Maine Revenue Services

Materials and Recommendations

February 23, 2010

Maine Revenue Services' Recommendations to the Revenue Forecasting Committee

	FY2010	FY2011	Biennium	FY2012	FY2013	Biennium
Sales & Use and Service Provider Taxes	($13,814,276)	($16,994,778)	($30,809,054)	($19,111,598)	($20,938,394)	($40,049,992)
Individual Income Tax	$13,400,000	$2,000,000	$15,400,000	($14,000,000)	($3,500,000)	($17,500,000)
Corporate Income Tax	$29,672,794	$36,678,367	$66,351,161	$35,897,336	$32,397,422	$68,294,757
Tax and Rent Program	$0	$0	$0	$0	$0	$0
Cigarette & Tobacco Taxes	$0	$0	$0	$0	$0	$0
Estate Tax	$0	$0	$0	$0	$0	$0
Business Equipment Tax Exemption (BETE)	$500,000	$0	$500,000	$0	$0	$0
Business Equipment Tax Reimbursement (BETR)	($1,000,000)	$0	($1,000,000)	$0	$0	$0
Transfer to the STAR Fund	$0	$0	$0	$0	$0	$0
Transfer to Toursim Marketing Fund	$14,725	$6,650	$21,375	$9,500	$0	$9,500
Total Adjustments to Current Forecast	$28,773,243	$21,690,239	$50,463,482	$2,795,238	$7,959,028	$10,754,265
General Fund	$27,549,878	$20,561,871	$48,111,749	$2,520,749	$7,575,001	$10,095,749
Local Government Fund	$1,223,365	$1,128,368	$2,351,733	$274,489	$384,027	$658,516
Highway Fund (Motor Fuel Taxes)	$5,013,500	$4,819,250	$9,832,750	$5,540,750	$6,761,750	$12,302,500

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STATE OF MAINE

EXHIBIT I

Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2010
For the Fiscal Year Ending June 30, 2010
Comparison to Budget

	Month				Year to Date				
	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Total Budgeted Fiscal Year Ending 6-30-2010
Sales and Use Tax	89,108,629	91,239,258	(2,130,629)	(2.3%)	485,707,905	487,847,845	(2,139,940)	(0.4%)	897,654,270
Service Provider Tax	4,963,968	4,663,245	300,723	6.4%	28,210,114	28,664,852	(454,738)	(1.6%)	55,590,852
Individual Income Tax	137,027,470	121,698,000	15,329,470	12.6%	755,375,859	734,689,452	20,686,407	2.8%	1,277,980,000
Corporate Income Tax	13,358,756	2,400,000	10,958,756	456.6%	87,937,625	64,406,408	23,531,217	36.5%	118,045,922
Cigarette and Tobacco Tax	10,386,180	10,948,996	(562,816)	(5.1%)	87,472,977	85,050,425	2,422,552	2.8%	140,139,902
Insurance Companies Tax	23,022	62,153	(39,131)	(63.0%)	12,901,263	12,007,935	893,328	7.4%	71,985,000
Estate Tax	1,509,022	2,245,136	(736,114)	(32.8%)	15,348,570	13,881,453	1,467,117	10.6%	29,593,253
Fines, Forfeits and Penalties	2,220,261	2,296,670	(76,409)	(3.3%)	19,247,845	19,114,822	133,023	0.7%	32,201,846
Income from Investments	(10,037)	(55,112)	45,075	81.8%	176,037	193,185	(17,148)	(8.9%)	(192,418)
Transfer from Lottery Commission	4,005,284	4,762,916	(757,632)	(15.9%)	30,188,612	29,530,040	658,572	2.2%	49,534,250
Transfers for Tax Relief Programs	(23,145,574)	(12,230,335)	(10,915,239)	(89.2%)	(98,755,344)	(94,183,663)	(4,571,681)	(4.9%)	(112,059,862)
Transfer to Municipal Revenue Sharing	(9,763,798)	(8,860,724)	(903,074)	(10.2%)	(61,804,509)	(60,901,641)	(902,868)	(1.5%)	(100,888,428)
Other Taxes and Fees	10,672,040	9,654,456	1,017,584	10.5%	76,030,298	76,323,585	(293,287)	(0.4%)	147,251,531
Other Revenues	3,001,266	1,018,628	1,982,638	194.6%	13,376,012	8,283,877	5,092,135	61.5%	40,408,604
Total Collected	243,356,489	229,843,287	13,513,202	5.9%	1,451,413,265	1,404,908,575	46,504,690	3.3%	2,647,244,722

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NOTES: (1) Included in the above is $9,763,798 for the month and $61,804,509 year to date, that was set aside for Revenue Sharing with cities and towns.

(2) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in December 2009.

(3) This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE

Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2010 and 2009
For the Fiscal Years Ending June 30, 2010 and 2009
Comparison to Prior Year

EXHIBIT II

	Month				Year to Date			
	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)
Sales and Use Tax	89,108,629	92,430,029	(3,321,399)	(3.6%)	485,707,905	516,785,239	(31,077,333)	(6.0%)
Service Provider Tax	4,963,968	4,441,186	522,781	11.8%	28,210,114	27,146,408	1,063,706	3.9%
Individual Income Tax	137,027,470	164,474,825	(27,447,356)	(16.7%)	755,375,859	837,027,625	(81,651,766)	(9.8%)
Corporate Income Tax	13,358,756	4,476,047	8,882,709	198.4%	87,937,625	73,130,994	14,806,632	20.2%
Cigarette and Tobacco Tax	10,386,180	10,129,918	256,263	2.5%	87,472,977	87,752,682	(279,705)	(0.3%)
Insurance Companies Tax	23,022	91,137	(68,114)	(74.7%)	12,901,263	12,622,256	279,007	2.2%
Estate Tax	1,509,022	3,918,391	(2,409,369)	(61.5%)	15,348,570	15,680,050	(331,480)	(2.1%)
Fines, Forfeits and Penalties	2,220,261	2,980,455	(760,194)	(25.5%)	19,247,845	24,775,429	(5,527,584)	(22.3%)
Income from Investments	(10,037)	17,749	(27,787)	(156.6%)	176,037	1,423,472	(1,247,435)	(87.6%)
Transfer from Lottery Commission	4,005,284	2,933,134	1,072,149	36.6%	30,188,612	29,601,408	587,204	2.0%
Transfers for Tax Relief Programs	(23,145,574)	(24,943,029)	1,797,455	7.2%	(98,755,344)	(108,822,568)	10,067,224	9.3%
Transfer to Municipal Revenue Sharing	(9,763,798)	(12,284,835)	2,521,036	20.5%	(61,804,509)	(68,608,655)	6,804,146	9.9%
Other Taxes and Fees	10,672,040	9,509,520	1,162,520	12.2%	76,030,298	72,115,812	3,914,486	5.4%
Other Revenues	3,001,266	3,599,098	(597,832)	(16.6%)	13,376,012	16,497,551	(3,121,539)	(18.9%)
Total Collected	243,356,489	261,773,626	(18,417,137)	(7.0%)	1,451,413,265	1,537,127,702	(85,714,436)	(5.6%)

NOTE: Due to changes in the report, prior year actuals were revised for a more accurate comparison of current year revenues to prior year revenues. Prior year total collections have not changed.

STATE OF MAINE

EXHIBIT III

Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2010
For the Fiscal Year Ending June 30, 2010
Comparison to Budget

	Month				Year to Date				
	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Total Budgeted Fiscal Year Ending 6-30-2010
Detail of Other Taxes & Fees									
0100's All Others	644,898	1,271,449	(626,551)	(49.3%)	19,767,904	20,476,969	(709,065)	(3.5%)	31,690,912
0300's Gas Tax	21,658	21,889	(231)	(1.1%)	159,584	160,314	(730)	(0.5%)	263,089
0400's Alcohol Excise Tax	1,193,752	1,199,339	(5,587)	(0.5%)	10,108,460	10,188,024	(79,564)	(0.8%)	17,433,056
0700's Corporation Taxes	357,722	145,250	212,472	146.3%	1,623,101	1,542,333	80,768	5.2%	7,505,099
0800's Public Utilities	-	-	-	-	(96,175)	-	(96,175)	-	16,996,988
1000's Banking Taxes	2,356,760	2,240,499	116,261	5.2%	13,505,562	13,217,973	287,589	2.2%	22,365,980
1100's Alcoholic Beverages	310,758	336,262	(25,504)	(7.6%)	2,129,259	2,410,047	(280,788)	(11.7%)	4,603,355
1200's Amusements Tax	-	-	-	-	-	-	-	-	-
1300's Harness Racing/Parimutuels/Slots	632,657	582,853	49,804	8.5%	5,270,526	5,121,661	148,865	2.9%	8,931,091
1400's Business Taxes	1,123,243	1,211,363	(88,120)	(7.3%)	10,339,293	10,459,542	(120,249)	(1.1%)	15,445,700
1500's Motor Vehicle Licenses	526,552	521,210	5,342	1.0%	2,807,019	2,489,548	317,471	12.8%	4,646,488
1700's Inland Fisheries & Wildlife	3,487,495	2,090,122	1,397,373	66.9%	10,273,020	10,083,436	189,584	1.9%	17,042,965
1900's Hospital Excise & Other	16,547	34,220	(17,673)	(51.6%)	142,744	173,738	(30,994)	(17.8%)	326,808
Total Other Taxes & Fees	10,672,040	9,654,456	1,017,584	10.5%	76,030,298	76,323,585	(293,287)	(0.4%)	147,251,531
Detail of Other Revenues									
2200's Federal Revenues	587,864	618,249	(30,385)	(4.9%)	7,184,004	7,277,766	(93,762)	(1.3%)	10,388,601
2300's County Revenues	-	-	-	-	-	-	-	-	-
2400's Revenues from Cities & Towns	(275)	-	(275)	-	50,020	95,432	(45,412)	(47.6%)	251,789
2500's Revenues from Private Sources	172,853	140,830	32,023	22.7%	954,755	985,810	(31,055)	(3.2%)	9,027,069
2600's Current Service Charges	3,094,723	2,516,158	578,565	23.0%	18,970,379	18,558,554	411,825	2.2%	31,961,289
2700's Transfers from Other Funds	(853,899)	(2,256,609)	1,402,710	62.2%	(13,833,426)	(18,638,685)	4,805,259	25.8%	(11,300,144)
2800's Sales of Property & Equipment	-	-	-	-	50,280	5,000	45,280	905.6%	80,000
Total Other Revenues	3,001,266	1,018,628	1,982,638	194.6%	13,376,012	8,283,877	5,092,135	61.5%	40,408,604

STATE OF MAINE

Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2010 and 2009
For the Fiscal Years Ending June 30, 20010 and 2009
Comparison to Prior Year

EXHIBIT IV

	Month				Year to Date			
	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)
Detail of Other Taxes & Fees								
0100's All Others	644,898	1,690,166	(1,045,268)	(61.8%)	19,767,904	23,142,025	(3,374,120)	(14.6%)
0300's Gas Tax	21,658	20,456	1,202	5.9%	159,584	149,687	9,897	6.6%
0400's Alcohol Excise Tax	1,193,752	1,221,576	(27,823)	(2.3%)	10,108,460	10,499,869	(391,409)	(3.7%)
0700's Corporation Taxes	357,722	133,647	224,075	167.7%	1,623,101	1,099,640	523,462	47.6%
0800's Public Utilities	-	-	-	-	(96,175)	231,238	(327,412)	(141.6%)
1000's Banking Taxes	2,356,760	2,497,900	(141,140)	(5.7%)	13,505,562	14,109,000	(603,438)	(4.3%)
1100's Alcoholic Beverages	310,758	308,371	2,387	0.8%	2,129,259	1,922,909	206,350	10.7%
1200's Amusements Tax	-	-	-	-	-	-	-	-
1300's Harness Racing/Parimutuels/Slots	632,657	672,595	(39,939)	(5.9%)	5,270,526	4,865,708	404,818	8.3%
1400's Business Taxes	1,123,243	943,883	179,361	19.0%	10,339,293	4,256,056	6,083,237	142.9%
1500's Motor Vehicle Licenses	526,552	490,157	36,395	7.4%	2,807,019	2,660,638	146,380	5.5%
1700's Inland Fisheries & Wildlife	3,487,495	1,499,097	1,988,397	132.6%	10,273,020	8,996,886	1,276,134	14.2%
1900's Hospital Excise & Other	16,547	31,673	(15,126)	(47.8%)	142,744	182,157	(39,413)	(21.6%)
Total Other Taxes & Fees	10,672,040	9,509,520	1,162,520	12.2%	76,030,298	72,115,812	3,914,486	5.4%
Detail of Other Revenues								
2200's Federal Revenues	587,864	513,677	74,187	14.4%	7,184,004	4,230,506	2,953,498	69.8%
2300's County Revenues	-	-	-	-	-	-	-	-
2400's Revenues from Cities & Towns	(275)	-	(275)	-	50,020	59,383	(9,363)	(15.8%)
2500's Revenues from Private Sources	172,853	37,284	135,569	363.6%	954,755	1,018,864	(64,109)	(6.3%)
2600's Current Service Charges	3,094,723	818,181	2,276,542	278.2%	18,970,379	12,148,108	6,822,271	56.2%
2700's Transfers from Other Funds	(853,899)	2,237,963	(3,091,862)	(138.2%)	(13,833,426)	(994,351)	(12,839,075)	(1291.2%)
2800's Sales of Property & Equipment	-	(8,007)	8,007	100.0%	50,280	35,041	15,239	43.5%
Total Other Revenues	3,001,266	3,599,098	(597,832)	(16.6%)	13,376,012	16,497,551	(3,121,539)	(18.9%)

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

Office of the State Controller

STATE OF MAINE
Undedicated Revenues - Highway Fund
For the Seventh Month Ended January 31, 2010
For the Fiscal Year Ending June 30, 2010
Comparison to Budget

Exhibit V

	Month				Year to Date				
	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Total Budgeted Fiscal Year Ending 6-30-2010
Fuel Taxes	17,500,704	16,631,851	868,853	5.2%	114,346,338	109,281,412	5,064,926	4.6%	215,292,026
Motor Vehicle Registration & Fees	5,818,266	6,072,472	(254,206)	(4.2%)	40,978,126	41,141,157	(163,031)	(0.4%)	76,043,693
Inspection Fees	768,109	200,886	567,223	282.4%	2,462,863	2,412,553	50,310	2.1%	4,046,915
Fines, Forfeits & Penalties	90,161	133,523	(43,362)	(32.5%)	940,613	983,974	(43,361)	(4.4%)	1,745,049
Earnings on Investments	9,686	8,000	1,686	21.1%	81,905	79,445	2,460	3.1%	144,622
All Other	847,086	519,354	327,732	63.1%	5,725,140	5,512,648	212,492	3.9%	8,215,870
Total Revenue	25,034,011	23,566,086	1,467,925	6.2%	164,534,985	159,411,189	5,123,796	3.2%	305,488,175

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE
Undedicated Revenues - Highway Fund
For the Seventh Month Ended January 31, 2010 and 2009
For the Fiscal Years Ending June 30, 2010 and 2009
Comparison to Prior Year

Exhibit VI

	Month				Year to Date			
	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)
Fuel Taxes	17,500,704	17,604,042	(103,339)	(0.6%)	114,346,338	112,140,686	2,205,652	2.0%
Motor Vehicle Registration & Fees	5,818,266	6,266,668	(448,402)	(7.2%)	40,978,126	47,489,414	(6,511,288)	(13.7%)
Inspection Fees	768,109	207,637	560,471	269.9%	2,462,863	2,218,225	244,638	11.0%
Fines, Forfeits & Penalties	90,161	135,823	(45,661)	(33.6%)	940,613	1,015,837	(75,224)	(7.4%)
Earnings on Investments	9,686	20,261	(10,575)	(52.2%)	81,905	341,734	(259,829)	(76.0%)
All Other	847,086	583,053	264,033	45.3%	5,725,140	6,633,501	(908,360)	(13.7%)
Total Revenue	25,034,011	24,817,484	216,527	0.9%	164,534,985	169,839,396	(5,304,411)	(3.1%)

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

Economic Assumptions

Recent Performance. The economic recovery strengthened as 2009 came to an end. Real GDP looks to have expanded at a solid pace of well over 4% in last year's fourth quarter, and the labor market is stabilizing in response, the disappointing December jobs number notwithstanding.

A rebound in manufacturing is the most significant factor behind the gains, with the massive inventory liquidation that began nearly two years ago now winding down. Inventories are falling back in line with improving sales, and manufacturers will need to ramp up output further in coming months or inventories will soon be too lean. Given the difficulty in gauging the magnitude of inventory swings, this poses an upside risk to near-term real GDP growth.

The massive monetary and fiscal stimulus has driven the better sales. Borrowing costs for households and businesses are extraordinarily low, and while credit standards remain exceedingly tight, lenders are signaling they will not get any tighter. The contribution of the fiscal stimulus to GDP growth is fading, but it continues to provide a meaningful lift to growth. The expanded aid to unemployed workers is particularly helpful in supporting demand and the extension of the housing tax credit, and more infrastructure spending will soon be a plus.

Job machine. The boost to growth from the inventory swing and the policy stimulus will have largely played out by this summer. In order for the current economic recovery to evolve into a self-sustaining economic expansion, businesses must respond to their better sales by expanding their investment and hiring. The added jobs will generate the incomes necessary to support more spending and production, powering the expansion forward.

So far businesses have curtailed their job cutting, with layoffs abating, but they have yet to add to their payrolls. Initial claims for unemployment insurance, a good proxy for layoffs, are steadily declining, but the number unemployed and receiving some form of UI benefits, which should be falling if firms were hiring, remains extraordinarily high. It is disconcerting that more than 10 million unemployed are on the UI rolls, given that many of those who lost their jobs at the start of the recession two years ago are now beginning to run out of benefits. Many more will soon exhaust their benefits unless hiring quickly revives.

There are reasons to be optimistic that some hiring will begin soon. Employment at temporary help firms is strongly increasing, and the average workweek has risen from recent record lows. Businesses hire more temps and ask their existing employees to work more hours before they start to hire more full-time workers.

However, there are also good reasons to be nervous about the strength of any pickup in hiring. Employment, as measured in the household survey, has plunged by an astounding 2.2 million over the past six months, compared with only 800,000 in the more closely followed payroll survey. In past recoveries household employment has increased either before or more vigorously than payroll employment, probably because it more accurately reflects what small businesses are doing. Small businesses have historically been vital to restarting the job machine coming out of recessions.

Small businesses are having difficulty getting the credit necessary to expand their operations. Credit card lenders and small banks, so important to small business credit, have been particularly aggressive in tightening their lending standards given changing laws and regulations and mounting loan losses. And nearly all businesses lack the animal spirits needed to aggressively expand. Confidence remains notably fragile, probably due to the severity of the just-ended Great Recession and the heightened policy uncertainty created by debates on healthcare, financial regulation, carbon emissions and taxes.

Exit strategy. Policymaking will be critical to the strength and speed of the transition from recovery to expansion. The Federal Reserve is assumed to end its credit easing efforts this spring, as it has said it will, and to hold off on raising interest rates until very late this year at the earliest. Fiscal policymakers are expected to provide close to $100 billion in additional stimulus this year. This includes about $50 billion that has already been signed into law for the extension of the housing tax credit and some business tax breaks and another $50 billion expected to become law in the next month or two, mostly to fund more UI benefits.

This should be just enough policy stimulus to ensure that the recovery does not backtrack into recession, but it will not be enough to ensure that a vigorous self-sustaining expansion quickly takes root. Indeed, real GDP growth is expected to weaken by midyear, and while job growth will soon resume, it will not be enough to forestall a further increase in the unemployment rate. The jobless rate is expected to rise from 10% currently to a peak of almost 11% by this fall.

Recession risks will be at their highest at around that time. Given the dire implications of another recession and the political incentives of the November election, policymakers may very well decide to do more to support the economy. Federal Reserve officials are debating the merits of extending the bank's credit easing to purchase more mortgage securities and keep mortgage rates lower for longer. Congress and the administration are considering a bigger package of stimulus that could include more help to hard-pressed state governments, additional monies for weatherization and infrastructure, and a jobs tax credit.

Policymakers seem to understand the need to exit their extraordinary efforts to shore up the financial system and economy. Fed officials are nervous about the inflationary implications of providing too much monetary stimulus, and fiscal policymakers are worried about the developing fiscal crisis, given prospects for persistent trillion dollar annual deficits. But they also seem to understand that the costs of exiting too early would be significantly greater.

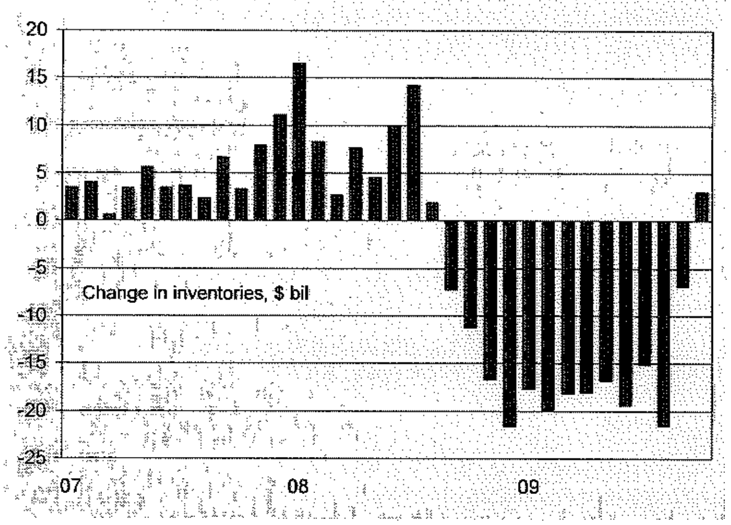
Outlook. Last year was one of transition from recession to recovery; 2010 will be one of transition from recovery to self-sustaining expansion. The transition will be successful, but it will not be entirely graceful, as the support to growth from the inventory swing and the policy stimulus will fade. Real GDP growth is expected to weaken from over 4% annualized in the fourth quarter of 2009 to about one-half that by the middle of this year.

This is strong enough to lead to an end to job losses in the next couple of months, particularly given that the federal government will be hiring hundreds of thousands of temporary workers to conduct the 2010 Census this spring, but the unemployment rate will rise further. Job growth will not be strong enough to meaningfully bring down the unemployment rate until late this year.

The economy is performing measurably better today than it was one year ago, and it should be doing measurably better one year from now.

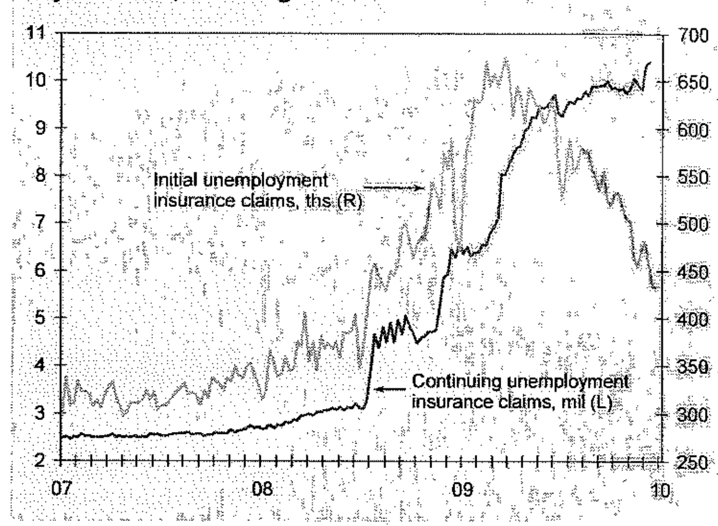
Mark Zandi
January 2010

The Inventory Swing



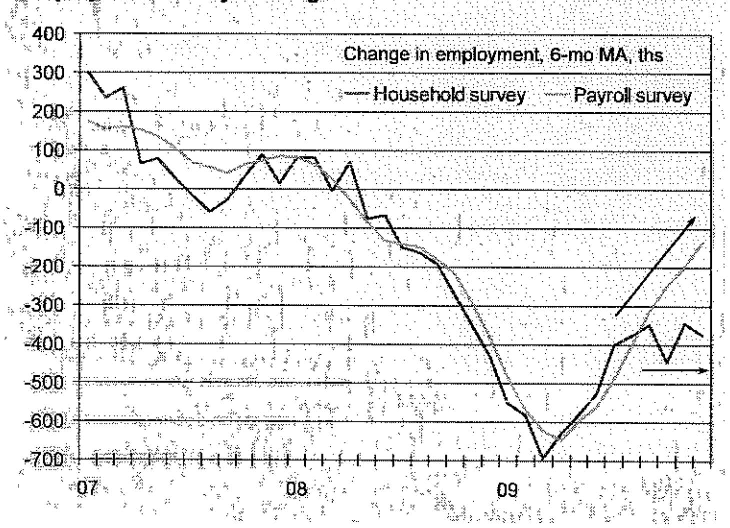
Real GDP likely advanced at a strong annualized rate of more than 4% in the fourth quarter of 2009. The massive monetary and fiscal stimulus and a powerful inventory swing are supporting growth. Manufacturers, wholesalers and retailers have been cutting stocks by a record amount. Inventories are now in line with sales, and manufacturers are ramping up production so that stocks do not fall further. This inventory swing is difficult to gauge and adds upside risk to the forecast for fourth quarter GDP. However, the boost to growth from inventories will abate by the middle of this year.

Layoffs Abate, but Hiring Is Dormant



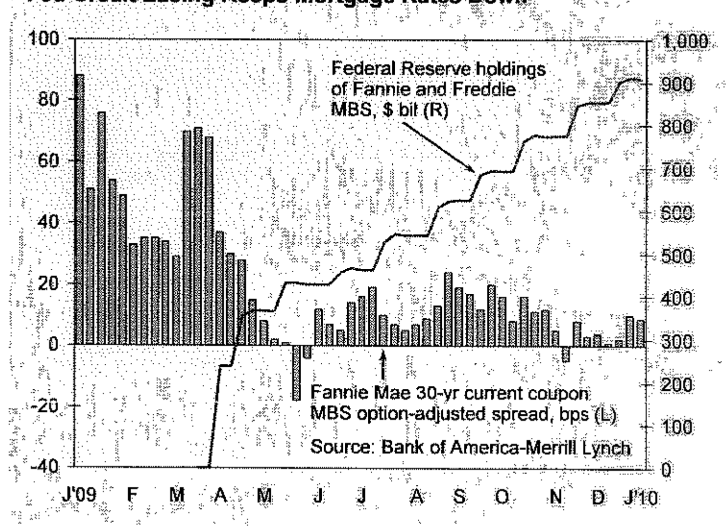
For the recovery to evolve into a self-sustaining expansion as the boosts from the stimulus and inventories fade, businesses must soon begin to expand their operations. Investment spending has stabilized, and layoffs have abated, but hiring remains dormant. This is evident from the decline in initial claims for unemployment insurance but continuing claims that are still extraordinarily high. A lack of credit, particularly for smaller businesses, and fragile confidence, due to the severity of the downturn and uncertainty about public policy, are constraining businesses' expansion decisions.

Employment Surveys Diverge



The recent divergence between the payroll and household employment surveys is creating uncertainty as to when job growth will turn from negative to positive. Job losses have narrowed substantially in the more closely followed payroll survey since the recession ended but not in the household survey. The reality is likely somewhere in between the two. Payroll employment will be revised lower with BLS revisions this spring and is not capturing the stress that small businesses are under, but the household survey is smaller and suffers from significant measurement error and volatility.

Fed Credit Easing Keeps Mortgage Rates Down



To ensure the recovery transitions to expansion this year, policymakers must remain aggressive. Fiscal policymakers have extended various provisions in last year's stimulus legislation and will likely add more temporary tax cuts and spending increases. The Federal Reserve must also remain flexible in exiting from its provision of the monetary stimulus. A key test will be the lead-up to the end of its credit easing efforts this March. Fed efforts have lowered mortgage rates by an estimated 50 basis points, and the housing market and economy may still be too weak to digest higher rates.

Monetary policy. The Federal Reserve is not expected to begin raising the interest rate paid on reserves and the federal funds rate until late 2010. The rate increases will not occur until the unemployment rate has clearly peaked. Employment is expected to stabilize early this year, but job growth will be insufficient to bring down the unemployment rate on a consistent basis until this fall. By then, the unemployment rate will be closer to 11%.

Inflation should also remain low and inflation expectations well contained through at least the middle of next year. Core inflation is already below the Fed's implicit target and will slow further in coming months given the high unemployment rate, high vacancy rates, and low capacity utilization rates in manufacturing.

It will also take the better part of this year for the financial system to fully normalize. The system has stabilized as interbank lending and the commercial paper market have returned to normal. Residential mortgage rates have also fallen, and yield spreads on various asset-backed securities and corporate bonds have narrowed. But other parts of the system are not functioning well. Issuance of private residential and commercial mortgage-backed bonds is moribund, a steady stream of small banks are failing, and most depository institutions are reluctant to extend credit except to household and corporate borrowers with the most pristine credit histories.

