine State Planning Office

Executive Department

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Consensus Economic Forecasting Commission Background Materials for the January 26, 2012 Forecast Meeting

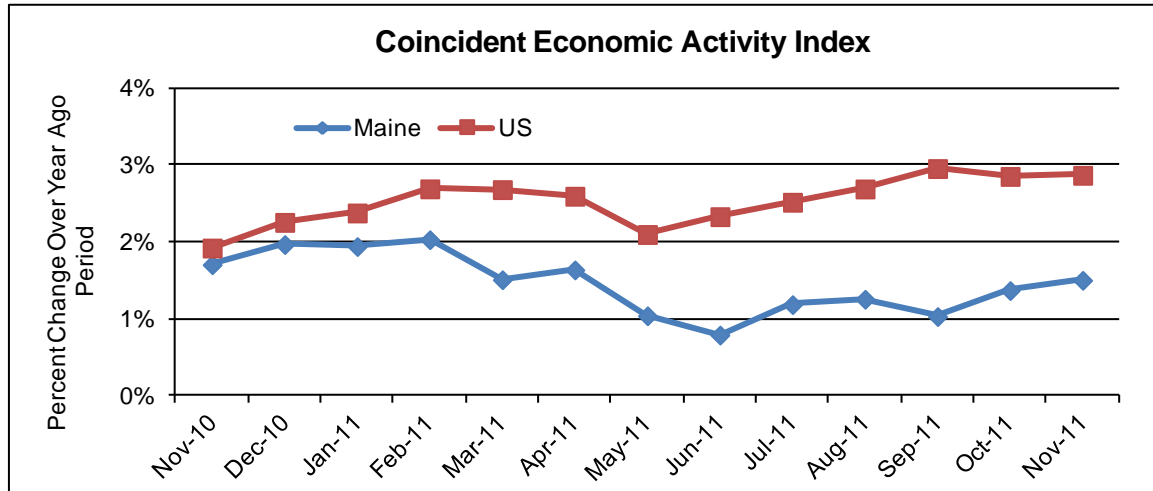
Summary

National and state economic indicators suggest a slight 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. Personal income in Maine grew 3.1% year-over-year in the first three quarters of 2011, while wage and salary income grew 1.4% over the same period. The Consumer Price Index was 3.0% higher in December 2011 than it was in December 2010. 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 following presents a picture of the Maine economy, comparing current economic indicators to historical results.

Overall Economic Activity

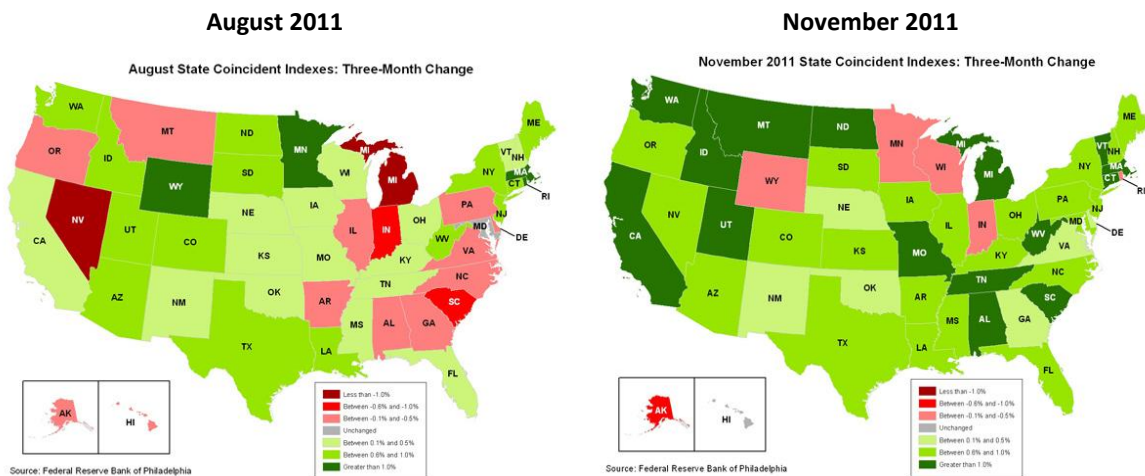
- In November 2011, the Maine Coincident Economic Activity Index, a composite of four economic indicators (three employment statistics plus real wage and salary income) that summarizes overall economic conditions, was 1.9% higher than it was in August 2010.



