

Economic Outlook and Forecast

Background

The Consensus Economic Forecasting Commission was originally established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations for state economic assumptions to be used in developing state revenue forecasts. Creation of the commission was in response to a recommendation of the Special Commission on Government Restructuring in 1991 to establish an independent, consensus process for state economic and revenue forecasting. Public Law 1995, chapter 368 enacted in statute the Consensus Economic Forecasting Commission, maintaining both the structure and intent of the original Executive Order.

The commission consists of five members having professional credentials and demonstrated expertise in economic forecasting. Members of the commission are appointed as follows: two members appointed by the Governor; one member recommended for appointment to the Governor by the President of the Senate; one member recommended for appointment to the Governor by the Speaker of the House of Representatives; and one member appointed by the other members of the commission. One member of the commission must be selected by a majority vote of the other commission members to serve as the chair of the commission.

The commission is required to develop two year and four year economic forecasts for the State of Maine. In performing this duty, the commission is required by statute to meet twice each fiscal year. No later than November 1st and February 1st annually the commission must develop its findings with regard to the economic assumptions or adjustments to the existing economic assumptions for the State of Maine. The commission submits its findings to the Governor, the Legislative Council, the Revenue Forecasting Committee and the Joint Standing Committee of the Legislature having jurisdiction over appropriations and financial affairs. The Revenue Forecasting Committee is required to use the economic assumptions and forecast of the commission in developing its four-year revenue projections.

Findings

The Consensus Economic Forecasting Commission met in October, 2006 to prepare the economic assumptions that would become the basis for the Revenue Forecasting Committee's revenue projections for fiscal years 2006-07 through 2010-11.

The CEFC concluded that Maine's economy will experience slow and steady growth over the next five years. Lower energy prices, lower inflation, and the continued expansion of Maine's health care and service industries should increase economic activity. The cooling housing market and the closure of Brunswick Naval Air Station will moderate growth in some years (2007 and 2009-2011 respectively), but not enough to create net job losses.

The CEFC based its forecast on the most current data available as of its report deadline. Employment grew approximately 0.5% in the first half of 2006, an improvement over 2005. Maine's unemployment rate has remained low. In August, unemployment stood at 4.7%, equal to the national rate. Looking forward, the commission projects employment to grow at 0.4%-0.8% through 2011. Personal income increased by 5.2% in the first two quarters of 2006. This caused the CEFC to increase its previous forecast for 2006 income growth (5.0%). The commission expects inflation to finish 2006 at an annual rate of 3.5%. While higher than previous years, the commission does not expect that level to continue past 2006. Instead, it should return to recent historical levels in 2007-2011.

The major economic growth assumptions are summarized in **Table A-1**.

TABLE A-1

Major Underlying Growth Rate Assumptions						
Calendar Years	2006	2007	2008	2009	2010	2011
Wage & Salary						
Employment (Annual %						
CEFC Forecast 2/2006	0.5	0.6	0.6	0.7		
CEFC Forecast 11/2006	0.5	0.4	0.6	0.8	0.7	0.6
Personal Income (Annual %						
Change)						
CEFC Forecast 2/2006	5	4.5	4.5	4.5		
CEFC Forecast 11/2006	5.2	4.3	4.5	4.5	4.3	4.2
CPI (Annual % Change)						
CEFC Forecast 2/2006	2.8	2.5	2.2	2.2		
CEFC Forecast 11/2006	3.5	2.5	2.2	2.2	2.2	2.2

A more detailed list of economic assumptions, which are incorporated into the revenue forecasting models used by the Revenue Forecasting Committee, is reflected below.