Federal policymakers will begin draining reserves and shrinking the size of the central bank's balance sheet well before they begin to raise interest rates. The Fed's balance sheet will peak at close to $2.5 trillion this spring, when the bank is scheduled to fulfill its commitment to purchase Fannie Mae and Freddie Mac securities. Soon thereafter, the Fed will begin draining reserves through reverse repurchase agreements. By late this year, it will be prepared to begin raising rates.

Pressure on the Fed to tighten policy more quickly will intensify if the developing dollar carry trade expands and fuels rapidly rising global asset prices. Strong recent gains in Asian equity and real estate markets have prompted heightened concerns that bubbles are developing. These worries are still far from having a significant influence on the conduct of U.S. monetary policy, but with policymakers much more attuned to asset bubbles, the Fed will closely monitor developments in these markets.

Policymakers will also be fearful of keeping rates too low for too long, a mistake the Fed seemingly made coming out the tech-stock bust; this contributed to the housing bubble that is at the root of the current financial crisis. The funds rate is expected to end 2010 at closer to 75 basis points and to end 2011 at 3%.

Fiscal policy. The federal government's fiscal problems remain enormous. The budget deficit ballooned to $1.4 trillion in fiscal 2009, up from $455 billion in fiscal 2008. This year's deficit is expected to be close to $1.4 trillion, and the cumulative deficit over the fiscal 2009-2012 period will be some $4 trillion.

This very poor fiscal situation reflects the expected ultimate price tag to taxpayers for the financial crisis and the Great Recession of more than $2 trillion, equal to about 14% of GDP. Of this, $1.2 trillion is the direct cost of the government response to the financial crisis, including the fiscal stimulus and support for financial markets. The remaining $800 billion is due to the weaker economy and resulting loss of tax revenues, increased transfer payments to support those losing their jobs, and other income support programs. For historical context, the savings and loan crisis in the early 1990s directly cost taxpayers some $350 billion in today's dollars: $275 billion in direct costs and $75 billion due to the associated recession, equal to almost 6% of GDP at that time.

The budget outlook remains extraordinarily disconcerting, even after the costs of the financial crisis abate, as the costs of Medicare, Medicaid and Social Security programs will balloon. President Obama's first budget proposal does not significantly address the nation's long-term fiscal problems. The Congressional Budget Office projects that the nation's federal debt-to-GDP ratio will rise to over 80% one decade from now under the president's plan; this is double the approximately 40% ratio that prevailed prior to the current financial crisis. Policymakers are expected to soon pass healthcare reform legislation, but this is not expected to significantly change the budget outlook. This long-term budget outlook will thus remain untenable, ultimately forcing various substantial changes to entitlement programs and tax policy.

U.S. dollar. The U.S. dollar has weakened during the past year as the flight-to-quality bid for U.S. assets has faded with improving financial conditions and the moderating global recession. Despite the recent decline, on a broad trade-weighted basis, the dollar is still up over 5% from its low in the middle of 2008.

The dollar is expected to trend generally lower over the next several years as it is an estimated 10% overvalued against the British pound and by a more significant 25% against the Chinese yuan. Once the financial crisis completely subsides, the Chinese are expected to resume revaluation of their currency, eventually resulting in a freely floating yuan by the middle of the next decade. Any decline will be modest on a broad trade-weighted basis, however, as the dollar is roughly appropriately valued against most of the world's major currencies, including the euro at $1.40, the Canadian dollar at 90 U.S. cents, and the Japanese yen at ¥95 per U.S. dollar.

Energy prices. Oil prices, as measured by a barrel of West Texas Intermediate crude, are trading near $80. Over the past two years, prices have ranged from well below $50 per barrel at the start of 2009 to a record of almost $150 per barrel in the summer of 2008. Natural gas prices remain low, particularly compared with oil prices, at around $6 per million BTUs.

Global economic conditions and their impact on demand are driving energy prices. The firming in prices in the fall reflected growing expectations that the worst of the global downturn was over as the Chinese economy reaccelerated and the U.S. recession ended. However, until the global expansion begins in earnest, oil prices are not expected to rise much above current levels for very long. For all of 2010, oil prices are expected to average $80 per barrel and to range as high as $100 per barrel in the next several years, consistent with trend global demand and supply fundamentals, abstracting from the vagaries of the world business cycle.

Natural gas prices will have trouble keeping up with oil prices over the next several years as a very substantial glut of natural gas has developed. Demand has weakened sharply with the recession, and supply has increased substantially in response to the previously very high prices. Natural gas prices are expected to average $6 in 2010 and closer to $9 in the longer term.

Mark Zandi
January 2010

Forecast Risks

↑ **Additional stimulus.** The biggest boost to real GDP growth from Washington's policy response has passed, but the fiscal stimulus could still provide stronger than anticipated support to the economy in the current quarter. The federal government has made available one-half of the $787 billion of the fiscal stimulus passed in February, lending some potential for a big boost to growth over the next several months. The economy has yet to feel the majority of spending on infrastructure, as only $7.7 billion of the $32 billion available has been paid out.

↑ **Trade.** The global recovery, combined with the depreciation of the U.S. dollar, suggests that trade may provide a larger support to domestic growth in coming months. Except for a brief pause in August, trade has recovered steadily following dramatic declines in the first half of 2009. Also, a turn in the inventory cycle and a rebound in investment spending will encourage higher trade flows this quarter. Moody's Economy.com expects net exports to subtract from growth in the first quarter, but this may be too pessimistic.

↑ **Home sales.** The expansion and extension of the homebuyer tax credit could be more successful than anticipated and accelerate the improvement in the housing market. While extending and expanding the tax credit will be costly to taxpayers, Moody's Economy.com expects it to encourage 500,000 more households to purchase homes than otherwise would have done so. Stronger than anticipated home sales would accelerate the reduction in excess inventories, a necessary condition for prices to bottom out.

↑ **Cyclical industries.** The initial recovery in cyclical industries, including autos, housing and manufacturing, is showing signs of besting expectations. At 10.9 million annualized units in the fourth quarter, auto sales were more than 1 million, or 13%, above the average sold over the first half of 2009. Meanwhile, manufacturing industrial production could exceed the forecast for a 1.2% annualized gain in the final quarter of 2009, and a 2% gain over the first half of 2010 should help the global economy recuperate faster than expected.

↓ **Inventories.** As is often the case early in recovery, the economy will lean heavily on inventories for growth, but this could be slow to develop. Despite gains in production and an improvement in final demand, businesses are still reducing stockpiles. Businesses likely reduced inventories further in the fourth quarter of 2009, but at a pace much slower than in the prior quarter. Inventories are expected to increase throughout this year. But if businesses remain shell-shocked, they may be reluctant to rebuild inventories until there is concrete evidence of a self-sustaining recovery. Slower restocking would be a drag on real GDP growth, hiring, and industrial production.

↓ **Labor market.** Nonfarm employment is expected to surpass its prerecession level in the second half of 2012, but the recovery could be slower than anticipated. While layoffs have abated since the beginning of 2009, there are few signs that businesses are ramping up hiring. Unless hiring improves, it will take longer to absorb the substantial slack in the labor market. The unemployment rate is forecast to peak above 10.5% in the second half of 2010 before slowly declining. The economy is not expected to return to full employment until 2015, and slower improvement would be a major weight on wages, spending and confidence.

↓ **Monetary policy.** The Federal Reserve is not expected to raise either the interest rate on reserves or the target fed funds rate until late 2010, after the unemployment rate has clearly peaked, and any premature tightening could jeopardize the recovery. The central bank needs to avoid political and market pressures to raise interest rates until there are concrete signs that the recovery is sustainable. Also, if the Fed drains excess liquidity too quickly, it could unwind the improvement in financial markets seen since the beginning of 2009, driving borrowing costs higher.

↓ **Policy misstep.** Implicit in the forecast is the assumption that policymakers will take actions necessary to ensure a self-sustaining recovery, but the risk of a policy misstep exists. The federal government will likely undertake more measures to stimulate job growth, or at least stem the losses. These could include support for small businesses and more aid to state governments, but failure to act would be costly and is a downside risk to the forecast.

↑ **Consumer spending.** Much of the support early in the recovery will come from inventory investment and less from final demand. Still, Moody's Economy.com is optimistic that the upturn in the economy will be sustained, backed by improving financial market conditions. Earlier gains have spilled over into greater final demand and, more recently, a steadier job market. The first quarter should see a return to consistent positive net job creation, for the first time in more than two years. With the labor market healing and prospects for labor income early this year improving, strength in consumer spending may turn out to be stronger in the first half of 2010 than the current forecast.

↓ **Financial markets.** Credit conditions and investor sentiment could improve more slowly than anticipated. Troubles with Dubai in restructuring its debt could affect other emerging markets, rattling global investor sentiment. Also, more severe deterioration in residential and commercial mortgages would put additional strain on the banking system. Meanwhile, market-based measures of inflation expectations are forecast to remain anchored, but an unexpected increase would complicate matters for the Fed.

↓ **Dollar.** A larger than anticipated depreciation in the U.S. dollar would complicate matters for the global economy, allowing inflationary pressures to build faster than expected. While the weak dollar is a positive for U.S. exporters, it could slow the recovery in other economies. Also, the depreciation in the dollar lends some upside risk to the forecast for near-term inflation.

↓ **Foreclosures.** The success of the Home Affordable Modification Program is vital to the housing outlook. Currently, the forecast assumes that policy will help keep at least 1 million mortgages out of foreclosure. HAMP has gotten off to a slow start, with just 4% of all modified loans converting to permanent status. If there is not more substantial progress under HAMP, quickly, foreclosures will be greater than expected. Mounting foreclosures could prolong and deepen the housing correction, resulting in even larger price declines and a resumption in sales declines. Fortunately, the new Homeowner Preservation Office, which will oversee progress in modifying loans by the nation's largest servicers, should provide a boost to HAMP modifications.

↓ **Fiscal conditions.** Washington's eroding fiscal situation threatens long-term economic growth, and there is great risk that budget deficits in the future could be much larger than expected. With costs for Medicare, Medicaid and Social Security set to increase substantially as the baby boomers retire, policymakers will have to make very difficult decisions about long-run taxes and spending.

Glenn Wingard
January 2010

Macroeconomic Outlook Alternative Scenarios

Current (January 2010)

Monetary policy. The Federal Reserve is not expected to begin raising the interest rate paid on reserves and the federal funds rate until late 2010. The rate increases will coincide with when unemployment has clearly peaked. Employment is expected to stabilize early this year, but job growth sufficient to bring down unemployment on a consistent basis isn't likely until this fall. By then, unemployment will be closer to 11% than its current 10%.

Inflation should also remain low and inflation expectations well contained through at least mid next year. Core inflation is already below the Fed's implicit target and well slow further in coming months given the high unemployment rate, high vacancy rates, and low utilization rates in manufacturing.

It was also take the better part of this year for the financial system to fully normalize. The system has stabilized as interbank lending and the commercial paper market have returned to normal. Residential mortgage rates have also fallen and yield spreads on various asset backed securities and corporate bonds have narrowed. But other parts of the system are not functioning well. Private residential and commercial mortgage backed bond issuance is moribund, a steady stream of small banks continue to fail, and most depository institutions are reluctant to extend credit except to their most pristine household and corporate borrowers.

Policymakers will begin draining reserves and shrinking the size of its balance sheet well before raising interest rates. The Fed's balance sheet will peak at close to $2.5 trillion this spring when its commitment to purchase Fannie Mae and Freddie Mac securities is scheduled to be fulfilled. Soon thereafter, it will begin draining reserves through reverse repurchase agreements. By late this year it will be prepared to begin raising rates.

Pressure on the Fed to tighten policy more quickly will intensify if the developing dollar carry trade expands and fuels rapidly rising global asset prices. Strong recent gains in Asian equity and real estate markets have prompted heightened concerns that bubbles are developing. These worries are still far from having a significant influence on the conduct of U.S. monetary policy, but with policymakers much more attuned to asset bubbles, developments in these markets will be closely monitored.

Policymakers will also be fearful to keep rates too long too low, a mistake seemingly made by the Fed coming out the tech-stock bust. This contributed to the housing bubble which is at the root of the current financial crisis. The funds rate is expected to end 2010 at closer to 75 basis points, and end 2011 at 3%.

Fiscal policy. The federal government's fiscal problems remain enormous. The budget deficit ballooned to near $1.4 trillion in the just ended 2009 fiscal year, up from $475 billion in FY '08. This year's deficit is expected to be a similar near $1.4 trillion and the cumulative deficit over the FY '09 – FY' 12 period will be some $4 trillion.

This very poor fiscal situation reflects the expected more than $2 trillion ultimate price tag to taxpayers of the financial crisis and Great Recession. This is equal to 14% of GDP. For historical context, the savings and loan crisis in the early 1990s directly cost taxpayers some $350 billion in today's dollars; $275 billion in direct costs and $75 billion due to the associated recession. This is equal to almost 6% of GDP at that time.

The budget outlook remains extraordinarily disconcerting even after the costs of the financial crisis abate as the costs of the Medicaid, Medicare and Social Security programs balloon. President Obama's first budget proposal does not significantly address the nation's long-term fiscal problems. The Congressional Budget Office projects that the nation's federal debt-to-GDP ratio will rise to over 80% a decade from now under the President's plan. This is double to the approximately 40% ratio that prevailed prior to the current financial crisis. Policymakers are expected to soon pass health care reform legislation, but this is not expected to significantly change the budget outlook. This long-term budget outlook will thus remain untenable, which will ultimately force various substantial changes to entitlement programs and tax policy.

U.S. dollar. The value of the U.S. dollar has weakened during the past year as the flight-to-quality bid for U.S. assets has faded with improving financial conditions and the moderating global recession. Despite the recent decline, on a broad trade weighted basis the dollar is still up over 5% from its low about a year ago.

The dollar is expected to trend generally lower over the next several years as it is currently an estimated 10% overvalued against the British pound and by a more significant 25% against the Chinese yuan. Once the financial crisis completely subsides the Chinese are expected to resume revaluation of their currency eventually resulting in a freely floating currency by the middle of the next decade. Any decline will be modest on a broad-trade weighted basis as the dollar is roughly appropriately valued against most of the world's major currencies, including the euro at 1.4 $/euro, the Canadian $ at 85 cents, and the Japanese yen at 100 yen/$.

Energy prices. Oil prices as measured by the price of a barrel of West Texas Intermediate are trading near $80. Over the past year, prices have ranged from well below $50 per barrel at the start of 2009 to a record of almost $150 per barrel in summer 2008. Natural gas prices remain low, particularly compared to oil prices at just over $5 per million BTU.

Energy prices are being driven by global economic conditions and their impact on energy demand. The recent firming in prices reflects growing expectations that the worst of the global downturn is over as the Chinese economy reaccelerates and the U.S. recession has ended. However, until the global expansion begins in earnest oil prices are not expected to rise much above current levels for very long. For all of 2010, oil prices are expected to average $80 per barrel and to range as high as $100 per barrel in the next several years, consistent with trend (abstracting from the vagaries of the global business cycle) global demand and supply fundamentals.

Natural gas prices will have trouble keeping up with oil prices over the next several years as a very substantial glut of natural gas has developed. Demand has weakened sharply with the recession and supply has increased substantially in response to the previously very high prices. Natural gas prices are expected to average $6 in 2010 and closer to $9 in the longer-term.

Mark Zandi

January 2010

S6: Fiscal Crisis, Dollar Crashes, Inflation Scenario (January 2010)

In this stagflation scenario, there is a 90% probability that the economy will perform better, broadly speaking, and a 10% probability that it will perform worse.

The downside 10% scenario, "Fiscal Crisis, Dollar Crashes, Inflation," begins with the U.S. economy recovering more slowly in 2010 than in the baseline. As a result, tax collection is lower and the federal deficit is higher. The resulting heavier debt issuance by the government forces the Fed to delay tightening compared with the baseline, and inflationary pressures begin to build in early 2011.

The dollar falls sharply beginning in mid-2011 as foreign investors cut back on purchases of Treasury securities when it becomes clear that no progress is being made in addressing long-run fiscal problems and that 2012 will be an election year. Oil price inflation starts to accelerate, and prices ultimately hit $150 per barrel.

The Fed abruptly shifts gears to fight inflation, and the fed funds rate rises from near 0% in mid-2011 to 7% the following year. Yields on 10-year Treasury securities rise to 8% by late 2011, as a result of both inflationary expectations and Fed tightening. The economy weakens sharply and drops into recession in 2012, driving the federal deficit even higher. Forced to make a choice in the stagflation environment, the Fed keeps interest rates high to fight inflation. The downturn continues throughout 2012, and the jobless rate rises to 12.4% by mid-2013.

The crisis forces the next federal administration to make big changes to address the fiscal crisis. The changes enacted in 2013 begin the process of reducing inflationary expectations, and the economy moves back toward the baseline rate of real growth in 2014. However, the level of real GDP is ultimately lower than in the baseline.

On an annual average basis, real GDP growth is 1.4% in 2010, 2.9% in 2011, and 0.8% in 2012. Inflation, as measured by the CPI, rises to roughly double the baseline pace in 2011 and 2012, before decelerating in 2013.

S5: Aborted Recovery, Below-Trend Long-Term Growth Scenario (January 2010)

With this low-performance long-term scenario, there is a 96% probability that the economy will perform better, broadly speaking, and a 4% probability that it will perform worse.

In the downside 4% scenario, "Aborted Recovery, Below-Trend Long-Term Growth," the U.S. economy initially begins to recover at a pace comparable to the baseline during the second half of 2009. By early 2010, however, the existing stimulus proves inadequate, and no additional spending measures are enacted. As a result, a second recession develops, more moderate than the one that ended in mid-2009, and continues during much of 2010. In other words, there is a double dip.

When the economy does begin to expand again toward the end of 2010, demand growth remains relatively weaker than the baseline for an extended time, for several reasons. First, households engage in relatively more precautionary saving and therefore less spending. Second, lower risk-taking manifests in higher yield spreads and lower stock prices than in the baseline. Since the cost of borrowing is higher, business investment spending is lower than the baseline.

Real GDP growth averages 1 to 2 percentage points per year lower than in the baseline over the next three years. Although the gap in the growth rate subsequently closes, it remains below the long-run rate until 2020. After 2020, the growth rate returns to the baseline pace, but the level of GDP is permanently lower than in the baseline.

Unemployment rises higher than in the baseline and remains above 10% from the beginning of 2010 until early 2012. Although the jobless rate ultimately declines to the baseline level, this does not occur until 2020. The long dislocation in the labor market hampers the typical long-term pattern of growth in worker productivity, as employees find fewer opportunities to develop their skills while on the job. The result is productivity growth below the long-run trend for the entire decade.

S1: Confidence Rebounds, Stronger Recovery Scenario (January 2010)

This above-baseline scenario is designed so that there is a 10% probability that the economy will perform better than in this scenario, broadly speaking, and a 90% probability that it will perform worse.

The upside scenario, "Confidence Rebounds, Stronger Recovery Scenario," is based on the assumption that the rising stock market and other signs that the recovery is building cause consumer confidence to rebound more strongly during 2010. The higher stock market also contributes to higher wealth. As a result, consumer spending grows more strongly than in the baseline.

Several other factors also contribute. Specifically, the remainder of the stimulus proves effective in terms of job creation. Additionally, federal financial policy actions, foreclosure mitigation, and continued Federal Reserve easing together result in increased access to credit. As a result, although the recent increases in house prices are not sustained, the remaining declines during the first half of 2010 are small. House prices bottom out in the second quarter of 2010, resulting in a peak-to-trough decline of 25%, based on the National Association of Realtors' median sale price measure. Better demand and improved confidence help to propel total new permits back above the annual pace of 1 million units by the third quarter of 2010, several quarters earlier than in the baseline.

The remaining decline in payroll employment is smaller than in the baseline. On a quarterly average basis, the unemployment rate peaked in the fourth quarter of 2009 at 10%, 0.5 of a percentage point lower than the baseline peak, which is forecast to occur in the third quarter of 2010.

The Federal Reserve begins to tighten moderately in the first part of 2010 and raises interest rates more steadily between mid-2010 and 2012.

Real GDP bottomed out in the second quarter of 2009, as in the baseline, but the ensuing growth immediately following the trough is stronger. Moreover, in the year following the trough, real GDP grows 4.6%, 2 percentage points faster than the baseline. On an annual average basis, real GDP growth is 4.4% in 2010 and 3.9% in 2011.

S4: Complete Collapse, Depression Scenario (January 2010)

With this depression scenario, there is a 96% probability that the economy will perform better, broadly speaking, and a 4% probability that it will perform worse.

The downside 4% scenario, "Complete Collapse, Depression Scenario," is caused by a combination of long-running consumer retrenchment and greatly restricted credit from banks for an extended time. This scenario assumes that the remaining effects of the federal stimulus prove to be negligible and temporary. Further, the federal government reaches the limit of its resources to boost the economy, rendering it unable to prevent a long-running, deep economic slump. Additionally, weaker global economic activity causes exports to be lower than in the baseline for several years.

In the housing market, no meaningful additional foreclosure mitigation policies are enacted. Businesses have little incentive to engage in investment spending because of the very low levels of capacity utilization, poor profitability, and the difficulty of obtaining capital. High unemployment and depressed income levels prevent consumers from obtaining access to credit to purchase homes and durable goods such as vehicles.

Housing starts resume their decline and ultimately fall 90% cumulatively from their prerecession peak. Although they finally bottom out in early 2011, the increase is at a snail's pace throughout 2011 and much of 2012. House prices resume their decline, and the NAR median existing sales price ultimately falls cumulatively by 51% from its 2005 peak by the second quarter of 2012. Reduced household wealth, high unemployment, and the lack of credit cause consumers to pull back sharply on their spending. Unit auto sales plunge and average no more than half their baseline levels during 2011 and 2012. Business investment falls greatly during 2010, to 34% below its prerecession peak by the first quarter of 2011, and does not begin to strengthen meaningfully until mid-2012.

Except for the one-time increase in the third quarter of 2009, real GDP falls from the second quarter of 2008 until the first quarter of 2011, cumulatively declining by 6.6% peak to trough. Real GDP growth is -2.2% in 2010 and -0.3% in 2011. The unemployment rate reaches a high of 14.9% in early 2012 and remains in double digits until 2015. The extreme weakness results in consumer price deflation throughout all of 2010 and the first half of 2011 at a rate averaging more than 2% per year.

Moreover, when recovery does begin, its pace is at best moderate. U.S. economic activity remains below full-capacity performance for a decade.

S2: Longer Recession, Weaker Recovery Scenario (January 2010)

In this recession scenario, in which the downturn resumes and is longer-lasting than the baseline, there is a 75% probability that economic conditions will be better, broadly speaking, and a 25% probability that conditions will be worse.

The downside 25% scenario, "Longer Recession, Weaker Recovery Scenario," is based on the assumption that both the labor market and consumer spending contract more deeply than in the baseline, as households work to pay down debt. This scenario assumes that the increase in GDP in the third quarter of 2009 was only temporary, because the cash for clunkers program merely borrowed spending from the fourth quarter. Except for this pause, real GDP falls from the third quarter of 2008 until the first quarter of 2010. In comparison with the baseline, the overall decline is larger and the recovery slower.

In this scenario, the remaining stimulus is less effective in creating jobs. Further, although financial policy initiatives such as foreclosure mitigation are put in place and access to credit improves, the improvement is too small and gradual to allow a significant rebound in the housing market until mid-2011. Foreclosures continue to weigh on house prices. The modest rebound in housing construction that took place in the first half of 2009 stalls, and housing starts are essentially flat for most of 2010. House prices resume their decline, and the NAR median sales price falls 43% cumulatively, with downward pressure on prices continuing until mid-2011.

Persistent weakness in the labor market and the longer slump in housing combine to constrain consumer spending, as consumers retrench to offset the extra wealth loss from the larger decline in house prices. The demand for housing-related durables remains weak. The unemployment rate peaks at 12.5%, nearly 2 percentage points higher than the peak in the baseline, in the first quarter of 2011.

Owing to the weak recovery, the Federal Reserve does not begin to tighten monetary policy until mid-2011 and does not begin to raise interest rates significantly until 2012.

The lack of a more robust rebound in housing and the continued weakness in labor markets weigh on growth throughout 2010. Real GDP falls 4.1% cumulatively before bottoming out in the first quarter of 2010. Growth is then positive, but below trend, for the rest of 2010. Real GDP growth is -0.1% in 2010 on an annual average basis and 3.4% in 2011.

S3: Prolonged Retrenchment, Very Severe Recession Scenario (January 2010)

In this very severe recession scenario, there is a 90% probability that the economy will perform better, broadly speaking, and a 10% probability that it will perform worse.

The downside 10% scenario, "Prolonged Retrenchment, Very Severe Recession Scenario," is due to two related factors. First, continuing high unemployment and economic uncertainty cause consumers to save more and pay down debt instead of growing their spending. Second, credit conditions remain tight because continuing weakness at many banks forces them to keep the flow of credit restrained. This scenario maintains the assumption that the increase in GDP in the third quarter of 2009 was only temporary, because the cash for clunkers program merely borrowed spending from the fourth quarter.

The difficulty that firms and consumers encounter obtaining loans extends for a longer time, and this also weighs on business investment spending. Additionally, foreclosure mitigation policies are largely unproductive, and the remaining impact of the federal stimulus in creating jobs is only modest and temporary.

As a result of restricted access to credit and continuing high unemployment, the moderate rebound in housing construction that occurred over the first half of 2009 pauses and then reverses course. Housing starts resume their decline and do not bottom out until 2011, more than 85% below their cyclical peak. No significant recovery begins until 2012. House prices, as measured by the NAR median sales price, resume their decline and fall 47% peak to trough before bottoming out late in 2011. With the economy weak, the Federal Reserve keeps the fed funds target rate below 1% throughout all of 2010 and 2011. No significant tightening occurs until mid-2012.

The worse labor market, ongoing consumer retrenchment, and the lack of credit availability together lead to a resumption in the decline in motor vehicle sales, which average below 10 million units per year throughout all of 2010 and 2011. Further, business investment falls throughout 2010. Additionally, slower global growth than in the baseline leads to declining exports throughout 2010.

The economy experiences a far longer and deeper recession than in the baseline. Except for the one-time increase in the third quarter of 2009, real GDP falls from the third quarter of 2008 through the end of 2010, with a peak-to-trough decline of 5.2%. Weak recovery begins in the second quarter of 2011. Real GDP growth on an annual average basis is -1.1% for 2010 and 0.5% for 2011. The deeper contraction in the labor market causes the unemployment rate to hit a peak of 14.1% in the third quarter of 2011. The severe weakness in spending results in consumer price deflation throughout all of 2010 and the early part of 2011.

BROAD VIEW
Regional Economies

Recent Performance. The pattern of regional economic performance has not changed much over the past several months. The central core of the country is emerging from recession, and much of the rest of the country is still struggling to stabilize. The one change over the past month is that Texas now looks as if it is in recovery, as evidenced by several months of rising employment, increasing industrial production since midyear, and rising housing starts. Thus, nearly the entire midsection of the country from the Dakotas down to Texas is in recovery. Rising energy prices are lending a further hand to the Gulf region, the Dakotas, and the upper Mountain West.

Manufacturing. While the industrial Midwest economy still struggles, there are signs that the turnaround in manufacturing due partly to domestic inventory rebuilding and partly to export demand is creating some stability in the region's labor market. Manufacturing employment in the Great Lakes states is up modestly from its June low and has held rather steady since then. Indicative of this is a decline in the unemployment rate for Elkhart IN from 18.6% back in March 2009 to 14.6% in November. Elkhart, home to several RV makers, has been the poster child for the pain felt in the Midwest from the fall-off in demand for autos and other consumer durables a year ago. Similarly, jobless rates in Peoria IL, Detroit, and Fort Wayne IN, while still in double digits, have fallen from earlier highs. The decline in Fort Wayne is particularly heartening because of its diversified industrial base.

Manufacturing employment in the Southeast has also stabilized from a mid-2009 low. Similar to the Great Lakes, the Southeast is home to automakers, consumer durables, chemicals and other intermediate inputs to manufacturing processes, and export goods. Here, too, the unemployment rate has fallen, though only modestly.

The stabilization in manufacturing will not truly lift regional economies, however, until hiring kicks in directly or through the service industries that support goods production. Nationwide, more than one-half of manufacturers are holding their workforce steady or expanding, according to the ISM survey. But this sentiment is not widespread. Regional Fed surveys in Chicago, Kansas City, New York and Texas and a private survey in California still indicate hesitation to hire among manufacturers.

Confidence. Where there is hiring, consumer confidence is beginning to improve. This is evident mostly in the Midwest, according to the Conference Board's regional indicators. The Plains and Great Lakes areas have seen this measure of confidence rise from the extreme lows of one year ago, although it is driven more by expectations rather than an assessment of current conditions. Elsewhere across the country, consumer confidence has remained low and unchanged since mid-2009.

Energy. Rising energy prices create some new stimulus for the Gulf Coast and energy producers in the northern Plains and Rocky Mountain areas. The number of drill rigs is rising once again after reaching cyclical lows about one year ago. The employment and income gains in the industry remain moderate, but given that the energy-producing regions of the U.S. are among the most stable already, this added stimulus will keep the economy and labor markets of the region expanding.

