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, 2011

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

Attached please find the 2011-12 "Consensus Economic and Revenue Forecast Report" required by Section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2011-12

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) 2011-12 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 28, 2011. 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 ongoing economic recovery, albeit one of the weakest of the postwar period. All parties agree that the recovery is on a much stronger footing than a year ago. Aggressive monetary and fiscal policies have played a supportive role in leading the economy through the recovery's early, fragile phase, setting the stage for a handoff to stronger consumer and business spending. The consensus forecasts for 2011 and 2012 real U.S. GDP growth are both 3.3 percent.

All parties expect job growth to continue to accelerate going forward, accompanied by faster, but still historically low, wage growth. Nevertheless, continued high unemployment and depressed home prices will pose risks to consumer spending. Global economic growth and a weak U.S. dollar will continue to result in strong U.S. export growth. In addition, healthy, albeit slower, corporate profits growth is expected to continue to support solid business spending on equipment and software throughout the forecast period. Spending on nonresidential structures is expected to improve but remain weak in light of the overhang in the commercial real estate sector.

CONSENSUS U.S. FORECAST
CALENDAR YEAR
Percent Change

	CY2011	CY2012
REAL U.S. GDP	3.3	3.3
PERSONAL INCOME	5.0	3.4
WAGES	4.5	5.0
CORP PROFITS	5.9	2.9
NONFARM EMPLOYMENT	1.3	2.1
3-MONTH T-BILL RATE	0.3	1.4
CPI	1.9	1.7

The parties agree that the New York State economy improved steadily in 2010, though at a slower pace than the nation. That improvement is expected to continue through 2011 and 2012. The consensus forecast for 2011 nonfarm employment growth is 0.9 percent, representing a substantial acceleration from 2010; the 2011 projections span a relatively narrow range from growth of 0.7 percent to 1.1 percent. The consensus forecast for 2012 nonfarm job growth is an even stronger 1.6 percent. The consensus forecast for 2011 wage growth is 4.3 percent, representing a very slight deceleration from 2010. Wage growth projections for 2011 range from 3.2 percent to 5.3 percent, with the variation across parties pertaining largely to differing assumptions regarding the weakness of finance and insurance sector bonuses. Some of the variation is also due to the use of alternative data sources. The consensus forecast for 2012 wage growth is a higher 6.0 percent; the variation for 2012 is largely due to varying assumptions pertaining to the expiration of the lower Federal tax rates at the end of that year and its impact on taxpayer behavior. The consensus forecast for 2011 personal income growth is 5.1 percent. Projections for 2011 personal income growth range from 4.9 percent to 5.5 percent, a relatively tight range that reflects the impact of the temporary reduction in the social security tax. Personal income growth is expected to decelerate in 2012, largely due to the expiration of the social security tax cut.

CONSENSUS N.Y. FORECAST
CALENDAR YEAR
Percent Change

	CY2011	CY2012
NONFARM EMPLOYMENT	0.9	1.6
PERSONAL INCOME	5.1	4.0
WAGES	4.3	6.0

All parties expect the national recovery to proceed at a moderate pace going forward, with the greatest risks stemming from labor and housing market weakness, as well as elevated energy and other commodity prices. Sources of upside risk include stronger than expected expansion of the global economy. 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, the Federal Reserve will eventually execute 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 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 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. Uncertainty surrounding the strength of the recovery, accurate accounting of year-to-year changes in financial sector bonus payments, and incorporation of the risks shown below to varying degrees by each of the five parties resulted in revenue forecasts that exhibited moderate variances from one another. The parties agreed that the upside risks shown below modestly outweighed the downside risks and agreed to increase the receipts estimate by $155 million above the Executive Budget in total for fiscal years 2010-11 and 2011-12. While the parties agreed that New York's recovery will continue, the parties offered differing opinions as to the speed and strength of this recovery. Risk factors include:

- record corporate profits translate into increased corporate tax receipts;
- employment, wage, non-wage income, and capital gains growth exceed expectations;
- higher interest rates cause a deceleration of the recovery;
- lower prices and transactions resulting from an excess supply of commercial real estate; and
- higher energy prices, weak home prices and restrained employment growth result in weak growth in consumer spending.

The parties agreed that actual receipts over the two-year period could be higher than those embodied in the consensus agreement. Expert testimony provided at the Consensus Hearing maintained that the actual strength of the recovery had yet to be demonstrated in available economic data. The consensus forecast could under-predict the strength and timing of the ongoing recovery should this scenario be realized.

Alternatively, one or more of the negative risk factors noted above could result in slower than anticipated economic growth in New York. This in turn could result in actual receipts that are below those incorporated in the consensus agreement.