Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
April 1, 2011

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Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on March 29, 2011, March 30, 2011, and briefly via teleconference call on March 31, 2011, to review and revise the November 2010 forecast. The March 29th meeting began with an introduction of the four new members, the appointment by consensus of a fifth member by the other four members, and then the appointment of a chair for this two-year term of the CEFC. The members were then provided with an overview of the process by CEFC staff.

This report provides a summary of the Commission’s findings.

National and state economic conditions have been improving slowly but steadily over recent months, but the real estate market still shows only mixed signs of recovery. Over-the-year growth in Maine’s economic activity index has risen steadily since crossing into positive territory in June 2010. Many other states have also seen improvement in the last year, and nationwide, consumer sentiment has improved considerably in recent months. Personal income in Maine grew modestly from 2009 to 2010. Although income in Maine from dividends, interest, and rent decreased slightly from 2009 to 2010, corporate profits remain historically high around the country. The Consumer Price Index has been rising on an over-the-year basis since November 2010 following an eight-month trend of zero or negative growth. Oil prices are up in recent weeks but remain below their mid-2008 peak. After last year’s temporary boost from the homebuyer tax credit, home sales in Maine and the US have plummeted. Housing permits in Maine inched up in December 2010 and January 2011 and house prices in greater Portland increased substantially from the second half of 2009 to the second half of 2010.

The April 2011 forecast reflects continued uncertainty in the national and state economic recovery, particularly in light of recent unrest in the Middle East and rising oil prices. The revised forecast maintains the expectations for wage and salary employment growth in 2011 and 2012, although starting from a higher base, while downgrading somewhat the growth in 2013 and 2014. Personal income growth has been revised upwards for 2011, based on the federal Social Security tax cut of 2 percentage points, followed by a downward revision for the remaining forecast years. The commission also made a slight upward revision in 2011 to its forecast of the Consumer Price Index (CPI), due to the increase in energy prices. CPI for 2012 and 2013 was revised downwards slightly, with 2014 and 2015 left mostly unchanged, reflecting an assumption that oil prices stabilize in the longer term.

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 11/2010	**-1.0**	**0.4**	**1.5**	**2.1**	**1.7**	**1.0**
CEFC Forecast 04/2011	**-0.6**	**0.4**	**1.5**	**1.5**	**1.4**	**1.2**
Personal Income (Annual Percentage Change)						
CEFC Forecast 11/2010	**2.9**	**3.0**	**4.7**	**4.9**	**5.0**	**4.5**
CEFC Forecast 04/2011	**2.8**	**4.6**	**2.9**	**4.0**	**4.0**	**4.0**
CPI (Annual Percentage Change)						
CEFC Forecast 11/2010	**1.7**	**1.5**	**2.3**	**2.6**	**2.3**	**2.2**
CEFC Forecast 04/2011	**1.6**	**2.5**	**1.8**	**2.0**	**2.3**	**2.1**

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. The following sections summarize these reports.

Maine State Planning Office

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, increased 3.6% from January 2010 to January 2011.

Maine's over-the-year rate of change in the index was higher than the U.S. rate in every month from July 2010 to January 2011.

Nationally, for the three months ending in January, the indexes have increased in 42 states (including Maine), stayed the same in 3, and decreased in 5 states. This is an improvement since August 2010 (the data available at the last CEFC meeting), when the indexes increased in 40 states, stayed the same in 4, and decreased in 6 states.

According to preliminary estimates from the Bureau of Economic Analysis, total personal income grew 2.8% from 2009 to 2010. Wage and salary income grew by 1.8% over the same time period.

The Consumer Price Index rose 2.1% from February 2010 to February 2011. Core inflation, which excludes food and energy, rose 1.1% over the same period. The Consumer Price Index rose 1.6% from 2009 to 2010.

In February 2011, University of Michigan Consumer Sentiment Index, a monthly survey that tracks consumer confidence in the U.S., increased by 4.4% from January, continuing an upward trend that began in November 2010. The index increased 12% from August 2010 to February 2011.

