NEW YORK CONSENSUS
FORECASTING CONFERENCE

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MEMORANDUM

TO: **Governor Andrew M. Cuomo**
Senator Dean G. Skelos
Assemblyman Sheldon Silver
Senator John L. Sampson
Assemblyman Brian M. Kolb

March 1, 2012

FROM: **Robert L. Megna**
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SUBJECT: **Consensus Forecast Report**

Attached please find the 2012-13 "Consensus Economic and Revenue Forecast Report" required by Section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2012-13

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) 2012-13 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 29, 2012. Based on the testimony of experts at the Conference, the outlooks for both the economy and revenue have improved but remain uncertain, though upside and downside risks appear balanced.

Economic Forecast Review

The economic forecasts contained in the Executive Budget and Legislative reports portray an economic recovery that is rebounding from a wave of setbacks experienced in 2011. This rebound is evident in the recent strengthening of the labor market and equity market values that are flirting with prerecession highs. These developments are expected to result in a gradual acceleration in both household and business investment spending over the course of this year. The projected rise in domestic momentum is expected to more than offset a likely recession in Europe and its uncertain impact across the global economy. Thus, the demand for U.S. exports is expected to represent much less of a support for growth in 2012 than it was earlier in the recovery. The consensus forecasts for 2012 and 2013 real U.S. GDP growth are 2.2 percent and 2.7 percent, respectively.

All parties expect job growth to continue to improve going forward, accompanied by faster, but still historically low, wage growth. A gradual improvement in the unemployment rate represents a positive signal for both consumer spending and the housing market. In addition, corporate profits growth is expected to slow as business hiring picks up, but remain healthy, with the financial sector representing less of a drag than in 2011.

CONSENSUS U.S. FORECAST
CALENDAR YEAR
Percent Change

	CY2012	CY2013
REAL U.S. GDP	2.2	2.7
PERSONAL INCOME	3.5	3.8
WAGES	3.6	4.5
CORP PROFITS	4.2	3.5
NONFARM EMPLOYMENT	1.4	1.5
3-MONTH T-BILL RATE	0.1	0.3
CPI	2.0	2.0

The parties agree that the New York State labor market improved steadily in 2011. However, the pace of improvement is expected to slow in 2012 as the impact of weak finance sector bonuses and layoffs reverberate throughout the downstate economy. The consensus forecast for 2012 nonfarm employment growth is 1.1 percent; the 2012 projections span a relatively narrow range from growth of 0.9 percent to 1.3 percent. The consensus forecast for 2013 nonfarm job growth is 1.3 percent. The consensus forecast for 2012 wage growth is 2.8 percent, representing a deceleration from 2011. Wage growth projections for 2012 range from 2.0 percent to 4.5 percent, with the variation across parties pertaining largely to differing assumptions regarding the strength of finance and insurance sector bonuses, as well as varying assumptions pertaining to the expiration of the lower federal tax rates at the end of that year and its impact on taxpayer behavior. Some of the variation is also due to the use of alternative data sources. The consensus forecast for 2013 wage growth is a higher 5.0 percent; the variation for 2013 is also due in part to varying assumptions pertaining to federal tax policy. The consensus forecast for 2012 personal income growth is 3.2 percent, with projections ranging from 3.0 percent to 3.4 percent, with the variation largely due to the same factors affecting wages. Personal income growth is expected to accelerate in 2013, despite the expiration of the social security tax cut.

CONSENSUS N.Y. FORECAST
CALENDAR YEAR
Percent Change

	CY2012	CY2013
NONFARM EMPLOYMENT	1.1	1.3
PERSONAL INCOME	3.2	4.1
WAGES	2.8	5.0

All parties expect the national recovery to proceed at a moderate pace going forward, with the greatest risks stemming from elevated oil and gasoline prices, the impact of the Euro-debt crisis on global economic stability, and the potential drag from federal fiscal policy. Sources of upside risk include a stronger than expected labor market expansion or a rapid resolution of the crises in the Middle East that have resulted in the upward acceleration of energy prices. The greatest risks to the consensus forecast for the New York economy pertain to conditions in the labor and financial markets. Wall Street is still the largest single source of volatility in State tax collections. A shift in the industry's compensation practices, including a reduction of the cash portion of executive bonuses in favor of deferred income in the form of stock grants, only adds uncertainty to the State's income and revenue projections. In addition, a greater pullback in consumer spending as a result of falling bonuses could further weaken job growth.

Should the national labor market improve more quickly than the Federal Reserve currently expects, the central bank may be forced to accelerate implementation of its exit strategy from the current record-low interest rate environment and the extraordinary expansion of its balance sheet. Although an improved labor market would be a positive development, shifts from an expansionary to a less accommodative policy stance have tended to have a negative impact on the financial markets, bonuses, and therefore on State wages. In contrast, a stronger national and global economy could increase the demand for New York financial and other business services, presenting upside risk to State employment and wages.

Revenue Forecast Review

All parties reached a general consensus on the strength of the economic recovery and revenue growth path within a narrow range for the two-year revenue total. The forecast variances ranged from $133 million below, to $315 million above, the Executive Budget. This range represents 0.3 percent of the Executive Budget two-year revenue total of $143.2 billion. These minor differences resulted from the translation of economic factors to receipts produced by each of the party's revenue models.