NEW YORK CONSENSUS FORECASTING CONFERENCE

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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, 2008

FROM: **Laura L. Anglin**
Jeffrey Lovell
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SUBJECT: **Consensus Forecast Report**

Attached please find the 2008-09 "Consensus Economic and Revenue Forecast Report" required by section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2008-09

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) 2008-09 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

With enactment of budget reform last 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, 2008. 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 all recognize that the national economy is in the midst of a significant slowdown. The Assembly and Senate majorities anticipate declines in real U.S. GDP for the first half of 2008, while the other parties anticipate only very slow growth. Statistically, the differences among the various views are negligible.

The consensus forecast for the national economy reflects the expectation that the housing sector and household spending growth will continue to decline. It was also agreed that businesses have become more cautious, with the credit crunch now extending beyond the subprime mortgage market. Therefore, income, employment, and profits growth are all expected to be less in 2008 than in 2007.

CONSENSUS U.S. FORECAST CALENDAR YEAR Percent Change		
	CY2008	CY2009
Real U.S. GDP	1.8	2.6
PERSONAL INCOME	4.1	5.2
WAGES	3.7	4.9
CORP PROFITS	0.2	5.2
NONFARM EMPLOYMENT	0.4	1.0
3-MONTH T-BILL RATE	1.9	2.7

The consensus forecast for New York State reflects not only near recession levels of activity at the national level, but also the reality that many Wall Street activities have been affected, particularly the lucrative underwriting business. All parties anticipate that decreased levels of financial market activity will continue at least through the near future. Consequently, State employment and wage growth are expected to be lower in 2008 than in 2007.

CONSENSUS N.Y. FORECAST CALENDAR YEAR Percent Change		
	CY2008	CY2009
NONFARM EMPLOYMENT	0.3	0.5
PERSONAL INCOME	3.7	4.2
WAGES	2.9	3.7

Risks to the consensus forecast include financial market and energy sector volatility. If the credit crunch becomes substantially more severe or if inflation influences Federal Reserve policy, the pick-up in activity expected for the second half of 2008 may soften. 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, on average, tax receipts for 2007-08 and 2008-09 are expected to be generally lower than the Executive Budget with 21-day amendments. The range of legislative estimates of All Funds tax receipts differ from Executive estimates by a maximum of 0.2 percent for SFY 2007-08 and 1.0 percent for SFY 2008-09.

To date, tax collections in January and February suggest modestly better results than anticipated in the Executive Budget for SFY 2007-08. However, the weaker economic outlook reached in economic consensus should result in a decrease in SFY 2008-09 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 $250 million over the two-year period.

It was generally agreed that the national and State economies will slow in 2008 with a commensurate effect on tax receipts. Particular issues that could negatively or positively impact receipts were outlined by the experts at the Consensus Conference. These issues include:

- the ongoing correction in the housing market, including the volume of transactions and price;
- write-downs associated with the mortgage-backed security problems and the anticipated impact of a widening credit crunch on New York's financial sector;
- recent declines in consumer sentiment;
- high energy prices;
- the Federal stimulus package; and
- aggressive Fed rate cuts.

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.