NEW YORK CONSENSUS
FORECASTING CONFERENCE

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Hon. Liz Krueger Ranking Minority Member Senate Finance Committee	Hon. David J. Valesky IDC Deputy Conference Leader, Member Senate Finance Committee	Hon. Robert C. Oaks Ranking Minority Member Assembly Ways and Means Committee

MEMORANDUM

TO: **Governor Andrew M. Cuomo**
Senator Dean G. Skelos
Senator Jeffrey D. Klein
Assemblyman Sheldon Silver
Senator Andrea Stewart-Cousins
Assemblyman Brian M. Kolb

March 1, 2014

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

Attached please find the 2014-15 "Consensus Economic and Revenue Forecast Report" as required by Section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2014-15

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) 2014-15 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 26, 2014. Based on the testimony of experts at the Conference, the outlooks for both the economy and revenue have improved but remain uncertain, with upside and downside risks appearing balanced.

Economic Forecast Review

The economic forecasts contained in the Executive Budget and Legislative reports portray a sustained economic recovery. Although severe winter weather has had a negative impact on economic activity, all parties agree that the nation's labor and housing markets are stronger than they have been since the start of the economic recovery in 2009. The consensus forecasts for 2013 and 2014 for real U.S. GDP growth are 1.9 percent and 2.7 percent, respectively. The global economy is expected to improve in 2014, but remain subdued.

All parties expect the national labor market to continue to grow going forward. The consensus 2014 forecast is 1.7 percent, accelerating to 1.9 percent in 2015. Job growth in 2014 is projected to be accompanied by wage growth of 4.1 percent, followed by stronger growth of 5.3 percent in 2015. Consensus growth in U.S. corporate profits, including the capital consumption and inventory valuation adjustments, is expected to improve in 2014 along with overall economic activity. Consensus growth in the Consumer Price Index for 2014 of 1.6 percent represents the expectation that inflation will remained subdued, despite continued volatility in energy prices. Monetary policy is expected to remain highly accommodative in 2014, with short-term interest rates remaining stable at historically low levels. All parties expect the Federal Reserve to start raising its short-term interest rate target sometime in 2015, although there is a diversity of opinion as to exact timing of that move.

CONSENSUS U.S. FORECAST
CALENDAR YEAR
Percent Change

	CY2014	CY2015
REAL U.S. GDP	2.7	3.1
PERSONAL INCOME	4.1	5.1
WAGES	4.1	5.3
CORP PROFITS	6.2	5.6
NONFARM EMPLOYMENT	1.7	1.9
3-MONTH T-BILL RATE	0.1	0.3
CPI	1.6	1.9

Income shifting in anticipation of rising federal tax rates for high-income taxpayers on January 1, 2013, continues to distort calendar year income growth rates, particularly at the State level. Since State fiscal year forecasts are largely unaffected by this shifting, they are reported here in place of the calendar year forecasts.

The parties agree that the New York State labor market will remain healthy, with consensus forecast growth of 1.2 percent for both 2013-14 and 2014-15. The State's construction, business services, and tourism industries are expected to continue to exhibit strong growth, while restructuring of the finance and government sectors remains a risk going forward. The consensus forecast for 2014-15 wage growth is 4.4 percent, representing an acceleration from the 2013-14 consensus estimate of 3.2 percent. The consensus forecast for 2013-14 personal income growth is 3.1 percent, accelerating to 4.6 percent in 2014-15.

CONSENSUS N.Y. FORECAST
FISCAL YEAR
Percent Change

	FY2013-14	FY2014-15
NONFARM EMPLOYMENT	1.2	1.2
PERSONAL INCOME	3.1	4.6
WAGES	3.2	4.4

All parties agree that there are multiple risks to the economic outlook for the national and State economies, and therefore revenues. Slower growth in the global economy would have an adverse impact on the U.S. economy, and while the eurozone debt crisis has eased, many of the area's underlying problems have not gone away. The recent federal budget agreement unwinds some of the impact of the sequester, creating some upside forecast potential; however, parties noted that the drag from fiscal tightening has diminish ed but not disappeared. Additional sources of upside risk include stronger than expected labor and housing market growth.

One of the greater risks to the New York forecast stems from market reactions to policy measures expected to be taken by the Federal Reserve, in particular the continued slowing of the asset purchases undertaken under the most recent round of quantitative easing. Market interest rates might rise more quickly than the Fed envisions, thus hampering the housing recovery and reducing business investment as well. As the world's financial capital, New York would be negatively affected were interest rates to rise at a much faster rate than presently forecast. On the other hand, stronger growth in financial activities than expected could present upside potential for the State economy.

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. All parties reached consensus on a two-year revenue total that is $175 million (all General Fund) above the Executive Budget estimate, although actual results could differ, given the risks enumerated below. Revenue estimates from all parties for 2013-14 and projections for 2014-15 exhibited relatively small variances from one another. There was general consensus on the factors affecting current year receipts - the strong April 2013 personal income tax settlement resulting ultimately from altered taxpayer behavior in anticipation of higher federal 2013 tax rates, Superstorm Sandy recovery spending, stock market performance, and more recently, weather conditions. There was also general agreement that revenue growth would continue into 2014-15, consistent with the understanding that the positive impacts of accelerating wage and personal income growth would outweigh the influence of deferred tax credit repayments, tax cuts, and the non-recurring nature of positive prior year impacts.

Risk factors that could affect actual results during the next 13 months include:

- the degree to which higher projected corporate profits translate into corporate tax receipts;
- the degree to which employment, wage, non-wage income, and capital gains growth depart from expectations;
- the degree to which underlying consumption growth and the decline in post-Sandy spending affect sales tax revenue growth; and
- the extent and timing of further Federal Reserve asset purchases and interest rate increases, and their impact on New York's finance sector, estate tax collections, and real estate transfer tax collections.