

**NEW YORK CONSENSUS
FORECASTING CONFERENCE**

Hon. Catharine M. Young
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Senate Finance Committee

Robert F. Mujica Jr.
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NYS Division of the Budget

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Assembly Ways and Means Committee

Hon. Liz Krueger
Ranking Minority Member
Senate Finance Committee

Hon. Diane J. Savino
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Senate Finance 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, 2018

**FROM: Robert F. Mujica Jr. J.J. for RFM
Shawn MacKinnon SM
Sarah L. Bangs SLB
Blake G. Washington BGW
Felix O. Muniz FM
Rebecca P. D'Agati RPA**

SUBJECT: Consensus Forecast Report

Attached please find the FY 2019 "Consensus Economic and Revenue Forecast Report"
as required by Section 23 of the State Finance Law.

Attachment

ECONOMIC AND REVENUE CONSENSUS REPORT FY 2019

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 FY 2019 Budget, pursuant to the provisions of Chapter 309 of the Laws of 1996.

The Consensus Forecasting Conference was held on February 28, 2018. Based on the testimony of experts at the Conference, the outlooks for both the economy and revenue are strengthening, but uncertainty remains high due to the volatility caused by the impact of the federal tax law changes.

Economic Forecast Review

The economic forecasts contained in the Executive Budget and Legislative reports portray accelerating economic growth for 2018. All parties agree that the national economy will be buoyed by synchronous global growth, higher energy prices, and the injection of fiscal stimulus stemming from federal tax changes and increased federal spending. However, there is some disagreement as to the magnitude of the impact from the tax law change. All parties agree that household spending will continue to exhibit robust growth in 2018, supported by growth in employment, income, and net worth. The consensus forecast for U.S. real GDP growth for 2018 is 2.7 percent, following growth of 2.3 percent for 2017.

All parties expect the national labor market to continue to grow going forward. The consensus forecast for 2018 employment growth is 1.5 percent, following 1.6 percent growth in 2017. In contrast, stronger income growth is expected for 2018, consistent with accelerating inflation. A consensus forecast of 4.1 percent is achieved for both wage and total personal income growth for 2018, following growth of 3.1 percent for both in 2017. Consensus growth in the Consumer Price Index for 2018 of 2.3 percent is expected to follow an inflation rate of 2.1 percent for 2017. Consensus growth in U.S. corporate profits, including the capital consumption and inventory valuation adjustments, is expected to improve from 5.4 percent in 2017 to 7.7 percent growth in 2018. All parties expect the Federal Reserve to continue to raise its short-term interest rate target during 2018, although there is a diversity of opinion as to the exact timing and number of additional moves.

CONSENSUS U.S. FORECAST		
CALENDAR YEAR		
Percent Change		
	CY2018	CY2019
REAL GDP	2.7	2.5
PERSONAL INCOME	4.1	4.7
WAGES	4.1	4.4
CORP PROFITS	7.7	4.8
NONFARM EMPLOYMENT	1.5	1.4
3-MONTH T-BILL RATE	1.7	2.4
CPI	2.3	2.1

The parties agree that the New York State labor market will continue to exhibit historically robust growth going forward, with consensus forecast growth of 1.1 percent for FY 2019, following estimated growth of 1.2 percent for FY 2018. The consensus forecast for FY 2019 personal income growth is 4.4 percent, representing an acceleration from the FY 2018 consensus estimate of 3.5 percent. The consensus forecast for FY 2019 wage growth is 4.4 percent, following estimated growth of 3.7 percent for FY 2018.

CONSENSUS N.Y. FORECAST		
FISCAL YEAR		
Percent Change		
	FY 2018	FY 2019
NONFARM EMPLOYMENT	1.2	1.1
PERSONAL INCOME	3.5	4.4
WAGES	3.7	4.4
Note: The Senate Majority constructs their personal income and wage series based on BEA data, whereas all other parties use NYS Department of Labor QCEW data; the two series can deviate substantially from one another.		

All parties agree that there are multiple risks to the economic outlook for the national and State economies, and thus revenues. Slower growth in global trade would have an adverse impact on the U.S. economy, with the rise of protectionism representing a particular source of uncertainty. In contrast, stronger growth overseas could result in stronger growth in employment, wages, and corporate profits than reflected in the consensus forecast. Energy price volatility also remains both a positive and negative risk. The potential impact of federal tax law changes represents a source of both upside and downside risk to the household spending and business investment forecasts. Additional sources of risk to the household sector include slower housing market growth than expected, brought about in part by strong home price growth, as well as a steeper slowdown in auto sales than anticipated.

Risks to both the national and the New York forecasts also stem from monetary policy actions. Higher interest rates than reflected in the consensus forecast could hamper the housing recovery and reduce business investment and hiring. As the world's financial capital, New York could be negatively affected were interest rates to rise at either a much faster or much slower pace than reflected in the consensus forecast. All parties identify equity market volatility as a risk to both the national and State economic outlook. On the other hand, stronger growth in financial activities than expected could present upside potential for the State economy. Finally, stronger global growth, resulting in greater international tourism than expected, could give rise to stronger State employment and wage growth than reflected in the consensus 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. The revenue estimates from all parties for FY 2018 and projections for FY 2019 exhibited significant variance, but participants reached consensus on a two-year revenue total range that is \$675 million

to \$750 million above the Executive Budget estimate. The parties also agreed that March receipts should be carefully monitored. There was general consensus on factors affecting current and out-year receipts – strong bonus growth in the current quarter, a shift in personal income tax payments from FY 2019 into FY 2018, and accelerating personal income and corporate profits growth in calendar year 2018.

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

- the degree, timing and length of the stimulus resulting from the Federal Tax Cuts and Jobs Act;
- the growth in financial sector bonus payments in the first quarter of calendar year 2019, given the strong to-date growth in the current quarter;
- the level of personal income tax estimated payments that will recur in tax year 2018, given the estimated shift from tax year 2018 into tax year 2017; 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.