



Consensus Economic Forecasting Commission Background Materials for the October 24, 2011 Forecast Meeting

Summary

National and state economic conditions have improved little over recent months. Maine's economic activity index is growing weakly and remains well below pre-recession levels. Many other states have seen a slowdown in what was already weak growth. Nationwide, consumer sentiment and small business optimism have both declined over the course of the year. Personal income in Maine grew at an annual rate of 3.2% in the first half of 2011, with wage and salary income growing at a 2.2% annual rate in the same period. The Consumer Price Index was 3.8% higher in August 2011 than it was in August 2010. After rising on a quarter-over-quarter basis for three straight quarters, the price of a barrel of oil fell 12.5% in the third quarter of 2011. Since the end of the homebuyer tax credit in May 2010, home sales in Maine and the US have fallen on a year-over-year basis in three of the last four quarters and are just slightly above the bottom reached in early 2009. After hitting bottom in February 2011, housing permits in Maine inched up to about where they were in January 2009. Home prices in the Portland metropolitan area increased 1% year-over-year in the second quarter of 2011. Foreclosure starts and mortgage delinquencies remain well above pre-recession levels but below peak crisis levels.

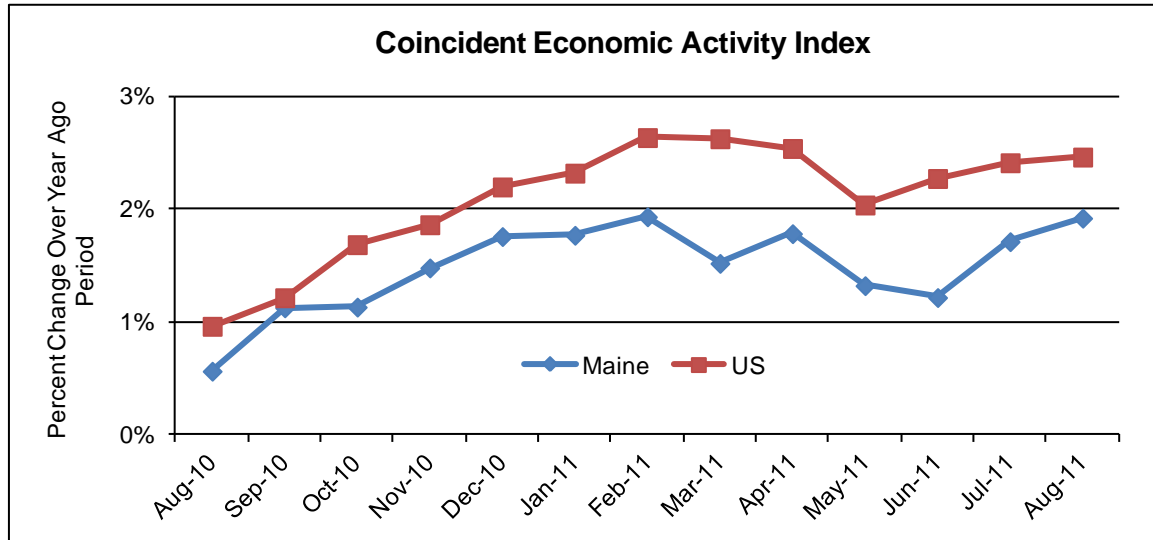
Note: Compared to background materials for previous CEFC forecast meetings, this document shows some new indicators that CEFC members wished to see included as a result of the data gathering session on September 29, 2011 and the joint retreat of the CEFC and the Revenue Forecasting Committee on August 19, 2011. They include the following:

- State Leading Indexes
- National Federation of Independent Business (NFIB) Small Business Optimism Index
- U.S. Bureau of Economic Analysis (BEA) National Income and Product Accounts (NIPA) Implicit Price Deflator for Gross Domestic Product
- Mortgage Bankers Association (MBA) Mortgage Delinquencies
- MBA Foreclosure Starts

