

**NEW YORK CONSENSUS
FORECASTING CONFERENCE**

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Senate Finance Committee
Hon. John A DeFrancisco
Ranking Minority Member
Senate Finance Committee






Laura L. Anglin
Director
NYS Division of the Budget

Hon. Herman D. Farrell, Jr.
Chairman
Assembly Ways and Means Committee
Hon. James P. Hayes
Ranking Minority Member
Assembly Ways and Means Committee

MEMORANDUM

**TO: Governor David A. Paterson
Senator Malcolm Smith
Assemblyman Sheldon Silver
Senator Dean G. Skelos
Assemblyman James Tedisco**

February 24, 2009

**FROM: Laura L. Anglin 
Angelo Aponte 
Dean Fuleihan 
Robert Mujica 
Rebecca P. D'Agati **

SUBJECT: Consensus Forecast Report

Attached please find the 2009-10 "Consensus Economic and Revenue Forecast Report" required by section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2009-10

This report contains the results of the consensus economic and revenue forecasting process conducted by the Executive and the Legislature in advance of the enactment of the State Fiscal Year (SFY) 2009-10 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 23, 2009. Based on the testimony of experts at the Conference, the outlooks for both the economy and revenue are highly uncertain, with downside risks predominating.

Economic Forecast Review

The economic forecasts contained in the Executive Budget and Legislative reports all recognize that the national economy is in the midst of the worst recession since World War II. In addition, all parties emphasize the preponderance of downside risk stemming from the uncertainty surrounding the health of the banking system and the duration of the current credit crisis. Implementation of a \$787 billion stimulus plan is expected to begin soon, but all parties agree that, absent a well-functioning credit market, there is tremendous uncertainty associated with projecting the timing and extent of its impact.

All parties agree that the labor market will continue to shed jobs through much of 2009. Tight credit and job losses are expected to continue to put substantial downward pressure on household spending. In addition, there was agreement that the housing sector will continue to contract through much of 2009. It was also agreed that the global downturn will continue to reduce demand for U.S. exports, and as such will remain a drag on employment, income, and investment through early 2010. Both wages and profits are expected to fall in 2009.

CONSENSUS U.S. FORECAST		
CALENDAR YEAR		
Percent Change		
	<u>CY2009</u>	<u>CY2010</u>
Real U.S. GDP	-1.9	2.0
PERSONAL INCOME	0.7	3.0
WAGES	-0.7	2.5
CORP PROFITS	-9.3	2.5
NONFARM EMPLOYMENT	-2.6	0.5
3-MONTH T-BILL RATE	0.4	1.1

The consensus forecast for New York State reflects a broad-based recession that has engulfed both Wall Street and Main Street. Employment, wages, as well as total personal income are all projected to fall in 2009. All parties agree that as a result of the restructuring of Wall Street, we can anticipate decreased levels of financial market activity through the near future.

CONSENSUS N.Y. FORECAST		
CALENDAR YEAR		
Percent Change		
	<u>CY2009</u>	<u>CY2010</u>
NONFARM EMPLOYMENT	-2.1	-0.4
PERSONAL INCOME	-1.6	2.7
WAGES	-4.2	2.5

All parties agreed that the greatest risk to the consensus forecast is the current state of financial markets. With indicators from credit-market sensitive sectors, such as housing starts and vehicle sales, at or near historical lows, the parties find virtually no upside potential to the consensus forecast. In addition, the uncertainty surrounding the depth and duration of the global recession forms an additional source of downside risk to the forecast.

Revenue Forecast Review

The analysis contained in the Legislative economic and revenue reports indicates that, on average, tax receipts for 2008-09 and 2009-10 are expected to be generally lower than the Executive Budget with 30-day amendments. The range of legislative estimates of All Funds tax receipts differ from Executive estimates by a maximum of 0.9 percent for SFY 2008-09 and 1.7 percent for SFY 2009-10.

The weaker economic outlook reached in economic consensus should result in a decrease in both SFY 2008-09 and SFY 2009-10 receipts when compared with the amount projected in the Executive Budget. As a result, the parties have agreed to decrease the estimate of General Fund receipts by \$1 billion over the two-year period.

It was agreed that the national and State economies are both currently in a deep recession, which will continue to have a negative effect on tax receipts. Particular downside risks include:

- the ongoing correction in the housing market, especially in the commercial real estate market, including the volume of transactions and price;
- the continued deleveraging and significant layoffs in the financial services sector;
- declines in consumer sentiment, resulting in significant corresponding declines in consumption; and
- the impact of the current global economic recession on business activities and profits.

Despite the inherent risks and uncertainties surrounding these issues, the analysis of both the Legislative and Executive staff are reasonable and in essential agreement as to both economic and revenue estimates for the remainder of this fiscal year and for next fiscal year.