Source: Federal Reserve Bank of Philadelphia, December 22, 2011 release.

State Coincident Index Three-Month Percent Change

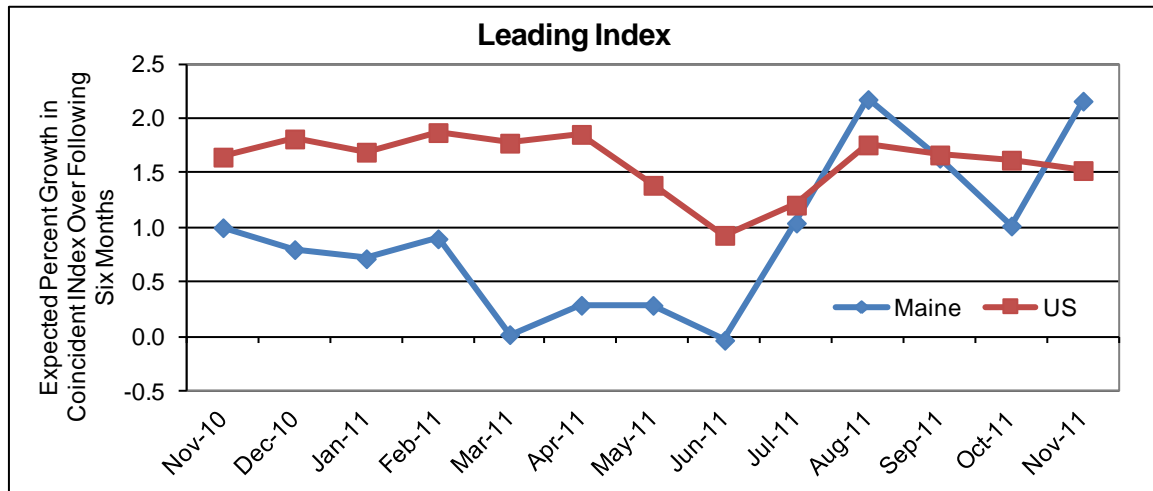
- For the three months ending in November 2011, the state coincident indexes increased in 43 states, decreased in six, and remained unchanged in one.
- This is an improvement from August 2011 (the data available at the last CEFC meeting), when the state coincident indexes increased in 33 states, decreased in 17 states, and remained unchanged in one.



Source: Federal Reserve Bank of Philadelphia, December 22, 2011 release

State Leading Indexes

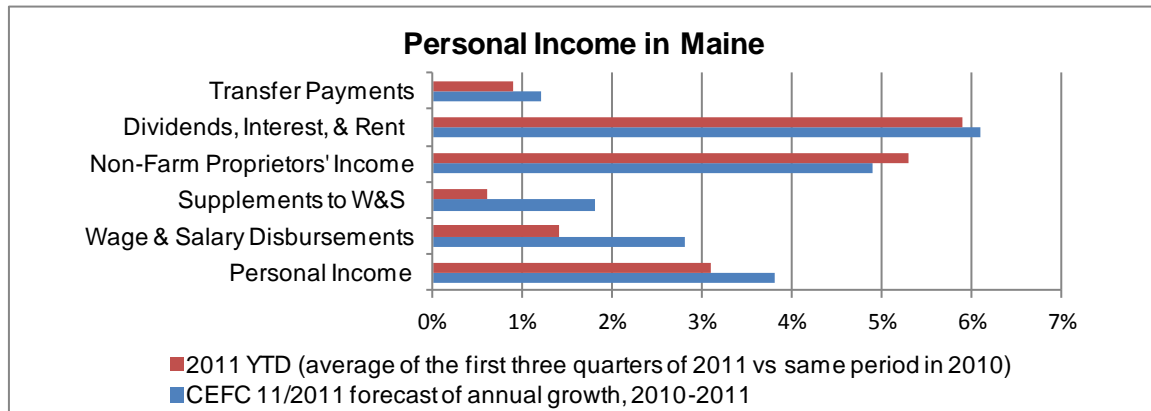
- The State Leading Index predicts the six-month growth rate of the State Coincident Index. It uses the Coincident Index plus four other variables that lead economic activity: state-level housing permits (1 to 4 units), state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. In November 2011, the State Leading Index for Maine was 2.16, meaning the State Coincident Index is expected to grow 2.16% over the six-month period from November 2011 to May 2012.



