

**NEW YORK CONSENSUS
FORECASTING CONFERENCE**

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MEMORANDUM

TO: Governor Andrew M. Cuomo
Senator Dean G. Skelos
Senator Jeffrey D. Klein
Assemblyman Carl E. Heastie
Senator Andrea Stewart-Cousins
Assemblyman Brian M. Kolb

February 27, 2015

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SUBJECT: Consensus Forecast Report

Attached please find the 2015-16 "Consensus Economic and Revenue Forecast Report" as required by Section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT 2015-16

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) 2015-16 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 26, 2015. 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. All parties agree that a strengthening labor market and lower energy prices will result in stronger economic growth in 2015 than in the prior year. The consensus forecast for real U.S. GDP growth for 2015 is 2.9 percent, following growth of 2.4 percent for 2014.

All parties expect the national labor market to continue to grow going forward. The consensus forecast for 2015 employment growth is 2.3 percent, after growing 1.9 percent in 2014. Stronger job growth in 2015 is projected to be accompanied by stronger income growth as well. The consensus forecasts for wage and total personal income growth for 2015 are 4.5 percent and 4.4 percent, respectively, following growth of 4.3 percent and 3.9 percent in 2014. Consensus growth in U.S. corporate profits, including the capital consumption and inventory valuation adjustments, is expected to improve in 2015 along with overall economic activity. Consensus growth in the Consumer Price Index for 2015 of 0.5 percent represents the impact of low energy prices, following an inflation rate of 1.6 percent for 2014. 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 | | |
| | CY2015 | CY2016 |
| REAL U.S. GDP | 2.9 | 2.8 |
| PERSONAL INCOME | 4.4 | 5.1 |
| WAGES | 4.5 | 5.1 |
| CORP PROFITS | 5.0 | 4.8 |
| NONFARM EMPLOYMENT | 2.3 | 1.9 |
| 3-MONTH T-BILL RATE | 0.3 | 1.5 |
| CPI | 0.5 | 2.2 |

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 1.4 percent for FY 2016, following estimated growth of 1.6 percent for FY 2015. The consensus forecast for FY 2016 wage growth is 4.4 percent, representing a slight acceleration from the FY 2015 consensus estimate of 4.3 percent. The consensus forecast for FY 2016 personal income growth is 4.5 percent, following estimated growth of 4.0 percent in FY 2015.

| CONSENSUS N.Y. FORECAST | | |
|--------------------------------|----------------|----------------|
| FISCAL YEAR | | |
| Percent Change | | |
| | FY 2015 | FY 2016 |
| NONFARM EMPLOYMENT | 1.6 | 1.4 |
| PERSONAL INCOME | 4.0 | 4.5 |
| WAGES | 4.3 | 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 euro zone debt crisis has eased, many of the area's underlying problems have not gone away. Energy price volatility also remains both a positive and negative risk. Sources of upside risk include stronger than expected labor and housing market growth.

One of the greater risks to both the national and the New York forecasts stems from policy measures expected to be taken by the Federal Reserve before the end of this year. A flatter yield curve than the Federal Reserve envisions could hamper the housing recovery, reduce business investment and hiring, and diminish financial sector profits. As the world's financial capital, New York would be negatively affected were interest rates to rise at a much faster pace than reflected in the consensus 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 \$200 million (General Fund) above the Executive Budget estimate, although actual results could differ, given the risks enumerated below. Revenue estimates from all parties for FY 2015 and projections for FY 2016 exhibited relatively small variances from one another. There was general consensus on the factors affecting current year receipts - the weak April 2014 personal income tax settlement resulting from taxpayer behavior altered by 2013 Federal tax law changes, the repayment of tax credit claims deferred in Tax Years 2010-2012 and tax cuts enacted in 2014. There was also general agreement that revenue growth would continue into FY 2016, consistent with the understanding that absent the one-time issues affecting the current year, FY 2016 revenue growth would align

with the positive impacts of accelerating wage and personal income growth noted above. Risk factors that could affect actual results during the next 13 months include:

- the degree to which corporate tax reform results in variances from the corporate tax receipts embodied in the current Financial Plan;
- the degree to which employment, wage, non-wage income, and capital gains growth depart from expectations;
- the degree to which underlying consumption growth affects sales tax revenue growth; and
- the extent and timing of Federal Reserve interest rate increases, and their impact on New York's finance sector, estate tax collections, and real estate transfer tax collections.