November 2006 Forecast						Forecast					
	2001	2002	2003	2004	History 2005	2006	2007	2008	2009	2010	2011
CPI-U* (Annual Change)	2.8%	1.6%	2.3%	2.7%	3.4%	3.5%	2.5%	2.2%	2.2%	2.2%	2.2%
Maine Unemployment Rate**	3.8%	4.4%	5.0%	4.6%	4.8%	4.5%	4.7%	4.7%	4.5%	4.5%	4.5%
3-Month Treasury Bill Rate**	3.4%	1.6%	1.0%	1.4%	3.1%	4.7%	4.7%	4.6%	4.6%	4.4%	4.4%
10-Year Treasury Note Rate**	5.0%	4.6%	4.0%	4.3%	4.3%	5.1%	5.1%	5.3%	5.5%	5.6%	5.6%
Employment (thousands)											
Maine Wage & Salary Employment*	608.1	606.4	606.7	611.7	611.6	614.6	617.1	620.8	625.7	630.1	633.9
Natural Resources	2.7	2.6	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.6
Construction	29.8	29.4	30.5	30.7	30.6	30.6	29.6	29.5	29.4	29.6	29.8
Manufacturing	74.6	68.0	64.1	63.0	61.2	60.0	59.6	59.4	59.3	59.1	59.0
Trade/Trans./Public Utils.	123.7	123.3	123.2	125.2	125.4	125.4	126.4	126.3	127.0	127.4	127.8
Information	12.1	11.6	11.3	11.2	11.2	11.2	11.4	11.5	11.7	11.7	11.8
Financial Activities	35.1	35.1	35.1	34.9	34.1	34.1	34.3	34.7	35.1	35.3	35.9
Prof. & Business Services	51.8	51.4	50.3	49.6	50.1	51.4	52.5	53.6	54.7	55.7	56.7
Education & Health Services	100.8	104.9	107.3	110.9	112.2	113.8	114.8	116.6	118.9	121.7	123.0
Leisure & Hospitality Services	56.4	57.3	58.4	58.8	59.0	59.3	60.1	61.5	62.7	63.3	63.7
Other Services	19.1	19.8	20.3	20.0	20.0	20.2	20.4	20.4	20.6	20.8	21.1
Government	102.0	103.1	103.7	104.7	105.1	105.9	105.2	104.4	103.7	102.7	102.6
Agricultural Employment	17.7	18.0	17.8	17.1	16.8	17.1	17.1	17.1	17.1	17.1	17.1
Annual Growth Rate											
Maine Wage & Salary Employment*	-	-0.3%	0.1%	0.8%	0.0%	0.5%	0.4%	0.6%	0.8%	0.7%	0.6%
Natural Resources	-	-2.5%	-2.6%	2.6%	4.0%	0.2%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%
Construction	-	-1.3%	3.6%	0.8%	-0.6%	0.1%	-3.4%	-0.3%	-0.1%	0.7%	0.5%
Manufacturing	-	-8.8%	-5.8%	-1.7%	-2.8%	-2.0%	-0.7%	-0.4%	-0.2%	-0.2%	-0.3%
Trade/Trans./Public Utils.	-	-0.3%	-0.1%	1.7%	0.1%	0.0%	0.7%	-0.1%	0.5%	0.3%	0.2%
Information	-	-4.7%	-2.0%	-1.2%	0.0%	0.3%	1.2%	1.1%	1.2%	0.1%	0.9%
Financial Activities	-	0.0%	0.0%	-0.5%	-2.3%	-0.1%	0.8%	1.1%	0.9%	0.7%	1.7%
Prof. & Business Services	-	-0.9%	-2.1%	-1.5%	1.1%	2.6%	2.1%	2.0%	2.0%	1.9%	1.8%
Education & Health Services	-	4.2%	2.3%	3.4%	1.2%	1.4%	0.9%	1.5%	1.9%	2.3%	1.1%
Leisure & Hospitality Services	-	1.5%	2.0%	0.6%	0.4%	0.5%	1.3%	2.4%	1.8%	0.9%	0.8%
Other Services	-	3.5%	2.5%	-1.1%	0.1%	0.7%	0.8%	0.3%	0.9%	0.9%	1.2%
Government	-	1.0%	0.7%	1.0%	0.4%	0.8%	-0.7%	-0.8%	-0.8%	-1.0%	-0.1%