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

Overall Economic Activity

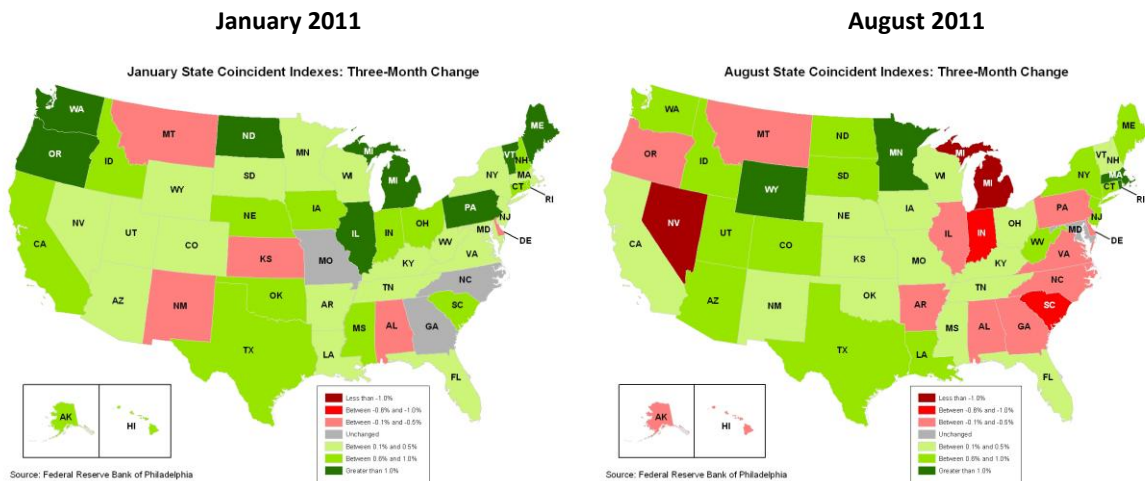
- In August 2011, the Maine Coincident Economic Activity Index, a composite of four economic indicators (three employment statistics plus real wage and salary income) that summarizes overall economic conditions, was 1.9% higher than it was in August 2010.



Source: Federal Reserve Bank of Philadelphia, September 20, 2011 release.

State Coincident Index Three-Month Percent Change

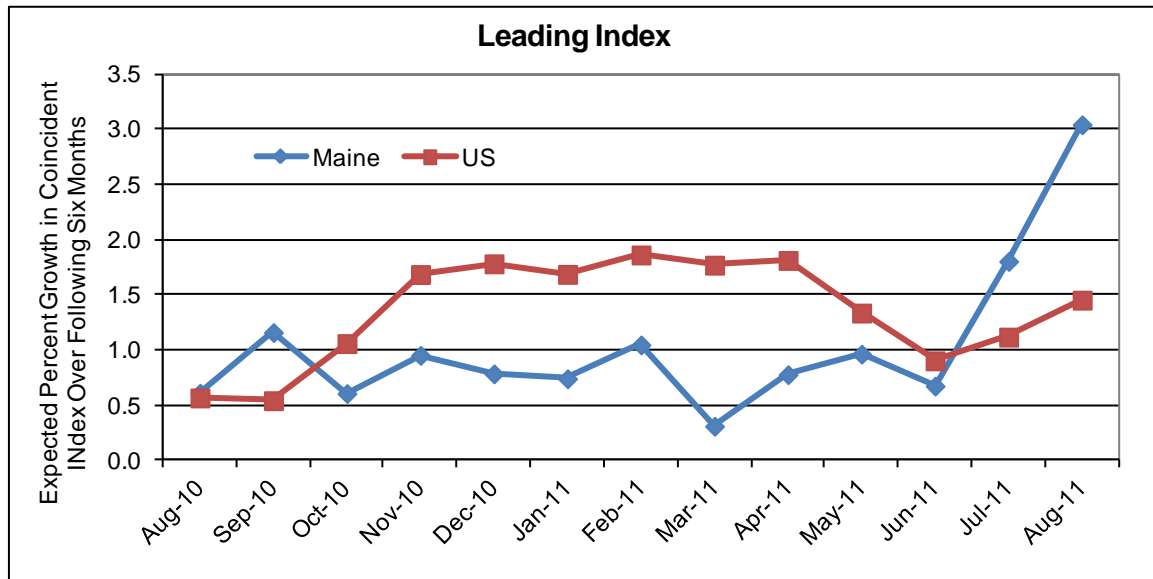
- For the three months ending in August 2011, the state coincident indexes increased in 33 states, decreased in 17 states, and stayed the same in one state.
- This is a decline from January 2011 (the data available at the last CEFC meeting), when the indexes increased in 42 states, decreased in five, and stayed the same in three.