The price of oil was $85/barrel in the fourth quarter of 2010, still well below the 2008 peak of nearly $124/barrel. Prices have increased significantly in recent weeks, though, with WTI trading near $100 in the week ending March 18, 2011.

The price of heating oil in Maine this past fall and winter has been above last year's levels and has been close to 2007-2008 levels. The current price of heating oil in Maine ($3.72/gallon on March 14) is about the same as it was during the same week in 2008.

Existing-home sales in Maine fell sharply between the second and third quarters of 2010, from 26,400 to 19,200 (seasonally adjusted). Sales fell 19.4% from the fourth quarter of 2009 to the fourth quarter of 2010, which was about the same over-the-year decline seen in the US. High sales numbers from late 2009 thru mid 2010 were significantly assisted by the homebuyer tax credit.

Building permits for single family homes in Maine were down 67% in February 2011 compared to February 2010, when the homebuyer tax credit caused a spike in permits. Permits issued in February 2011 were at their lowest point since April 2009.

Home prices in the Portland – South Portland – Biddeford metropolitan area rose 8.3% in the fourth quarter of 2010 compared to the fourth quarter of 2009. This marked the fourth consecutive quarter of over-the-year price growth following 15 consecutive quarters of anemic growth (less than a 1% increase) or declines.

Maine Department of Labor

From the start of the recession through the summer of 2010, Maine lost nearly 30,000 nonfarm jobs on a seasonally-adjusted basis. There have been some job gains since then, but the volatility in the estimates caused by the U.S. Bureau of Labor Statistics' methodological changes has made the jobs trend since October difficult to interpret. Job counts through September have been through the annual benchmarking process and so are far more reliable than the preliminary estimates. A three-month moving average smoothes out some of the more dramatic month-to-month variations and perhaps gives a better indication of recent trends. Compared to these recent data, the November 2010 CEFC forecast seems to start at too low a base, but the trajectory seems reasonable.

Maine has had a lower rate of nonfarm job loss than the nation since the start of the recession. In recent months, the data had been more volatile than the U.S., for the reasons noted above, but the rate of job loss for Maine remains below the U.S. rate. Maine's unemployment rate has also remained well below the national average since 2008. This is due to a combination of the lower rate of job loss and slower population growth. The labor force participation rate has fallen both nationally and in Maine as well. While Maine tends to have a higher participation rate than the U.S. (due in part to Maine's older population), both rates have seen declines of approximately the same scale.

The household survey indicates that employment has been gradually rising since late 2009, while the payroll survey indicates that employment did not begin to rise until mid-2010. The payroll survey data is likely more accurate in this case.

Average hours worked have increased from their 2009 lows. The February 2011 figure is approaching the February 2008 figure, before the recession really took hold in Maine. Online job postings have increased from their 2009 levels, but have fluctuated in the past year. Currently, about half of the job postings require some post-secondary education and about one quarter of the job postings are health-related. Certain industries, including the health care industry, have a skills gap: there are jobs available, but not enough workers with the right skill set to fill the open positions. The increase in job postings should precede an increase in employment.

Total wages paid are moving back up to pre-recession year-over-year changes. While these over-the-year comparisons are improving at an accelerating rate, they are coming from a very low base. Through the first three quarters of 2010, the total wages paid were $197 million higher than the same period in 2009, but they remain around $400 million lower than 2008 levels. Through the third quarter of 2010, Maine appears to have gained back about one-third of the total loss in wages.

The earnings component of the U.S. Bureau of Economic Analysis' personal income estimates began increasing in the first quarter of 2009, two quarters before total wages from the Quarterly Census of Employment and Wages began to increase. Earnings have also increased at a faster rate than total wages, perhaps indicating that the recent personal income estimates might be revised lower.

Maine Revenue Services

Total revenues for February 2011 exceeded budget by 14.7% (around $16.8 million) for the month and 1.3% (around $21.8 million) fiscal year to date. Most of the positive variance has come from the individual income tax line. Much of it is related to the timing of refunds, which are likely to be over budget in March and will balance out the income tax line so that it is close to budget. Individual income taxes were over budget by 3.1% (around $25.3 million) fiscal year to date. There has been nothing unusual in the 1040 final payments, so April 15 should come out close to budget, as it did last year.