Source: Federal Reserve Bank of Philadelphia, December 29, 2011 release

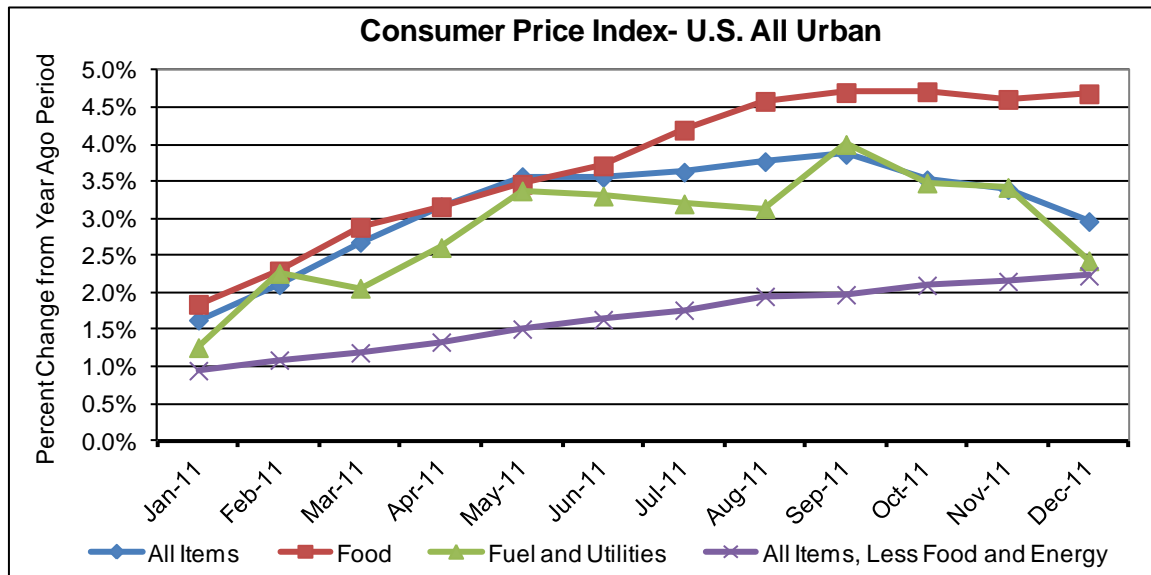
Personal Income

- According to preliminary estimates from the Bureau of Economic Analysis, total personal income grew 3.1% year-over-year and wage and salary income grew 1.4% year-over-year in the first three quarters of 2011.
- Year-over-year personal income growth in the fourth quarter of 2011 needs to be 6.0% to hit the CEFC's forecast for 2011. Year-over-year wage and salary growth in fourth quarter of 2011 needs to be 7.0% to hit the forecast.