Housing. Most regions received a brief respite from price declines in late 2009 as low interest rates, the federal tax credit for first-time homebuyers, and remarkably high housing affordability combined to drive sales, and in some cases the median sales price, upward. Nowhere was this more evident than in California, where the S&P/Case-Shiller house price index rose on a monthly basis in October in Los Angeles, San Diego and San Francisco. This may not be permanent, however, since the large pipeline of impending foreclosures could add to the supply of homes for sale in coming months. The weakest housing markets remain in Las Vegas, Phoenix, South Florida, and the hardest-hit Midwest economies such as Detroit.

New York metro area housing was among the last to weaken but now has faltered along with the rest of the country. The area's housing market is usually dependent on bonus payments to drive sales during the first half of the year. Rising expectations for bonuses bode well for some stability this year in New York, but much also depends on whether bonus payouts are spent this year as quickly as in the past. Low house and condo prices may look attractive, but bonus recipients may be more cautious this year, choosing to replenish retirement and tuition savings before jumping back into the local real estate market. Thus, the multiplier impact from financial services may remain rather weak well into this year.

Outlook. The economy is now recovering in the central Plains, northern Mountain states, and to a certain extent in some of the Midwest, particularly Indiana.

The next area to feel significant recovery will be the Southeast, excluding Florida. The region has a high exposure to manufacturing and to expanding export markets. Automakers and other durable-goods makers are adding stability to employment and income in Alabama, the Carolinas and Georgia, and this trend will expand in coming months.

Areas producing technology have the next best potential to recover as domestic business investment spending and export demand support information technology, biotechnology, clean energy ventures, and advanced industrial equipment and machinery. Silicon Valley, Boston, Portland OR and Austin are examples where plant expansion or improved venture capital placements paint a picture of impending growth. Colorado, New Mexico and even Texas may gain from wind and other alternative energy industries.

The lagging states will be those with deep corrections in their housing markets. Arizona, California, Florida and Nevada are the most likely to be held back by a lack of any stimulus from new construction and by household finances still stymied by underwater mortgages and high monthly house payments. Much depends on the success of current mortgage modification efforts and the potential for further foreclosures. Record affordability and stable population growth in California gives it the upper hand among these states. The others have seen rapid deceleration of population growth, according to the mid-2009 Census estimates.

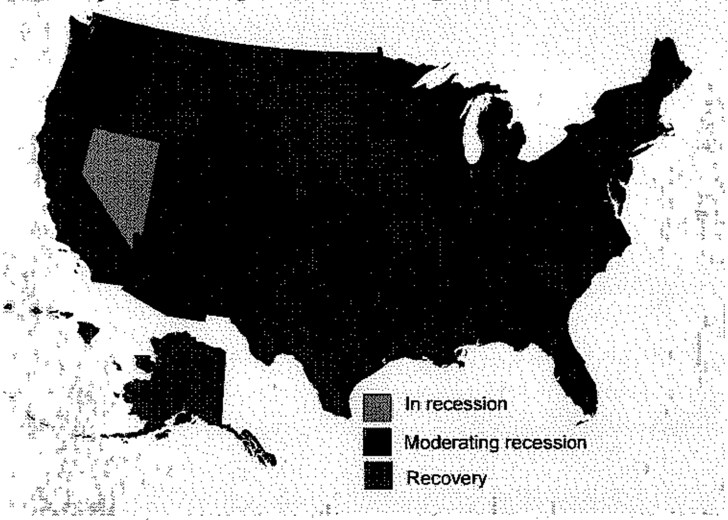
Risks. The greatest risk in the near term is that once the restocking of inventories now underway comes to an end, demand for durable goods will wane and employment cutbacks will resume, particularly in the industrial Midwest. This could keep the region's unemployment rates in double digits well into the foreseeable future.

The second greatest risk is that few temporary mortgage modifications convert to permanent modifications, causing housing markets in the Southeast and Southwest to falter once again.

The final risk is that emerging markets falter as asset prices waver, reducing export demand.

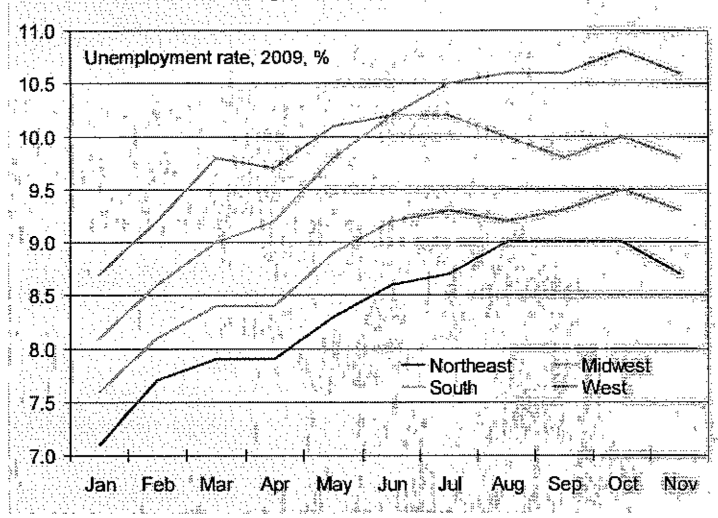
Steven G. Cochrane
January 2010

Recovery Is Beginning in the Central Region



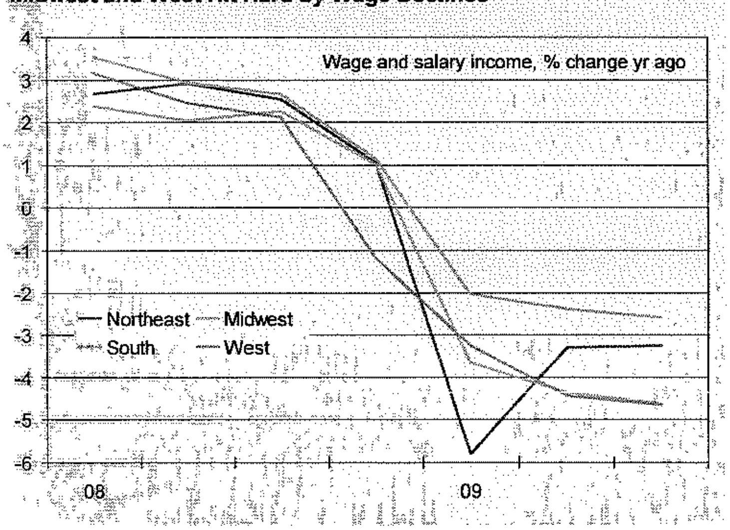
Recovery is beginning to spread from the central Plains to the Gulf Coast and farther outward. The Plains have been the steadiest region, with very little housing cycle to speak of. Rising energy and commodity prices since the second quarter of last year add further resilience to the Plains and to the energy-producing regions of Texas and the Gulf. The recent rebound in manufacturing production supports some of the Southeast, as well as the industrial Midwest, although the depth of the Midwest's difficulties allowed only Indiana to break out of its downturn so far.

Jobless Rate Peaks Early in Midwest, Soars in West



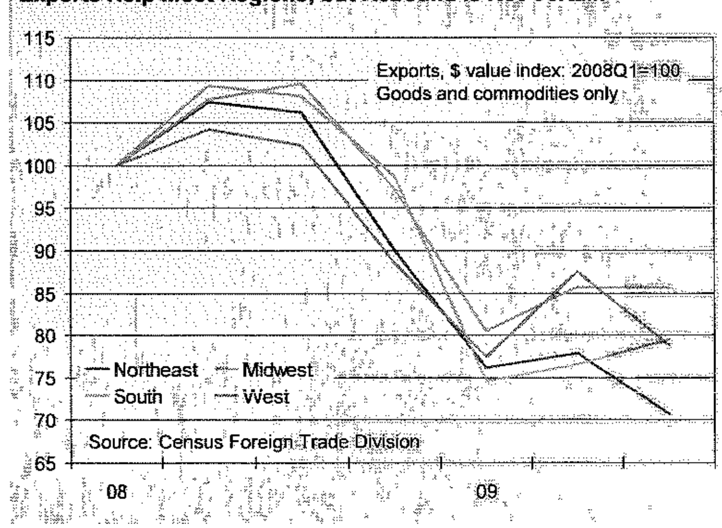
Labor markets across the country succumbed to the recession last year, but the patterns have not been identical. The Midwest was hit early, as the weak housing market directly dampened demand for housing-related goods and indirectly hindered demand for other durable goods such as autos through the wealth effect. The West's jobless rate soared higher, since much of its employment was directly related to construction. Hidden unemployment, however, may be most prominent in the Midwest. Rates in the South and Northeast also rose but remain below average.

Midwest and West Hit Hard by Wage Declines



The Midwest also was hit hard by declines in wage income, as many well-paid union workers lost jobs in manufacturing. The West also faced nearly an identical decline, as construction and finance jobs, among others, disappeared quickly in late 2008 and early 2009. The sharp downturn in the Northeast was due to the lack of significant bonus payments by financial services a year ago. Otherwise, the Northeast and the South have fared better, although they have also seen wage income fall over the past year. The Northeast could look much better as this year unfolds.

Exports Help Most Regions, but Rebound Is Not Certain



Export trade will provide support to an economic recovery in most areas. The Northeast is the one region that has not experienced a turnaround in export trade, but it also depends less on the export of goods and commodities. The South is exporting more durable goods, as well as chemicals and other nondurables. Autos and industrial equipment originate from the Midwest. The West gains from rising global demand for technology goods. Expect all ports to share in the modest gains in trade flows. All have significant excess capacity and will be competing feverishly for new business.

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              - Manufacturing
            - Government
          - Supplements to wages and s
        - Proprietors income with invento
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        - Personal income receipts on ass
          - Personal interest income
          - Personal dividend income
        - Personal current transfer receip

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Year	Income: Personal - Saving Rate, (%, SAAR) for United States
Mnemonic:	FYPSAVQ.US
Source:	Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA): [Table 2.1]; Moody's Economy.com
Transformation:	None
Frequency:	Annual
Decimals:	2
Actions:	
2000	2.92
2001	2.67
2002	3.55
2003	3.45
2004	3.42
2005	1.40
2006	2.38
2007	1.73
2008	2.65
2009	4.37
2010	4.81
2011	5.77
2012	5.46
2013	5.46

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    - Corporate profits
      - Corporate Profits with IVA & CCA
        - Before-Tax Profits
          - Corporate Tax Liability
            - Federal
            - State and local
            - Rest of world
          - Domestic Profits before Tax
            - Inventory valuation adjust
            - Capital consumption adju
        - After-Tax Profits (without IVA an
          - Undistributed Profits
          - Dividends
        - After-Tax Profits (with IVA and (
      - Capital consumption adjustment
    - **Corporate Cashflow**
      - Net cash flow with IVA and CC/
      - Undistributed Profits with IVA ar
      - Consumption of Fixed Capital
      - Less: Inventory valuation adjust

Year	NIPA: Profits before Tax, (Bil. $, SAAR) for United States
Mnemonic:	FZPB.US
Source:	Bureau of Economic Analysis; Moody's Economy.com
Transformation:	% Change
Frequency:	Annual
Decimals:	2
Actions:	
2000	-1.03
2001	-7.73
2002	7.38
2003	18.05
2004	36.08
2005	33.41
2006	11.13
2007	-2.65
2008	-17.56
2009	-4.03
2010	8.32
2011	6.30
2012	12.61
2013	7.27

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    - Commodity prices
    - **Energy:**
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      - Natural Gas: Henry Hub, ($ per mn
      - U.S. No 2 Diesel Retail Sales by Al
      - U.S. All Grades All Formulations R
    - Consumer price indexes
    - Deflators
    - Farm Prices
    - Producer price indexes
  - Real estate

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Quarter	Petroleum Crude Oil Price: West Texas Intermediate - Sweet Wellhead, ($ per bbl, NSA) for United States
Mnemonic:	FCPWTI.US
Source:	The Wall Street Journal; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2008Q1	97.95
2008Q2	123.96
2008Q3	117.98
2008Q4	58.37
2009Q1	42.96
2009Q2	59.54
2009Q3	68.20
2009Q4	76.07
2010Q1	72.39
2010Q2	73.58
2010Q3	78.56
2010Q4	83.81
2011Q1	85.27
2011Q2	87.03
2011Q3	88.21
2011Q4	89.63
2012Q1	90.15
2012Q2	89.82
2012Q3	88.94
2012Q4	88.73
2013Q1	89.31
2013Q2	89.90
2013Q3	90.46
2013Q4	91.02

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    - **Commodity Prices**
      - Crude oil, $ per barrel
      - Natural gas, $ per mmbtu
      - CRB metals and raw industrials
      - Farm products, index
    - **Producer Prices (PPI)**
      - Crude goods, total
        - Crude goods, core
      - Intermediate goods, total
        - Internediate goods, core
      - Finished goods, total
        - Finished goods, core
          - Finished consumer goods
          - Capital equipment
    - **Producer Prices (PPI), Detail**
      - Finished consumer goods, total
        - Finished consumer goods, c
        - Finished consumer foods

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Quarter	CPI: Urban Consumer - All Items, (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIU.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2009Q1	212.63
2009Q2	213.34
2009Q3	215.23
2009Q4	216.30
2010Q1	217.27
2010Q2	217.69
2010Q3	218.46
2010Q4	219.23
2011Q1	220.23
2011Q2	221.26
2011Q3	222.55
2011Q4	223.75
2012Q1	225.07
2012Q2	226.15
2012Q3	227.31
2012Q4	228.43
2013Q1	229.59
2013Q2	230.75
2013Q3	231.91
2013Q4	233.05

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    - **Commodity Prices**
      - Crude oil, $ per barrel
      - Natural gas, $ per mmbtu
      - CRB metals and raw industrials
      - Farm products, index
    - **Producer Prices (PPI)**
      - Crude goods, total
        - Crude goods, core
      - Intermediate goods, total
        - Intermediate goods, core
      - Finished goods, total
        - Finished goods, core
          - Finished consumer goods
          - Capital equipment
    - **Producer Prices (PPI), Detail**
      - Finished consumer goods, total
        - Finished consumer goods, c
        - Finished consumer foods

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Quarter	CPI: Urban Consumer - Fuels and Utilities, (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIUAH2.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2009Q1	216.34
2009Q2	208.32
2009Q3	206.67
2009Q4	209.63
2010Q1	213.00
2010Q2	215.06
2010Q3	217.81
2010Q4	220.67
2011Q1	223.69
2011Q2	226.48
2011Q3	229.33
2011Q4	232.25
2012Q1	235.19
2012Q2	237.84
2012Q3	240.33
2012Q4	242.63
2013Q1	244.92
2013Q2	247.18
2013Q3	249.42
2013Q4	251.64

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Quarter	CPI: Urban Consumer - Fuel Oil, (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIUEHE01.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2009Q1	239.90
2009Q2	220.74
2009Q3	232.09
2009Q4	235.42
2010Q1	239.20
2010Q2	241.52
2010Q3	244.61
2010Q4	247.82
2011Q1	251.21
2011Q2	254.34
2011Q3	257.55
2011Q4	260.82
2012Q1	264.12
2012Q2	267.10
2012Q3	269.90
2012Q4	272.48
2013Q1	275.06
2013Q2	277.59
2013Q3	280.10
2013Q4	282.60

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Quarter	CPI: Urban Consumer - Electricity, (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIUEHF01.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2009Q1	195.87
2009Q2	193.03
2009Q3	189.29
2009Q4	192.00
2010Q1	195.08
2010Q2	196.98
2010Q3	199.49
2010Q4	202.11
2011Q1	204.88
2011Q2	207.43
2011Q3	210.05
2011Q4	212.72
2012Q1	215.41
2012Q2	217.84
2012Q3	220.12
2012Q4	222.23
2013Q1	224.33
2013Q2	226.40
2013Q3	228.44
2013Q4	230.48

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Quarter	CPI: Urban Consumer - Utility Natural Gas Service, (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIUEHF02.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2009Q1	215.41
2009Q2	186.15
2009Q3	185.09
2009Q4	187.74
2010Q1	190.75
2010Q2	192.60
2010Q3	195.06
2010Q4	197.63
2011Q1	200.33
2011Q2	202.83
2011Q3	205.38
2011Q4	208.00
2012Q1	210.63
2012Q2	213.00
2012Q3	215.24
2012Q4	217.30
2013Q1	219.35
2013Q2	221.37
2013Q3	223.37
2013Q4	225.36

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Quarter	CPI: Urban Consumer - Motor Fuel, (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIUETB.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2009Q1	175.05
2009Q2	182.32
2009Q3	215.68
2009Q4	226.25
2010Q1	233.08
2010Q2	228.14
2010Q3	235.35
2010Q4	239.63
2011Q1	244.52
2011Q2	246.74
2011Q3	250.77
2011Q4	254.84
2012Q1	258.69
2012Q2	260.27
2012Q3	262.23
2012Q4	263.58
2013Q1	265.91
2013Q2	268.05
2013Q3	270.17
2013Q4	272.30

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Quarter	CPI: Urban Consumer - Gasoline (All Types), (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIUETB01.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2009Q1	173.67
2009Q2	182.26
2009Q3	215.54
2009Q4	226.10
2010Q1	232.92
2010Q2	227.99
2010Q3	235.20
2010Q4	239.48
2011Q1	244.36
2011Q2	246.57
2011Q3	250.60
2011Q4	254.68
2012Q1	258.52
2012Q2	260.10
2012Q3	262.06
2012Q4	263.41
2013Q1	265.74
2013Q2	267.87
2013Q3	269.99
2013Q4	272.12

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    - Comprehensive Inflation Page (PPI, Ci
    - Commodity prices
    - Consumer price indexes
      - All Items
        - All Items less Food & Energy
      - Food & Beverages
        - Food
          - Food at Home
          - Food Away from Home
        - Alcoholic beverages
      - Housing

Year	CPI: Urban Consumer - New Vehicles, (Index, 1982-84=100, SA) for United States
Mnemonic:	FCPIUETA01.US
Source:	Bureau of Labor Statistics: Consumer Price Index; Moody's Economy.com
Transformation:	None
Frequency:	Annual
Decimals:	2
Actions:	
2009	135.47
2010	136.30
2011	135.38
2012	135.73
2013	136.81

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    - Households
    - Population
      - Total Population, quarterly
        - 0-4 years old
        - 5-9 years old
        - 5-19 years old
        - 10-14 years old
        - 15-19 years old
        - 20-24 years old
        - 25-29 years old
        - 25-44 years old
        - 30-34 years old
        - 35-39 years old
        - 40-44 years old
        - 45-49 years old
        - 45-64 years old
        - 50-54 years old
        - 55-59 years old
        - 60-64 years old
        - Greater than 65 years old
      - Total Population, annual
        - 0-4 years old
        - 5-9 years old
        - 5-19 years old
        - 10-14 years old
        - 15-19 years old
        - 20-24 years old
        - 25-29 years old
        - 25-44 years old

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Year	Population: Total, (Ths.) for Maine
Mnemonic:	FPOPCA.ME
Source:	BOC; Moody's Economy.com
Transformation:	None
Frequency:	Annual
Decimals:	2
Actions:	
2008	1316.46
2009	1314.46
2010	1314.15
2011	1316.36
2012	1319.51
2013	1323.29

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    - Households
    - Population
  - Gross state product
  - Income
  - Labor markets
  - Real estate
  - Retail sales
  - Vehicle registrations
    - Vehicle registrations
      - New Vehicle Registrations, Total (#, S
        - Car Registrations (#, SAAR)
        - Light Truck Registrations (#, SAAR
- United States

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Quarter	New Vehicle Registrations: Total, (#, SAAR) for Maine
Mnemonic:	FREG.ME
Source:	The Polk Company; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2008Q1	52554.83
2008Q2	54147.09
2008Q3	47313.02
2008Q4	44514.75
2009Q1	41237.91
2009Q2	35244.33
2009Q3	41722.14
2009Q4	42513.45
2010Q1	40527.25
2010Q2	41096.93
2010Q3	42761.25
2010Q4	44840.07
2011Q1	46344.41
2011Q2	47889.04
2011Q3	50438.61
2011Q4	52352.29
2012Q1	54376.74
2012Q2	55560.42
2012Q3	56479.55
2012Q4	57345.43
2013Q1	57620.91
2013Q2	58155.00
2013Q3	58318.42
2013Q4	58381.10

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  - Banking
  - Demographics
    - Components of change
    - Households
    - Population
  - Gross state product
  - Income
  - Labor markets
  - Real estate
  - Retail sales
    - Retail sales
      - Total
    - **Note: Mnemonic was changed from FR**
  - Vehicle registrations
    - Vehicle registrations
      - New Vehicle Registrations, Total (#, S
        - Car Registrations (#, SAAR)
        - Light Truck Registrations (#, SAAR
- United States

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Quarter	Retail Sales: Total, (Bil. $, SAAR) for Maine
Mnemonic:	FRTFSQ.ME
Source:	BOC; Moody's Economy.com
Transformation:	None
Frequency:	Quarterly
Decimals:	2
Actions:	
2008Q1	24.25
2008Q2	24.47
2008Q3	24.05
2008Q4	22.08
2009Q1	21.49
2009Q2	21.50
2009Q3	21.87
2009Q4	22.18
2010Q1	22.10
2010Q2	22.15
2010Q3	22.36
2010Q4	22.60
2011Q1	22.87
2011Q2	23.11
2011Q3	23.44
2011Q4	23.77
2012Q1	24.11
2012Q2	24.38
2012Q3	24.61
2012Q4	24.82
2013Q1	25.00
2013Q2	25.21
2013Q3	25.43
2013Q4	25.60

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Forecast Catalogs
- U.S. States
  - Banking
  - Demographics
    - Components of change
    - Households
    - **Quarterly**
      - Number of Households - Total
    - **Annual**
      - Number of Households - Total
    - Population
  - Gross state product
  - Income
  - Labor markets
  - Real estate
  - Retail sales
    - Retail sales
      - Total
    - **Note: Mnemonic was changed from FR**
  - Vehicle registrations
    - Vehicle registrations
    - New Vehicle Registrations, Total (#, S.
      - Car Registrations (#, SAAR)
      - Light Truck Registrations (#, SAAR
- United States

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Year	Households: Total, (Ths.) for Maine
Mnemonic:	FHHOLDCA.ME
Source:	BOC; Moody's Economy.com
Transformation:	None
Frequency:	Annual
Decimals:	2
Actions:	
2008	535.08
2009	535.32
2010	535.79
2011	536.55
2012	540.80
2013	544.63

Assumptions Used in Sales & Excise Model

(1) Total Personal Income

(2) Inflation (CPI-U)

(3) Total Employment Growth
 (a) Growth by Sector

(4) Forecast of CPI for Energy Prices (Economy.com – January 2010)

(5) Forecast of new passenger car & light truck registrations in Maine (Economy.com – January 2010)

(6) Forecast of average price of new vehicle (Economy.com – January 2010)

(7) Forecast of Personal Savings Rate (Economy.com – January 2010)

Assumptions Used in Individual Income Tax Model

(8) Total Personal Income
 (a) Growth by Component

(9) Inflation (CPI-U)

(10) Total Employment Growth

(11) Unemployment Rate

(12) 3-Month Treasury Bill Rate

(13) 10-Year Treasury Note Rate

Assumptions Used in Corporate Income Tax Model

(14) Inflation (CPI-U)

(11) Total Employment Growth
 (a) Growth by Sector

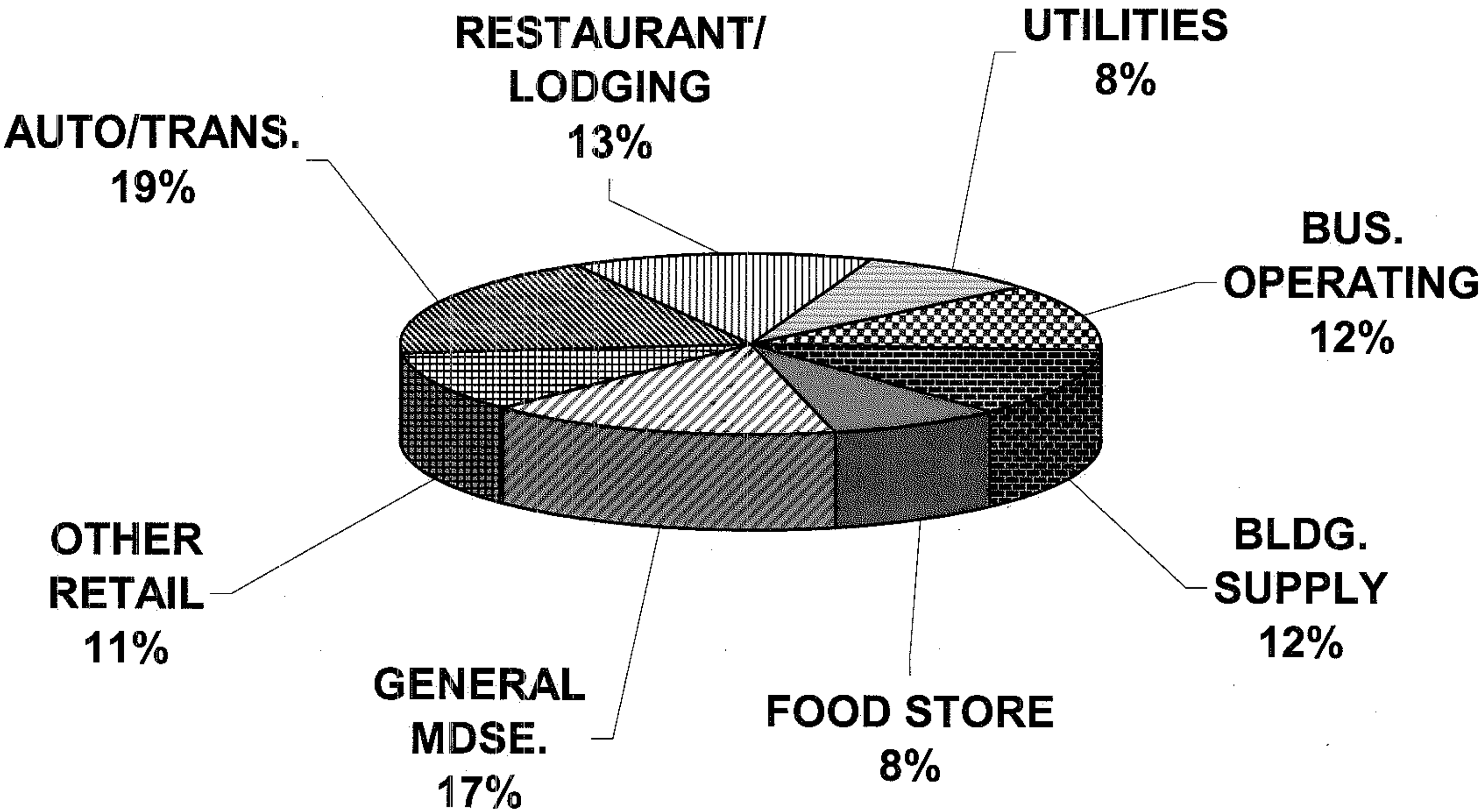
(12) Forecast of Before-Tax Corporate Book Profits (Economy.com – January 2010)

Sales & Use Tax

Maine Revenue Services
Taxable Sales by Sector
In Thousands of Dollars

	Dec. '09	% Ch.	Dec. '08	% Ch.	Dec. '07	Average Last 3 Mos. Vs. Last Yr. % Change	Moving Total Last 12 Mos. Vs. Prior % Change	YTD Growth CY'09 vs. '08 Thru. Dec. % Change
Building Supply	$167,679	-7.1%	$180,434	-7.2%	$194,481	-10%	-16%	-16%
Food Store	$136,058	-3.8%	$141,436	8.4%	$130,457	1%	2%	2%
General Merchandise	$383,845	0.6%	$381,736	-2.0%	$389,613	0%	-4%	-4%
Other Retail	$256,034	-6.9%	$275,009	0.4%	$273,899	-3%	-2%	-2%
Auto/Transportation	$273,507	5.2%	$260,110	-8.8%	$285,080	5%	-7%	-7%
Restaurant	$145,144	2.5%	$141,638	-3.8%	$147,172	1%	-1%	-1%
Lodging	$24,317	-11.6%	$27,512	-12.4%	$31,410	-6%	-7%	-7%
Consumer Sales	$1,386,583	-1.5%	$1,407,874	-3.0%	$1,452,113	-1%	-5%	-5%
Business Operating	$237,062	-6.3%	$252,930	-12.8%	$289,970	-12%	-17%	-17%
Total	$1,623,645	-2.2%	$1,660,804	-4.7%	$1,742,083	-3%	-7%	-7%