The sales and use tax was also exceeding budget, although by 2.2% fiscal year to date (around $12.0 million), most of which came in the holiday season. The sales and use tax had constant, steep declines during the recession. Last year during the early spring it appeared that the economy was beginning to rebound, with year-over-year sales tax growth rates around 8%-9% for March through May. When the European sovereign debt crisis occurred, the economy stalled again and growth rates have yet to fully recover.

Consumer sales remain weak; growth during the holiday season was around 4% year-over-year, dropping to around 2% for January 2011 compared to January 2010. Auto/transportation sales picked up in late 2010 and that growth has continued into 2011, with year-over-year growth of 9.9% for January. Other than auto sales, other consumer spending categories still seem weak. Consumers seemed to be pulling back even before the most recent oil price spike.

Withholding jumped during the fourth quarter of 2010 and has continued to increase during 2011. Income tax revenues had dropped off faster at the start of the recession because of shorter work weeks, fewer bonuses, pay cuts, etc. It was assumed that these cuts would reverse at the start of the recovery, which might be some of the reason for higher withholding. In addition, bonuses and stock options seem to be growing more, which impacts the upper end of the income tax brackets.

Macroeconomic Assumptions

Four different economic forecasts were presented at the meeting: three from Moody's Analytics and one from IHS Global Insight. Each forecast was based on a different set of national macroeconomic assumptions. These forecasts were then compared to this CEFC's predecessor November 2010 forecast. The CEFC felt that the Global Insight assumptions were closest to their own thoughts on the economy.

Global Insight's forecast assumes that oil prices (West Texas Intermediate) move back down into the $90-$95 range over the rest of the year based on increasing stability in the Middle East. The average price over 2011 is $93/barrel; the 2012 average price remains at $95/barrel.

The Federal Reserve will hold rates near zero until March 2012; the purchase of $600 billion in Treasury securities is completed on-schedule in mid-2011. There is little net movement in the U.S. dollar against major currencies over 2011; the long-run trend is downward, but more against emerging-market currencies than against major currencies. The forecast expects a gradual appreciation of Chinese currency, amounting to 5.3% in 2011.

U.S. growth is expected to be faster in 2011 than in 2010, but growth in the rest of the world is expected to be slower.

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 recent increase in oil prices relating to unrest in the Middle East and continued uncertainty in the economic recovery. The CEFC continues to closely monitor the forecasted post-ARRA stimulus impacts on both employment and personal income for 2012 and 2013. Understanding the interaction of post-ARRA impacts on an already modest forecasted recovery in the near term is critically important as future forecasts are developed.

In considering the new economic forecast, the CEFC looked to minimize significant deviations from the previous forecast while taking into account higher oil prices and better-than-expected employment figures in 2010. Of the forecasts presented, the Global Insight forecast resonated most strongly with the Commission and so many of the CEFC's assumptions follow those of

Global Insight. 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 oil prices (West Texas Intermediate) would average in the $93-$95 per barrel range this year and next. There were specific concerns about the rate of recovery in 2011, given that higher oil prices and continued uncertainty about the Japanese disaster and the European debt crisis have led to continued caution by businesses and consumers.

The revised forecast generally expects slight improvements in 2011 with a somewhat more robust recovery beginning in 2012. Employment loss in 2010 was not as bad as previously expected, leading the CEFC to leave the growth rate unchanged as continued uncertainty and higher oil prices lead to only a slight gain in Maine non-farm wage and salary employment in 2011 (0.4% on an annual average year-over-year basis), followed by stronger growth in 2012 and 2013 before slowing slightly in 2014 and 2015. The unemployment rate is expected to gradually decline through the forecast period, reaching 5.7% in 2015.

The Commission revised its estimate of total personal income upward for 2011 (from 3.0% to 4.6%). Personal income typically recovers before employment growth occurs as businesses increase hours, end furloughs, and reinstate overtime before hiring new employees. In addition, the 2 percentage point cut in the Social Security tax for 2011 has increased the amount of income workers are taking home. However, the weak employment growth in 2011 will hold back total personal income growth somewhat this year. As the Social Security tax cut expires in 2012, total personal income will see slower growth (2.9%, revised downwards from 4.7%). The forecast was also revised downwards for 2013-2015.