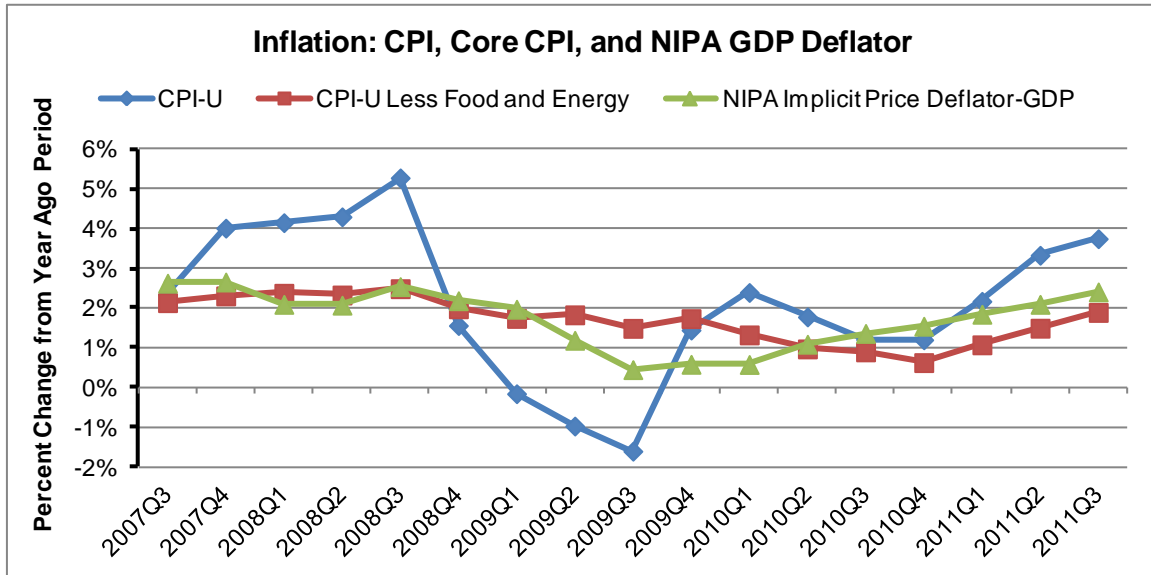
Consumer Price Index

- On an annual basis, the CPI rose 3.2% from 2010 to 2011, which was slightly higher than the CEFC's November forecast of 3.0%
- The Consumer Price Index (CPI) rose 3.0% from December 2010 to December 2011.
- Core inflation, which excludes food and energy prices, rose 2.2% over the same period.



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

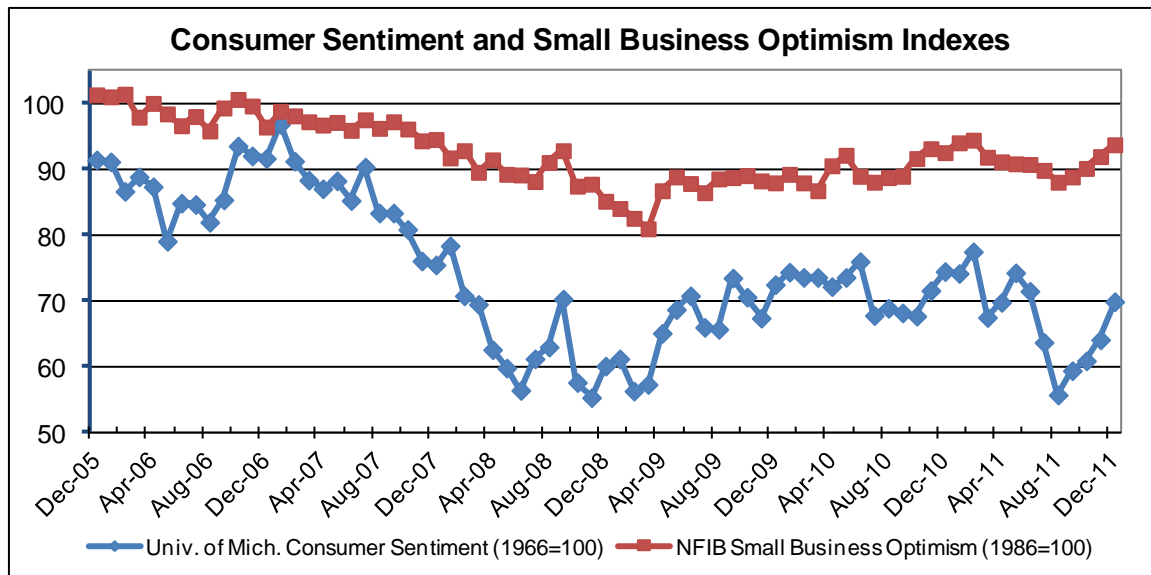
- The Consumer Price Index (CPI) rose 3.8% year-over-year in the third quarter of 2011.
- Core CPI (all items less food and energy) rose 1.9% over the same period.
- The BEA National Income and Product Accounts (NIPA) Implicit Price Deflator for Gross Domestic Product rose 2.4% over the same period.