2008 Maine Taxable Sales by Sector



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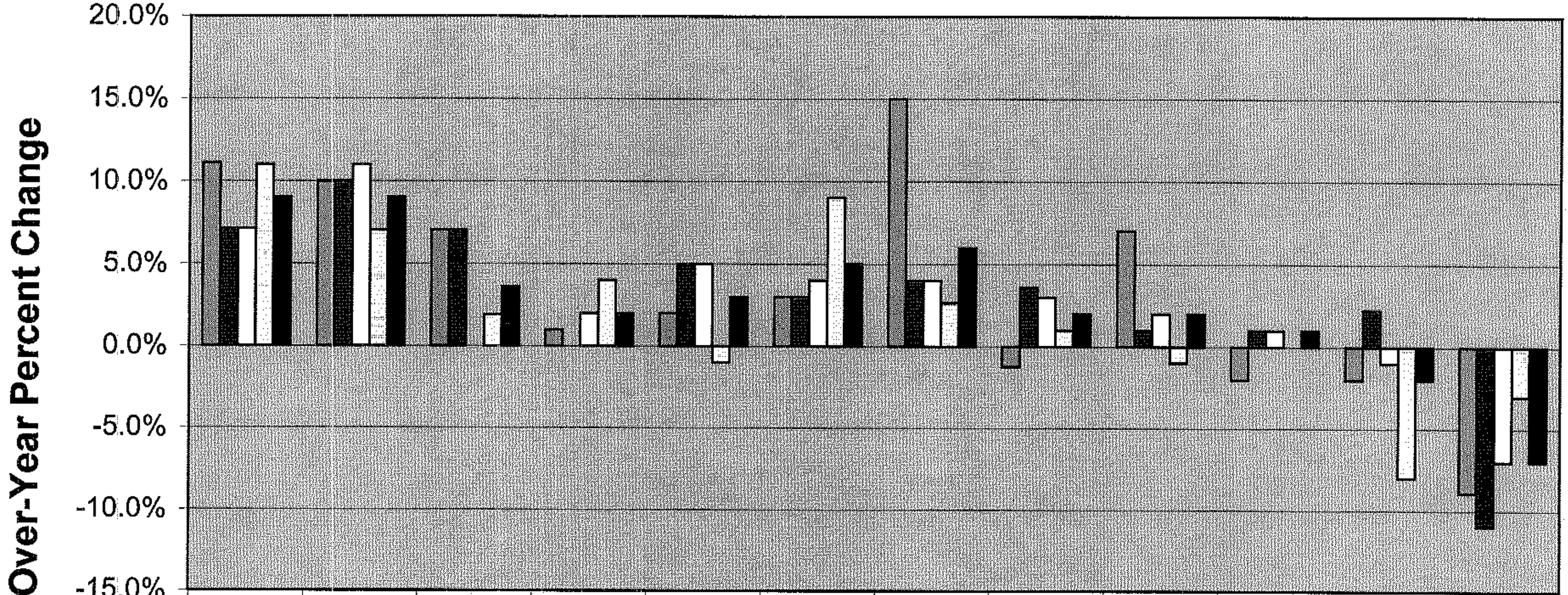
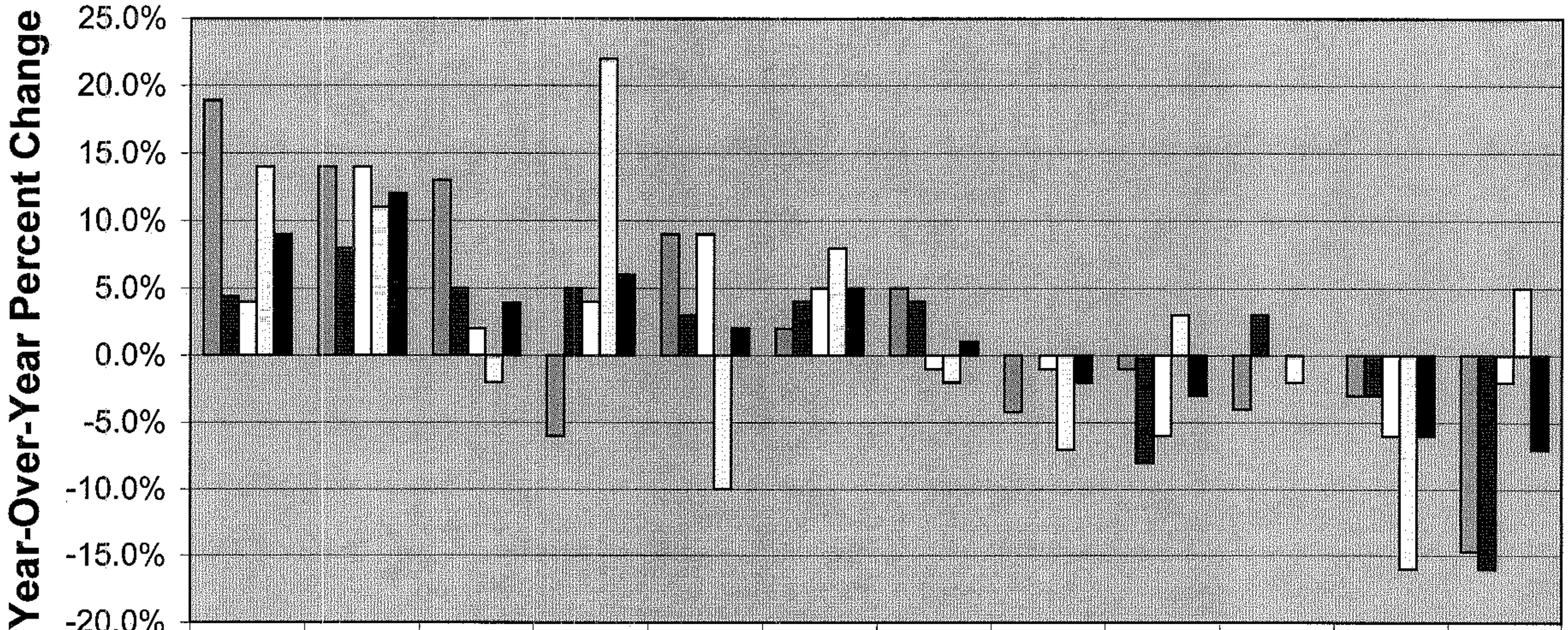
Total Taxable Sales



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Qtr. I	11.1%	10.0%	7.0%	1.0%	2.0%	3.0%	15.0%	-1.2%	7.0%	-2.0%	-2.0%	-8.9%
Qtr. II	7.1%	10.0%	7.0%	0.0%	5.0%	3.0%	4.0%	3.6%	1.0%	1.0%	2.2%	-11.0%
Qtr. III	7.1%	11.0%	0.0%	2.0%	5.0%	4.0%	4.0%	3.0%	2.0%	1.0%	-1.0%	-7.0%
Qtr. IV	11.0%	7.0%	1.9%	4.0%	-1.0%	9.0%	2.7%	1.0%	-1.0%	0.0%	-8.0%	-3.0%
Year	9.0%	9.0%	3.6%	2.0%	3.0%	5.0%	6.0%	2.0%	2.0%	1.0%	-2.0%	-7.0%

Quarter & Calendar Year

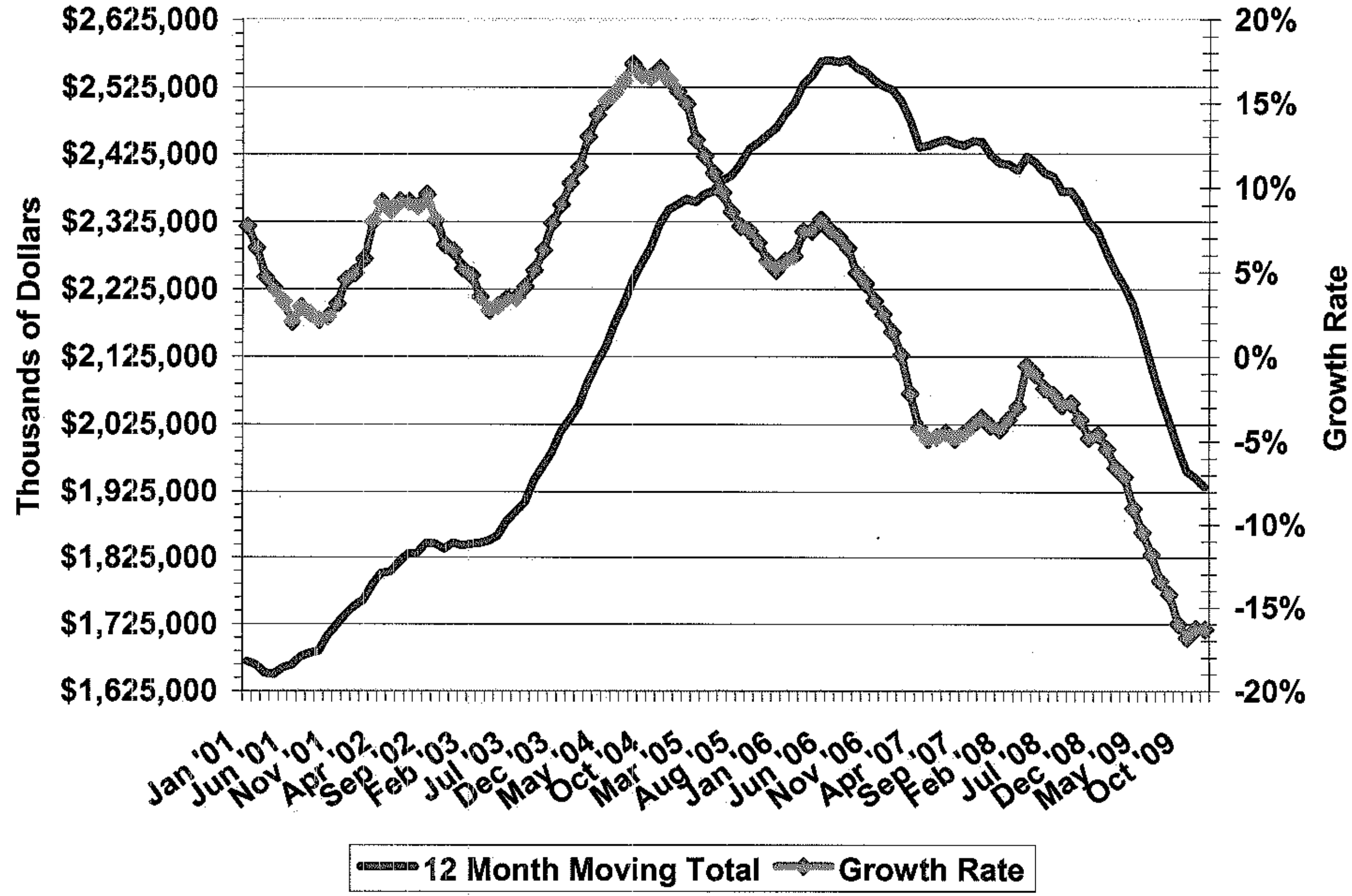
Auto/Transportation Taxable Sales



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Qtr. I	18.9%	14.0%	13.0%	-6.0%	9.0%	2.0%	5.0%	-4.2%	-1.0%	-4.0%	-3.0%	-14.7%
Qtr. II	4.4%	8.0%	5.0%	5.0%	3.0%	4.0%	4.0%	0.0%	-8.0%	3.0%	-3.0%	-16.0%
Qtr. III	4.0%	14.0%	2.0%	4.0%	9.0%	5.0%	-1.0%	-1.0%	-6.0%	0.0%	-6.0%	-2.0%
Qtr. IV	14.0%	11.0%	-2.0%	22.0%	-10.0%	8.0%	-2.0%	-7.0%	3.0%	-2.0%	-16.0%	5.0%
Year	9.0%	12.0%	3.9%	6.0%	2.0%	5.0%	1.0%	-2.0%	-3.0%	0.0%	-6.0%	-7.0%

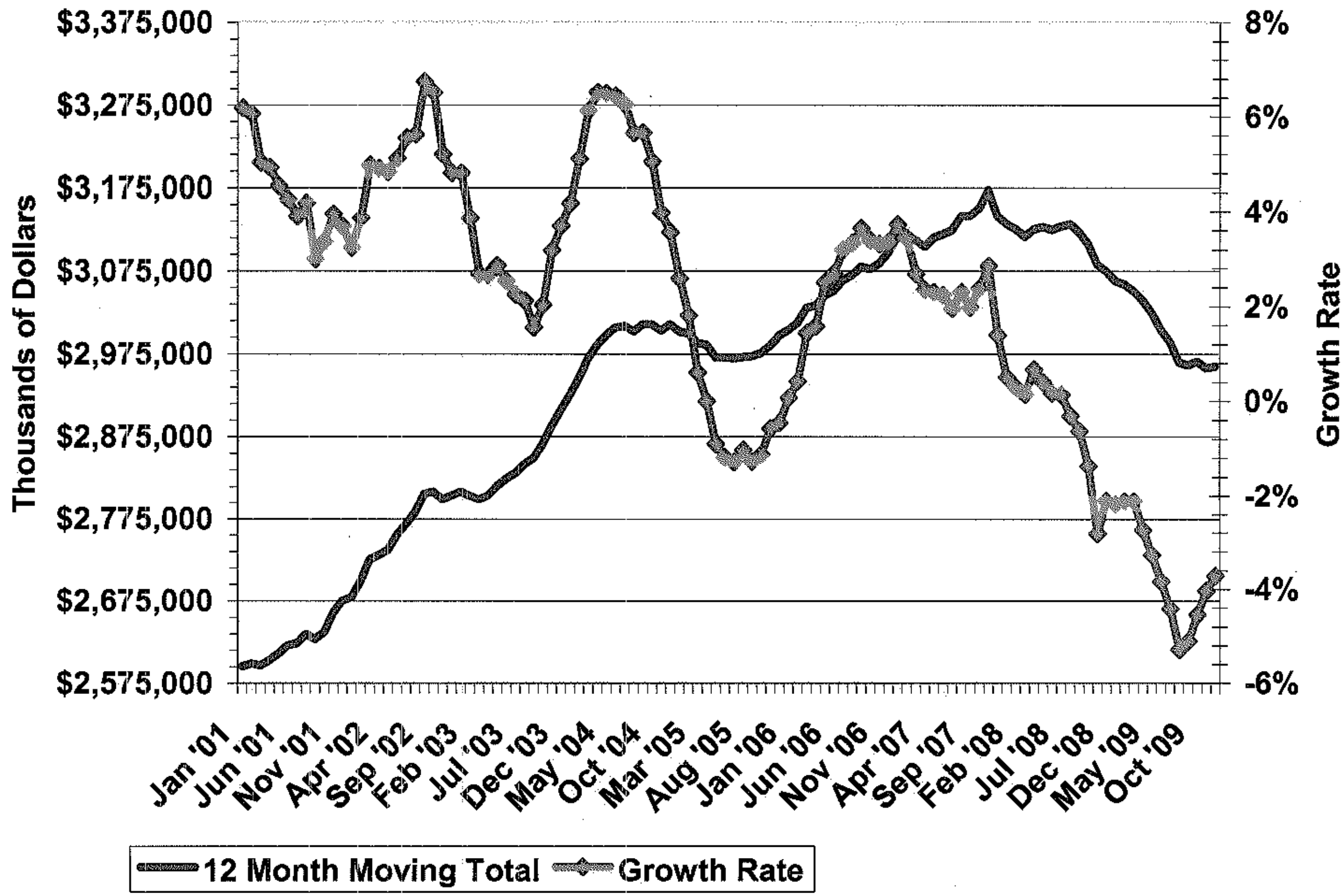
Quarter & Calendar Year

Building Supply Taxable Sales January 2001 to Date




Food Store Taxable Sales
January 2001 to Date
$1,575,000
$1,525,000
$1,475,000
$1,425,000
$1,375,000
$1,325,000
$1,275,000
$1,225,000
$1,175,000
Thousands of Dollars
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
Growth Rate
Jan '01 Jun '01 Nov '01 Apr '02 Sep '02 Feb '03 Jul '03 Dec '03 May '04 Oct '04 Mar '05 Aug '05 Jan '06 Jun '06 Nov '06 Apr '07 Sep '07 Feb '08 Jul '08 Dec '08 May '09 Oct '09
12 Month Moving Total
Growth Rate

General Merchandise Taxable Sales
January 2001 to Date



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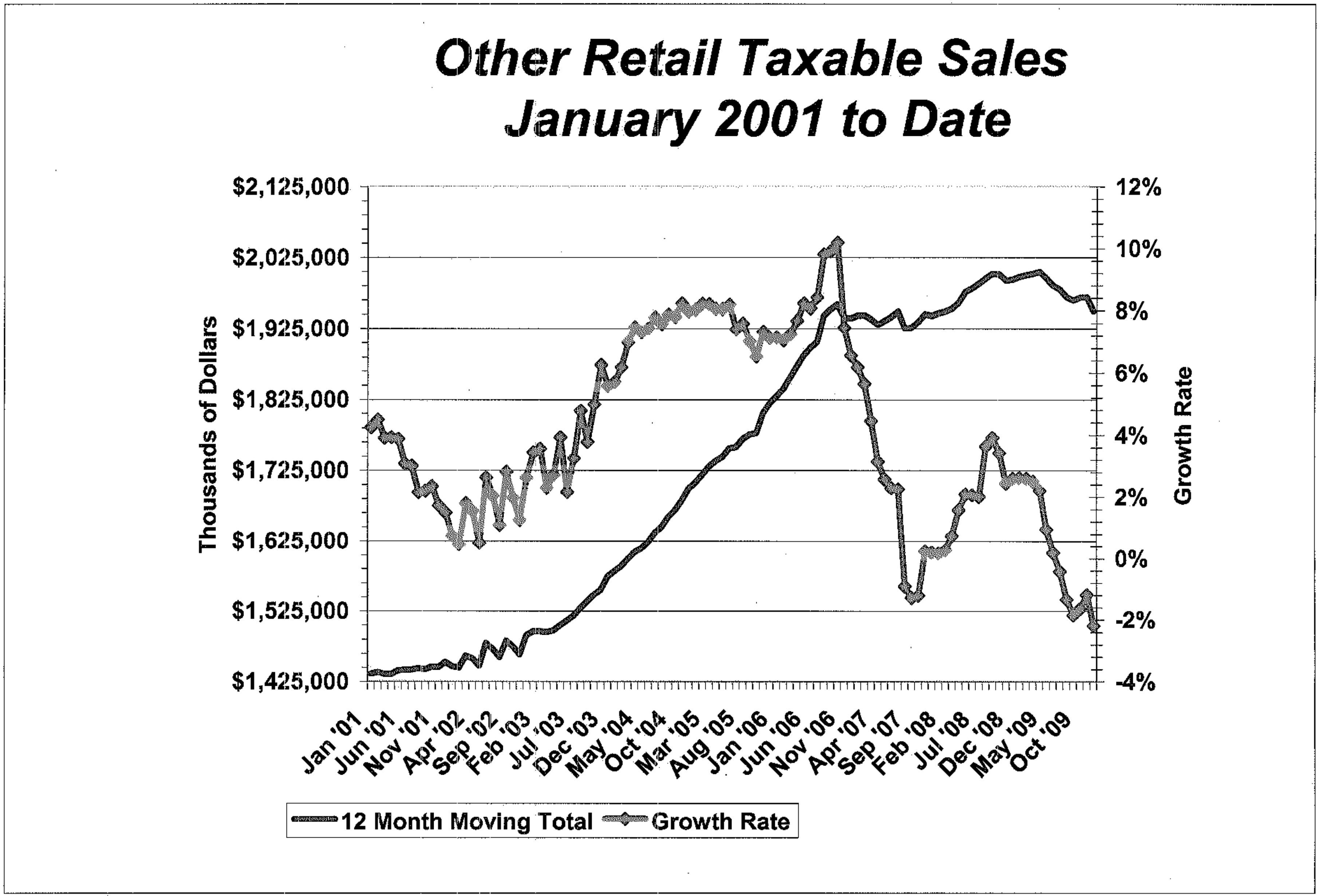
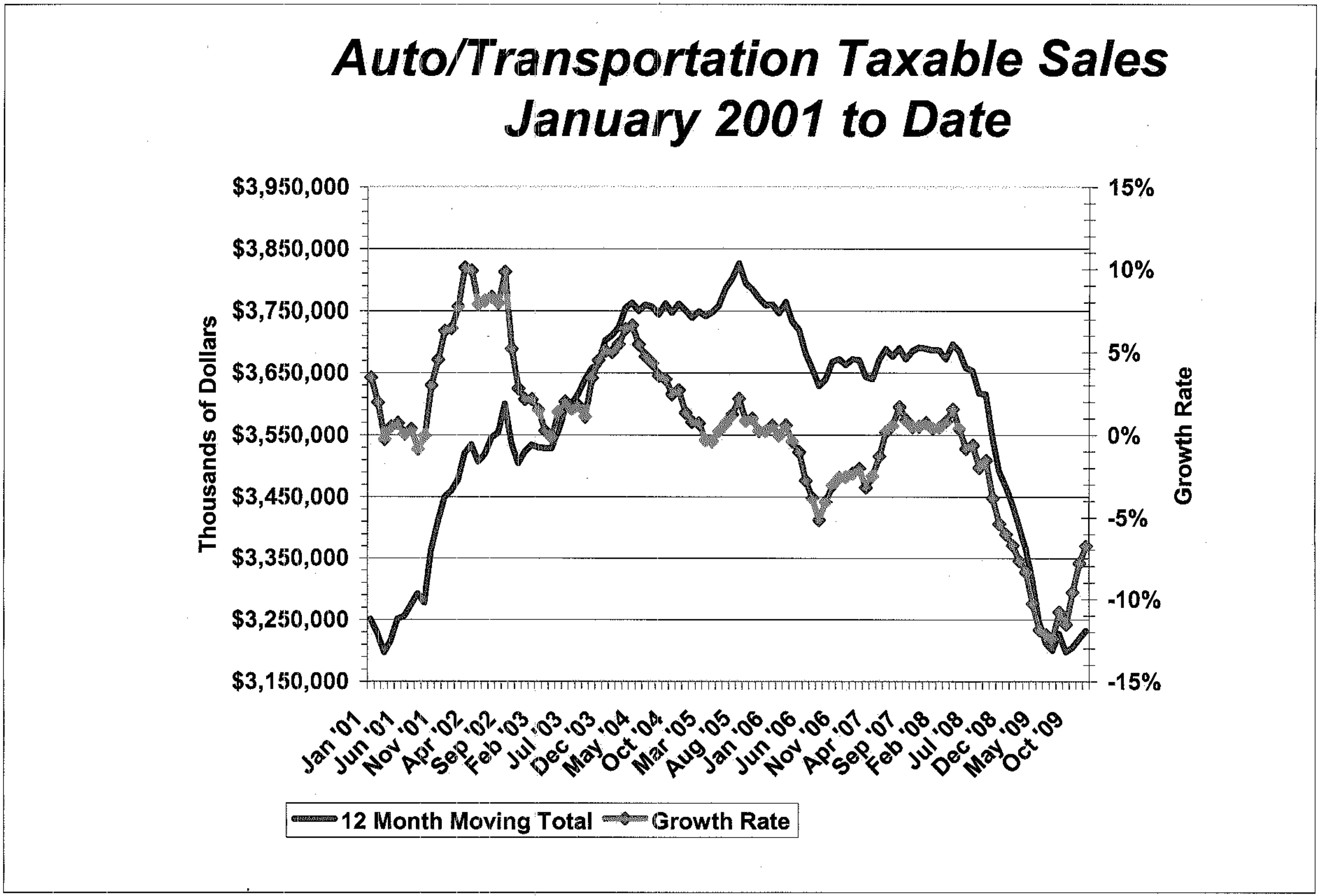
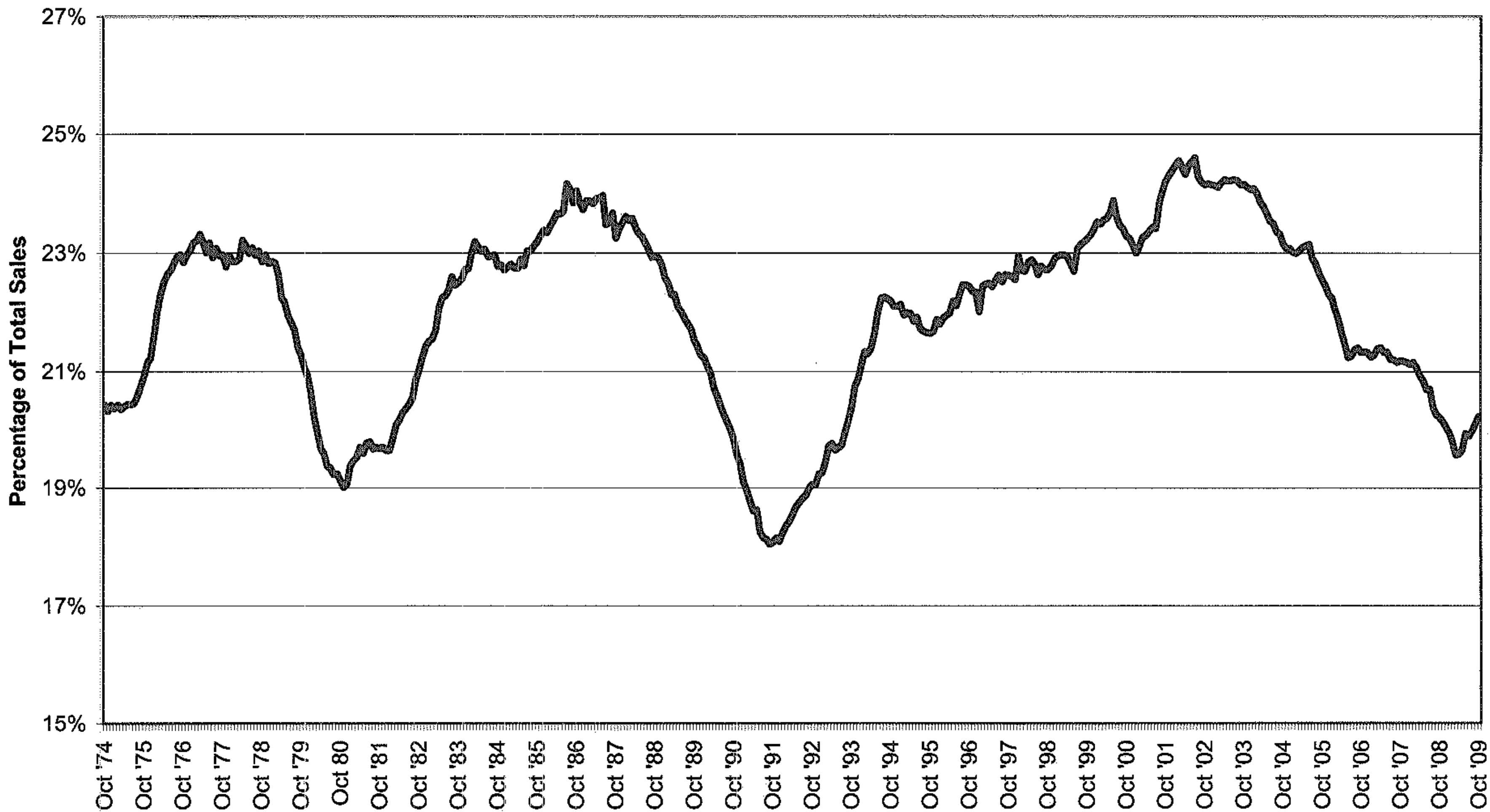

Other Retail Taxable Sales
January 2001 to Date
$2,125,000
$2,025,000
$1,925,000
$1,825,000
$1,725,000
$1,625,000
$1,525,000
$1,425,000
Thousands of Dollars
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
Growth Rate
Jan '01
Jun '01
Nov '01
Apr '02
Sep '02
Feb '03
Jul '03
Dec '03
May '04
Oct '04
Mar '05
Aug '05
Jan '06
Jun '06
Nov '06
Apr '07
Sep '07
Feb '08
Jul '08
Dec '08
May '09
Oct '09
12 Month Moving Total
Growth Rate


Auto/Transportation Taxable Sales
January 2001 to Date
$3,950,000
$3,850,000
$3,750,000
$3,650,000
$3,550,000
$3,450,000
$3,350,000
$3,250,000
$3,150,000
Thousands of Dollars
15%
10%
5%
0%
-5%
-10%
-15%
Growth Rate
Jan '01
Jun '01
Nov '01
Apr '02
Sep '02
Feb '03
Jul '03
Dec '03
May '04
Oct '04
Mar '05
Aug '05
Jan '06
Jun '06
Nov '06
Apr '07
Sep '07
Feb '08
Jul '08
Dec '08
May '09
Oct '09
12 Month Moving Total
Growth Rate

Auto/Transportation Sales as Percentage of Total Sales
12 Month Moving Total Dec. 1974 - Date