Source: Federal Reserve Bank of Philadelphia, September 20, 2011 release

State Leading Indexes

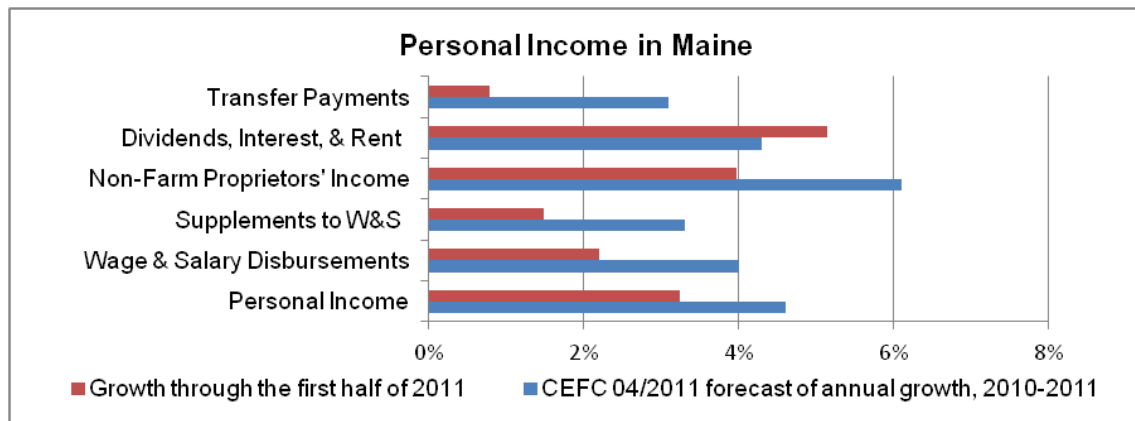
- The State Leading Index predicts the six-month growth rate of the State Coincident Index. It uses the Coincident Index plus four other variables that lead economic activity: state-level housing permits (1 to 4 units), state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. In August 2011, the State Leading Index for Maine was 3.05, meaning the State Coincident Index is expected to grow 3.05% over the six month period from August 2011 to February 2012.



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

Personal Income

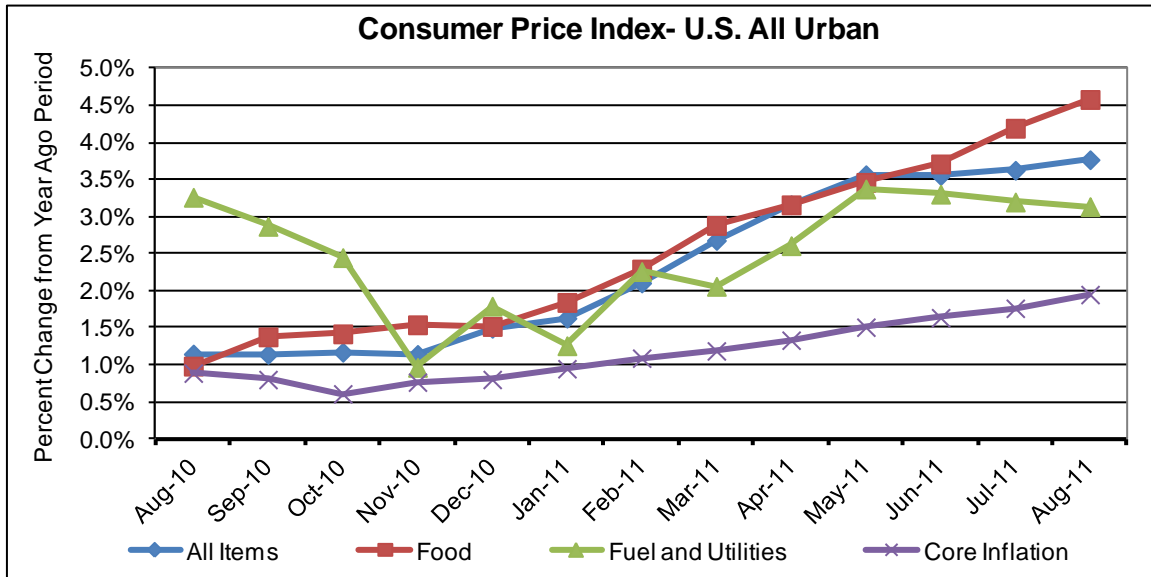
- According to preliminary estimates from the Bureau of Economic Analysis, total personal income grew at a 3.2% from 2010 through the first half of 2011.
- Wage and salary income grew 2.2% over the same period.