Source for CPI: Bureau of Labor Statistics, January 19, 2012 release, via Moody's Analytics
 Source for GDP Deflator: Bureau of Economic Analysis, December 22, 2011 release, via Moody's Analytics

Consumer Sentiment and Small Business Optimism

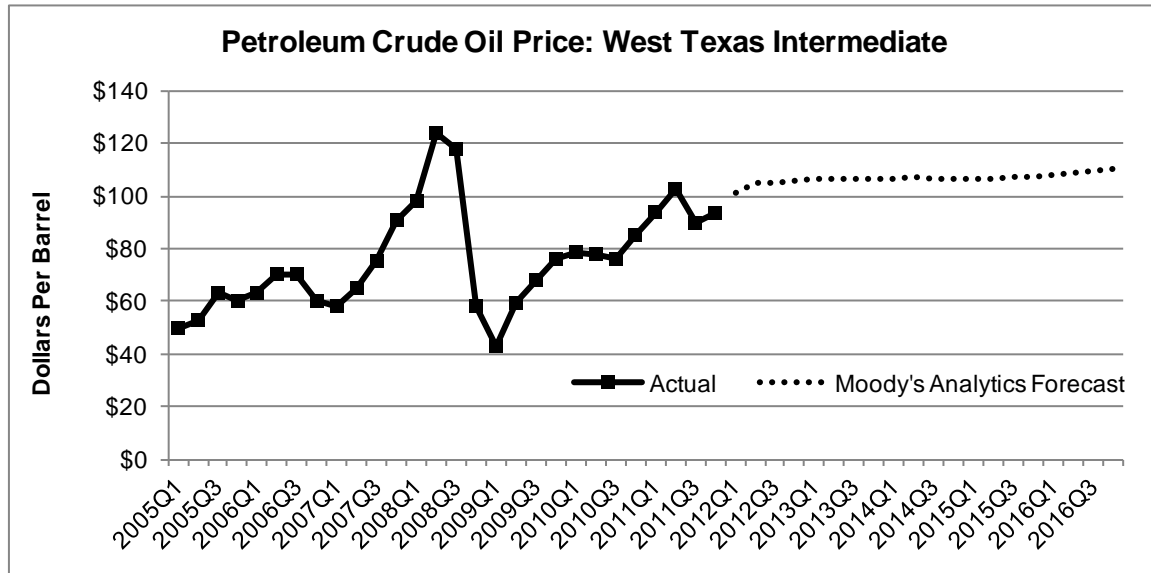
- In December 2011, the survey-based University of Michigan Consumer Sentiment Index increased 9% month-over-month, driven by higher expectations for the economy in 2012. Although December marked the fourth consecutive month of improvement, the index was down 6.2% year-over-year and consumers continue 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. Small business owners have a more optimistic view of business conditions over the next six months but more firms than not reported a downward trend in sales over the three months ending in December.



Source: Reuters, University of Michigan, December 22, 2011 release; National Federation of Independent Businesses, January 10, 2011 release

Crude Oil

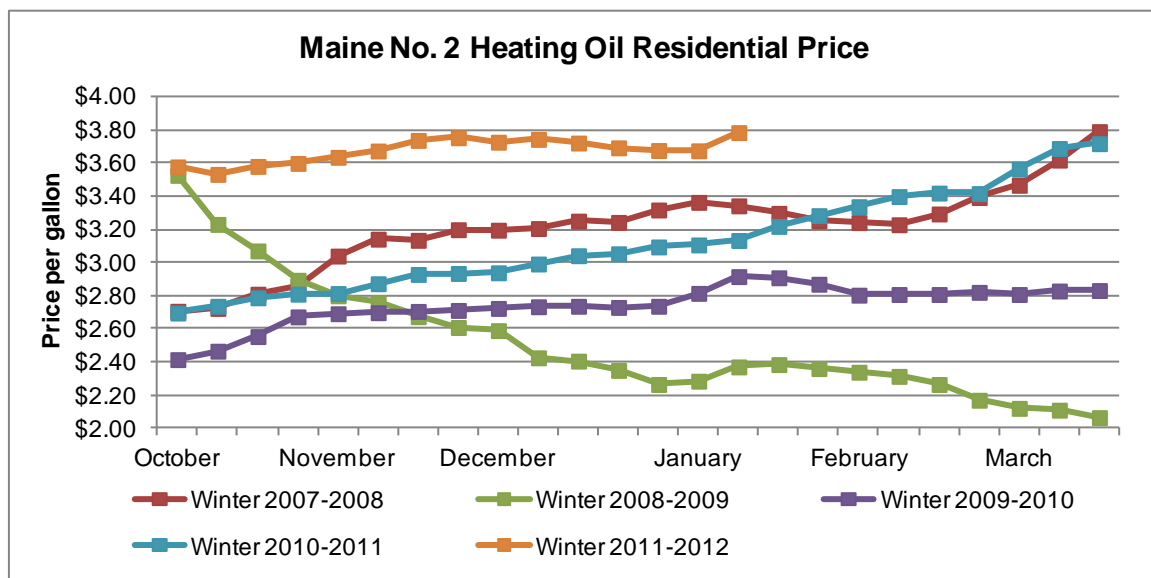
- The price of West Texas Intermediate was \$93.50 per barrel in the fourth quarter of 2011.
- The price of WTI rose 4.2% from the third quarter of 2011 to the fourth quarter of 2011.



