

**Report of the
MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION
October 28, 2003**

Commissioners Present:

Charlie Colgan, Muskie School, USM, Chair
Michael Donihue, Colby College
John Davulis, CMP
Alan Day, Bank North Investment Management Group
John Dorrer, Training and Development Corporation

Others present:

Michael Allen, MRS
Dana Evans, DOL
Galen Rose, SPO
Jerome Gerard, MRS
Gerry Stanhope, MRS
Laurie Lachance, SPO
Paul Dube, BOB
Grant Pennoyer, OFPR

The Commission met on October 3, 2003 to discuss whether their February 2003 forecast should be revised before the Revenue Forecasting Committee met in November. The committee left the February 2003 forecast largely unchanged. A small upward revision in the personal income growth rate from 3.2% to 3.5% for 2003 was made, but the growth is forecast to primarily affect transfer payments and thus minimally affect revenues. 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 2003
 (corrected 10/16/03)

	History									Forecast				
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Rate or Annual Growth Rate													
CPI-u	-	2.8%	3.0%	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.0%	2.0%	2.0%	2.5%	2.5%
Me. Unemployment Rate	7.4	5.7	5.1	5.4	4.4	4.1	3.4	3.9	4.4	4.6	4.7	4.3	4.0	3.9
3-Month Treasury Bill Rate	4.2%	5.5%	5.0%	5.1%	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	2.0%	3.9%	5.0%	5.0%
10-Year Treasury Note Rate	7.1%	6.6%	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	3.9%	4.4%	4.8%	5.8%	5.9%
Maine Agricultural Empl.(1,000's)	14.5	14.4	14.3	13.8	16.1	13.4	16.1	13.1	14.0	17.0	14.0	14.0	14.0	14.0
	Employment Levels (1,000's)													
Maine Wage & Salary Employmen	531.6	538.2	542.5	553.7	569.2	586.3	603.5	609.4	607.3	607.4	612.4	618.8	625.2	631.7
Mining	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	21.0	21.7	23.2	23.3	25.1	28.0	29.4	29.7	29.1	28.8	29.0	29.2	29.4	29.6
Manufacturing	91.4	91.1	88.3	87.8	87.1	86.2	85.2	81.2	74.3	69.3	66.3	64.3	62.5	60.7
Transp/Commun./Publ. Utilis.	22.6	22.3	22.6	23.1	23.6	24.1	24.5	24.7	24.6	24.6	25.0	25.5	26.0	26.5
Wholesale Trade	23.9	25.1	25.8	26.0	26.5	27.0	27.1	26.9	26.8	26.8	27.0	27.2	27.4	27.6
Retail Trade	110.4	111.9	111.4	113.4	115.8	119.0	122.8	124.4	124.9	125.9	127.3	128.8	130.2	131.6
FIRE	26.3	26.0	27.0	28.4	29.7	31.4	32.4	33.6	33.5	33.6	33.9	34.3	34.7	35.1
Services	141.6	146.8	151.1	158.7	166.8	173.9	182.5	187.0	191.3	196.3	201.6	206.9	212.0	217.2
Government	94.1	93.2	92.8	93.0	94.6	96.7	99.6	101.8	102.7	102.0	102.2	102.5	102.9	103.3
	Annual Growth Rates													
Maine Wage & Salary Employmen	-	1.2%	0.8%	2.1%	2.8%	3.0%	2.9%	1.0%	-0.3%	0.0%	0.8%	1.0%	1.0%	1.0%