Source: US Bureau of Economic Analysis, September 22, 2011 release

Consumer Price Index

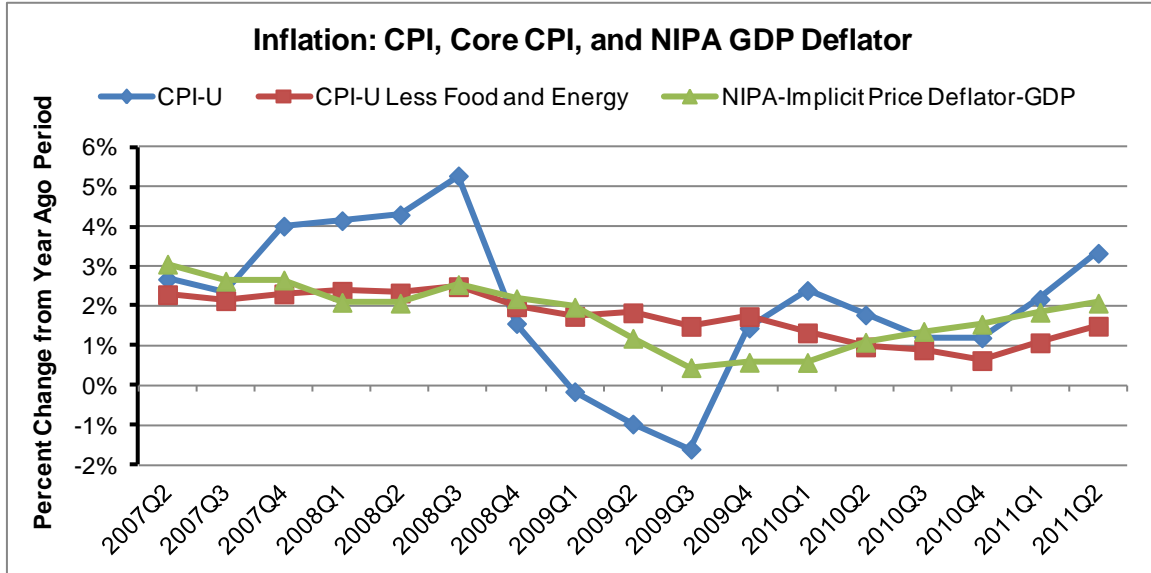
- The Consumer Price Index (CPI) rose 3.8% from August 2010 to August 2011.
- Core inflation, which excludes food and energy, rose 2.0% over the same period.
- The CPI in January through August 2011 was 3.0% higher than in the same period in 2010.



Source: Bureau of Labor Statistics, September 15, 2011 release

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

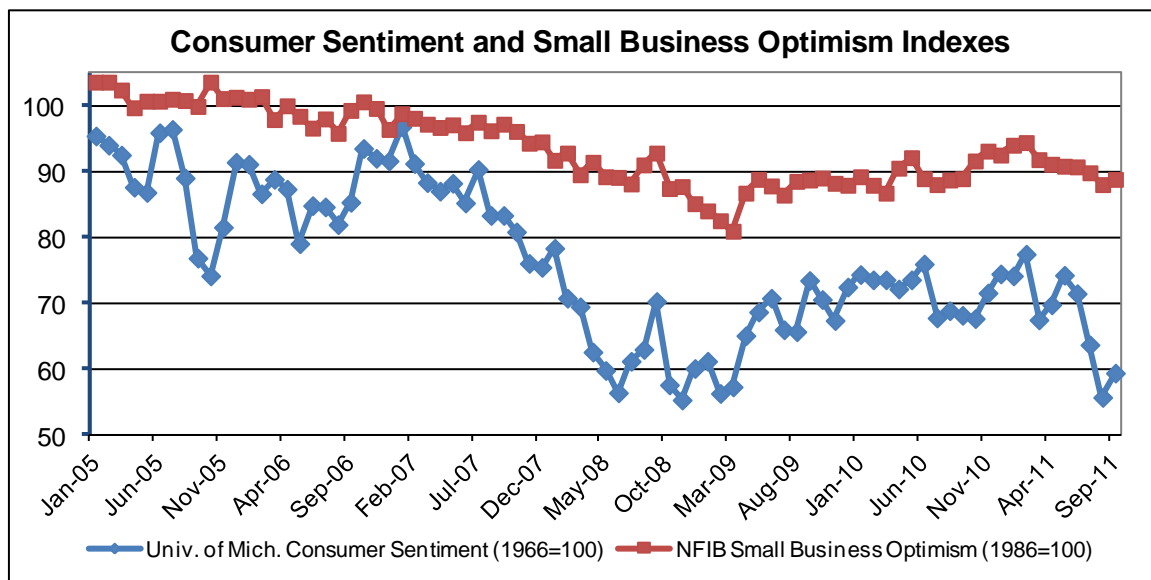
- The Consumer Price Index (CPI) rose 3.3% year-over-year in the second quarter of 2011.
- Core CPI (all items less food and energy) rose 1.5% over the same period.
- The BEA National Income and Product Accounts (NIPA) Implicit Price Deflator for Gross Domestic Product rose 2.1% over the same period.



