

**Report of the  
MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION  
October 7, 2004**

Commissioners present:

Charlie Colgan, Muskie School, USM, Chair  
Michael Donihue, Colby College  
John Davulis, CMP

Staff Support present:

Michael Allen, (MRS), Dana Evans (DOL), John Nyada, (MRS), Galen Rose, (SPO),  
Jerome Stanhope, MRS

The Commission met on October 7, 2004 to discuss whether their February 2004 forecast should be revised before the Revenue Forecasting Committee meets in November 2004. The committee made substantial changes to the February forecast, based on changes in current national and State economic conditions and updated forecasts for Maine from the State Planning Office, the New England Economic Project, and Global Insight, Inc. The Commission also extended the forecast out to 2009, to encompass the next two biennia. The table below summarizes those changes for Wage and Salary Employment Growth and Personal Income Growth.

Maine Wage & Salary Employment Growth

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
> Consensus 2/2004	0.8	1.0	1.0	1.0	none	none
> Consensus 11/2004	0.9	1.7	1.5	1.1	1.3	1.3

Maine Total Personal Income Growth

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
> Consensus 2/2004	4.0	4.5	4.5	4.5	none	none
> Consensus 11/2004	5.5	4.0	4.0	4.0	4.0	4.0

Also, the US Consumer Price Index (CPIu) forecast for a 2.0% increase in 2004 was changed to 2.8%, based on historical data through August. Further, while the February forecast called for CPI growth of 2% in 2005 and 2.5% in 2006 and 2007, the revised forecast calls for 2% growth in each year of the 2005-2009 period.

Three forecasts formed the basis for much of the discussion. These were the State Planning Office (SPO) and New England Economic Project (NEEP) forecasts, which were based on underlying U.S. forecasts and a Maine model prepared by Economy.com, and a Global Insight (GI) forecasts. The two underlying forecasts differed, with the Economy.com based forecasts showing stronger employment growth overall than the Global Insight forecast. The two also differed in their outlooks for manufacturing, with Global insight showing a weaker (higher job loss) outlook than Economy.com. Global Insight also expected somewhat stronger personal income growth than the NEEP and SPO forecasts. The Committee concluded the most likely forecast would be for employment growth consistent with the NEEP forecast, but personal income growth slower than the Global Insight forecast.

The table on the following page shows the Commission's expected growth rates for employment, personal income and its components, and inflation.

