

**Report of the
MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION
February 13, 2004**

Commissioners Present:

Charlie Colgan, Muskie School, USM, Chair
Michael Donihue, Colby College
John Davulis, CMP
Alan Day, Banknorth Investment Management Group (via telephone connection)
John Dorrer, National Center on Education and the Economy

Others present:

Michael Allen, MRS
Dana Evans, DOL
Galen Rose, SPO
Gerry Stanhope, MRS
Laurie Lachance, SPO
Marc Cyr, OFPR
John Nyada, MRS

The Commission met on January 27, 2004 to discuss whether their October 2003 forecast should be revised before the Revenue Forecasting Committee meets on February 12, 2004. The committee made only minor changes to the October forecast; all were related to more current historical data being available.

A small upward revision in the total personal income growth rate from 3.5% to 4.0% for 2003 was made since the growth rate of the first 3 quarters was officially reported to be 4.1% by the US Bureau of Economic Analysis. This increase occurred in the categories of other labor income, proprietors income, and transfer payments, all of which grew faster through September 2003 than forecast.

Also, the US Consumer Price Index (CPIu) forecast for a 2.0% increase in 2003 was changed to 2.3% to conform to full year data just released by the US Dept. of Labor. It should perhaps be noted that all data series studied by the Commission become available anywhere from a month to 4 months after the fact. The table on the following page shows the Commission's expected growth rates for employment, personal income and its components, and inflation.