Source for CPI: Bureau of Labor Statistics, September 15, 2011 release, via Moody's Analytics
 Source for GDP Deflator: Bureau of Economic Analysis, September 29, 2011 release, via Moody's Analytics

Consumer Sentiment and Small Business Optimism

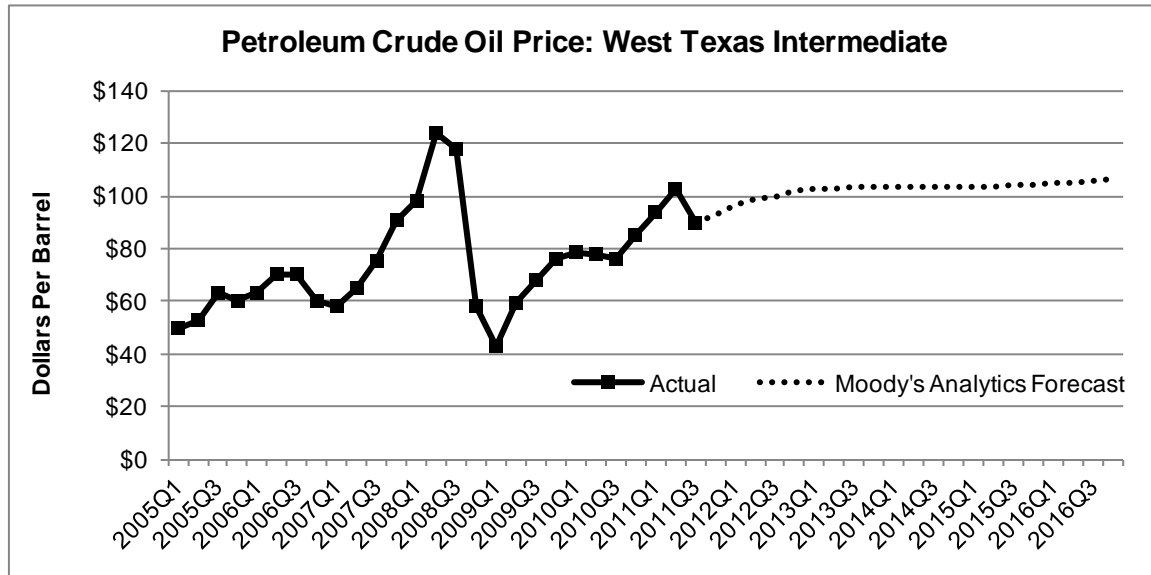
- In September 2011, the survey-based University of Michigan Consumer Sentiment Index increased by 6.6% from August. Although this marked the end of a precipitous period of decline that began in June, sentiment remained at a low level. From the press release: “The most probable outcome expected by consumers is a prolonged period of economic stagnation.”
- In September 2011, after falling for six straight months, the survey-based National Federation of Independent Business (NFIB) Small Business Optimism Index ticked up 0.9%. It is now 5.9% below its post-recession peak in February 2011. In September, small business owners said they expect lower sales over the next three months.



Source: Reuters, University of Michigan, February 25, 2011 release; National Federation of Independent Businesses, October 11, 2011 release

Crude Oil

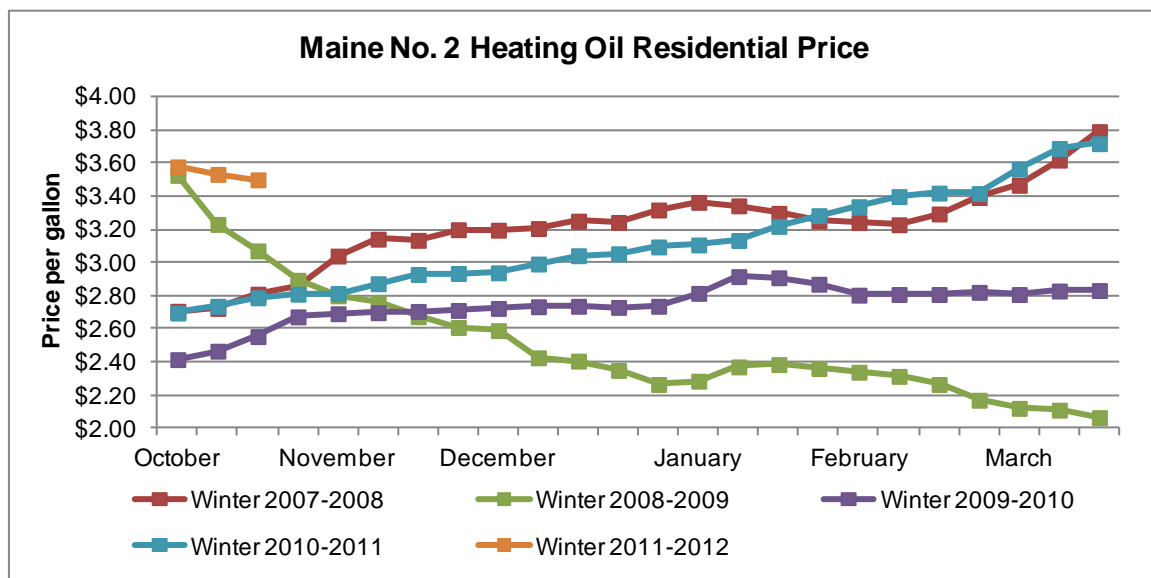
- The price of West Texas Intermediate was \$89.71 per barrel in the third quarter of 2011.
- The price of WTI fell from the second quarter of 2011 to the third quarter of 2011.