Maine Consensus Economic Forecasting Commission

Forecast of October 2004

Revised 10/15/2004

	HISTORY						FORECAST					
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Rate or Annual Growth Rate</b>												
CPI-u	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.8%	2.0%	2.0%	2.0%	2.0%	2.0%
Me. Unemployment Rate	4.4	4.1	3.4	4.0	4.4	5.0	4.3	4.2	4.1	4.1	4.0	4.0
3-Month Treasury Bill Rate	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	1.2	2.8	4.1	4.7	4.6	
10-Year Treasury Note Rate	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.5	5.0	5.7	5.7	5.5	
<b>Maine Agricultural Empl.(1,000's)</b>												
	16	13.0	16.0	12.0	14.0	16.0	13.0	14.0	14.0	14.0	14	14.0
<b>Employment Levels (1,000's)</b>												
Maine Wage & Salary Employment	569.1	586.3	603.5	608.1	606.5	606.1	611.3	621.4	630.9	638.2	646.7	655.4
Natural Resources	2.7	2.7	2.7	2.7	2.6	2.5	2.6	2.7	2.6	2.6	2.6	2.6
Construction	25	27.8	29.2	29.8	29.4	30.4	31.5	30.1	29.1	29.2	29.5	29.9
Manufacturing	81.1	80.6	79.5	74.6	68	63.8	61.3	61.1	60.7	60.4	60.1	59.8
Trade/Transp//Publ. Utils.	115.9	119.5	122.7	123.6	123.2	123.0	124.0	125.2	127.1	127.6	128.3	129.0
Information	11.1	11.7	12.1	12.2	11.6	11.2	11.3	11.6	11.8	12.0	12.3	12.5
Financial Activities	31.2	32.8	34.1	35.1	35.1	35.0	35.4	36.3	37.2	38.0	38.6	39.1
Prof. & Business Services	46.6	48.3	51.8	51.8	51.4	50.6	51.0	53.8	55.7	57.0	58.4	59.8
Education & Health Services	90	94.2	97.5	100.7	104.9	106.8	109.0	112.7	115.9	118.4	121.8	125.1
Leisure & Hospitality Services	53.2	54.3	55.9	56.5	57.3	58.3	59.3	61.2	63.2	64.8	66.4	68.2
Other Services	17.7	18	18.3	19.1	19.8	21.0	21.8	22.3	22.6	22.9	23.2	23.6
Government	94.6	96.7	99.6	102	103.1	103.5	104.1	104.5	104.8	105.2	105.5	105.8
<b>Annual Growth Rates</b>												
Maine Wage & Salary Employment	-	3.0%	2.9%	0.8%	-0.3%	-0.1%	0.9%	1.7%	1.5%	1.1%	1.3%	1.3%
Natural Resources	-	0.0%	0.0%	0.0%	-3.7%	-3.8%	5.9%	1.2%	-2.0%	-1.3%	-0.5%	-0.3%
Construction	-	11.2%	5.0%	2.1%	-1.3%	3.4%	3.7%	-4.6%	-3.2%	0.3%	1.0%	1.4%
Manufacturing	-	-0.6%	-1.4%	-6.2%	-8.8%	-6.2%	-3.9%	-0.4%	-0.5%	-0.6%	-0.5%	-0.5%
Trade/Transp//Publ. Utils.	-	3.1%	2.7%	0.7%	-0.3%	-0.2%	0.8%	1.0%	1.5%	0.4%	0.5%	0.5%
Information	-	5.4%	3.4%	0.8%	-4.9%	-3.4%	0.7%	2.8%	1.8%	2.0%	2.0%	1.9%
Financial Activities	-	5.1%	4.0%	2.9%	0.0%	-0.3%	1.0%	2.6%	2.7%	2.1%	1.5%	1.2%
Prof. & Business Services	-	3.6%	7.2%	0.0%	-0.8%	-1.6%	0.7%	5.6%	3.5%	2.3%	2.5%	2.4%
Education & Health Services	-	4.7%	3.5%	3.3%	4.2%	1.8%	2.0%	3.4%	2.9%	2.1%	2.9%	2.7%
Leisure & Hospitality Services	-	2.1%	2.9%	1.1%	1.4%	1.7%	1.7%	3.1%	3.3%	2.6%	2.5%	2.8%
Other Services	-	1.7%	1.7%	4.4%	3.7%	6.1%	3.8%	2.2%	1.5%	1.3%	1.4%	1.4%
Government	-	2.2%	3.0%	2.4%	1.1%	0.4%	0.6%	0.4%	0.4%	0.3%	0.3%	0.3%
<b>Million \$ - at Seas. Adjusted Annual Rates</b>												
Personal income	29709.75	31016.25	33173.25	35102.25	36295.5	37781.5	39859.5	41453.9	43112.0	44836.5	46630.0	48495.2
Wage and salary disbursements	15204	16234.0	17194.8	17978.3	18500.0	19169.3	20166.1	21154.2	22190.7	23211.5	24279.2	25396.1
Supplements to Wages & Salaries	3359.75	3554	3772.75	4056.5	4451.25	4731	4977.0	5136.3	5295.5	5454.4	5596.2	5741.7
Non-farm Proprietors' income	2,131	2227.5	2347.0	2768.0	2806.5	3010.8	3197.4	3418.0	3612.9	3800.7	3983.2	4174.4
Farm Proprietors' income	55.5	77.0	57.0	26.8	-3.5	-33.8	39.8	41.4	43.0	44.8	46.6	48.5
Dividends, interest, and rent	5745	5618.5	6178.5	6342.0	6217.3	6100.0	6520.9	6547.0	6579.7	6764.0	6960.1	7155.0
Transfer payments	5122	5279.3	5588.3	6017.3	6464.3	7003.8	7396.0	7710.7	8005.7	8338.5	8674.3	9005.7
less: Personal contrb. for social insur.	2418	2554.8	2665.8	2812.0	2848.8	2926.3	3089.0	3203.4	3358.5	3522.5	3688.7	3852.2
Adjustment for residence	511	580.3	700.5	725.5	707.8	726.5	699.7	714.9	737.9	768.5	802.0	836.7
Farm Income	138	153.8	145.8	117.0	90.5	80.0	79.7	82.9	86.2	89.7	93.3	97.0
<b>Annual Growth Rates</b>												
Personal income	-	4.4%	7.0%	5.8%	3.4%	4.1%	5.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Wage and salary disbursements	-	6.8%	5.9%	4.6%	2.9%	3.6%	5.2%	4.9%	4.9%	4.6%	4.6%	4.6%
Supplements to Wages & Salaries	-	5.8%	6.2%	7.5%	9.7%	6.3%	5.2%	3.2%	3.1%	3.0%	2.6%	2.6%
Non-farm Proprietors' income	-	4.5%	5.4%	17.9%	1.4%	7.3%	6.2%	6.9%	5.7%	5.2%	4.8%	4.8%
Farm Proprietors' income	-	38.7%	-26.0%	-53.1%	Not Available - negative base values			4.0%	3.9%	4.2%	4.0%	4.1%
Dividends, interest, and rent	-	-2.2%	10.0%	2.6%	-2.0%	-1.9%	6.9%	0.4%	0.5%	2.8%	2.9%	2.8%
Transfer payments	-	3.1%	5.9%	7.7%	7.4%	8.3%	5.6%	4.3%	3.8%	4.2%	4.0%	3.8%
less: Personal contrb. for social insur.	-	5.7%	4.3%	5.5%	1.3%	2.7%	5.6%	3.7%	4.8%	4.9%	4.7%	4.4%
Adjustment for residence	-	13.5%	20.7%	3.6%	-2.4%	2.6%	-3.7%	2.2%	3.2%	4.2%	4.4%	4.3%
Farm Income	-	11.4%	-5.2%	-19.7%	-22.6%	-11.6%	-0.4%	4.0%	4.0%	4.0%	4.0%	4.0%

