

**NEW YORK CONSENSUS  
FORECASTING CONFERENCE**

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Assembly Ways and Means Committee

Hon. Robert C. Oaks  
Ranking Minority Member  
Assembly Ways and Means Committee

**MEMORANDUM**

**TO:** Governor Andrew M. Cuomo  
Senator John J. Flanagan  
Senator Jeffrey D. Klein  
Assemblyman Carl E. Heastie  
Senator Andrea Stewart-Cousins  
Assemblyman Brian M. Kolb

**March 1, 2016**

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**SUBJECT:** Consensus Forecast Report

Attached please find the 2016-17 "Consensus Economic and Revenue Forecast Report" as required by Section 23 of the State Finance Law.

Attachment

## **ECONOMIC AND REVENUE CONSENSUS REPORT 2016-17**

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) 2016-17 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 25, 2016. Based on the testimony of experts at the Conference, the outlooks for both the economy and revenue have weakened and uncertainty has increased, with downside risks appearing to dominate upside potential.

### **Economic Forecast Review**

The economic forecasts contained in the Executive Budget and Legislative reports portray continuing but weak economic growth. All parties agree that employment gains will slow while the uncertain impact of continued lower energy prices could result in slower economic growth in 2016 than in the prior year. The consensus forecast for real U.S. GDP growth for 2016 is 2.1 percent, following growth of 2.4 percent for 2015.

All parties expect the national labor market to continue to grow going forward though at a slower pace as the economy approaches full employment. The consensus forecast for 2016 employment growth is 1.8 percent, after 2.1 percent growth in 2015. Easing job growth in 2016 is projected to be accompanied by slower income growth as well. The consensus forecasts for wage and total personal income growth for 2016 are 4.6 percent and 4.3 percent, respectively, following growth of 4.8 percent and 4.5 percent in 2015. Consensus growth in U.S. corporate profits, including the capital consumption and inventory valuation adjustments, is expected to improve moderately from a decline in 2015 to slow growth in 2016. Consensus growth in the Consumer Price Index for 2016 of 1.0 percent represents the expected bottoming out of low energy prices, following an inflation rate of 0.1 percent for 2015. All parties expect the Federal Reserve to continue to raise its short-term interest rate target during 2016, although there is a diversity of opinion as to the exact timing of and number of additional moves.

| CONSENSUS U.S. FORECAST<br>CALENDAR YEAR<br>Percent Change |            |            |
|--|------------|------------|
|  | CY2016     | CY2017     |
| <b>REAL U.S. GDP</b>                                       | <b>2.1</b> | <b>2.4</b> |
| <b>PERSONAL INCOME</b>                                     | <b>4.3</b> | <b>4.6</b> |
| <b>WAGES</b>   | <b>4.6</b> | <b>4.4</b> |
| <b>CORP PROFITS</b>  | <b>0.8</b> | <b>3.8</b> |
| <b>NONFARM EMPLOYMENT</b>                                  | <b>1.8</b> | <b>1.4</b> |
| <b>3-MONTH T-BILL RATE</b>                                 | <b>0.5</b> | <b>1.4</b> |
| <b>CPI</b>   | <b>1.0</b> | <b>2.1</b> |

The parties agree that while the New York State labor market will remain healthy, growth will slow going forward, with consensus forecast growth of 1.4 percent for FY 2017, following estimated growth of 1.7 percent for FY 2016. The consensus forecast for FY 2017 wage growth is 4.3 percent, representing a slight acceleration from the FY 2016 consensus estimate of 4.2 percent. The consensus forecast for FY 2017 personal income growth is 4.4 percent, following estimated growth of 4.2 percent in FY 2016.

| CONSENSUS N.Y. FORECAST<br>FISCAL YEAR<br>Percent Change |            |            |
|--|------------|------------|
|  | FY 2016    | FY 2017    |
| <b>NONFARM EMPLOYMENT</b>                                | <b>1.7</b> | <b>1.4</b> |
| <b>PERSONAL INCOME</b>                                   | <b>4.2</b> | <b>4.4</b> |
| <b>WAGES</b>   | <b>4.2</b> | <b>4.3</b> |

Note: DOB and the Assembly Majority construct their personal income and wage series based on QCEW data.

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. The strength of the Chinese economy also represents a source of uncertainty. Energy price volatility also remains both a positive and negative risk. Sources of upside risk include stronger than expected labor and housing market growth, as well as stronger growth overseas.

One of the greater risks to both the national and the New York forecasts stems from policy measures that may 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 could 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 at \$225 million (General Fund) above the Executive Budget estimate for total FY 2016 and FY 2017 receipts. This estimate reflects the view that although receipts growth is expected to continue in FY 2017, a large degree of uncertainty exists as to the magnitude of this growth in light of the risks noted below. There was general consensus on the factors affecting current year receipts - the strong April 2015 personal income tax settlement resulting from robust growth in nonwage income, extension payments and final

returns, corporate tax reform enacted in 2014 and an atypical number of estate tax payments in excess of \$25 million.

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

- the degree to which global economic woes affect the State's tax receipts;
- the degree to which low fuel prices produce disposable income for taxable sales; and
- the extent and timing of Federal Reserve interest rate increases, and their impact on New York's finance, housing, and business sectors; and by extension, personal income, sales tax, and corporate franchise tax receipts.