Source: Moody's Analytics and the Wall Street Journal

Heating Oil

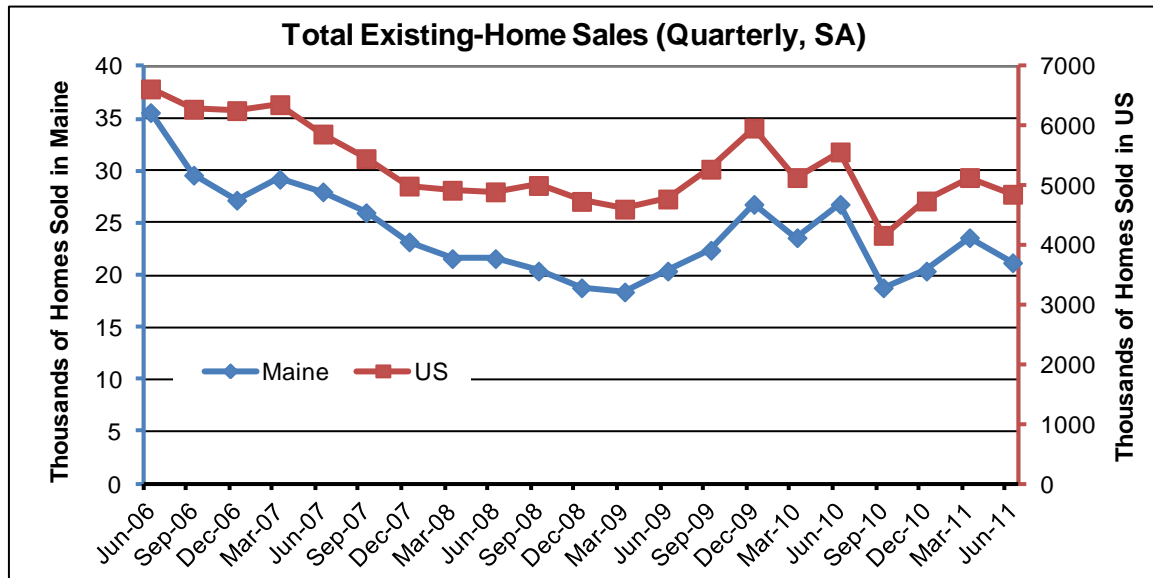
- The price of heating oil in Maine (\$3.50/gallon on October 17) is higher than it was at the same time of year in any of the past four heating seasons.
- The price of heating oil in Maine has increased over the course of three of the last four heating seasons. The price declined over the course of 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

