

**NEW YORK CONSENSUS
FORECASTING CONFERENCE**

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Director
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Assembly Ways and Means Committee
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Assembly Ways and Means Committee

MEMORANDUM

TO: Governor David A. Paterson
Senator John L. Sampson
Assemblyman Sheldon Silver
Senator Dean G. Skelos
Assemblyman Brian M. Kolb

March 1, 2010

FROM: Robert L. Megna
Joseph F. Pennisi
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SUBJECT: Consensus Forecast Report

Attached please find the 2010-11 "Consensus Economic and Revenue Forecast Report" required by section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2010-11

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 State Fiscal Year (SFY) 2010-11 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 25, 2010. Based on the testimony of experts at the Conference, the outlooks for both the economy and revenue are highly uncertain, though upside and downside risks appear balanced.

Economic Forecast Review

The economic forecasts contained in the Executive Budget and Legislative reports all recognize that the worst recession since the 1930s has ended, but that the recovery is on track to be one of the weakest of the postwar period. All parties emphasize the downside risk still stemming from the health of the banking system, with credit conditions still a concern for consumers and businesses. In addition, all anticipate that continued high unemployment, relatively weak wage growth, depressed home prices, and debt reduction will continue to dampen consumer spending.

On the positive side, global growth and a weak U.S. dollar will result in solid U.S. export growth. In addition, the worst inventory correction since the Great Depression is ending and business spending on equipment and software is projected to experience healthy growth throughout the forecast period. However, spending on nonresidential structures is expected to continue to decline due to tight credit market conditions and the overhang in the commercial real estate sector.

CONSENSUS U.S. FORECAST		
CALENDAR YEAR		
Percent Change		
	CY2010	CY2011
REAL U.S. GDP	3.0	3.3
PERSONAL INCOME	3.9	4.6
WAGES	3.4	4.4
CORP PROFITS	12.0	9.1
NONFARM EMPLOYMENT	-0.5	1.6
3-MONTH T-BILL RATE	0.4	2.0
CPI	2.1	1.9

The parties agree that the New York State economy is still reeling from a broad-based recession that engulfed both Wall Street and Main Street, though conditions are expected to improve during the current year. All parties acknowledge that with the expiration of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003, Federal tax rates will rise at the end of 2010. As a result, some employers are likely to shift the payment of wages, particularly bonus payouts, from the

first quarter of 2011 to the final quarter of 2010. Assumptions surrounding the magnitude of that shift vary substantially across the various forecasts, resulting in projections for 2010 wage growth ranging from 3.3 percent to 5.2 percent. Since State fiscal year forecasts are unaffected by this shifting, they are reported here in place of the calendar year forecasts that have been reported in the past. The consensus forecast reflects virtually no change in total State employment for 2010-11 on an annual average basis, following an estimated decline of 2.8 percent for 2009-10. All parties expect growth in wages and total personal income for 2010-11 that are well below historical averages.

CONSENSUS N.Y. FORECAST STATE FISCAL YEAR Percent Change		
	SFY2009-10	SFY2010-11
NONFARM EMPLOYMENT	-2.8	-0.1
PERSONAL INCOME	-0.9	3.9
WAGES	-2.2	3.7

All parties expect the national recovery to proceed at a moderate pace going forward, with the greatest risks stemming from labor market weakness and uncertainty in the housing market. Sources of upside risk include the continued expansion of the global economy and the remaining portion of the Federal stimulus package that passed one year ago. The greatest risks to the consensus forecast for the State economy pertain to conditions in the labor and financial markets. The central bank has announced that it is planning its exit strategy from the current record-low interest rate environment and the extraordinary expansion of its balance sheet. Historically, shifts from an expansionary to a contractionary policy stance have tended to have a negative impact on the financial markets, and therefore on State wages, particularly financial sector bonuses. In contrast, an abatement of the political tension that currently surrounds financial industry payouts presents upside risk to the forecast.

Revenue Forecast Review

Section 23 of the State Finance Law defines receipts subject to consensus as the combined total of All Funds tax receipts, General Fund miscellaneous receipts, and lottery revenues. The current-year New York economic forecast consensus is generally consistent with the Division of the Budget's and therefore 2009-10 receipts are expected to be very close to the amount estimated in the Executive Budget with 21-day amendments. Given the marginally weaker New York economic consensus reached for 2010-11 and the desire of the parties to translate the downside risks shown below into the receipts forecast, consensus SFY 2010-11 receipts are projected to be below the Executive Budget with 21-day amendments. As a result, the parties have agreed to decrease the receipts estimate by \$850 million in total for fiscal years 2009-10 and 2010-11. It was agreed that both the national economy, and to a greater extent, the New York economy, will experience a weak recovery which will translate into slow receipts growth. Negative risk factors include:

- interest rate hikes and the potential for resulting financial market corrections and credit tightening;
- lower prices and transactions resulting from an excess supply of commercial real estate;
- weak home prices, anemic wage growth and continued consumer focus on debt reduction resulting in weak growth in consumer spending; and
- uncertainty surrounding the magnitude of income and capital gains shifts from tax year 2011 into tax year 2010 as the result of scheduled Federal tax law changes.

Finally, the parties agree the receipts estimates over the two-year period could be lower given the significant uncertainties in the current economic landscape. Any further revenue deterioration could be exacerbated should certain one-time revenues currently assumed to be in the consensus plan fail to be realized.