The forecast for wage and salary income growth was revised upwards for 2011 (from 3.4% to 4.0%) to reflect the somewhat improved employment conditions. Both Department of Labor wage data and Maine Revenue Services withholding data confirm stronger growth in wages. Wages were revised downwards for 2012 – 2015 and will grow at decreasing rates to an estimated 3.5% growth in 2015. The forecast for other labor income was revised upwards slightly in 2011 (from 3.2% to 3.3%). The remaining years were revised downwards.

Non-farm proprietors' income for 2011 was revised slightly upwards, from 5.8% to 6.1%. Most of the remaining years were revised downwards, with 2014 left unchanged at 4.0%.

The forecast for dividends, interest, and rent was revised significantly upwards for 2011, from 1.2% to 4.3%, reflecting improved dividends and a somewhat stronger real estate market. As interest rates increase in the coming years, 2013-2015 are expected to have overall higher growth rates, at 5.8%, 5.7%, and 6.2%, respectively.

Transfer payments were revised upward for 2011 (from 2.5% to 3.1%). 2014 and 2015 are expected to see higher rates of growth (4.3% and 4.4%, respectively) as the health care reform act takes full effect.

The Commission concurred with the Global Insight forecast of the Consumer Price Index (CPI), a measure of household inflation. This forecast revises 2011 upwards, based on higher energy prices, from 1.5% to 2.5%. The forecasts for 2012 and 2013 were revised downwards, as the upward pressure on oil prices abates, while 2014 was left unchanged and 2015 revised downwards only slightly (from 2.2% to 2.1%).

Before-tax corporate profits, which have not typically been explicitly forecast by the Commission in the past, were added to the forecast. The Commission felt that Global Insight's forecast was appropriate for Maine and so accepted those growth rates. Following record growth in 2010, profits are forecast to be somewhat less in 2011 due to increased oil and commodity prices as well as renewed hiring and investment. 2012 is expected to see slightly increased profits, with much stronger growth coming in 2013 and 2014 before slowing again in 2015.

The following page provides the full annual forecast.

Maine Consensus Economic Forecasting Commission

April 2011 Forecast	Annual History	Annual Forecast				
	2010	2011	2012	2013	2014	2015
CPI-U* (Annual Change)	1.6%	2.5%	1.8%	2.0%	2.3%	2.1%
Maine Unemployment Rate**	7.9%	7.3%	7.1%	6.7%	6.1%	5.7%
3-Month Treasury Bill Rate**	0.14%	0.26%	1.48%	3.41%	3.61%	4.54%
10-Year Treasury Note Rate**	3.2%	3.6%	3.9%	4.7%	4.8%	5.6%
Before-Tax Corporate Profits* (Annual Change)	36.3%	-7.3%	0.2%	20.8%	6.5%	-3.8%
Maine Wage & Salary Employment* (thous.)	592.8	595.2	604.1	613.2	621.8	629.2
Natural Resources	2.6	2.5	2.5	2.5	2.4	2.4
Construction	24.4	24.6	24.6	26.0	28.1	29.8
Manufacturing	50.9	51.2	52.6	54.2	54.9	55.3
Trade/Trans./Public Utils.	116.9	117.5	120.3	122.7	123.9	125.2
Information	9.1	9.1	9.5	9.5	9.4	9.6
Financial Activities	31.3	31.3	31.9	31.9	31.8	31.5
Prof. & Business Services	55.7	56.5	57.9	59.6	63.0	65.5
Education & Heath Services	118.9	120.7	122.8	124.1	125.4	127.4
Leisure & Hospitality Services	59.9	60.7	61.5	61.8	61.5	61.1
Other Services	19.8	20.0	20.1	20.0	19.9	19.8
Government	103.3	101.2	100.8	101.1	101.6	101.7
Agricultural Employment	16.7	16.9	16.9	16.9	16.9	16.9
Maine Wage & Salary Employment*	-0.6%	0.4%	1.5%	1.5%	1.4%	1.2%
Natural Resources	7.2%	-2.0%	-1.3%	-0.4%	-2.8%	-2.5%
Construction	-2.9%	1.0%	-0.3%	5.9%	8.1%	5.9%
Manufacturing	-2.7%	0.5%	2.9%	3.0%	1.3%	0.7%
Trade/Trans./Public Utils.	-1.7%	0.5%	2.4%	2.1%	1.0%	1.0%
Information	-1.5%	0.0%	4.3%	0.0%	-1.0%	2.1%
Financial Activities	-1.6%	0.0%	1.9%	0.0%	-0.3%	-0.9%
Prof. & Business Services	0.6%	1.4%	2.4%	3.1%	5.6%	4.1%
Education & Heath Services	0.2%	1.5%	1.7%	1.0%	1.1%	1.6%
Leisure & Hospitality Services	1.1%	1.3%	1.3%	0.5%	-0.5%	-0.6%
Other Services	0.3%	1.0%	0.5%	-0.5%	-0.5%	-0.5%
Government	-0.3%	-2.0%	-0.4%	0.3%	0.5%	0.1%
Agricultural Employment	1.2%	1.2%	0.0%	0.0%	0.0%	0.0%