Mining	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction	-	3.0%	7.0%	0.5%	7.5%	11.6%	5.1%	1.0%	-2.0%	-1.0%	0.7%	0.7%	0.7%	0.7%
Manufacturing	-	-0.4%	-3.0%	-0.6%	-0.8%	-1.1%	-1.2%	-4.6%	-8.5%	-6.7%	-4.3%	-3.0%	-2.8%	-2.9%
Transp/Commun./Publ. Utilis.	-	-1.4%	1.5%	2.2%	1.9%	2.2%	1.6%	0.8%	-0.4%	0.0%	1.6%	2.0%	2.0%	1.9%
Wholesale Trade	-	4.8%	2.9%	0.6%	1.8%	2.2%	0.2%	-0.7%	-0.4%	0.0%	0.7%	0.7%	0.7%	0.7%
Retail Trade	-	1.4%	-0.4%	1.8%	2.2%	2.7%	3.2%	1.3%	0.4%	0.8%	1.1%	1.2%	1.1%	1.1%
FIRE	-	-1.1%	3.8%	5.2%	4.4%	5.6%	3.3%	3.7%	-0.3%	0.3%	0.9%	1.2%	1.2%	1.2%
Services	-	3.7%	3.0%	5.0%	5.1%	4.2%	5.0%	2.5%	2.3%	2.6%	2.7%	2.6%	2.5%	2.5%
Government	-	-1.0%	-0.4%	0.2%	1.8%	2.2%	3.0%	2.2%	0.9%	-0.7%	0.2%	0.3%	0.4%	0.4%
	Million \$ - at Seas. Adjusted Annual Rates													
Personal income	24173.8	25046.3	26434.0	27772.8	29468.5	30679.8	32866.5	34491.5	35990.8	37250.4	38740.4	40483.8	42305.5	44209.3
Wage and salary disbursements	12408.5	12923.3	13456.5	14315.8	15242.5	16251.0	17217.0	17975.0	18501.0	19056.0	19742.0	20630.4	21662.0	22745.1
Other labor income	2121.8	2064.8	2104.0	2033.5	2058.5	2143.0	2254.0	2393.3	2623.3	2715.1	2850.8	2993.4	3143.0	3300.2
Non-farm Proprietors' income	1885.5	1791.8	1959.0	2052.0	2223.3	2374.0	2492.5	2575.3	2682.5	2763.0	2881.8	3011.5	3147.0	3288.6
plus: Dividends, interest, and rent	4346.8	4691.0	5037.0	5362.0	5824.8	5704.3	6445.3	6723.8	6812.5	6948.8	7254.5	7580.9	7922.1	8278.6
plus: Transfer payments	4190.5	4401.8	4686.8	4903.3	5010.0	5136.3	5416.3	5875.0	6387.0	6836.8	7139.2	7457.4	7686.4	7920.5
less: Personal contrb. for social in	999.8	1050.8	1084.8	1145.0	1210.5	1288.8	1339.8	1420.0	1500.5	1575.5	1654.3	1737.0	1823.9	1915.1
plus: Adjustment for residence	140.0	183.3	208.3	240.3	274.5	291.3	332.5	345.0	482.0	501.3	521.3	542.2	563.9	586.4
Farm Income	145.5	113.8	145.0	92.0	125.0	142.5	130.3	112.0	98.0	101.9	106.0	110.2	114.6	119.2
	Annual Growth Rates													
Personal income	-	3.6%	5.5%	5.1%	6.1%	4.1%	7.1%	4.9%	4.3%	3.5%	4.0%	4.5%	4.5%	4.5%
Wage and salary disbursements	-	4.1%	4.1%	6.4%	6.5%	6.6%	5.9%	4.4%	2.9%	3.0%	3.6%	4.5%	5.0%	5.0%
Other labor income	-	-2.7%	1.9%	-3.4%	1.2%	4.1%	5.2%	6.2%	9.6%	3.5%	5.0%	5.0%	5.0%	5.0%
Non-farm Proprietors' income	-	-5.0%	9.3%	4.7%	8.3%	6.8%	5.0%	3.3%	4.2%	3.0%	4.3%	4.5%	4.5%	4.5%
plus: Dividends, interest, and rent	-	7.9%	7.4%	6.5%	8.6%	-2.1%	13.0%	4.3%	1.3%	2.0%	4.4%	4.5%	4.5%	4.5%
plus: Transfer payments	-	5.0%	6.5%	4.6%	2.2%	2.5%	5.5%	8.5%	8.7%	7.0%	4.4%	4.5%	3.1%	3.0%
less: Personal contrb. for social in	-	5.1%	3.2%	5.6%	5.7%	6.5%	4.0%	6.0%	5.7%	5.0%	5.0%	5.0%	5.0%	5.0%
plus: Adjustment for residence	-	30.9%	13.6%	15.4%	14.3%	6.1%	14.2%	3.8%	39.7%	4.0%	4.0%	4.0%	4.0%	4.0%
Farm Income	-	-21.8%	27.5%	-36.6%	35.9%	14.0%	-8.6%	-14.0%	-12.5%	4.0%	4.0%	4.0%	4.0%	4.0%