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3 month T-bill and 10yr Treas. Note rates are from Economy.com - Aug. 2004

In deliberating its October 2004 forecast, the Committee considered the following:

1) The State Planning Office reported that the Maine and national economies continued to make modest progress through the summer, but job growth was still quite slow.

US real Gross Domestic Product advanced at an annual rate of 3.3% in the second quarter, the slowest growth rate of the past five quarters. National job growth also continued to be slow.

The Maine economy has been on a similar track. The Maine Coincident Economic Index, which approximates Gross State Product growth, rose at an annual rate of 2.7% through July. And, payroll job growth through August was up only 0.7% over the same period of last year, adding 5,800 jobs since yearend (seasonally adjusted). Maine's seasonally adjusted unemployment rate stood at 4.5% in August, while the national rate was 5.4%.

Maine taxable retail sales for the first 7 months were up a surprisingly strong 6.5% over the same period of last year (growth in 2003 was 4.6%).

Housing permits slowed dramatically in July and August compared to last year, falling 2.8% and 0.9% respectively. In contrast, year-over-year growth in March thru June was 30% to 55% each month.

Contract awards for residential construction also appeared to be slowing. Year-over-year growth in January and February (seasonally adjusted) was 45%, but then slowed to only 1% growth in June. Awards did bounce back to 27% in July, but the trend appears to be in the other direction.

Existing (as opposed to new-) home sales for the first half-year were up 17%, pushing the average price up 12.4% over the same period.

Over the past year, bankruptcies have been flat at annual rates of about 4,600, slightly above the previous record rates of early 1999.

In sum, the Maine and national economies are both growing at slow to moderate rates, with only a few sectors showing strong growth.

2. General Fund revenues through the first 2 months of the fiscal year (July and August) were \$22.2 million over budget. Individual income tax revenues were \$14.9 million over budget, but Revenue Services economists reported that much of this was due to timing issues, and the surplus amount would likely be smaller after September. Sales tax revenues were \$4.6 million over budget, but high heating oil prices this winter are expected to keep this surplus from expanding much further, at least through the winter. Corporate income tax revenues were \$5.7 million over budget.

3. Commissioners noted a number of positive trends which may impact the Maine economy going forward. These included:

- a. The value of the US dollar is still falling, which should benefit exporters and tourism.
  - b. US monetary and fiscal policies are still stimulative, which is helping to maintain strong consumer spending.
  - c. The recent national trend of producing more without increasing labor input has probably approached its limit, meaning employment growth rates should increase.
4. Several important negative trends were also noted by Commissioners. These included:
- a. US labor market job openings and turnover rates are still weak, with no positive signs. In fact, seasonally adjusted payroll employment in August was still below the average for 2000.
  - b. World oil prices have been volatile and extremely high in recent months, topping \$55/barrel at one point. While the national forecasts studied suggest prices will fall somewhat, to the \$35 to \$40 per barrel range over the next couple years, this level is still well above the norm of the past few years.
  - c. The SPO and NEEP Maine forecasts called for personal income growth in the 3.8% to 4% range in the 2005-2009 period. This is about a half-percentage point below the CEFC February forecast. The primary cause of this slower growth was slower forecast growth for Supplements to Wages and Salaries (formerly termed Other Labor Income) and Transfer Payments.