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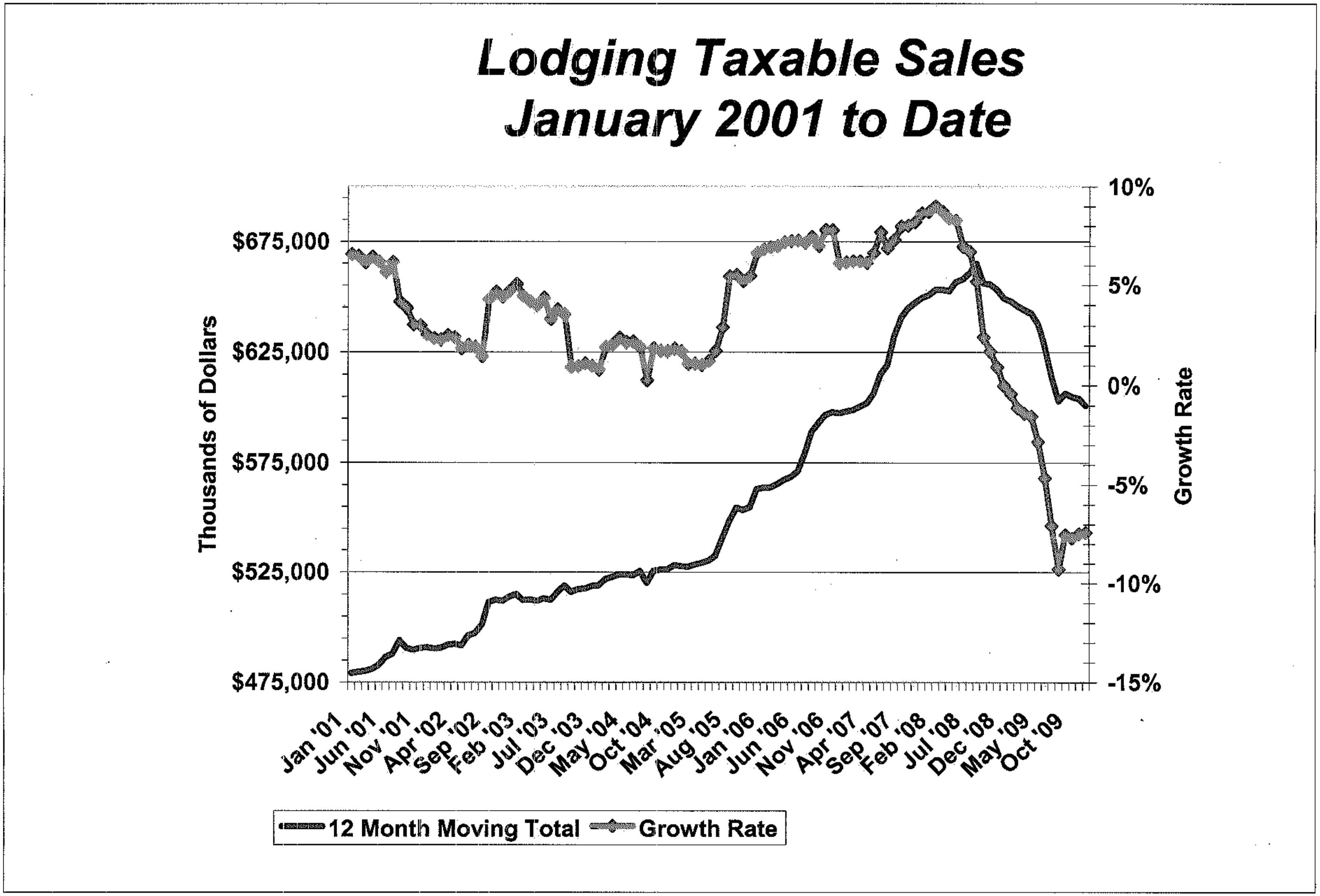
Maine Revenue Services Economic Research Division 2/17/2010



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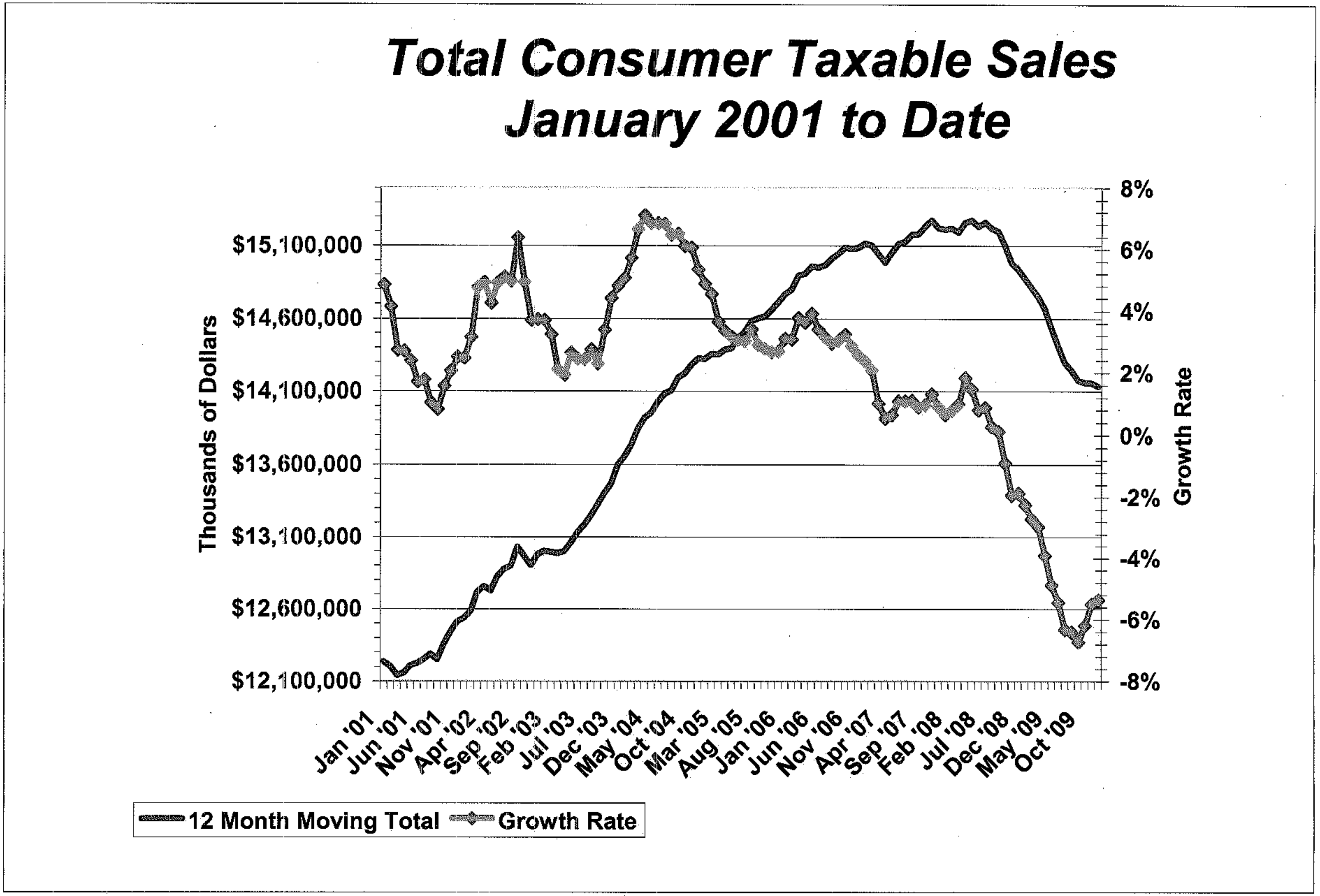
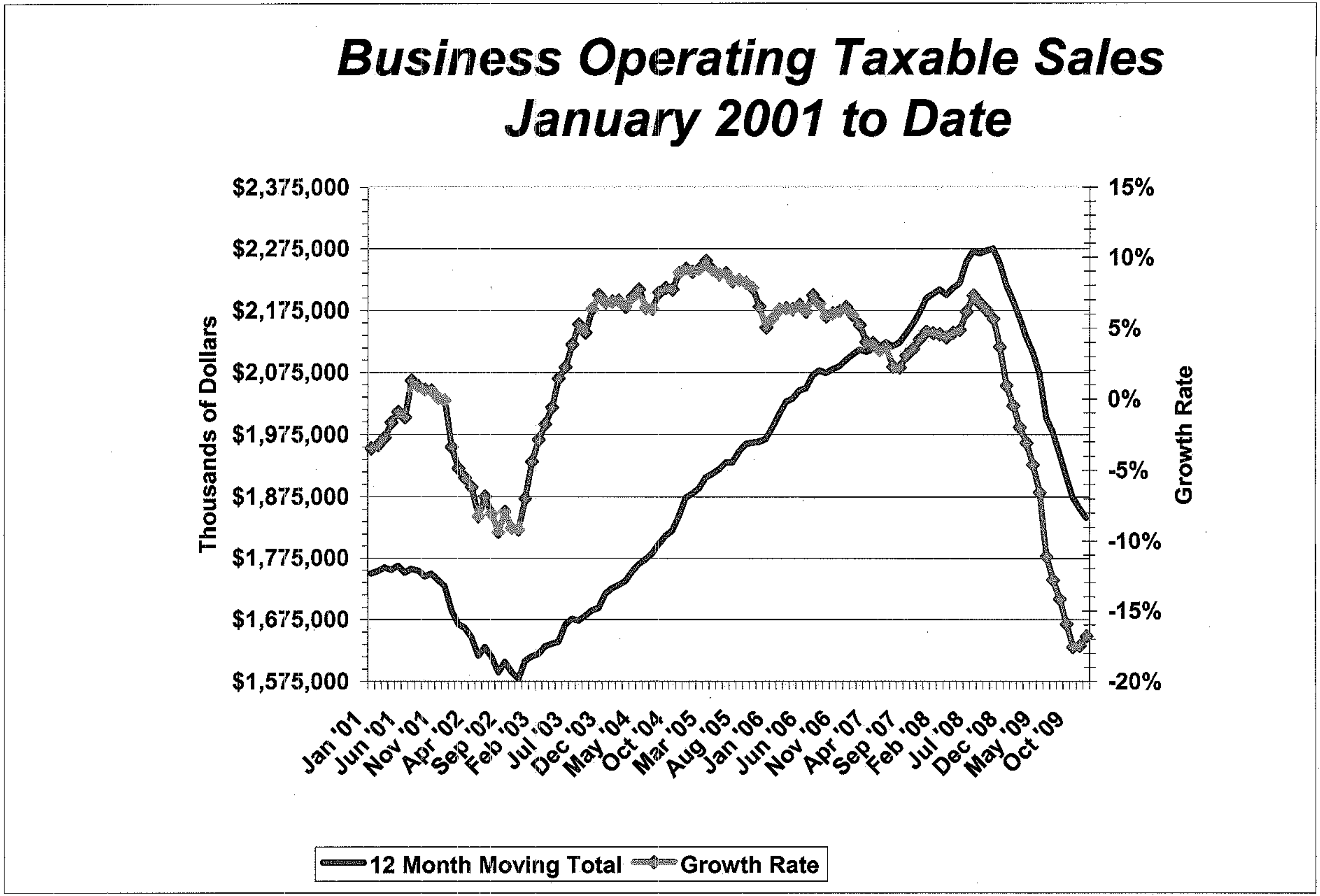
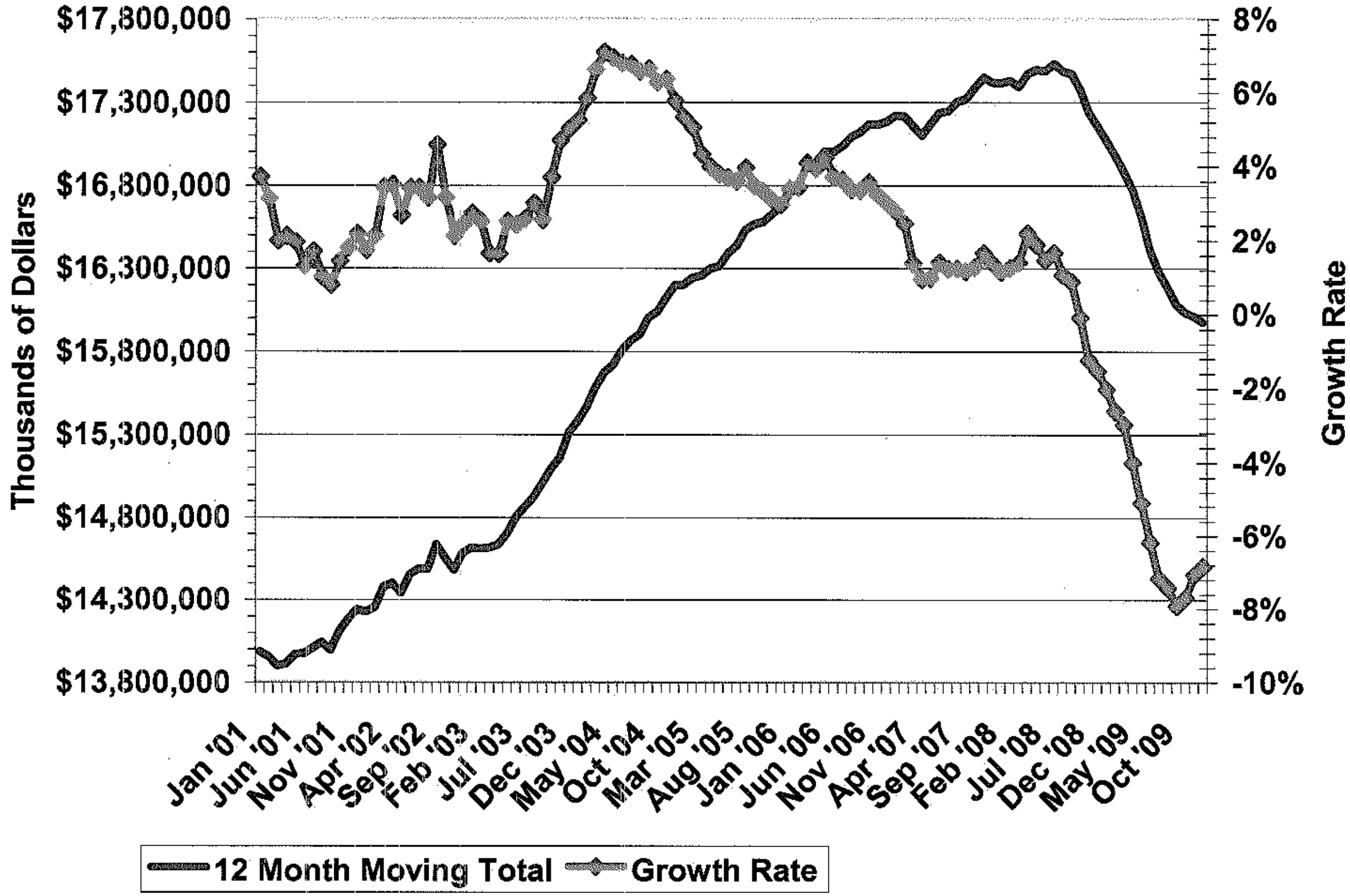


Total Consumer Taxable Sales
January 2001 to Date
Thousands of Dollars
$15,100,000
$14,600,000
$14,100,000
$13,600,000
$13,100,000
$12,600,000
$12,100,000
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
Growth Rate
Jan '01
Jun '01
Nov '01
Apr '02
Sep '02
Feb '03
Jul '03
Dec '03
May '04
Oct '04
Mar '05
Aug '05
Jan '06
Jun '06
Nov '06
Apr '07
Sep '07
Feb '08
Jul '08
Dec '08
May '09
Oct '09
12 Month Moving Total
Growth Rate



Maine Revenue Services Economic Research Division 2/17/2010

Total Taxable Sales
January 2001 to Date



Maine Revenue Services Economic Research Division 2/17/2010

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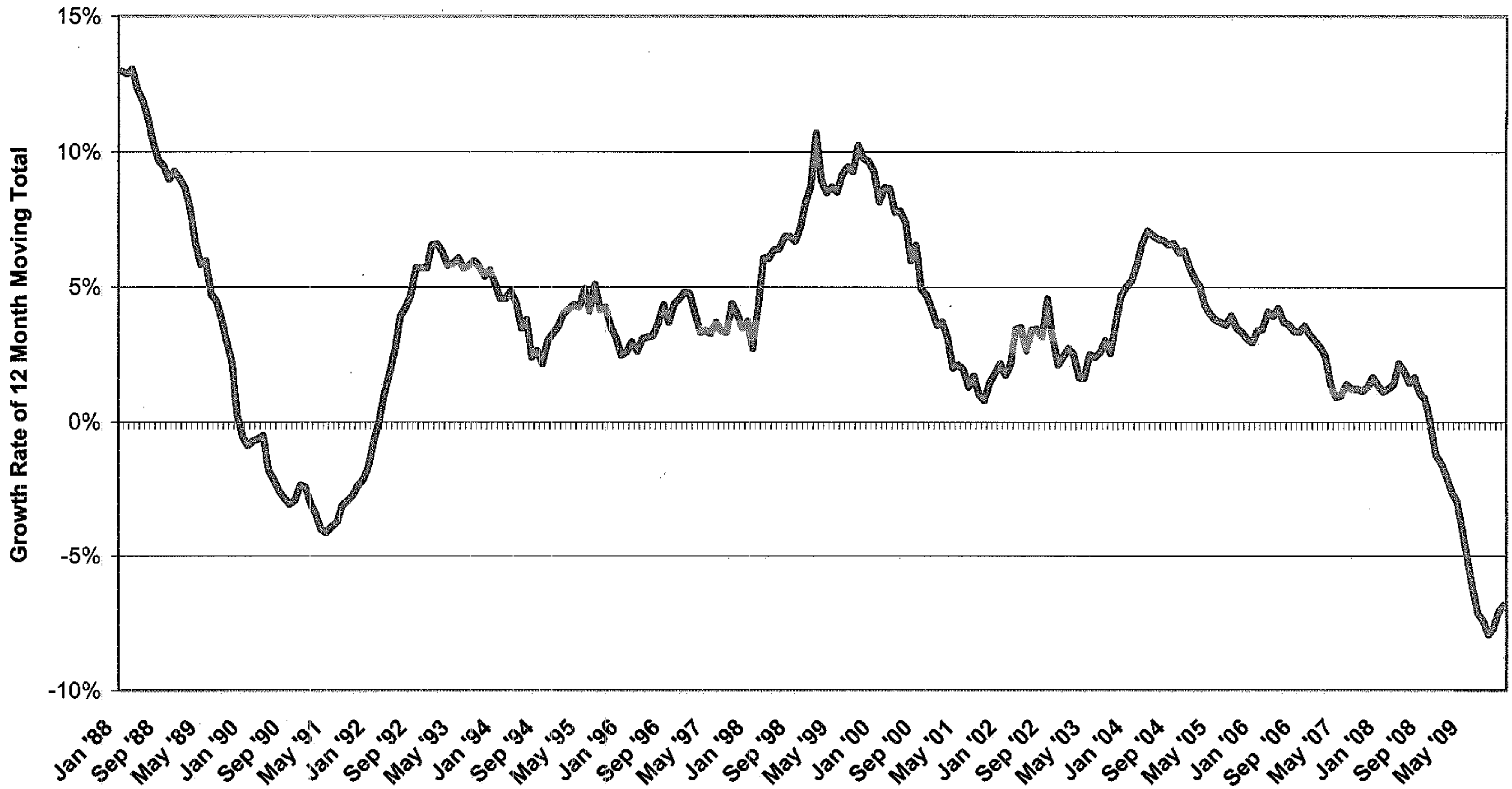
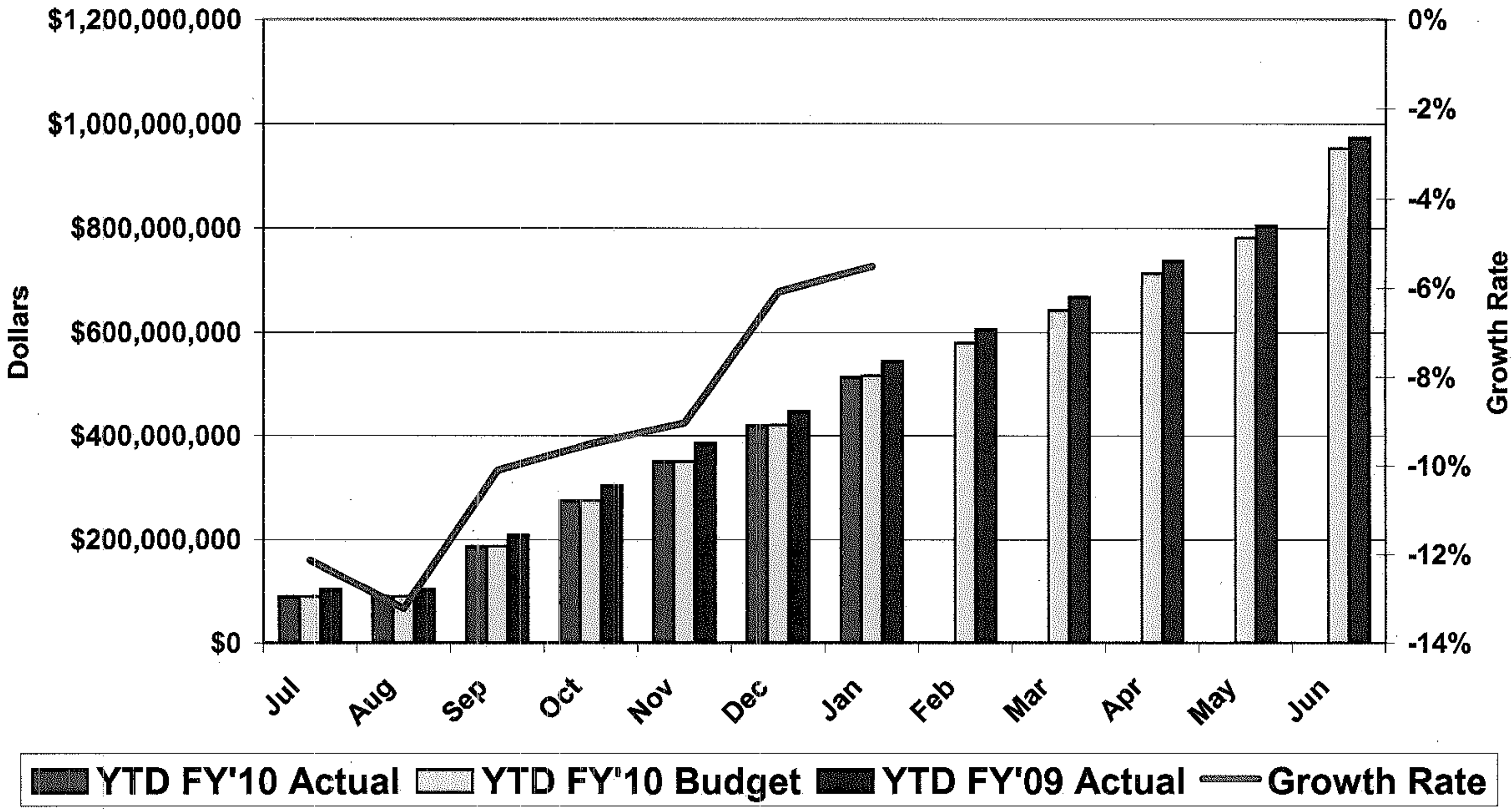
Total Maine Taxable Sales
Growth Rate of 12 Month Moving Total
January 1988 to Date



Sales & Service Provider Tax Revenue
FY'10 Actual, Budget & FY'09 Actual



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Maine Revenue Services Economic Research Division 2/22/2010

Maine Revenue Services
Sales & Use Tax and General Fund Service Provider Tax Revenue

Month	FY'10 Actual	FY'10 Budget	FY'09 Actual	FY'08 Actual	FY'10 Actual vs. Budget	FY'10 Budget vs. FY'09 Actual	FY'10 Actual vs. FY'09 Actual	FY'09 Actual vs. FY'08 Actual
Jul	$90,437,714	$90,437,714	$102,939,388	$100,695,273	0.0%	-12.1%	-12.1%	2.2%
Aug	$79,210	$79,210	$1,373,743	($2,248,639)	0.0%	-94.2%	-94.2%	-161.1%
Sep	$96,228,300	$96,228,300	$103,435,596	$102,884,842	0.0%	-7.0%	-7.0%	0.5%
Oct	$88,431,836	$88,431,836	$96,353,116	$97,816,164	0.0%	-8.2%	-8.2%	-1.5%
Nov	$75,400,830	$75,400,830	$81,320,814	$83,857,052	0.0%	-7.3%	-7.3%	-3.0%
Dec	$69,267,533	$70,032,304	$61,637,775	$77,804,104	-1.1%	13.6%	12.4%	-20.8%
Jan	$94,072,597	$95,902,503	$96,871,215	$100,469,208	-1.9%	-1.0%	-2.9%	-3.6%
Feb	$0	$62,661,520	$62,041,109	$66,954,262	-100.0%	1.0%	-100.0%	-7.3%
Mar	$0	$63,447,691	$62,314,049	$67,116,138	-100.0%	1.8%	-100.0%	-7.2%
Apr	$0	$70,183,497	$68,807,350	$76,125,146	-100.0%	2.0%	-100.0%	-9.6%
May	$0	$69,139,430	$67,783,755	$75,576,635	-100.0%	2.0%	-100.0%	-10.3%
Jun	$0	$171,300,287	$169,758,405	$188,107,757	-100.0%	0.9%	-100.0%	-9.8%
Total	$513,918,020	$953,245,122	$974,636,315	$1,035,157,942	-46.1%	-2.2%	-47.3%	-5.8%
YTD Jan	$513,918,020	$516,512,697	$543,931,647	$561,278,004	-0.5%	-5.0%	-5.5%	-3.1%

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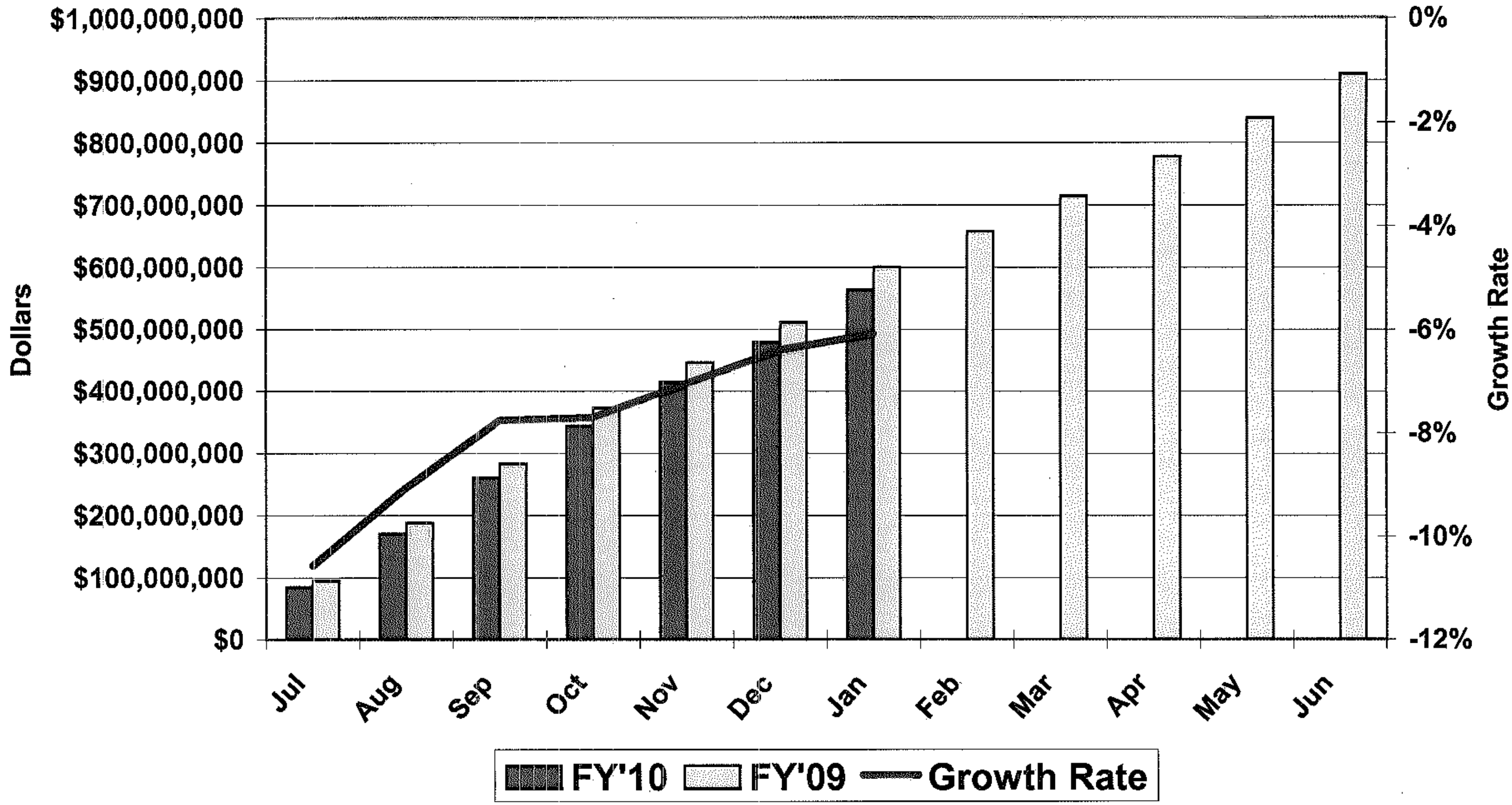
Sales Tax Cash Receipts
Year-to-Date FY'10 & FY'09