F:\CEFC\CEFC10_2003.XLS

Unemployment Rate is from SPO Fall 2003 Forecast

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

In leaving the economic forecast essentially unchanged, the Committee considered the following:

1. Data from the State Planning Office showed that the Maine economy was essentially flat in 2003 and would likely continue that way until the national economy picked up. Housing permits, construction contract awards, residential construction awards, non-farm wage and salary employment, taxable retail sales, and even bankruptcies showed little change over the same periods in 2002.
2. Information from the Maine Department of Labor showed similar trends. Non-farm wage and salary employment was down 1,300 jobs (0.3%) between August of 2002 and the same month of 2003. Most of the job losses were in manufacturing, but these were largely offset by gains in educational and health services. Initial claims for unemployment insurance were declining slightly, suggesting that the rate of job losses was slowing. Dana Evans of the Department suggested that total resident employment would likely be up slightly for the year due to a slightly increased labor participation rate, and that the annual average unemployment rate would probably be around 5%, up somewhat from the 4% of 2002.
3. General Fund revenues for the first two months of the fiscal year were very slightly above budget (\$852,000 or 0.3%). The largest variance from budget was the Corporate Income Tax line, which often shows large variance in July and August. The other major tax lines, Individual Income and the Sales Tax, were on budget through August, and preliminary September data suggested a strong month.
4. Data from the national and Maine economic forecasts reviewed by the Commission is consistent with the earlier forecasts. Global Insights has shown a very strong recovery beginning next year, but this was considered an overly optimistic forecast. Both the Colby College and New England Economic Project forecasts for Maine were also largely consistent with the February outlook and did not support significant revisions at this time.
5. Commissioners noted a number of trends which suggested the Maine economy still confronted difficulties. These included:
 - a. Continued loss of manufacturing jobs, particularly in northern and eastern Maine.
 - b. The effects of the looming federal deficit in the out years as the short term direct fiscal stimulus wanes over the next year. Federal debt is being added to high levels of corporate and personal debt.
 - c. National help-wanted advertising has been at its lowest level in 40 years.
 - d. Temporary help services have seen little or no growth.

- e. Unemployment has been drifting upward, and the unemployment rates among college graduates are on par with those of high school graduates. Also, unemployment rates of 20 to 24 year-olds is around 10%, and the rate among those in their fifties is uncharacteristically rising.
 - f. There is evidence that consumption growth is being fueled in part by households pulling equity out of their homes through refinancing, meaning growth is being financed by tapping savings and borrowing against the house as opposed to wage gains.
6. Several positive trends should portend growth in the national economy as measured by the GDP, though growth in the job market remains uncertain. These trends include:
- a. Stock market prices have rebounded somewhat this year and that's putting some wealth back into the New England economy. The Federal Reserve Bank's most recent flow of funds report also had some good news in that it showed households' net worth rebounding somewhat.
 - b. No change in the accommodative stance of the Federal Reserve Board is expected in the near future.
 - c. In September, the national job count increased for the first time in 8 months, although the increase was very small.