Maine Consensus Economic Forecasting Commission
Forecast of January 2004

	History									Forecast				
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Rate or Annual Growth Rate													
CPI-u	-	2.8%	3.0%	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.0%	2.0%	2.5%	2.5%
Me. Unemployment Rate	7.4	5.7	5.1	5.4	4.4	4.1	3.5	4.0	4.4	5.1	5.2	4.9	4.7	4.5
3-Month Treasury Bill Rate	4.2%	5.5%	5.0%	5.1%	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	2.0%	3.9%	5.0%	5.0%
10-Year Treasury Note Rate	7.1%	6.6%	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.9%	5.3%	5.8%	5.9%
Maine Agricultural Empl.(1,000's)	14.5	14.4	14.3	13.8	16.1	13.4	16.1	13.1	14.0	17.0	14.0	14.0	14.0	14.0
	Employment Levels (1,000's)													
Maine Wage & Salary Employmen	531.6	538.2	542.5	553.7	569.2	586.3	603.5	608.1	606.1	606.0	611.1	617.5	623.9	630.4
Mining	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	21.0	21.7	23.2	23.3	25.1	28.0	29.4	29.7	29.2	29.2	29.7	30.2	30.7	31.2
Manufacturing	91.4	91.1	88.3	87.8	87.1	86.2	85.2	80.3	73.7	68.5	63.4	61.4	59.6	57.8
Transp/Commun./Publ. Utilis.	22.6	22.3	22.6	23.1	23.6	24.1	24.5	24.7	24.5	24.5	24.7	24.9	25.1	25.3
Wholesale Trade	23.9	25.1	25.8	26.0	26.5	27.0	27.1	26.9	26.8	26.8	27.1	27.4	27.7	28.0
Retail Trade	110.4	111.9	111.4	113.4	115.8	119.0	122.8	124.4	125.9	126.9	127.7	129.2	130.6	132.0
FIRE	26.3	26.0	27.0	28.4	29.7	31.4	32.4	33.6	33.9	34.0	34.4	34.8	35.2	35.6
Services	141.6	146.8	151.1	158.7	166.8	173.9	182.5	186.6	189.1	193.8	201.6	206.5	211.2	216.0
Government	94.1	93.2	92.8	93.0	94.6	96.7	99.6	101.8	102.9	102.2	102.4	102.7	103.1	103.5
	Annual Growth Rates													
Maine Wage & Salary Employmen	-	1.2%	0.8%	2.1%	2.8%	3.0%	2.9%	0.8%	-0.3%	0.0%	0.8%	1.0%	1.0%	1.0%
Mining	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction	-	3.0%	7.0%	0.5%	7.5%	11.6%	5.1%	1.0%	-1.7%	0.0%	1.7%	1.7%	1.7%	1.6%
Manufacturing	-	-0.4%	-3.0%	-0.6%	-0.8%	-1.1%	-1.2%	-5.7%	-8.2%	-7.0%	-7.5%	-3.2%	-2.9%	-3.0%
Transp/Commun./Publ. Utilis.	-	-1.4%	1.5%	2.2%	1.9%	2.2%	1.6%	0.8%	-0.8%	0.0%	0.8%	0.8%	0.8%	0.8%
Wholesale Trade	-	4.8%	2.9%	0.6%	1.8%	2.2%	0.2%	-0.7%	-0.4%	0.0%	1.1%	1.1%	1.1%	1.1%
Retail Trade	-	1.4%	-0.4%	1.8%	2.2%	3.2%	3.2%	1.3%	1.2%	0.8%	0.6%	1.2%	1.1%	1.1%
FIRE	-	-1.1%	3.8%	5.2%	4.4%	5.6%	3.3%	3.7%	0.9%	0.3%	1.2%	1.2%	1.1%	1.1%
Services	-	3.7%	3.0%	5.0%	5.1%	4.2%	5.0%	2.2%	1.3%	2.5%	4.0%	2.4%	2.3%	2.2%
Government	-	-1.0%	-0.4%	0.2%	1.8%	2.2%	3.0%	2.2%	1.1%	-0.7%	0.2%	0.3%	0.4%	0.4%
	Million \$ - at Seas. Adjusted Annual Rates													
Personal income	24173.8	25046.3	26434.0	27772.8	29468.5	30679.8	32866.5	34491.5	35990.8	37444.4	38942.2	40694.5	42525.8	44439.5
Wage and salary disbursements	12408.5	12923.3	13456.5	14315.8	15242.5	16251.0	17217.0	17975.0	18501.0	19048.6	19734.4	20622.4	21653.5	22736.2
Other labor income	2121.8	2064.8	2104.0	2033.5	2058.5	2143.0	2254.0	2393.3	2623.3	2833.1	2985.5	3162.1	3317.1	3493.6
Non-farm Proprietors' income	1885.5	1791.8	1959.0	2052.0	2223.3	2374.0	2492.5	2575.3	2682.5	2886.4	3106.9	3288.9	3457.5	3613.7
plus: Dividends, interest, and rent	4346.8	4691.0	5037.0	5362.0	5824.8	5704.3	6445.3	6723.8	6812.5	6830.2	7106.2	7494.2	7842.2	8240.4
plus: Transfer payments	4190.5	4401.8	4686.8	4903.3	5010.0	5136.3	5416.3	5875.0	6387.0	6898.0	7105.4	7283.1	7465.1	7614.4
less: Personal contrb. for social in	999.8	1050.8	1084.8	1145.0	1210.5	1288.8	1339.8	1420.0	1500.5	1563.0	1632.7	1719.1	1800.6	1879.0
plus: Adjustment for residence	140.0	183.3	208.3	240.3	274.5	291.3	332.5	345.0	482.0	506.1	531.4	558.0	585.9	615.2
Farm Income	145.5	113.8	145.0	92.0	125.0	142.5	130.3	112.0	98.0	101.9	106.0	110.2	114.6	119.2
	Annual Growth Rates													
Personal income	-	3.6%	5.5%	5.1%	6.1%	4.1%	7.1%	4.9%	4.3%	4.0%	4.0%	4.5%	4.5%	4.5%
Wage and salary disbursements	-	4.1%	4.1%	6.4%	6.5%	6.6%	5.9%	4.4%	2.9%	3.0%	3.6%	4.5%	5.0%	5.0%
Other labor income	-	-2.7%	1.9%	-3.4%	1.2%	4.1%	5.2%	6.2%	9.6%	8.0%	5.4%	5.9%	4.9%	5.3%
Non-farm Proprietors' income	-	-5.0%	9.3%	4.7%	8.3%	6.8%	5.0%	3.3%	4.2%	7.6%	7.6%	5.9%	5.1%	4.5%
plus: Dividends, interest, and rent	-	7.9%	7.4%	6.5%	8.6%	-2.1%	13.0%	4.3%	1.3%	0.3%	4.0%	5.5%	4.6%	5.1%
plus: Transfer payments	-	5.0%	6.5%	4.6%	2.2%	2.5%	5.5%	8.5%	8.7%	8.0%	3.0%	2.5%	2.5%	2.0%
less: Personal contrb. for social in	-	5.1%	3.2%	5.6%	5.7%	6.5%	4.0%	6.0%	5.7%	4.2%	4.5%	5.3%	4.7%	4.4%
plus: Adjustment for residence	-	30.9%	13.6%	15.4%	14.3%	6.1%	14.2%	3.8%	39.7%	5.0%	5.0%	5.0%	5.0%	5.0%
Farm Income	-	-21.8%	27.5%	-36.6%	35.9%	14.0%	-8.6%	-14.0%	-12.5%	4.0%	4.0%	4.0%	4.0%	4.0%