Maine Revenue Services Economic Research Division 2/2/2010

Maine Revenue Services
Sales Tax Cash Receipts

	FY'10	FY'09	YTD FY'10	YTD FY'09	Growth Rate	YTD Growth Rate
Jul	$84,490,717	$94,480,353	$84,490,717	$94,480,353	-10.6%	-10.6%
Aug	$85,879,571	$92,867,808	$170,370,288	$187,348,161	-7.5%	-9.1%
Sep	$90,272,558	$95,234,765	$260,642,846	$282,582,926	-5.2%	-7.8%
Oct	$83,002,752	$89,753,178	$343,645,598	$372,336,104	-7.5%	-7.7%
Nov	$70,991,157	$73,756,458	$414,636,755	$446,092,562	-3.7%	-7.1%
Dec	$63,989,178	$65,245,049	$478,625,933	$511,337,611	-1.9%	-6.4%
Jan	$85,451,148	$89,286,080	$564,077,081	$600,623,691	-4.3%	-6.1%
Feb	$0	$56,805,192	$564,077,081	$657,428,883	-100.0%	-14.2%
Mar	$0	$57,141,982	$564,077,081	$714,570,865	-100.0%	-21.1%
Apr	$0	$63,313,527	$564,077,081	$777,884,392	-100.0%	-27.5%
May	$0	$62,013,348	$564,077,081	$839,897,740	-100.0%	-32.8%
Jun	$0	$69,759,671	$564,077,081	$909,657,411	-100.0%	-38.0%

Economy.com
February 2010
CPI Urban Consumer

CY	Motor Fuels
2008	277.9350
2009	199.8250
2010	234.0500
2011	249.2175
2012	261.1925
2013	269.1075

CY	Fuel Oil
2008	363.5975
2009	232.0375
2010	243.2875
2011	255.9800
2012	268.4000
2013	278.8375

CY	Natural Gas
2008	247.9900
2009	193.5975
2010	194.0100
2011	204.1350
2012	214.0425
2013	222.3625

CY	Electricity
2008	187.0900
2009	192.5475
2010	198.4150
2011	208.7700
2012	218.9000
2013	227.4125

Economy.com
November 2009
CPI Urban Consumer

CY	Motor Fuels
2008	277.9350
2009	187.5375
2010	208.8575
2011	224.9425
2012	235.7450
2013	242.8900

CY	Fuel Oil
2008	363.5975
2009	227.0075
2010	231.9125
2011	245.0425
2012	257.3050
2013	267.4200

CY	Natural Gas
2008	247.9900
2009	194.7125
2010	195.5750
2011	206.6450
2012	216.9900
2013	225.5200

CY	Electricity
2008	187.0900
2009	195.0300
2010	202.7950
2011	214.2825
2012	225.0050
2013	233.8500

CY	Savings Rate
2008	2.65%
2009	4.37%
2010	4.81%
2011	5.77%
2012	5.46%
2013	5.46%

Target motor vehicle sales
Forecasted Maine sales x average price

	Average pric New Vehicle	New Vehicle Registration Maine	Price x Registrations	Growth Rate
Calendar Year				
2008	24,871	49,632	1,234,407,980	
2009	24,314	40,179	976,912,206	-20.9%
2010	24,129	42,306	1,020,801,474	4.5%
2011	24,134	49,256	1,188,735,724	16.5%
2012	24,272	55,941	1,357,799,952	14.2%
2013	24,505	58,119	1,424,206,095	4.9%

Fiscal Year		Feb. 2010
2009	1,105,660,093	
2010	998,856,840	-9.7%
2011	1,104,768,599	10.6%
2012	1,273,267,838	15.3%
2013	1,391,003,024	9.2%

CY	Savings Rate
2008	2.65%
2009	3.81%
2010	4.17%
2011	5.28%
2012	5.30%
2013	5.40%

Target motor vehicle sales
Forecasted Maine sales x average price

	Average pric New Vehicle	ew Vehic gistratio Maine	Price x Registrations	Growth Rate
Calendar Year				
2008	24,871	49,632	1,234,407,918	
2009	24,314	39,418	958,401,228	-22.4%
2010	24,129	41,430	999,660,127	4.3%
2011	24,134	49,124	1,185,548,128	18.6%
2012	24,272	55,845	1,355,468,384	14.3%
2013	24,505	58,084	1,423,347,685	5.0%

Fiscal Year		Nov. 2009
2009	1,096,404,573	
2010	979,030,678	-10.7%
2011	1,092,604,127	11.6%
2012	1,270,508,256	16.3%
2013	1,389,408,034	9.4%

Sales & Use and Service Provider Taxes: Baseline Forecast FY10 - FY13

	FY06	FY07	Biennium	FY08	FY09	Biennium	FY10	FY11	Biennium	FY12	FY13	Biennium
Actuals & December, 2009 Forecast /1	**$993,202,707**	**$1,020,856,253**	**$2,014,058,960**	**$1,035,157,942**	**$974,636,315**	**$2,009,794,257**	**$953,245,122**	**$979,586,326**	**$1,932,831,448**	**$1,024,070,107**	**$1,075,664,657**	**$2,099,734,764**
Growth Rate	5.5%	2.8%	8.4%	1.4%	-5.8%	-0.2%	-2.2%	2.8%	-3.8%	4.5%	5.0%	8.6%
Technical Adjustments to Prior Forecast /2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Economic Assumptions /3	$0	$0	$0	$0	$0	$0	$1,415,039	($1,390,000)	$25,039	($2,820,000)	($3,840,000)	($6,660,000)
Total Adjustments to Prior Forecast	$0	$0	$0	$0	$0	$0	$1,415,039	($1,390,000)	$25,039	($2,820,000)	($3,840,000)	($6,660,000)
New Forecast	**$993,202,707**	**$1,020,856,253**	**$2,014,058,960**	**$1,035,157,942**	**$974,636,315**	**$2,009,794,257**	**$954,660,161**	**$978,196,326**	**$1,932,856,487**	**$1,021,250,107**	**$1,071,824,657**	**$2,093,074,764**
Growth Rate	5.5%	2.8%	8.4%	1.4%	-5.8%	-0.2%	-2.0%	2.5%	-3.8%	4.4%	5.0%	8.3%

	FY10	FY11	FY12	FY13
1/ December, 2009 forecast with FY06, FY07, FY08 and FY09 actuals.	**$939,430,846**	**$962,591,548**	**$1,004,958,509**	**$1,054,726,263**
	($13,814,276)	($16,994,778)	($19,111,598)	($20,938,394)

2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

3/ This line shows the incremental change in baseline revenues as a result of the new economic forecast released by the Consensus Economic Forecasting Committee. In addition, Economy.com's January 2010 forecast is used to estimate the impact of energy prices on sales tax receipts and to target automobile sales growth.

Maine Revenue Services
Economic Research Division

22-Feb-10

2/18/2010

Maine Revenue Services
Model Sales Tax Revenue for Selected Categories from the February 2010 Forecast
(millions of dollars)

Fiscal Years	2009	2010		2011		2012		2013	
Personal Consumption									
Total motor vehicles	$117.1	$106.1	-9.4%	$117.3	10.6%	$135.3	15.3%	$147.7	9.2%
New autos	$51.66	$46.8	-9.4%	$51.7	10.6%	$59.7	15.3%	$65.2	9.2%
Used Autos	$29.22	$26.5	-9.4%	$29.3	10.6%	$33.8	15.3%	$36.9	9.2%
Other motor vehicles	$36.24	$32.8	-9.4%	$36.3	10.6%	$41.9	15.3%	$45.7	9.2%
Restaurants - consumer	$137.35	$136.6	-0.5%	$138.0	1.0%	$141.0	2.2%	$145.6	3.2%
Lodging - consumer	$42.98	$42.5	-1.2%	$43.6	2.8%	$46.3	6.0%	$50.3	8.6%
Shoes	$10.11	$10.1	0.1%	$10.2	0.8%	$10.4	1.9%	$10.7	2.7%
Women's clothing	$39.15	$39.1	-0.2%	$39.7	1.5%	$41.0	3.3%	$42.9	4.8%
Men's clothing	$23.8	$23.8	-0.2%	$24.1	1.5%	$24.9	3.3%	$26.1	4.8%
Jewelry and watches	$13.3	$13.3	-0.4%	$13.5	2.0%	$14.1	4.4%	$15.0	6.4%
Toilet articles and preps	$18.8	$18.7	-0.7%	$19.1	2.6%	$20.2	5.5%	$21.8	7.9%
Furniture	$16.8	$16.7	-0.4%	$17.1	1.9%	$17.8	4.0%	$18.8	6.0%
Drugs	$15.9	$15.9	0.3%	$16.0	0.4%	$16.2	1.0%	$16.4	1.5%
Personal consumption	$708.3	$694.4	-2.0%	$713.2	2.7%	$745.3	4.5%	$783.5	5.1%
Business Intermediate	$184.6	$177.8	-3.7%	$180.2	1.3%	$187.1	3.8%	$195.0	4.2%
Business Investment	$81.7	$81.9	0.2%	$84.3	2.9%	$88.4	4.9%	$93.0	5.1%

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Maine Revenue Services
Transfers to the Tourism Marketing Promotion Fund
February 2010 Forecast

5% of the tax on meals and lodging is dedicated to the Tourism Marketing Promotion Fund. Revenue is credited to the fund in July and October of each year based on revenue collected in the prior fiscal year after revenue sharing has been deducted.

Actual FY'09 meals/lodge tax revenue	$190,137,464	
General Fund portion	$180,440,453	94.9%
FY'10 Transfer to Tourism - budget	$9,190,591	
Actual FY'10 transfer	$9,022,023	5.0%
Variance	($168,568)	

	FY'10	FY'11	FY'12	FY'13
Meals and lodging revenue forecast	$188,730,000	$191,430,000	$197,530,000	$206,580,000
Growth rate	-0.7%	1.4%	3.2%	4.6%
General Fund	$179,293,500	$181,858,500	$187,653,500	$196,251,000
General Fund percentage	95.0%	95.0%	95.0%	95.0%

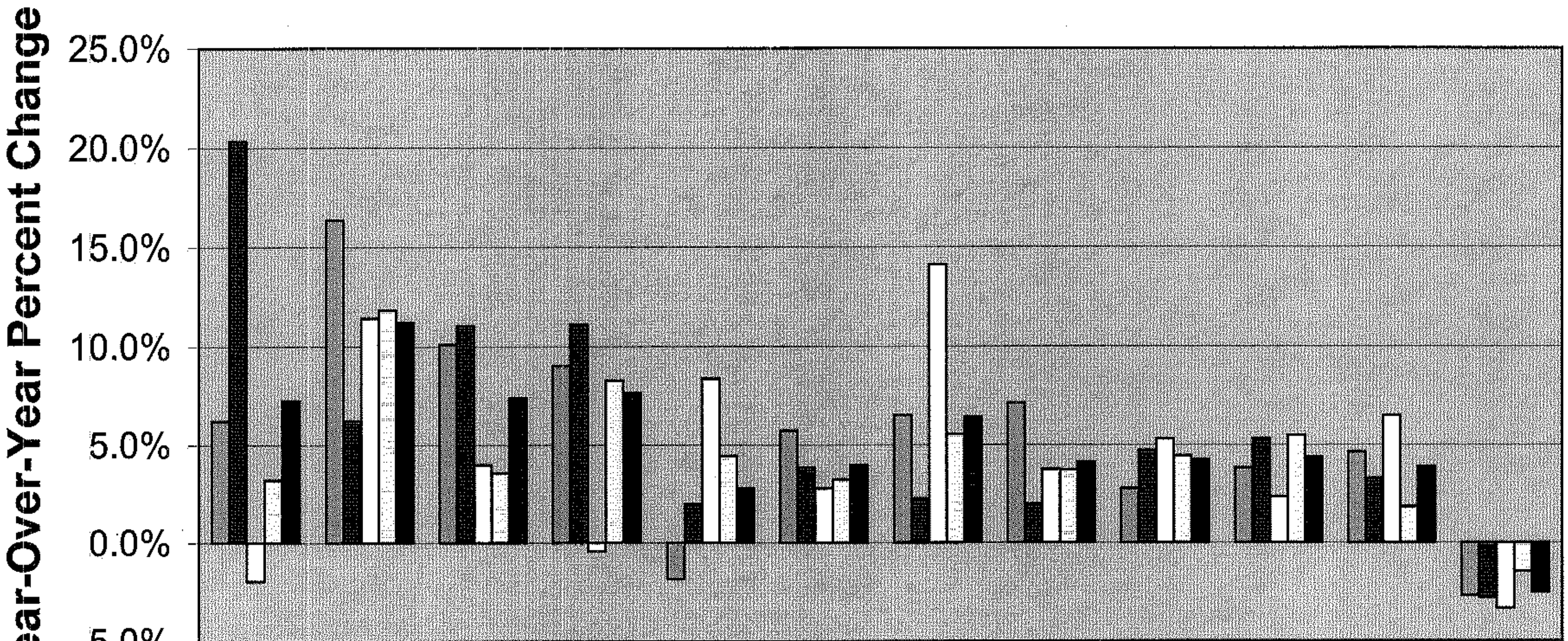
February 2010 forecast	FY'11	FY'12	FY'13	FY'14
5% to Tourism Fund	$8,964,675	$9,092,925	$9,382,675	$9,812,550
Current budget	$8,979,400	$9,099,575	$9,392,175	
Variance	($14,725)	($6,650)	($9,500)	

Transfer to the Transit, Aviation and Rail Transportation Fund (STAR Fund). 50% of the revenue collected from the 10% sales tax on short-term automobile rentals in a fiscal year is transferred to the STAR Fund in the next fiscal year.

	FY'10	FY'11	FY'12	FY'13
Current Budget	$3,054,519	$3,061,703	$3,079,163	$3,127,679
		0.2%	0.6%	1.6%
Actual FY'10 and new forecast	$3,054,519	$3,061,703	$3,079,163	$3,127,679
		0.2%	0.6%	1.6%
Variance	$0	$0	$0	$0

Individual Income Tax

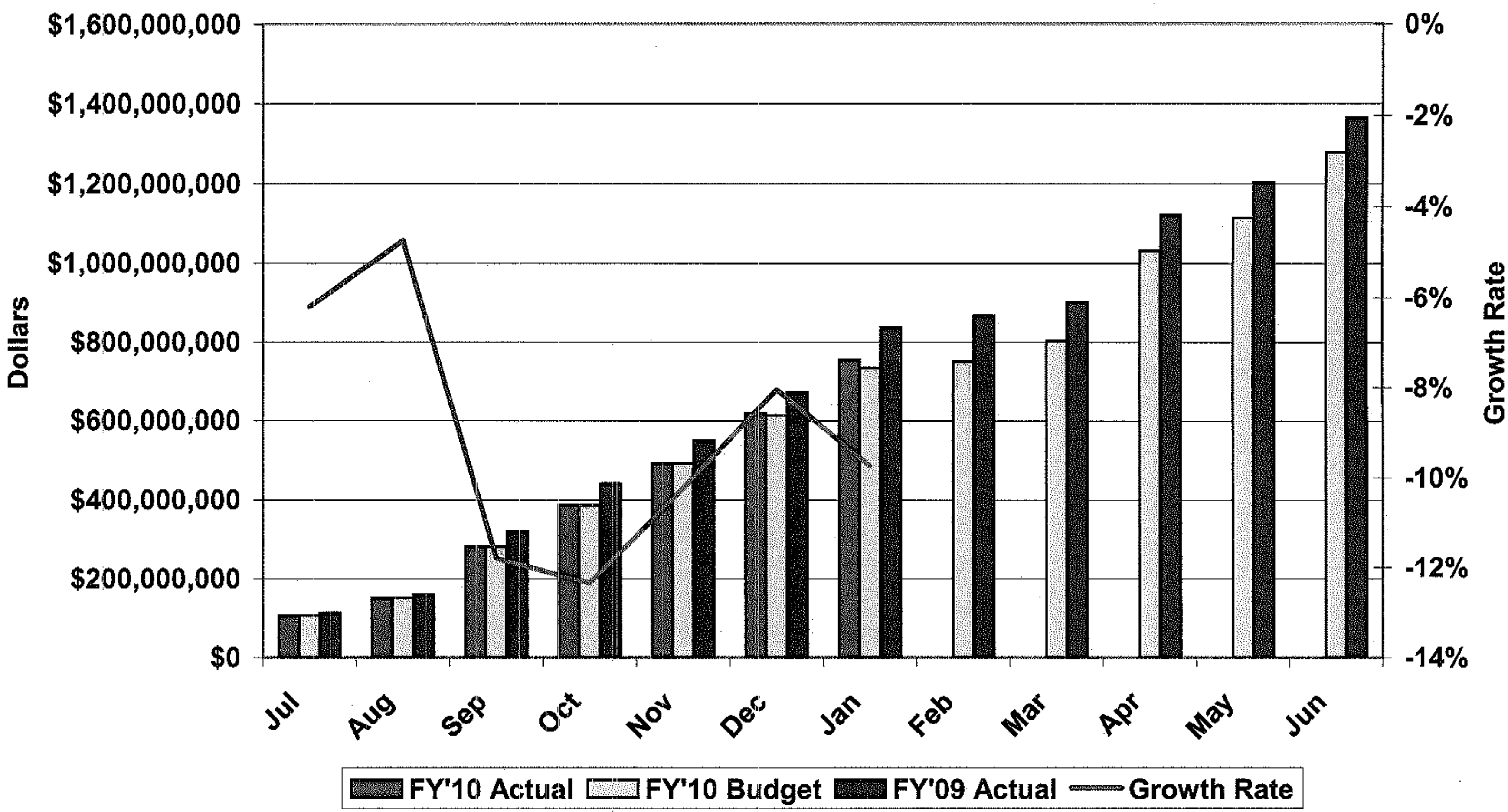
Individual Income Tax Withholding



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Qtr. I	6.2%	16.3%	10.1%	9.0%	-1.9%	5.7%	6.5%	7.1%	2.7%	3.8%	4.6%	-2.7%
Qtr. II	20.3%	6.2%	11.0%	11.1%	2.0%	3.8%	2.2%	2.0%	4.7%	5.3%	3.3%	-2.8%
Qtr. III	-2.0%	11.4%	4.0%	-0.4%	8.4%	2.8%	14.1%	3.7%	5.3%	2.3%	6.5%	-3.3%
Qtr. IV	3.2%	11.8%	3.6%	8.3%	4.5%	3.2%	5.5%	3.7%	4.4%	5.5%	1.8%	-1.5%
Year	7.3%	11.2%	7.4%	7.6%	2.7%	3.9%	6.4%	4.1%	4.2%	4.4%	3.9%	-2.5%

Quarter & Calendar Year

YTD Individual Income Tax Revenue
FY'10 Actual, Budget & FY'09 Actual

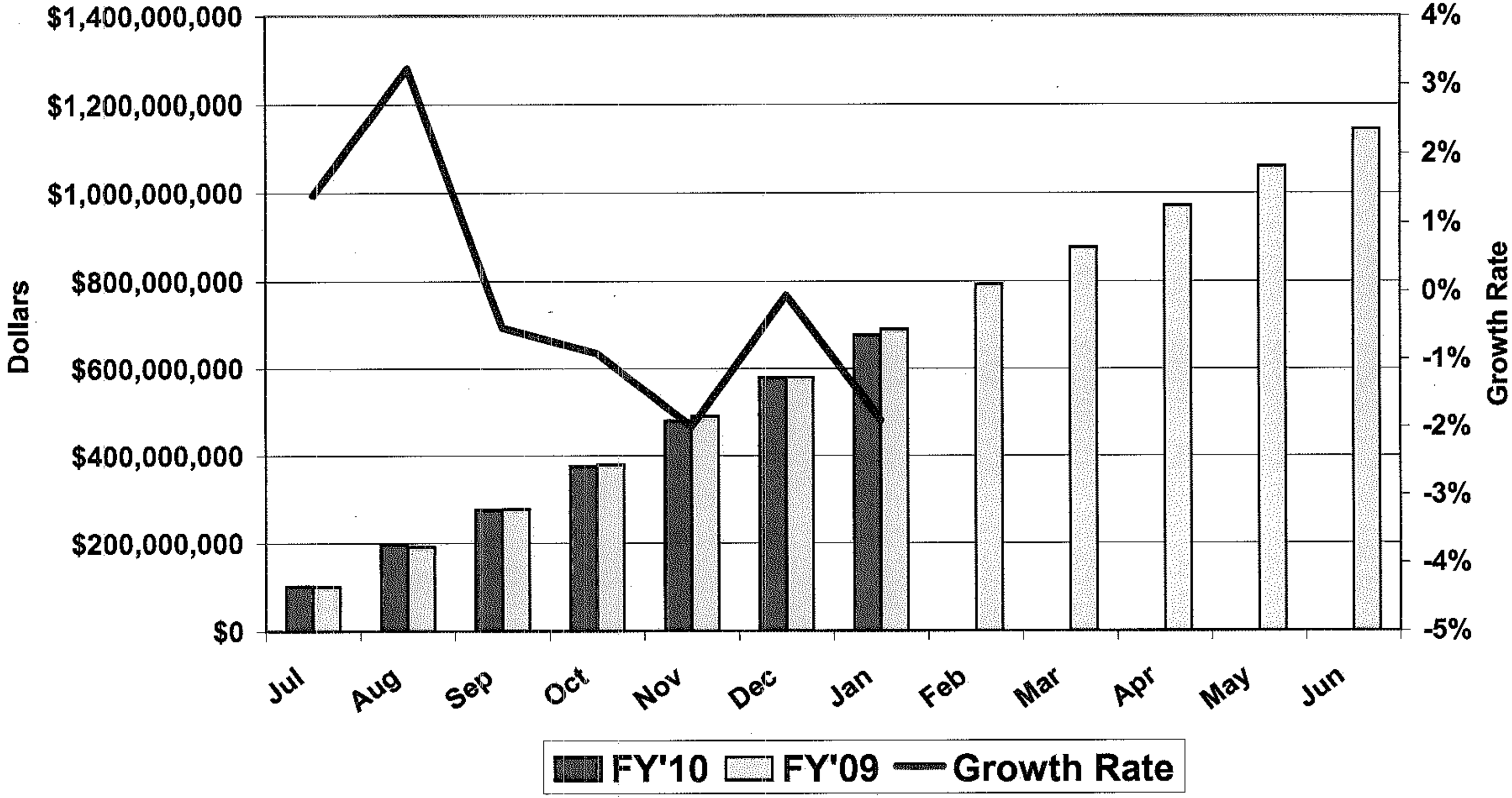


Maine Revenue Services Economic Research Division 2/22/2010

Maine Revenue Services
Individual Income Tax Revenue

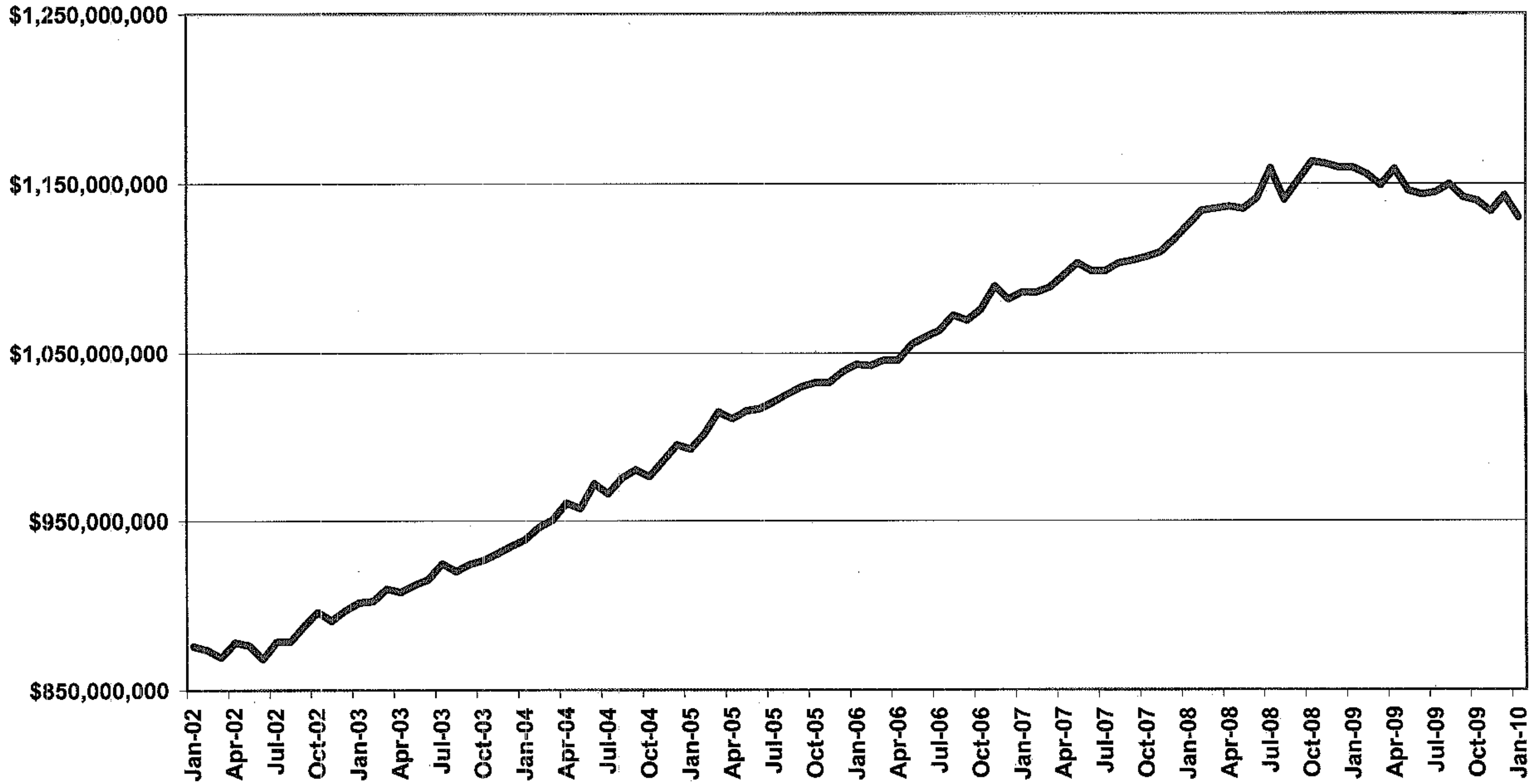
	FY'10 Actual	FY'10 Budget	FY'09 Actual	FY'08 Actual	FY'10 Actual vs. Budget	FY'10 Budget vs. FY'09 Actual	FY'10 Actual vs. FY'09 Actual	FY'09 Actual vs. FY'08 Actual
Jul	$106,011,021	$106,615,518	$113,031,239	$95,539,505	-0.6%	-5.7%	-6.2%	18.3%
Aug	$45,365,263	$44,760,767	$45,901,885	$63,614,971	1.4%	-2.5%	-1.2%	-27.8%
Sep	$129,859,317	$129,859,317	$159,967,180	$142,274,584	0.0%	-18.8%	-18.8%	12.4%
Oct	$105,732,983	$105,732,984	$122,613,654	$106,275,614	0.0%	-13.8%	-13.8%	15.4%
Nov	$105,446,274	$105,446,274	$107,137,039	$120,004,767	0.0%	-1.6%	-1.6%	-10.7%
Dec	$125,933,530	$120,576,592	$123,901,804	$126,761,390	4.4%	-2.7%	1.6%	-2.3%
Jan	$137,027,470	$121,698,000	$164,474,825	$168,149,146	12.6%	-26.0%	-16.7%	-2.2%
Feb	$0	$16,486,637	$29,142,490	$35,367,858	-100.0%	-43.4%	-100.0%	-17.6%
Mar	$0	$52,388,571	$36,021,026	$67,900,811	-100.0%	45.4%	-100.0%	-47.0%
Apr	$0	$227,394,842	$218,341,426	$335,154,593	-100.0%	4.1%	-100.0%	-34.9%
May	$0	$82,026,279	$82,135,878	$105,398,640	-100.0%	-0.1%	-100.0%	-22.1%
Jun	$0	$164,994,219	$162,769,283	$191,591,079	-100.0%	1.4%	-100.0%	-15.0%
Total	$755,375,858	$1,277,980,000	$1,365,437,729	$1,558,032,958	-40.9%	-6.4%	-44.7%	-12.4%
YTD Jan	$755,375,858	$734,689,452	$837,027,626	$822,619,977	2.8%	-12.2%	-9.8%	1.8%

