

**NEW YORK CONSENSUS
FORECASTING CONFERENCE**

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Director
NYS Division of the Budget

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Assembly Ways and Means Committee

MEMORANDUM

**TO: Governor Eliot Spitzer
Senator Joseph L. Bruno
Assemblyman Sheldon Silver
Senator Malcolm Smith
Assemblyman James Tedisco**

March 1, 2007

**FROM: Paul E. Francis *PEF*
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SUBJECT: Consensus Forecast Report

Attached please find the 2007-08 "Consensus Economic and Revenue Forecast Report" required by section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2007-08

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) 2007-08 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

With enactment of budget reform earlier this year, the consensus forecasting process was accelerated and now will be concluded each year by March 1.

The Consensus Forecasting Conference was held on February, 27, 2007. Based on the testimony of experts at the Conference, the forecasts provided by the Legislative and Executive staff provided reasonable outlooks for both the economy and revenue.

Economic Forecast Review

The economic forecasts contained in the Executive Budget and Legislative reports were fundamentally equivalent.

The consensus forecast reflects the expectation that the housing market and inventory corrections will result in below-trend growth for 2007. But it was agreed that the likelihood of a recession is minimal due to solid, albeit slower, employment and income growth. The consensus forecast also reflects the belief that inflation is contained and that the Federal Reserve Board will hold short-term interest rates steady.

CONSENSUS U.S. FORECAST		
CALENDAR YEAR		
Percent Change		
	<u>CY2007</u>	<u>CY2008</u>
Real U.S. GDP	2.6	3.0
PERSONAL INCOME	5.4	5.7
WAGES	5.0	5.4
CORP PROFITS	5.8	5.0
NONFARM EMPLOYMENT	1.2	1.4
3-MONTH T-BILL RATE	4.9	4.9

The New York State economy is expected to slow in concert with the national slowdown. State employment is expected to grow marginally lower in 2007 than in 2006, while the slowdown in wage and personal income growth is expected to be more substantial.

CONSENSUS N.Y. FORECAST		
CALENDAR YEAR		
Percent Change		
	<u>CY2007</u>	<u>CY2008</u>
NONFARM EMPLOYMENT	0.7	0.8
PERSONAL INCOME	5.6	5.3
WAGES	5.7	5.4

Risks to the consensus forecast include financial market and energy sector volatility. The extent of the housing market slowdown remains a risk as well.

Revenue Forecast Review

The analysis contained in the Legislative economic and revenue reports indicates that receipts for 2006-07 and 2007-08 are expected to be higher 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 1.0 percent for SFY 2006-07 and 1.1 percent for SFY 2007-08.

To date, tax collections in January and February suggest modestly better results than anticipated in the Executive Budget for SFY 2006-07. In addition, the moderately more positive economic outlook reached in economic consensus should result in an increase in SFY 2007-08 receipts over the amount projected in the Executive Budget. As a result, the parties have agreed to increase the estimate of General Fund receipts by \$575 million over the two-year period.

It was generally agreed that the national and State economies will slow modestly in 2007, but that the revenue outlook for the upcoming fiscal year remains strong by historical standards. Particular issues that can positively or negatively impact receipts were outlined by the experts at the Consensus Conference. These issues include:

- the strength of the financial securities industry;
- changes in the housing market, including the volume of transactions and price;
- the pace of both national and New York employment growth both to-date and over the next year;
- the impact of Federal Reserve Board policy on interest rates; and
- an unanticipated geo-political incident that could have an adverse impact on the economy and particularly energy prices.

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.