	2010	2011	2012	2013	2014	2015
Personal Income* ($ million)	49,547.5	51,826.7	53,329.7	55,462.9	57,681.4	59,988.7
Wage & Salary Disbursements	23,600.2	24,544.2	25,648.7	26,725.9	27,768.2	28,740.1
Supplements to Wages & Salaries	6,079.4	6,280.0	6,543.8	6,831.7	7,152.8	7,460.4
Non-Farm Proprietors' Income	3,666.3	3,890.0	4,115.6	4,255.5	4,425.7	4,589.5
Farm Proprietors' Income	70.3	81.8	84.8	83.9	83.3	83.6
Dividends, Interest, & Rent	7,473.6	7,794.9	8,106.7	8,576.9	9,065.8	9,627.9
Dividends	2,236.8	2,386.7	2,487.0	2,565.5	2,630.0	2,677.4
Interest	4,000.1	4,064.1	4,328.3	4,912.6	5,487.4	6,129.4
Rent	1,236.7	1,344.3	1,290.5	1,096.9	946.9	823.8
Transfer Payments	11,774.3	12,139.3	12,394.2	12,828.0	13,379.6	13,968.3
Less: Contributions to Social Ins.	3,953.8	3,748.2	4,430.4	4,753.8	5,115.1	5,411.8
Residence Adjustment	849.8	880.4	919.1	961.4	995.0	1,021.9
Personal Income*	2.8%	4.6%	2.9%	4.0%	4.0%	4.0%
Wage & Salary Disbursements	1.8%	4.0%	4.5%	4.2%	3.9%	3.5%
Supplements to Wages & Salaries	2.7%	3.3%	4.2%	4.4%	4.7%	4.3%
Non-Farm Proprietors' Income	4.7%	6.1%	5.8%	3.4%	4.0%	3.7%
Farm Proprietors' Income	6.8%	16.4%	3.6%	-1.0%	-0.8%	0.4%
Dividends, Interest, & Rent	-0.1%	4.3%	4.0%	5.8%	5.7%	6.2%
Dividends	0.4%	6.7%	4.2%	3.2%	2.5%	1.8%
Interest	-2.5%	1.6%	6.5%	13.5%	11.7%	11.7%
Rent	7.5%	8.7%	-4.0%	-15.0%	-13.7%	-13.0%
Transfer Payments	6.7%	3.1%	2.1%	3.5%	4.3%	4.4%
Less: Contributions to Social Ins.	3.1%	-5.2%	18.2%	7.3%	7.6%	5.8%
Residence Adjustment	3.3%	3.6%	4.4%	4.6%	3.5%	2.7%

*CEFC Forecast

**Maine Unemployment Rate and 3-month Treasury Bill and 10-year Treasury Bond rates from Global Insight - March 2011

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