1040 Withholding
Year-to-Date FY'10 & FY'09



Maine Revenue Services Economic Research Division 2/1/2010

Withholding Tax Revenue
12 Month Moving Total



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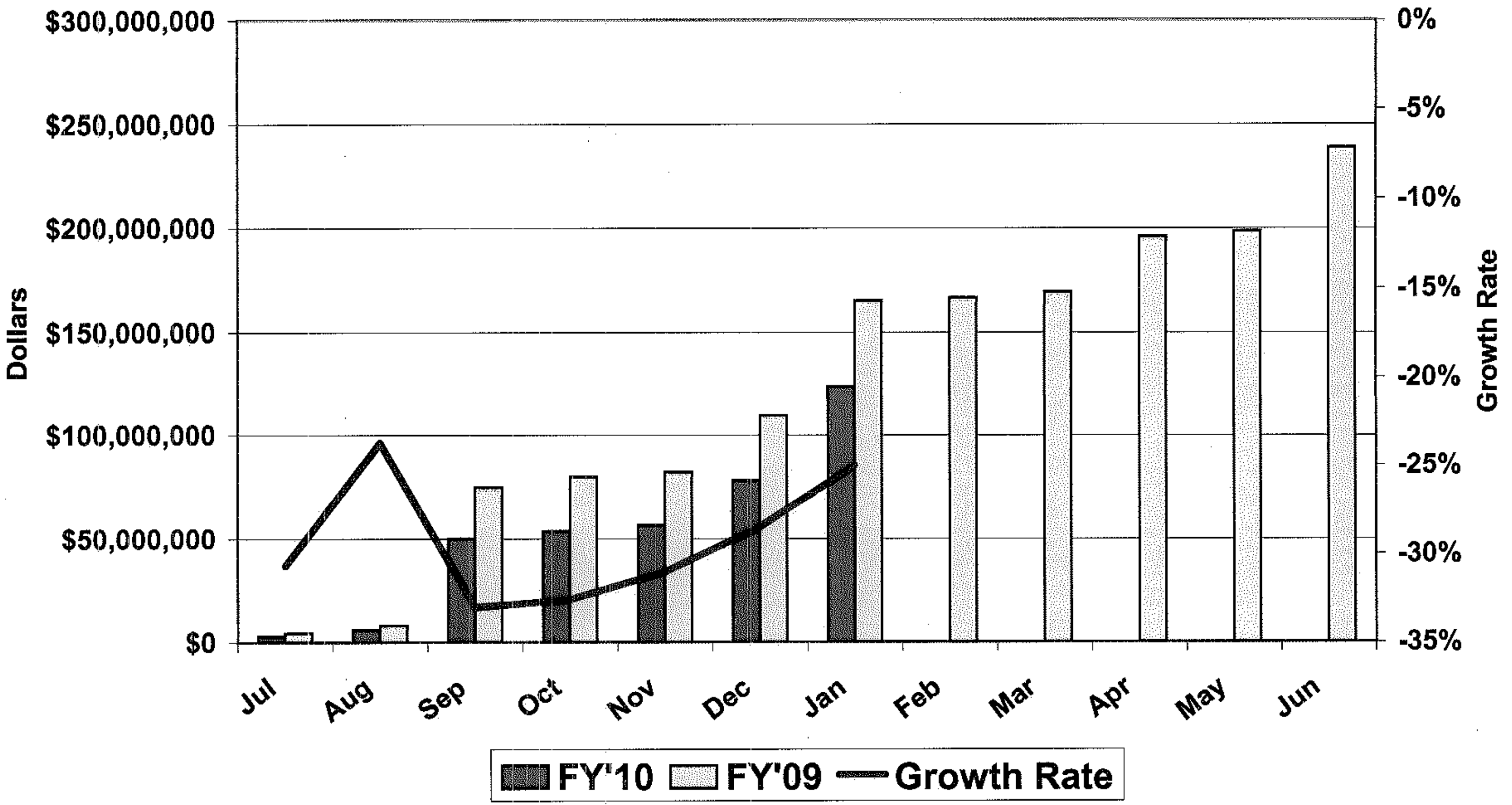
1040 Estimated Payments
Year-to-Date FY'10 & FY'09



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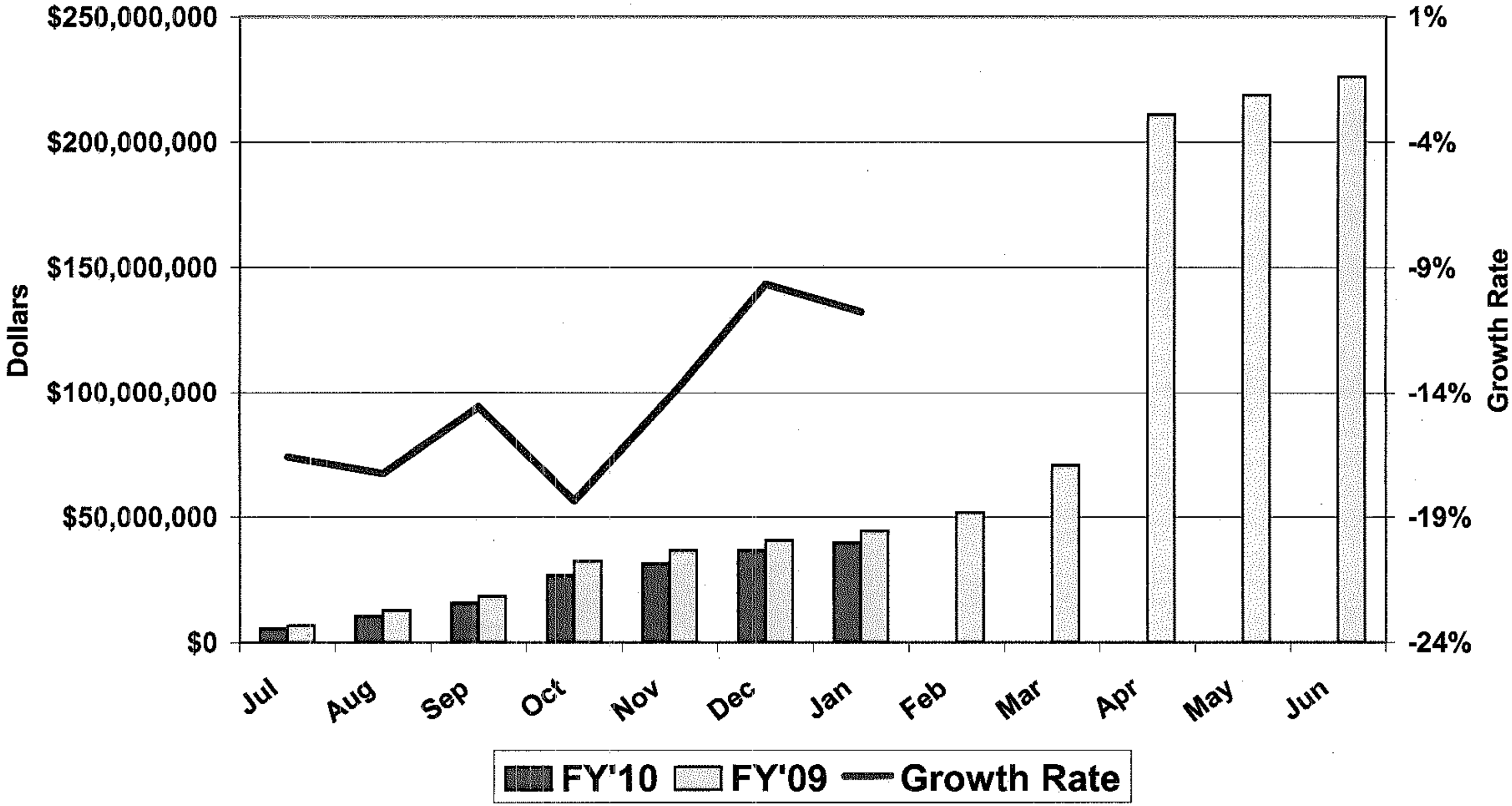
1040 Final Payments
Year-to-Date FY'10 & FY'09



Maine Revenue Services Economic Research Division 2/1/2010

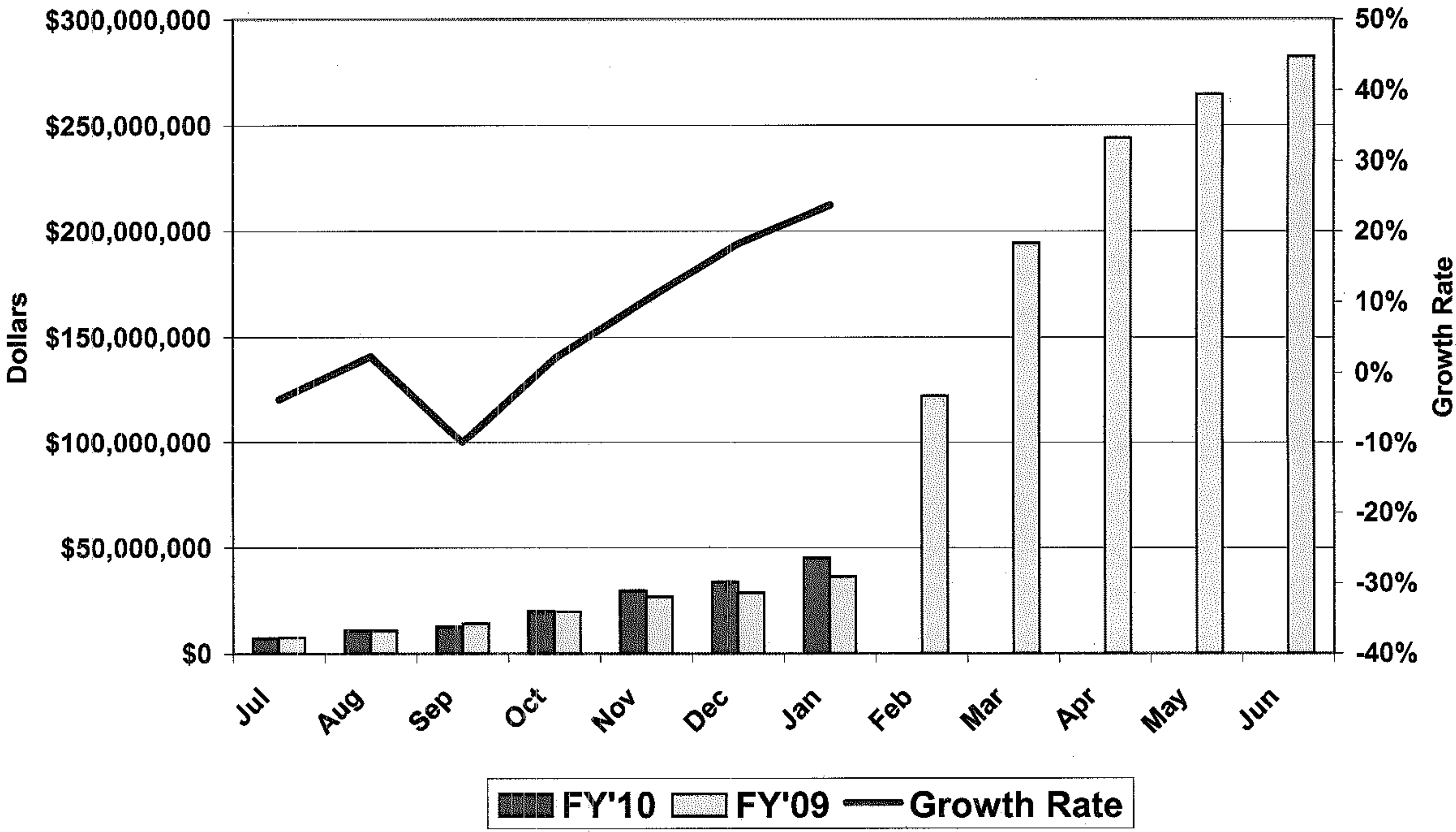
Maine Revenue Services
Individual Income Tax Withholding, Estimated Payments and Final Payments

	1040 Withholding			1040 Estimated Payments			1040 Final Payments		
	FY'10	FY'09	Growth Rate	FY'10	FY'09	Growth Rate	FY'10	FY'09	Growth Rate
Jul	$102,392,142	$100,983,161	1.4%	$2,956,364	$4,266,214	-30.7%	$5,548,425	$6,651,177	-16.6%
Aug	$95,050,382	$90,284,685	5.3%	$3,087,352	$3,662,687	-15.7%	$5,050,296	$6,158,672	-18.0%
Sep	$78,207,086	$85,891,676	-8.9%	$44,087,371	$66,964,004	-34.2%	$5,029,186	$5,485,836	-8.3%
Oct	$99,646,470	$101,632,415	-2.0%	$3,678,147	$4,981,764	-26.2%	$10,989,096	$14,300,848	-23.2%
Nov	$104,319,189	$110,658,327	-5.7%	$2,875,966	$2,346,363	22.6%	$4,932,766	$4,166,207	18.4%
Dec	$99,958,647	$90,492,288	10.5%	$21,572,623	$27,240,521	-20.8%	$5,196,272	$3,910,214	32.9%
Jan	$96,990,896	$109,865,581	-11.7%	$45,512,531	$55,636,989	-18.2%	$3,027,655	$3,896,907	-22.3%
Feb	$0	$102,994,355	-100.0%	$0	$1,507,379	-100.0%	$0	$7,244,441	-100.0%
Mar	$0	$83,706,830	-100.0%	$0	$2,811,750	-100.0%	$0	$18,917,813	-100.0%
Apr	$0	$94,204,024	-100.0%	$0	$26,566,513	-100.0%	$0	$140,234,885	-100.0%
May	$0	$90,683,694	-100.0%	$0	$2,492,141	-100.0%	$0	$7,609,884	-100.0%
Jun	$0	$82,193,979	-100.0%	$0	$40,049,643	-100.0%	$0	$7,407,598	-100.0%

Year-To-Date

	1040 Withholding			1040 Estimated Payments			1040 Final Payments		
	FY'10	FY'09	Growth Rate	FY'10	FY'09	Growth Rate	FY'10	FY'09	Growth Rate
Jul	$102,392,142	$100,983,161	1.4%	$2,956,364	$4,266,214	-30.7%	$5,548,425	$6,651,177	-16.6%
Aug	$197,442,524	$191,267,846	3.2%	$6,043,716	$7,928,901	-23.8%	$10,598,721	$12,809,849	-17.3%
Sep	$275,649,610	$277,159,522	-0.5%	$50,131,087	$74,892,905	-33.1%	$15,627,907	$18,295,685	-14.6%
Oct	$375,296,080	$378,791,937	-0.9%	$53,809,234	$79,874,669	-32.6%	$26,617,003	$32,596,533	-18.3%
Nov	$479,615,269	$489,450,264	-2.0%	$56,685,200	$82,221,032	-31.1%	$31,549,769	$36,762,740	-14.2%
Dec	$579,573,916	$579,942,552	-0.1%	$78,257,823	$109,461,553	-28.5%	$36,746,041	$40,672,954	-9.7%
Jan	$676,564,812	$689,808,133	-1.9%	$123,770,354	$165,098,542	-25.0%	$39,773,696	$44,569,861	-10.8%
Feb	$676,564,812	$792,802,488	-14.7%	$123,770,354	$166,605,921	-25.7%	$39,773,696	$51,814,302	-23.2%
Mar	$676,564,812	$876,509,318	-22.8%	$123,770,354	$169,417,671	-26.9%	$39,773,696	$70,732,115	-43.8%
Apr	$676,564,812	$970,713,342	-30.3%	$123,770,354	$195,984,184	-36.8%	$39,773,696	$210,967,000	-81.1%
May	$676,564,812	$1,061,397,036	-36.3%	$123,770,354	$198,476,325	-37.6%	$39,773,696	$218,576,884	-81.8%
Jun	$676,564,812	$1,143,591,015	-40.8%	$123,770,354	$238,525,968	-48.1%	$39,773,696	$225,984,482	-82.4%

Individual Income Tax Refunds
Year-to-Date FY'10 & FY'09



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Maine Revenue Services Economic Research Division 2/11/2010

Maine Revenue Services
Individual Income Tax Refunds

	Month		Year-To-Date		
	FY'10	FY'09	FY'10	FY'09	Growth Rate
Jul	$7,227,071	$7,519,593	$7,227,071	$7,519,593	-4%
Aug	$3,891,611	$3,354,678	$11,118,682	$10,874,271	2%
Sep	$1,694,183	$3,357,568	$12,812,865	$14,231,839	-10%
Oct	$7,273,889	$5,472,769	$20,086,754	$19,704,608	2%
Nov	$9,507,062	$7,142,334	$29,593,816	$26,846,942	10%
Dec	$4,356,701	$1,879,951	$33,950,517	$28,726,893	18%
Jan	$11,335,063	$7,884,569	$45,285,580	$36,611,462	24%
Feb	$0	$85,554,056	$45,285,580	$122,165,518	-63%
Mar	$0	$72,077,960	$45,285,580	$194,243,478	-77%
Apr	$0	$49,759,527	$45,285,580	$244,003,005	-81%
May	$0	$20,763,677	$45,285,580	$264,766,682	-83%
Jun	$0	$17,679,603	$45,285,580	$282,446,285	-84%

Individual Income Tax: Baseline Forecast FY10 - FY13

	FY06	FY07	Biennium	FY08	FY09	Biennium	FY10	FY11	Biennium	FY12	FY13	Biennium
Actuals & December, 2009 Forecast /1	$1,364,368,543	$1,464,928,346	$2,829,296,889	$1,558,032,664	$1,365,437,729	$2,923,470,393	$1,277,980,000	$1,314,040,000	$2,592,020,000	$1,362,800,000	$1,407,600,000	$2,770,400,000
Growth Rate	-1.2%	7.9%	7.5%	6.4%	-12.4%	3.3%	-6.4%	2.8%	-11.3%	3.7%	3.3%	6.9%
Technical Adjustments /2	$0	$0	$0	$0	$0	$0	$7,500,000	$5,500,000	$13,000,000	$6,000,000	$6,500,000	$12,500,000
Economic Assumptions /3	$0	$0	$0	$0	$0	$0	$5,900,000	($3,500,000)	$2,400,000	($20,000,000)	($10,000,000)	($30,000,000)
Total Adjustments to Prior Forecast	$0	$0	$0	$0	$0	$0	$13,400,000	$2,000,000	$15,400,000	($14,000,000)	($3,500,000)	($17,500,000)
New Forecast	$1,364,368,543	$1,464,928,346	$2,829,296,889	$1,558,032,664	$1,365,437,729	$2,923,470,393	$1,291,380,000	$1,316,040,000	$2,607,420,000	$1,348,800,000	$1,404,100,000	$2,752,900,000
Growth Rate	5.3%	7.4%	7.5%	6.4%	-12.4%	3.3%	-5.4%	1.9%	-10.8%	2.5%	4.1%	5.6%

1/ December, 2009 forecast with FY06, FY07, FY08 and FY09 actuals.

2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

3/ This line shows the incremental change in baseline revenues as a result of a new economic forecast.

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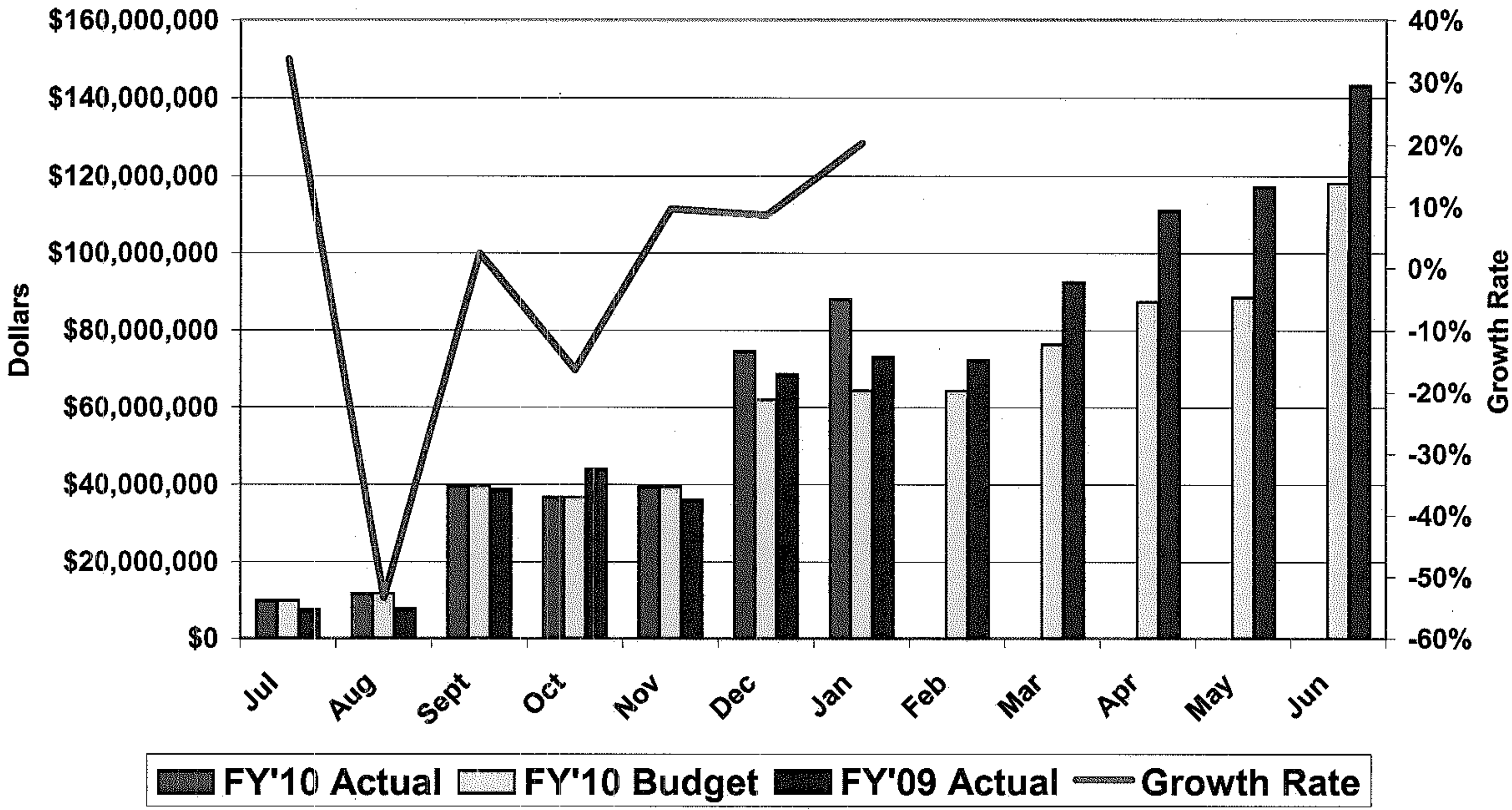
Corporate Income Tax

YTD Corporate Income Tax Revenue
FY'10 Actual, Budget & FY'09 Actual



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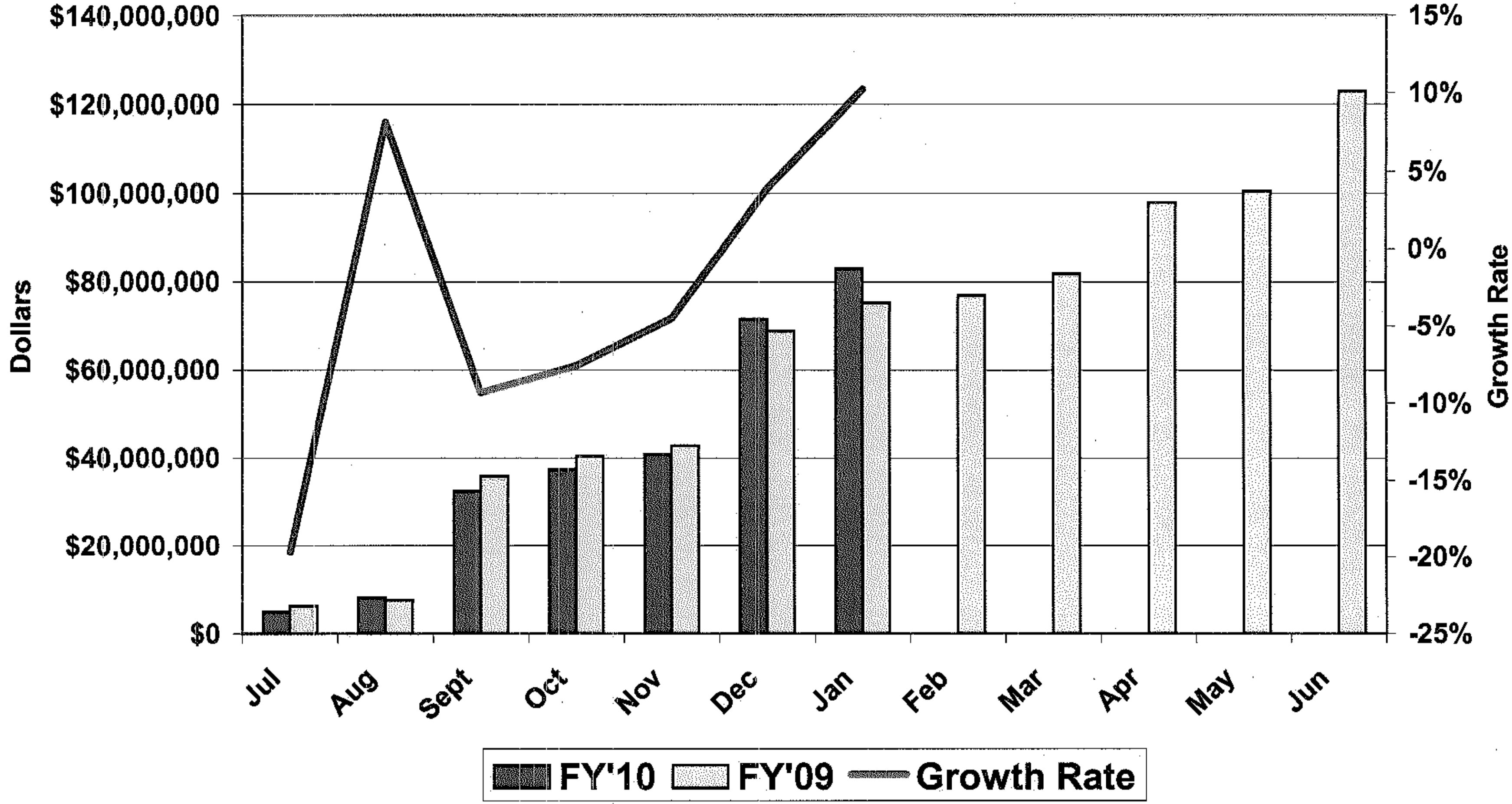
Maine Revenue Services Economic Research Division 2/22/2010

Maine Revenue Services
Corporate Income Tax Revenue

	FY'10 Actual	FY'10 Budget	FY'09 Actual	FY'08 Actual	FY'10 Actual vs. Budget	FY'10 Budget vs. FY'09 Actual	FY'10 Actual vs. FY'09 Actual	FY'09 Actual vs. FY'08 Actual
Jul	$9,859,328	$9,859,328	$7,378,233	$7,127,701	0.0%	33.6%	33.6%	3.5%
Aug	$1,870,063	$1,870,063	$266,189	($1,099,888)	0.0%	-602.5%	-602.5%	-124.2%
Sept	$27,917,095	$27,917,096	$31,059,014	$37,994,766	0.0%	-10.1%	-10.1%	-18.3%
Oct	($2,898,229)	($2,898,229)	$5,221,720	$7,301,509	0.0%	-155.5%	-155.5%	-28.5%
Nov	$2,758,150	$2,758,150	($7,895,916)	($90,558)	0.0%	-134.9%	-134.9%	8619.2%
Dec	$35,072,462	$22,500,000	$32,625,706	$26,768,846	55.9%	-31.0%	7.5%	21.9%
Jan	$13,358,756	$2,400,000	$4,476,047	$4,068,428	456.6%	-46.4%	198.4%	10.0%
Feb	$0	$0	($750,852)	$6,460,175	#DIV/0!	-100.0%	-100.0%	-111.6%
Mar	$0	$11,939,000	$20,033,722	$26,165,509	-100.0%	-40.4%	-100.0%	-23.4%
Apr	$0	$10,900,000	$18,518,077	$28,736,923	-100.0%	-41.1%	-100.0%	-35.6%
May	$0	$1,200,000	$6,273,831	$3,360,696	-100.0%	-80.9%	-100.0%	86.7%
Jun	$0	$29,600,514	$25,880,194	$37,720,462	-100.0%	14.4%	-100.0%	-31.4%
Total	$87,937,625	$118,045,922	$143,085,965	$184,514,569	-25.5%	-17.5%	-38.5%	-22.5%
YTD Jan	$87,937,625	$64,406,408	$73,130,993	$82,070,804	36.5%	-11.9%	20.2%	-10.9%