Source: Moody's Analytics and the Wall Street Journal

Heating Oil

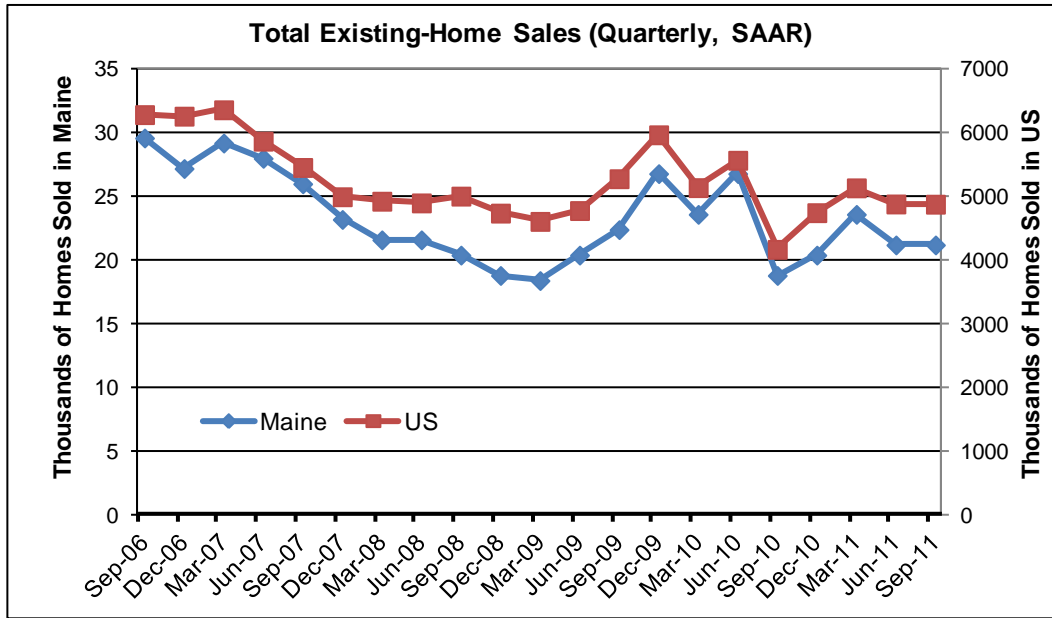
- The price of heating oil in Maine (\$3.79/gallon on January 9, 2012) is higher than it was at the same time of year in any of the past four heating seasons.
- The price of heating oil in Maine has increased over the course of three of the last four heating seasons. The price declined over the course of the 2008-2009 heating season, which coincided with the financial crisis and its immediate economic effects.



Source: US Energy Information Agency, Maine Office of Energy Independence and Security