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 3 month T-bill and 10yr Treas. Note rates are from Economy.com - Dec. 2003

In deliberating its January forecast, the Committee considered the following:

1. The State Planning Office reported that most major indicators of the national economy were showing renewed strength. The positive indicators included very strong real gross domestic product growth in the 3rd quarter (8.2% annual rate), improving corporate profits and fixed non-residential investment, continued strength in the major stock market indices and the index of leading economic indicators. Also, and very importantly, interest rates continued to be very low. In Maine, the most recent data show mortgage rates also staying in the historically low 6% range, which has kept mortgage activity very strong, especially refinancings. Maine home sales continued at an annual rate of over 40,000 units through the 3rd quarter. Residential construction also continues to be strong. Through October, Maine consumer retail sales were up 4% over the same period of 2002. However, while most Maine indicators are showing at least moderate growth, job markets are not responding.
2. Information from the Maine Department of Labor suggested that, following upcoming revisions, the State annual unemployment rate for 2003 would likely be 5.1%, up from 4.4% the previous year. Wage and salary employment growth for 2003 will be about 0%. However, year-over-year monthly declines in wage and salary employment have been shrinking since summer. While seasonally adjusted US “temporary help” totals have been rising fairly strongly since last spring, in Maine the year-over-year temp help numbers showed continued declines. Over the past few months, both initial and continuing unemployment claims have been declining somewhat.
3. General Fund revenues through December were \$11.9 million over budget. Sales tax revenues were \$4.4 million over budget, personal income tax revenues were \$11 million over budget, but corporate tax revenues were \$1.9 million under budget. Early January data suggested that these trends would continue through the month. For the first 6 months of the fiscal year, withholding was up 2 ½ to 3% over the previous year, but would have to improve to 3 ¼ to 4% for the remainder of the year in order to meet the budget target.
4. Commissioners noted a number of positive trends which may impact the Maine economy going forward. These included:
 - a. The value of the US dollar is still falling, which should benefit exporters and tourism.
 - b. The projected federal deficit has increased dramatically, but is not yet affecting bond markets.
 - c. US monetary and fiscal policies are still quite stimulative, which is helping to maintain strong consumer spending.

5. Several important negative trends were also noted by Commissioners:
- a. Connecticut and Massachusetts job losses over the past year have been huge, amounting to about 1/4th of the nation's losses over that period. Yet, forecasts for those states are calling for reasonably strong job gains this year and next.
 - b. US labor market job openings and turnover rates are still weak, with no positive signs, but temporary help services are seeing some growth. According to recent national surveys, although small businesses are very optimistic about the economy, hiring plans are flat.
 - c. Apparently, structural changes and exceptionally strong productivity growth are mostly to blame for the lack of job growth. These factors may continue to be major influences for many months to come.