Corporate Estimated Payments
Year-to-Date FY'10 & FY'09



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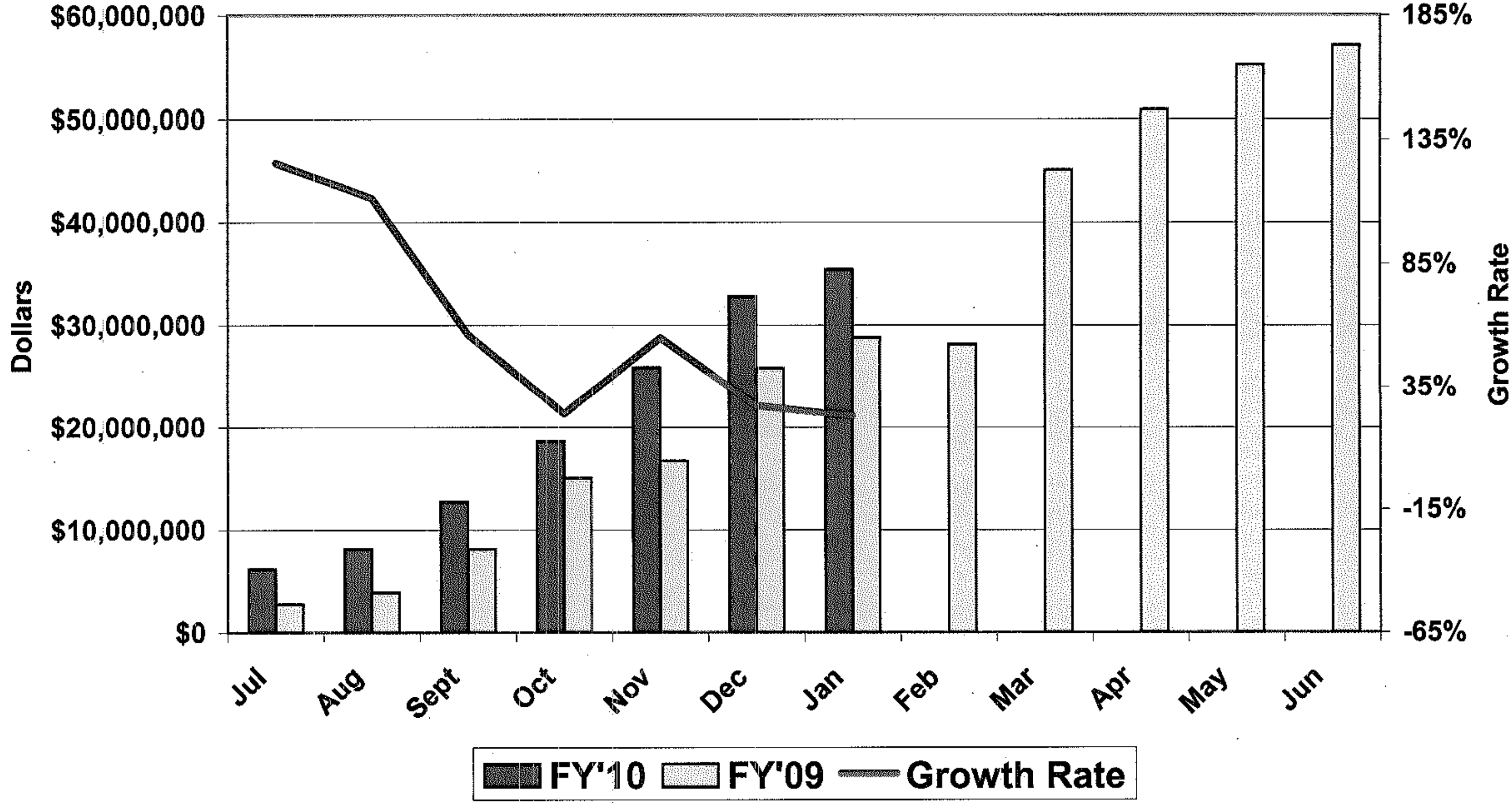
Maine Revenue Services Economic Research Division 2/1/2010

Corporate Final Payments
Year-to-Date FY'10 & FY'09



Maine Revenue Services Economic Research Division 2/1/2010

Maine Revenue Services

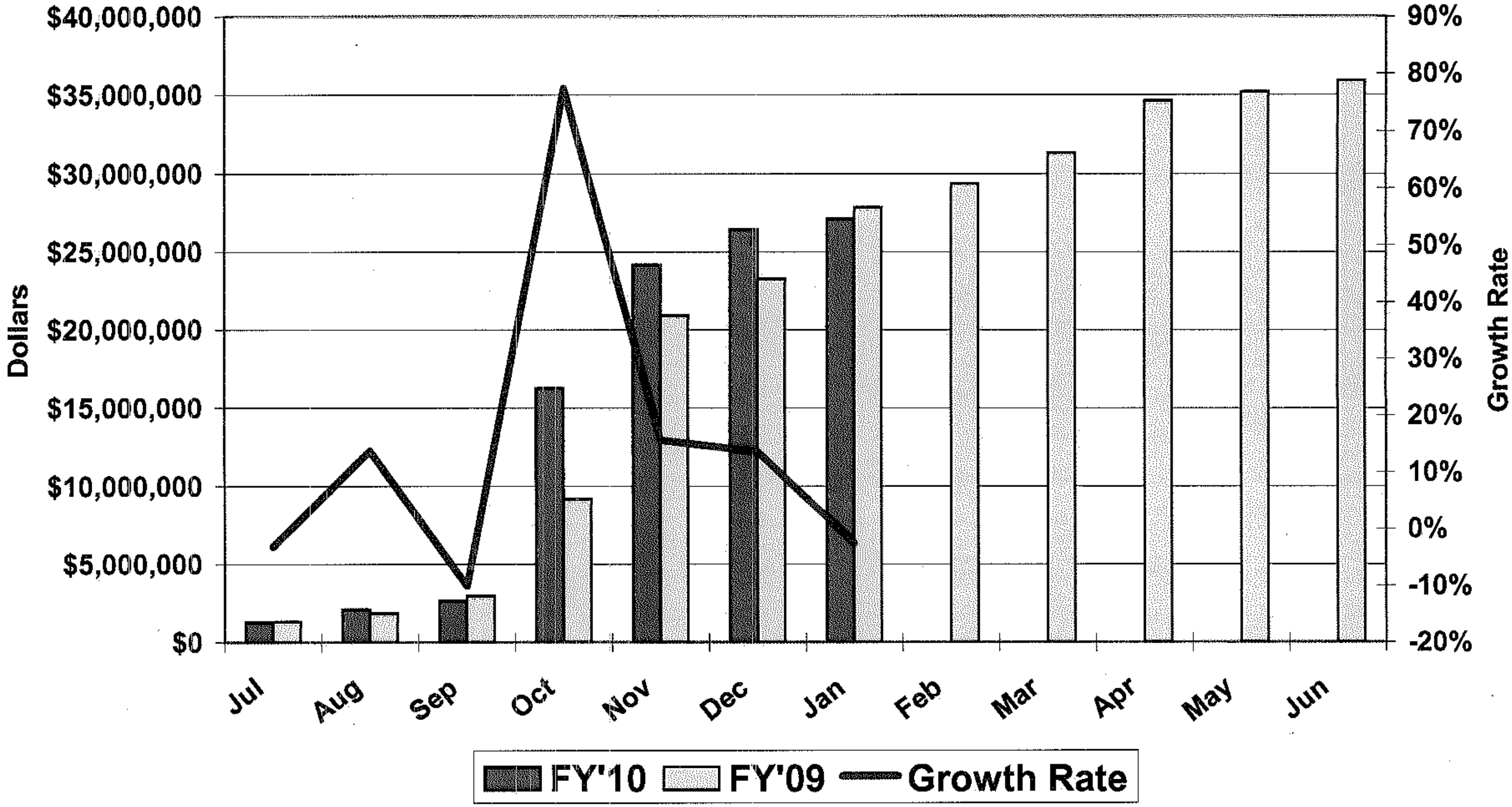
Corporate Income Tax Estimated Payments

	Month FY'10	FY'09	Growth Rate	Year-To-Date FY'10	FY'09	Growth Rate
Jul	$5,042,059	$6,280,063	-19.7%	$5,042,059	$6,280,063	-19.7%
Aug	$3,149,785	$1,292,836	143.6%	$8,191,844	$7,572,899	8.2%
Sept	$24,234,237	$28,193,141	-14.0%	$32,426,081	$35,766,040	-9.3%
Oct	$4,907,850	$4,632,322	5.9%	$37,333,931	$40,398,362	-7.6%
Nov	$3,513,924	$2,371,818	48.2%	$40,847,855	$42,770,180	-4.5%
Dec	$30,640,487	$26,025,269	17.7%	$71,488,342	$68,795,449	3.9%
Jan	$11,381,713	$6,379,466	78.4%	$82,870,055	$75,174,915	10.2%
Feb	$0	$1,721,649	-100.0%	$82,870,055	$76,896,564	7.8%
Mar	$0	$4,816,363	-100.0%	$82,870,055	$81,712,927	1.4%
Apr	$0	$16,207,326	-100.0%	$82,870,055	$97,920,253	-15.4%
May	$0	$2,577,164	-100.0%	$82,870,055	$100,497,417	-17.5%
Jun	$0	$22,288,120	-100.0%	$82,870,055	$122,785,537	-32.5%

Corporate Income Tax Final Payments and Back Taxes

	Month FY'10	FY'09	Growth Rate	Year-To-Date FY'10	FY'09	Growth Rate
Jul	$6,167,583	$2,732,994	125.7%	$6,167,583	$2,732,994	125.7%
Aug	$1,995,490	$1,130,075	76.6%	$8,163,073	$3,863,069	111.3%
Sept	$4,541,832	$4,268,587	6.4%	$12,704,905	$8,131,656	56.2%
Oct	$5,891,348	$6,879,061	-14.4%	$18,596,253	$15,010,717	23.9%
Nov	$7,267,481	$1,690,554	329.9%	$25,863,734	$16,701,271	54.9%
Dec	$6,887,467	$9,069,429	-24.1%	$32,751,201	$25,770,700	27.1%
Jan	$2,660,099	$3,029,749	-12.2%	$35,411,300	$28,800,449	23.0%
Feb	$0	($651,314)	-100.0%	$35,411,300	$28,149,135	25.8%
Mar	$0	$16,922,179	-100.0%	$35,411,300	$45,071,314	-21.4%
Apr	$0	$5,812,417	-100.0%	$35,411,300	$50,883,731	-30.4%
May	$0	$4,305,955	-100.0%	$35,411,300	$55,189,686	-35.8%
Jun	$0	$1,885,807	-100.0%	$35,411,300	$57,075,493	-38.0%

Corporate Income Tax Refunds
Year-to-Date FY'10 & FY'09



Maine Revenue Services Economic Research Division 2/11/2010

Maine Revenue Services
Corporate Income Tax Refunds

	Month		Year-to-Date		
	FY'10	FY'09	FY'10	FY'09	Growth Rate
Jul	$1,295,880	$1,337,986	$1,295,880	$1,337,986	-3%
Aug	$815,027	$519,328	$2,110,907	$1,857,314	14%
Sep	$573,795	$1,129,090	$2,684,702	$2,986,404	-10%
Oct	$13,579,956	$6,185,736	$16,264,658	$9,172,140	77%
Nov	$7,899,233	$11,737,666	$24,163,891	$20,909,806	16%
Dec	$2,273,270	$2,363,156	$26,437,161	$23,272,962	14%
Jan	$675,294	$4,556,629	$27,112,455	$27,829,591	-3%
Feb	$0	$1,515,159	$27,112,455	$29,344,750	-8%
Mar	$0	$1,953,826	$27,112,455	$31,298,576	-13%
Apr	$0	$3,314,813	$27,112,455	$34,613,389	-22%
May	$0	$555,757	$27,112,455	$35,169,146	-23%
Jun	$0	$706,279	$27,112,455	$35,875,425	-24%

Corporate Income Tax: General Fund Baseline Forecast FY10 - FY13

	FY06	FY07	Biennium	FY08	FY09	Biennium	FY10	FY11	Biennium	FY12	FY13	Biennium
Actuals & December, 2009 Forecast /1	**$188,015,557**	**$183,851,533**	**$371,867,090**	**$184,514,568**	**$143,085,966**	**$327,600,534**	**$118,045,922**	**$119,108,335**	**$237,154,257**	**$132,091,144**	**$149,262,992**	**$281,354,136**
Growth Rate	38.4%	-2.2%	50.3%	0.4%	-22.5%	-11.9%	-17.5%	0.9%	-27.6%	10.9%	13.0%	18.6%
Technical Adjustments to Prior Forecast /2	$0	$0	$0	$0	$0	$0	$13,333,673	$16,685,994	$30,019,666	$16,354,300	$15,950,819	$32,305,119
Economic Forecast /3	$0	$0	$0	$0	$0	$0	$16,339,121	$19,992,374	$36,331,495	$19,543,036	$16,446,603	$35,989,638
Total Adjustments to Prior Forecast		$0	$0	$0	$0	$0	$29,672,794	$36,678,367	$66,351,161	$35,897,336	$32,397,422	$68,294,757
New Forecast	**$188,015,557**	**$183,851,533**	**$371,867,090**	**$184,514,568**	**$143,085,966**	**$327,600,534**	**$147,718,716**	**$155,786,702**	**$303,505,418**	**$167,988,480**	**$181,660,414**	**$349,648,893**
Growth Rate	38.4%	-2.2%	50.3%	0.4%	-22.5%	-11.9%	3.2%	5.5%	-7.4%	7.8%	8.1%	15.2%

1/ December, 2009 forecast with FY06, FY07, FY08 and FY09 actuals.

2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

3/ This line shows the incremental change in baseline revenues as a result of a new economic forecast. The new economic forecast is from Economy.com's January 2010 forecast of Corporate pre-tax profits.

Highway Fund

2/10/2010

Maine Revenue Services
Highway Fund Motor Fuel Tax Revenue Forecast

Gasoline Tax Revenue	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13
FY'08 & '09 actual & current budget	$179,096,254	$174,404,167	$175,609,526	$170,874,716	$172,516,117	$177,106,628
Growth rate		-2.6%	0.7%	-2.7%	1.0%	2.7%
Tax rate per gallon	$0.276	$0.284	$0.295	$0.295	$0.300	$0.307
Percentage increase in tax rate		2.8%	3.8%	0.0%	1.7%	2.3%
February 2010 forecast			$170,757,473	$167,916,588	$168,764,344	$171,055,090
Growth rate			-2.1%	-1.7%	0.5%	1.4%
Tax rate per gallon	$0.276	$0.284	$0.295	$0.295	$0.300	$0.306
Percentage increase in tax rate			3.8%	0.0%	1.7%	2.0%
Variance			($4,852,053)	($2,958,128)	($3,751,773)	($6,051,538)

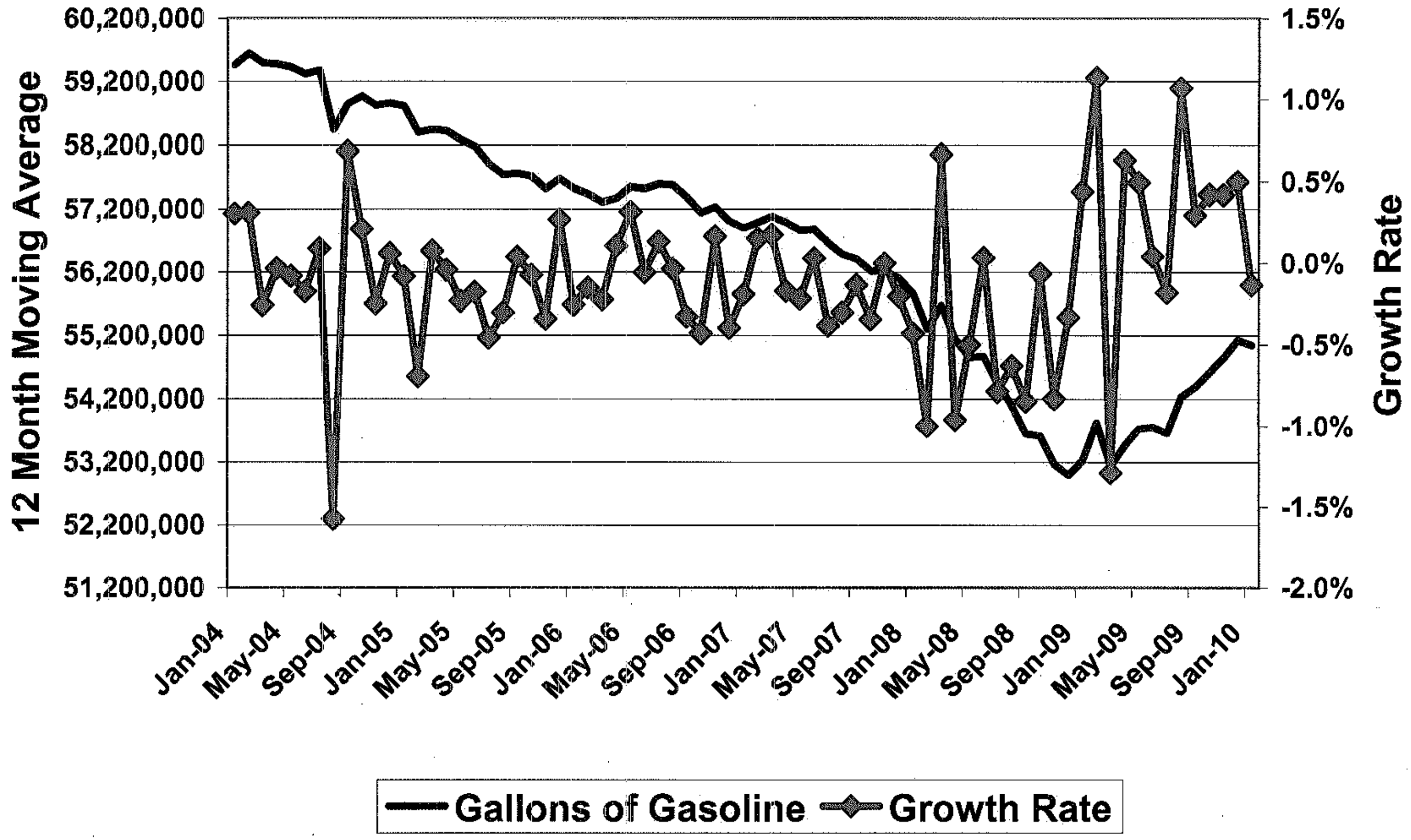
Special Fuel Tax Revenue	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13
FY'08 & '09 actual & current budget	$46,139,086	$41,811,377	$39,682,500	$38,831,500	$38,554,000	$38,211,750
Growth rate		-9.4%	-5.1%	-2.1%	-0.7%	-0.9%
Tax rate per gallon	$0.288	$0.296	$0.307	$0.307	$0.313	$0.320
Percentage increase in tax rate		2.8%	3.8%	0.0%	1.7%	2.3%
February 2010 forecast			$39,571,500	$38,683,500	$39,164,500	$39,784,250
Growth rate			-5.4%	-2.2%	1.2%	1.6%
Tax rate per gallon	$0.288	$0.296	$0.307	$0.307	$0.313	$0.319
Percentage increase in tax rate		2.8%	3.8%	0.0%	1.7%	2.0%
Variance			($111,000)	($148,000)	$610,500	$1,572,500

Total Motor Fuel Tax Revenue	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13
FY'08 & '09 actual & current budget	$225,235,339	$216,215,544	$215,292,026	$209,706,216	$211,070,117	$215,318,378
Growth rate		-4.0%	-0.4%	-2.6%	0.7%	2.0%
February 2010 forecast			$210,328,973	$206,600,088	$207,928,844	$210,839,340
Growth rate			-2.7%	-1.8%	0.6%	1.4%
Variance			($4,963,053)	($3,106,128)	($3,141,273)	($4,479,038)
Biennium				($8,069,181)		($7,620,311)

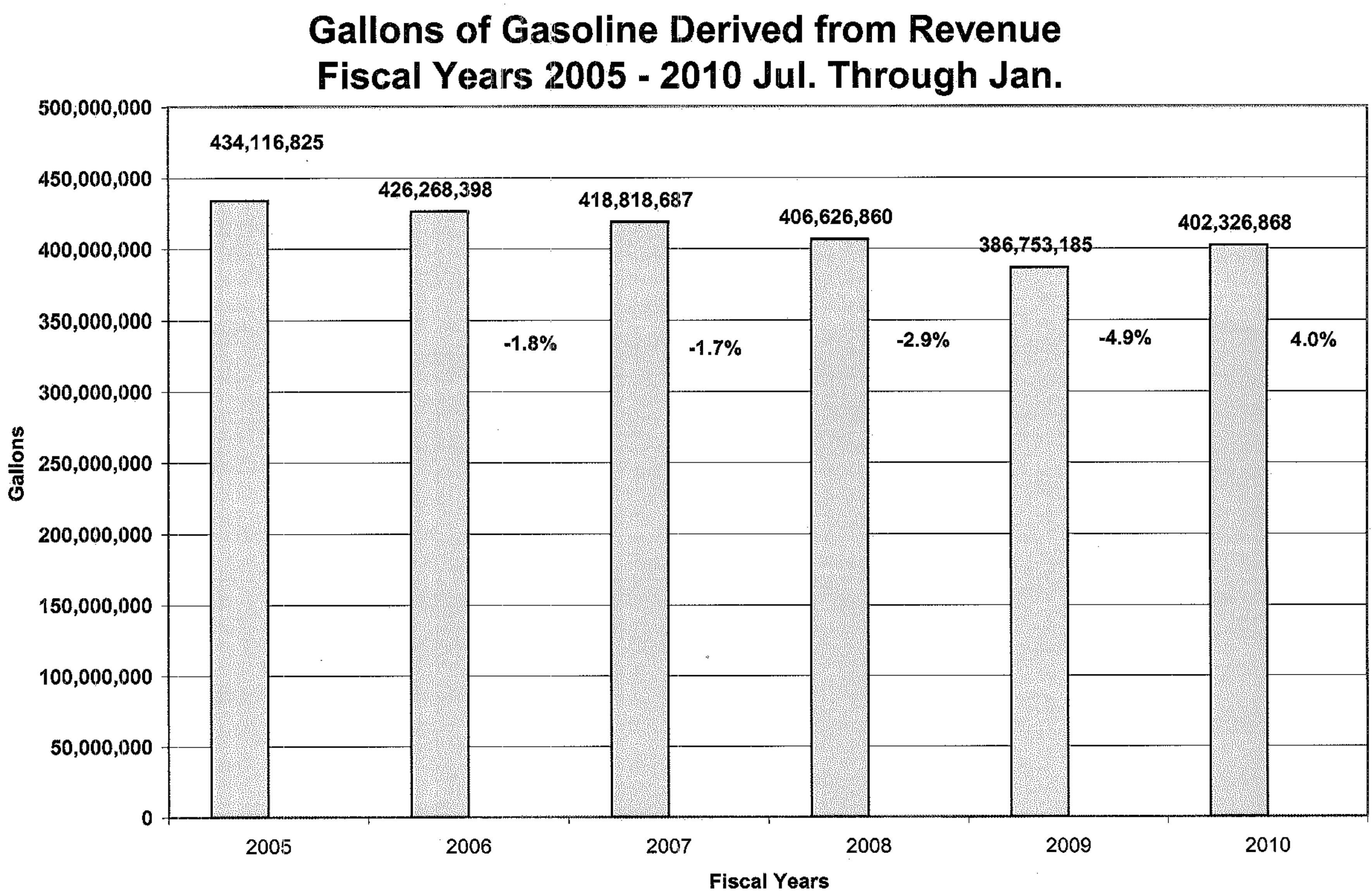
Gasoline Tax Revenue Net to Highway Fund - FY 2010

MONTH	ACTUAL	BUDGET	DIFF	Y-T-D DIFF
July	$13,908,160	$14,461,717	($553,557)	($553,557)
August	$2,655,325	($630,631)	$3,285,956	$2,732,399
September	$16,975,768	$17,479,979	($504,211)	$2,228,188
October	$15,496,555	$14,988,653	$507,902	$2,736,090
November	$15,077,729	$15,025,665	$52,064	$2,788,154
December	$14,521,373	$13,881,117	$640,256	$3,428,410
January	$14,464,529	$14,192,160	$272,369	$3,700,779
Y-T-DATE	$93,099,439	$89,398,660	$3,700,779	
February	$0	$13,395,281	($13,395,281)	($9,694,502)
March	$0	$13,602,363	($13,602,363)	($23,296,865)
April	$0	$12,644,622	($12,644,622)	($35,941,487)
May	$0	$13,133,644	($13,133,644)	($49,075,131)
June	$0	$33,434,956	($33,434,956)	($82,510,087)
Total	$93,099,439	$175,609,526	($82,510,087)	

Gallons of Gasoline Derived from Revenue Before Refunds



Maine Revenue Services Economic Research Division 2/17/2010


Gallons of Gasoline Derived from Revenue
Fiscal Years 2005 - 2010 Jul. Through Jan.
Gallons
Fiscal Years
434,116,825
426,268,398
418,818,687
406,626,860
386,753,185
402,326,868
-1.8%
-1.7%
-2.9%
-4.9%
4.0%
2005
2006
2007
2008
2009
2010
500,000,000
450,000,000
400,000,000
350,000,000
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
0

Special Fuel Tax - FY 2010

MONTH	ACTUAL	BUDGET	DIFF	Y-T-D DIFF
July	$5,167,084	$5,217,113	($50,029)	($50,029)
August	($3,253,815)	($3,510,873)	$257,058	$207,029
September	$4,728,413	$4,746,607	($18,194)	$188,835
October	$3,308,853	$3,595,020	($286,167)	($97,332)
November	$3,415,394	$3,210,024	$205,370	$108,038
December	$4,844,796	$4,185,166	$659,630	$767,668
January	$3,036,175	$2,439,691	$596,484	$1,364,152
Y-T-DATE	$21,246,900	$19,882,748	$1,364,152	
February	$0	$2,549,669	($2,549,669)	($1,185,517)
March	$0	$3,168,700	($3,168,700)	($4,354,217)
April	$0	$2,691,020	($2,691,020)	($7,045,237)
May	$0	$1,942,845	($1,942,845)	($8,988,082)
June	$0	$9,447,514	($9,447,514)	($18,435,596)
Total	$21,246,900	$39,682,496	($18,435,596)	

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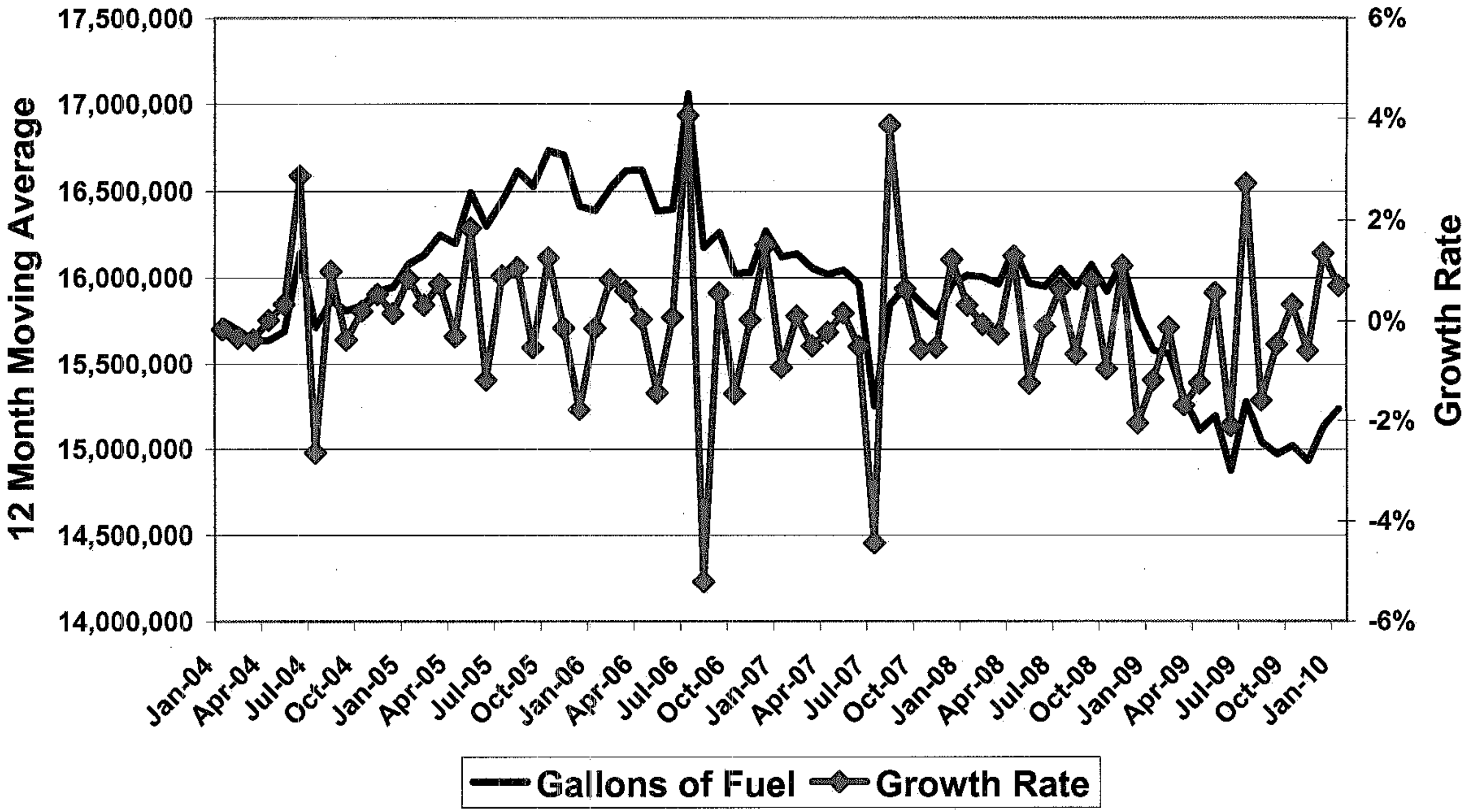
Gallons of Special Fuel Derived from Revenue Before Refunds



Maine Revenue Services Economic Research Division 2/17/2010

Gallons of Special Fuel Derived from Revenue
Fiscal Years 2005 - 2010 Jul. through Jan.