Agricultural Employment	-	1.3%	-1.0%	-4.2%	-1.5%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Seasonally Adjusted (millions)											
Personal Income*	35107.1	35998.5	37588.0	39313.7	40713.6	42830.7	44672.4	46682.6	48783.4	50881.0	53018.1
Wage & Salary Disbursements*	17982.9	18551.6	19277.0	20213.1	20612.9	21610.5	22518.2	23475.0	24472.4	25487.8	26519.8
Supplements to Wages & Salaries*	4058.4	4422.4	4710.2	5004.5	5255.5	5494.1	5741.3	6002.5	6275.6	6529.7	6790.9
Non-Farm Proprietors' Income*	2768.0	2630.7	2704.2	3031.7	3239.4	3402.6	3555.8	3717.5	3886.6	4055.7	4230.1
Farm Proprietors' Income	27.3	-35.8	0.9	32.5	29.9	31.2	32.4	33.8	35.2	36.6	38.1
Dividends, Interest, & Rent*	6338.2	6089.3	6048.0	5796.3	5772.0	6091.8	6396.4	6719.3	7058.7	7415.0	7785.8
Dividends	1538.3	1673.7	1878.2	1916.4	1841.4	1977.7	2122.0	2274.8	2438.6	2611.8	2797.2
Interest	4078.3	3797.6	3623.3	3352.8	3543.5	3731.3	3899.2	4074.7	4254.0	4441.2	4632.1
Rent	721.6	618.0	546.5	527.1	387.1	379.3	371.8	364.3	357.0	349.9	342.9
Transfer Payments*	6017.5	6477.5	7033.3	7486.8	8155.7	8607.5	9012.1	9422.0	9841.2	10279.1	10736.5
Less: Contributions to Social Ins.	2811.7	2846.9	2891.6	3001.1	3140.4	3317.6	3475.2	3654.2	3842.3	4036.3	4235.4
Residence Adjustment	726.5	709.6	706.0	749.9	788.6	834.7	875.1	918.5	964.5	1012.2	1062.3
Farm Income	111.4	70.7	92.5	127.8	114.7	120.6	125.8	131.5	137.4	143.3	149.3
Annual Growth Rate											
Personal Income*	-	2.5%	4.4%	4.6%	3.6%	5.2%	4.3%	4.5%	4.5%	4.3%	4.2%
Wage & Salary Disbursements*	-	3.2%	3.9%	4.9%	2.0%	4.8%	4.2%	4.2%	4.2%	4.1%	4.0%
Supplements to Wages & Salaries*	-	9.0%	6.5%	6.2%	5.0%	4.5%	4.5%	4.5%	4.5%	4.0%	4.0%
Non-Farm Proprietors' Income*	-	-5.0%	2.8%	12.1%	6.9%	5.0%	4.5%	4.5%	4.5%	4.3%	4.3%
Farm Proprietors' Income	-	NA	NA	3584.5%	-8.0%	4.2%	4.0%	4.1%	4.1%	4.1%	4.1%
Dividends, Interest, & Rent*	-	-3.9%	-0.7%	-4.2%	-0.4%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Dividends	-	8.8%	12.2%	2.0%	-3.9%	7.4%	7.3%	7.2%	7.2%	7.1%	7.1%
Interest	-	-6.9%	-4.6%	-7.5%	5.7%	5.3%	4.5%	4.5%	4.4%	4.4%	4.3%
Rent	-	-14.4%	-11.6%	-3.5%	-26.6%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Transfer Payments*	-	7.6%	8.6%	6.4%	8.9%	5.5%	4.7%	4.5%	4.4%	4.4%	4.4%
Less: Contributions to Social Ins.	-	1.3%	1.6%	3.8%	4.6%	5.6%	4.8%	5.1%	5.1%	5.0%	4.9%
Residence Adjustment	-	-2.3%	-0.5%	6.2%	5.2%	5.8%	4.9%	4.9%	5.0%	4.9%	4.9%
Farm Income	-	-36.6%	30.9%	38.2%	-10.3%	5.2%	4.3%	4.5%	4.5%	4.3%	4.2%

*CEFC Forecast

**Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - Sept. 2006

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