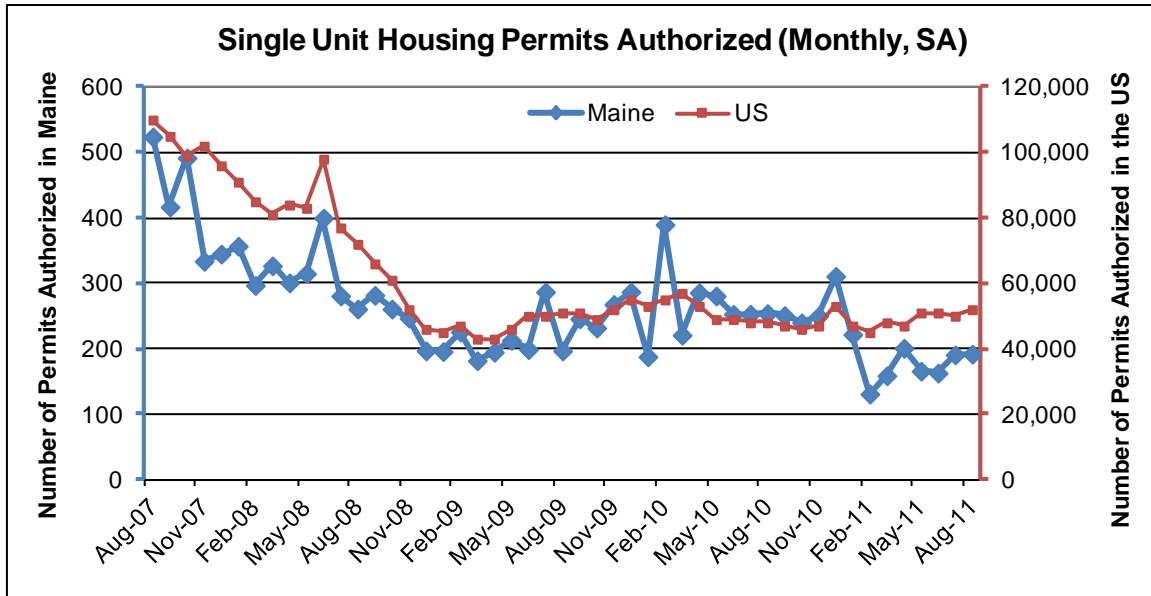
Housing

- Existing-home sales in Maine fell 10% between the first and second quarters of 2011 (seasonally adjusted).
- 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.
- High sales numbers in the fourth quarter of 2009 and the second quarter of 2010 were in part due to the homebuyer credit.



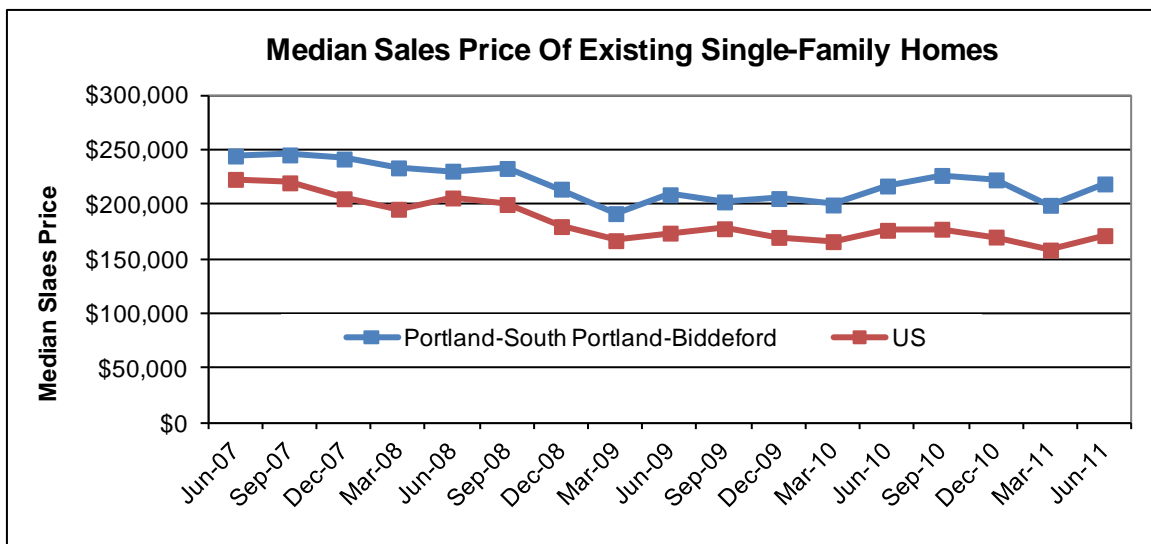
Source: National Association of Realtors, August 10, 2011 release, via Federal Reserve Bank of Boston

- In July and August of 2011, monthly single unit housing permits in Maine were at about the same level as they were in early 2009, when they finally bottomed out after a two-year decline.
- There was an average of 178 permits per month from January through August 2011, compared with an average of 266 permits per month during the same period in 2010.