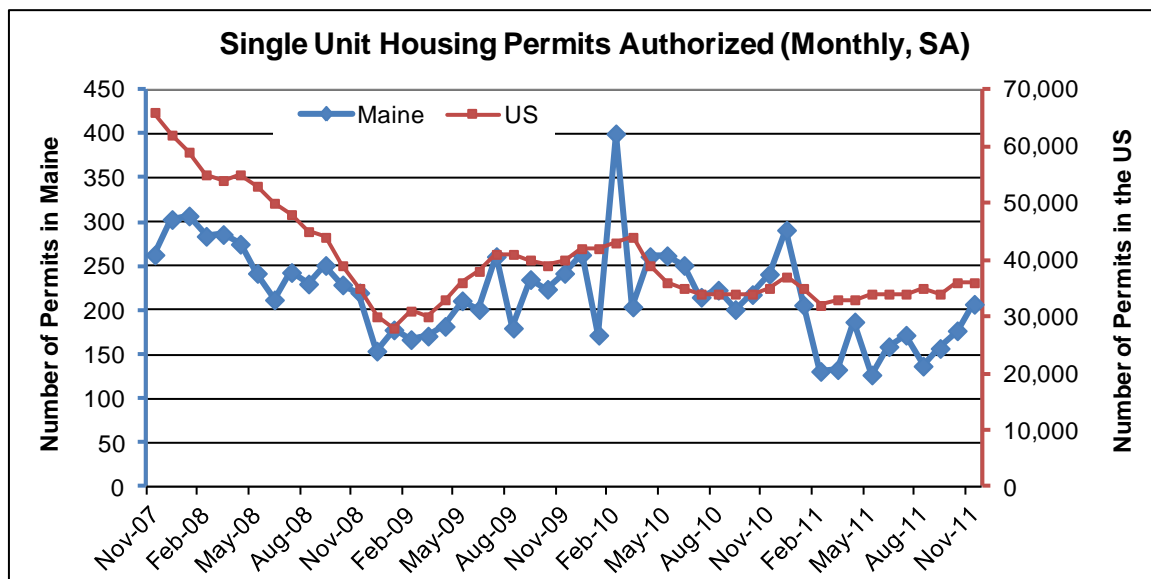
Housing

- 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% below their post-recession peak, which occurred in the fourth quarter of 2009 and the second quarter of 2010.



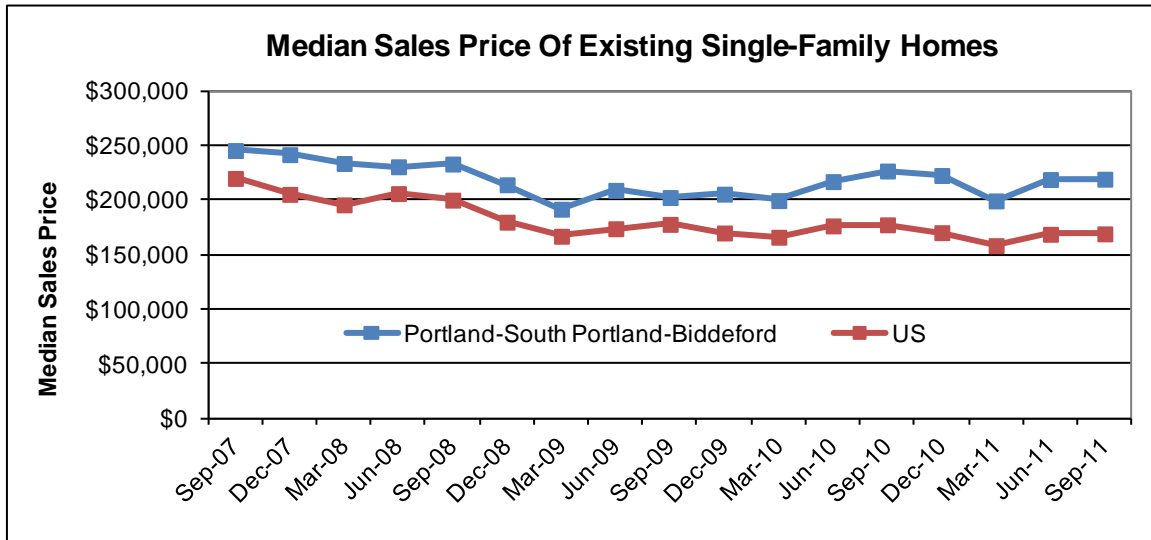
Source: National Association of Realtors, November 9, 2011 release, via Federal Reserve Bank of Boston