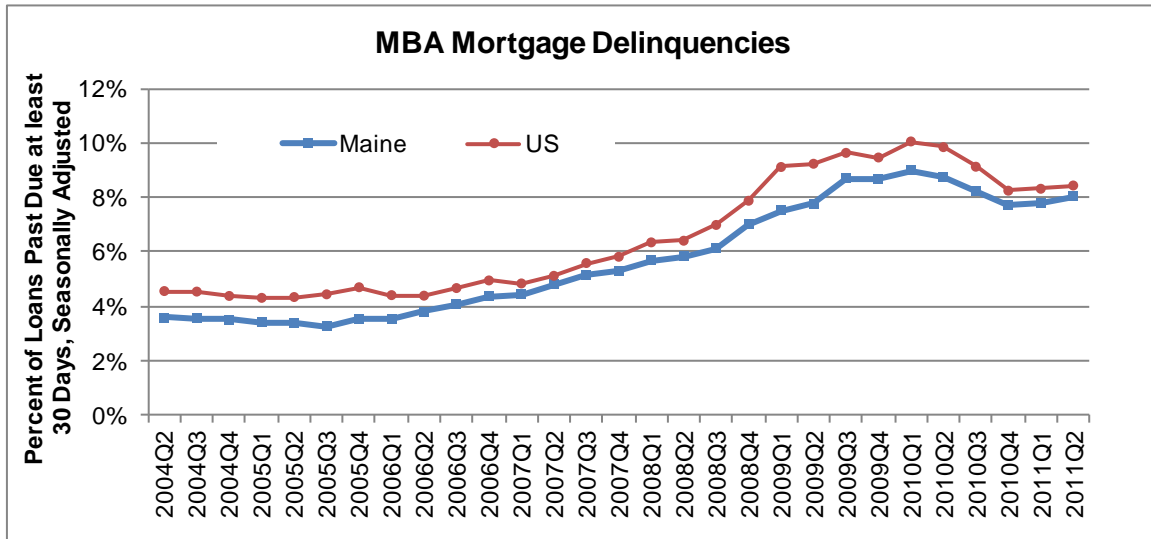
Source: US Census Bureau, September 27, 2011 release, via Federal Reserve Bank of Boston

- The median home price in the Portland – South Portland – Biddeford metropolitan area increased 1% on a year-over-year basis in the second quarter of 2011.
- The median home price in the Portland – South Portland – Biddeford metropolitan area in the second quarter of 2011 was \$219,300. The peak second quarter value was \$247,200, which was recorded in 2005.



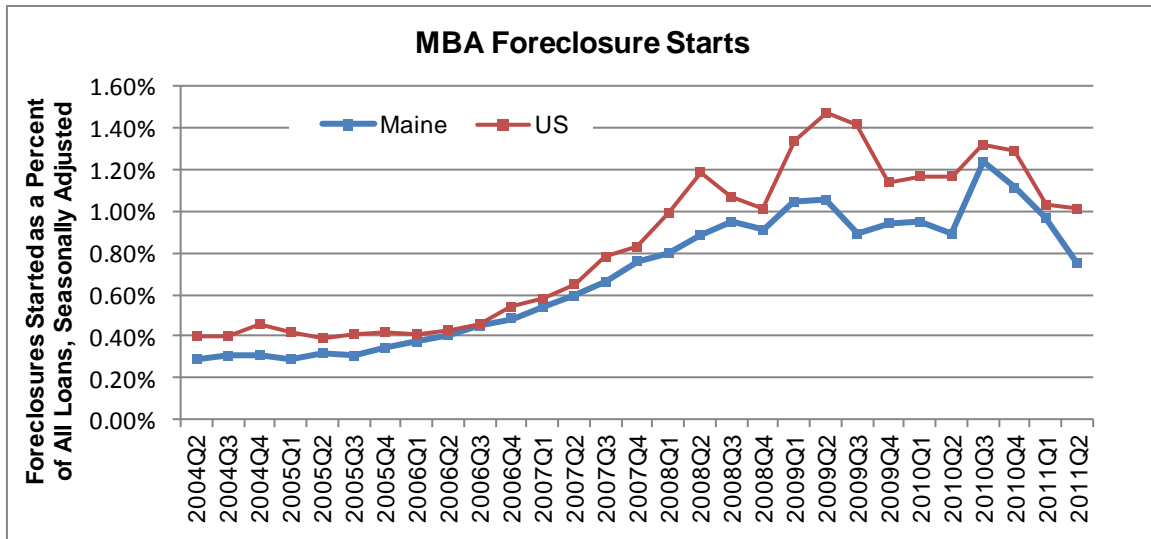
Source: National Association of Realtors, August 10, 2011 release, via Federal Reserve Bank of Boston

- The share of mortgages that are delinquent 30 days or more was 8% in the second 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, August 22, 2011 release, via Moody's Analytics

- Foreclosure starts have also showed some improvement from the depths of the housing bust and recession, but remain well above pre-recession levels.
- The rate of foreclosure starts was 0.75% in the second quarter of 2011.



Source: Mortgage Bankers Association, August 22, 2011 release, via Moody's Analytics