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



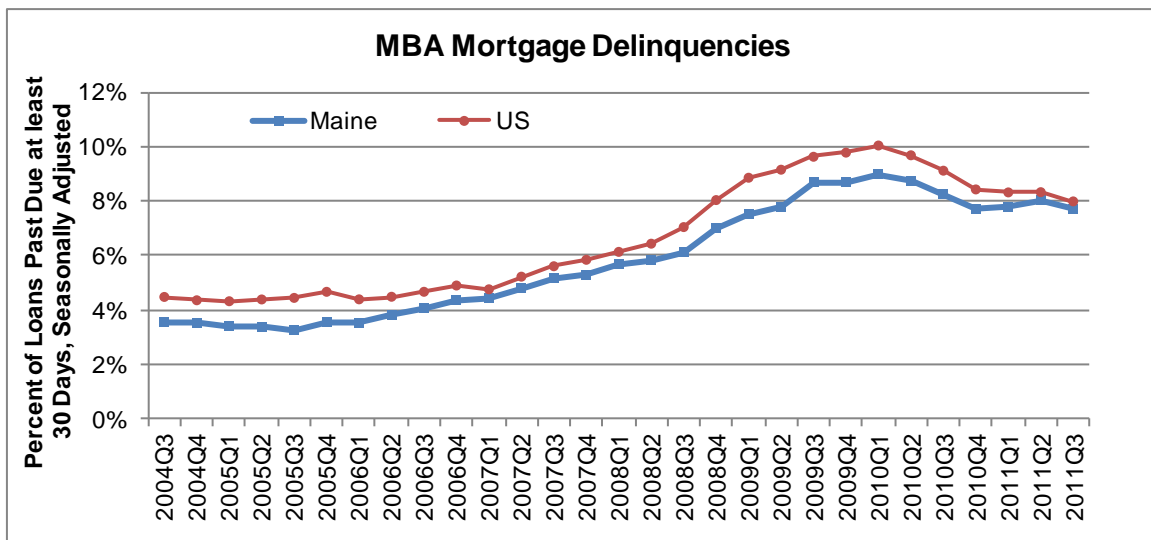
Source: US Census Bureau, December 27, 2011 release, via Federal Reserve Bank of Boston

- The median home price in the Portland – South Portland – Biddeford metropolitan area decreased 3.3% 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.



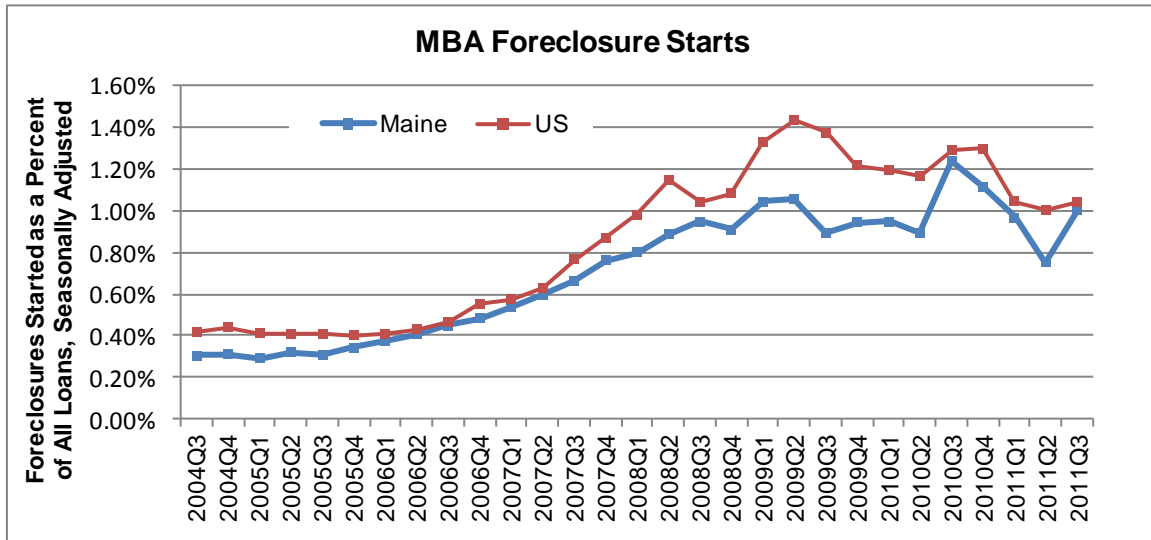
Source: National Association of Realtors, November 9, 2011 release, via Federal Reserve Bank of Boston

- The share of mortgages that are delinquent 30 days or more was 7.7% in the third quarter of 2011. That is below the recent peak of 9% in the first quarter of 2010 but well above pre-recession levels.



Source: Mortgage Bankers Association, November 17, 2011 release, via Moody's Analytics

- After a three consecutive quarters of declines, Maine’s foreclosure rate increased in the third quarter of 2011 and remains well above pre-recession levels.
- The rate of foreclosure starts was 1.0% in the third quarter of 2011.



Source: Mortgage Bankers Association, November 17, 2011 release, via Moody’s Analytics